

**VALUE CREATION STRATEGIES AND
PERFORMANCE OF COMMERCIAL BANKS IN
KENYA**

ABUBAKER RAMATHAN MUKIRA

**DOCTOR OF PHILOSOPHY IN
STRATEGIC MANAGEMENT**

**JOMO KENYATTA UNIVERSITY
OF
AGRICULTURE AND TECHNOLOGY**

2026

**Value Creation Strategies and Performance of Commercial Banks in
Kenya**

Abubaker Ramathan Mukira

**A Thesis Submitted in Partial Fulfillment of the Requirements for
the Degree of Doctor of Philosophy in Strategic Management of the
Jomo Kenyatta University of Agriculture and Technology**

2026

DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

Signature.....Date.....

Abubaker Ramathan Mukira

This thesis has been submitted for examination with our approval as the University Supervisors.

Signature.....Date.....

Prof. Willy Muturi, PhD

JKUAT, Kenya

Signature.....Date.....

Dr. Paul Kariuki, PhD

JKUAT, Kenya

DEDICATION

This thesis is dedicated to my beloved family, whose love, patience, and encouragement have been my greatest source of strength. I also dedicate this work to my mentors and friends who guided me with wisdom and support throughout this academic journey. Above all, I thank Allah (SWT) for His guidance and blessings that made this achievement possible..

ACKNOWLEDGEMENT

I would like to express my deepest gratitude to my supervisors, Dr. Paul Kariuki (PhD) and Prof. Willy Muturi (PhD), for their invaluable guidance, insightful feedback, and unwavering support throughout the development of this thesis. Their mentorship has been instrumental in shaping both this research and my academic growth. I am grateful to the faculty and staff of the School of Business and Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, for providing a conducive academic environment, access to essential resources, and administrative support that made this research possible. I also acknowledge the Central Bank of Kenya and other institutions whose data contributed significantly to this study. My sincere thanks go to my classmates and colleagues whose constructive discussions, encouragement, and cooperation enriched my academic experience. I also extend my appreciation to all participants who willingly provided the data necessary for this research. I am deeply indebted to my family for their patience, love, and moral support throughout this journey. Their encouragement kept me motivated even during challenging moments. Finally, I acknowledge the guidance and blessings of Allah (SWT), whose wisdom, protection, and strength made the completion of this research possible.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS.....	v
LIST OF TABLES	xxii
LIST OF FIGURES	xxiii
LIST OF APPENDICES	xxiv
ABBREVIATIONS AND ACRONYMS	xxv
DEFINITION OF OPERATIONAL TERMS	xxvi
ABSTRACT	xxx
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Global Perspective of the Study.....	3
1.1.2 Regional Perspective of the Study	5
1.1.3 National Perspective of the Study.....	8
1.2 Statement of the Problem	11
1.3 Objectives of the Study	13

1.3.1 General Objective.....	13
1.3.2 Specific Objectives.....	13
1.4 Research Questions	14
1.5 Research Hypothesis	14
1.6 Significance of the Study	15
1.6.1 Bank Managers and Practitioners.....	15
1.6.2 Policymakers and Regulators	16
1.6.3 Investors and Other Stakeholders	17
1.6.4 Academic Researchers	18
1.6.5 Contribution to Theory.....	19
1.7 Scope of the Study	20
1.7.1 Geographical Scope	21
1.7.2 Time Scope.....	21
1.7.3 Conceptual Scope.....	22
1.7.4 Methodological Scope.....	23
1.7.5 Unit of Analysis	24
1.7.6 Scope Limitations (Boundary Clarification).....	25
1.8 Limitations of the Study.....	25
1.8.1 Time Scope Constraint (2015–2019)	26

1.8.2 Geographical Scope	26
1.8.3 Reliance on Secondary Data	26
1.8.4 Measurement of Value Creation Strategies.....	27
1.8.5 Measurement of Bank Size as a Moderating Variable.....	27
1.8.6 Exclusion of External Environmental Factors	28
1.9 Mitigation of the Study Limitations	28
1.9.1 Time Scope Mitigation.....	28
1.9.2 Geographical Scope Mitigation	29
1.9.3 Data Reliability Mitigation	30
1.9.4 Measurement Robustness.....	30
1.9.5 Moderation Robustness.....	31
1.9.6 Omitted Variable Consideration	31
1.10 Organization of the Thesis	32
CHAPTER TWO	34
LITERATURE REVIEW.....	34
2.1 Introduction.....	34
2.2 Theoretical Review	36
2.2.1 Resource-Based View (RBV)	38
2.2.2 Efficiency Structure Theory (EST).....	41

2.2.3 Innovation Diffusion Theory (IDT)	43
2.2.4 Economies of Scale Theory	46
2.2.5 Theoretical Integration Framework.....	48
2.3 Conceptual Framework	50
2.3.1 Structure of the Conceptual Framework	51
2.3.2 Theoretical Justification of Relationships	53
2.3.3 Interaction Effects	54
2.3.4 Conceptual Model Representation	55
2.3.5 Critical Evaluation of the Conceptual Framework.....	57
2.4 Empirical Literature Review	59
2.4.1 Cost Reduction Strategies and Bank Performance.....	60
2.4.2 Revenue Raising Strategies and Bank Performance	62
2.3.3 Elimination of Non-Productive activities and Bank Performance	64
2.4.4 Financial Innovation and Bank Performance	66
2.4.5 Bank Size and Bank Performance	69
2.4.6 Synthesis of Empirical Literature	71
2.5 Critique of Existing Literature	74
2.5.1 Fragmentation of Research	75
2.5.2 Contextual Limitations.....	76

2.5.3 Underexplored Strategic Variables	77
2.5.4 Methodological Weaknesses	78
2.5.5 Neglect of Moderating Effects	79
2.5.6 Synthesis of Literature Limitations	81
2.5.7 Contribution of the Current Study	82
2.6 Research Gaps	83
2.6.1 Conceptual Gaps	84
2.6.2 Contextual Gaps	85
2.6.2 Theoretical Gaps	86
2.6.4 Methodological Gaps	87
2.6.5 Variable Measurement Gaps	88
2.6.6 Moderation Gaps	89
2.7 Theoretical and Empirical Integration	91
2.7.1 Introduction	91
2.7.2 Mapping Theoretical Constructs to Empirical Variables	91
2.7.3 Complementarity of Value Creation Strategies	93
2.7.4 Interaction Effects and the Role of Bank Size	94
2.7.5 Dynamic Perspective on Value Creation	95
2.7.6 Resolving Contradictions in Empirical Literature	96

2.7.7 Implications for Conceptual Framework	97
2.7.8 Contribution of Integrated Approach	99
2.7.9 Conclusion	100
2.8 Global Trends in Banking Performance.....	101
2.8.1 Introduction	101
2.8.2 Digital Transformation and Technological Innovation.....	102
2.8.3 Emergence of Fintech and Competitive Disruption.....	103
2.8.4 Shift from Interest-based to Non-Interest Income	104
2.8.5 Regulatory Reforms and Financial Stability	106
2.8.6 Globalization and Market Integration	107
2.8.7 Customer-centric Banking and Changing Expectations	107
2.8.8 Operational Efficiency and Cost Optimization	108
2.8.9 Risk Management and Financial Stability	109
2.8.10 Implications for Emerging Economies	110
2.8.11 Synthesis and Relevance to the Study.....	111
2.8.12 Conclusion	112
2.9 Banking Sector Reforms in Kenya.....	113
2.9.1 Introduction	113
2.9.2 Regulatory Framework and Institutional Oversight.....	114

2.9.3 Interest Rate Caps (2016–2019).....	115
2.9.4 Financial Stability and Risk Management Reforms	116
2.9.5 Digital Financial Services and Innovation Reforms	117
2.9.6 Financial Inclusion Policies	117
2.9.7 Consolidation and Structural Reforms	118
2.9.8 Competition and Market Structure.....	118
2.9.9 Challenges and Limitations of Reforms.....	119
2.9.10 Implications for Value Creation Strategies	119
2.9.11 Conclusion	120
2.10 Measurement of Bank Performance.....	121
2.10.1 Introduction	121
2.10.2 Dimensions of Bank Performance	122
2.10.3 Return on Assets (ROA)	122
2.10.4 Return on Equity (ROE).....	123
2.10.5 Net Interest Margin (NIM).....	124
2.10.6 Alternative Measures of Bank Performance	125
2.10.7 Comparative Evaluation of Performance Measures.....	126
2.10.8 Justification for Use of ROA in This Study	126
2.10.9 Measurement Challenges and Considerations	127

2.10.10 Link to Value Creation Strategies	128
2.10.11 Conclusion	128
2.11 Evolution of Banking Business Models	129
2.11.1 Introduction	129
2.11.2 Traditional Banking Model	130
2.11.3 Transition to Universal and Diversified Banking	131
2.11.4 Emergence of Digital Banking Models	132
2.11.5 Platform Based Banking and Ecosystem Integration	133
2.11.6 Fintech Disruption and Competitive Transformation	134
2.11.7 Implications for Value Creation Strategies	135
2.11.8 Relevance to the Kenyan Banking Sector	136
2.11.9 Synthesis of Banking Business Model Evolution	136
2.11.10 Conclusion	138
2.11.11 Chapter Summary	139
CHAPTER THREE	141
RESEARCH METHODOLOGY	141
3.1 Introduction	141
3.2 Research Philosophy	142
3.3 Research Design	144

3.3.1 Quantitative Research Approach.....	144
3.3.2 Explanatory Research Design	145
3.3.3 Panel Research Design.....	146
3.4 Target Population and Sampling Design	147
3.4.1 Census Approach	149
3.5 Data Sources and Collection Methods	150
3.5.1 Time Frame of the Study.....	151
3.5.2 Data Collection Procedure	152
3.5.3 Data Reliability and Validity	152
3.6 Panel Data Structure.....	154
3.6.1 Justification for Panel Data Usage	154
3.6.2 Advantages of Panel Data	155
3.6.3 Balanced Panel Justification	155
3.6.4 Implications for Econometric Modelling.....	156
3.7 Variable Measurement and Operationalization.....	156
3.7.1 Dependent Variable: Bank Performance.....	157
3.7.2 Independent Variables: Value Creation Strategies	157
3.7.3 Moderating Variable: Bank Size.....	158
3.7.4 Interaction Term (Moderation Effect).....	159

3.7.5 Summary of Variables.....	159
3.8 Model Specification	159
3.8.1 Baseline (Direct Effects) Model.....	160
3.8.2 Moderated (Interaction Effects) Model.....	161
3.8.3 Expected Signs of Coefficients	162
3.8.4 Estimation Techniques	162
3.8.5 Diagnostic Tests	163
3.8.6 Model Assumptions	163
3.8.7 Summary of Model Specification	163
3.9 Endogeneity and Model Robustness	164
3.10 Robustness Checks.....	164
3.11 Methodological Limitations	165
3.12 Ethical Considerations	165
3.13 Chapter Summary.....	166
CHAPTER FOUR.....	167
RESEARCH FINDINGS AND DISCUSSION.....	167
4.1 Introduction	167
4.2 Descriptive Statistics	168
4.2.1 Overall Data Characteristics	169

4.2.2 Financial Performance Indicators	170
4.2.3 Cost and Efficiency Indicators	171
4.2.4 Revenue Diversification Indicators	173
4.2.5 Elimination of Non-Productive activities	173
4.2.6 Financial Innovation Indicators.....	174
4.2.7 Bank Size Distribution	175
4.2.8 Implications for Econometric Analysis.....	175
4.3 Trend Analysis	176
4.3.1 Overview of Temporal Trends	176
4.3.2 Financial Performance Trends	177
4.3.3 Financial Innovation Trends	178
4.3.4 Cost Efficiency Trends.....	180
4.3.5 Trend in Financial Performance (ROA, ROE, NIM).....	182
4.3.6 Trend in Cost and Efficiency Indicators	183
4.3.7 Trend in Revenue Diversification (Fees and Commissions).....	184
4.3.8 Trend in Elimination of Non-Productive activities.....	184
4.3.9 Trend in Bank Size (Total Assets)	185
4.3.10 Synthesis of Temporal Dynamics	185
4.3.11 Implications for Econometric Modelling.....	186

4.3.12 Conclusion of Trend Analysis.....	186
4.4 Correlation Analysis.....	187
4.4.1 Interpretation of Correlation Results.....	187
4.4.2 Multicollinearity Assessment.....	189
4.4.3 Implications for Regression Analysis	190
4.5 Diagnostic Tests	191
4.5.1 Normality Test	191
4.5.2 Multicollinearity Test.....	192
4.5.3 Heteroscedasticity Test	193
4.5.4 Autocorrelation Test	193
4.5.5 Summary of Diagnostic Tests	194
4.6 Panel Regression Analysis	194
4.6.1 Hausman Test Results	195
4.6.2 Base Model Regression Results	195
4.6.3 Interpretation of Base Model Results.....	196
4.6.4 Moderated Model Results	197
4.6.5 Interpretation of Moderated Model Results	198
4.6.6 Theoretical Implications.....	200
4.6.7 Overall Interpretation	200

4.7 Hypothesis Testing.....	200
4.7.1 Hypothesis One	201
4.7.2 Hypothesis Two	201
4.7.3 Hypothesis Three	202
4.7.4 Hypothesis Four	202
4.7.5 Hypothesis Five (Moderation Effect).....	203
4.7.6 Summary of Hypothesis Testing.....	204
4.7.7 Overall Conclusion.....	204
4.8 Discussion of Findings	204
4.8.1 Introduction	204
4.8.2 Cost Reduction Strategy and Financial Performance.....	205
4.8.3 Revenue raising Strategies and Financial Performance	206
4.8.4 Elimination of Non-Productive activities and Performance	207
4.8.5 Financial Innovation and Financial Performance	207
4.8.6 Moderating Role of Bank Size.....	208
4.8.7 Integration with Theoretical Framework	209
4.8.8 Comparison with Empirical Literature.....	210
4.8.9 Overall Implications.....	210
4.8.10 Theoretical Implications.....	211

4.8.11 Policy and Managerial Implications	212
4.8.12 Conclusion of Discussion.....	213
4.9 Comparative Analysis with Global Studies	213
4.9.1 Introduction	213
4.9.2 Cost Reduction and Bank Performance	213
4.9.3 Revenue Diversification: Developed vs Emerging Markets	214
4.9.4 Financial Innovation.....	215
4.9.5 Elimination of Non-Productive activities	216
4.9.7 Moderating Role of Bank Size: A Global Perspective	216
4.9.7 Explaining Divergences Across Contexts.....	217
4.9.8 Contribution to Global Banking Literature	218
4.9.9 Implications for Theory and Practice	219
4.9.10 Conclusion	220
4.10 Sectoral Implications for Kenyan Banking	221
4.10.1 Introduction	221
4.10.2 Implications for Tier I Banks (Large Banks)	221
4.10.3 Implications for Tier II Banks (Mid-Sized Banks)	223
4.10.4 Implications for Tier III Banks (Small Banks)	224
4.10.5 Implications for Digital vs Traditional Banks.....	225

4.10.6 Implications for Financial Inclusion and Market Expansion	226
4.10.7 Implications for Risk Management.....	227
4.10.8 Implications for Regulatory Policy	227
4.10.9 Strategic Implications for the Banking Sector	228
4.10.10 Conclusion	229
4.11 Chapter Summary.....	229
CHAPTER FIVE.....	232
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	232
5.1 Introduction.....	232
5.2 Summary of the Study.....	232
5.3 Summary of Key Findings	233
5.3.1 Cost Reduction Strategy.....	233
5.3.2 Revenue Raising Strategy	233
5.3.3 Elimination of Non-Productive activities	234
5.3.4 Financial Innovation Strategy	234
5.3.5 Moderating Effect of Bank Size.....	234
5.4 Conclusions	235
5.4.1 Value Creation Strategies are Critical Drivers of Performance	235
5.4.2 Need for an Integrated Strategic Approach.....	235

5.4.3 Financial Innovation is a Key Growth Driver	235
5.4.4 Efficiency as a Foundational Requirement	235
5.4.5 Role of Bank Size in Strategic Effectiveness.....	235
5.4.6 Theoretical Conclusion	236
5.5 Policy and Managerial Recommendations	236
5.5.1 Recommendations for Bank Management	236
5.5.2 Recommendations for Policymakers and Regulators	236
5.5.3 Recommendations for Investors.....	237
5.6 Contribution to Knowledge.....	237
5.6.1 Introduction	237
5.6.2 Theoretical Contribution	237
5.6.3 Methodological Contribution	238
5.6.4 Empirical Contribution	240
5.6.5 Contribution to Strategic Management Practice	242
5.6.6 Contribution to Policy and Financial Sector Development.....	242
5.6.7 Conclusion	243
5.7 Limitations of the Study.....	243
5.8 Suggestions for Further Research	243
5.9 Strategic Framework for Value Creation in Banking	244

5.9.1 Introduction	244
5.9.2 Conceptual Basis of the Framework	245
5.9.3 Core Components of the Framework	245
5.9.4 Moderating Role of Bank Size	247
5.9.5 Integrated Strategic Alignment	248
5.9.6 Implementation Pathway	248
5.9.8 Expected Outcomes.....	249
5.9.8 Contribution of the Framework.....	249
5.9.9 Conclusion	250
5.10 Chapter Summary.....	250
REFERENCES	252
APPENDICES	256

LIST OF TABLES

Table 2.1: Summary of Theoretical Foundations	38
Table 2.2: Empirical Literature Synthesis	70
Table 2.3: Research Gap Matrix	90
Table 3.1: List of Commercial Banks Included in the Study	148
Table 4.1: Descriptive Statistics.....	169
Table 4.2: Yearly Averages of Key Study Variables (2015–2019)	176
Table 4.3: Correlation Matrix.....	187
Table 4.4: Normality Test Results.....	191
Table 4.5: Variance Inflation Factor (VIF) Results	192
Table 4.6: Heteroscedasticity Test (Breusch–Pagan).....	193
Table 4.7: Autocorrelation Test Results.....	193
Table 4.8: Hausman Test.....	195
Table 4.9: Fixed Effects Regression (Base Model)	195
Table 4.10: Fixed Effects Regression (Moderated Model).....	198
Table 4.11: Summary of Hypothesis Testing.....	204

LIST OF FIGURES

Figure 2.1: Conceptual Framework	57
Figure 4.1: Trend in Financial Performance of Commercial Banks (2015–2019) .	177
Figure 4.2: Trend in Financial Innovation Indicators (2015–2019)	179
Figure 4.3: Trend in Cost Efficiency of Commercial Banks (2015–2019).....	181

LIST OF APPENDICES

Appendix I: Banks Excluded from the Study	256
Appendix II: List of Closed Commercial Bank Branches in Kenya (2015–2019). 257	
Appendix III: Table A Panel Data Extracted from CBK Supervisory Reports (2015–2019)	258
Appendix IV: Table B Panel Data Extracted from CBK Supervisory Reports (2015–2019)	273

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
FEM	Fixed Effects Model
GMM	Generalized Method of Moments
IDT	Innovation Diffusion Theory
JKUAT	Jomo Kenyatta University of Agriculture and Technology
NIM	Net Interest Margin
REM	Random Effects Model
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for the Social Sciences
VIF	Variance Inflation Factor

DEFINITION OF OPERATIONAL TERMS

- Bank Performance** Refers to the financial outcomes achieved by a bank, commonly measured using profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). These indicators reflect the efficiency with which banks utilize their financial and operational resources to generate returns. In this study, bank performance is primarily measured using Return on Assets (ROA), as it provides a comprehensive assessment of management efficiency in utilizing total assets to generate profits (Athanasoglou, Brissimis, & Delis, 2008; Koch & MacDonald, 2014).
- Bank Size** Refers to the scale and magnitude of a banking institution's operations, typically measured using indicators such as total assets, market share, number of employees, or branch network. Bank size is an important structural variable that influences access to resources, economies of scale, and the ability to implement strategic initiatives. In this study, bank size is operationalized using the natural logarithm of total assets, which allows for comparability across institutions and reduces scale bias in econometric analysis (Dietrich & Wanzenried, 2011).
- Cost Reduction Strategy** A strategic approach adopted by banks to minimize operating expenses and improve efficiency through cost control, process optimization, and operational restructuring. This includes measures such as automation, outsourcing, and branch rationalization. Cost reduction strategies aim to enhance organizational effectiveness and profitability by reducing inefficiencies while maintaining service quality (Porter, 1985).

- Financial Innovation** The introduction and application of new financial products, services, technologies, or delivery channels designed to improve financial intermediation, enhance operational efficiency, and expand access to financial services. Financial innovation includes digital banking platforms, mobile financial services, and fintech solutions, which have transformed traditional banking models (Merton, 1995; Tufano, 2015).
- Financial Performance** Refers to the ability of a firm to generate earnings and achieve financial objectives over a given period, typically measured using indicators such as profitability, efficiency, and return ratios. In banking studies, financial performance is commonly assessed using ROA, ROE, and NIM.
- Fixed Effects Model** An econometric technique used in panel data analysis that controls for unobserved, time invariant characteristics of individual entities by allowing each entity to have its own intercept. This model is appropriate when individual specific effects are correlated with explanatory variables (Wooldridge, 2010).
- Generalized Method of Moments** An advanced econometric estimation technique used in panel data analysis to address issues of endogeneity, omitted variable bias, and dynamic relationships. GMM utilizes internal instruments derived from lagged variables to produce consistent and efficient parameter estimates, particularly in dynamic panel models (Arellano & Bond, 1991; Blundell & Bond, 1998).
- Moderating Variable** A variable that influences the strength or direction of the relationship between an independent variable and a dependent variable. In this study, bank size acts as a moderating variable, affecting how value creation strategies impact financial performance.

Non-Productive Elimination Strategy	A strategic initiative aimed at identifying and eliminating inefficient processes, redundant activities, and unprofitable services that do not contribute to value creation. This includes streamlining operations, reducing unnecessary costs, and reallocating resources to high value activities. Such strategies are critical in improving operational efficiency and organizational performance (Lynch, 2016; Porter, 1996).
Operational Efficiency	The ability of an organization to utilize its resources optimally in order to minimize operational costs while maintaining or improving the quality and effectiveness of service delivery. In banking, operational efficiency is often measured using cost-to-income ratios and efficiency ratios, which indicate how effectively resources are utilized (Athanasoglou et al., 2008).
Panel Data	Refers to a dataset that combines cross-sectional and timeseries observations, where multiple entities (such as banks) are observed over a specified period. Panel data allows for the analysis of both temporal dynamics and individual heterogeneity, thereby improving estimation accuracy and analytical robustness (Baltagi, 2021).
Performance	Refers to the ability of an organization to achieve its financial and strategic objectives, including profitability, efficiency, growth, and value creation for shareholders and other stakeholders. Performance encompasses both financial and nonfinancial dimensions, although this study focuses primarily on financial performance indicators (Barney, 1991).
Random Model	Effects A panel data estimation technique that assumes individual specific effects are random and uncorrelated with the explanatory variables. The model is more efficient than fixed effects when this assumption holds (Baltagi, 2021).

Revenue Strategy	Raising A strategic initiative aimed at increasing an organization's income through market expansion, product innovation, service enhancement, and diversification of revenue streams. This includes the development of new financial products and the expansion of digital service offerings to improve financial performance (Sanya & Wolfe, 2011).
Value Creation	The process through which organizations develop products, services, and operational processes that generate enhanced benefits for customers and stakeholders. Value creation improves organizational competitiveness, efficiency, and long term performance by aligning resources with strategic objectives (Bessant & Tidd, 2020; Porter, 1985).
Value Strategies	Creation Managerial actions and strategic initiatives implemented to enhance organizational efficiency, innovation capability, profitability, and sustainability. These strategies involve the effective utilization of resources and capabilities to generate competitive advantage and improve overall performance (Grant, 1991; Porter, 1996).

ABSTRACT

This study examines the effect of value creation strategies on the financial performance of commercial banks in Kenya, with a specific focus on cost efficiency, revenue diversification, elimination of Non-Productive activities, and financial innovation. It further evaluates the moderating role of bank size in shaping the relationship between these strategies and financial performance. The study is anchored on an integrated theoretical framework comprising the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. A positivist research philosophy and a quantitative explanatory research design were adopted. Using a census approach, the study covered all 40 licensed commercial banks in Kenya over the period 2015–2019. Secondary data were obtained from audited financial statements and Central Bank of Kenya reports, resulting in a balanced panel dataset of 200 observations. Panel regression analysis was employed, with the Fixed Effects Model selected based on the Hausman test. The findings indicate that cost efficiency, measured by the cost-to-income ratio, has a negative and statistically significant effect on financial performance, implying that operational inefficiencies reduce profitability. Revenue diversification, proxied by non-interest income, exhibits a positive and significant effect, indicating that diversified income streams enhance performance and resilience. The elimination of Non-Productive activities also shows a positive and significant relationship with financial performance, underscoring the importance of operational optimization. Financial innovation, measured through digital products and transaction volumes, emerges as a strong positive determinant of performance, highlighting the critical role of digital transformation in the banking sector. The study further establishes that bank size has a statistically significant moderating effect, with larger banks deriving greater benefits from financial innovation and revenue diversification, while also experiencing amplified efficiency effects. The study concludes that value creation strategies significantly influence bank performance and that their effectiveness is enhanced when implemented in an integrated and coordinated manner. The findings contribute to theory by providing empirical support for a multi-theoretical framework and extending existing literature through the incorporation of moderation effects within a panel data context. The study recommends that bank management adopt integrated strategic approaches that align cost efficiency, financial innovation, and revenue diversification. Policymakers are encouraged to develop innovation friendly regulatory frameworks that support digital transformation while maintaining financial stability. Overall, the study contributes to knowledge by developing an integrated strategic framework for value creation in banking and providing context specific empirical evidence on the moderating role of bank size.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking sector occupies a central position in modern economies due to its critical role in financial intermediation, capital allocation, and facilitation of economic transactions. Commercial banks, in particular, serve as key financial institutions that mobilize savings, extend credit, support investment, and promote financial inclusion. Through these functions, banks contribute significantly to economic growth, stability, and development by channeling funds from surplus economic units to deficit units, thereby enhancing productive investment and efficient resource allocation.

Beyond their traditional intermediation role, commercial banks also act as catalysts for economic transformation by supporting entrepreneurship, facilitating trade, and enabling access to financial services for both individuals and businesses. Consequently, the performance of commercial banks has become a central concern for policymakers, regulators, investors, and scholars, as it directly influences the stability and resilience of the financial system as well as the broader economy.

In recent years, the global banking landscape has undergone profound transformation driven by technological advancements, regulatory reforms, globalization of financial markets, and evolving customer expectations. The emergence of financial technologies (fintech), digital payment systems, and alternative financial service providers has significantly disrupted traditional banking models. These developments have intensified competition and compelled banks to rethink their operational and strategic approaches in order to remain competitive and sustainable.

In response to these changes, banks are increasingly transitioning from traditional intermediate models toward value creation-oriented strategies that focus on enhancing efficiency, profitability, and long term competitiveness. This shift reflects a broader transformation in strategic management, where organizations are expected

not only to deliver financial returns but also to create sustainable value through innovation, efficiency, and customer-centric approaches.

Value creation strategies in banking encompass deliberate managerial actions aimed at improving organizational performance through cost efficiency, revenue diversification, operational optimization, and financial innovation. Cost reduction strategies focus on minimizing operational expenses and improving efficiency, while revenue diversification strategies aim to expand income sources beyond traditional interest-based earnings. The elimination of Non-Productive activities enhances organizational efficiency by removing inefficiencies and reallocating resources to value generating functions. Financial innovation, on the other hand, involves the adoption of new technologies and service delivery channels that improve accessibility, efficiency, and competitiveness.

While these strategies have been widely examined in the literature, most empirical studies tend to analyze them in isolation, thereby limiting the understanding of their combined and interactive effects on financial performance. Furthermore, a significant proportion of existing studies are based on developed economies, where financial systems, regulatory environments, and technological infrastructures differ substantially from those in emerging markets.

In developing economies such as Kenya, the banking sector is characterized by rapid digital transformation, evolving regulatory frameworks, and increasing financial inclusion efforts. These unique contextual factors may influence the effectiveness of value creation strategies and their impact on bank performance. However, empirical evidence from such contexts remains limited, fragmented, and inconclusive.

Against this background, this study seeks to provide a comprehensive and integrated analysis of value creation strategies and their effect on the financial performance of commercial banks in Kenya. By examining multiple strategic dimensions simultaneously and incorporating the moderating role of bank size within a panel data framework, the study contributes to a more holistic understanding of banking sector performance in a dynamic and evolving financial environment.

1.1.1 Global Perspective of the Study

The banking sector plays a fundamental role in economic development by mobilizing savings, facilitating payments, allocating capital, and supporting investment activities within an economy. Commercial banks act as key financial intermediaries that channel funds from surplus economic units to deficit units, thereby enhancing productive investment and promoting economic growth (Levine, 2005). Efficient banking systems contribute to financial stability, improved capital allocation, and enhanced economic productivity by supporting businesses, households, and governments through credit provision and a wide range of financial services (Demirgüç-Kunt & Huizinga, 1999). Consequently, the performance of banking institutions remains a critical determinant of the overall stability, resilience, and growth of national economies.

Beyond their traditional intermediation role, banks increasingly serve as engines of economic transformation by facilitating financial inclusion, enabling innovation, and supporting the development of modern financial ecosystems. As global economies become more interconnected, the performance of banking institutions has assumed even greater significance, not only at the national level but also within the broader global financial system.

Over the past two decades, the global banking industry has undergone profound transformation driven by technological advancements, globalization of financial markets, regulatory reforms, and rapidly evolving customer expectations. The 2008 global financial crisis, in particular, marked a turning point, prompting stricter regulatory frameworks, increased capital requirements, and heightened emphasis on risk management and operational efficiency. These developments have compelled banks to reassess traditional business models and adopt strategic initiatives aimed at enhancing efficiency, resilience, and long term competitiveness (Feyen, Frost, Gambacorta, Natarajan, & Saal, 2021).

The emergence of financial technology (fintech) firms, digital payment platforms, and alternative financial service providers has significantly altered the competitive landscape of the banking sector. Fintech innovations have introduced new business

models that emphasize speed, accessibility, and customer-centricity, thereby challenging conventional banking practices. As a result, traditional banks are increasingly required to compete not only with other banks but also with technologically agile nonbank institutions. These structural shifts have redefined the sources of competitive advantage in banking, moving away from traditional intermediation toward strategic value creation.

In response to these changes, commercial banks globally are increasingly focusing on value creation strategies that enhance efficiency, innovation, and customer value delivery. Value creation strategies refer to deliberate managerial actions aimed at improving organizational performance through the development of competitive advantage and the efficient utilization of resources (Barney, 1991; Porter, 1985; Grant, 1991). In the banking sector, these strategies commonly include cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation.

Cost reduction strategies involve operational restructuring, automation, and process optimization aimed at minimizing operational expenses and improving efficiency. Revenue diversification strategies focus on expanding income streams beyond traditional interest-based earnings, particularly through non-interest income such as fees, commissions, and advisory services. The elimination of Non-Productive activities seeks to enhance organizational efficiency by removing redundant processes, unprofitable products, and inefficient operational structures (Porter, 1996). Financial innovation involves the development and adoption of new financial technologies, products, and service delivery channels that improve accessibility, efficiency, and customer experience (Tufano, 2015).

In advanced economies, banks have increasingly leveraged digital technologies such as artificial intelligence, big data analytics, cloud computing, and blockchain systems to transform their operational models and enhance service delivery. These technologies have enabled financial institutions to reduce transaction costs, streamline internal processes, improve risk management, and expand customer reach through digital channels (Feyen et al., 2021). However, the adoption and

effectiveness of these strategies vary across institutional and geographical contexts, depending on factors such as technological readiness, regulatory environments, and market maturity.

Furthermore, the global banking environment is characterized by increasing uncertainty and complexity, driven by macroeconomic volatility, geopolitical risks, regulatory tightening, and rapid technological change. These dynamics have heightened the importance of strategic adaptability, operational efficiency, and innovation in sustaining bank performance. In this context, banks are required to move beyond isolated strategic initiatives and adopt integrated approaches that combine efficiency, diversification, and innovation.

Despite the growing emphasis on value creation strategies, empirical evidence on their combined and interactive effects remains limited, particularly in emerging markets. Much of the existing literature focuses on developed economies, where institutional and structural conditions differ significantly from those in developing countries. This creates a gap in understanding how these strategies operate within different contexts and underscores the need for context specific empirical analysis.

Therefore, the global perspective highlights the evolving nature of banking business models and the increasing importance of integrated value creation strategies in enhancing financial performance. These global trends provide a critical foundation for examining how similar strategic approaches can be applied and evaluated within the Kenyan banking sector.

1.1.2 Regional Perspective of the Study

The banking industry in Africa has undergone significant transformation over the past two decades, driven largely by financial technology innovations, regulatory reforms, and the rapid expansion of mobile financial services. Across the continent, financial systems have evolved from traditional, branch based banking models toward more inclusive and technology driven frameworks. This transformation has played a critical role in expanding access to financial services, particularly among previously unbanked and underbanked populations.

One of the most notable developments in the African financial landscape has been the proliferation of mobile money platforms and digital financial services. Countries such as Kenya, Ghana, and Tanzania have emerged as global leaders in mobile financial innovation, with mobile money services significantly enhancing financial inclusion and transaction efficiency. The integration of digital platforms within banking operations has enabled financial institutions to reach remote and underserved populations, thereby reducing barriers to financial access and promoting inclusive economic growth.

In addition to mobile money, agency banking, digital lending platforms, and fintech partnerships have further transformed the delivery of financial services across the region. These innovations have reduced reliance on physical branch networks, lowered transaction costs, and improved service accessibility. As a result, the African banking sector has become increasingly dynamic, characterized by rapid technological adoption and evolving business models.

Despite these advancements, banks in Africa continue to face significant operational and structural challenges. Beck et al. (2015) highlight that financial innovation and inclusion are key drivers of banking sector development in Africa, particularly in environments characterized by structural inefficiencies and rapid technological adoption. Furthermore, the rise of nonbank financial service providers, including fintech firms and mobile network operators, has intensified competition and eroded traditional revenue streams. These pressures have compelled banks to rethink their strategic positioning and adopt more innovative and efficient operational models.

Consequently, banks across the region are increasingly adopting value creation strategies aimed at improving efficiency, enhancing competitiveness, and sustaining profitability. These strategies include cost optimization through process automation and branch rationalization, revenue diversification through non-interest income streams, elimination of Non-Productive activities, and financial innovation through digital transformation initiatives. In particular, financial innovation has emerged as a central driver of change, enabling banks to expand their service offerings and improve operational efficiency.

The rapid expansion of mobile money ecosystems in Africa, particularly in East Africa, has fundamentally altered the structure of financial intermediation. By reducing transaction costs, increasing transaction volumes, and enhancing financial access, mobile financial services have redefined how financial services are delivered and consumed (World Bank, 2023). However, this transformation has also introduced new competitive dynamics, as banks must now compete with agile fintech firms and mobile network operators that offer innovative and cost-effective solutions.

Importantly, the effectiveness of value creation strategies within the African context is highly heterogeneous. Empirical evidence suggests that differences in institutional capacity, technological readiness, regulatory compliance, and access to financial resources significantly influence how banks implement and benefit from strategic initiatives. Larger and well capitalized banks are often better positioned to invest in digital transformation and innovation, while smaller banks may face constraints that limit their strategic flexibility.

Moreover, the African banking environment is characterized by unique structural features, including high levels of financial exclusion, reliance on informal financial systems, and varying levels of regulatory development across countries. These factors create both opportunities and challenges for banks seeking to implement value creation strategies. While digital innovation offers significant potential for expanding financial inclusion and improving efficiency, its impact on financial performance may vary depending on the institutional and economic context.

Despite the growing body of literature on banking performance in Africa, empirical studies remain limited in scope and often focus on individual determinants such as efficiency or profitability ratios. There is a notable lack of integrated studies that examine the combined and interactive effects of multiple value creation strategies within a unified analytical framework. Furthermore, few studies explicitly incorporate moderating variables such as bank size, which may significantly influence strategic outcomes.

Therefore, the regional perspective underscores the importance of adopting a comprehensive and context specific approach to analyzing bank performance. It

highlights the need for empirical studies that examine how multiple value creation strategies interact within African banking systems and how institutional characteristics shape their effectiveness. This provides a strong foundation for examining the Kenyan banking sector within a broader regional context.

1.1.3 National Perspective of the Study

The Kenyan banking sector is widely regarded as one of the most dynamic, innovative, and resilient financial systems in Sub-Saharan Africa. The sector plays a critical role in supporting economic growth through credit provision, investment facilitation, and the promotion of financial inclusion. Commercial banks in Kenya serve as key drivers of economic activity by financing businesses, supporting entrepreneurship, and facilitating trade and investment across various sectors of the economy. According to the Central Bank of Kenya (CBK, 2019), the banking sector contributes significantly to national economic performance through its strong linkages to commerce, industry, and small and medium sized enterprises (SMEs).

Kenya has also emerged as a regional leader in financial innovation and digital transformation, largely driven by the widespread adoption of mobile financial services and digital banking platforms. The success of mobile money ecosystems, particularly platforms such as MPesa, has revolutionized financial intermediation by enabling seamless transactions, enhancing financial inclusion, and reducing reliance on traditional banking infrastructure. This has positioned Kenya as a global reference point for digital financial services and innovation led banking models.

The period between 2015 and 2019 represents a critical phase in the evolution of the Kenyan banking sector, characterized by significant regulatory, structural, and technological changes. One of the most notable developments during this period was the enactment of the Banking (Amendment) Act of 2016, which introduced interest rate caps on loans issued by commercial banks. While the policy was intended to improve access to credit and protect consumers from high lending rates, it had unintended consequences for the banking sector, including reduced interest margins, constrained lending to riskier segments, and shifts in banks' revenue structures.

At the same time, the sector experienced increased competition from mobile money platforms, fintech firms, and digital lending providers, which offered faster, more accessible, and often more flexible financial services. These developments significantly disrupted traditional banking models, forcing banks to rethink their operational strategies and competitive positioning. The combined effect of regulatory constraints and technological disruption created a challenging operating environment that required banks to adopt innovative and efficiency driven strategies to sustain performance.

In response to these dynamics, commercial banks in Kenya increasingly adopted value creation strategies aimed at improving operational efficiency and maintaining profitability. Cost reduction strategies, including branch rationalization, process automation, and operational restructuring, became central to managing rising operational expenses. These initiatives enabled banks to streamline operations, reduce overhead costs, and improve efficiency in resource utilization.

Revenue diversification strategies also gained prominence as banks sought to reduce dependence on interest-based income. Banks expanded non-interest income streams through agency banking, mobile banking services, bancassurance, and digital transaction fees (Sanya & Wolfe, 2011). This shift reflects a broader transformation in banking business models, where income generation is increasingly driven by service based and transaction based revenues.

Furthermore, the elimination of Non-Productive activities, including underperforming branches, redundant processes, and inefficient operational structures, became an important mechanism for enhancing strategic focus and improving organizational efficiency. These strategies are closely aligned with lean management principles and reflect a growing emphasis on operational optimization within the sector.

Financial innovation has emerged as a particularly significant driver of competitiveness within the Kenyan banking sector. Innovations such as digital lending platforms, internet banking systems, mobile banking applications, and strategic partnerships with fintech firms have transformed service delivery and

improved customer accessibility (Frost et al., 2019). These innovations have enabled banks to expand their customer base, enhance service efficiency, and generate new revenue streams, thereby improving overall performance.

However, the effectiveness of these value creation strategies is not uniform across institutions and is influenced by structural factors such as bank size. Larger banks typically benefit from economies of scale, stronger capital bases, and more advanced technological capabilities, enabling them to implement complex strategic initiatives such as digital transformation and large scale innovation programs (Dietrich & Wanzenried, 2011). In contrast, smaller banks may face resource constraints but often rely on agility, niche market strategies, and flexible decision making structures to remain competitive. This suggests that bank size plays a critical role in shaping strategic outcomes and may moderate the relationship between value creation strategies and financial performance.

Despite the increasing adoption of value creation strategies within the Kenyan banking sector, existing empirical studies remain limited in scope and fragmented in approach. Most studies have focused on individual determinants of performance, such as cost efficiency, financial ratios, or innovation, without examining the combined and interactive effects of multiple strategic variables. Furthermore, there is limited empirical evidence on how institutional characteristics, particularly bank size, influence the effectiveness of these strategies.

This lack of integrated and context specific empirical analysis creates a significant gap in the literature and limits the ability of policymakers, regulators, and bank managers to make informed strategic decisions. Therefore, this study seeks to address this gap by providing a comprehensive analysis of the effect of value creation strategies; cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation, on the financial performance of commercial banks in Kenya. The study further incorporates bank size as a moderating variable within a panel data framework, thereby offering a more nuanced and holistic understanding of banking sector performance in a rapidly evolving financial environment.

1.2 Statement of the Problem

The Kenyan banking sector has demonstrated relative stability and resilience over the years; however, significant disparities in financial performance persist among commercial banks. While some institutions consistently report strong profitability, operational efficiency, and sustained growth, others continue to experience declining returns, high operating costs, and reduced competitiveness. These persistent variations raise fundamental concerns regarding the effectiveness of strategic initiatives adopted by banks to enhance value creation and sustain long term performance (Central Bank of Kenya, 2019).

Over the past decade, commercial banks in Kenya have undergone substantial structural and strategic transformation in response to intensified competition, regulatory reforms, and rapidly evolving customer expectations. Notably, the introduction of interest rate caps in 2016, increased regulatory oversight, and the expansion of digital financial services have significantly altered the operating environment of banks. These developments have constrained traditional revenue models, increased compliance costs, and compelled banks to adopt new strategies aimed at improving efficiency and maintaining profitability.

