In the 1980's and early 1990's, many banks in, developing and transition economies experienced several banking crises requiring a major overhaul of their banking systems. Kenya had its own share of banking problems since 1986 culminating in major bank failures. On the contrary some banks like Equity Bank and Co-operative bank have evolved from small financial institutions, to now the all inclusive Commercial Banks listed at Nairobi Stock Exchange.
Some studies gave somewhat conflicting results with some showing a poor performance after listing while others showing an improved performance. Though the studies were done in other countries like China, no such research had been done in Kenya. It was therefore important to assess the effect of joining the capital market on financial performance of the financial institutions.
For years, banks and capital markets have been viewed as competing sources of financing. Some scholars suggested that one sector, either banks or markets, develops at the expense of the other. As a result, regulators have tried to find a balance between the two, while others emphasize that these two intermediaries could actually be complementary to one another. The scholars pointed that capital market development lowers the cost of bank equity capital, and thus enables banks to raise the extra capital needed to take on riskier loans or projects that they would otherwise reject. It was against the scholars believe that the researcher wanted to explore the effect of listing on financial institution performance,
The study adopted a survey method since it is useful in describing the characteristics of a large population. Audited financial statements and questionnaires were used. The data was analyzed using simple linear regression and graphs with the help of SPSS and excel programs where necessary. Finally data was presented in form of tables, scatter diagrams and bar graphs in Kenya.
The results showed that public listing has a positive effect on financial performance of banks in Kenya. Although the increasing trend was however not so significant but gradual, in the long run the bank might need to restructure to suit the changing trend in the economy since effect of listing alone may not last forever. Knowledgeable managers and shareholder might need to keep abreast with the changing economic times and carry out restructuring to suit the changes since the world is dynamic in terms of legal, financial and economic structures, reforms is an ongoing process.