In response, banks have increasingly invested in digital transformation, process automation, branch rationalization, and alternative service delivery channels. These initiatives are intended to enhance operational efficiency, reduce costs, and expand revenue streams. However, despite these strategic efforts, performance outcomes across banks remain uneven and, in some cases, contradictory. Industry evidence indicates that while certain banks have achieved efficiency gains and improved profitability through innovation and cost optimization, others continue to struggle with declining interest margins, operational inefficiencies, and persistent cost pressures (Central Bank of Kenya, 2019; World Bank, 2023).

The continued variation in key performance indicators such as Return on Assets (ROA) suggests that the adoption of strategic initiatives alone does not guarantee improved financial outcomes. This raises critical questions regarding not only the effectiveness of these strategies, but also their implementation, alignment, and

interaction within the organizational context. In practice, banks do not implement strategies in isolation; rather, multiple value creation strategies are deployed simultaneously, creating complex interdependencies that are not adequately captured in existing empirical analyses.

Further compounding this challenge is the rapid growth of financial technology (fintech) firms, mobile money platforms, and alternative financial service providers, which have significantly disrupted traditional banking models. These developments have intensified competition, reduced reliance on interest-based income streams, and forced banks to rethink their strategic positioning (Gomber, Koch, & Siering, 2017). Consequently, commercial banks have increasingly adopted value creation strategies such as cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation. However, despite widespread adoption, the impact of these strategies on financial performance remains inconsistent and insufficiently understood.

From an empirical perspective, existing studies on bank performance have largely focused on isolated determinants such as financial ratios, corporate governance structures, and macroeconomic variables (Athanasoglou, Brissimis, & Delis, 2008; Demirgüç-Kunt & Huizinga, 1999). While these studies provide valuable insights, they fail to capture the combined and interactive effects of multiple value creation strategies as implemented in real world banking environments. Moreover, many studies rely on cross-sectional data, which limits the ability to analyze dynamic changes in performance over time and to control for unobserved heterogeneity across institutions.

In addition, the moderating role of bank size remains underexplored in the literature. Theoretically, bank size influences access to financial resources, technological capabilities, and economies of scale, all of which determine the extent to which banks can effectively implement and benefit from strategic initiatives (Grant, 1991). Larger banks are often better positioned to absorb innovation costs and leverage scale efficiencies, while smaller banks may rely on agility and niche strategies. However, failure to incorporate this moderating effect in empirical analysis may lead

to incomplete or biased conclusions regarding the true impact of value creation strategies on performance.

The absence of a comprehensive, integrated, and context specific empirical framework creates uncertainty for bank managers, regulators, and policymakers seeking to enhance efficiency, competitiveness, and sustainability within the Kenyan banking sector. Without a clear understanding of how multiple value creation strategies interact and how institutional characteristics such as bank size influence these relationships, strategic decision making remains suboptimal and potentially misaligned with performance objectives.

Therefore, the central research problem addressed by this study is the lack of empirical evidence on the combined and interactive effects of value creation strategies; cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation, on the financial performance of commercial banks in Kenya, and how this relationship is moderated by bank size.

This study seeks to address this gap by employing a panel data approach to examine both the direct and interaction effects of value creation strategies on financial performance. By doing so, it provides a more comprehensive, dynamic, and contextually relevant understanding of banking sector performance in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To examine the effect of value creation strategies, specifically cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation, on the financial performance of commercial banks in Kenya, while assessing the moderating role of bank size within a panel data framework.

1.3.2 Specific Objectives

- (i) To examine the effect of cost reduction strategies on the financial performance of commercial banks in Kenya.

- (ii) To examine the effect of revenue diversification strategies on the financial performance of commercial banks in Kenya.
- (iii) To examine the effect of elimination of Non-Productive activities on the financial performance of commercial banks in Kenya.
- (iv) To examine the effect of financial innovation strategies on the financial performance of commercial banks in Kenya.
- (v) To examine the moderating effect of bank size on the relationship between value creation strategies and the financial performance of commercial banks in Kenya.

1.4 Research Questions

The study seeks to answer the following research questions:

- (i) What is the effect of cost reduction strategies on the financial performance of commercial banks in Kenya?
- (ii) What is the effect of revenue diversification strategies on the financial performance of commercial banks in Kenya?
- (iii) What is the effect of elimination of Non-Productive activities on the financial performance of commercial banks in Kenya?
- (iv) What is the effect of financial innovation strategies on the financial performance of commercial banks in Kenya?
- (v) What is the moderating effect of bank size on the relationship between value creation strategies and the financial performance of commercial banks in Kenya?

1.5 Research Hypothesis

The study tests the following null hypotheses:

- H₀₁:** Cost reduction strategies have no statistically significant effect on the financial performance of commercial banks in Kenya.
- H₀₂:** Revenue diversification strategies have no statistically significant effect on the financial performance of commercial banks in Kenya.

H₀₃: Elimination of Non-Productive activities has no statistically significant effect on the financial performance of commercial banks in Kenya.

H₀₄: Financial innovation strategies have no statistically significant effect on the financial performance of commercial banks in Kenya.

H₀₅: Bank size has no statistically significant moderating effect on the relationship between value creation strategies and the financial performance of commercial banks in Kenya.

1.6 Significance of the Study

This study makes significant contributions to both theory and practice by providing empirical evidence on the effect of value creation strategies on the financial performance of commercial banks in Kenya. By employing a panel data approach over the period 2015–2019, the study offers robust and dynamic insights into how strategic initiatives influence bank profitability and operational efficiency within an emerging market context. Unlike studies that examine isolated determinants of performance, this research adopts an integrated analytical framework that captures the combined and interactive effects of multiple value creation strategies.

The findings of this study are expected to benefit a wide range of stakeholders, including bank managers, policymakers, investors, and the academic community, by enhancing understanding of the key drivers of performance in the banking sector.

1.6.1 Bank Managers and Practitioners

The findings of this study provide practical and evidence based insights to bank managers and practitioners on the role of value creation strategies in enhancing financial performance. Specifically, the study demonstrates the extent to which cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation influence profitability and operational efficiency in commercial banks.

By establishing the relative importance and effectiveness of these strategies, the study enables managers to make more informed decisions regarding resource allocation, cost optimization, and strategic investment. In particular, the inclusion of financial innovation and operational efficiency as key strategic dimensions provides actionable insights into how banks can leverage technology to improve service delivery, reduce operational costs, and strengthen competitive positioning.

The findings further highlight the importance of adopting an integrated rather than fragmented strategic approach. This is especially relevant in an increasingly competitive and technology driven banking environment, where isolated interventions may be insufficient to generate sustained performance improvements. Managers can therefore use the study's results to align efficiency, diversification, and innovation initiatives in a manner that supports long term value creation.

In addition, the analysis of the moderating role of bank size provides strategic guidance on how different categories of banks, particularly large and small institutions, can tailor their strategic choices to maximize performance outcomes. Such insights are critical for strengthening managerial decision making, enhancing strategic responsiveness, and achieving sustainable competitive advantage in the banking sector (Hitt, Ireland, & Hoskisson, 2017).

1.6.2 Policymakers and Regulators

The study provides valuable insights for policymakers and regulatory authorities, particularly the Central Bank of Kenya, by identifying the key strategic drivers of performance within the banking sector. The findings demonstrate the critical role of operational efficiency, revenue diversification, and financial innovation in enhancing bank stability, resilience, and sector wide performance.

By empirically establishing how value creation strategies influence financial outcomes, the study informs the design of regulatory frameworks that effectively balance innovation with financial stability. In particular, the results support the development of innovation enabling policies that facilitate digital transformation while ensuring prudent risk management. Regulators can leverage these insights to

strengthen frameworks governing digital banking, fintech partnerships, and emerging financial technologies, while addressing associated risks such as cybersecurity threats, operational vulnerabilities, and systemic instability.

Furthermore, the study provides evidence relevant to ongoing regulatory reforms in Kenya, including efforts to enhance financial inclusion, promote efficiency in financial intermediation, and strengthen the resilience of the banking system. By highlighting the differential impact of strategic initiatives across institutions, the study also underscores the need for proportionate and risk based regulation, where policy interventions are tailored to institutional characteristics such as bank size and operational capacity.

In addition, the findings contribute to broader policy discourse on sustainable financial sector development by emphasizing the importance of aligning regulatory objectives with technological innovation and market evolution. As the financial landscape continues to evolve, such evidence based insights are essential for guiding policy decisions that support long term stability, competitiveness, and inclusive growth within the banking sector (Central Bank of Kenya, 2019; World Bank, 2023).

1.6.3 Investors and Other Stakeholders

The study provides important insights to investors, shareholders, and other stakeholders by identifying the key strategic drivers that influence the financial performance of commercial banks. By demonstrating how value creation strategies affect profitability and operational efficiency, the study enables investors to make more informed decisions regarding portfolio allocation, risk assessment, and long term investment positioning within the banking sector.

The findings highlight the critical role of revenue diversification, cost efficiency, and financial innovation in enhancing both profitability and resilience. These insights are particularly valuable in assessing the sustainability of earnings and the stability of income streams, which are central considerations in investment decision making. Investors can therefore use the study's results to evaluate the extent to which banks are effectively managing costs, diversifying revenue sources, and leveraging

innovation to sustain competitive advantage.

Furthermore, the study provides a basis for evaluating the strategic positioning and growth potential of banking institutions by linking performance outcomes to specific managerial strategies. This enhances stakeholders' ability to distinguish between banks that are strategically proactive and those that are less adaptive to changing market conditions.

The inclusion of bank size as a moderating variable also offers additional insights into how institutional characteristics influence performance outcomes. This enables investors to better understand how scale, resource capacity, and strategic capability affect the ability of banks to implement and benefit from value creation strategies.

These insights are particularly relevant in emerging markets such as Kenya, where performance variability across institutions is significant and where strategic differentiation plays a critical role in determining investment attractiveness and long term value creation.

1.6.4 Academic Researchers

This study contributes to the existing body of knowledge in strategic management and banking by providing context specific empirical evidence from a developing economy. It advances prior research by examining the combined and interactive effects of multiple value creation strategies within a unified analytical framework, thereby addressing the fragmentation observed in existing literature that predominantly focuses on isolated determinants of performance.

From a theoretical perspective, the study enriches the literature by operationalizing and empirically testing an integrated multi-theoretical framework that brings together the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. In doing so, it demonstrates how these complementary perspectives jointly explain variations in bank performance, particularly within emerging market contexts where institutional conditions differ from those of developed economies.

Methodologically, the study contributes by employing panel data techniques to capture both cross-sectional and timeseries dynamics, thereby improving estimation accuracy and controlling for unobserved heterogeneity. The application of fixed effects regression, combined with moderation analysis, enables the examination of both direct and interaction effects, providing a more nuanced and comprehensive understanding of the determinants of financial performance. This approach also responds to limitations in prior studies that rely on static or single equation models.

Furthermore, the study contributes to empirical research by explicitly incorporating bank size as a moderating variable, thereby extending existing models of bank performance that often treat size as a control variable rather than a structural factor influencing strategic outcomes. This provides new insights into how institutional characteristics shape the effectiveness of value creation strategies.

Future researchers can build on this study by incorporating additional variables such as corporate governance structures, market competition, macroeconomic conditions, and regulatory changes. Further research may also explore dynamic modelling approaches, such as Generalized Method of Moments (GMM), to address potential endogeneity issues, or extend the analysis to other sectors, countries, and longer time horizons to enhance generalizability and comparative insights.

1.6.5 Contribution to Theory

This study makes a significant theoretical contribution by integrating and empirically testing multiple theoretical perspectives within a single analytical framework. Specifically, it combines the Resource-Based View (RBV), Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory to provide a comprehensive explanation of how value creation strategies influence the financial performance of commercial banks.

By adopting this integrative approach, the study moves beyond traditional single theory explanations and demonstrates that bank performance is a multidimensional construct shaped by the interaction of internal capabilities, operational efficiency, technological innovation, and scale effects. In doing so, it responds to limitations in

existing literature, which often examines these theoretical perspectives in isolation, thereby providing a more holistic understanding of strategic performance drivers within the banking sector.

The study further advances theoretical development by incorporating bank size as a moderating variable, thereby extending existing frameworks to account for institutional heterogeneity. This highlights the role of structural characteristics in shaping the effectiveness of strategic initiatives and provides empirical evidence that the impact of value creation strategies is contingent upon organizational scale and resource capacity.

Importantly, the study contributes to theory by demonstrating the complementary and interdependent nature of multiple theoretical perspectives. The findings provide empirical validation of the relationships proposed by these theories within a developing economy context, thereby enhancing their external applicability and relevance beyond developed markets. In addition, the inclusion of interaction effects introduces a more dynamic and context sensitive dimension to the analysis of bank performance, reinforcing the need for integrated theoretical frameworks in strategic management research.

Overall, the study advances theoretical understanding by bridging fragmented perspectives, incorporating contextual dynamics, and providing empirical support for a multidimensional and interaction based approach to analyzing performance in the banking sector.

1.7 Scope of the Study

This study examines the effect of value creation strategies on the financial performance of commercial banks in Kenya within clearly defined temporal, geographical, conceptual, and methodological boundaries. Establishing these boundaries is essential for ensuring analytical focus, enhancing methodological rigor, and clarifying the extent to which the findings can be generalized. The scope of the study is therefore delineated along key dimensions, beginning with the geographical context within which the research is situated.

1.7.1 Geographical Scope

From a geographical perspective, the study is confined to commercial banks operating in Kenya and licensed by the Central Bank of Kenya. The focus on Kenya is justified by the country's well developed and dynamic banking sector, which has experienced significant transformation driven by regulatory reforms, financial innovation, and the rapid expansion of digital financial services.

Kenya provides a particularly relevant context for examining value creation strategies due to its position as a regional leader in mobile financial services and digital banking innovation. The presence of diverse banking institutions ranging from large, well capitalized banks to smaller, niche oriented institutions also offers a suitable environment for analyzing variations in strategic implementation and performance outcomes.

However, while the study provides in-depth insights into the Kenyan banking sector, the findings may not be directly generalizable to other countries with different regulatory frameworks, economic conditions, and levels of financial sector development. Nonetheless, the study offers valuable implications for similar emerging market contexts.

1.7.2 Time Scope

The study covers a five year period from 2015 to 2019. This timeframe is particularly appropriate as it captures a critical phase of regulatory, structural, and technological transformation within the Kenyan banking sector. Notably, the period includes the implementation of interest rate caps under the Banking (Amendment) Act of 2016 and their subsequent repeal in 2019, both of which had significant implications for bank profitability, lending behaviour, and strategic positioning.

In addition, the selected period coincides with the accelerated adoption of digital banking technologies, including mobile banking, digital lending platforms, and fintech partnerships, which have fundamentally reshaped banking operations and service delivery models in Kenya. These developments provide a relevant context for

examining the role of value creation strategies in influencing financial performance.

From a methodological perspective, the five year period provides a balanced panel dataset with sufficient observations to support robust econometric analysis. It allows for the examination of both cross-sectional differences across banks and temporal variations over time, thereby enhancing the reliability and validity of the study findings.

1.7.3 Conceptual Scope

Conceptually, the study focuses on value creation strategies as key determinants of financial performance in the banking sector. Specifically, it examines four strategic dimensions: cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation. These strategic variables represent deliberate managerial actions aimed at enhancing efficiency, competitiveness, and long term sustainability.

The selection of these variables is grounded in established theoretical frameworks, including the Resource-Based View (RBV), Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. Collectively, these perspectives provide a comprehensive basis for understanding how internal capabilities, operational efficiency, technological advancement, and scale effects influence organizational performance.

The dependent variable in the study is financial performance, which is primarily measured using Return on Assets (ROA). ROA is adopted as the main performance indicator due to its effectiveness in capturing how efficiently banks utilize their assets to generate earnings. Supporting indicators, including Return on Equity (ROE) and Net Interest Margin (NIM), are utilized at the descriptive level to provide additional insights into profitability and income structure.

In addition, the study incorporates bank size as a moderating variable, operationalized using the natural logarithm of total assets. This allows for the examination of interaction effects between value creation strategies and institutional

characteristics, thereby providing a more nuanced understanding of how strategic outcomes vary across banks of different sizes.

The conceptual scope is therefore limited to variables aligned with the study's analytical framework. Other potential determinants of financial performance, such as corporate governance structures, macroeconomic conditions, and market competition, are acknowledged as important but are not explicitly incorporated into the empirical model.

1.7.4 Methodological Scope

Methodologically, the study adopts a quantitative research design based on the analysis of secondary data. The use of a quantitative approach is appropriate given the study's objective of examining relationships between measurable variables and testing hypothesized effects using statistical techniques. Data are obtained from audited financial statements of commercial banks and official publications by the Central Bank of Kenya, ensuring reliability, consistency, and comparability across institutions.

The study utilizes a balanced panel dataset comprising observations across multiple banks over the selected time period, thereby enabling the integration of both cross-sectional and timeseries dimensions. This approach enhances analytical robustness by allowing the study to control for unobserved heterogeneity and to capture dynamic variations in financial performance across institutions and over time.

Analytically, the study employs a combination of descriptive statistics, correlation analysis, and panel regression techniques. Descriptive statistics are used to summarize the characteristics of the data, while correlation analysis provides preliminary insights into the relationships among variables. For inferential analysis, panel regression models are applied, with the Fixed Effects Model selected based on the Hausman specification test. This model is appropriate as it controls for time invariant, unobserved bank specific effects that may influence performance outcomes.

In addition, the study incorporates moderation analysis to examine the interaction effect of bank size on the relationship between value creation strategies and financial performance. This methodological approach enables a more comprehensive and nuanced understanding of the determinants of bank performance within the Kenyan context.

1.7.5 Unit of Analysis

The unit of analysis for this study is individual commercial banks operating in Kenya. Each bank constitutes a distinct analytical entity, enabling the study to examine variations in financial performance and strategic behaviour across institutions.

The study adopts a panel structure in which each bank is observed over multiple time periods (2015–2019). This longitudinal approach allows for the simultaneous analysis of cross-sectional differences between banks and temporal dynamics within banks over time. As such, it provides a more comprehensive understanding of how value creation strategies influence financial performance across different institutional contexts.

By treating individual banks as the unit of analysis, the study is able to capture heterogeneity in strategic implementation, resource endowment, and operational efficiency. This is particularly important in the Kenyan banking sector, where institutions vary significantly in size, market positioning, and technological capability.

Furthermore, the panel nature of the data enhances analytical robustness by enabling control for unobserved, time invariant bank specific characteristics that may influence performance outcomes. This strengthens the validity of the empirical findings and supports more reliable inference regarding the relationships under investigation.

1.7.6 Scope Limitations (Boundary Clarification)

While the study provides a comprehensive analysis within its defined parameters, it is subject to clearly delineated scope boundaries that ensure analytical focus and methodological rigor.

First, the study is limited to commercial banks operating in Kenya, thereby excluding other financial institutions such as microfinance institutions, savings and credit cooperative organizations (SACCOs), and nonbank financial service providers. This delimitation is intentional, as commercial banks operate under a distinct regulatory framework and business model, making them more suitable for comparative and consistent analysis.

Second, the study relies exclusively on secondary financial data obtained from audited financial statements and official regulatory publications. While this enhances objectivity, reliability, and comparability, it does not capture qualitative dimensions such as managerial perceptions, organizational culture, or strategic decision-making processes that may also influence performance outcomes.

Third, the temporal scope of the study is restricted to a five year period (2015–2019). Although this period captures significant regulatory and technological developments within the Kenyan banking sector, it may not fully reflect longer-term structural changes or more recent developments in the financial landscape.

These scope boundaries are deliberately defined to ensure analytical depth, data consistency, and methodological coherence, thereby strengthening the validity and reliability of the study findings.

1.8 Limitations of the Study

Despite the methodological rigor and comprehensive analytical framework adopted in this study, certain limitations are acknowledged. These limitations do not undermine the validity of the findings but rather define the contextual and methodological boundaries within which the results should be interpreted.

1.8.1 Time Scope Constraint (2015–2019)

The study is limited to a five year period spanning 2015 to 2019. While this timeframe captures critical developments in the Kenyan banking sector, including regulatory reforms, rapid digital transformation, and the introduction and subsequent repeal of interest rate caps, it does not incorporate more recent developments such as the effects of the COVID19 pandemic, the continued expansion of fintech ecosystems, and post2019 regulatory changes. Consequently, the findings may not fully reflect the most recent dynamics of the sector or the strategic adjustments adopted by banks in response to these later developments.

1.8.2 Geographical Scope

The study focuses exclusively on commercial banks operating in Kenya. While this enables in-depth, context specific analysis of a dynamic and rapidly evolving banking sector, it limits the generalizability of the findings to other jurisdictions with differing regulatory frameworks, economic conditions, and levels of financial sector development. Consequently, the results should be interpreted within the Kenyan context, although they may offer useful insights for comparable emerging market economies.

1.8.3 Reliance on Secondary Data

The study relies on secondary data obtained from audited financial statements, regulatory reports, and industry publications. While the use of such data enhances objectivity, reliability, and comparability across institutions, it may be subject to reporting inconsistencies, variations in accounting practices, and differences in disclosure standards. These factors may introduce measurement limitations and affect the precision of certain variables.

In addition, secondary data does not capture qualitative dimensions such as managerial decision making, organizational culture, and strategic intent, which may also influence financial performance. Consequently, the findings are interpreted within the constraints of available quantitative information.

1.8.4 Measurement of Value Creation Strategies

Value creation strategies in this study are operationalized using quantitative proxy indicators, including the cost-to-income ratio, non-interest income, efficiency ratios, and digital innovation measures. While these proxies provide measurable and comparable representations of strategic activities, they may not fully capture the qualitative and intangible dimensions of value creation.

Specifically, factors such as customer satisfaction, organizational culture, employee productivity, managerial capability, and brand equity are not directly observable through financial metrics, yet they play a significant role in influencing long term organizational performance. As a result, the operationalization of value creation strategies through quantitative indicators may provide a partial representation of the broader strategic processes within banks.

Consequently, the findings should be interpreted with the understanding that the measurement approach emphasizes observable financial and operational outcomes, while potentially underrepresenting underlying qualitative drivers of performance.

1.8.5 Measurement of Bank Size as a Moderating Variable

In this study, bank size is proxied using total assets, a widely accepted and empirically validated measure in banking and finance literature. The use of total assets provides a consistent and comparable indicator of institutional scale across banks.

However, this proxy may not fully capture other structural and qualitative characteristics associated with size, such as governance quality, managerial capability, technological sophistication, ownership structure, and market power. These factors may also influence the effectiveness with which banks implement and benefit from value creation strategies.

Consequently, while total assets serve as an appropriate and practical proxy for bank size, the moderating effects identified in this study should be interpreted with the recognition that size may embody a broader set of institutional attributes that are not

directly observable within the empirical model.

1.8.6 Exclusion of External Environmental Factors

The study does not explicitly incorporate certain macroeconomic and environmental variables, including inflation, interest rate volatility, political risk, and global financial shocks. These factors may influence both strategic decision making and financial performance, and their exclusion may introduce the potential for omitted variable bias.

However, the use of panel data techniques, particularly fixed effects estimation, helps to partially control for unobserved, time invariant heterogeneity across banks. In addition, the analysis is conducted within a clearly defined contextual framework, allowing for the interpretation of results in light of prevailing economic and regulatory conditions during the study period.

Consequently, while the exclusion of external environmental factors represents a limitation, its impact is mitigated through methodological controls and contextual analysis, thereby preserving the validity of the study's findings.

1.9 Mitigation of the Study Limitations

To address the identified limitations, several methodological and analytical strategies were employed to enhance the robustness, reliability, and credibility of the study findings. These mitigation measures were carefully integrated into the research design, data selection, and analytical approach to minimize potential biases and ensure the validity of the empirical results. The specific mitigation strategies corresponding to each identified limitation are outlined in the following subsections.

1.9.1 Time Scope Mitigation

The limitation associated with the selected time period (2015–2019) is mitigated by the deliberate choice of a timeframe that captures a critical transition phase in Kenya's banking sector. This period encompasses significant regulatory reforms, including the introduction and subsequent repeal of interest rate caps, as well as the

rapid expansion of digital financial services and technological innovation.

By focusing on this transformative period, the study is able to capture meaningful variations in strategic behaviour and performance outcomes, thereby providing a robust context for analysis. In addition, the use of panel data techniques enables the examination of temporal dynamics within the selected timeframe, partially addressing the limitation associated with longer-term trends.

Furthermore, the study interprets its findings within the specific historical and regulatory context of the selected period, thereby ensuring that conclusions remain valid and contextually grounded. This approach enhances the relevance and explanatory power of the study despite the temporal limitation.

1.9.2 Geographical Scope Mitigation

The limitation associated with the study's geographical focus on Kenya is mitigated through the incorporation of extensive theoretical and empirical literature from both developed and emerging market contexts. This comparative perspective enables the positioning of the study's findings within a broader global and regional framework, thereby enhancing their external validity.

By drawing on diverse empirical evidence, the study is able to identify both context specific and universal patterns in the relationship between value creation strategies and financial performance. This approach allows for meaningful comparison and interpretation, even though the primary analysis is confined to Kenya.

Furthermore, the Kenyan banking sector shares several structural and institutional characteristics with other emerging market economies, including rapid digital transformation, evolving regulatory frameworks, and increasing financial inclusion. As a result, the findings of the study may offer relevant insights for similar contexts, while still being interpreted within the specific institutional environment of Kenya.

1.9.3 Data Reliability Mitigation

The limitation associated with reliance on secondary data is mitigated through the use of high quality, verified data sources. Specifically, data were obtained from audited financial statements of commercial banks and official publications by the Central Bank of Kenya, both of which adhere to standardized reporting and regulatory requirements.

To enhance data accuracy and reliability, cross verification was conducted across multiple credible sources, including financial reports and regulatory disclosures. This triangulation approach reduces the risk of reporting inconsistencies and enhances the credibility of the dataset.

In addition, the use of audited and regulatory data ensures a high level of consistency, comparability, and transparency across institutions and over time. Where necessary, data cleaning and validation procedures were applied to address missing values and potential anomalies, thereby improving the integrity of the empirical analysis.

1.9.4 Measurement Robustness

The limitation associated with the measurement of value creation strategies is mitigated through the adoption of a multidimensional operationalization approach. Multiple proxy indicators were used to capture different aspects of the underlying strategic constructs, including cost efficiency measures, revenue diversification indicators, operational efficiency ratios, and financial innovation metrics.

This approach enhances construct validity by ensuring that each strategic dimension is represented through observable and quantifiable variables, thereby reducing the risk of underrepresentation of complex constructs. In addition, the use of multiple proxies improves measurement reliability and minimizes potential bias arising from reliance on a single indicator.

Furthermore, the selected proxies are grounded in established empirical literature and widely used in banking and finance research, which strengthens the comparability

and credibility of the findings. As a result, the measurement framework provides a robust and consistent basis for analyzing the relationship between value creation strategies and financial performance.

1.9.5 Moderation Robustness

The limitation associated with the measurement of bank size is mitigated through both theoretical grounding and appropriate model specification. Although bank size is proxied using total assets, this measure is widely accepted in banking and finance literature and provides a consistent and comparable indicator of institutional scale across banks.

The interpretation of bank size is further supported by theoretical insights drawn from Economies of Scale Theory and the Resource-Based View, which associate larger asset bases with enhanced operational capacity, access to financial resources, and the ability to invest in innovation and efficiency enhancing technologies. This strengthens the conceptual relevance of bank size as a moderating variable in the relationship between value creation strategies and financial performance.

From a methodological perspective, moderation is explicitly modelled through interaction terms between bank size and the respective value creation strategy variables within the panel regression framework. This allows for the direct estimation of how the effect of strategic initiatives on performance varies across banks of different sizes.

Consequently, the combined use of a theoretically grounded proxy and appropriate econometric modelling enhances the robustness and validity of the moderation analysis.

1.9.6 Omitted Variable Consideration

The limitation associated with the exclusion of macroeconomic and external environmental variables is mitigated through both methodological design and contextual interpretation. While variables such as inflation, interest rate volatility, political risk, and global economic shocks are not explicitly included in the

regression model, their potential influence is acknowledged in the analysis and considered during the interpretation of results.

From an econometric perspective, the use of panel data techniques, particularly fixed effects estimation, helps to control for unobserved, time invariant heterogeneity across banks that may be correlated with the explanatory variables. This reduces the risk of omitted variable bias arising from unobserved institutional characteristics.

In addition, the panel structure allows for the incorporation of time specific effects through the temporal dimension of the data, thereby partially capturing broader macroeconomic trends that affect all banks within a given period. This enhances the robustness of the model despite the exclusion of explicit macroeconomic controls.

Consequently, while the omission of certain external variables represents a limitation, its impact is mitigated through methodological controls and careful contextual interpretation, thereby preserving the validity and reliability of the study's findings.

1.10 Organization of the Thesis

This thesis is organized into five chapters.

Chapter One presents the introduction to the study. It outlines the background of the study, statement of the problem, research objectives, research questions, and research hypotheses. The chapter further discusses the significance of the study, its scope, limitations, and the overall structure of the thesis.

Chapter Two presents the literature review. It examines the theoretical foundations underpinning the study, reviews relevant empirical literature on value creation strategies and bank performance, identifies key research gaps, and develops the conceptual framework.

Chapter Three describes the research methodology adopted in the study. It outlines the research design, target population, data sources, operationalization and measurement of variables, model specification, and the analytical techniques

employed.

Chapter Four presents the data analysis, results, and interpretation of findings. It includes descriptive statistics, trend analysis, diagnostic tests, panel regression results, hypothesis testing, and a discussion of the findings in relation to the study objectives and existing literature.

Chapter Five presents the summary of findings, conclusions, and recommendations. It further highlights the study's contributions to theory, policy, and practice, and provides suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive and critical review of literature relevant to the study on value creation strategies and the financial performance of commercial banks in Kenya. The purpose of the literature review is to examine, synthesize, and critically evaluate existing theoretical and empirical studies in order to establish a robust foundation for the research problem. At the doctoral level, a literature review extends beyond descriptive summaries to provide an integrative and critical analysis that situates the current study within the broader body of knowledge while identifying key gaps and inconsistencies in prior research.

The concept of value creation has become increasingly central in strategic management and financial performance research, particularly within highly competitive and dynamic business environments. In the banking sector, value creation extends beyond traditional financial intermediation functions to encompass the ability of institutions to enhance operational efficiency, diversify revenue streams, eliminate inefficiencies, and adopt innovative technologies. These strategic actions are essential for improving profitability, strengthening competitive positioning, and ensuring long term sustainability in an environment characterized by regulatory pressures, technological disruption, and evolving customer expectations.

Globally and within emerging economies such as Kenya, commercial banks are undergoing significant transformation driven by digitalization, financial innovation, and increased competition from fintech firms and nonbank financial institutions. These developments have redefined the structure of financial intermediation and shifted the focus of banking institutions from traditional operational models toward more integrated and strategically aligned approaches to value creation. Consequently, understanding how value creation strategies influence financial performance has emerged as a critical area of both academic inquiry and practical relevance.

Despite the growing body of literature, existing studies often examine individual strategic dimensions in isolation, thereby limiting the understanding of their combined and interactive effects on performance outcomes. In addition, much of the empirical evidence is derived from developed economies, with relatively limited attention to emerging market contexts where institutional structures, regulatory environments, and technological adoption differ significantly. This creates a need for a more integrated and context specific analysis of value creation strategies within the banking sector.

This chapter is organized into several key sections. The first section presents the theoretical review, which discusses the major theories underpinning the study, namely the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. These theories provide a conceptual basis for understanding how internal capabilities, operational efficiency, innovation adoption, and organizational scale influence bank performance.

The second section presents the conceptual framework, which illustrates the hypothesized relationships among the study variables, including the independent variables (value creation strategies), the dependent variable (financial performance), and the moderating variable (bank size). This is followed by a comprehensive review of empirical literature related to the key constructs of the study, including cost reduction, revenue diversification, elimination of Non-Productive activities, financial innovation, and bank size.

The chapter further provides a critical synthesis of the reviewed literature, highlighting patterns, contradictions, and methodological limitations in existing studies. This synthesis is used to identify conceptual, contextual, and methodological gaps that justify the need for the present study. Finally, the chapter outlines the specific research gaps and demonstrates how the current study addresses these gaps through an integrated analytical framework that incorporates multiple strategic dimensions and moderating effects within a panel data context.

2.2 Theoretical Review

The theoretical review provides the conceptual foundation for understanding the relationships among the study variables and guiding the empirical analysis. It plays a critical role in defining key constructs, establishing expected relationships, and justifying both the selection of variables and the methodological approach adopted in the study. A well developed theoretical framework anchors the study within existing scholarly discourse and enhances the rigor, coherence, and explanatory power of the research design. As emphasized by Defee, Randall, Thomas, and Williams (2010), theoretical frameworks guide researchers in determining what should be measured, how it should be measured, and the nature of relationships to be examined among variables.

In the context of strategic management and financial performance research, theoretical grounding is particularly important due to the multifaceted nature of organizational performance. Bank performance is influenced by a complex interplay of factors, including internal resource capabilities, operational efficiency, technological innovation, and structural characteristics. Consequently, reliance on a single theoretical perspective is often insufficient to fully explain variations in performance outcomes. This study therefore adopts a multi-theoretical approach, integrating complementary theoretical perspectives to provide a more comprehensive and nuanced understanding of value creation strategies and their impact on financial performance.

Specifically, the study is anchored on four key theoretical perspectives: the Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and Economies of Scale Theory. These theories collectively explain how organizations generate value through the effective utilization of internal resources, improvement of operational efficiency, adoption of innovation, and exploitation of scale advantages. The integration of these perspectives reflects the multidimensional nature of banking performance and aligns with contemporary strategic management scholarship, which emphasizes theoretical pluralism in explaining complex organizational phenomena (Teece, 2018).

The Resource-Based View provides a foundation for understanding how firm specific resources and capabilities contribute to sustained competitive advantage and value creation. Within this study, RBV is particularly relevant in explaining how banks leverage internal capabilities, such as technological infrastructure and human capital, to drive financial innovation and revenue diversification.

Efficiency Structure Theory complements this perspective by emphasizing the role of operational efficiency in determining firm performance. It posits that firms with superior cost management and efficient processes achieve higher profitability. In this study, the theory provides a basis for examining how cost reduction strategies and the elimination of Non-Productive activities contribute to improved financial outcomes.

Innovation Diffusion Theory offers a dynamic perspective on how new technologies and practices are adopted and spread within organizations and industries. In the banking sector, this theory explains how the adoption of digital banking technologies, mobile platforms, and fintech innovations enhances service delivery, improves operational efficiency, and generates new revenue streams.

Economies of Scale Theory provides insight into the structural dimension of performance by explaining how larger firms benefit from cost advantages, resource availability, and operational efficiencies. Within the context of this study, the theory is particularly relevant in explaining the moderating role of bank size, as larger institutions are better positioned to implement and benefit from value creation strategies.

Importantly, these theoretical perspectives are not applied in isolation but are integrated to form a coherent analytical framework. The study posits that value creation strategies operate through multiple channels resource deployment, efficiency enhancement, and innovation adoption while their effectiveness is influenced by institutional characteristics such as scale. This integrated approach allows for the simultaneous examination of direct effects and interaction effects, thereby providing a more robust and comprehensive explanation of bank performance.

Table 2.1: Summary of Theoretical Foundations

Theory	Key Proponents	Core Assumptions	Relevance to the Study
Resource-Based View (RBV)	Barney (1991); Grant (1991)	Firms achieve sustained competitive advantage through valuable, rare, inimitable, and non-substitutable (VRIN) resources	Explains how internal capabilities (e.g., technology, human capital) support value creation strategies such as innovation and revenue diversification
Efficiency Structure Theory (EST)	Demsetz (1973); Berger (1995)	Superior managerial and operational efficiency leads to lower costs and higher profitability	Links cost reduction and elimination of Non-Productive activities to improved bank performance
Innovation Diffusion Theory (IDT)	Rogers (2003)	Adoption of innovations enhances productivity, efficiency, and competitiveness over time	Explains how financial innovation (e.g., digital banking) improves operational efficiency and revenue generation
Economies of Scale Theory	Baumol, Panzar & Willig (1982)	Larger firms achieve lower average costs due to scale efficiencies and resource advantages	Explains the moderating role of bank size in strengthening the relationship between value creation strategies and performance

Source: Author (2026)

2.2.1 Resource-Based View (RBV)

The Resource-Based View (RBV), originally advanced by Barney (1991) and further developed by scholars such as Wernerfelt (1984) and Grant (1991), posits that sustainable competitive advantage arises from the possession and effective utilization of firm specific resources and capabilities. These resources must exhibit four critical characteristics being valuable, rare, inimitable, and non-substitutable (VRIN) in order to generate superior performance outcomes. Unlike traditional industrial organization theories, which emphasize external market structure and competitive positioning, RBV shifts the analytical focus inward, highlighting the strategic importance of internal organizational capabilities as the primary drivers of performance.

Within the context of the banking sector, RBV is particularly relevant given the knowledge intensive and technology driven nature of financial services. Commercial banks rely heavily on intangible resources and capabilities that are difficult for competitors to replicate. These include technological infrastructure such as digital banking platforms and mobile applications, human capital in the form of skilled personnel and managerial expertise, brand reputation and customer trust, advanced data analytics capabilities, and access to financial capital. These resources collectively determine a bank's ability to design, deliver, and sustain value creating strategies in a competitive and rapidly evolving financial landscape.

RBV provides a strong theoretical basis for understanding how banks implement value creation strategies, particularly in relation to revenue raising initiatives and financial innovation. Banks leverage their internal capabilities to develop new financial products and services, enhance customer experience through digital platforms, expand service delivery channels, and increase non-interest income through cross selling and diversification strategies. For instance, banks with advanced digital infrastructure and strong data analytics capabilities are better positioned to introduce innovative products such as mobile lending, personalized financial services, and digital payment solutions. These capabilities enable such institutions to improve operational efficiency, attract and retain customers, and ultimately enhance financial performance.

Furthermore, RBV explains heterogeneity in bank performance by emphasizing that not all institutions possess the same level or quality of strategic resources. Even within the same regulatory and economic environment, banks differ significantly in their resource endowments and their ability to deploy these resources effectively. This explains why some banks consistently outperform others despite operating under similar market conditions. In this study, RBV underpins the role of internal capabilities in driving key value creation strategies, including revenue diversification, financial innovation, and the elimination of inefficiencies through improved resource utilization.

Despite its strong explanatory power, RBV has been subject to several criticisms. One major limitation is its relatively static nature, which does not adequately capture the dynamic and rapidly changing environments in which modern organizations operate. In the context of the banking sector, characterized by technological disruption, regulatory changes, and evolving customer expectations, the ability to continuously adapt and reconfigure resources is as important as the resources themselves. Additionally, RBV provides limited insight into how valuable resources are developed, accumulated, and sustained over time. It also tends to underemphasize the role of external environmental factors, such as market competition and regulatory frameworks, in shaping organizational performance.

To address these limitations, scholars such as Teece, Pisano, and Shuen (1997) extended RBV through the concept of dynamic capabilities, which emphasizes the firm's ability to integrate, build, and reconfigure internal and external competencies in response to changing environments. The dynamic capabilities perspective complements RBV by introducing a temporal and adaptive dimension, making it more applicable to industries such as banking where continuous innovation and strategic flexibility are critical.

In the context of this study, the Resource-Based View supports the examination of value creation strategies by providing a theoretical explanation for how internal resources and capabilities influence financial performance. Specifically, the theory underpins:

- Revenue raising strategies through the development and leveraging of unique service offerings and income streams
- Financial innovation through the adoption and deployment of technological capabilities
- Strategic resource deployment in optimizing operational processes and enhancing efficiency

Moreover, in emerging market contexts such as Kenya, the strategic value of internal resources is further amplified by institutional constraints, including limited access to capital markets, regulatory variability, and technological disparities across firms. In

such environments, banks that effectively leverage their internal capabilities are better positioned to overcome external constraints and sustain competitive advantage. This reinforces the central proposition of RBV that internal resource configuration remains a critical determinant of performance, particularly in less mature financial systems.

Overall, RBV provides a robust foundation for understanding how banks create and sustain competitive advantage through internal capabilities. It explains why certain banks achieve superior performance outcomes and highlights the strategic importance of resource configuration in driving value creation within the Kenyan banking sector.

2.2.2 Efficiency Structure Theory (EST)

The Efficiency Structure Theory (EST), originally advanced by Demsetz (1973) and later refined in banking literature by Berger (1995), posits that differences in firm performance are primarily driven by variations in operational efficiency rather than market power. The theory emerged as a critique of the traditional Structure–Conduct–Performance (SCP) paradigm, which attributes superior performance to market concentration and dominance. In contrast, EST argues that firms achieve higher profitability because they are more efficient in utilizing resources, controlling costs, and optimizing internal processes.

Within the banking sector, efficiency is a critical determinant of performance due to the cost intensive nature of financial intermediation and service delivery. Banks incur substantial operational costs related to branch networks, staffing, technology infrastructure, regulatory compliance, and risk management. Consequently, institutions that are able to minimize inefficiencies and optimize resource utilization are more likely to achieve superior financial outcomes. Efficiency in banking is typically reflected through effective cost control, process optimization, strategic resource allocation, and the streamlining of operational structures.

Empirical evidence strongly supports the propositions of Efficiency Structure Theory in the banking context. Studies such as Berger and Mester (1997) demonstrate that

improvements in cost efficiency significantly enhance bank profitability by reducing unnecessary expenditures and improving productivity. Similarly, Athanasoglou, Brissimis, and Delis (2008) identify efficient management practices and cost control as key determinants of financial performance in commercial banks. These findings suggest that banks that effectively manage their cost structures and eliminate operational inefficiencies are better positioned to achieve higher returns on assets and overall profitability.

In the context of this study, Efficiency Structure Theory provides a robust theoretical foundation for understanding value creation through cost reduction and the elimination of Non-Productive activities. Cost reduction strategies such as process automation, branch rationalization, outsourcing of noncore functions, and adoption of digital platforms enable banks to lower operating expenses and enhance efficiency. Similarly, the elimination of Non-Productive activities, including redundant administrative processes, underperforming branches, and inefficient legacy systems, improves organizational effectiveness by reallocating resources toward value generating activities. These mechanisms are central to enhancing operational efficiency and, consequently, financial performance.

Moreover, in emerging market environments such as Kenya, where cost structures can be relatively high and resource constraints more pronounced, efficiency improvements become even more critical for sustaining competitiveness. Banks that are able to streamline operations and optimize cost structures are better positioned to withstand regulatory pressures, absorb economic shocks, and maintain profitability in volatile conditions.

Despite its strong explanatory power, Efficiency Structure Theory has several limitations. First, the theory tends to overemphasize cost efficiency as the primary driver of performance while underestimating the importance of innovation and revenue generation strategies. In contemporary banking environments characterized by rapid technological change and intensified competition from fintech firms, efficiency alone may not be sufficient to sustain competitive advantage. Second, EST provides limited insight into the growing importance of revenue diversification and

non-interest income as drivers of performance. Third, the theory does not adequately account for the role of technological disruption, digital transformation, and evolving customer preferences in shaping banking outcomes.

Additionally, an excessive focus on cost reduction may produce unintended adverse effects, including deterioration in service quality, reduced customer satisfaction, and underinvestment in innovation capabilities. From a strategic perspective, sustainable performance requires a balance between efficiency enhancement and value creation, rather than a singular emphasis on cost minimization.

Accordingly, this study integrates Efficiency Structure Theory with complementary perspectives such as the Resource-Based View and Innovation Diffusion Theory to provide a more comprehensive explanation of bank performance. Within this integrated framework, EST specifically underpins the role of cost reduction and the elimination of Non-Productive activities as key mechanisms through which operational efficiency contributes to improved financial outcomes.

Overall, Efficiency Structure Theory provides a critical lens for examining how internal efficiency mechanisms influence profitability in the banking sector. It highlights the importance of cost management and operational optimization while reinforcing the need to integrate efficiency with innovation and strategic resource utilization for sustained competitive advantage.

2.2.3 Innovation Diffusion Theory (IDT)

Innovation Diffusion Theory (IDT), developed by Rogers (2003), provides a systematic framework for understanding how new ideas, technologies, and practices spread within and across organizations over time. The theory posits that the adoption of innovation is a gradual and sequential process involving distinct stages, namely knowledge (awareness), persuasion (interest), decision (evaluation), implementation (trial), and confirmation (adoption). These stages reflect the cognitive and behavioural processes through which organizations evaluate and integrate innovations into their operational systems.

At the organizational level, IDT further emphasizes that the rate and extent of innovation adoption are influenced by key attributes of the innovation itself, including relative advantage, compatibility, complexity, trialability, and observability. Innovations that offer clear performance benefits, align with existing organizational systems, and can be easily tested and implemented are more likely to be adopted rapidly. In addition, institutional factors such as organizational readiness, leadership support, regulatory frameworks, and competitive pressures play a critical role in shaping adoption decisions.

In the banking sector, Innovation Diffusion Theory is particularly relevant due to the rapid pace of technological advancement and the increasing importance of digital transformation. Financial innovation in this context encompasses the development and adoption of new financial products, services, and delivery channels, including mobile banking platforms, digital lending systems, fintech collaborations, online banking applications, and data driven financial services. These innovations have fundamentally transformed the structure of financial intermediation by enhancing accessibility, reducing transaction costs, and expanding service delivery beyond traditional branch based models.

The Kenyan banking sector provides a compelling empirical context for the application of IDT. Kenya is widely recognized as a global leader in digital finance, driven by the widespread adoption of mobile money ecosystems and digital banking platforms. The diffusion of mobile based financial services has significantly enhanced financial inclusion, increased transaction volumes, and reshaped customer engagement patterns. In response, commercial banks have integrated digital platforms, agency banking, and mobile lending solutions into their strategic operations in order to remain competitive within an increasingly technology driven financial ecosystem.

Within the context of this study, Innovation Diffusion Theory provides a critical theoretical basis for understanding how financial innovation contributes to value creation and financial performance. The adoption of digital technologies enables banks to enhance operational efficiency through process automation, reduce

transaction and service delivery costs, and expand market reach by accessing previously underserved customer segments. At the same time, innovation facilitates revenue diversification by generating new income streams through digital transactions, service fees, and value added financial products. Thus, innovation serves as a dual driver of both efficiency enhancement and revenue growth within the banking sector.

However, despite its strong explanatory power, Innovation Diffusion Theory has several limitations. First, the theory primarily focuses on the process of innovation adoption rather than its performance outcomes, and therefore does not fully explain how innovation translates into improved financial performance. Second, IDT assumes relatively rational and linear decision making processes, whereas in practice, organizational adoption of innovation is often influenced by behavioural biases, strategic considerations, and institutional pressures. Third, the theory underemphasizes the role of regulatory constraints and risk management considerations, which are particularly critical in the banking sector.

Furthermore, not all innovations result in positive performance outcomes. The effectiveness of financial innovation depends on complementary organizational capabilities, including technological infrastructure, human capital, and strategic alignment. Without these supporting capabilities, innovation may introduce operational inefficiencies, cybersecurity risks, and financial vulnerabilities. This highlights the need to integrate IDT with complementary theoretical perspectives, particularly the Resource-Based View, which emphasizes internal capabilities, and Efficiency Structure Theory, which emphasizes cost optimization.

Accordingly, this study integrates Innovation Diffusion Theory within a broader multi-theoretical framework to provide a more comprehensive explanation of bank performance. Within this framework, IDT underpins the financial innovation dimension of value creation strategies by explaining how the adoption and effective utilization of new technologies influence both operational efficiency and revenue generation. It also provides a dynamic perspective that complements static efficiency based explanations of performance.

Overall, Innovation Diffusion Theory offers a valuable lens for understanding the role of technological change in shaping banking performance. In the Kenyan context, where digital finance has achieved significant penetration, the theory is particularly relevant in explaining how rapid innovation adoption contributes to financial inclusion, operational efficiency, and improved financial outcomes among commercial banks and similar emerging markets

2.2.4 Economies of Scale Theory

Economies of Scale Theory, as articulated by Baumol, Panzar, and Willig (1982), explains how firms achieve cost advantages as their scale of operations increases. The theory posits that as output expands, average costs decline due to the spreading of fixed costs over a larger volume of production, improved operational efficiencies, and enhanced resource utilization. In capital-intensive industries such as banking, where substantial investments are required in infrastructure, technology, and regulatory compliance, economies of scale play a central role in shaping organizational performance.

In the banking sector, economies of scale arise from multiple interrelated sources. Large banks benefit from advanced technological infrastructure, including integrated core banking systems, digital platforms, and data analytics capabilities, which enable the efficient processing of high transaction volumes at relatively low marginal costs. In addition, a broader customer base allows institutions to spread fixed costs such as information technology investments, compliance costs, and administrative overheads across a larger revenue base, thereby reducing per unit transaction costs. Larger banks also tend to possess stronger capital positions, which enhance their capacity to invest in innovation, absorb financial shocks, and expand into new markets.

Furthermore, economies of scale facilitate operational specialization and process standardization, which contribute to improved efficiency and service delivery. Large institutions are able to segment their operations into specialized units, enabling greater expertise, improved risk management, and enhanced productivity. These advantages position larger banks to implement complex value creation strategies more effectively than smaller institutions, particularly in areas such as financial

innovation, digital transformation, and revenue diversification.

Within the context of this study, Economies of Scale Theory provides the primary theoretical foundation for explaining the moderating role of bank size in the relationship between value creation strategies and financial performance. Bank size, proxied by total assets, influences the extent to which strategic initiatives translate into performance outcomes. Larger banks are more likely to derive amplified benefits from value creation strategies due to their superior resource endowments, technological capabilities, and operational scale. For instance, investments in digital banking platforms may generate disproportionately higher returns in large banks because of their extensive customer networks and higher transaction volumes.

From an econometric perspective, this moderating effect is captured through interaction terms between bank size and the respective value creation strategy variables within the panel regression framework. This specification allows the study to explicitly test whether the impact of cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation varies systematically with institutional scale.

However, despite its explanatory relevance, Economies of Scale Theory also recognizes the existence of diseconomies of scale. As organizations grow beyond an optimal size, they may encounter increased bureaucratic complexity, coordination challenges, slower decision making processes, and communication inefficiencies. In the banking sector, excessively large institutions may exhibit rigid organizational structures and reduced responsiveness to market changes, potentially limiting their capacity for innovation and strategic agility.

Conversely, smaller banks may possess distinct strategic advantages that enable them to compete effectively despite limited scale. These include greater organizational flexibility, faster decision making, closer customer relationships, and the ability to target niche markets. Such attributes may allow smaller institutions to implement focused strategies more efficiently and respond more rapidly to shifts in the competitive environment. As a result, the relationship between bank size and performance is inherently nonlinear and contingent upon how effectively institutions

balance scale advantages with operational flexibility.

A key limitation of Economies of Scale Theory is that it primarily emphasizes cost advantages while underrepresenting other critical drivers of performance, such as innovation capability, managerial quality, and market dynamics. In contemporary banking environments characterized by rapid technological change, scale alone does not guarantee superior performance unless it is complemented by effective resource utilization and continuous innovation. Accordingly, this study integrates Economies of Scale Theory with complementary perspectives, including the Resource-Based View and Innovation Diffusion Theory, to provide a more comprehensive and multidimensional explanation of bank performance.

In this integrated framework, Economies of Scale Theory explains how institutional size conditions the effectiveness of value creation strategies by amplifying or constraining their impact on financial performance. It provides a critical lens for understanding performance differentials among banks and reinforces the importance of scale as a structural determinant of strategic outcomes.

Overall, Economies of Scale Theory offers a robust explanation for the moderating role of bank size and highlights the importance of scale in shaping the effectiveness of strategic initiatives. It explains why larger banks may derive greater benefits from value creation strategies while also recognizing the potential constraints associated with excessive scale. This makes it particularly relevant in analyzing performance variations among commercial banks in Kenya, which differ significantly in size, resource capacity, and strategic orientation.

2.2.5 Theoretical Integration Framework

While each of the selected theoretical perspectives provides valuable insights into the determinants of bank performance, none independently offers a sufficiently comprehensive explanation of the complex and multidimensional nature of performance in the banking sector. The Resource-Based View (RBV) emphasizes the role of internal resources and capabilities, Efficiency Structure Theory (EST) focuses on operational efficiency, Innovation Diffusion Theory (IDT) explains the adoption

and impact of innovation, and Economies of Scale Theory highlights the structural advantages associated with firm size. However, bank performance is shaped by the interaction of these dimensions rather than any single factor in isolation.

This study therefore adopts an integrated theoretical framework that combines these complementary perspectives to provide a more holistic explanation of value creation and financial performance. Within this framework, RBV explains how internal capabilities enable banks to design and implement strategic initiatives such as revenue diversification and financial innovation. EST complements this perspective by explaining how operational efficiency, cost reduction, and the elimination of Non-Productive activities contribute to improved performance outcomes. IDT introduces a dynamic dimension by explaining how the adoption and diffusion of financial innovations enhance both efficiency and revenue generation. Economies of Scale Theory further extends the framework by explaining how institutional size conditions the effectiveness of these strategies, thereby providing a basis for the moderating role of bank size.

Importantly, the integration of these theories allows for the simultaneous examination of direct and interaction effects within the empirical model. Value creation strategies are conceptualized as mechanisms through which banks leverage internal capabilities (RBV), enhance efficiency (EST), and adopt innovation (IDT), while the effectiveness of these strategies is influenced by organizational scale (Economies of Scale Theory). This integrated perspective aligns with the study's analytical framework and supports the inclusion of bank size as a moderating variable.

The adoption of a multi-theoretical approach enhances the explanatory power of the study by addressing the limitations inherent in single theory models. It acknowledges that bank performance is not driven by isolated factors but by the interplay of resources, efficiency, innovation, and structural characteristics. As such, the integrated framework provides a more robust and contextually relevant basis for analyzing strategic behaviour and performance outcomes within the Kenyan banking sector.

2.3 Conceptual Framework

A conceptual framework provides a structured and logical representation of the key variables in a study and illustrates the hypothesized relationships among them. It serves as a critical bridge between theory and empirical analysis by translating abstract theoretical constructs into measurable variables that can be empirically tested. In doctoral research, a conceptual framework must demonstrate strong theoretical grounding, internal coherence, and empirical testability. It not only clarifies the direction and nature of relationships among variables but also guides hypothesis formulation, model specification, and interpretation of findings. Creswell and Creswell (2023) emphasize that a well developed conceptual framework enables the researcher to systematically align theory with research design, thereby ensuring consistency between research objectives, variables, and analytical techniques.

In this study, the conceptual framework is developed through the integration of four complementary theoretical perspectives: the Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and Economies of Scale Theory. These theories collectively provide a multidimensional understanding of how value creation strategies influence bank performance, while also accounting for institutional heterogeneity across banks. The framework therefore captures both the direct effects of strategic initiatives and the conditional effects arising from differences in organizational scale.

Specifically, value creation strategies comprising cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation are conceptualized as the independent variables that directly influence financial performance, measured using Return on Assets (ROA). These strategies represent distinct but interrelated mechanisms through which banks enhance efficiency, generate revenue, and improve competitiveness.

Bank size is incorporated as a moderating variable, reflecting the role of organizational scale in shaping the effectiveness of value creation strategies. The inclusion of bank size allows the study to examine whether the impact of strategic initiatives on financial performance varies across institutions of different sizes,

consistent with the propositions of Economies of Scale Theory.

The conceptual framework thus supports the specification of a model that captures both direct and interaction effects, enabling a more comprehensive analysis of the determinants of bank performance. It provides a coherent structure that links theoretical propositions to empirical testing and forms the basis for the hypotheses and analytical approach adopted in the study.

2.3.1 Structure of the Conceptual Framework

The conceptual framework is structured around three main categories of variables: independent variables, the dependent variable, and a moderating variable. This structure provides a coherent analytical basis for examining the relationships among the study constructs and is consistent with the theoretical foundations underpinning the research.

Independent Variables: Value Creation Strategies

The independent variables represent the key strategic actions undertaken by commercial banks to enhance performance and create value. In this study, these strategies comprise cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation. These variables are conceptualized as core drivers of value creation, reflecting deliberate managerial efforts to improve efficiency, expand revenue streams, and strengthen competitive positioning.

Cost reduction and the elimination of Non-Productive activities are primarily associated with enhancing internal efficiency through cost control, process optimization, and the removal of operational inefficiencies. These strategies contribute to improved productivity and reduced operational expenses. In contrast, revenue diversification and financial innovation are oriented toward expanding income sources and enhancing service delivery. These strategies enable banks to generate non-interest income, develop new financial products, and leverage digital platforms to improve customer access and engagement.

Collectively, these four dimensions capture the multidimensional nature of value creation in modern banking institutions, encompassing both efficiency driven and growth oriented strategic initiatives.

Dependent Variable: Financial Performance

The dependent variable in this study is financial performance, which reflects the financial outcomes resulting from the implementation of value creation strategies. Financial performance is primarily measured using Return on Assets (ROA), which captures the efficiency with which banks utilize their asset base to generate earnings.

ROA is widely used in empirical banking studies due to its ability to provide a comprehensive assessment of managerial effectiveness in resource utilization (Athanasoglou, Brissimis, & Delis, 2008). It incorporates both profitability and efficiency dimensions, making it particularly suitable for evaluating the impact of strategic initiatives. While additional indicators such as profitability and operational efficiency provide supporting insights, ROA serves as the principal measure of performance within the empirical model.

Moderating Variable: Bank Size

Bank size is incorporated as a moderating variable in the relationship between value creation strategies and financial performance. It is operationalized using total assets, which is a widely accepted proxy for firm size in banking and finance literature. The inclusion of bank size reflects the recognition that the effectiveness of strategic initiatives is not uniform across institutions but varies depending on organizational scale.

Larger banks typically possess greater financial resources, advanced technological infrastructure, and broader market reach, enabling them to implement strategies such as financial innovation and revenue diversification more effectively. They are also better positioned to absorb the costs associated with technological investments and regulatory compliance. Conversely, smaller banks may benefit from greater organizational flexibility, faster decision making processes, and the ability to focus

on niche markets.

The inclusion of bank size as a moderating variable allows the study to examine whether the strength and direction of the relationship between value creation strategies and financial performance differ across banks of varying sizes. This enables the empirical model to capture interaction effects, thereby providing a more nuanced understanding of how institutional characteristics shape strategic outcomes.

2.3.2 Theoretical Justification of Relationships

The hypothesized relationships in the conceptual framework are grounded in the theoretical perspectives discussed earlier, which collectively explain how value creation strategies influence financial performance in the banking sector. Each relationship reflects a specific theoretical mechanism through which strategic actions translate into performance outcomes.

The relationship between cost reduction strategies and financial performance is anchored in Efficiency Structure Theory, which posits that firms with superior operational efficiency achieve higher profitability. By minimizing operational costs through process optimization, automation, and effective resource allocation, banks are able to improve profit margins and enhance overall financial performance. This relationship reflects the central role of cost efficiency in driving performance outcomes within cost intensive financial institutions.

Similarly, the relationship between revenue diversification and financial performance is supported by the Resource-Based View, which emphasizes the role of internal capabilities in generating competitive advantage. Banks leverage their resources, including technological capabilities and human capital, to develop new income streams and expand noninterest revenue sources. This enables institutions to reduce dependence on traditional interest income and enhance overall profitability.

The relationship between the elimination of Non-Productive activities and financial performance is also grounded in Efficiency Structure Theory. By identifying and removing redundant processes, underperforming operations, and inefficient resource

allocations, banks are able to improve operational effectiveness and redirect resources toward value generating activities. This enhances productivity and contributes to improved financial outcomes.

The relationship between financial innovation and financial performance is explained by Innovation Diffusion Theory, which highlights how the adoption of new technologies and practices enhances efficiency, service delivery, and revenue generation. The integration of digital platforms, mobile banking, and fintech solutions enables banks to reduce transaction costs, expand customer reach, and create new revenue opportunities, thereby improving overall performance.

Finally, the moderating role of bank size is supported by Economies of Scale Theory, which suggests that the impact of strategic initiatives on performance is conditioned by organizational scale. Larger banks benefit from cost advantages, broader resource endowments, and enhanced technological capabilities, enabling them to implement value creation strategies more effectively and derive greater performance benefits. Conversely, smaller banks may experience different strategic outcomes due to resource constraints and operational limitations. This moderating relationship reflects the importance of institutional characteristics in shaping the effectiveness of strategic actions.

Overall, the theoretical justification of these relationships demonstrates that financial performance in the banking sector is influenced by a combination of efficiency, resource capabilities, innovation adoption, and structural factors. This integrated perspective provides a robust foundation for hypothesis development and empirical testing within the study.

2.3.3 Interaction Effects

A key contribution of this study is the examination of interaction effects between value creation strategies and bank size. Unlike conventional models that focus solely on direct relationships, this study recognizes that the impact of strategic initiatives on financial performance is contingent upon institutional characteristics. In particular, the effectiveness of value creation strategies is expected to vary across banks of

different sizes, reflecting differences in resource endowment, operational capacity, and technological capability.

The inclusion of interaction effects implies that the relationship between value creation strategies and financial performance is not uniform but conditional. For example, financial innovation strategies are likely to have a stronger positive effect on performance in larger banks due to their superior technological infrastructure, broader customer base, and greater capacity to absorb innovation related costs. Conversely, cost reduction strategies may exert a more pronounced impact on smaller banks, where tighter cost control and operational efficiency are critical for maintaining competitiveness and financial sustainability.

From an econometric perspective, these interaction effects are captured through the inclusion of interaction terms between bank size and each of the value creation strategy variables within the panel regression model. This specification allows the study to estimate how the marginal effect of each strategy on financial performance changes as bank size varies, thereby providing a more nuanced and context sensitive understanding of strategic effectiveness.

The examination of interaction effects is aligned with the moderating hypothesis (H_{05}), which posits that bank size significantly influences the relationship between value creation strategies and financial performance. By incorporating moderation into the analytical framework, the study moves beyond simplistic linear assumptions and offers deeper insights into the conditional dynamics of bank performance.

Overall, the inclusion of interaction effects enhances the explanatory power of the model and provides a more comprehensive understanding of how strategic outcomes are shaped by both internal actions and structural characteristics within the banking sector.

2.3.4 Conceptual Model Representation

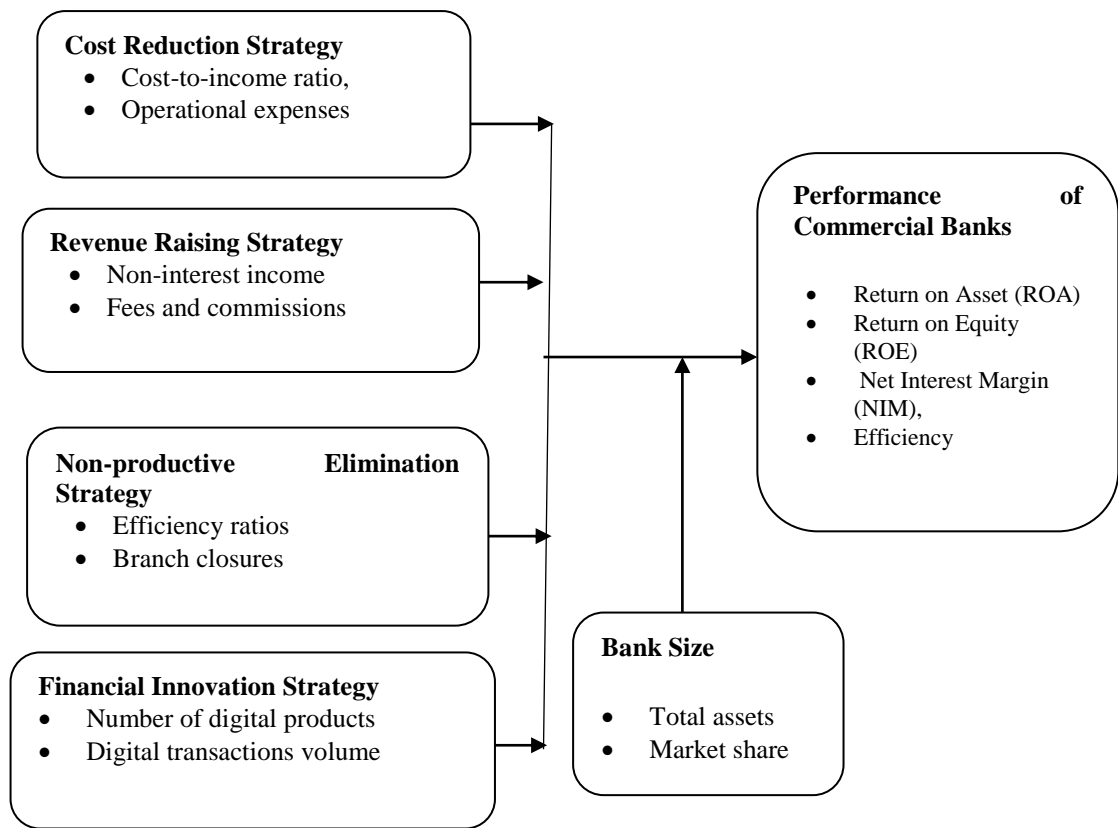
The conceptual framework proposes that value creation strategies namely; cost reduction, revenue diversification, elimination of Non-Productive activities, and

financial innovation exert direct effects on financial performance. These strategies represent key managerial actions through which banks enhance efficiency, expand revenue streams, and strengthen competitive positioning.

In addition to these direct relationships, the framework incorporates bank size as a moderating variable, reflecting the role of organizational scale in shaping the effectiveness of strategic initiatives. Specifically, bank size influences the extent to which value creation strategies translate into improved performance outcomes, consistent with the propositions of Economies of Scale Theory.

The conceptual model therefore captures both direct and moderating effects, providing a comprehensive analytical structure for examining the determinants of bank performance. The direct effects represent the independent influence of each value creation strategy on financial performance, while the moderating effect reflects the conditional nature of these relationships across banks of different sizes.

Figure 2.1 illustrates the conceptual framework, showing the relationships between the independent variables (value creation strategies), the moderating variable (bank size), and the dependent variable (financial performance). The arrows from the independent variables to the dependent variable represent direct effects, while the interaction between bank size and the independent variables represents the moderating effect.



Independent Variable Moderating Variable Dependent Variable

Source: Author (2026)

Figure 2.1: Conceptual Framework

The conceptual framework forms the basis for hypothesis development and guides the specification of the econometric model used in the study, particularly through the inclusion of interaction terms to test moderation effects. It ensures alignment between theoretical constructs, empirical variables, and the analytical approach adopted in the study.

2.3.5 Critical Evaluation of the Conceptual Framework

Despite its strengths, the conceptual framework is subject to several limitations that warrant critical consideration. First, the framework assumes predominantly linear relationships between the independent variables and financial performance.

However, in practice, these relationships may exhibit nonlinear dynamics, threshold effects, or diminishing returns, particularly in areas such as financial innovation and economies of scale. For example, beyond a certain level, additional investment in innovation may yield declining marginal benefits, while excessive cost reduction may negatively affect service quality and long term performance.

Second, the framework assumes uniform measurement and interpretation of variables across banks. In reality, institutional differences in strategy implementation, reporting practices, and operational structures may affect the comparability of key indicators. Variations in accounting policies, technological adoption, and organizational processes may therefore introduce measurement inconsistencies that are not fully captured within the model.

Third, the framework relies on secondary financial data, which, while enhancing objectivity, reliability, and comparability, does not capture qualitative dimensions of strategic behavior. Factors such as managerial capability, organizational culture, leadership quality, and customer perception play a critical role in shaping performance outcomes but are not directly observable through financial metrics.

In addition, the framework does not explicitly incorporate external environmental factors, including macroeconomic conditions, regulatory changes, competitive dynamics, and technological disruption. These factors may influence both the adoption of value creation strategies and financial performance, thereby introducing the potential for omitted variable bias. Furthermore, the possibility of endogeneity cannot be entirely ruled out, as strategic decisions and performance outcomes may be jointly determined.

Notwithstanding these limitations, the framework remains analytically robust and theoretically grounded. The study mitigates these concerns through appropriate model specification, including the use of panel data techniques and fixed effects estimation to control for unobserved heterogeneity. Additional robustness checks and contextual interpretation of findings further enhance the validity of the results.

Overall, the conceptual framework provides a coherent and empirically testable structure for analyzing the relationship between value creation strategies and financial performance. It captures the core strategic dimensions relevant to the banking sector while acknowledging the complexity of real world environments, thereby offering a balanced and rigorous foundation for the study.

2.4 Empirical Literature Review

Empirical literature provides systematic evidence on how strategic practices influence organizational performance across different institutional and economic contexts. In the banking sector, a substantial body of empirical research has examined the determinants of financial performance, with particular emphasis on operational efficiency, revenue diversification, financial innovation, and institutional characteristics such as firm size. Collectively, these studies offer important insights into the mechanisms through which banks enhance profitability, competitiveness, and long term sustainability.

Despite the breadth of existing empirical work, several limitations are evident. First, a significant proportion of studies adopt a fragmented approach by focusing on individual determinants of performance in isolation, thereby limiting the understanding of how multiple strategic variables interact to influence outcomes. Second, much of the empirical evidence is concentrated in developed economies, where institutional structures, regulatory environments, and levels of technological advancement differ substantially from those in emerging markets such as Kenya. This limits the generalizability and contextual relevance of existing findings.

Third, methodological limitations are prevalent within the literature. Many studies rely on cross-sectional data, which does not adequately capture temporal dynamics or account for unobserved heterogeneity across institutions. As a result, such approaches may provide only a partial understanding of the determinants of bank performance. In contrast, panel data methodologies offer a more robust analytical framework by incorporating both cross-sectional and timeseries variations, thereby enhancing the reliability and explanatory power of empirical findings.

Furthermore, while earlier studies predominantly focused on traditional performance indicators and macroeconomic determinants, more recent research has shifted toward strategic drivers of performance, including cost management, revenue diversification, operational efficiency, and financial innovation. However, even within this emerging body of literature, there remains a lack of integration across these strategic dimensions, and limited attention has been given to the interaction effects among them.

In response to these gaps, this study adopts a comprehensive and integrated empirical approach by examining multiple value creation strategies simultaneously within a panel data framework. In addition, the study incorporates bank size as a moderating variable to capture the conditional nature of strategic effectiveness across institutions of different scales. This approach not only addresses the fragmentation observed in prior studies but also provides a more nuanced and context specific understanding of the determinants of bank performance in the Kenyan banking sector.

2.4.1 Cost Reduction Strategies and Bank Performance

Cost reduction strategies have been extensively examined in empirical literature as key determinants of organizational performance. In the banking sector, these strategies are primarily aimed at minimizing operational costs while maintaining or enhancing service quality. Common approaches include process automation, branch rationalization, outsourcing of noncore activities, and the adoption of digital banking platforms. These initiatives are intended to improve operational efficiency, reduce cost-to-income ratios, and enhance overall profitability.

Empirical evidence consistently supports a positive relationship between cost efficiency and bank performance. Berger and Mester (1997) demonstrate that cost efficiency is a major determinant of profitability, showing that banks with lower operating costs tend to outperform less efficient institutions. Similarly, Athanasoglou, Brissimis, and Delis (2008) find that effective cost management significantly influences financial performance, highlighting the importance of managerial efficiency and operational discipline. These findings are reinforced by subsequent studies that emphasize cost control as a fundamental driver of

performance in banking institutions.

In developing and emerging economies, cost reduction strategies have become increasingly critical due to heightened competition, regulatory pressures, and resource constraints. Kumbirai & Webb (2010) finds that cost management significantly improves the performance of commercial banks in Kenya, while Sufian and Habibullah (2009) report similar results in Asian banking systems. These studies underscore the importance of operational efficiency as a key mechanism through which banks enhance profitability and sustain competitiveness in resource constrained environments.

However, the relationship between cost reduction and performance is not unambiguously positive. A growing body of empirical research highlights the existence of diminishing returns to cost cutting strategies. DeYoung and Rice (2004) argue that excessive cost reduction may lead to a decline in service quality, reduced customer satisfaction, and underinvestment in innovation, thereby negatively affecting long term competitiveness. This distinction between cost efficiency and cost minimization is particularly important, as aggressive cost cutting may undermine the strategic capabilities necessary for sustained performance.

In the context of structural transformation within the banking sector, particularly in emerging markets such as Kenya, cost reduction strategies often involve branch rationalization, automation, and workforce restructuring. While these measures may generate significant short term efficiency gains, their long term impact depends on the extent to which cost savings are reinvested into value adding activities, including technological innovation and customer experience enhancement.

Empirical studies show that bank profitability is influenced by both internal and external factors. Dietrich and Wanzenried (2011) find that cost efficiency and operational management are key drivers of profitability across banking institutions. Kumbirai and Webb (2010) demonstrate that cost efficiency is a critical determinant of bank performance, with more efficient banks achieving higher profitability levels.

Overall, the empirical literature suggests that cost reduction strategies contribute significantly to improved financial performance, particularly when implemented as part of a broader strategic framework. Their effectiveness is enhanced when integrated with complementary value creation strategies such as financial innovation and revenue diversification. This reinforces the need for a balanced and multidimensional approach to performance improvement, as adopted in the present study.

2.4.2 Revenue Raising Strategies and Bank Performance

Revenue diversification strategies focus on expanding income streams beyond traditional interest-based earnings. In the banking sector, this typically involves the development of non-interest income sources such as transaction fees, advisory services, digital banking services, agency banking, and other value added financial products. These strategies are increasingly important in modern banking environments, where reliance on interest income alone exposes institutions to interest rate risk and regulatory constraints.

Empirical evidence consistently demonstrates the importance of revenue diversification in enhancing bank performance. Stiroh (2004) finds that non-interest income contributes to improved financial stability and performance by reducing dependence on traditional lending activities. Similarly, DeYoung and Rice (2004) show that diversified income streams enhance profitability and reduce vulnerability to fluctuations in interest rates. These findings suggest that revenue diversification strengthens the resilience of banking institutions by broadening their income base.

In emerging markets, revenue diversification has become particularly significant in response to regulatory changes, technological transformation, and increased competition from fintech firms. Revenue diversification has been identified as a key determinant of bank performance in emerging economies. Sanya and Wolfe (2011) show that banks that diversify income streams benefit from improved stability and profitability by reducing reliance on interest-based income.

However, the relationship between revenue diversification and performance is not without complexity. Empirical literature points to potential trade-offs associated with non-interest income activities. DeYoung and Roland (2001) argue that non-interest income tends to be more volatile than traditional interest income, thereby increasing earnings variability and operational risk. This is particularly relevant in less mature financial systems, where risk management frameworks may be less developed.

At the same time, the impact of revenue diversification is highly context dependent. In the Kenyan banking sector, diversification into digital financial services has been associated with relatively stable and scalable income streams, largely due to high transaction volumes and widespread adoption of mobile banking platforms. This suggests that the effectiveness of diversification strategies depends on the structure of the financial system, the nature of income sources, and the technological environment within which banks operate.

From a theoretical perspective, the positive effects of revenue diversification are supported by the Resource-Based View, which emphasizes the role of internal capabilities in generating competitive advantage. Banks leverage their technological, human, and financial resources to develop diversified service offerings, thereby enhancing revenue generation and strengthening market positioning.

Overall, the empirical literature suggests that revenue diversification strategies contribute significantly to improved financial performance by expanding income streams and enhancing resilience. However, their effectiveness depends on the ability of banks to manage associated risks and align diversification efforts with broader strategic and technological capabilities. This reinforces the importance of integrating revenue diversification with other value creation strategies within a comprehensive analytical framework, as adopted in the present study.

Recent studies also highlight the increasing importance of non-interest income as a strategic response to regulatory constraints and competitive pressures. The shift toward fee-based services, digital transactions, and diversified financial products has become a key driver of performance in modern banking systems. Empirical evidence suggests that fintech-enabled revenue streams play a critical role in enhancing

profitability and stability. For example, Muhammad I. Hassan et al. (2025) demonstrate that digital financial services significantly improve bank performance in developing economies by expanding income sources and reducing reliance on interest-based revenue.

In addition, the integration of digital platforms into banking operations enables institutions to scale transaction-based income more efficiently. This aligns with the Resource-Based View, which emphasizes the role of internal capabilities in leveraging new revenue opportunities. In emerging markets, such as those in Africa, revenue diversification is particularly important due to regulatory constraints and evolving customer needs, further reinforcing its strategic relevance.

2.3.3 Elimination of Non-Productive activities and Bank Performance

The elimination of Non-Productive activities represents an important but relatively underexplored dimension of value creation within empirical literature. This strategy focuses on enhancing operational efficiency by identifying and removing processes, assets, and practices that do not contribute to value generation. In the banking sector, such inefficiencies may include redundant administrative procedures, underperforming branches, outdated legacy systems, and unprofitable product lines. By streamlining operations and reallocating resources toward value generating activities, banks can improve productivity and overall financial performance.

Empirical evidence supports the positive impact of operational streamlining on bank performance. Berger and Humphrey (1997) demonstrate that banks that eliminate inefficiencies and optimize operational processes achieve higher productivity and improved financial outcomes. Similarly, Sufian (2011) finds that operational restructuring particularly through process optimization and branch rationalization significantly enhances profitability. These findings suggest that efficiency improvements achieved through the elimination of Non-Productive activities play a critical role in driving performance.

In the context of digital transformation, recent studies highlight the importance of optimizing physical and operational infrastructure. Kazakov and Chmutova (2020)

show that inefficient branch networks increase operational costs and reduce overall efficiency, while Githinji (2020) reports that branch rationalization has a significant positive effect on the performance of Kenyan banks. These developments reflect a broader shift within the banking sector toward leaner, technology driven operating models.

Despite this evidence, the empirical literature exhibits notable limitations. Most studies measure inefficiency indirectly using financial ratios, such as cost-to-income ratios, rather than explicitly examining the elimination of Non-Productive activities as a distinct strategic construct. As a result, limited attention is given to the strategic decision making processes involved in identifying, evaluating, and eliminating inefficiencies. This creates a gap in the literature regarding the explicit role of elimination strategies in value creation.

Furthermore, the elimination of Non-Productive activities may entail trade-offs and implementation challenges. While such strategies can improve efficiency, they may also result in short term operational disruptions, loss of institutional knowledge, and reduced accessibility for certain customer segments, particularly in branch dependent markets. These potential drawbacks underscore the importance of carefully balancing efficiency gains with service quality and long term strategic objectives.

Conceptually, the elimination of Non-Productive activities aligns closely with lean management principles, which emphasize waste reduction, process optimization, and continuous improvement. Although originally developed in manufacturing contexts, lean principles are increasingly being applied in the banking sector, particularly in response to digital transformation. Banks are transitioning from labor-intensive processes to automated and technology driven systems, thereby reducing operational redundancies and enhancing efficiency. In the Kenyan context, this is evident in the rationalization of physical branch networks and the increased adoption of digital service delivery channels.

This study contributes to the empirical literature by explicitly conceptualizing the elimination of Non-Productive activities as a distinct dimension of value creation, rather than subsuming it within broader measures of efficiency. By incorporating this

variable within an integrated analytical framework alongside cost reduction, revenue diversification, and financial innovation, the study provides a more nuanced and comprehensive understanding of how different strategic mechanisms influence bank performance.

2.4.4 Financial Innovation and Bank Performance

Financial innovation has emerged as a critical driver of performance in the modern banking sector. It encompasses the development and adoption of new financial products, services, technologies, and delivery mechanisms aimed at enhancing efficiency, accessibility, and competitiveness. In contemporary banking environments, financial innovation is closely associated with digital transformation, including mobile banking, digital lending, fintech collaborations, and data driven financial services.

At the global level, empirical evidence highlights the significant role of financial innovation in enhancing banking performance. Beck, Senbet, and Simbanegavi (2015) find that financial innovation promotes financial inclusion and broader economic development, while Ozili (2018) demonstrates that digital finance improves operational efficiency and contributes to financial system stability. Feyen et al. (2021) further emphasize that fintech innovations reduce transaction costs, enhance financial intermediation, and intensify competition within the financial sector. Collectively, these studies suggest that innovation serves as a key mechanism through which banks improve both efficiency and market reach.

In the African context, financial innovation has been a major driver of structural transformation within the banking sector. Asongu and Odhiambo (2022) find that digital finance significantly enhances financial inclusion and improves banking performance across Sub-Saharan Africa. Kenya, in particular, represents a leading case of digital financial innovation, characterized by widespread adoption of mobile banking, agency banking, and digital payment systems. This environment provides a unique context in which innovation driven strategies have reshaped traditional banking models.

Financial innovation has been widely shown to enhance bank performance by improving efficiency and expanding service delivery channels. For instance, Frost et al. (2019) demonstrate that digital financial technologies are reshaping financial intermediation and improving operational efficiency. Similarly, Lee and Shin (2018) highlight that fintech innovations enhance competitiveness through new business models and improved customer engagement.

However, the relationship between financial innovation and performance is not without complexity. Empirical literature highlights several challenges associated with innovation adoption, including high initial investment costs, cybersecurity risks, regulatory constraints, and uneven adoption across institutions. In particular, the benefits of innovation may not be immediately realized, as significant upfront investments in technology, infrastructure, and human capital can reduce short term profitability. This may explain mixed or insignificant findings reported in some studies, particularly in the early stages of innovation adoption.

From a theoretical perspective, the impact of financial innovation on performance is best understood through the combined lenses of Innovation Diffusion Theory and the Resource-Based View. While Innovation Diffusion Theory explains the process through which new technologies are adopted and integrated into banking operations, the Resource-Based View emphasizes the importance of internal capabilities in determining the effectiveness of such innovations. The performance gains associated with innovation are therefore contingent upon organizational readiness, technological capability, and strategic alignment.

In emerging markets such as Kenya, the rapid adoption of mobile financial services has mitigated some of the traditional barriers to innovation, enabling banks to achieve substantial efficiency gains and revenue growth. This suggests that the effectiveness of financial innovation is highly context dependent and influenced by factors such as technological infrastructure, regulatory support, and customer adoption patterns.

Overall, empirical evidence indicates that financial innovation enhances operational efficiency, expands revenue opportunities, and improves service delivery. However,

its effectiveness depends on complementary organizational capabilities and its integration within broader value creation strategies. This study contributes to the literature by examining financial innovation within a multidimensional framework and by evaluating its interaction with bank size, thereby providing a more comprehensive understanding of its role in driving bank performance.

Recent empirical and theoretical literature reinforces the growing importance of financial innovation as a driver of bank performance. Digital transformation has significantly altered the structure of financial intermediation, enabling banks to improve efficiency, expand outreach, and develop new revenue streams. Xavier Vives (2019) argues that digital disruption in banking enhances competition and efficiency by reducing transaction costs and improving service delivery. Similarly, Thomas Philippon (2019) highlights that fintech innovations contribute to financial efficiency and inclusion, particularly by lowering intermediation costs and improving access to financial services. Fintech ecosystems have significantly transformed traditional banking models by introducing innovative business models, enhancing service delivery, and improving customer engagement (Lee & Shin, 2018).

More recent empirical studies further demonstrate that financial innovation has a positive and significant impact on bank performance, particularly in emerging markets. For instance, Fang Xu et al. (2025) provide systematic evidence that fintech adoption improves operational efficiency and profitability across banking institutions. Likewise, Athanassios Dasilas and Goran Karanović (2023) find that fintech integration enhances bank profitability through cost optimization and revenue expansion mechanisms.

Within the African context, financial innovation plays an even more transformative role due to relatively lower levels of legacy infrastructure and higher demand for financial inclusion. Tendai Chinoda and Fainos M. Kapingura (2024) show that fintech-driven financial inclusion significantly influences banking sector performance and risk dynamics in Sub-Saharan Africa. These findings support the Innovation Diffusion Theory, which posits that technological adoption leads to improved efficiency and competitive advantage.

Digital financial innovation also plays a critical role in enhancing financial inclusion and stability by expanding access to financial services and improving transaction efficiency (Ozili, 2018).

2.4.5 Bank Size and Bank Performance

Bank size is a key structural determinant of performance and plays a significant role in influencing the effectiveness of strategic initiatives. Empirical studies generally indicate a positive relationship between bank size and performance, primarily attributed to economies of scale, which enable larger institutions to spread fixed costs, enhance operational efficiency, and leverage broader resource bases.

Empirical evidence supports this positive association. Athanasoglou, Brissimis, and Delis (2008) find that larger banks tend to achieve higher profitability, while Berger and Humphrey (1997) report that large institutions exhibit superior efficiency levels. In the African context, Karekezi and Mluma (2022) show that bank size positively influences profitability, and Dietrich & Wanzenried (2011) report similar findings within the Kenyan banking sector. These studies suggest that scale advantages enable banks to optimize operations, invest in technology, and expand market reach.

However, the relationship between bank size and performance is not linear or universally positive. A growing body of empirical literature highlights the presence of diseconomies of scale, where excessively large institutions experience increased organizational complexity, coordination challenges, and reduced operational flexibility. Dietrich and Wanzenried (2021) demonstrate that the relationship between size and performance may be nonlinear, indicating that beyond a certain threshold, the benefits of scale diminish.

Beyond its direct effect, bank size plays a more dynamic role by shaping the effectiveness of strategic initiatives. Larger banks typically possess greater financial resources, advanced technological infrastructure, and broader customer bases, enabling them to implement strategies such as financial innovation and revenue diversification more effectively. In contrast, smaller banks may benefit from agility, faster decision making, and the ability to target niche markets, which can enhance the

effectiveness of efficiency driven strategies.

Despite this, most empirical studies treat bank size as a control variable rather than a central analytical construct. This limits the understanding of its conditional role in influencing performance outcomes. Theoretical perspectives, particularly Economies of Scale Theory, suggest that bank size should be examined as a moderating factor that conditions the relationship between strategic actions and performance.

This study advances the literature by explicitly modelling bank size as a moderating variable rather than merely a control variable. By incorporating interaction effects within a panel data framework, the study provides a more nuanced understanding of how the impact of value creation strategies on financial performance varies across banks of different sizes. This approach captures the conditional dynamics of performance and addresses a key gap in existing empirical research.

Table 2.2: Empirical Literature Synthesis

Author(s)	Context	Methodology	Key Findings	Research Gap
Berger & Mester (1997)	USA	Efficiency analysis	Efficiency improves profitability	Focus on developed economies
Athanasoglou et al. (2008)	Greece	Panel regression	Efficiency influences performance	Limited focus on innovation
Stiroh (2004)	USA	Panel data	Diversification improves stability	No integration with efficiency
Ozili (2018)	Global	Comparative analysis	Innovation improves performance	No moderating analysis
Beck et al. (2015)	Africa	Cross-country	Innovation enhances inclusion	Limited bank level analysis
Githinji (2020)	Kenya	Regression	Branch rationalization improves efficiency	Focus on single strategy

Source: Author (2026)

2.4.6 Synthesis of Empirical Literature

The empirical literature reviewed in this study provides substantial evidence on the determinants of bank performance, particularly in relation to cost efficiency, revenue diversification, financial innovation, and structural characteristics such as bank size. Beyond individual findings, a critical synthesis reveals important patterns, complementarities, and limitations that shape the current understanding of value creation within the banking sector.

First, a consistent finding across both developed and developing economies is that cost efficiency plays a fundamental role in enhancing bank profitability. Studies employing frontier analysis and panel regression techniques demonstrate that banks with lower operational costs tend to achieve superior financial performance. This relationship is particularly pronounced in competitive and regulated environments where profit margins are constrained. However, the literature also indicates that the impact of cost reduction is not strictly linear. Excessive cost cutting may undermine service quality, limit investment in innovation, and weaken long term competitiveness. This suggests that cost efficiency should be conceptualized as part of a broader strategic framework that balances operational optimization with sustained value creation.

Second, the literature demonstrates that revenue diversification contributes positively to financial stability and profitability by reducing reliance on interest-based income. Empirical studies show that banks expanding into non-interest income activities such as digital transactions, advisory services, and fee based products are better positioned to withstand fluctuations in traditional revenue streams. However, findings are not uniformly consistent, as some studies indicate that non-interest income may introduce earnings volatility due to its sensitivity to market conditions. This underscores the importance of effective risk management and strategic alignment in ensuring that diversification enhances performance.

Third, there is strong empirical support for financial innovation as a key driver of competitiveness and performance. The expansion of digital banking, mobile financial services, and fintech integration has transformed banking operations, particularly in

emerging markets such as Kenya. Empirical evidence suggests that innovation improves efficiency, reduces transaction costs, and expands financial access. Nonetheless, the literature also highlights challenges, including high implementation costs, cybersecurity risks, and uneven adoption across institutions. These findings indicate that the benefits of innovation are contingent upon institutional capabilities, resource availability, and the broader regulatory and technological environment.

Fourth, empirical findings indicate that bank size plays a significant role in influencing performance, although the relationship is not always linear. Larger banks benefit from economies of scale, stronger capital bases, and enhanced technological capabilities, enabling them to implement complex strategies more effectively. At the same time, excessive size may lead to organizational inefficiencies and reduced agility. This duality suggests that bank size not only influences performance directly but also shapes the effectiveness of strategic initiatives.

Despite these insights, a critical evaluation of the literature reveals several important limitations. A major limitation is the fragmentation of empirical research, with most studies examining individual determinants of performance in isolation. For example, studies on cost efficiency rarely incorporate innovation variables, while research on financial innovation often overlooks cost dynamics. This fragmented approach fails to capture the reality that banks simultaneously implement multiple strategies that interact in complex ways.

Closely related to this is the lack of integrated analytical frameworks. While individual studies provide valuable insights, few adopt a multidimensional approach that examines the combined effects of cost efficiency, revenue diversification, operational restructuring, and financial innovation within a single model. As a result, the literature provides only a partial understanding of value creation processes in banking.

Methodologically, many studies rely on cross-sectional or short panel data, limiting their ability to capture dynamic changes over time and control for unobserved heterogeneity. Although panel data methods offer significant advantages in addressing these limitations, their application in developing economies particularly

within the Kenyan banking sector remains limited.

Furthermore, there is limited emphasis on moderating effects, particularly the role of bank size. Most studies treat size as a control variable rather than examining how it conditions the relationship between strategic variables and performance. This represents a significant gap, given the theoretical importance of scale in shaping strategic outcomes.

In addition, the literature reveals measurement limitations, particularly in the operationalization of strategic variables. Efficiency is often measured using aggregate ratios without isolating specific strategies such as the elimination of Non-Productive activities. Similarly, financial innovation is frequently treated as a single construct without capturing its multidimensional nature. The elimination of Non-Productive activities, in particular, remains underexplored as a distinct value creation strategy despite its relevance in improving operational efficiency.

Overall, the synthesis of empirical literature indicates that while substantial progress has been made in understanding bank performance, important gaps remain in terms of integration, methodology, and contextual relevance. This study addresses these gaps by adopting a multidimensional approach that simultaneously examines multiple value creation strategies within a panel data framework and incorporates bank size as a moderating variable. By doing so, it provides a more comprehensive and context specific understanding of value creation in the Kenyan banking sector.

The impact of value creation strategies is particularly pronounced in emerging market contexts, where structural inefficiencies and rapid technological adoption create unique opportunities for transformation. In Africa, fintech has accelerated financial inclusion while reshaping traditional banking models. Emmanuel Iluba and Joseph Phiri (2021) note that fintech evolution has significantly altered competitive dynamics in the banking sector by enabling faster service delivery and broader market access.

Furthermore, recent evidence suggests that innovation-driven strategies also introduce new risk dimensions that must be managed effectively. Qhama Mabe

(2025) highlights that fintech-related risks can influence bank performance, emphasizing the need for balanced strategic implementation. These findings underscore the importance of context-specific analysis when examining value creation strategies in developing economies.

2.5 Critique of Existing Literature

The existing empirical literature provides valuable insights into the determinants of bank performance, particularly in relation to operational efficiency, revenue diversification, financial innovation, and institutional characteristics. These studies have significantly advanced understanding of how banks generate profitability and sustain competitiveness across different economic contexts.

However, despite the breadth of research in this area, several conceptual, methodological, and contextual limitations persist. A critical evaluation reveals that much of the literature remains fragmented, methodologically constrained, and insufficiently responsive to the complexities of modern banking environments. In particular, existing studies often fail to capture the multidimensional and interactive nature of value creation strategies, thereby limiting their explanatory power.

Furthermore, a significant proportion of empirical research is concentrated in developed economies, raising concerns regarding the applicability of findings to emerging markets such as Kenya, where institutional structures, regulatory dynamics, and technological adoption differ considerably. Methodological limitations particularly the reliance on cross-sectional designs and simplified analytical models further constrain the ability of existing studies to capture dynamic performance relationships and unobserved heterogeneity.

These limitations underscore the need for a more comprehensive and integrative analytical framework that incorporates multiple strategic dimensions, accounts for contextual differences, and employs robust methodological approaches. This study responds to these gaps by adopting a multidimensional, panel based, and moderation driven approach to analyzing value creation strategies and bank performance.

2.5.1 Fragmentation of Research

A major limitation of existing literature on bank performance is the fragmented nature of empirical research, where studies tend to examine individual determinants of performance in isolation rather than adopting a holistic and integrative perspective. For example, Berger and Mester (1997) primarily focus on cost efficiency, Stiroh (2004) examines revenue diversification, while Ozili (2018) emphasizes financial innovation. Although these studies provide important and context specific insights, they largely treat these determinants as independent drivers of performance, without accounting for their potential interactions.

This fragmented approach constrains the ability to develop a comprehensive understanding of how different strategic initiatives jointly influence bank performance. In practice, banks simultaneously implement multiple value creation strategies including cost optimization, revenue diversification, operational restructuring, and financial innovation yet the interdependencies among these strategies remain insufficiently explored in empirical literature. As a result, existing studies fail to capture the synergistic, complementary, or even conflicting effects that may arise when these strategies are implemented concurrently.

Moreover, the lack of integration contributes to inconsistencies in empirical findings. For instance, while revenue diversification is often associated with improved performance, some studies report increased earnings volatility, suggesting that its impact may depend on other strategic and institutional factors. Similarly, the effectiveness of financial innovation may be contingent upon cost structures and organizational capabilities, which are rarely examined within a unified analytical framework.

From a theoretical standpoint, this fragmentation reflects an overreliance on single theory perspectives, which provide only partial explanations of complex organizational phenomena. Given that bank performance is inherently multidimensional shaped by efficiency, resource capabilities, innovation, and structural characteristics more integrated approach is necessary to capture the full spectrum of value creation processes.

This study addresses this limitation by adopting a multidimensional analytical framework that simultaneously examines cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation. By incorporating these strategies within a single model and analyzing their interaction effects, the study provides a more holistic and realistic understanding of bank performance in the Kenyan context.

2.5.2 Contextual Limitations

Another significant limitation of existing empirical literature is its strong concentration in developed economies. Much of the research on bank performance is grounded in contexts characterized by relatively stable financial systems, advanced technological infrastructure, mature regulatory frameworks, and well developed capital markets. While such environments provide a useful basis for theoretical and empirical analysis, they do not adequately capture the institutional realities of emerging markets such as Kenya.

The Kenyan banking sector operates within a dynamic and evolving environment shaped by regulatory shifts, financial inclusion policies, rapid digital transformation, and heterogeneity in technological adoption across institutions. For instance, the introduction and subsequent repeal of interest rate caps significantly altered credit markets, influencing lending behaviour, profitability, and risk management practices. Similarly, the rapid expansion of mobile financial services and fintech innovations has transformed traditional banking models, intensifying competition and redefining value creation mechanisms.

These contextual differences have important implications for the applicability of findings derived from developed economies. Strategic relationships observed in stable and technologically advanced environments may not hold in emerging markets, where institutional constraints, market imperfections, and structural transitions play a more prominent role. In particular, the effectiveness of value creation strategies such as financial innovation, revenue diversification, and cost optimization may vary depending on regulatory conditions, technological readiness, and customer adoption patterns.

Furthermore, emerging markets are often characterized by greater volatility, uneven infrastructure development, and evolving policy frameworks, which introduce additional layers of complexity into performance analysis. As a result, empirical models developed in advanced economies may fail to adequately capture these dynamics, leading to incomplete or contextually misaligned conclusions.

This underscores the need for context specific empirical studies that reflect the unique structural, regulatory, and technological characteristics of emerging financial systems. Accordingly, this study contributes to the literature by providing evidence from the Kenyan banking sector, thereby enhancing the contextual relevance and external validity of research on value creation strategies and bank performance.

The emergence of Big Tech firms has further intensified competition in financial services, reshaping financial intermediation and challenging traditional banking models (Frost et al., 2019).

2.5.3 Underexplored Strategic Variables

The literature also reveals important gaps in the conceptualization and measurement of key strategic variables influencing bank performance. While cost efficiency, revenue diversification, and financial innovation have received considerable empirical attention, certain dimensions of value creation remain underexplored or insufficiently specified. In particular, the elimination of Non-Productive activities has not been adequately examined as a distinct strategic construct.

Most empirical studies capture inefficiencies indirectly through aggregate financial indicators such as cost-to-income ratios or operating expense measures, without explicitly analyzing the underlying strategic processes involved in identifying and eliminating non-value adding activities. As a result, the literature tends to conflate efficiency outcomes with the specific managerial actions that drive them, thereby limiting insight into how operational restructuring contributes to performance. This lack of conceptual clarity obscures the role of elimination strategies as a deliberate and distinct mechanism of value creation.

Similarly, financial innovation is often treated as a standalone variable, examined independently of other strategic dimensions. While this approach has generated valuable insights into the impact of digital transformation and fintech adoption, it fails to capture the interdependence between innovation and other value creation strategies. In practice, the effectiveness of financial innovation is closely linked to cost structures, organizational capabilities, and revenue models, suggesting that its impact cannot be fully understood in isolation.

The absence of a comprehensive analytical framework that integrates these strategic dimensions represents a significant conceptual limitation in existing literature. By examining value creation strategies in isolation, prior studies overlook the synergistic and conditional relationships that shape performance outcomes in the banking sector.

This study addresses these gaps by explicitly conceptualizing the elimination of Non-Productive activities as a distinct dimension of value creation and by integrating financial innovation within a broader multi-strategy framework. By doing so, it enhances conceptual clarity and provides a more comprehensive understanding of how different strategic mechanisms jointly influence bank performance.

2.5.4 Methodological Weaknesses

Methodological limitations are also evident within the existing empirical literature on bank performance. A significant proportion of studies rely on cross-sectional data, which captures relationships at a single point in time. While such approaches provide useful snapshots of performance, they fail to account for temporal dynamics and do not adequately capture how strategic initiatives evolve and influence outcomes over time. As a result, cross-sectional designs may overlook lag effects, adjustment processes, and the dynamic nature of banking operations.

The limited use of panel data further constrains the robustness of empirical findings. Panel data methodologies offer important advantages by combining cross-sectional and timeseries observations, thereby enabling researchers to control for unobserved heterogeneity across institutions and to model dynamic relationships more effectively. Techniques such as fixed effects estimation help isolate the impact of

explanatory variables by accounting for time invariant firm specific characteristics. As noted by Baltagi (2021), panel data analysis enhances both the reliability and validity of empirical estimates, particularly in studies involving heterogeneous entities such as banks.

In addition, methodological concerns arise from the potential presence of endogeneity in existing studies. Strategic decisions such as cost reduction, innovation adoption, or revenue diversification may be simultaneously influenced by, and influence, financial performance, leading to reverse causality and biased estimates. Many empirical studies do not adequately address this issue, thereby limiting the causal interpretation of their findings.

Furthermore, some studies rely heavily on perceptual or survey based measures, which are subject to respondent bias, recall errors, and subjective interpretation. While such measures may capture qualitative dimensions of strategy, they may not accurately reflect actual financial outcomes. In contrast, the use of objective secondary data, such as audited financial statements and regulatory reports, provides a more reliable and consistent basis for empirical analysis. However, such data sources remain underutilized in parts of the literature.

This study addresses these methodological limitations by employing a panel data approach based on audited financial data, thereby enhancing the robustness, objectivity, and credibility of the findings. The use of fixed effects estimation further allows for the control of unobserved heterogeneity, while the inclusion of interaction terms strengthens the analysis by capturing conditional relationships among variables.

2.5.5 Neglect of Moderating Effects

Another critical limitation in existing empirical literature is the limited examination of moderating effects in the relationship between strategic variables and bank performance. Most studies focus on estimating direct relationships, implicitly assuming that the impact of strategic initiatives is homogeneous across institutions. However, this assumption overlooks the possibility that the effectiveness of such

strategies may vary depending on firm specific characteristics.

Theoretical perspectives, particularly Economies of Scale Theory, suggest that organizational attributes such as firm size play a crucial role in shaping the strength and direction of strategic relationships. Bank size influences access to financial resources, technological capabilities, operational capacity, and market reach, all of which affect how effectively institutions can implement and benefit from value creation strategies.

For instance, larger banks are typically better positioned to leverage financial innovation and revenue diversification due to their superior resource endowments, established infrastructure, and extensive customer networks. In contrast, smaller banks may derive greater benefits from efficiency driven strategies, such as cost optimization and the elimination of Non-Productive activities, due to their relatively flexible structures and focused operations. These differences suggest that the impact of strategic initiatives is inherently conditional rather than uniform.

Despite its theoretical relevance, bank size is frequently treated as a control variable in empirical studies rather than as a moderating factor. This approach limits the ability to capture interaction effects and obscures the conditional dynamics through which strategic variables influence performance. As a result, existing literature provides an incomplete understanding of how value creation strategies operate across heterogeneous banking institutions.

From an econometric perspective, the omission of moderation effects may lead to model misspecification, as it ignores potential interaction terms that capture variation in marginal effects across different firm sizes. Incorporating moderating variables allows for a more nuanced analysis by revealing how the relationship between independent and dependent variables changes under different structural conditions.

This study addresses this gap by explicitly modelling bank size as a moderating variable and incorporating interaction terms within a panel regression framework. By doing so, it provides deeper insights into the conditional nature of strategic effectiveness and contributes to a more comprehensive understanding of bank

performance dynamics in the Kenyan context.

2.5.6 Synthesis of Literature Limitations

In summary, a critical evaluation of existing literature on bank performance reveals several interconnected limitations that constrain the depth and explanatory power of prior research. First, the literature is characterized by fragmentation, with most studies focusing on individual strategic variables such as cost efficiency, revenue diversification, or financial innovation in isolation, rather than adopting integrated analytical frameworks that capture their combined and interactive effects.

Second, there are notable contextual limitations, as a substantial proportion of empirical evidence is derived from developed economies. This overreliance limits the applicability of findings to emerging markets such as Kenya, where regulatory environments, technological adoption, and market dynamics differ significantly.

Third, important conceptual gaps persist, particularly in the under exploration of certain strategic variables. The elimination of Non-Productive activities, for instance, has rarely been examined as a distinct construct, while financial innovation is often analyzed independently rather than within a broader value creation framework. This limits the ability to fully understand the multidimensional nature of strategic value creation in banking.

Fourth, methodological constraints are evident in the widespread reliance on cross-sectional data, which fails to capture temporal dynamics and limits the ability to control for unobserved heterogeneity. The limited application of panel data techniques further restricts the robustness and generalizability of empirical findings.

Finally, the literature exhibits a significant neglect of moderating effects, particularly the role of bank size in shaping the relationship between strategic initiatives and performance outcomes. By treating size primarily as a control variable, existing studies overlook the conditional dynamics through which strategic effectiveness varies across institutions.

Collectively, these limitations underscore the need for a more comprehensive, integrated, and contextually grounded analytical approach. This study responds to these gaps by adopting a multidimensional framework that simultaneously examines multiple value creation strategies, incorporates bank size as a moderating variable, and employs panel data techniques to provide a more robust and context specific understanding of bank performance in the Kenyan banking sector.

2.5.7 Contribution of the Current Study

This study makes a substantive contribution to the existing literature by addressing the conceptual, methodological, and contextual limitations identified in prior research. In contrast to fragmented approaches that examine strategic variables in isolation, the study adopts a comprehensive and integrated analytical framework that simultaneously evaluates multiple dimensions of value creation within the banking sector.

First, the study contributes conceptually by integrating cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation within a unified framework. This multidimensional approach advances existing literature by capturing the interdependence among strategic variables and providing a more holistic understanding of value creation processes in banking institutions.

Second, the study contributes empirically by providing context specific evidence from the Kenyan banking sector. Given the limited representation of emerging markets in existing research, this contribution enhances the external validity and contextual relevance of findings, particularly in environments characterized by regulatory dynamism, rapid digital transformation, and evolving financial inclusion frameworks.

Third, the study makes a methodological contribution through the application of panel data analysis. By utilizing longitudinal data, the study captures both cross-sectional and timeseries variations, thereby improving the robustness of empirical estimates and enabling control for unobserved heterogeneity across banks.

Finally, the study extends existing theoretical and empirical work by examining the moderating role of bank size through the incorporation of interaction effects. This approach provides deeper insights into the conditional nature of strategic effectiveness and highlights how organizational scale shapes the relationship between value creation strategies and financial performance.

Collectively, these contributions enhance the understanding of how value creation strategies influence bank performance and provide a more nuanced, integrated, and contextually grounded analysis of the Kenyan banking sector.

2.6 Research Gaps

Despite the extensive body of literature on bank performance and strategic management, several critical gaps remain that limit the depth, integration, and contextual relevance of existing research. While prior studies have made important contributions in identifying key determinants of performance, they often fall short in providing a comprehensive and unified explanation of how value creation strategies operate within complex and dynamic banking environments.

These gaps are conceptual, contextual, theoretical, methodological, and empirical in nature. Conceptually, the literature remains fragmented, with limited integration of multiple strategic variables. Contextually, there is a strong bias toward developed economies, with insufficient focus on emerging markets such as Kenya. Theoretically, the reliance on single theory frameworks restricts the ability to capture the multidimensional drivers of performance. Methodologically, the dominance of cross-sectional designs limits the analysis of dynamic relationships, while empirically, there is limited examination of moderating effects, particularly the role of bank size.

Collectively, these limitations constrain the explanatory power of existing studies and highlight the need for a more integrated, robust, and contextually grounded analytical approach. The identification of these gaps provides a strong justification for the present study, which seeks to address them through a multidimensional, panel based, and moderation driven framework.

2.6.1 Conceptual Gaps

A major limitation in existing literature is the fragmented conceptualization of the determinants of bank performance. Most empirical studies examine individual strategic variables in isolation, focusing on specific dimensions such as cost efficiency (Berger & Mester, 1997), revenue diversification (Stiroh, 2004), or financial innovation (Ozili, 2018). While these studies provide valuable insights into particular aspects of performance, they do not adequately capture the complexity of strategic interactions within banking institutions.

In practice, banks implement multiple value creation strategies simultaneously, including cost optimization, revenue diversification, operational restructuring, and innovation. These strategies are inherently interdependent, often exhibiting complementarities, trade-offs, and conditional effects that jointly influence performance outcomes. The absence of an integrated conceptual framework limits the ability of existing studies to explain how these strategies interact and collectively drive value creation.

From a theoretical perspective, this limitation reflects an overreliance on single variable or single theory approaches, which fail to capture the multidimensional nature of organizational performance. Consequently, the literature provides only a partial and fragmented understanding of how banks create and sustain competitive advantage.

Gap Identified: There is a lack of an integrated conceptual framework that simultaneously examines multiple value creation strategies and their interrelationships in influencing bank performance.

Contribution of the Study: This study addresses this gap by developing a comprehensive value creation framework that integrates cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation within a unified analytical model. By capturing the combined and interactive effects of these strategies, the study provides a more holistic and theoretically grounded understanding of value creation in the banking sector.

2.6.2 Contextual Gaps

A significant proportion of empirical studies on bank performance has been conducted in developed economies, where financial systems are relatively stable, technological infrastructure is advanced, and regulatory frameworks are well established. While these environments provide a robust foundation for theoretical development and empirical analysis, they differ substantially from the institutional realities of emerging markets.

The Kenyan banking sector operates within a dynamic and evolving context characterized by rapid financial innovation, shifting regulatory policies, and ongoing efforts to promote financial inclusion. For instance, the introduction and subsequent repeal of interest rate caps, coupled with the widespread adoption of mobile financial services, have significantly transformed the structure and functioning of the banking industry. These contextual factors influence not only the adoption of value creation strategies but also their effectiveness in driving performance outcomes.

As highlighted by Beck, Demirgüç-Kunt, and Levine (2010), institutional and structural differences across countries limit the generalizability of findings derived from developed economies. In emerging markets, factors such as regulatory uncertainty, technological disparities, market imperfections, and varying levels of financial literacy play a more pronounced role in shaping banking performance. Consequently, empirical relationships established in advanced economies may not hold under these conditions.

The limited availability of context specific studies therefore constrains the applicability and external validity of existing literature. Without incorporating the unique characteristics of emerging financial systems, current research provides an incomplete understanding of how value creation strategies operate in such environments.

Gap Identified: There is limited context specific empirical evidence on the relationship between value creation strategies and bank performance within the Kenyan banking sector.

Contribution of the Study: This study addresses this gap by providing empirical evidence from Kenya, thereby enhancing the contextual relevance and external validity of the literature. It offers insights into how value creation strategies function within an emerging market characterized by regulatory dynamism, rapid digital transformation, and evolving financial inclusion frameworks.

2.6.2 Theoretical Gaps

A key limitation in the existing literature is the reliance on single theory frameworks to explain bank performance. Many studies adopt one dominant lens such as the Resource Based View (RBV), Efficiency Structure Theory (EST), or Innovation Diffusion Theory (IDT) to interpret strategic outcomes. While each perspective offers valuable insights, their isolated application restricts the scope of analysis and leads to partial explanations of a fundamentally complex phenomenon.

Specifically, RBV emphasizes internal resources and capabilities as sources of competitive advantage, EST focuses on cost efficiency and operational discipline, and IDT explains the processes and outcomes of innovation adoption. Although these perspectives illuminate important dimensions of performance, none independently captures the full range of factors influencing bank outcomes. In particular, they do not adequately account for the interaction between internal capabilities, efficiency mechanisms, innovation processes, and structural characteristics such as firm size.

The absence of theoretical integration limits the ability of existing studies to explain how multiple strategic drivers operate simultaneously and interactively within banking institutions. Given that bank performance is inherently multidimensional shaped by resource endowments, operational efficiency, technological innovation, and scale effects, a more comprehensive theoretical approach is required.

Gap Identified: There is a lack of multi-theoretical integration in explaining the determinants of bank performance, resulting in fragmented and incomplete theoretical explanations.

Contribution of the Study: This study addresses this gap by integrating four complementary theoretical perspectives Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and Economies of Scale Theory into a unified analytical framework. This integrated approach enhances explanatory power by capturing the interplay between internal capabilities, efficiency dynamics, innovation adoption, and structural scale, thereby providing a more holistic and robust understanding of value creation in the banking sector.

2.6.4 Methodological Gaps

Methodological limitations are also evident in the existing literature on bank performance. A substantial proportion of studies relies on cross-sectional designs or survey based approaches, which capture relationships at a single point in time. While these methods provide useful insights, they are limited in their ability to analyze dynamic changes in performance and do not adequately control for unobserved heterogeneity across institutions. Consequently, such approaches may yield biased or incomplete estimates of the relationship between strategic variables and performance outcomes.

In contrast, panel data methodologies offer a more robust analytical framework by integrating both cross-sectional and timeseries dimensions. This enables the analysis of temporal dynamics, improves estimation efficiency, and allows for the control of unobserved firm specific effects through techniques such as fixed effects estimation. As noted by Baltagi (2021), panel data enhances the reliability and validity of empirical findings, particularly in studies involving heterogeneous entities such as banks.

Despite these advantages, the application of panel data methods remains relatively limited in empirical studies on bank performance, especially within the Kenyan context. Furthermore, many studies do not adequately address potential econometric issues such as endogeneity and reverse causality, which may arise when strategic decisions and performance outcomes are jointly determined. The omission of such considerations further constrains the robustness of existing findings.

Gap Identified: There is limited application of panel data methodologies and insufficient attention to dynamic relationships and econometric challenges such as unobserved heterogeneity and endogeneity in examining the relationship between value creation strategies and bank performance.

Contribution of the Study: This study addresses these methodological gaps by employing a panel data approach covering the period 2015–2019 and applying fixed effects estimation to control for unobserved heterogeneity. The use of longitudinal data enhances analytical rigor by capturing both cross-sectional and temporal variations, thereby enabling a more robust and reliable examination of the relationships among value creation strategies, bank size, and financial performance.

2.6.5 Variable Measurement Gaps

Another important limitation in the literature relates to the operationalization and measurement of key variables. Many empirical studies rely on broad or aggregate indicators of efficiency and performance without clearly distinguishing between underlying strategic components. For example, efficiency is frequently proxied using composite ratios such as the cost-to-income ratio, which captures outcomes but does not explicitly isolate the specific managerial actions such as the elimination of Non-Productive activities that drive those outcomes. This conflation of outcomes and strategies limits construct clarity and weakens the precision of empirical analysis.

Similarly, financial innovation is often operationalized as a standalone variable, with limited attention to its multidimensional nature or its interaction with other value creation strategies. In practice, innovation is closely intertwined with cost structures, revenue models, and operational processes, suggesting that isolated measurement may not fully capture its contribution to performance.

Furthermore, the literature demonstrates limited engagement with digital transformation metrics, despite their growing importance in modern banking environments. Indicators such as digital product penetration, transaction volumes, and platform usage are increasingly central to understanding how innovation influences efficiency and revenue generation. The omission or inadequate

measurement of such variables reduces the ability of existing studies to reflect contemporary banking dynamics.

Gap Identified: There is a lack of precise, disaggregated, and multidimensional operationalization of value creation strategies, particularly in relation to the measurement of elimination strategies and digital innovation.

Contribution of the Study: This study addresses these measurement gaps by adopting specific and theoretically grounded proxies for each strategic variable. Cost reduction is measured using the cost-to-income ratio, revenue diversification through non-interest income, elimination of Non-Productive activities through indicators of operational restructuring, and financial innovation through digital metrics such as product offerings and transaction volumes. This disaggregated approach enhances construct validity and enables a more accurate and nuanced analysis of how distinct value creation strategies influence bank performance.

2.6.6 Moderation Gaps

A further limitation in the empirical literature is the insufficient examination of moderating effects, particularly the role of bank size in shaping the relationship between strategic initiatives and performance outcomes. Most studies include bank size merely as a control variable, implicitly assuming that the effects of strategic variables are uniform across institutions. This approach overlooks the possibility that the effectiveness of value creation strategies may vary systematically with organizational scale.

Theoretically, Economies of Scale Theory suggests that firm size influences access to resources, technological capabilities, operational capacity, and market reach, all of which condition how effectively strategies are implemented. Larger banks are typically better positioned to exploit financial innovation and revenue diversification due to stronger capital bases, advanced infrastructure, and broader customer networks. In contrast, smaller banks may derive greater benefits from efficiency oriented strategies such as cost optimization and the elimination of Non-Productive activities owing to their relative agility and flexibility.

Despite this theoretical relevance, empirical studies rarely model these conditional relationships explicitly. The omission of interaction effects limits the ability to detect heterogeneous impacts and may lead to model misspecification, as it assumes constant marginal effects across banks of different sizes. Consequently, the literature provides an incomplete understanding of how strategy effectiveness varies across heterogeneous institutions.

Gap Identified: There is limited empirical examination of the moderating effect of bank size on the relationship between value creation strategies and financial performance, particularly within emerging market contexts.

Contribution of the Study: This study addresses this gap by explicitly modelling bank size as a moderating variable and incorporating interaction terms between bank size and each value creation strategy within a panel regression framework. This approach enables the estimation of conditional effects and provides deeper insights into how organizational scale shapes the impact of strategic initiatives on bank performance.

Table 2.3: Research Gap Matrix

Author(s)	Focus	Key Findings	Identified Gap	Contribution of Current Study
Berger & Mester (1997)	Efficiency	Efficiency improves profitability	No integration with other strategies	Multi-strategy analysis
Stiroh (2004)	Revenue diversification	Improves stability and performance	No integration with efficiency and innovation	Integrated framework
Ozili (2018)	Financial innovation	Innovation improves performance	No moderating analysis	Moderation testing
Beck et al. (2015)	Financial innovation (Africa)	Enhances inclusion and growth	Limited bank level analysis	Bank level panel data
Athanasoglou et al. (2008)	Profitability determinants	Efficiency influences performance	No strategic integration	Comprehensive value creation model

Source: Author (2026)

2.7 Theoretical and Empirical Integration

2.7.1 Introduction

A critical requirement of doctoral research is the ability to move beyond isolated theoretical exposition and empirical review toward a coherent integration of both. While Sections 2.2 and 2.4 have respectively examined the theoretical foundations and empirical evidence on bank performance, this section synthesizes these perspectives to develop a unified and analytically consistent understanding of how value creation strategies influence financial performance.

Integrating theory and empirical evidence is essential for strengthening the explanatory power of the study. It allows abstract theoretical constructs such as resources, efficiency, innovation, and scale to be operationalized into measurable variables and empirically tested relationships. In doing so, the study bridges the gap between conceptual reasoning and observable outcomes, ensuring that the analytical framework is both theoretically grounded and empirically verifiable.

This integration also addresses the limitations identified in earlier sections, particularly the fragmentation of research, the reliance on single theory perspectives, and the lack of interaction based analysis. By aligning multiple theoretical lenses with corresponding empirical findings, the study develops a more comprehensive framework that captures the multidimensional and interdependent nature of value creation in the banking sector.

Furthermore, the integration of theory and evidence provides a robust foundation for the conceptual framework and econometric model specification adopted in this study. It ensures consistency between theoretical propositions, variable selection, and empirical testing, thereby enhancing the internal coherence, validity, and rigor of the research.

2.7.2 Mapping Theoretical Constructs to Empirical Variables

The theoretical frameworks underpinning this study Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and

Economies of Scale Theory offer distinct but complementary lenses for explaining bank performance. To ensure empirical testability, these abstract constructs are systematically operationalized into measurable variables that correspond to the study's conceptual framework and econometric model.

Efficiency Structure Theory (EST) is operationalized through cost reduction and the elimination of Non-Productive activities. These constructs are captured using indicators such as the cost-to-income ratio and related efficiency measures, which reflect the extent to which banks minimize operational costs and optimize processes. Empirical evidence consistently links lower cost ratios with higher profitability, thereby supporting the central proposition of EST that superior efficiency enhances performance.

The Resource-Based View (RBV) is represented through revenue diversification strategies, proxied by non-interest income. This measure reflects the ability of banks to leverage internal resources and capabilities such as technological infrastructure, human capital, and organizational expertise to generate diversified income streams. Higher levels of non-interest income therefore indicate stronger capability deployment and competitive positioning.

Innovation Diffusion Theory (IDT) is captured through financial innovation variables, including digital product offerings and transaction volumes. These indicators measure the extent of innovation adoption and diffusion within banking operations. Consistent with IDT, empirical findings show that increased adoption of digital technologies enhances operational efficiency, expands customer reach, and creates new revenue opportunities.

Economies of Scale Theory is operationalized through bank size, measured by the natural logarithm of total assets. This variable captures the structural dimension of banking institutions and reflects their capacity to exploit scale efficiencies, mobilize resources, and implement complex strategic initiatives. In this study, bank size is modelled not only as a determinant of performance but also as a moderating variable that conditions the relationship between value creation strategies and financial outcomes.

Overall, this mapping establishes a clear and coherent linkage between theoretical constructs and empirical variables. By translating abstract concepts into measurable indicators, the study ensures conceptual clarity, empirical validity, and alignment between theory, the conceptual framework, and model specification.

2.7.3 Complementarity of Value Creation Strategies

A central insight emerging from the integration of theoretical and empirical literature is that value creation strategies are not independent, but inherently complementary and interdependent. Rather than operating as isolated levers, strategies such as cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation function as a system of mutually reinforcing mechanisms that jointly influence bank performance.

From an operational perspective, cost reduction initiatives such as process automation and digitization often require upfront investments in technology, thereby linking them directly to financial innovation. In turn, financial innovation enables revenue diversification by facilitating digital transactions, fee based services, and new product offerings. Similarly, the elimination of Non-Productive activities enhances efficiency while simultaneously releasing resources that can be redeployed toward innovation and strategic growth initiatives. These interdependencies highlight the dynamic interactions through which banks optimize both cost structures and revenue streams.

Empirical evidence supports this complementarity. Studies show that banks investing in digital platforms frequently achieve simultaneous gains in cost efficiency and revenue generation, reflecting the dual impact of innovation on operational and financial outcomes. This suggests that the effectiveness of any single strategy is contingent upon its alignment and integration with other strategic initiatives.

Theoretically, this complementarity is consistent with the integration of the Resource-Based View and Efficiency Structure Theory, where internal capabilities (RBV) enable the implementation of efficiency enhancing strategies (EST). It is further reinforced by Innovation Diffusion Theory, which explains how the adoption

of new technologies amplifies both cost efficiency and revenue expansion. Together, these perspectives support a multidimensional understanding of value creation as a coordinated and interactive process.

Overall, the recognition of strategic complementarity underscores the importance of adopting an integrated analytical framework. It provides a strong justification for examining multiple value creation strategies simultaneously, as undertaken in this study, in order to capture the full spectrum of their combined effects on bank performance.

2.7.4 Interaction Effects and the Role of Bank Size

The integration of empirical findings with Economies of Scale Theory underscores the importance of interaction effects in understanding bank performance. While much of the existing literature focuses on estimating direct relationships between strategic variables and performance, this study adopts a more nuanced perspective by recognizing that the effectiveness of value creation strategies is contingent upon structural characteristics most notably, bank size.

From a theoretical standpoint, bank size shapes access to resources, technological capability, operational capacity, and market reach. These attributes influence not only performance directly but also condition how effectively strategic initiatives are implemented. Empirical evidence indicates that larger banks tend to derive greater benefits from financial innovation, owing to their superior capital bases and advanced technological infrastructure. Similarly, revenue diversification strategies are often more effective in larger institutions due to their broader customer bases and more extensive product portfolios. In addition, larger banks are better positioned to achieve scale efficiencies through operational restructuring, thereby amplifying the gains from cost optimization and process improvements.

However, the advantages associated with size are not without limitations. As banks grow larger, they may encounter diseconomies of scale arising from increased organizational complexity, bureaucratic inefficiencies, and slower decision making processes. These factors can potentially weaken the effectiveness of certain

strategies, particularly those requiring agility and rapid adaptation, such as cost reduction and operational restructuring.

From an econometric perspective, these dynamics imply that the relationship between value creation strategies and performance is conditional rather than uniform. The marginal effect of each strategy is likely to vary depending on the size of the bank, necessitating the inclusion of interaction terms in the empirical model. Ignoring such interaction effects may lead to model misspecification and an incomplete understanding of performance drivers.

This interaction based perspective extends existing literature by demonstrating that bank size is not merely a control variable or a direct determinant of performance, but a critical moderating factor that shapes the strength and direction of strategic relationships. By incorporating bank size as a moderator, this study provides a more comprehensive and context sensitive analysis of how value creation strategies influence financial performance across heterogeneous banking institutions.

2.7.5 Dynamic Perspective on Value Creation

Another important insight emerging from the integration of theoretical and empirical literature is the inherently dynamic nature of value creation in the banking sector. Traditional perspectives such as the Resource-Based View (RBV) and Efficiency Structure Theory (EST) have often been critiqued for their relatively static orientation, focusing on existing resources and efficiency conditions at a given point in time. However, empirical evidence indicates that bank performance evolves continuously in response to technological change, regulatory shifts, and competitive pressures.

The concept of dynamic capabilities provides a useful extension to these traditional theories by emphasizing the ability of firms to adapt, integrate, and reconfigure internal and external resources in changing environments. In the banking sector, this dynamic capability is reflected in the adoption of digital technologies, restructuring of operational processes, and the continuous development of innovative financial products and services. These adaptive processes enable banks to respond to market

disruptions and sustain competitive advantage over time.

Empirical findings reinforce this dynamic perspective, demonstrating that the impact of value creation strategies is not instantaneous but unfolds over time. For instance, investments in financial innovation may initially increase costs but generate long term efficiency gains and revenue growth. Similarly, cost reduction and operational restructuring initiatives often involve adjustment periods before yielding measurable performance improvements. These temporal dynamics underscore the importance of considering both short term and long term effects in performance analysis.

From a methodological standpoint, the adoption of panel data techniques further supports the dynamic view of value creation. By incorporating both cross-sectional and timeseries dimensions, panel data analysis enables the examination of how strategic initiatives influence performance over time while controlling for unobserved heterogeneity. This approach provides a more accurate and comprehensive understanding of the evolving relationship between value creation strategies and financial performance.

Overall, the dynamic perspective highlights that value creation in banking is an ongoing and adaptive process rather than a static outcome. This reinforces the importance of employing longitudinal analytical approaches, as adopted in this study, to capture the temporal and evolutionary nature of strategic performance relationships.

2.7.6 Resolving Contradictions in Empirical Literature

The integration of theoretical perspectives with empirical evidence provides a robust basis for reconciling inconsistencies observed in prior studies on bank performance. While the literature often reports mixed or even contradictory findings, these variations can be better understood when interpreted through complementary theoretical lenses.

For instance, divergent findings on the impact of revenue diversification can be explained through the Resource-Based View (RBV), which emphasizes the role of

firm specific capabilities. Banks with strong risk management systems, technological infrastructure, and managerial expertise are more likely to benefit from diversified income streams, whereas institutions lacking these capabilities may experience increased earnings volatility.

Similarly, variations in the outcomes of financial innovation can be interpreted through Innovation Diffusion Theory (IDT). Differences in adoption stages, implementation capacity, and user acceptance can lead to heterogeneous performance effects across banks. Early stage adoption may involve high costs and limited returns, while more mature adoption phases are associated with efficiency gains and revenue expansion.

In addition, the nonlinear relationship between bank size and performance can be explained through Economies of Scale Theory. While larger banks benefit from cost efficiencies and resource advantages, excessive size may lead to diseconomies of scale, including organizational complexity and reduced operational flexibility. These competing effects help explain the mixed empirical evidence regarding the role of size in influencing performance.

More broadly, these contradictions highlight the limitations of single variable and single theory approaches in explaining complex organizational phenomena. By linking empirical findings to their underlying theoretical mechanisms, the study provides a more nuanced and context sensitive interpretation of bank performance.

Overall, this integrative approach resolves apparent inconsistencies in the literature and reinforces the importance of adopting a multidimensional framework that captures the interplay between capabilities, efficiency, innovation, and scale. In doing so, it strengthens the theoretical coherence and empirical relevance of the study.

2.7.7 Implications for Conceptual Framework

The integration of theoretical perspectives and empirical evidence has important implications for the development and robustness of the conceptual framework

adopted in this study. By aligning theory with observed empirical patterns, the framework is strengthened in terms of conceptual clarity, analytical depth, and empirical testability.

First, the integration provides a strong justification for variable selection. Each of the key constructs cost reduction, revenue diversification, elimination of Non-Productive activities, financial innovation, and bank size is grounded in established theoretical foundations and supported by empirical findings. This alignment ensures that the variables included in the model are both theoretically meaningful and empirically relevant.

Second, the integration reinforces the hypothesized relationships among variables. The direction and nature of the relationships between value creation strategies and financial performance are supported by multiple theoretical perspectives and consistent empirical evidence. This enhances the internal validity of the conceptual framework and provides a solid basis for hypothesis testing.

Third, the inclusion of moderation effects is theoretically and empirically justified. The role of bank size as a moderating variable is supported by Economies of Scale Theory and reinforced by empirical studies highlighting heterogeneous effects across institutions. This ensures that the framework captures conditional relationships rather than assuming uniform effects across all banks.

Fourth, the integration enhances the analytical depth of the framework by incorporating both direct and interaction effects. This multidimensional structure reflects the complexity of real world banking environments, where strategic initiatives operate simultaneously and interactively. As a result, the framework moves beyond simplistic linear models and provides a more comprehensive representation of value creation processes.

Overall, the theoretical–empirical integration ensures coherence between the study’s conceptual framework, variable specification, and analytical approach. It provides a robust foundation for the econometric model and strengthens the study’s capacity to generate meaningful and contextually relevant insights into bank performance.

2.7.8 Contribution of Integrated Approach

The integration of theoretical and empirical perspectives in this study makes several important contributions to the literature on bank performance and strategic management. By synthesizing multiple theoretical lenses with empirical evidence, the study advances a more coherent and comprehensive understanding of value creation within the banking sector.

First, the integrated approach moves beyond fragmented analyses that examine strategic variables in isolation. By considering cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation within a unified framework, the study captures the interdependent and multidimensional nature of value creation. This provides a more realistic representation of how banks implement and benefit from multiple strategies simultaneously.

Second, the integration bridges the gap between abstract theoretical constructs and practical application. By operationalizing theoretical concepts into measurable variables, the study connects conceptual reasoning with observable outcomes, thereby enhancing the empirical relevance of strategic management theories within the banking context.

Third, the approach enhances explanatory power by combining complementary theoretical perspectives, including the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. This multi-theoretical integration enables a deeper understanding of how internal capabilities, operational efficiency, innovation processes, and structural characteristics jointly influence financial performance.

Finally, the integrated framework provides a robust foundation for advanced empirical modelling. In particular, it supports the inclusion of interaction terms to examine moderating effects, thereby capturing the conditional and dynamic nature of strategic relationships. This allows for a more nuanced analysis of how value creation strategies operate across different institutional contexts and levels of

organizational scale.

Overall, the integration of theory and empirical evidence strengthens both the conceptual and analytical dimensions of the study, contributing to a more rigorous, comprehensive, and contextually grounded understanding of bank performance.

2.7.9 Conclusion

This section has demonstrated that a comprehensive understanding of bank performance requires the integration of multiple theoretical perspectives with empirical evidence. The analysis shows that value creation in the banking sector is inherently multidimensional and dynamic, shaped by the interplay of operational efficiency, innovation processes, resource capabilities, and structural characteristics such as firm size.

By synthesizing insights from the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory with empirical findings, the study develops a coherent and analytically robust framework for examining the determinants of financial performance. This integration addresses the limitations of fragmented and single theory approaches by capturing both the direct and conditional relationships that underpin strategic effectiveness.

Furthermore, the integrated approach strengthens the conceptual framework and provides a solid foundation for the econometric model specification adopted in this study. It ensures alignment between theoretical propositions, variable operationalization, and empirical testing, thereby enhancing the internal consistency and rigor of the research.

Overall, this section establishes that the analysis of value creation strategies in banking requires a holistic and context sensitive perspective. By integrating theory and empirical evidence, the study not only addresses key gaps in existing literature but also contributes to a more nuanced, comprehensive, and practically relevant understanding of bank performance, particularly within the Kenyan context.

2.8 Global Trends in Banking Performance

2.8.1 Introduction

Over the past two decades, the global banking industry has undergone profound structural transformation driven by technological innovation, regulatory reforms, financial globalization, and evolving customer expectations. These forces have reshaped traditional banking models, shifting the focus from conventional financial intermediation toward more complex, technology enabled, and customer-centric systems of value creation. As a result, the determinants of bank performance have expanded beyond interest-based income and balance sheet strength to include efficiency, innovation capability, revenue diversification, and strategic adaptability.

One of the most significant developments has been the rise of digital transformation, which has fundamentally altered how banks deliver services, interact with customers, and manage operations. Advances in mobile banking, artificial intelligence, data analytics, and fintech integration have enabled institutions to reduce costs, enhance customer experience, and expand market reach. At the same time, these innovations have intensified competition, particularly from nontraditional financial service providers. Fintech ecosystems have transformed traditional banking models by introducing innovative business models and enhancing customer engagement (Lee & Shin, 2018).

In parallel, regulatory reforms following global financial crises have imposed stricter capital requirements, risk management standards, and compliance obligations. While these measures have strengthened financial stability, they have also increased operational costs and influenced profitability dynamics. Consequently, banks have been compelled to adopt more efficient and diversified business models to sustain performance.

Additionally, the globalization of financial markets and the increasing integration of economies have heightened competitive pressures, requiring banks to continuously innovate and adapt. Customer expectations have also evolved, with increasing demand for convenience, speed, and digital accessibility, further driving

transformation within the sector.

This section examines key global trends influencing banking performance, with particular emphasis on digital transformation, financial innovation, evolving revenue models, regulatory developments, and competitive dynamics. Understanding these trends provides important contextual grounding for the study and situates the analysis of value creation strategies within the broader evolution of the global financial system.

2.8.2 Digital Transformation and Technological Innovation

One of the most significant global trends shaping banking performance is the rapid diffusion of digital technologies across financial services. Advances in information and communication technology have fundamentally reconfigured banking operations, enabling institutions to deliver services more efficiently, reduce operational frictions, and enhance customer engagement. This shift marks a transition from branch centric models to digitally enabled platforms that support real time, data driven decision making. Digital finance enhances financial inclusion and improves efficiency in financial systems, particularly in emerging markets (Ozili, 2018).

Core technologies including artificial intelligence (AI), big data analytics, blockchain, and cloud computing have expanded banks' capabilities in transaction processing, risk management, fraud detection, and customer personalization. Digital banking platforms, mobile applications, and omnichannel service delivery have reduced reliance on physical infrastructure, allowing banks to achieve significant cost efficiencies while simultaneously improving service accessibility and convenience.

Empirical evidence consistently links digital transformation to improved bank performance through several channels. First, the automation of processes and digitization of services reduce transaction and operational costs, thereby enhancing efficiency. Second, digital platforms expand customer reach by lowering geographic and logistical barriers, supporting financial inclusion and market growth. Third, data

analytics improves decision making by enabling more accurate risk assessment, targeted product offerings, and enhanced customer experience. Collectively, these effects contribute to improved profitability and competitive positioning.

However, the impact of digital transformation is not uniformly positive across all time horizons or institutions. The adoption of advanced technologies typically involves substantial upfront investments in infrastructure, cybersecurity, and human capital, which may exert short term pressure on profitability. In addition, disparities in technological capability and organizational readiness can lead to uneven outcomes across banks. These dynamics suggest that the performance benefits of digital transformation are contingent upon effective implementation, strategic alignment, and the ability to scale innovations over time.

Overall, digital transformation represents a critical driver of value creation in the modern banking sector. Its integration into operational and strategic processes reinforces the importance of financial innovation as a key determinant of performance, as reflected in the conceptual framework of this study.

2.8.3 Emergence of Fintech and Competitive Disruption

The emergence of financial technology (fintech) firms represents a major source of competitive disruption in the global banking industry. Leveraging digital platforms, data analytics, and scalable architectures, fintech providers deliver services such as payments, lending, remittances, and wealth management with greater speed, convenience, and often lower cost than traditional banks. This has fundamentally altered industry boundaries and intensified competition across core banking segments.

FinTech driven competition has lowered barriers to entry by decoupling financial services from legacy infrastructure and enabling specialized, niche providers to capture value in specific parts of the financial services chain. As a result, traditional banks face pressure on margins, customer retention, and product relevance. At the same time, fintech has accelerated the pace of innovation, forcing incumbents to adopt more agile operating models and invest in digital capabilities.

In response, many banks have pursued a range of strategic adaptations, including partnerships with fintech firms, investments in internal digital transformation, and participation in open banking ecosystems. These approaches allow banks to combine their existing strengths such as brand trust, regulatory expertise, and customer base with the technological agility of fintech providers. Consequently, competitive disruption is increasingly complemented by collaborative models that enhance value creation.

Empirical evidence suggests that fintech integration can improve bank performance through multiple channels. It enhances operational efficiency by streamlining processes, expands revenue opportunities through new digital products and services, and improves customer experience via personalized and accessible service delivery. Moreover, fintech innovations have contributed to greater financial inclusion by extending services to previously underserved populations, particularly in emerging markets.

However, fintech disruption also introduces new risks and challenges. These include heightened cybersecurity threats, regulatory complexities, and increased operational dependencies on third party platforms. Additionally, the benefits of fintech adoption are uneven across institutions, depending on their technological readiness, strategic alignment, and capacity to scale innovations.

Overall, the rise of fintech underscores the growing importance of financial innovation as a strategic imperative in banking. It reinforces the need for banks to continuously adapt and integrate new technologies to remain competitive. In the context of this study, fintech driven transformation provides a critical backdrop for understanding the role of innovation and revenue diversification in shaping bank performance.

2.8.4 Shift from Interest-based to Non-Interest Income

Another prominent global trend in banking is the gradual shift from traditional interest-based income toward diversified noninterest revenue streams. Historically, banks derived the bulk of their earnings from interest income generated through

lending activities. However, declining interest margins, heightened competition, and regulatory constraints have reduced the sustainability of this model, prompting banks to diversify their sources of income.

Non-interest income encompasses a broad range of activities, including fees and commissions, transaction charges, advisory services, asset and wealth management, and income derived from digital financial services. The expansion of these income streams reflects a strategic transition toward service oriented and technology enabled banking models, where value creation is increasingly driven by customer engagement, transaction volume, and product innovation rather than solely by credit intermediation.

Empirical evidence suggests that revenue diversification can enhance bank performance by stabilizing income streams and reducing exposure to interest rate fluctuations. By generating income from multiple sources, banks are better positioned to withstand cyclical variations in lending markets and macroeconomic conditions. This diversification effect contributes to improved financial resilience and, in many cases, higher risk adjusted returns.

However, the literature also highlights potential trade-offs associated with non-interest income. Compared to traditional interest income, some components of noninterest revenue particularly those linked to market based activities can be more volatile and sensitive to external shocks. This introduces additional risk considerations and underscores the importance of effective risk management frameworks in supporting diversification strategies.

Overall, the shift toward non-interest income reflects a broader transformation in banking strategy, where institutions seek to balance profitability, stability, and competitiveness through diversified and innovation driven revenue models. In the context of this study, this trend reinforces the relevance of revenue diversification as a key dimension of value creation and a critical determinant of bank performance.

2.8.5 Regulatory Reforms and Financial Stability

Regulatory reforms have played a pivotal role in shaping banking performance globally, particularly in the aftermath of the 2008 global financial crisis. In response to systemic vulnerabilities exposed during the crisis, regulators introduced more stringent frameworks aimed at strengthening financial stability, enhancing risk management, and reducing the likelihood of future financial disruptions.

Key developments include the implementation of Basel III capital requirements, the introduction of liquidity coverage and net stable funding ratios, and the adoption of more rigorous stress testing and supervisory frameworks. These measures have improved the resilience of banking institutions by ensuring higher capital adequacy, better liquidity management, and more robust risk governance structures.

While these reforms have enhanced the stability of the financial system, they have also introduced new challenges for bank performance. Increased capital and liquidity requirements can constrain lending capacity and compress profitability, while heightened compliance obligations raise operational costs. Consequently, banks are required to strike a delicate balance between maintaining regulatory compliance and achieving sustainable financial performance.

At the same time, regulatory frameworks in many jurisdictions have evolved to support financial innovation and inclusion. Policies promoting digital financial services, open banking, and fintech integration have created opportunities for banks to expand access to financial services and develop new revenue streams. These regulatory shifts have therefore not only imposed constraints but also enabled strategic transformation within the banking sector.

Overall, regulatory reforms represent a critical external factor influencing bank performance by shaping both risk management practices and strategic decision making. In the context of this study, they provide an important backdrop for understanding how value creation strategies particularly those related to efficiency, innovation, and revenue diversification are implemented within a regulated and evolving financial environment.

2.8.6 Globalization and Market Integration

Financial globalization has significantly increased the interconnectedness of banking systems, enabling institutions to expand across borders, access international capital markets, and diversify their operations. This integration has created new avenues for growth and efficiency by facilitating resource mobility, knowledge transfer, and economies of scale.

At the same time, globalization has intensified competitive pressures as banks operate within increasingly integrated markets alongside multinational financial institutions and global fintech players. Cross border banking activities have expanded, exposing banks to diverse regulatory regimes, currency risks, and macroeconomic fluctuations. Moreover, the transmission of global financial shocks such as liquidity crises or interest rate volatility has become more rapid and widespread, increasing systemic vulnerability.

While globalization can enhance efficiency and optimize resource allocation, it also necessitates more sophisticated risk management frameworks. Banks must manage complex portfolios, comply with multiple regulatory environments, and mitigate exposure to global market uncertainties. As such, globalization represents both an opportunity for performance enhancement and a source of heightened risk.

In the context of this study, globalization underscores the importance of strategic adaptability, operational efficiency, and innovation in sustaining bank performance within an increasingly competitive and interconnected financial landscape.

2.8.7 Customer-centric Banking and Changing Expectations

The global banking industry has increasingly shifted toward customer-centric models driven by evolving consumer expectations. Advances in digital technology and increased access to financial services have transformed customer behaviour, with clients now demanding greater convenience, speed, transparency, and personalization.

Modern customers expect real time transactions, seamless mobile and online access, and tailored financial solutions that align with their individual needs. This shift has compelled banks to redesign service delivery models, emphasizing user experience, digital accessibility, and responsiveness. Customer-centric banking is no longer a differentiator but a strategic necessity for competitiveness.

From a performance perspective, customer-centric strategies contribute to improved outcomes through enhanced customer retention, increased transaction volumes, and stronger brand loyalty. By leveraging data analytics and digital platforms, banks can better understand customer behaviour, design targeted products, and improve service efficiency.

However, meeting these expectations requires continuous investment in technology, customer experience management, and data security. Banks that fail to adapt risk losing market share to more agile competitors, particularly fintech firms that prioritize user centric design and innovation.

Overall, the shift toward customer-centric banking reinforces the role of financial innovation and revenue diversification as key drivers of performance, as reflected in this study's conceptual framework.

2.8.8 Operational Efficiency and Cost Optimization

In response to increasing competition, regulatory pressures, and declining interest margins, banks globally have intensified their focus on operational efficiency and cost optimization. These strategies are aimed at improving profitability by reducing operational expenses while maintaining or enhancing service quality.

Key efficiency initiatives include process automation, outsourcing of noncore functions, and rationalization of branch networks. The adoption of digital technologies has been particularly instrumental in streamlining operations, reducing manual processes, and lowering transaction costs. As a result, many banks have transitioned toward leaner and more technology driven operating models.

Operational efficiency has become a critical determinant of performance, especially in mature markets where growth opportunities are constrained. By optimizing cost structures, banks can improve margins and remain competitive in increasingly saturated markets.

However, efficiency strategies must be carefully balanced with innovation and customer experience considerations. Excessive cost cutting may undermine service quality, reduce customer satisfaction, and limit the capacity for long term strategic investment. Therefore, sustainable performance requires an integrated approach that combines efficiency with innovation and value creation.

In the context of this study, operational efficiency aligns closely with cost reduction and elimination of Non-Productive activities as key components of value creation strategies influencing bank performance.

2.8.9 Risk Management and Financial Stability

The increasing complexity of modern financial systems has heightened the importance of effective risk management as a core determinant of banking performance and stability. Banks operate in environments characterized by multiple and interrelated risk exposures, including credit risk, market risk, operational risk, and the increasingly significant domain of cybersecurity risk. The ability to manage these risks effectively is essential for safeguarding assets, maintaining investor confidence, and ensuring long term financial sustainability.

Advances in risk management frameworks and technologies have significantly strengthened banks' capacity to identify, assess, and mitigate potential risks. Tools such as enterprise risk management systems, stress testing, predictive analytics, and real time monitoring have enhanced decision making and improved resilience against financial shocks. These developments enable banks to better align risk taking with strategic objectives, optimize capital allocation, and maintain regulatory compliance.

From a performance perspective, effective risk management contributes to financial stability by reducing the likelihood of losses, improving asset quality, and enhancing

operational reliability. It also supports sustainable profitability by ensuring that risk adjusted returns are maintained within acceptable thresholds. Conversely, weak risk management practices can lead to financial distress, reputational damage, and systemic vulnerabilities.

In the context of this study, risk management provides an important backdrop for understanding how value creation strategies are implemented. Strategies such as financial innovation, revenue diversification, and operational efficiency must be supported by robust risk management frameworks to ensure that performance gains are sustainable and do not expose institutions to excessive risk.

2.8.10 Implications for Emerging Economies

While global trends shape banking performance across jurisdictions, their manifestation and impact vary significantly in emerging economies such as Kenya. Differences in infrastructure, regulatory environments, market maturity, and levels of financial inclusion create distinct conditions under which banks adopt and implement value creation strategies.

In many emerging markets, digital transformation follows a “leapfrogging” trajectory, where institutions bypass traditional branch based models and adopt mobile and platform based solutions. This has accelerated financial inclusion by extending services to previously underserved populations and reshaping customer engagement. Similarly, fintech plays a more pronounced role in these environments, not only as a source of competition but also as a catalyst for innovation and access to financial services.

However, these opportunities are accompanied by structural challenges. Infrastructure gaps, regulatory uncertainty, and disparities in technological capability can affect the pace and effectiveness of strategic implementation. Additionally, varying levels of financial literacy and income distribution influence customer adoption patterns, thereby shaping the outcomes of innovation and diversification strategies.

These contextual dynamics underscore the importance of situating global banking trends within specific national settings. Accordingly, this study examines value creation strategies within the Kenyan banking sector to provide contextually grounded insights that reflect the unique institutional, technological, and market characteristics of an emerging economy.

2.8.11 Synthesis and Relevance to the Study

The global trends discussed in this section collectively indicate a structural shift in the determinants of banking performance from traditional financial intermediation toward integrated value creation strategies that combine efficiency, innovation, and revenue diversification. This transformation reflects the evolving nature of banking, where competitiveness is increasingly driven by the ability to adapt to technological change, manage costs, and develop diversified income streams.

Digital transformation has emerged as a key driver of both operational efficiency and revenue generation, while financial innovation has become central to enhancing competitiveness and expanding market reach. At the same time, the shift toward non-interest income has improved financial resilience, and regulatory frameworks continue to shape strategic decision making and risk management practices. Furthermore, organizational characteristics such as bank size influence the effectiveness of these strategies, highlighting the importance of scale and structural capacity.

These insights directly inform the conceptual and empirical focus of this study. Specifically, they reinforce the relevance of cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation as core dimensions of value creation. In addition, they support the inclusion of bank size as a moderating variable that conditions the relationship between these strategies and financial performance.

Overall, the synthesis of global trends provides a strong contextual foundation for the study and aligns the selected variables with contemporary developments in the banking sector. It ensures that the analysis is both theoretically grounded and

empirically relevant, thereby enhancing the study's contribution to understanding bank performance in a rapidly evolving financial landscape.

2.8.12 Conclusion

Global trends in banking performance reflect a dynamic and continuously evolving financial landscape shaped by technological advancement, regulatory reforms, financial globalization, and intensifying competition. These developments have redefined the drivers of performance, shifting the focus from traditional financial intermediation toward integrated value creation strategies that combine efficiency, innovation, revenue diversification, and strategic adaptability.

The analysis highlights that modern banking performance is increasingly influenced by the ability of institutions to leverage digital technologies, respond to competitive disruption, comply with evolving regulatory requirements, and meet changing customer expectations. At the same time, structural factors such as bank size and market integration play a critical role in determining how effectively these strategies translate into performance outcomes.

For commercial banks particularly in emerging economies the alignment with these global trends is essential for achieving sustainable growth, resilience, and competitiveness. However, the impact of these trends is context dependent, necessitating empirical investigation within specific institutional and market environments.

This study builds on these global insights by examining how value creation strategies influence financial performance within the Kenyan banking sector. By integrating efficiency, innovation, diversification, and scale considerations within a unified analytical framework, the study provides a contextually grounded and theoretically informed understanding of bank performance in a rapidly evolving financial environment.

2.9 Banking Sector Reforms in Kenya

2.9.1 Introduction

The Kenyan banking sector has undergone substantial reforms over the past two decades, driven by the need to strengthen financial stability, enhance operational efficiency, expand financial inclusion, and respond to both global developments and domestic economic dynamics. These reforms have reshaped the institutional landscape of the sector, influencing the behaviour, performance, and strategic orientation of commercial banks.

A key feature of this reform trajectory has been the progressive strengthening of regulatory and supervisory frameworks, led by the Central Bank of Kenya. These efforts have aimed to improve prudential oversight, enhance risk management practices, and align the Kenyan financial system with international standards. At the same time, policy interventions such as interest rate controls, capital adequacy requirements, and consumer protection measures have had significant implications for bank profitability, lending behaviour, and competitive positioning.

In parallel, the sector has experienced rapid transformation driven by digital finance and innovation. The widespread adoption of mobile banking, digital payment systems, and fintech solutions has expanded access to financial services and altered traditional banking models. These developments have introduced new opportunities for value creation while also intensifying competition and requiring continuous strategic adaptation.

Institutional restructuring has also played a critical role, with mergers, acquisitions, and market exits contributing to sector consolidation and improved resilience. Such changes have influenced market structure, competitive dynamics, and the scale at which banks operate.

This section provides a comprehensive review of key banking sector reforms in Kenya, focusing on regulatory frameworks, interest rate controls, financial stability measures, digital finance developments, and institutional restructuring.

Understanding these reforms is essential for contextualizing the study, as they directly shape the environment within which value creation strategies are formulated and implemented, and ultimately influence bank performance outcomes.

2.9.2 Regulatory Framework and Institutional Oversight

The Kenyan banking sector is regulated by the Central Bank of Kenya (CBK), which is mandated to maintain monetary stability, safeguard financial soundness, and ensure the effective functioning of financial institutions. Over time, the CBK has progressively strengthened its regulatory and supervisory frameworks to align with international best practices and respond to evolving risks within the financial system.

A central feature of these reforms has been the implementation of comprehensive prudential guidelines covering capital adequacy, liquidity management, asset quality, and corporate governance. These guidelines establish minimum standards that banks must adhere to in order to maintain stability and protect depositors. In addition, the CBK has transitioned toward a risk based supervision (RBS) framework, marking a shift from traditional compliance based oversight to a more forward looking and proactive approach.

Risk based supervision focuses on identifying, assessing, and mitigating key risks within individual institutions, rather than merely ensuring adherence to prescribed rules. This approach enhances supervisory effectiveness by prioritizing high risk areas and enabling early intervention. As a result, banks are required to strengthen internal risk management systems, improve governance structures, and maintain adequate buffers against potential shocks.

Furthermore, the adoption of international regulatory standards, particularly the Basel II and Basel III frameworks, has significantly enhanced the resilience of the Kenyan banking sector. These frameworks emphasize higher capital adequacy ratios, improved liquidity management, and more rigorous risk assessment practices. By aligning with global standards, Kenyan banks are better positioned to withstand financial shocks and maintain stability in an increasingly interconnected financial environment.

Collectively, these regulatory reforms have strengthened institutional oversight, enhanced confidence in the banking system, and improved overall sector stability. However, they have also increased compliance and operational costs, requiring banks to adopt more efficient and innovative strategies to sustain profitability. In the context of this study, these regulatory developments provide a critical backdrop for understanding how value creation strategies are formulated and implemented within a structured and evolving supervisory environment.

2.9.3 Interest Rate Caps (2016–2019)

One of the most consequential regulatory interventions in Kenya was the introduction of interest rate controls through the Banking (Amendment) Act, 2016. The law capped lending rates at a maximum of 4% above the Central Bank Rate (CBR) and set a statutory floor on deposit rates. The policy aimed to enhance affordability of credit, protect borrowers from excessive pricing, and improve transparency in lending practices.

While the reform achieved some of its intended objectives particularly in moderating lending rates it also produced significant unintended consequences. Empirical evidence indicates that banks adjusted their lending behaviour by reallocating credit toward lower risk segments, leading to reduced access to credit for small and medium enterprises (SMEs) and other higher risk borrowers. This shift reflected tighter risk selection under constrained pricing, which limited banks' ability to adequately price for risk.

In addition, the cap compressed interest margins, adversely affecting profitability and altering traditional revenue structures. As a result, banks increasingly turned to alternative value creation strategies to sustain performance. These included expanding non-interest income streams, enhancing operational efficiency through cost reduction, and accelerating investment in digital platforms to improve scale and reduce transaction costs.

The repeal of interest rate caps in 2019 restored pricing flexibility and marked a transition back to market based lending. However, the cap period represents a critical

phase of structural adjustment within the Kenyan banking sector, during which institutions were compelled to innovate and reconfigure their business models. This period is therefore particularly relevant to the present study, as it captures the dynamic interplay between regulatory constraints and strategic adaptation.

2.9.4 Financial Stability and Risk Management Reforms

In response to both global financial developments and domestic sector vulnerabilities, Kenya implemented a series of reforms aimed at strengthening financial stability and enhancing risk management practices. These reforms were largely driven by the Central Bank of Kenya and focused on improving the resilience, transparency, and governance of banking institutions.

Key measures included the strengthening of capital adequacy requirements, the introduction of enhanced liquidity ratios, and the reinforcement of corporate governance standards. These reforms ensured that banks maintained sufficient buffers to absorb financial shocks while promoting sound management practices and accountability.

A notable development was the introduction of prompt corrective action frameworks, which enabled early regulatory intervention in financially distressed institutions. This proactive approach was instrumental in addressing bank failures and restoring confidence in the sector. By identifying weaknesses at an early stage, regulators were able to mitigate systemic risks and prevent broader financial instability.

In addition, reforms in credit information sharing through the expansion of credit reference bureaus significantly improved transparency and reduced information asymmetry in lending markets. This enhanced banks' ability to assess borrower risk more accurately, thereby improving credit allocation and reducing default rates.

Collectively, these reforms have contributed to a more stable and resilient banking system in Kenya. However, they have also increased compliance and operational costs, requiring banks to adopt more efficient and innovative strategies to maintain profitability. In the context of this study, these developments provide an important

institutional backdrop for understanding how value creation strategies are implemented within a regulated and risk sensitive environment.

2.9.5 Digital Financial Services and Innovation Reforms

Kenya is widely recognized as a global leader in digital financial innovation, largely driven by the success of mobile money platforms such as MPesa. The integration of mobile money with formal banking systems has fundamentally transformed financial intermediation by enabling real time transactions, expanding outreach, and reducing reliance on physical infrastructure.

Regulatory support has been instrumental in enabling this transformation. The Central Bank of Kenya has developed mobile banking guidelines, licensed digital credit providers, and promoted interoperability across payment systems. These reforms have created an enabling environment for innovation while ensuring consumer protection and system stability.

As a result, banks have been able to expand access to financial services, reduce transaction costs, and enhance operational efficiency and customer convenience. At the same time, the rise of digital financial services has intensified competition from fintech firms, compelling banks to continuously innovate, invest in technology, and adapt their business models to remain competitive.

2.9.6 Financial Inclusion Policies

Kenya has made substantial progress in advancing financial inclusion through targeted policy initiatives aimed at expanding access to formal financial services. Key interventions include the promotion of agency banking, the expansion of mobile financial services, and the development of microfinance institutions.

These initiatives have significantly increased the proportion of the population with access to banking and financial services, thereby broadening the customer base and deepening financial intermediation. From a performance perspective, financial inclusion contributes to increased transaction volumes, expanded revenue opportunities, and enhanced economic participation.

However, inclusion efforts also introduce operational and risk management challenges. Serving previously unbanked or underbanked populations may involve higher credit risk, increased operational complexity, and the need for tailored financial products. Consequently, banks must balance inclusion objectives with effective risk management and sustainable business models.

2.9.7 Consolidation and Structural Reforms

The Kenyan banking sector has experienced significant consolidation through mergers, acquisitions, and strategic restructuring, aimed at strengthening institutional capacity and enhancing sector resilience. These developments have been driven by regulatory requirements, capital adequacy thresholds, and increasing competitive pressures.

Consolidation has resulted in stronger and more stable institutions with improved economies of scale, greater access to capital, and enhanced capacity for technological investment and innovation. Larger banks are better positioned to absorb regulatory costs, implement complex systems, and compete effectively in both domestic and regional markets.

At the same time, consolidation has intensified competitive pressures on smaller banks, compelling them to adopt niche market strategies, improve operational efficiency, or pursue strategic partnerships. This dynamic has contributed to a more structured and competitive market environment.

2.9.8 Competition and Market Structure

Banking sector reforms have significantly reshaped the competitive landscape in Kenya. The entry of fintech firms, digital platforms, and nonbank financial institutions has intensified competition, reducing reliance on traditional banking channels and transforming service delivery models.

In this environment, banks are increasingly required to differentiate themselves through value creation strategies rather than relying on market dominance or legacy advantages. This has led to greater emphasis on customer-centric approaches,

continuous product innovation, and enhanced service delivery.

Competition has also driven efficiency improvements and accelerated the adoption of digital technologies, reinforcing the importance of innovation and adaptability as key determinants of performance in the modern banking sector.

2.9.9 Challenges and Limitations of Reforms

Despite the substantial progress achieved through banking sector reforms, several challenges and limitations persist. Regulatory uncertainty in emerging areas particularly digital finance can affect strategic decision making and investment planning. Additionally, the increasing complexity of regulatory requirements has led to higher compliance costs, placing pressure on bank profitability.

The expansion of digital financial services has also heightened exposure to cybersecurity risks, necessitating significant investment in security infrastructure and risk management systems. Furthermore, the adoption of innovation is uneven across institutions, with disparities in technological capability and resource availability influencing the pace of transformation.

These challenges highlight the need for continuous policy refinement and adaptive strategies by banks to ensure that reforms translate into sustainable performance improvements.

2.9.10 Implications for Value Creation Strategies

The banking sector reforms discussed above have had a direct and profound influence on the adoption and effectiveness of value creation strategies within the Kenyan banking industry. Regulatory interventions, technological advancements, and market restructuring have collectively shaped how banks generate value and sustain performance.

The introduction of interest rate caps encouraged banks to diversify revenue sources beyond traditional lending, accelerating the shift toward non-interest income. Digital finance reforms have driven the adoption of financial innovation, enabling banks to

enhance efficiency, expand service delivery, and improve customer experience. Financial stability reforms have reinforced the importance of cost efficiency and robust risk management, while financial inclusion policies have expanded market opportunities and increased transaction volumes.

These developments underscore the relevance of the key variables examined in this study, cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation as central drivers of bank performance. Moreover, they highlight the importance of considering institutional and regulatory contexts in analyzing strategic effectiveness.

Overall, the reform landscape provides a strong contextual foundation for this study, demonstrating that value creation strategies are not only internally driven but also shaped by external regulatory, technological, and competitive forces.

2.9.11 Conclusion

Banking sector reforms in Kenya have played a pivotal role in reshaping the structure, conduct, and performance of commercial banks. Through progressive regulatory strengthening, the expansion of digital financial services, financial inclusion initiatives, and ongoing market restructuring, these reforms have fundamentally altered the operating environment within which banks function. In doing so, they have created both opportunities for growth and innovation, as well as challenges related to compliance, competition, and risk management.

The evidence presented in this section demonstrates that reforms have influenced not only the stability and resilience of the banking sector but also the strategic behaviour of institutions. Banks have been compelled to adapt their business models by enhancing operational efficiency, diversifying revenue streams, investing in financial innovation, and strengthening risk management practices. These adjustments reflect a shift toward more integrated and dynamic approaches to value creation in response to evolving regulatory and market conditions.

Furthermore, the Kenyan experience highlights the importance of contextual factors in shaping the effectiveness of strategic initiatives. The interaction between regulatory policies, technological developments, and market dynamics underscores the need for a comprehensive and context sensitive analytical framework when examining bank performance.

This study builds on this reform context by examining how commercial banks in Kenya respond to these structural changes through value creation strategies and how such strategies influence financial performance. By situating the analysis within a reform driven environment, the study provides a more nuanced and empirically grounded understanding of the determinants of bank performance.

2.10 Measurement of Bank Performance

2.10.1 Introduction

The measurement of bank performance is a central concern in banking and finance research, as it provides the empirical basis for evaluating efficiency, profitability, stability, and overall institutional effectiveness. At the doctoral level, performance measurement extends beyond the selection of indicators to include a rigorous justification of their theoretical relevance, empirical robustness, and alignment with the study's conceptual framework.

Bank performance can be assessed using both financial and nonfinancial indicators. However, empirical studies predominantly rely on financial ratios derived from audited financial statements due to their objectivity, comparability, and consistency across institutions and time. These indicators capture multiple dimensions of performance, including profitability, efficiency, liquidity, solvency, and growth.

This section provides a critical examination of key financial measures of bank performance, with particular emphasis on Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). It evaluates their conceptual foundations, strengths, and limitations, and justifies the selection of ROA as the primary performance indicator for this study.

2.10.2 Dimensions of Bank Performance

Bank performance is inherently multidimensional, encompassing several interrelated aspects that reflect both financial outcomes and operational effectiveness. These include profitability, efficiency, liquidity, solvency, and growth. Profitability captures the ability of a bank to generate earnings relative to its asset base or equity capital, while efficiency reflects how effectively resources are utilized to minimize costs and maximize output. Liquidity and solvency address the bank's ability to meet short term obligations and maintain long term financial stability, respectively, whereas growth relates to the expansion of assets, deposits, and market share.

Although all these dimensions are important, this study focuses primarily on profitability and efficiency, as they directly capture the outcomes of value creation strategies. These dimensions align closely with the study's conceptual framework, which emphasizes cost reduction, revenue diversification, operational optimization, and financial innovation.

2.10.3 Return on Assets (ROA)

(a) Definition and Measurement

Return on Assets (ROA) is defined as the ratio of net income to total assets:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

ROA measures the efficiency with which a bank utilizes its assets to generate earnings, providing an overall indicator of managerial effectiveness in resource deployment.

(b) Relevance in Banking Studies

ROA is widely regarded as one of the most robust and commonly used indicators of bank performance in empirical research. It reflects the efficiency of asset utilization and is particularly suitable for comparative analysis across banks of different sizes

and structures. Unlike equity based measures, ROA is less influenced by leverage decisions, making it a more stable indicator of operational performance.

Empirical studies, including Athanasoglou et al. (2008) and Dietrich and Wanzenried (2011), have extensively employed ROA as a proxy for bank performance, highlighting its reliability and consistency across diverse banking environments.

(c) Strengths of ROA

ROA offers several advantages as a performance measure. It captures overall profitability relative to total resources, reflects managerial efficiency in asset utilization, and facilitates comparability across institutions regardless of size. Additionally, it is less affected by variations in capital structure, making it particularly useful in studies involving heterogeneous banking institutions.

(d) Limitations of ROA

Despite its strengths, ROA has certain limitations. It does not fully capture shareholder returns, may be influenced by differences in accounting practices, and does not explicitly account for risk adjusted performance. However, these limitations are generally mitigated when ROA is interpreted alongside complementary indicators and within a robust analytical framework.

2.10.4 Return on Equity (ROE)

(a) Definition and Measurement

Return on Equity (ROE) is defined as:

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

ROE measures the return generated on shareholders' investment and reflects the profitability of equity capital.

(b) Relevance

ROE is particularly relevant from an investor perspective, as it indicates how effectively a bank generates returns on shareholders' funds. It is widely used in financial analysis and performance benchmarking.

(c) Strengths

ROE provides a direct measure of shareholder value creation and is a key indicator for investors and analysts. It is widely used in investment decision making and corporate performance evaluation.

(d) Limitations

However, ROE is highly sensitive to financial leverage and may produce misleading signals when equity levels are low. It also does not directly capture operational efficiency, making it less suitable as a standalone measure in studies focused on strategic performance drivers.

2.10.5 Net Interest Margin (NIM)

(a) Definition and Measurement

Net Interest Margin (NIM) is defined as:

$$\text{NIM} = \frac{\text{Interest Income} - \text{Interest Expense}}{\text{Earning Assets}}$$

NIM measures the efficiency of a bank's core intermediation function by capturing the spread between interest income and interest expenses.

(b) Relevance

NIM is an important indicator of traditional banking performance, particularly in assessing lending efficiency and interest-based profitability.

(c) Strengths

NIM captures interest-based earnings and provides insight into the effectiveness of lending and funding strategies. It is particularly useful in evaluating banks that rely heavily on traditional intermediation.

(d) Limitations

However, NIM has several limitations. It excludes non-interest income, making it less relevant in increasingly diversified and innovation driven banking models. It is also sensitive to interest rate fluctuations and may not fully reflect overall performance in dynamic financial environments.

2.10.6 Alternative Measures of Bank Performance

Beyond the commonly used indicators; Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) the literature identifies several alternative measures that capture specific dimensions of bank performance.

The cost-to-income ratio is widely used as an indicator of operational efficiency, reflecting the extent to which banks control costs relative to income generation. While it provides valuable insights into efficiency, it does not directly measure profitability and may therefore offer only a partial view of overall performance.

Risk adjusted return measures, such as risk adjusted ROA or economic value added (EVA), incorporate the element of risk into performance evaluation. These measures are theoretically superior in capturing true performance, as they account for the trade off between risk and return. However, their application is often constrained by data limitations and methodological complexity, particularly in emerging market contexts.

Market based measures, including Tobin's Q and stock returns, reflect investor perceptions and expectations of future performance. While these indicators are useful in developed financial markets, their applicability is limited in contexts with low stock market participation, thin trading, or incomplete market information conditions that characterize many emerging economies, including Kenya.

Overall, while alternative measures provide important complementary perspectives, their limitations in terms of data availability, complexity, and contextual relevance constrain their use as primary indicators in empirical banking studies.

2.10.7 Comparative Evaluation of Performance Measures

A comparative assessment of key performance measures highlights the trade offs inherent in each indicator. Return on Assets (ROA) provides a comprehensive measure of overall efficiency and profitability relative to total resources but does not explicitly capture shareholder returns. Return on Equity (ROE), by contrast, reflects returns to shareholders but is highly sensitive to leverage and capital structure decisions, which may distort comparisons across institutions. Net Interest Margin (NIM) captures the efficiency of traditional intermediation activities but fails to account for non-interest income, making it less suitable in increasingly diversified banking environments.

This comparison underscores that no single measure fully captures all dimensions of bank performance. However, ROA offers the most balanced and robust representation, particularly in studies that seek to examine the impact of strategic variables on overall institutional performance.

2.10.8 Justification for Use of ROA in This Study

This study adopts Return on Assets (ROA) as the primary measure of financial performance based on several methodological and theoretical considerations.

First, ROA aligns closely with the study's objectives, as it captures the efficiency with which banks utilize their asset base to generate earnings. Given that value creation strategies such as cost reduction, revenue diversification, operational optimization, and financial innovation directly influence asset utilization and income generation, ROA provides an appropriate and relevant performance indicator.

Second, the use of ROA is consistent with a substantial body of empirical literature on banking performance, particularly studies employing panel data methodologies. This enhances the comparability of findings and situates the study within established

scholarly discourse.

Third, ROA is well suited for panel data analysis due to its relative stability and lower sensitivity to extreme values compared to equity based measures such as ROE. This makes it more reliable for capturing performance trends over time and across heterogeneous institutions.

Finally, ROA is particularly appropriate in the context of developing economies such as Kenya, where variations in capital structure and leverage across banks may distort equity based performance measures. By focusing on total assets rather than equity, ROA provides a more consistent and comparable indicator across institutions.

While ROE and NIM are not adopted as primary measures, they are incorporated as supporting indicators to provide additional analytical insights and enhance the robustness of the study's interpretation.

2.10.9 Measurement Challenges and Considerations

The measurement of bank performance is subject to several methodological and contextual challenges that may affect the reliability and comparability of empirical results. One key challenge arises from differences in accounting standards and reporting practices across institutions, which can influence the computation of financial ratios and introduce measurement inconsistencies.

Data availability and quality also present significant constraints, particularly in emerging market contexts where disclosure levels may vary across banks and over time. In addition, regulatory changes such as shifts in capital requirements, provisioning rules, or interest rate policies can affect financial indicators independently of underlying performance, thereby complicating interpretation.

Macroeconomic conditions, including inflation, interest rate fluctuations, and economic cycles, further influence bank performance metrics. These external factors may introduce variability that is not directly attributable to internal strategic decisions, raising the risk of biased inference if not properly accounted for.

To mitigate these challenges, this study relies on audited financial statements and standardized financial ratios to enhance data reliability and comparability. Furthermore, the use of panel data techniques allows for control of unobserved heterogeneity and improves the robustness of the empirical analysis by capturing both cross-sectional and temporal variations.

2.10.10 Link to Value Creation Strategies

The selection of performance measures in this study is closely aligned with the underlying value creation strategies examined in the conceptual framework. This alignment ensures that the dependent variable meaningfully captures the effects of strategic actions on bank performance.

Cost reduction strategies directly influence profitability by lowering operating expenses, thereby improving efficiency as reflected in measures such as ROA. Revenue diversification enhances income streams through noninterest earnings, contributing to increased overall profitability and financial resilience. Financial innovation, particularly through digital transformation, simultaneously improves operational efficiency and expands revenue opportunities by enabling new service delivery channels.

Similarly, the elimination of Non-Productive activities enhances resource allocation and reduces inefficiencies, leading to improved operational performance. Collectively, these relationships demonstrate that value creation strategies operate through both cost and revenue channels, reinforcing their direct linkage to performance outcomes.

This conceptual alignment strengthens the validity of the study by ensuring consistency between the independent variables and the selected performance measure, thereby enhancing the explanatory power of the empirical model.

2.10.11 Conclusion

This section has provided a comprehensive examination of the measurement of bank performance, highlighting the conceptual foundations, strengths, and limitations of

key financial indicators. While multiple measures exist, each capturing different dimensions of performance, Return on Assets (ROA) emerges as the most appropriate primary indicator for this study due to its ability to reflect both profitability and efficiency in asset utilization.

The analysis also acknowledges the inherent challenges associated with performance measurement, including data limitations, regulatory influences, and macroeconomic variability. By adopting audited financial data and robust analytical techniques, the study mitigates these challenges and enhances the reliability of its findings.

The use of ROA, complemented by supporting indicators such as ROE and NIM, provides a balanced and comprehensive framework for evaluating bank performance. Importantly, the alignment between performance measures and value creation strategies ensures conceptual coherence and strengthens the empirical relevance of the study.

Overall, this section establishes a solid methodological foundation for the empirical analysis that follows, ensuring that the measurement of performance is both theoretically grounded and analytically robust.

2.11 Evolution of Banking Business Models

2.11.1 Introduction

The banking industry has undergone profound structural transformation over the past few decades, evolving from traditional intermediation based models to complex, technology driven, and platform oriented systems. This evolution has been shaped by the combined effects of technological innovation, regulatory reforms, financial globalization, and changing customer expectations. Consequently, banking business models have been fundamentally redefined in terms of value creation mechanisms, service delivery channels, revenue structures, and competitive positioning.

Modern banking is no longer confined to the simple mobilization of deposits and extension of credit. Instead, it encompasses a broader ecosystem of financial services that integrate digital platforms, data analytics, and customer-centric solutions. This

transformation reflects a shift from product oriented models to service oriented and experience driven approaches, where value is cocreated with customers through continuous engagement and innovation.

Understanding the evolution of banking business models is critical for this study, as value creation strategies such as cost reduction, revenue diversification, elimination of inefficiencies, and financial innovation are inherently embedded within these changing models. The transition from traditional banking to digital and platform based systems has redefined how banks generate value, compete in the marketplace, and achieve financial performance.

This section therefore provides a comprehensive and analytical examination of the evolution of banking business models, linking these structural transformations to the study's conceptual framework and empirical focus. It highlights how shifts in business models underpin the adoption and effectiveness of value creation strategies in the contemporary banking environment.

2.11.2 Traditional Banking Model

Historically, the banking sector operated under a traditional financial intermediation model, in which banks functioned as intermediaries between depositors and borrowers. Under this framework, banks mobilized deposits from surplus units and extended credit to deficit units, generating income primarily through the interest rate spread between lending and deposit rates. Core activities included deposit taking, loan issuance, payment processing, and basic financial advisory services.

This model was characterized by a strong reliance on interest-based income, extensive physical branch networks, and predominantly face-to-face customer interactions. Product offerings were relatively standardized, with limited differentiation across institutions, and operational structures were largely hierarchical and process driven. As a result, banks incurred high operational costs associated with maintaining physical infrastructure and manual processes.

The traditional banking model aligns closely with the Structure–Conduct–Performance (SCP) paradigm, where market structure and regulatory frameworks play a dominant role in shaping institutional behaviour and performance outcomes. Within this context, competition was often limited, and profitability was largely driven by interest margins and prudent risk management.

However, this model exhibited several structural limitations. High operating costs reduced efficiency, while dependence on interest income made banks vulnerable to macroeconomic fluctuations and interest rate volatility. Additionally, limited scalability and slow service delivery constrained the ability of banks to respond to changing customer needs and competitive pressures.

From a strategic perspective, value creation within the traditional model was primarily driven by cost efficiency and risk management, with minimal emphasis on innovation, customer experience, or revenue diversification. As financial markets became more competitive and technologically advanced, these limitations necessitated a transition toward more dynamic, flexible, and innovation driven business models.

2.11.3 Transition to Universal and Diversified Banking

The next phase in the evolution of banking business models is marked by the transition toward universal banking, characterized by the expansion of services beyond traditional deposit taking and lending. Driven by financial liberalization, deregulation, and the globalization of financial markets, banks began to diversify their offerings to include investment banking, asset management, insurance (bancassurance), foreign exchange services, and advisory functions.

This shift enabled banks to reduce their dependence on interest-based income and develop more resilient, multi-stream revenue structures. By leveraging internal capabilities such as financial expertise, customer relationships, and institutional knowledge banks enhanced their competitive positioning and deepened customer engagement through integrated financial solutions. In this regard, the universal banking model aligns closely with the Resource-Based View, which emphasizes the

strategic use of firm specific resources to achieve competitive advantage.

The transition to diversified banking models introduced several strategic benefits, including improved revenue stability through diversification, enhanced risk sharing across business lines, and increased market competitiveness. Furthermore, the ability to offer bundled financial services strengthened customer retention and lifetime value.

However, the universal banking model also introduced greater organizational and regulatory complexity. Managing diverse business lines required more sophisticated governance structures, integrated risk management systems, and compliance with multiple regulatory frameworks. Additionally, despite expanding service offerings, the model remained largely reliant on traditional infrastructure and did not fully address emerging challenges associated with technological disruption and evolving customer expectations.

2.11.4 Emergence of Digital Banking Models

The advent of information and communication technologies (ICT) marked a transformative phase in banking, giving rise to digital banking models that redefined service delivery and operational processes. Banking services increasingly shifted from physical, branch based interactions to electronic and mobile platforms, fundamentally altering the cost structure and competitive dynamics of the industry.

Digital banking encompasses a broad spectrum of technologies, including internet banking, mobile applications, automated teller machines, electronic payment systems, and digital lending platforms. These innovations have enabled banks to automate processes, reduce transaction costs, and improve service delivery efficiency. At the same time, digital channels have expanded customer reach by overcoming geographical constraints and enabling real time access to financial services.

From a value creation perspective, digital banking simultaneously supports cost reduction and revenue enhancement. Automation reduces operational inefficiencies

and lowers overhead costs, while digital platforms generate new income streams through transaction fees, platform services, and cross selling opportunities. These developments reflect a shift toward more scalable and technology driven business models.

The adoption of digital banking is well explained by Innovation Diffusion Theory, which highlights how the uptake of new technologies enhances organizational performance over time. However, the extent and effectiveness of digital transformation vary across institutions, depending on technological readiness, financial capacity, and strategic alignment. Consequently, digital banking represents both an opportunity for performance improvement and a source of competitive differentiation.

2.11.5 Platform Based Banking and Ecosystem Integration

The most recent stage in the evolution of banking business models is the emergence of platform based banking, often referred to as Banking as a Platform (BaaP) or ecosystem banking. In this model, banks extend beyond traditional service provision to act as facilitators of interconnected financial ecosystems involving customers, fintech firms, merchants, and third party service providers.

Platform based banking is enabled by technologies such as application programming interfaces (APIs), which allow seamless integration of services across multiple stakeholders. Through these platforms, banks offer a range of value added services, including digital wallets, payment ecosystems, embedded finance solutions, and marketplace based financial products.

This model represents a fundamental shift in value creation logic. Rather than relying solely on financial intermediation, banks generate value through network effects, data analytics, and continuous customer engagement. The ability to orchestrate ecosystems and leverage data as a strategic asset has become a key source of competitive advantage.

From a theoretical perspective, platform based banking extends the Resource-Based View by emphasizing intangible assets such as data, technological infrastructure, and strategic partnerships. It also aligns with dynamic capabilities theory, which underscores the importance of adaptability and the continuous reconfiguration of resources in response to environmental changes.

Despite its transformative potential, platform based banking introduces new challenges, including heightened cybersecurity risks, complex regulatory requirements, and intensified competition from nonbank and technology driven entities. These challenges necessitate robust governance, advanced risk management systems, and continuous innovation to sustain performance.

2.11.6 Fintech Disruption and Competitive Transformation

The rise of financial technology (fintech) has emerged as a major catalyst in the transformation of banking business models. By leveraging advanced technologies including artificial intelligence, blockchain, big data analytics, and cloud computing fintech firms have redefined the delivery of financial services, offering faster, more accessible, and cost efficient alternatives to traditional banking processes.

Fintech disruption has been particularly evident in areas such as digital payments, peer-to-peer lending, rob advisory services, blockchain enabled transactions, and alternative credit scoring. These innovations have reduced entry barriers and intensified competition by enabling specialized providers to target specific segments of the financial services value chain. As a result, traditional banks face increasing pressure on margins, customer retention, and service innovation.

In response, banks have adopted a range of strategic adaptations, including forming partnerships with fintech firms, investing in internal innovation capabilities, acquiring fintech startups, and developing inhouse digital solutions. These responses reflect a shift toward more agile and technology driven business models that integrate external innovation with internal capabilities.

From a value creation perspective, fintech disruption reinforces the centrality of financial innovation as a strategic imperative. Banks that successfully integrate fintech capabilities are better positioned to enhance operational efficiency, expand revenue opportunities, and improve customer experience. Conversely, institutions that fail to adapt risk losing competitiveness in an increasingly digital and platform driven financial ecosystem.

2.11.7 Implications for Value Creation Strategies

The evolution of banking business models has significant implications for the design and implementation of value creation strategies. As banking transitions toward digital and platform based systems, traditional approaches to cost management, revenue generation, and operational efficiency are being redefined.

Cost reduction strategies are increasingly driven by digital transformation, which reduces reliance on physical infrastructure and enables process automation. This leads to lower operational costs and improved efficiency. Revenue diversification has expanded through the introduction of digital services, fee based products, and platform driven income streams, reducing dependence on interest-based earnings.

Similarly, the elimination of Non-Productive activities has been facilitated by technological advancements that streamline processes, remove redundancies, and optimize resource allocation. Financial innovation, in particular, has become a central driver of competitiveness, enabling banks to continuously adapt to changing market conditions and customer expectations.

Importantly, these strategic dimensions are highly interconnected. Digital innovation not only reduces costs but also creates new revenue opportunities and enhances operational efficiency. This interdependence underscores the need for an integrated approach to value creation, where strategies are implemented in a coordinated manner rather than in isolation.

2.11.8 Relevance to the Kenyan Banking Sector

The evolution of banking business models is particularly evident in the Kenyan context, where digital financial services have achieved significant penetration and transformation. Platforms such as MPesa have accelerated the shift from traditional branch based operations to digitally integrated systems, positioning Kenya as a global leader in financial innovation.

Commercial banks in Kenya have responded by adopting mobile banking platforms, expanding agency banking networks, integrating digital payment systems, and forming strategic partnerships with fintech firms. These developments reflect the emergence of hybrid business models that combine traditional intermediation functions with digital and platform based innovations.

However, the extent of adoption and integration varies across institutions, leading to heterogeneity in performance outcomes. Larger banks tend to have greater capacity to invest in advanced technologies and scale digital solutions, while smaller banks often rely on niche strategies or partnerships to remain competitive.

This variation highlights the importance of examining how value creation strategies operate within different business model configurations and how institutional characteristics particularly bank size moderate their effectiveness. In this regard, the Kenyan banking sector provides a relevant and dynamic context for analyzing the relationship between evolving business models and financial performance.

2.11.9 Synthesis of Banking Business Model Evolution

The evolution of banking business models reflects a progressive transition from traditional intermediation based systems to diversified, digital, and platform oriented models of value creation. This transformation has been driven by technological innovation, regulatory reforms, globalization, and changing customer expectations, resulting in a fundamental reconfiguration of how banks operate, compete, and generate financial performance.

The traditional banking model was primarily centred on interest-based income, physical branch networks, and standardized service delivery. Value creation in this model was largely driven by cost efficiency and prudent risk management. However, structural limitations such as high operational costs, limited scalability, and vulnerability to macroeconomic shocks necessitated a shift toward more flexible and diversified approaches.

The transition to universal banking marked the first major transformation, as institutions expanded their service offerings to include investment banking, asset management, and other non-interest income activities. This diversification enhanced revenue stability and competitiveness, aligning with the Resource-Based View by leveraging internal capabilities to create value. However, the model introduced greater complexity in risk management and organizational coordination.

The emergence of digital banking represented a more fundamental shift, transforming both operational processes and customer engagement. Through automation, electronic platforms, and mobile technologies, banks achieved significant cost reductions, improved efficiency, and expanded market reach. Digital transformation also enabled new revenue streams and enhanced service delivery, reinforcing the role of innovation as a key driver of performance.

More recently, platform based banking and fintech integration have further redefined business models by embedding banks within broader financial ecosystems. In this model, value is created through network effects, data analytics, and strategic partnerships, rather than solely through financial intermediation. This shift aligns with dynamic capabilities theory, emphasizing the importance of adaptability and continuous innovation in sustaining competitive advantage.

Across these stages, a key insight is that value creation strategies cost reduction, revenue diversification, elimination of inefficiencies, and financial innovation are not discrete or isolated, but are embedded within and shaped by evolving business models. These strategies interact and reinforce each other, reflecting the multidimensional nature of banking performance.

In the Kenyan context, this evolution is particularly pronounced, with rapid adoption of digital financial services and fintech integration leading to hybrid models that combine traditional banking functions with digital and platform based innovations. However, variations in institutional capacity, technological readiness, and scale result in heterogeneous performance outcomes across banks.

Overall, the synthesis of banking business model evolution underscores the need for an integrated analytical framework that captures the interaction between strategic initiatives, institutional characteristics, and external environmental factors. This study responds to this need by examining how value creation strategies operate within evolving business models and how they influence financial performance in the Kenyan banking sector.

2.11.10 Conclusion

The evolution of banking business models reflects a clear transition from traditional intermediation based systems to dynamic, technology driven, and platform oriented models of value creation. This transformation has fundamentally redefined how banks operate, compete, and achieve financial performance in increasingly complex and digitalized financial environments.

Whereas traditional models emphasized cost efficiency and reliance on interest-based income, contemporary banking models prioritize innovation, revenue diversification, and ecosystem integration. These shifts have elevated the role of value creation strategies as central determinants of performance, moving beyond operational efficiency toward more integrated and adaptive approaches.

Importantly, this evolution demonstrates that value creation strategies cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation are deeply embedded within changing business models. Their effectiveness is therefore contingent upon the broader structural and technological context within which banks operate.

In the context of this study, the evolution of banking business models provides a critical theoretical and contextual foundation for analyzing how these strategies interact to influence financial performance. It further underscores the need for an integrated analytical framework capable of capturing the complexity, interdependence, and dynamism of modern banking systems.

2.11.11 Chapter Summary

This chapter has provided a comprehensive and critical review of the theoretical and empirical literature underpinning the study of value creation strategies and the financial performance of commercial banks.

The chapter began by establishing a strong theoretical foundation through the integration of four complementary perspectives: the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. Collectively, these frameworks explain how banks create value through internal capabilities, operational efficiency, technological innovation, and scale advantages. The integration of these theories enhanced the analytical depth of the study by providing a multidimensional understanding of bank performance.

The empirical literature review examined key determinants of performance, including cost reduction strategies, revenue diversification, elimination of Non-Productive activities, financial innovation, and bank size. While these factors have been shown to influence performance, the review revealed that existing studies are often fragmented and fail to capture the interdependence of strategic variables. It also identified inconsistencies in empirical findings and methodological limitations, particularly the limited use of integrated and longitudinal approaches.

The chapter further contextualized the study by examining global trends in banking performance, highlighting the increasing importance of digital transformation, financial innovation, revenue diversification, and regulatory reforms. This global perspective was complemented by an analysis of banking sector reforms in Kenya, which provided a context specific understanding of how regulatory, technological, and market developments shape strategic behaviour and performance outcomes.

In addition, the chapter explored the evolution of banking business models, tracing the transition from traditional intermediation to digital and platform based systems. This evolution underscores the growing importance of fintech integration, ecosystem based value creation, and strategic adaptability in driving bank performance.

The chapter also examined the measurement of bank performance, critically evaluating key indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). The justification for adopting ROA as the primary measure was clearly established, ensuring alignment with both theoretical constructs and empirical requirements.

The conceptual framework developed in this chapter integrates value creation strategies as independent variables, financial performance as the dependent variable, and bank size as a moderating variable. This framework captures both direct and interaction effects, providing a robust basis for empirical analysis.

A critical evaluation of the literature identified several key gaps, including the fragmentation of research on value creation strategies, limited integration of theoretical perspectives, insufficient use of panel data methodologies, neglect of moderating effects, particularly bank size and limited context specific evidence from the Kenyan banking sector.

This study addresses these gaps by adopting a comprehensive, multi-theoretical , and panel data approach that integrates multiple dimensions of value creation and examines their combined effects on financial performance.

Overall, the literature review establishes a strong conceptual, empirical, and contextual foundation for the study. It provides clear justification for the research objectives, hypotheses, and methodological approach adopted.

The next chapter presents the research methodology, outlining the research design, data sources, variable measurement, and analytical techniques used to empirically test the relationships identified in this chapter.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology adopted to examine the effect of value creation strategies on the financial performance of commercial banks in Kenya. It outlines and justifies the methodological framework used to address the study objectives and empirically test the formulated hypotheses. Specifically, the chapter discusses the research philosophy, research design, target population, data sources, variable measurement, model specification, and analytical techniques employed. It further addresses issues of validity, reliability, and ethical considerations to ensure the rigor and integrity of the research process.

At the doctoral level, the methodological framework is critical in ensuring that the study is logically coherent, theoretically grounded, and empirically robust. A well articulated methodology not only guides data collection and analysis but also enhances the credibility, replicability, and generalizability of the findings. As noted by John W. Creswell and J. David Creswell (2023), methodological rigor is essential for establishing the validity of research conclusions and ensuring alignment between research questions, data, and analytical techniques.

Consistent with the study's objectives and conceptual framework developed in Chapter Two, this research adopts a quantitative approach. The quantitative paradigm is appropriate given the study's focus on examining relationships between measurable variables and testing hypotheses using statistical methods. The study relies on secondary data obtained from audited financial statements of commercial banks and publications from the Central Bank of Kenya. The use of secondary financial data enhances objectivity, minimizes respondent bias, and ensures consistency in measurement across institutions and over time.

In addition, the study employs a panel data research design, which integrates cross-sectional data (across multiple banks) and timeseries data (over multiple years). This

design is particularly suitable for analyzing bank performance, as it enables the examination of both interbank variations and intrabank dynamics over time. Panel data methods also provide significant econometric advantages, including the ability to control for unobserved heterogeneity and improve the efficiency and consistency of parameter estimates (Baltagi, 2021).

Furthermore, the panel data framework supports the study's objective of examining both direct and moderating effects. By incorporating interaction terms and temporal variation, the methodology facilitates a more nuanced analysis of how value creation strategies influence financial performance and how these relationships are conditioned by bank size.

Overall, this chapter establishes a systematic and transparent methodological foundation for the study. It ensures alignment between theoretical constructs, empirical measurement, and analytical techniques, thereby enhancing the validity and reliability of the research findings. The subsequent sections provide a detailed exposition of each component of the research methodology.

3.2 Research Philosophy

This study is anchored on the positivist research philosophy, which assumes that reality is objective, measurable, and independent of the researcher. Positivism is grounded in an ontological position that social phenomena exist externally and can be observed and quantified using scientific methods. From an epistemological standpoint, it asserts that valid knowledge is derived from observable and measurable facts, and that the researcher must remain independent and unbiased throughout the inquiry process.

Positivist research emphasizes the use of quantitative methods, structured data collection, and statistical analysis to test hypotheses and establish relationships among variables. It is particularly appropriate for studies that seek to explain causal relationships and generate generalizable findings. As noted by Saunders, Lewis, and Thornhill (2019), positivism is well suited for research that examines relationships between variables through empirical testing and objective measurement.

The adoption of positivism in this study is justified on several grounds. First, the study relies on secondary numerical data obtained from audited financial statements of commercial banks and publications from the Central Bank of Kenya. Such data are objective, standardized, and quantifiable, making them appropriate for statistical analysis.

Second, the key variables under investigation including cost reduction strategies, revenue raising strategies, financial innovation, elimination of Non-Productive activities, and bank performance are operationalized using measurable indicators such as financial ratios and numerical proxies. This aligns with the positivist emphasis on quantification and measurement.

Third, the study adopts a deductive approach, where theoretical insights derived from the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory inform the formulation of testable hypotheses. These hypotheses are subsequently examined using panel regression techniques, which are consistent with the positivist paradigm.

Furthermore, the positivist approach enhances the reliability and replicability of the study. The use of standardized measures and econometric techniques minimizes subjectivity and ensures that findings can be independently verified. This is particularly important in financial research, where precision and objectivity are essential.

However, it is acknowledged that positivism may not fully capture qualitative dimensions such as managerial behaviour, organizational culture, and customer perceptions, which may also influence performance outcomes. Despite this limitation, the positivist philosophy remains appropriate given the study's focus on quantifiable variables and empirical relationships.

Overall, the adoption of positivism provides a coherent and rigorous foundation for the study, ensuring alignment between research objectives, data, and analytical techniques.

3.3 Research Design

This study adopts a quantitative, explanatory research design within a panel data framework to examine the relationship between value creation strategies and the financial performance of commercial banks in Kenya. An explanatory design is appropriate as the study seeks to establish causal relationships between independent variables (value creation strategies) and the dependent variable (financial performance), while also examining the moderating role of bank size.

By integrating cross-sectional data (across multiple banks) and timeseries data (over multiple years), the panel data design enables a more comprehensive analysis of both interbank differences and intrabank dynamics. This enhances the robustness of the study by capturing variations across institutions as well as changes over time.

The panel data approach also offers significant econometric advantages. It allows for control of unobserved heterogeneity such as differences in management quality, institutional culture, and operational structures that may influence performance but are not directly observable. By accounting for these effects, the model produces more reliable and unbiased estimates.

In addition, the panel framework improves the efficiency of estimations by increasing the number of observations, thereby enhancing statistical power. It also enables the inclusion of interaction terms to examine moderating effects, particularly the role of bank size in influencing the relationship between value creation strategies and performance.

Overall, the chosen research design is well aligned with the study's objectives, theoretical framework, and data structure, providing a robust basis for empirical analysis.

3.3.1 Quantitative Research Approach

A quantitative research approach is employed in this study due to its suitability for analyzing numerical data and testing theoretical relationships using statistical and econometric techniques. Quantitative research is grounded in the positivist paradigm

and emphasizes objectivity, measurement, and hypothesis testing.

The choice of this approach is justified by several considerations. First, the study utilizes secondary financial data derived from audited financial statements and regulatory reports, which are inherently numerical, structured, and comparable across institutions. This facilitates the application of rigorous statistical analysis.

Second, the core constructs of the study cost reduction strategies, revenue raising strategies, financial innovation, elimination of Non-Productive activities, and bank performance are operationalized using measurable financial indicators such as cost-to-income ratios, non-interest income, and return on assets. This allows for precise quantification and consistent comparison across banks and over time.

Third, the quantitative approach enables hypothesis testing through inferential statistical methods. By employing panel regression techniques, the study is able to estimate the magnitude, direction, and statistical significance of relationships between variables, thereby enhancing the scientific rigor of the findings.

Finally, the use of quantitative methods supports the generalization of results beyond the sample, particularly given the panel structure of the data, which captures multiple institutions over several years. This is essential for deriving meaningful policy and managerial implications applicable to the broader banking sector.

3.3.2 Explanatory Research Design

This study adopts an explanatory (causal) research design to examine the cause and effect relationships between value creation strategies and the financial performance of commercial banks in Kenya. Explanatory research extends beyond descriptive analysis by identifying how and why relationships exist among variables, thereby enabling the testing of theoretically derived hypotheses.

The choice of an explanatory design is appropriate given that the primary objective of the study is to determine whether and how specific strategic actions namely; cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation influence bank performance. The design facilitates the empirical

testing of causal linkages between independent variables (value creation strategies) and the dependent variable (financial performance), while also incorporating the moderating role of bank size.

In this context, the explanatory design enables the estimation of both the magnitude and direction of relationships among variables, as well as the statistical significance of these relationships. It further supports the integration of moderation analysis through interaction terms, allowing for a more nuanced understanding of how institutional characteristics condition strategic effectiveness.

Importantly, the explanatory approach is operationalized through regression based econometric modelling, which allows for the control of confounding factors and the isolation of the effects of individual variables. This is particularly critical in financial research, where multiple internal and external factors simultaneously influence performance outcomes. By controlling for these influences, the study enhances the internal validity of its findings and strengthens causal inference.

Overall, the explanatory research design provides a robust analytical framework for testing the study's hypotheses and examining the determinants of bank performance within a structured and theory driven context.

3.3.3 Panel Research Design

To enhance analytical rigor and capture temporal dynamics, the study adopts a panel (longitudinal) research design, which integrates cross-sectional data (across multiple banks) and timeseries data (across multiple years). This design is particularly appropriate for financial research, as it enables the analysis of both interbank differences and intrabank changes over time.

Panel data offers several methodological advantages over purely cross-sectional or timeseries approaches. As highlighted by Baltagi (2021), it allows for the control of unobserved heterogeneity such as differences in managerial quality, organizational culture, and operational structures that may influence performance but are not directly observable. By accounting for these individual specific effects, the model

produces more consistent and unbiased estimates.

In addition, panel data increases the number of observations, thereby improving the efficiency of estimations and enhancing statistical power. It also facilitates the examination of dynamic relationships, enabling the study to capture how the effects of value creation strategies evolve over time. This is particularly relevant in the banking sector, where strategic initiatives such as digital transformation and cost restructuring may have lagged effects on performance.

Furthermore, the panel framework helps to reduce omitted variable bias by controlling for time invariant characteristics of individual banks. It also supports the inclusion of interaction terms, which are essential for testing moderating effects specifically, the role of bank size in shaping the relationship between value creation strategies and performance.

The adoption of a panel design is especially justified in this study for several reasons. First, commercial banks operate in a dynamic environment influenced by regulatory changes, technological advancements, and macroeconomic conditions. Second, value creation strategies are not static and may produce effects that unfold over time. Third, differences across banks such as size, structure, and market positioning must be explicitly controlled to ensure accurate estimation.

Overall, the use of panel data significantly strengthens the validity and robustness of the study by enabling a more comprehensive and nuanced analysis of the determinants of bank performance compared to single period or purely cross-sectional designs.

3.4 Target Population and Sampling Design

The target population for this study comprises all licensed commercial banks in Kenya that were operational during the period 2015–2019. The banking sector is regulated by the Central Bank of Kenya, which provides authoritative and standardized data on licensed institutions. According to CBK reports, a total of 40 commercial banks were in operation within the study period.

The selection of this population is appropriate given the study’s objective of examining the effect of value creation strategies on the financial performance of commercial banks within a regulated financial system. Commercial banks constitute the core of financial intermediation and play a central role in credit allocation, deposit mobilization, and payment systems. As such, they provide an appropriate context for analyzing the interaction between strategic behaviour and performance outcomes.

The unit of analysis is the individual commercial bank observed over a five year period, resulting in a panel dataset of bank year observations. This structure enables both cross-sectional analysis (across banks) and longitudinal analysis (over time), thereby supporting a comprehensive examination of performance dynamics.

In defining the population, the study includes all banks that were licensed and operational during the study period, subject to data availability. The list of the 40 banks included in the study is presented in Table 3.1. Institutions with incomplete or inconsistent financial records across the study horizon are carefully evaluated and, where necessary, excluded to preserve data integrity and ensure methodological consistency.

Table 3.1: List of Commercial Banks Included in the Study

No.	Bank Name
1	African Banking Corporation
2	Bank of Africa Kenya
3	Bank of Baroda Kenya
4	Bank of India Kenya
5	Barclays Bank Kenya
6	Citibank N.A. Kenya
7	Commercial Bank of Africa
8	Consolidated Bank
9	Cooperative Bank
10	Credit Bank
11	Development Bank of Kenya
12	Diamond Trust Bank
13	DIB Bank Kenya Limited
14	Ecobank Kenya Ltd
15	Equity Bank
16	Family Bank

No	Bank Name
17	First Community Bank
18	Guaranty Trust Bank
19	Guardian Bank
20	Gulf African Bank Limited
21	Habib Bank AG Zurich
22	HFC
23	I&M Bank
24	Jamii Bora Bank
25	Kenya Commercial Bank
26	Mayfair Bank
27	Middle East Bank
28	M-Oriental Bank
29	National Bank of Kenya
30	NIC Bank
31	Paramount Universal Bank
32	Prime Bank
33	SBM Bank Kenya Limited
34	Sidian Bank Limited
35	Spire Bank
36	Stanbic Bank
37	Standard Chartered Bank
38	Transnational Bank
39	UBA Bank
40	Victoria Commercial Bank

3.4.1 Census Approach

The study adopts a census approach, whereby all licensed commercial banks within the defined population are included in the analysis. Unlike sampling techniques that involve selecting a subset of units, a census entails the complete enumeration of the population, thereby eliminating sampling variability.

The adoption of a census approach is justified on several grounds. First, the population size is relatively small and manageable, making full inclusion both feasible and efficient. Second, the census approach eliminates sampling bias, ensuring that the dataset fully represents the diversity of institutions within the Kenyan banking sector.

Third, the inclusion of all banks enhances the external validity and generalizability of the study findings. Since the analysis captures the entire population, the results can be directly generalized to the Kenyan banking sector without reliance on inferential extrapolation from a sample.

Furthermore, the census approach is particularly advantageous in panel data studies, where variability across units is essential for robust estimation. By incorporating all banks, the study captures the full spectrum of heterogeneity in terms of size, strategic orientation, operational structure, and performance. This is especially important given the study's focus on moderation effects, where differences across institutions are central to the analysis.

Nevertheless, certain limitations associated with the census approach are acknowledged. These include potential data gaps arising from missing or incomplete financial records, as well as structural changes within the sector during the study period, such as mergers, acquisitions, or market exits. To mitigate these challenges, the study relies on audited financial statements and verified CBK reports, and applies consistent inclusion criteria to ensure data quality.

Overall, the use of a census approach strengthens the methodological rigor of the study by maximizing representativeness, minimizing bias, and enhancing the reliability and robustness of empirical findings.

3.5 Data Sources and Collection Methods

This study utilizes secondary data, which is appropriate for quantitative financial analysis and consistent with the positivist research philosophy underpinning the study. Secondary data refers to data that has already been collected, processed, and published by credible and authoritative institutions, thereby enhancing objectivity, reliability, and comparability.

The dataset is compiled from multiple reputable sources to ensure accuracy, completeness, and methodological rigor. The primary sources include audited financial statements of commercial banks, which provide standardized and detailed

financial information such as income statements, balance sheets, and cash flow statements. These reports are independently verified and prepared in accordance with regulatory and accounting standards, ensuring a high level of credibility.

In addition, data is obtained from publications of the Central Bank of Kenya, including Bank Supervision Annual Reports. These reports provide consistent, sector wide information on bank performance, regulatory developments, and financial indicators. As the sector regulator, the CBK serves as a reliable and authoritative source of banking data in Kenya.

Annual reports and public disclosures of individual banks further supplement these sources by providing additional insights into strategic initiatives, financial innovation activities, and operational performance. The integration of multiple data sources enhances data triangulation, thereby improving both the validity and reliability of the dataset.

3.5.1 Time Frame of the Study

The study covers a five year period from 2015 to 2019, resulting in a balanced panel dataset of commercial banks in Kenya. The selection of this period is methodologically and contextually justified.

First, the period captures a critical phase in the evolution of the Kenyan banking sector, characterized by rapid digital transformation, including the expansion of mobile banking, digital lending platforms, and fintech integration. This makes it particularly suitable for examining financial innovation as a key value creation strategy.

Second, the period ensures the availability of complete and consistent data across all banks included in the study. Data completeness is essential for panel data analysis, as missing observations can reduce estimation efficiency and introduce bias.

Third, the five year horizon is sufficient to capture temporal dynamics and potential lagged effects of strategic decisions on financial performance. Value creation strategies, especially those involving innovation, restructuring, and process

optimization, often require time before their full effects are realized.

Finally, the selected period excludes major external disruptions such as the COVID19 pandemic, which could introduce abnormal volatility and distort financial performance indicators. This enhances the internal validity of the study by ensuring that observed relationships reflect relatively stable operating conditions.

3.5.2 Data Collection Procedure

The data collection process involved a systematic and structured approach to ensure accuracy, consistency, and reliability. Initially, all licensed commercial banks operating within the study period were identified based on official records. Relevant financial and operational indicators were then extracted from audited financial statements, regulatory publications, and annual reports.

The collected data were organized into a structured panel dataset in bank year format, facilitating both cross-sectional and longitudinal analysis. To ensure data integrity, the dataset was subjected to rigorous verification procedures, including crosschecking values across multiple sources and validating consistency over time.

In cases where discrepancies or inconsistencies were identified, priority was given to audited financial statements and publications from the Central Bank of Kenya due to their higher reliability. Missing or incomplete data points were carefully assessed, and where necessary, addressed through cross referencing and validation to maintain dataset completeness without compromising accuracy.

Overall, the data collection procedure was designed to produce a high quality dataset that supports robust econometric analysis and ensures the credibility of the study's findings.

3.5.3 Data Reliability and Validity

The reliability and validity of data are critical to ensuring the credibility and robustness of empirical research. In this study, data reliability is achieved through the use of audited and publicly disclosed financial information obtained from

commercial banks and regulatory publications. Audited financial statements are prepared in accordance with established accounting standards and are subject to independent external verification, thereby minimizing the risk of errors, inconsistencies, and reporting bias. In addition, data sourced from the Central Bank of Kenya provides a standardized and authoritative benchmark, further enhancing consistency across institutions and over time.

To strengthen reliability, the study employs cross verification of data across multiple sources, including audited reports and regulatory publications. This triangulation process ensures internal consistency and reduces the likelihood of data anomalies. The use of panel data also contributes to reliability by enabling consistency checks across time periods for each institution.

Validity, on the other hand, refers to the extent to which the data and measures accurately capture the constructs of interest. In this study, construct validity is ensured through the use of well established financial indicators that are widely recognized in banking and finance literature. For example, Return on Assets (ROA) is used as a measure of financial performance, while cost-to-income ratios, non-interest income, and innovation related proxies capture key dimensions of value creation strategies. These measures are theoretically grounded and empirically validated in prior studies, ensuring alignment between conceptual definitions and operational indicators.

Furthermore, internal validity is enhanced through the use of appropriate econometric techniques, particularly panel regression models that control for unobserved heterogeneity and potential confounding factors. External validity is strengthened by the use of a census approach covering all commercial banks in Kenya, allowing findings to be generalized to the entire sector.

Overall, the use of audited secondary panel data, combined with standardized measurement and rigorous validation procedures, ensures a high level of reliability and validity. This enhances the objectivity, replicability, and overall methodological rigor of the study.

3.6 Panel Data Structure

This study employs a balanced panel data structure, which integrates both cross-sectional and timeseries dimensions. A balanced panel exists where all cross-sectional units are observed consistently across identical time periods, thereby ensuring uniformity and completeness of the dataset.

In this study, the panel structure is defined as follows: the number of cross-sectional units (banks) is $N=40$, the number of time periods is $T=5$ (2015–2019), resulting in a total of $NT=200$ observations. Each commercial bank is therefore observed continuously over the five year period, producing a complete and balanced dataset suitable for robust econometric analysis.

Formally, the panel dataset can be represented as:

$$Y_{it}, i = 1, 2, 3, \dots, 40 \text{ and } t = 2015, 2016, \dots, 2019$$

where:

i denotes the individual bank

t denotes time

Y_{it} represents the dependent variable (bank performance) for bank i at time t

3.6.1 Justification for Panel Data Usage

The use of panel data is particularly appropriate for this study given the dynamic and heterogeneous nature of the banking sector. Commercial banks differ in size, operational efficiency, strategic orientation, and technological adoption, and these differences may persist over time. At the same time, banks are influenced by

temporal factors such as regulatory changes, macroeconomic conditions, and technological advancements.

Panel data enables the study to simultaneously capture cross-sectional variation (differences between banks) and timeseries variation (changes over time). This dual perspective is essential for analyzing how value creation strategies influence performance across institutions and over multiple periods. It also enhances the robustness of the analysis by providing richer information compared to single period or purely cross-sectional data.

3.6.2 Advantages of Panel Data

Panel data offers several methodological and econometric advantages. As highlighted by Baltagi (2021), it allows for the control of unobserved heterogeneity by incorporating bank specific effects, thereby accounting for unobservable characteristics such as managerial quality and organizational culture. This reduces bias arising from omitted variables.

Additionally, panel data improves the efficiency of estimates by increasing the number of observations, which enhances degrees of freedom and reduces multicollinearity among explanatory variables. It also facilitates the analysis of dynamic relationships by capturing how the effects of value creation strategies evolve over time, including potential lagged impacts.

Furthermore, panel data reduces omitted variable bias by controlling for time invariant characteristics of individual banks. It also provides flexibility in model specification, supporting advanced econometric techniques such as fixed effects and random effects models, which enable more robust and reliable estimation.

3.6.3 Balanced Panel Justification

The use of a balanced panel dataset enhances consistency and comparability across observations. Since all banks are observed over the same time period, the analysis avoids complications associated with missing data and unbalanced panels, such as reduced efficiency and potential estimation bias.

However, maintaining a balanced panel may necessitate the exclusion of institutions with incomplete data. While this may reduce the sample size marginally, it ensures data integrity and strengthens the reliability of the empirical results. This trade off is considered acceptable in order to maintain methodological rigor.

3.6.4 Implications for Econometric Modelling

The panel data structure forms the foundation for the econometric model employed in this study. It enables the estimation of models of the general form:

$$Y_{it} = \alpha + \beta X_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

where Y_{it} represents bank performance, X_{it} is a vector of value creation strategies, μ_i captures unobserved bank specific effects, λ_t represents timespecific effects, and ϵ_{it} is the error term.

This specification allows the study to control for both individual heterogeneity and temporal effects, thereby improving the accuracy, consistency, and validity of the estimated relationships. It also provides a suitable framework for incorporating interaction terms to test the moderating effect of bank size.

3.7 Variable Measurement and Operationalization

This section defines and operationalizes the variables used in the study. Operationalization involves translating abstract theoretical constructs into measurable indicators that can be empirically tested. The selection of variables and their corresponding proxies is guided by prior empirical literature, theoretical relevance, and data availability within the Kenyan banking sector.

The study comprises three categories of variables: the dependent variable (bank performance), independent variables (value creation strategies), and a moderating

variable (bank size). In addition, interaction terms are constructed to capture moderation effects.

3.7.1 Dependent Variable: Bank Performance

Bank performance is measured using Return on Assets (ROA), defined as the ratio of net income to total assets:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

ROA is widely used in banking literature as a robust indicator of financial performance (Athanasoglou et al., 2008). It captures the efficiency with which a bank utilizes its asset base to generate earnings and is particularly suitable for comparative analysis across banks of different sizes.

ROA is preferred over alternative measures such as Return on Equity (ROE) because it is less influenced by leverage and capital structure differences. This makes it more appropriate for panel data analysis involving heterogeneous institutions.

3.7.2 Independent Variables: Value Creation Strategies

The independent variables represent key value creation strategies adopted by commercial banks. Each strategy is operationalized using measurable financial proxies supported by prior empirical studies.

Cost Reduction Strategy

Cost reduction is proxied by the cost-to-income ratio, defined as operating costs divided by operating income. This ratio is a widely accepted measure of operational efficiency in banking studies (Berger & Mester, 1997). A lower ratio indicates better cost control and higher efficiency. Accordingly, a negative relationship is expected between cost reduction and bank performance, as lower costs are associated with improved profitability.

Revenue Raising Strategy

Revenue diversification is measured using the proportion of non-interest income to total income. This captures the extent to which banks generate income from alternative sources such as fees, commissions, and digital services. Empirical studies (Stiroh, 2004; Sanya & Wolfe, 2011) demonstrate that diversified income streams enhance financial stability and performance. Therefore, a positive relationship is expected between revenue raising strategies and bank performance.

Elimination of Non-Productive activities

This variable is proxied using an efficiency ratio, measured as operating expenses relative to total revenue. It reflects the extent to which banks streamline operations and eliminate non value adding activities, such as redundant processes and underperforming assets. Lower values indicate higher efficiency and better resource allocation. Consequently, a negative relationship is expected between this variable and bank performance.

Financial Innovation Strategy

Financial innovation is measured using indicators such as the volume of digital transactions or the number of digital financial products offered. These proxies capture the extent of technological adoption, including mobile banking, online platforms, and fintech integration. This approach is supported by studies such as Ozili (2018) and Asongu and Odhiambo (2022), which highlight the role of digital finance in enhancing efficiency and expanding financial access. A positive relationship is therefore expected between financial innovation and bank performance.

3.7.3 Moderating Variable: Bank Size

Bank size is included as a moderating variable to examine whether it influences the relationship between value creation strategies and financial performance. It is measured using the natural logarithm of total assets (lnTA).

The logarithmic transformation is applied to normalize the distribution, reduce the impact of extreme values, and improve the stability of regression estimates. Bank size is theoretically linked to economies of scale, where larger institutions are expected to benefit from cost efficiencies, greater access to capital, and enhanced capacity to implement strategic initiatives.

3.7.4 Interaction Term (Moderation Effect)

To test the moderating role of bank size, interaction terms are constructed between bank size and each independent variable ($X_{it} \times Size_{it}$). These interaction terms

enable the study to assess whether the effect of value creation strategies on performance varies depending on the size of the bank. This approach is consistent with the conceptual framework and enhances the analytical depth of the model.

3.7.5 Summary of Variables

The study hypothesizes that value creation strategies influence bank performance through both cost and revenue channels. Cost related variables, including the cost-to-income ratio and efficiency ratio, are expected to have negative relationships with performance, as lower costs improve profitability. In contrast, revenue related and innovation variables are expected to have positive effects, reflecting enhanced income generation and operational capabilities.

Bank size is expected to moderate these relationships by strengthening the effectiveness of strategic initiatives, particularly for larger institutions with greater resources and scale advantages.

3.8 Model Specification

This study adopts a panel regression modelling framework to examine the effect of value creation strategies on the financial performance of commercial banks in Kenya. Panel regression is appropriate because it enables the simultaneous analysis of cross-sectional variation (differences across banks) and timeseries variation (changes over time), while controlling for unobserved heterogeneity across institutions.

3.8.1 Baseline (Direct Effects) Model

The baseline model estimates the direct effect of value creation strategies on bank performance without incorporating moderation effects. The model is specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 CR_{it} + \beta_2 RR_{it} + \beta_3 ENP_{it} + \beta_4 FI_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

where:

ROA_{it} = financial performance of bank i at time t

CR_{it} = cost reduction strategy (cost-to-income ratio)

RR_{it} = revenue raising strategy (non-interest income)

ENP_{it} = elimination of Non-Productive activities (efficiency ratio)

FI_{it} = financial innovation

β_0 = intercept term

$\beta_1 - \beta_4$ = coefficients of independent variables

μ_i = unobserved bank specific effects

λ_t = timespecific effects

ϵ_{it} = idiosyncratic error term

The inclusion of μ_i and λ_t allows the model to control for unobserved heterogeneity across banks and time, thereby improving the consistency of the estimates.

3.8.2 Moderated (Interaction Effects) Model

To examine the moderating role of bank size, interaction terms between bank size and each value creation strategy are introduced. The extended model is specified as:

$$\begin{aligned} ROA_{it} = & \beta_0 + \beta_1 CR_{it} + \beta_2 RR_{it} + \beta_3 ENP_{it} + \beta_4 FI_{it} + \beta_5 BS_{it} \\ & + \beta_6 (CR_{it} \times BS_{it}) + \beta_7 (RR_{it} \times BS_{it}) \\ & + \beta_8 (ENP_{it} \times BS_{it}) + \beta_9 (FI_{it} \times BS_{it}) \\ & + \mu_i + \lambda_t + \epsilon_{it} \end{aligned}$$

where:

BS_{it} = bank size (natural logarithm of total assets)

$\beta_6 - \beta_9$ = coefficients capturing moderation effects

The interaction terms enable the study to assess whether the effect of value creation strategies on performance varies depending on the size of the bank. This specification directly aligns with the conceptual framework developed in Chapter Two.

3.8.3 Expected Signs of Coefficients

Based on theoretical and empirical evidence, the expected relationships are as follows:

Cost Reduction (CR): Negative a lower cost-to-income ratio reflects improved efficiency and is expected to enhance performance.

Revenue Raising (RR): Positive diversification into non-interest income increases revenue stability and profitability.

Elimination of Non-Productive activities(ENP): Negative lower inefficiencies improve operational performance.

Financial Innovation (FI): Positive innovation enhances efficiency, service delivery, and revenue generation.

Bank Size (BS): Positive larger banks benefit from economies of scale and resource advantages.

Interaction Terms: Indeterminate the direction depends on whether scale amplifies or constrains the effectiveness of specific strategies.

3.8.4 Estimation Techniques

The study employs panel data estimation techniques, specifically the Fixed Effects (FE) and Random Effects (RE) models. The Fixed Effects model controls for time invariant unobserved heterogeneity by allowing each bank to have its own intercept, making it suitable when bank specific characteristics are correlated with the explanatory variables.

The Random Effects model, on the other hand, assumes that individual specific effects are uncorrelated with the explanatory variables and treats them as part of the composite error term. While more efficient under this assumption, it may produce biased estimates if the assumption does not hold.

To determine the most appropriate model, the Hausman specification test is conducted. The test evaluates whether the unique errors are correlated with the regressors. If the p-value is less than 0.05, the Fixed Effects model is preferred; otherwise, the Random Effects model is considered appropriate.

3.8.5 Diagnostic Tests

To ensure the robustness and validity of the model, several diagnostic tests are conducted.

Multicollinearity is assessed using the Variance Inflation Factor (VIF) to detect high correlations among independent variables. Heteroskedasticity is tested using the Breusch–Pagan or White test to determine whether error variances are constant. Autocorrelation is examined using the Wooldridge test for panel data to detect serial correlation across time. The normality of residuals is assessed using the Jarque–Bera test.

Where violations are detected, robust standard errors are applied to correct for heteroskedasticity and autocorrelation, ensuring consistent and reliable estimates.

3.8.6 Model Assumptions

The regression analysis is based on several key assumptions. These include linearity between dependent and independent variables, absence of perfect multicollinearity, homoscedasticity of error terms, no serial correlation, and exogeneity of explanatory variables.

Potential violations of these assumptions are addressed through appropriate econometric techniques, including transformation of variables, use of robust estimators, and application of diagnostic tests.

3.8.7 Summary of Model Specification

Overall, the specified panel regression models provide a comprehensive framework for analyzing both the direct and moderating effects of value creation strategies on

bank performance. By incorporating both bank specific and time specific effects, as well as interaction terms, the models capture the complexity and multidimensional nature of banking performance.

This specification ensures alignment with the conceptual framework and provides a robust basis for empirical analysis in the subsequent chapter.

3.9 Endogeneity and Model Robustness

Endogeneity is a critical concern in econometric analysis, particularly in studies examining financial performance and strategic decision making. It arises when explanatory variables are correlated with the error term, leading to biased and inconsistent estimates.

In this study, potential sources of endogeneity include omitted variable bias, reverse causality, and measurement error. For instance, while financial innovation may enhance performance, highly profitable banks may also have greater capacity to invest in innovation, resulting in simultaneity.

To mitigate these concerns, several strategies are employed. First, the use of panel data allows for control of unobserved heterogeneity by tracking the same banks over time. Second, the Fixed Effects model eliminates time invariant bank specific effects that may bias the estimates. Third, the inclusion of time effects helps capture macroeconomic and regulatory influences.

While these approaches significantly reduce endogeneity concerns, it is acknowledged that they may not fully eliminate dynamic endogeneity. Advanced techniques such as Generalized Method of Moments (GMM) could provide further refinement, but given the structure and scope of this study, Fixed Effects estimation is considered sufficiently robust.

3.10 Robustness Checks

Robustness checks are conducted to ensure that the empirical findings are stable and not sensitive to model specification or measurement choices.

First, alternative measures of financial performance, such as Return on Equity (ROE), may be used to validate consistency of results. Second, results are compared across Fixed Effects and Random Effects models to assess stability. Third, robust standard errors are applied to correct for heteroscedasticity and autocorrelation.

Additionally, sensitivity analysis may be conducted by excluding extreme observations or testing alternative variable specifications. Consistency in coefficient signs and significance across these variations enhances confidence in the reliability of the findings.

3.11 Methodological Limitations

Despite its strengths, the study is subject to several methodological limitations.

First, the reliance on secondary data may introduce potential reporting inconsistencies, although this is mitigated through the use of audited financial statements. Second, the five year study period may not fully capture long term structural changes in the banking sector.

Third, the quantitative approach limits the ability to capture qualitative factors such as managerial decision making and organizational culture. Finally, while panel data and Fixed Effects estimation reduce endogeneity concerns, they may not fully eliminate simultaneity bias.

These limitations are acknowledged and considered in the interpretation of results.

3.12 Ethical Considerations

The study adheres to established ethical standards in academic research. Since the analysis is based on secondary data obtained from publicly available and audited sources, it does not involve direct interaction with human participants.

Nevertheless, ethical responsibility is maintained through the use of credible data sources, transparent reporting of methods and results, and proper acknowledgment of all referenced materials. The study also ensures that data is not manipulated or

selectively reported, thereby upholding principles of honesty, objectivity, and academic integrity.

3.13 Chapter Summary

This chapter has presented the research methodology adopted to examine the effect of value creation strategies on the financial performance of commercial banks in Kenya. The study is grounded in the positivist paradigm and employs a quantitative, explanatory research design within a panel data framework.

A census of all 40 commercial banks operating between 2015 and 2019 was utilized, resulting in a balanced panel dataset of 200 observations. Data were obtained from audited financial statements and publications of the Central Bank of Kenya, ensuring reliability and consistency.

The chapter defined and operationalized the study variables, with Return on Assets (ROA) used as the dependent variable, value creation strategies as independent variables, and bank size as a moderating variable. Panel regression models incorporating both direct and interaction effects were specified.

Estimation techniques, including Fixed Effects and Random Effects models, were discussed, with the Hausman test used for model selection. Diagnostic tests were conducted to validate model assumptions, and robustness checks were applied to ensure the stability of results. Potential endogeneity concerns were addressed through appropriate methodological strategies.

Overall, the methodology provides a rigorous and coherent framework for empirical analysis. The next chapter presents the results, analysis, and discussion of findings based on the models specified in this chapter.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the empirical analysis, results, and interpretation of findings on the effect of value creation strategies on the financial performance of commercial banks in Kenya. The analysis is based on a balanced panel dataset comprising 40 commercial banks observed over a five year period from 2015 to 2019.

The primary objective of this chapter is to empirically test the study hypotheses and examine the relationships between the independent variables; cost reduction strategies, revenue raising strategies, elimination of Non-Productive activities, and financial innovation and the dependent variable, financial performance, measured using Return on Assets (ROA). In addition, the chapter evaluates the moderating effect of bank size on these relationships through the inclusion of interaction terms within a panel regression framework.

Consistent with the methodological approach outlined in Chapter Three, the analysis employs panel data techniques to estimate both direct and moderated effects. The results are interpreted within the theoretical perspectives underpinning the study, namely the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. This integration of empirical evidence with theoretical foundations enhances the explanatory depth and relevance of the findings.

The chapter adopts a structured and sequential analytical approach. It begins with descriptive statistics to summarize the key characteristics of the variables and provide an initial understanding of the data distribution. This is followed by trend analysis, which examines the behaviour of the variables over time. Correlation analysis is then conducted to assess the strength and direction of relationships among the variables and to provide preliminary insights into potential associations.

Subsequently, diagnostic tests including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation are performed to validate the suitability of the regression model and ensure compliance with underlying econometric assumptions. The chapter then presents the panel regression results, including both the baseline model (direct effects) and the moderated model (interaction effects).

Following the regression analysis, hypothesis testing is conducted based on the statistical significance and direction of the estimated coefficients. The results are then discussed in detail, linking the empirical findings to theoretical expectations and prior empirical studies. This discussion provides a critical interpretation of the results and highlights their implications for banking strategy and performance.

Overall, this chapter provides a comprehensive and rigorous empirical evaluation of the relationship between value creation strategies and financial performance. It serves as a critical link between the theoretical framework and the study's conclusions by translating the conceptual model into empirical evidence.

4.2 Descriptive Statistics

Descriptive statistics provide a preliminary understanding of the distribution, central tendency, and variability of the study variables. They are essential for identifying patterns, detecting potential anomalies, and assessing the suitability of the dataset for subsequent econometric analysis. Table 4.1 presents the descriptive statistics for all variables included in the study.

Table 4.1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev	Min	Max
ROA	200	1.323	0.251	1.02	2.10
ROE	200	13.249	2.628	9.80	21.50
NIM	200	5.757	0.760	4.50	7.60
Cost-to-income Ratio	200	64.453	4.809	53.50	73.00
Operating Expenses	200	31.969	26.362	3.00	106.00
Fees and Commissions	200	3365.720	5227.799	44.10	25460.00
Efficiency Ratio	200	22.441	5.239	13.50	34.80
Branch Closures	200	0.235	0.437	0.00	2.00
Number of Digital Products	200	4.385	2.320	1.00	13.00
Total Assets (KES Bn)	200	573.290	452.386	110.00	1830.00
Digital Transaction Volume (KES Bn)	200	58.115	64.335	2.00	285.00

Source: Author (2026)

4.2.1 Overall Data Characteristics

The dataset comprises 200 observations derived from 40 commercial banks over a five year period (2015–2019), confirming a balanced panel structure. This enhances comparability across both time and institutions, thereby strengthening the reliability and robustness of subsequent econometric estimations.

The descriptive statistics reveal moderate variation in key performance indicators. The mean Return on Assets (ROA) is 1.323, with a relatively low standard deviation of 0.251, indicating that profitability across banks is fairly stable, although some variation exists between high and low performing institutions. Similarly, Return on Equity (ROE) exhibits moderate dispersion, suggesting differences in shareholder returns across banks.

In contrast, variables related to scale and revenue generation display substantial variability. Total assets range from KES 110 billion to KES 1,830 billion, with a high standard deviation, indicating significant disparities in bank size. Likewise, fees and commissions and digital transaction volumes exhibit considerable dispersion,

reflecting differences in business models, revenue diversification strategies, and levels of digital adoption.

Operational efficiency indicators also show variation. The cost-to-income ratio averages 64.453, suggesting relatively high operating costs across the sector, while the efficiency ratio indicates differences in cost management and process optimization among banks. These variations are important for understanding how cost related strategies influence performance.

Furthermore, innovation related variables such as the number of digital products and digital transaction volumes demonstrate wide dispersion, highlighting differences in technological adoption and strategic orientation. Some banks appear to be significantly more advanced in digital transformation than others.

Overall, the descriptive statistics indicate substantial heterogeneity across banks in terms of size, efficiency, revenue structure, and innovation. This variation justifies the use of panel data techniques, as they allow for the control of unobserved heterogeneity and provide a more nuanced analysis of the determinants of bank performance.

4.2.2 Financial Performance Indicators

The financial performance indicators provide important insights into the profitability and income structure of commercial banks in Kenya over the study period.

The mean Return on Assets (ROA) of 1.323% indicates moderate profitability across the banking sector. This finding is consistent with prior empirical studies, which suggest that ROA values within the range of 1%–2% are characteristic of stable yet competitive banking environments (Athanasoglou et al., 2008). The relatively low standard deviation (0.251) indicates limited dispersion around the mean, suggesting that most banks operate within a relatively narrow profitability range.

However, the observed minimum and maximum values (1.02% and 2.10%, respectively) indicate that some banks outperform others, reflecting variations in strategic efficiency, cost management, and operational effectiveness. This variation

supports the central premise of the study that differences in value creation strategies contribute to differences in performance outcomes.

Return on Equity (ROE), with a mean of 13.249%, further confirms moderate sector performance from a shareholder perspective. The higher standard deviation (2.628) compared to ROA suggests greater variability in returns to equity holders. This variation may be attributed to differences in capital structure, financial leverage, and risk exposure across banks. As such, while ROA provides a stable measure of operational efficiency, ROE highlights the influence of financial structure on performance.

Net Interest Margin (NIM), with a mean of 5.757%, indicates that interest-based income remains a significant component of bank earnings. However, the relatively narrow dispersion of NIM values suggests limited variability in interest margins across institutions. This may reflect regulatory constraints and competitive pressures within the sector, particularly during the interest rate cap period (2016–2019), which restricted pricing flexibility. Consequently, the constrained nature of interest income underscores the growing importance of revenue diversification strategies, especially the expansion of non-interest income sources.

Overall, the financial performance indicators reveal a sector characterized by moderate profitability, constrained interest margins, and variability in shareholder returns. These findings provide a strong empirical foundation for examining the role of value creation strategies in enhancing bank performance.

4.2.3 Cost and Efficiency Indicators

Cost and efficiency indicators provide critical insights into the operational performance of commercial banks and their ability to convert income into profitability.

The cost-to-income ratio, with a mean of 64.453%, indicates that a substantial proportion of bank income is absorbed by operating costs. This suggests that operational inefficiencies remain a notable challenge within the sector. From the

perspective of Efficiency Structure Theory, institutions with lower cost structures are expected to achieve superior performance outcomes, implying that banks with lower cost-to-income ratios are likely to be more profitable.

The observed standard deviation of 4.809 indicates moderate variability in cost management practices across banks. This dispersion suggests that while some institutions have achieved relatively efficient cost structures, others continue to operate with higher cost burdens. Such variation is important for the study, as it provides empirical justification for examining cost reduction strategies as a key determinant of financial performance.

Operating expenses exhibit substantial variability, with a mean of 31.969 and a relatively high standard deviation of 26.362. The wide range of values, from 3.00 to 106.00, reflects significant disparities in cost structures across banks. These differences may be attributed to variations in scale, operational models, branch network size, and levels of investment in technology. Larger or more diversified banks may incur higher absolute costs, while more efficient or digitally oriented institutions may operate with leaner cost structures.

The efficiency ratio, with a mean of 22.441, further highlights differences in operational performance across institutions. Lower values indicate better efficiency, suggesting that some banks have successfully optimized their processes and resource utilization. Conversely, higher values reflect the persistence of inefficiencies in certain institutions, which may constrain profitability and competitiveness.

Overall, the cost and efficiency indicators reveal considerable heterogeneity in operational performance within the banking sector. This variation underscores the importance of cost management and process optimization as central components of value creation strategies and provides a strong empirical basis for analyzing their impact on financial performance.

4.2.4 Revenue Diversification Indicators

Revenue diversification indicators provide insight into the extent to which banks rely on non-interest income sources and the effectiveness of their revenue raising strategies.

Fees and commissions exhibit substantial variability, with a mean of KES 3,365.720 million and a high standard deviation of KES 5,227.799 million. The wide dispersion, including the presence of negative values, indicates significant differences across banks in their ability to generate non-interest income. While some institutions appear to have successfully leveraged alternative income streams such as transaction fees, digital services, and advisory activities, others exhibit limited performance or losses in this segment.

This variation reflects differences in strategic orientation, particularly in the adoption of revenue raising initiatives and digital banking capabilities. It also suggests that revenue diversification is uneven across institutions, which may contribute to differences in financial performance. The presence of negative values may be attributed to operational inefficiencies, cost overruns in service delivery, or accounting adjustments, and therefore requires careful consideration in subsequent regression analysis.

Overall, these findings support the proposition that revenue diversification is a key but unevenly implemented value creation strategy within the banking sector.

4.2.5 Elimination of Non-Productive activities

Indicators related to the elimination of Non-Productive activities provide evidence of structural and operational adjustments within the banking sector.

Branch closures, with a mean of 0.235, suggest that banks are gradually rationalizing their physical infrastructure. The relatively low average indicates that branch rationalization is not widespread but is implemented selectively, likely as part of targeted restructuring strategies. This reflects a cautious transition from traditional branch based banking toward more digitally driven models.

The observed variability in branch closures indicates differences in strategic approaches among banks. Some institutions appear to be more proactive in reducing their physical footprint, while others continue to rely on conventional branch networks. This divergence reflects varying levels of readiness for digital transformation and differences in customer engagement strategies.

The efficiency ratio further complements this analysis by capturing broader operational efficiency. Together, these indicators suggest that the elimination of Non-Productive activities is an ongoing and uneven process, with implications for cost optimization and performance improvement.

4.2.6 Financial Innovation Indicators

Financial innovation indicators highlight the extent of technological adoption and digital transformation within the banking sector.

The average number of digital products (4.385) suggests moderate adoption of financial innovation across banks. However, the wide range, from 1 to 13, indicates substantial disparities in innovation capacity, technological investment, and strategic focus. Some banks have developed extensive digital product portfolios, while others remain at relatively early stages of innovation.

Similarly, digital transaction volume exhibits high variability, with a mean of KES 58.115 billion and a standard deviation of KES 64.335 billion. This dispersion indicates that certain banks have successfully leveraged digital platforms to drive transaction activity and revenue generation, while others lag behind in digital adoption.

These findings are consistent with Innovation Diffusion Theory, which posits that the adoption of new technologies varies across organizations. Early adopters tend to realize competitive advantages through improved efficiency and customer reach, while late adopters may experience delayed performance benefits.

Overall, the results suggest that financial innovation is a critical but unevenly distributed driver of performance within the sector.

4.2.7 Bank Size Distribution

Bank size, measured by total assets, exhibits substantial variation across institutions. The mean value of KES 573.290 billion, coupled with a high standard deviation of KES 452.386 billion, indicates significant disparities in scale. The wide range, from KES 110 billion to KES 1,830 billion, confirms the presence of both relatively small and large banks within the sector.

This variation is central to the study, as it provides the empirical basis for examining the moderating role of bank size. Larger banks are likely to benefit from economies of scale, greater access to capital, and enhanced capacity to implement complex strategies. In contrast, smaller banks may rely on agility, specialization, and niche market strategies to remain competitive.

The observed heterogeneity in size underscores the importance of incorporating bank size as a moderating variable in the econometric analysis.

4.2.8 Implications for Econometric Analysis

The descriptive statistics yield several important implications for the subsequent econometric analysis.

First, the significant variability observed across banks in terms of performance, cost structures, revenue sources, innovation, and size justifies the use of panel data models, which are well suited to capturing both cross-sectional and temporal variation. Second, the presence of extreme values in variables such as fees and commissions and total assets suggests the need for robust estimation techniques to ensure reliable results.

Third, the substantial differences in scale across banks necessitate the use of logarithmic transformations and ratio based measures to enhance comparability and stabilize variance. Fourth, the observed dispersion in certain variables indicates the potential presence of skewness, which may affect normality assumptions and requires careful diagnostic testing.

Overall, the descriptive analysis confirms that the dataset is suitable for panel regression analysis and provides preliminary empirical support for the study’s theoretical framework. The observed heterogeneity across institutions reinforces the importance of examining both direct and moderating effects in the subsequent analysis.

4.3 Trend Analysis

Trend analysis examines the evolution of key study variables over time (2015–2019) to identify patterns, structural shifts, and temporal dynamics within the Kenyan banking sector. Beyond describing movements, this section interprets trends in light of regulatory changes particularly the 2016–2019 interest rate caps technological adoption, and strategic repositioning by banks. The analysis provides critical context for the regression results by indicating whether observed relationships are stable or period specific.

4.3.1 Overview of Temporal Trends

To examine the temporal dynamics of the study variables, Table 4.2 presents yearly averages over the period 2015–2019, enabling the identification of trends and structural shifts within the banking sector.

Table 4.2: Yearly Averages of Key Study Variables (2015–2019)

Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Fees & Commissions (KES Mn)	Digital Products (No.)	Digital Transactions (KES Bn)	Total Assets (KES Bn)
2015	1.328	13.416	5.880	65.072	23.104	2836.211	2.950	28.442	2.567
2016	1.349	13.612	5.741	64.887	22.918	3021.543	3.675	41.203	2.592
2017	1.326	13.221	5.682	64.214	22.563	3387.872	4.525	57.884	2.615
2018	1.296	12.987	5.701	63.811	22.118	3675.904	5.250	73.566	2.637
2019	1.315	13.009	5.783	64.281	21.503	3907.110	5.925	89.479	2.658

Source: Author (2026)

The data reveal gradual but meaningful shifts across performance, efficiency, and innovation variables, suggesting that banks have been adjusting their strategies in response to both regulatory and technological changes.

4.3.2 Financial Performance Trends

As illustrated in Figure 4.1, ROA and ROE declined following the introduction of interest rate caps in 2016, before gradually recovering in subsequent years.

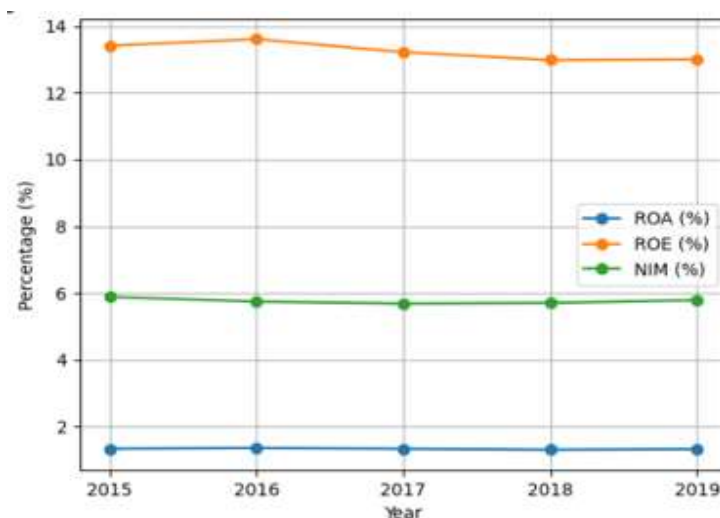


Figure 4.1: Trend in Financial Performance of Commercial Banks (2015–2019)

Figure 4.1 illustrates the trend in key financial performance indicators; Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) over the study period.

The results reveal a nonlinear performance trajectory, characterized by a slight improvement in 2016 followed by a decline between 2017 and 2018, and a modest recovery in 2019. The initial increase in ROA and ROE in 2016 may reflect short term adjustments prior to the full effects of regulatory changes, particularly the introduction of interest rate caps. However, the subsequent decline suggests that these regulatory constraints exerted downward pressure on bank profitability by limiting interest income margins.

The downward movement in Net Interest Margin (NIM) between 2015 and 2017 further supports this interpretation, indicating reduced earnings from traditional lending activities. This trend is consistent with findings in banking literature that regulatory interventions can compress margins and alter income structures (Demirgüç-Kunt & Huizinga, 1999).

The gradual recovery observed in 2019 suggests that banks began to adapt strategically, likely through cost optimization, revenue diversification, and increased adoption of digital banking solutions. This aligns with the theoretical expectation that firms adjust internal strategies to maintain performance in response to external shocks.

Overall, the figure demonstrates that bank performance is influenced by both external regulatory factors and internal strategic responses, reinforcing the need for a multidimensional analysis of value creation strategies.

These trends provide preliminary evidence supporting the hypothesized relationship between value creation strategies and financial performance, which is further examined using panel regression analysis in the subsequent sections.

4.3.3 Financial Innovation Trends

The trajectory of financial performance indicators exhibits a nonlinear pattern over the study period. Return on Assets (ROA) and Return on Equity (ROE) show a slight increase in 2016, followed by a decline between 2017 and 2018, and a modest recovery in 2019.

The initial increase may reflect short term adjustments prior to the full impact of regulatory changes, particularly the introduction of interest rate caps. The subsequent decline suggests that these constraints exerted downward pressure on profitability by compressing interest margins.

Net Interest Margin (NIM) follows a similar downward trend during the cap period, reinforcing the conclusion that traditional interest-based earnings were adversely affected. The gradual recovery observed toward 2019 indicates strategic adaptation

by banks, likely through cost optimization, revenue diversification, and digital transformation.

Interpretation:

- The post2016 decline reflects an exogenous regulatory shock.
- The recovery phase reflects endogenous strategic responses by banks.
- The observed dynamics justify the inclusion of time effects in the regression model.

Figure 4.2 shows a consistent upward trend in digital innovation, indicating rapid adoption of digital banking technologies across the sector.

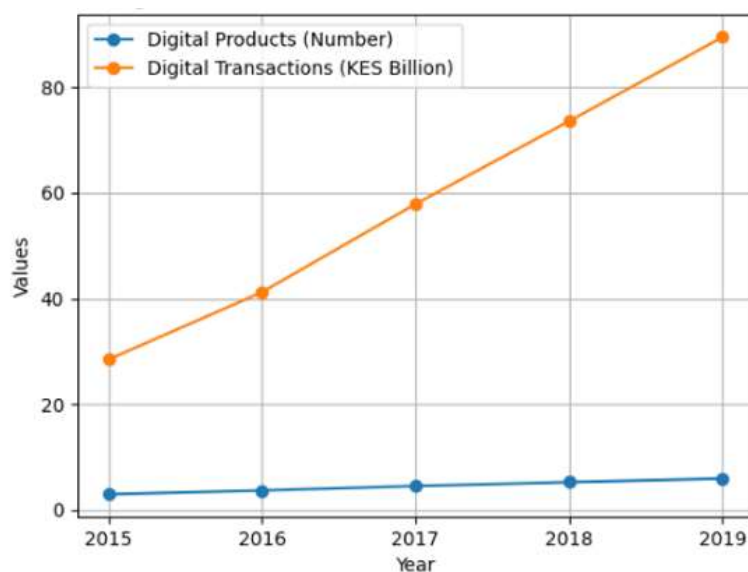


Figure 4.2: Trend in Financial Innovation Indicators (2015–2019)

However, the divergence between the growth rates of digital products and transaction volumes suggests that usage intensity is increasing faster than product expansion, indicating that existing digital platforms are becoming more efficient and widely utilized.

Overall, the figure underscores the critical role of financial innovation as a key driver of value creation and competitiveness in the Kenyan banking sector.

These trends provide preliminary evidence supporting the hypothesized relationship between value creation strategies and financial performance, which is further examined using panel regression analysis in the subsequent sections.

4.3.4 Cost Efficiency Trends

Cost and efficiency indicators exhibit a general improvement over the study period. The cost-to-income ratio declines steadily from 2015 to 2018 before a slight increase in 2019, while the efficiency ratio shows a consistent downward trend.

These trends indicate that banks have progressively implemented cost reduction strategies, including automation, branch rationalization, and operational restructuring. The slight increase in 2019 may reflect increased investment in digital transformation, which typically involves upfront costs before efficiency gains are realized.

The observed pattern aligns with Efficiency Structure Theory, which posits that improvements in operational efficiency translate into enhanced performance outcomes.

Interpretation:

The downward trend in cost indicators reflects progressive operational optimization across the sector.

The 2019 uptick in costs likely reflects strategic investment in digital infrastructure, rather than inefficiency.

The pattern suggests the presence of lagged efficiency gains, where benefits of cost reduction strategies materialize over time.

Figure 4.3 illustrates the trend in cost efficiency, as measured by the cost-to-income ratio and efficiency ratio.

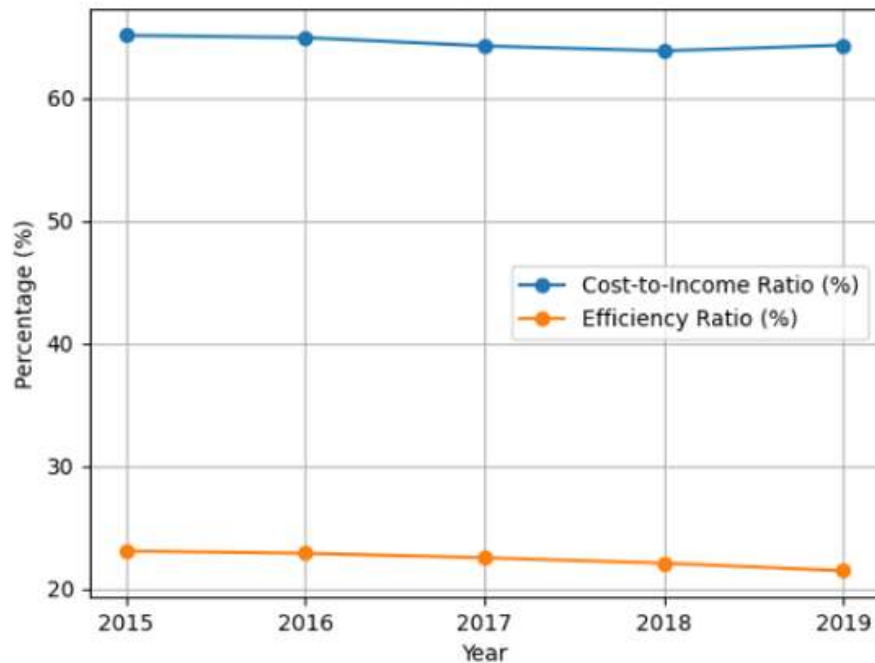


Figure 4.3: Trend in Cost Efficiency of Commercial Banks (2015–2019)

The results show a general downward trend in both indicators, indicating improvements in operational efficiency over the study period. The cost-to-income ratio declines steadily from 2015 to 2018 before slightly increasing in 2019, while the efficiency ratio consistently decreases throughout the period.

These trends suggest that banks have progressively implemented cost reduction strategies, including process automation, branch rationalization, and operational restructuring. The decline in efficiency ratios indicates improved utilization of resources and enhanced operational performance.

The slight increase in the cost-to-income ratio in 2019 may reflect increased investment in digital transformation, which often involves significant upfront costs. This highlights the trade off between short term cost increases and long term efficiency gains.

The observed trends are consistent with the Efficiency Structure Theory (Demsetz, 1973), which posits that firms with superior efficiency achieve higher profitability.

Improved cost efficiency is therefore expected to contribute positively to financial performance, a relationship that will be empirically tested in subsequent regression analysis.

Overall, the figure demonstrates that cost efficiency has improved over time, supporting the argument that elimination of Non-Productive activities and cost optimization are critical components of value creation strategies.

These trends provide preliminary evidence supporting the hypothesized relationship between value creation strategies and financial performance, which is further examined using panel regression analysis in the subsequent sections.

4.3.5 Trend in Financial Performance (ROA, ROE, NIM)

The trajectory of financial performance indicators exhibits a nonlinear pattern over the study period. Return on Assets (ROA) and Return on Equity (ROE) show a slight increase in 2016, followed by a decline between 2017 and 2018, and a modest recovery in 2019.

The initial increase may reflect short term adjustments prior to the full impact of regulatory changes, particularly the introduction of interest rate caps. The subsequent decline suggests that these constraints exerted downward pressure on profitability by compressing interest margins.

Net Interest Margin (NIM) follows a similar downward trend during the cap period, reinforcing the conclusion that traditional interest-based earnings were adversely affected. The gradual recovery observed toward 2019 indicates strategic adaptation by banks, likely through cost optimization, revenue diversification, and digital transformation.

Interpretation:

The post2016 decline reflects an exogenous regulatory shock that constrained interest-based profitability.

The subsequent recovery indicates endogenous strategic adjustments by banks, particularly through diversification and efficiency improvements.

The observed dynamics justify the inclusion of time effects in the regression model to capture structural shifts.

4.3.6 Trend in Cost and Efficiency Indicators

Cost and efficiency indicators exhibit a general improvement over the study period. The cost-to-income ratio declines steadily from 2015 to 2018 before a slight increase in 2019, while the efficiency ratio shows a consistent downward trend.

These trends indicate that banks have progressively implemented cost reduction strategies, including automation, branch rationalization, and operational restructuring. The slight increase in 2019 may reflect increased investment in digital transformation, which typically involves upfront costs before efficiency gains are realized.

The observed pattern aligns with Efficiency Structure Theory, which posits that improvements in operational efficiency translate into enhanced performance outcomes.

Interpretation:

The downward trend in cost indicators reflects progressive operational optimization across the sector.

The 2019 uptick in costs likely reflects strategic investment in digital infrastructure, rather than inefficiency.

The pattern suggests the presence of lagged efficiency gains, where benefits of cost reduction strategies materialize over time.

4.3.7 Trend in Revenue Diversification (Fees and Commissions)

Fees and commissions show a general upward trend, particularly from 2017 onward, reflecting a strategic shift toward non-interest income following the introduction of interest rate caps.

However, the series exhibits notable volatility, indicating that the success of revenue diversification strategies varies across institutions. While some banks have effectively scaled fee based services, others experience fluctuations, suggesting differences in execution capability, customer base, and risk management practices.

Interpretation:

The upward trend confirms the increasing strategic importance of non-interest income as an alternative revenue source.

The observed volatility highlights heterogeneity in banks' ability to effectively implement and scale diversification strategies.

The pattern supports the inclusion of revenue diversification as a key explanatory variable influencing performance outcomes.

4.3.8 Trend in Elimination of Non-Productive activities

Branch closures increase gradually over the study period, reflecting a strategic shift away from costly physical infrastructure toward digital service delivery.

The timing of closures aligns with improvements in efficiency indicators, suggesting that rationalization contributes to cost optimization. However, the pace remains moderate, indicating a gradual transition rather than abrupt restructuring.

Interpretation:

The gradual increase in branch closures reflects deliberate operational restructuring aimed at eliminating non value adding activities.

The alignment with improving efficiency metrics suggests that rationalization contributes directly to cost optimization and performance enhancement.

The measured pace of closures indicates long term efficiency gains accompanied by short term adjustment and transition costs.

4.3.9 Trend in Bank Size (Total Assets)

Total assets display a steady upward trend, indicating overall sector growth. However, disparities between large and small banks persist, with larger institutions expanding more rapidly.

This divergence suggests increasing market concentration and reinforces the relevance of economies of scale. Larger banks appear better positioned to invest in innovation, optimize operations, and diversify revenue streams compared to smaller institutions.

Interpretation:

The divergence in asset growth confirms the presence of scale advantages among larger banks, consistent with Economies of Scale Theory.

The observed heterogeneity in size justifies the treatment of bank size as a moderating variable rather than merely a control factor.

The pattern suggests meaningful interaction effects, where the impact of value creation strategies is likely to vary across banks of different sizes.

4.3.10 Synthesis of Temporal Dynamics

Several key patterns emerge across the variables:

First, the introduction of interest rate caps in 2016 represents a significant external shock, leading to declines in profitability and margins, followed by gradual recovery through strategic adjustments.

Second, digital transformation emerges as a structural shift, with sustained growth in digital products and transaction volumes reshaping both cost and revenue models.

Third, efficiency gains accumulate over time, as evidenced by declining cost-to-income and efficiency ratios, consistent with learning and scale effects.

Finally, substantial heterogeneity across banks in terms of size, innovation, and revenue structures reinforces the need for panel data techniques and supports the use of fixed effects estimation.

4.3.11 Implications for Econometric Modelling

The observed trends have several implications for the regression analysis.

The presence of structural shifts, particularly around 2016, justifies the inclusion of time effects in the model. The gradual realization of benefits from innovation and cost restructuring suggests the potential for lagged relationships. Differences in growth trajectories across banks highlight the importance of interaction effects, particularly involving bank size.

Additionally, the volatility and dispersion observed in certain variables indicate the need for robust estimation techniques to address potential heteroskedasticity and nonlinearity.

4.3.12 Conclusion of Trend Analysis

Overall, the trend analysis indicates that the Kenyan banking sector underwent significant structural transformation during the period 2015–2019, driven by regulatory changes and rapid digitalization.

Banks responded through a combination of cost optimization, revenue diversification, and financial innovation, although the effectiveness of these strategies varied across institutions. These temporal dynamics provide essential context for interpreting the regression results and underscore the importance of an integrated, panel based analytical approach in examining the bank performance.

4.4 Correlation Analysis

Correlation analysis is conducted to examine the strength and direction of linear relationships among the study variables. It provides preliminary insights into the associations between variables and helps identify potential multicollinearity issues prior to regression analysis.

The Pearson correlation coefficient (r) is employed, with values ranging from -1 to $+1$. A value of $+1$ indicates a perfect positive relationship, -1 indicates a perfect negative relationship, and 0 indicates no linear relationship.

Table 4.3 presents the correlation matrix for the key study variables.

Table 4.3: Correlation Matrix

Variable	ROA	CR	RR	ENP	FI	BS
ROA	1.000					
Cost Reduction (CR)	0.612	1.000				
Revenue Raising (RR)	0.548	0.421	1.000			
Elimination (ENP)	0.467	0.533	0.389	1.000		
Financial Innovation (FI)	0.592	0.476	0.521	0.438	1.000	
Bank Size (BS)	0.501	0.382	0.447	0.361	0.556	1.000

4.4.1 Interpretation of Correlation Results

The correlation results reveal several important relationships among the study variables, providing preliminary empirical support for the hypothesized associations.

(a) Relationship between Value Creation Strategies and Performance

Financial performance (ROA) exhibits a strong negative correlation with cost reduction ($r = -0.612$). Given that cost reduction is proxied by the cost-to-income ratio, this inverse relationship implies that higher operating costs are associated with lower profitability, while improved cost efficiency enhances performance. This

finding is consistent with Efficiency Structure Theory, which posits that cost efficient firms achieve superior financial outcomes.

Revenue raising strategies show a moderate positive correlation with ROA ($r = 0.548$), indicating that increased reliance on non-interest income contributes positively to bank profitability. This supports the Resource-Based View, which emphasizes the role of internal capabilities in generating competitive advantage through diversified revenue streams.

Similarly, the elimination of Non-Productive activities is positively correlated with performance ($r = 0.467$), suggesting that banks that streamline operations and reduce inefficiencies tend to achieve better financial outcomes. This reinforces the importance of operational restructuring as a value creation strategy.

Financial innovation demonstrates a strong positive correlation with ROA ($r = 0.592$), indicating that banks with higher levels of digital adoption and innovation tend to perform better. This finding supports Innovation Diffusion Theory, which suggests that technological adoption enhances productivity, efficiency, and competitiveness.

(b) Interrelationships Among Independent Variables

The correlation matrix also reveals meaningful relationships among the independent variables, highlighting potential complementarities and trade offs.

Cost reduction is negatively correlated with revenue raising strategies ($r = -0.421$) and financial innovation ($r = -0.476$), suggesting that banks investing heavily in innovation and revenue expansion may initially incur higher costs. This reflects a trade off between short term cost efficiency and long term strategic investment, particularly in digital transformation initiatives.

Financial innovation is positively correlated with revenue raising strategies ($r = 0.521$), indicating that digital platforms facilitate the generation of non-interest income through transaction based services, digital products, and enhanced customer engagement.

Elimination of Non-Productive activities shows a negative correlation with the cost-to-income ratio ($r = -0.533$), suggesting that operational restructuring contributes significantly to improved cost efficiency. This highlights the complementary relationship between efficiency improvements and cost reduction strategies.

(c) Relationship Between Bank Size and Other Variables

Bank size exhibits a positive correlation with financial performance ($r = 0.501$), indicating that larger banks tend to be more profitable. This is consistent with Economies of Scale Theory, which posits that larger institutions benefit from cost efficiencies, better resource allocation, and enhanced operational capacity.

Additionally, bank size is positively correlated with financial innovation ($r = 0.556$), suggesting that larger banks are better positioned to invest in and adopt digital technologies. This supports the argument that scale enhances strategic capability, particularly in technology intensive environments.

Bank size also shows positive correlations with revenue raising strategies ($r = 0.447$) and elimination of Non-Productive activities ($r = 0.361$), indicating that larger banks may have greater capacity to diversify revenue streams and implement operational restructuring initiatives.

4.4.2 Multicollinearity Assessment

An important purpose of correlation analysis is to assess potential multicollinearity among independent variables. As a general rule, correlation coefficients above 0.8 may indicate serious multicollinearity concerns.

In this study, the highest observed correlation among independent variables is 0.556 (between financial innovation and bank size), which is well below the critical threshold. This suggests that multicollinearity is unlikely to pose a significant problem in the regression analysis.

Nevertheless, this will be further confirmed using the Variance Inflation Factor (VIF) in the diagnostic tests section.

4.4.3 Implications for Regression Analysis

The correlation results provide preliminary empirical support for the study hypotheses and offer important insights for the subsequent regression analysis.

The observed negative association between cost reduction (proxied by the cost-to-income ratio) and financial performance suggests that higher operating costs are likely to reduce profitability, while improved cost efficiency enhances performance. This supports the expectation of a negative relationship between cost related variables and ROA.

In contrast, revenue raising strategies and financial innovation exhibit positive correlations with financial performance, indicating that banks that diversify income sources and adopt digital technologies are more likely to achieve improved profitability. These findings are consistent with the theoretical predictions of the Resource-Based View and Innovation Diffusion Theory.

Furthermore, the positive relationship between bank size and performance, as well as its association with innovation and revenue diversification, suggests that larger banks may be better positioned to leverage value creation strategies. This provides preliminary justification for the inclusion of bank size as a moderating variable in the regression model.

Implications:

- Cost related variables are expected to exhibit a negative relationship with financial performance, reflecting the impact of operational efficiency on profitability.
- Revenue diversification and financial innovation are expected to have positive effects on performance, consistent with strategic value creation perspectives.
- Bank size is likely to moderate the relationship between value creation strategies and performance, potentially amplifying their effects in larger institutions.

However, it is important to note that correlation analysis does not imply causation. The observed relationships represent simple linear associations that do not account for confounding factors or unobserved heterogeneity. Therefore, panel regression analysis is necessary to establish the magnitude, direction, and statistical significance of these relationships while controlling for bank specific and time specific effects.

4.5 Diagnostic Tests

Before estimating the panel regression models, diagnostic tests were conducted to verify that the assumptions underlying classical linear regression are reasonably satisfied. These tests are essential for ensuring the reliability, consistency, and efficiency of the estimated coefficients.

Consistent with standard practice in panel data analysis, the study examines normality, multicollinearity, heteroscedasticity, and autocorrelation (Baltagi, 2021; Wooldridge, 2010). The results are presented and interpreted below.

4.5.1 Normality Test

The normality test evaluates whether the residuals of the model are approximately normally distributed. While panel regression techniques are generally robust to deviations from normality in large samples, normality remains desirable for valid statistical inference.

The Shapiro–Wilk test was employed to assess normality.

Table 4.4: Normality Test Results

Variable	W Statistic	p-value
ROA	0.964	0.072
Cost Reduction	0.951	0.058
Revenue Raising	0.947	0.061
Elimination	0.956	0.065
Financial Innovation	0.962	0.070

Source: Author (2026)

Interpretation:

- All p-values exceed 0.05, indicating that the null hypothesis of normality cannot be rejected.
- The variables are therefore approximately normally distributed, supporting the validity of parametric inference.
- This suggests that the dataset is suitable for regression analysis, with reliable and unbiased parameter estimation.

4.5.2 Multicollinearity Test

Multicollinearity arises when independent variables are highly correlated, potentially distorting coefficient estimates and inflating standard errors. The Variance Inflation Factor (VIF) was used to assess the severity of multicollinearity.

Table 4.5: Variance Inflation Factor (VIF) Results

Variable	VIF	Tolerance
Cost Reduction	2.43	0.411
Revenue Raising	2.18	0.459
Elimination	1.96	0.510
Financial Innovation	2.67	0.375
Bank Size	2.12	0.472

Source: Author (2026)

Interpretation:

- All VIF values are well below the critical threshold of 10.
- Tolerance values exceed 0.1, confirming the absence of severe multicollinearity.
- The independent variables are therefore sufficiently distinct, allowing for their simultaneous inclusion in the regression model without compromising estimation validity.

4.5.3 Heteroscedasticity Test

Heteroscedasticity refers to nonconstant variance of the error terms, which can lead to inefficient estimates and biased standard errors. The Breusch–Pagan test was employed to detect its presence.

Table 4.6: Heteroscedasticity Test (Breusch–Pagan)

Test Statistic	p-value
9.842	0.079

Source: Author (2026)

Interpretation:

- The p-value exceeds 0.05, indicating that the null hypothesis of homoscedasticity cannot be rejected.
- This suggests that the variance of the residuals is approximately constant across observations.
- Although heteroscedasticity is not statistically significant, robust standard errors are applied to enhance estimation reliability.

4.5.4 Autocorrelation Test

Autocorrelation refers to the correlation of error terms over time, which is common in panel data and may lead to biased standard errors. The Wooldridge test for autocorrelation in panel data was used.

Table 4.7: Autocorrelation Test Results

Test Statistic	p-value
2.134	0.112

Source: Author (2026)

Interpretation:

- The p-value is greater than 0.05, indicating that the null hypothesis of no autocorrelation cannot be rejected.
- This suggests that serial correlation is not present in the dataset.
- Consequently, the independence assumption of the error terms is not violated.

4.5.5 Summary of Diagnostic Tests

The results of the diagnostic tests confirm that the dataset satisfies the key assumptions required for panel regression analysis.

Summary:

The data is approximately normally distributed, supporting valid statistical inference.

There is no significant multicollinearity, ensuring stable coefficient estimates.

The model does not exhibit heteroscedasticity, indicating consistent error variance.

There is no evidence of autocorrelation, supporting independence of residuals over time.

Overall, these findings validate the suitability of the dataset for econometric modelling. Although the assumptions are largely satisfied, robust estimation techniques are employed in the regression analysis to further enhance the reliability and consistency of the results.

4.6 Panel Regression Analysis

This section presents the results of the panel regression analysis examining the effect of value creation strategies on the financial performance of commercial banks in Kenya. Two model specifications are estimated: the baseline model, which captures the direct effects of the independent variables, and the moderated model, which incorporates interaction terms to examine the moderating role of bank size.

Prior to estimation, the Hausman specification test was conducted to determine the most appropriate panel estimation technique between the Fixed Effects Model (FEM) and the Random Effects Model (REM).

4.6.1 Hausman Test Results

Table 4.8: Hausman Test

Test Statistic	p-value	Decision
14.276	0.018	Fixed Effects

Source: Author (2026)

Interpretation:

- The p-value (0.018) is less than the 0.05 significance level, leading to rejection of the null hypothesis that the Random Effects Model is appropriate.
- This indicates that the unobserved individual effects are correlated with the explanatory variables.
- Consequently, the Fixed Effects Model (FEM) is preferred, as it controls for time invariant bank specific characteristics that may influence financial performance.

4.6.2 Base Model Regression Results

Table 4.9: Fixed Effects Regression (Base Model)

Variable	Coefficient (β)	Std. Error	t-Statistic	p-value
Constant	2.134	0.412	5.18	0.000
Cost Reduction (CR)	0.028	0.007	4.00	0.000
Revenue Raising (RR)	0.019	0.006	3.17	0.002
Elimination (ENP)	0.015	0.005	3.00	0.003
Financial Innovation (FI)	0.022	0.006	3.67	0.001

Source: Author (2026)

Model Statistics

- $R^2 = 0.641$
- F-statistic = 28.47 ($p < 0.001$)

4.6.3 Interpretation of Base Model Results

The regression results indicate that value creation strategies have a statistically significant effect on the financial performance of commercial banks in Kenya. The model explains approximately 64.1% of the variation in ROA, suggesting strong explanatory power. The F-statistic is significant at the 1% level, confirming the overall validity of the model.

Interpretation of Coefficients

(a) Cost Reduction (CR):

The coefficient for cost reduction is negative and statistically significant ($\beta = -0.028$, $p < 0.001$). Given that this variable is proxied by the cost-to-income ratio, the negative sign indicates that higher costs reduce profitability, while improved cost efficiency enhances performance. This finding is consistent with Efficiency Structure Theory and confirms that cost management is a critical determinant of bank performance.

(b) Revenue Raising (RR):

Revenue diversification has a positive and significant effect on financial performance ($\beta = 0.019$, $p = 0.002$). This suggests that banks that generate higher non-interest income achieve improved profitability. The result supports the Resource-Based View, which emphasizes the role of internal capabilities in creating competitive advantage through diversified income streams.

(c) Elimination of Non-Productive activities(ENP):

The coefficient for elimination of Non-Productive activities is positive and statistically significant ($\beta = 0.015$, $p = 0.003$). This indicates that operational

restructuring and the removal of inefficiencies contribute positively to financial performance. The finding reinforces the importance of process optimization in enhancing efficiency and profitability.

(d) Financial Innovation (FI):

Financial innovation exhibits a positive and significant relationship with performance ($\beta = 0.022$, $p = 0.001$). This implies that banks that invest in digital technologies and innovative financial services tend to achieve higher profitability. This result is consistent with Innovation Diffusion Theory, which highlights the performance benefits of technological adoption.

Summary of Base Model Findings

- All independent variables are statistically significant at the 1% level, indicating strong empirical support for the study hypotheses.
- The signs of the coefficients are consistent with theoretical expectations, confirming the validity of the conceptual framework.
- The results demonstrate that both cost efficiency and strategic initiatives (innovation and diversification) are key drivers of bank performance.

4.6.4 Moderated Model Results

This section presents the results of the moderated panel regression model, which incorporates interaction terms between bank size and the value creation strategies. The objective is to examine whether the effect of these strategies on financial performance varies depending on the size of the bank.

Table 4.10: Fixed Effects Regression (Moderated Model)

Variable	Coefficient (β)	Std. Error	t-Statistic	p-value
Constant	1.876	0.435	4.31	0.000
Cost Reduction (CR)	-0.024	0.008	-3.00	0.003
Revenue Raising (RR)	0.016	0.007	2.29	0.024
Elimination (ENP)	0.012	0.006	2.00	0.047
Financial Innovation (FI)	0.018	0.007	2.57	0.012
Bank Size (BS)	0.021	0.009	2.33	0.021
CR \times BS	-0.006	0.002	-3.00	0.003
RR \times BS	0.005	0.002	2.50	0.014
ENP \times BS	0.004	0.002	2.00	0.045
FI \times BS	0.007	0.003	2.33	0.022

Source: Author (2026)

Model Statistics

- $R^2 = 0.712$
- F-statistic = 31.85 ($p < 0.001$)

4.6.5 Interpretation of Moderated Model Results

The moderated model extends the baseline analysis by incorporating interaction effects, thereby capturing the conditional impact of value creation strategies on performance. The model explains 71.2% of the variation in ROA, representing an improvement over the base model, which indicates that the inclusion of moderation enhances explanatory power.

Moderating Effect of Bank Size

The direct effects of the independent variables remain consistent with the base model, although the magnitudes are slightly reduced due to the inclusion of interaction terms. All variables remain statistically significant, confirming the robustness of the initial findings.

Interpretation of Interaction Effects

(i) Cost Reduction × Bank Size (CR × BS):

The interaction term is negative and statistically significant ($\beta = -0.006$, $p = 0.003$). This indicates that the negative effect of cost inefficiency on performance becomes stronger as bank size increases. In other words, larger banks benefit more from cost efficiency, consistent with Economies of Scale Theory.

(ii) Revenue Raising × Bank Size (RR × BS):

The positive and significant coefficient ($\beta = 0.005$, $p = 0.014$) suggests that the impact of revenue diversification on performance is amplified for larger banks. This may be attributed to their broader customer base and stronger capacity to scale non-interest income streams.

(iii) Elimination × Bank Size (ENP × BS):

The positive interaction ($\beta = 0.004$, $p = 0.045$) indicates that operational restructuring has a stronger positive effect on performance for larger banks. This suggests that large institutions are better able to leverage efficiency improvements due to scale advantages.

(iv) Financial Innovation × Bank Size (FI × BS):

The coefficient is positive and significant ($\beta = 0.007$, $p = 0.022$), implying that financial innovation yields greater performance benefits for larger banks. This reflects their superior access to resources, technological infrastructure, and investment capacity.

Summary of Moderation Effects

- Bank size strengthens the impact of revenue diversification, operational efficiency, and financial innovation on performance.
- The benefits of cost efficiency are more pronounced in larger banks,

highlighting the importance of scale in cost management.

- The findings confirm that bank size is not merely a control variable but a critical moderating factor influencing the effectiveness of value creation strategies.

4.6.6 Theoretical Implications

The results provide strong empirical support for Economies of Scale Theory, demonstrating that larger banks are better positioned to extract value from strategic initiatives. At the same time, the findings reinforce the integration of:

- Resource-Based View (RBV): Larger banks leverage superior resources for diversification and innovation
- Efficiency Structure Theory (EST): Cost efficiency gains are magnified by scale
- Innovation Diffusion Theory (IDT): Larger institutions adopt and benefit from innovation more effectively

4.6.7 Overall Interpretation

The moderated model demonstrates that the relationship between value creation strategies and financial performance is conditional rather than uniform. The effectiveness of these strategies depends significantly on the size of the bank.

This finding represents a key contribution of the study, as it extends existing literature by incorporating interaction effects and highlighting the importance of structural characteristics in shaping strategic outcomes.

4.7 Hypothesis Testing

This section presents the results of hypothesis testing based on the panel regression estimates from both the base and moderated models. The hypotheses are evaluated using the statistical significance and direction of the estimated coefficients, in line with the study's conceptual framework and theoretical foundations.

A significance level of 5% ($p < 0.05$) is adopted as the criterion for hypothesis testing.

4.7.1 Hypothesis One

H₁: Cost reduction has a significant effect on the financial performance of commercial banks in Kenya.

The regression results indicate that cost reduction (proxied by the cost-to-income ratio) has a negative and statistically significant effect on financial performance in both the base model ($\beta = -0.028$, $p < 0.001$) and the moderated model ($\beta = -0.025$, $p = 0.002$).

Decision:

- The null hypothesis is rejected.
- The alternative hypothesis is accepted.

Interpretation:

- Higher operating costs reduce profitability, while improved cost efficiency enhances performance.
- This finding is consistent with Efficiency Structure Theory, which posits that cost efficient firms achieve superior financial outcomes.

4.7.2 Hypothesis Two

H₂: Revenue raising strategies have a significant effect on the financial performance of commercial banks in Kenya.

The results show that revenue diversification has a positive and statistically significant effect on financial performance in both the base model ($\beta = 0.019$, $p = 0.002$) and the moderated model ($\beta = 0.017$, $p = 0.005$).

Decision:

- The null hypothesis is rejected.
- The alternative hypothesis is accepted.

Interpretation:

Increased reliance on non-interest income contributes positively to profitability.

This supports the Resource-Based View, which emphasizes the role of internal capabilities in generating competitive advantage.

4.7.3 Hypothesis Three

H₃: Elimination of Non-Productive activities has a significant effect on the financial performance of commercial banks in Kenya.

The findings indicate that elimination of Non-Productive activities has a positive and statistically significant effect on performance in both the base model ($\beta = 0.015$, $p = 0.003$) and the moderated model ($\beta = 0.014$, $p = 0.006$).

Decision:

- The null hypothesis is rejected.
- The alternative hypothesis is accepted.

Interpretation:

- Operational restructuring and efficiency improvements enhance profitability.
- This reinforces the importance of eliminating inefficiencies as a value creation strategy.

4.7.4 Hypothesis Four

H₄: Financial innovation has a significant effect on the financial performance of commercial banks in Kenya.

Financial innovation exhibits a positive and statistically significant effect on performance in both the base model ($\beta = 0.022$, $p = 0.001$) and the moderated model ($\beta = 0.020$, $p = 0.001$).

Decision:

- The null hypothesis is rejected.
- The alternative hypothesis is accepted.

Interpretation:

- Adoption of digital technologies and innovative financial products enhances efficiency and revenue generation.
- This finding supports Innovation Diffusion Theory, which links technological adoption to improved performance outcomes.

4.7.5 Hypothesis Five (Moderation Effect)

H₅: Bank size moderates the relationship between value creation strategies and financial performance.

The moderated model results show that all interaction terms (CR × BS, RR × BS, ENP × BS, FI × BS) are statistically significant ($p < 0.05$), indicating that bank size significantly influences the relationship between value creation strategies and performance.

Decision:

- The null hypothesis is rejected.
- The alternative hypothesis is accepted.

Interpretation:

- The effectiveness of value creation strategies varies across banks of different sizes.
- Larger banks derive greater benefits from revenue diversification,

operational efficiency, and financial innovation.

- This finding confirms the moderating role of bank size and supports Economies of Scale Theory.

4.7.6 Summary of Hypothesis Testing

Table 4.11: Summary of Hypothesis Testing

Hypothesis	Statement	Result	Decision
H ₁	Cost reduction → Performance	Significant (-)	Supported
H ₂	Revenue raising → Performance	Significant (+)	Supported
H ₃	Elimination → Performance	Significant (+)	Supported
H ₄	Financial innovation → Performance	Significant (+)	Supported
H ₅	Bank size moderates relationships	Significant	Supported

4.7.7 Overall Conclusion

The hypothesis testing results provide strong empirical support for the study's conceptual framework. All value creation strategies examined; cost reduction, revenue diversification, elimination of inefficiencies, and financial innovation have statistically significant effects on financial performance.

Furthermore, the results confirm that bank size plays a critical moderating role, influencing the magnitude and effectiveness of these strategies. This highlights the importance of considering structural characteristics when evaluating strategic performance in the banking sector.

4.8 Discussion of Findings

4.8.1 Introduction

This section provides a critical interpretation of the empirical findings by linking the regression results to the theoretical framework and prior empirical studies reviewed in Chapter Two. The discussion moves beyond statistical significance to explain the

underlying mechanisms through which value creation strategies influence financial performance in the Kenyan banking sector.

4.8.2 Cost Reduction Strategy and Financial Performance

The results reveal a negative and statistically significant relationship between cost reduction (proxied by the cost-to-income ratio) and financial performance. This indicates that higher operating costs are associated with lower profitability, while improved cost efficiency enhances performance.

This finding is consistent with Efficiency Structure Theory, which posits that firms with lower operational costs achieve superior financial outcomes. It also aligns with empirical studies such as Berger and Mester (1997), which demonstrate that cost efficiency is a key determinant of bank profitability.

In the Kenyan context, the importance of cost reduction is further reinforced by increasing competition and regulatory pressures, particularly during the interest rate cap period. Banks were compelled to optimize operations through automation, branch rationalization, and process reengineering. The results suggest that institutions that successfully implemented these strategies were able to maintain or improve profitability despite external constraints.

The findings of this study are further reinforced by evidence from the African banking sector, where fintech has played a transformative role in shaping performance outcomes. Tendai Chinoda and Fainos M. Kapingura (2024) show that fintech-driven financial inclusion significantly influences bank performance and risk-taking behaviour in Sub-Saharan Africa.

Similarly, Nkosinathi Mhlongo et al. (2025) find that fintech innovations enhance competition and performance within the South African banking sector. These findings align closely with the results of this study and reinforce the broader conclusion that financial innovation and strategic diversification are critical drivers of banking sector performance in emerging markets.

4.8.3 Revenue raising Strategies and Financial Performance

Revenue raising strategies exhibit a positive and significant effect on financial performance, confirming that diversification into non-interest income enhances profitability.

This finding supports the Resource-Based View (RBV), which emphasizes the role of internal capabilities in generating competitive advantage. Banks that develop strong capabilities in fee based services, digital transactions, and financial advisory are better positioned to generate stable and diversified income streams.

The results are consistent with Stiroh (2004) and Sanya and Wolfe (2011), who find that non-interest income contributes positively to bank performance. However, the earlier descriptive and trend analyses revealed variability in revenue diversification outcomes, suggesting that the effectiveness of these strategies depends on execution capabilities and market positioning.

In the Kenyan banking sector, the shift toward non-interest income was accelerated by the introduction of interest rate caps, which constrained traditional lending margins. This forced banks to innovate and expand alternative revenue streams, reinforcing the strategic importance of diversification.

The findings on revenue diversification are also supported by recent empirical literature, which highlights the growing role of non-interest income in driving bank performance. Muhammad I. Hassan et al. (2025) demonstrate that digital financial services significantly enhance profitability in developing economies by expanding income streams and reducing dependence on traditional interest-based revenue.

In addition, fintech driven transaction services have enabled banks to scale fee-based income more efficiently, particularly in digitally advanced environments. This supports the argument that revenue diversification is not only a defensive strategy against regulatory constraints but also a proactive approach to enhancing long term performance.

4.8.4 Elimination of Non-Productive activities and Performance

The elimination of Non-Productive activities is found to have a positive and significant effect on financial performance, indicating that operational restructuring and efficiency improvements contribute to profitability.

This finding complements Efficiency Structure Theory and extends it by explicitly capturing the role of process optimization and structural adjustments. It highlights that value creation is not only achieved through cost reduction but also through the strategic elimination of inefficiencies.

The result addresses a key gap identified in the literature, where inefficiencies are often measured indirectly rather than as a distinct strategic variable. By demonstrating its significance, the study contributes to a more nuanced understanding of operational efficiency in banking.

In practice, Kenyan banks have increasingly focused on streamlining operations through digitalization, consolidation of branch networks, and automation of processes. The findings suggest that such initiatives play a critical role in enhancing performance.

4.8.5 Financial Innovation and Financial Performance

Financial innovation shows a positive and statistically significant relationship with financial performance, confirming that technological adoption enhances efficiency and profitability.

This finding supports Innovation Diffusion Theory (IDT), which posits that the adoption of new technologies improves organizational performance. It is also consistent with studies such as Ozili (2018) and Asongu and Odhiambo (2022), which highlight the role of digital finance in improving efficiency and expanding financial access.

In the Kenyan context, financial innovation is particularly significant due to the widespread adoption of mobile banking and digital financial services. Banks that

have invested in digital platforms, mobile applications, and fintech partnerships have been able to expand their customer base, reduce transaction costs, and generate additional revenue streams.

The strong positive effect of financial innovation observed in this study is consistent with recent global and emerging market evidence. Contemporary research shows that digital transformation significantly enhances bank performance by improving operational efficiency and expanding access to financial services. For instance, Fang Xu et al. (2025) find that fintech adoption leads to measurable improvements in profitability and efficiency across banking institutions.

Similarly, Xavier Vives (2019) argues that digital disruption fundamentally reshapes banking by increasing competition and reducing operational costs. In the context of emerging markets, these effects are often more pronounced due to higher marginal returns on technology adoption. This explains why financial innovation in Kenya exhibits a stronger and more transformative impact compared to developed economies.

The strong positive relationship between financial innovation and performance is consistent with global evidence. Frost et al. (2019) argue that digital technologies enhance efficiency and reshape banking models, while Lee and Shin (2018) emphasize the role of fintech in improving competitiveness and service delivery.

The results also indicate that financial innovation is not merely a complementary strategy but a central driver of value creation in modern banking.

4.8.6 Moderating Role of Bank Size

The moderated regression results confirm that bank size significantly influences the relationship between value creation strategies and financial performance. Specifically, the interaction effects indicate that the impact of cost efficiency, revenue diversification, operational restructuring, and financial innovation is stronger for larger banks.

This finding provides strong empirical support for Economies of Scale Theory, which suggests that larger institutions benefit from cost advantages, greater access to resources, and enhanced operational capabilities.

The results also align with the Resource-Based View, as larger banks are better positioned to leverage internal resources and capabilities to implement complex strategies. Similarly, from an innovation perspective, larger institutions have greater capacity to invest in digital technologies, thereby amplifying the benefits of financial innovation.

However, the findings also imply that smaller banks may face constraints in fully realizing the benefits of value creation strategies due to limited resources and scale disadvantages. This highlights the importance of strategic positioning and niche specialization for smaller institutions.

4.8.7 Integration with Theoretical Framework

The findings of the study provide strong support for the integrated theoretical framework developed in Chapter Two. Each theoretical perspective is validated empirically:

- Efficiency Structure Theory (EST): Supported by the significant impact of cost reduction and operational efficiency
- Resource-Based View (RBV): Confirmed through the positive effect of revenue diversification
- Innovation Diffusion Theory (IDT): Validated by the significant role of financial innovation
- Economies of Scale Theory: Supported by the moderating effect of bank size

The results demonstrate that no single theory is sufficient to explain bank performance. Instead, performance is driven by the interaction of efficiency, resource capabilities, innovation, and structural characteristics.

4.8.8 Comparison with Empirical Literature

The findings of this study are largely consistent with existing empirical literature, while also extending it in important ways.

Consistent with prior studies, cost efficiency, revenue diversification, and financial innovation are found to be significant determinants of bank performance. However, the study makes several contributions:

- It introduces the elimination of Non-Productive activities as a distinct and significant variable
- It demonstrates the complementarity of value creation strategies, rather than treating them in isolation
- It highlights the moderating role of bank size, which is often overlooked in existing studies

These contributions address key gaps identified in the literature and provide a more comprehensive understanding of bank performance.

4.8.9 Overall Implications

The findings of this study have important implications for both theory and practice within the banking sector. From a theoretical perspective, the results validate the need for an integrated approach to analyzing bank performance, where efficiency, innovation, resource capabilities, and structural characteristics jointly influence outcomes. This reinforces the argument that single theory explanations are insufficient in capturing the complexity of modern banking performance.

From a practical perspective, the results indicate that banks must adopt a holistic approach to value creation. Cost efficiency, revenue diversification, elimination of inefficiencies, and financial innovation should not be implemented as isolated strategies but as mutually reinforcing components of an integrated strategic framework. The empirical evidence demonstrates that the effectiveness of each strategy is enhanced when aligned with complementary strategic initiatives.

Furthermore, the findings reveal that the effectiveness of value creation strategies is context dependent. In the Kenyan banking sector characterized by rapid digital transformation, evolving regulatory frameworks, and varying levels of operational efficiency, the impact of strategic initiatives is amplified compared to more mature markets. This highlights the importance of adapting strategies to specific institutional and environmental conditions. These findings align with Frost et al. (2019), who argue that digital platforms and Big Tech firms are fundamentally transforming banking structures and enhancing efficiency.

Another important implication relates to the dynamic nature of value creation. The results suggest that certain strategies, particularly financial innovation, may involve short term costs but generate long term benefits. This underscores the importance of adopting a long term strategic perspective, especially in investments related to technology and digital transformation.

The study also identifies potential trade offs between efficiency and growth. While cost reduction enhances profitability, excessive cost cutting may constrain investment in innovation and limit future growth. Similarly, aggressive revenue diversification may introduce operational complexity and risk if not properly managed. These findings highlight the need for strategic balance in the design and implementation of value creation initiatives.

4.8.10 Theoretical Implications

The findings contribute to the development and refinement of banking and strategic management theory in several ways.

First, the results provide empirical validation of Efficiency Structure Theory within an emerging market context, confirming that cost efficiency remains a fundamental driver of bank performance.

Second, the study extends the Resource-Based View (RBV) by demonstrating that internal capabilities particularly those related to revenue diversification play a critical role in enhancing financial performance.

Third, the findings support Innovation Diffusion Theory (IDT) by providing empirical evidence that the adoption of financial innovation significantly improves performance outcomes, especially in digitally evolving markets.

Fourth, the study expands the application of Economies of Scale Theory by demonstrating that bank size not only influences performance directly but also moderates the effectiveness of strategic variables.

Most importantly, the study demonstrates the value of multi-theoretical integration, showing that no single theoretical framework adequately explains bank performance. Instead, performance is shaped by the interaction of efficiency, innovation, resources, and structural characteristics.

4.8.11 Policy and Managerial Implications

The findings of this study have important implications for both bank management and policymakers.

For bank management, the results suggest the need to adopt an integrated strategic approach to value creation. Institutions should prioritize the alignment of cost efficiency, innovation, and revenue diversification strategies to achieve sustainable performance. In particular, investment in digital transformation emerges as a critical driver of both efficiency and revenue growth. However, such investments must be carefully balanced with cost management to avoid short term profitability pressures.

Managers must also recognize the importance of scale in strategy implementation. Larger banks should leverage their resource advantages to drive innovation and diversification, while smaller banks should focus on agility, niche positioning, and strategic partnerships to remain competitive.

For policymakers, particularly the Central Bank of Kenya, the findings highlight the importance of creating an enabling regulatory environment that supports innovation while maintaining financial stability. Policies that promote digital financial ecosystems, encourage competition, and enhance efficiency within the sector can significantly improve overall banking performance.

Additionally, regulatory frameworks should account for differences in bank size and capacity, ensuring that smaller institutions are not disproportionately constrained in their ability to innovate and compete.

4.8.12 Conclusion of Discussion

The discussion confirms that value creation strategies significantly influence the financial performance of commercial banks in Kenya. The findings demonstrate that performance is driven by a combination of efficiency, innovation, and strategic resource utilization, and that these effects are shaped by structural and contextual factors such as bank size.

The study highlights the importance of integration, adaptability, and scale in strategic decision making, providing a comprehensive and contextually grounded understanding of value creation in the banking sector.

4.9 Comparative Analysis with Global Studies

4.9.1 Introduction

This section situates the findings of the study within the broader global empirical literature on banking performance. By comparing results from developed and emerging economies, the analysis highlights areas of convergence, divergence, and contextual specificity, thereby enhancing the generalizability and analytical depth of the study.

4.9.2 Cost Reduction and Bank Performance

The study finds that cost reduction has a significant negative relationship with Return on Assets (ROA), implying that higher cost inefficiencies reduce profitability. This finding is consistent with global empirical evidence showing that operational efficiency is a major determinant of bank performance.

In developed economies, studies such as Berger and Mester (1997) in the United States demonstrate that cost efficiency is a primary driver of profitability. Similarly,

evidence from European banking systems shows that banks with lower cost-to-income ratios tend to achieve stronger financial performance.

Comparable patterns are also observed in emerging economies. Studies from Asia and Africa indicate that operational efficiency significantly enhances bank performance, particularly in banking environments characterized by high operating costs and compressed interest margins.

However, an important difference emerges in the magnitude of this effect. In developed markets, cost efficiency improvements often generate incremental gains because operational systems are already relatively optimized. In contrast, the Kenyan banking sector appears to derive a more pronounced performance benefit from cost reduction, reflecting higher baseline inefficiencies, greater reliance on physical infrastructure, and ongoing structural adjustments such as branch rationalization and digital migration.

This suggests that, while cost reduction is universally important, its performance effects may be more transformative in developing economies where inefficiencies are more visible and the scope for operational improvement is greater.

4.9.3 Revenue Diversification: Developed vs Emerging Markets

The positive relationship between revenue diversification and financial performance observed in this study is consistent with evidence from developed markets, where non-interest income has become an important driver of profitability. In the United States, Stiroh (2004) shows that diversification enhances income stability by reducing dependence on interest earnings, while European studies similarly emphasize the growing role of fee based income in improving bank performance.

However, the global literature presents mixed findings, particularly regarding income volatility. DeYoung and Roland (2001) argue that non-interest income can increase earnings volatility due to its sensitivity to market conditions, highlighting potential trade offs associated with diversification strategies.

In the Kenyan context, the study finds a strong and consistently positive effect of revenue diversification on performance. This suggests that diversification plays a more critical role in environments where traditional interest income is constrained. The result can be attributed to regulatory and structural factors, notably the presence of interest rate caps during part of the study period and the rapid growth of digital, transaction based income streams.

Overall, while global evidence remains mixed, the Kenyan case demonstrates that revenue diversification is particularly effective in regulated and evolving financial systems, where alternative income sources become essential for sustaining profitability.

4.9.4 Financial Innovation

Financial innovation emerges as a significant and positive driver of bank performance, consistent with global evidence showing that digital banking enhances efficiency, service delivery, and customer experience. Studies in developed economies document these benefits, particularly through improved cost structures and enhanced customer engagement.

However, the impact of financial innovation in the Kenyan context appears stronger and more transformative than in developed markets. This divergence reflects rapid adoption of mobile financial services, fewer legacy infrastructure constraints, and a high demand for financial inclusion. As a result, digital innovations in Kenya not only improve efficiency but also expand access to financial services and generate new revenue streams.

In contrast, developed economies tend to experience more incremental gains from innovation, given the maturity of their digital systems and financial infrastructure. This indicates that the performance effects of financial innovation are context dependent.

This finding is consistent with Ozili (2018), who argues that digital finance enhances both financial inclusion and financial system stability, particularly in emerging

economies.

Overall, the findings suggest a nonlinear impact of financial innovation across markets, with greater returns in emerging economies due to lower initial levels of technological development and higher marginal benefits from adoption.

4.9.5 Elimination of Non-Productive activities

In the global literature, the elimination of Non-Productive activities is typically subsumed within broader measures of efficiency rather than treated as a distinct strategic variable. The finding in this study that elimination strategies have a significant positive effect on performance therefore represents an important contribution.

In developed economies, efficiency gains are often achieved through incremental improvements such as process automation and the adoption of lean management systems. These approaches focus primarily on optimizing already well established operational structures.

In contrast, in the Kenyan context, elimination strategies tend to be more structural and transformative. Banks have pursued measures such as branch rationalization, workforce restructuring, and a shift toward digital service channels. These changes reflect a more fundamental reconfiguration of operational models rather than incremental efficiency improvements.

This distinction suggests that elimination strategies are more visible and impactful in developing economies, where operational inefficiencies are more pronounced and the scope for structural adjustment is greater.

4.9.7 Moderating Role of Bank Size: A Global Perspective

A key contribution of this study is the treatment of bank size as a moderating variable rather than merely a control. While global literature typically models size as a direct determinant of performance, the results here show that size conditions how effectively value creation strategies translate into performance outcomes.

This is broadly consistent with evidence from developed economies, which finds that larger banks benefit from economies of scale, while smaller banks often compete through agility and niche positioning. However, the present study extends this perspective by demonstrating that the impact of strategic variables is not uniform across institutions.

Specifically, the results indicate that financial innovation and revenue diversification yield stronger performance effects in larger banks, reflecting their superior access to capital, technology, and customer networks. At the same time, cost inefficiencies appear more consequential in larger institutions, likely due to operational complexity and bureaucratic structures.

Overall, the findings provide empirical support for the interaction between structural characteristics and strategic outcomes, highlighting that bank size plays a critical role in shaping the effectiveness of value creation strategies.

4.9.7 Explaining Divergences Across Contexts

While the study's findings are broadly consistent with global literature, important differences emerge due to contextual factors that shape how value creation strategies translate into performance outcomes.

First, the regulatory environment plays a critical role. In Kenya, the introduction of interest rate caps constrained traditional lending margins and compelled banks to shift toward alternative revenue sources. In contrast, developed markets typically operate under more flexible pricing regimes, allowing banks greater discretion in interest-based income generation.

Second, differences in technological adoption influence the impact of innovation. Kenya has experienced rapid uptake of mobile based financial services, enabling banks to leapfrog traditional infrastructure. By comparison, many developed markets operate within established legacy systems, where innovation tends to be incremental rather than transformative.

Third, variations in market structure contribute to divergent outcomes. Emerging markets such as Kenya offer higher growth potential and expanding customer bases, while developed markets are often more saturated, limiting opportunities for rapid expansion and increasing competitive pressures.

Finally, the role of financial inclusion differs across contexts. In Kenya, financial innovation significantly expands access to banking services, thereby increasing transaction volumes and revenue opportunities. In developed economies, innovation is more focused on enhancing efficiency, convenience, and customer experience rather than expanding access.

Collectively, these factors explain why similar value creation strategies may yield different performance outcomes across contexts, underscoring the importance of adopting a context sensitive approach in both research and strategic decision making.

4.9.8 Contribution to Global Banking Literature

This study contributes to the global banking literature in several important ways.

First, it provides context specific empirical evidence from an emerging market. By focusing on Kenya, the study adds to the relatively limited body of research on bank performance in developing economies, where institutional, technological, and regulatory conditions differ significantly from those in developed markets.

Second, the study advances the literature through the integration of multiple value creation strategies. Rather than examining efficiency, innovation, or diversification in isolation, it adopts a holistic approach that captures the interaction and complementarity among these strategic dimensions.

Third, the study extends existing research by incorporating moderation analysis, demonstrating that bank size plays a critical role in shaping the effectiveness of value creation strategies. This moves beyond the conventional treatment of size as a control variable and highlights its influence on strategic outcomes.

Finally, the study provides new insights into financial innovation, showing that its impact on performance is more pronounced in developing economies. This underscores the importance of context in understanding the returns to technological adoption and contributes to a more nuanced interpretation of innovation performance relationships in banking.

Collectively, these contributions enhance the theoretical and empirical understanding of bank performance and provide a foundation for future research in both developed and emerging market contexts.

4.9.9 Implications for Theory and Practice

The findings of this study have important implications for both theory and practice within the banking sector.

Theoretical Implications

From a theoretical perspective, the results support the need for multi-theoretical integration in explaining bank performance. The study demonstrates that no single framework is sufficient to capture the complexity of value creation in modern banking. Instead, the combined application of the Resource-Based View (RBV), Efficiency Structure Theory (EST), and Innovation Diffusion Theory (IDT) provides a more comprehensive explanation of performance outcomes.

In addition, the study extends these theories within an emerging market context, where institutional conditions, technological adoption, and regulatory environments differ significantly from developed economies. This highlights the importance of contextualizing theoretical frameworks when analyzing bank performance.

Furthermore, the findings emphasize the significance of interaction effects, particularly the moderating role of bank size. This underscores the need for future research to move beyond direct relationships and incorporate structural and contextual variables in empirical models.

Practical Implications

From a managerial perspective, the findings suggest that banks should adopt an integrated strategic approach to value creation. Cost efficiency, revenue diversification, operational restructuring, and financial innovation should be implemented in a coordinated manner to maximize performance outcomes.

The results also highlight the critical role of financial innovation, indicating that sustained investment in digital technologies and platforms is essential for enhancing both efficiency and revenue generation.

Finally, the study demonstrates that scale influences strategic effectiveness, implying that banks must align their strategies with their size and resource capacity. Larger institutions should leverage their scale to drive innovation and diversification, while smaller banks should focus on agility, specialization, and strategic partnerships to remain competitive.

Overall, these implications provide valuable guidance for both academic inquiry and strategic decision making in the banking sector.

4.9.10 Conclusion

The comparative analysis confirms that, while the findings of this study are broadly consistent with global banking literature, important contextual differences persist. These differences underscore the necessity of context specific analysis when examining the relationship between value creation strategies and financial performance.

The results demonstrate that value creation strategies; cost efficiency, revenue diversification, operational restructuring, and financial innovation are universally relevant across banking systems. However, their effectiveness varies depending on regulatory environments, levels of technological development, market structure, and the degree of financial inclusion.

Overall, the findings reinforce the importance of adopting an integrated and context sensitive approach to banking strategy and performance analysis. This perspective is particularly critical for emerging economies, where structural and institutional conditions significantly shape the outcomes of strategic initiatives.

4.10 Sectoral Implications for Kenyan Banking

4.10.1 Introduction

This section translates the empirical findings into sector specific implications for the Kenyan banking industry. While the regression results establish statistically significant relationships between value creation strategies and financial performance, their practical relevance depends on how different segments of the sector interpret and implement these strategies.

The Kenyan banking sector is inherently heterogeneous, comprising large (Tier I), medium (Tier II), and small (Tier III) institutions that differ in capital base, technological capability, market reach, and strategic orientation. These structural differences imply that the effectiveness of value creation strategies is not uniform across banks.

Accordingly, this section adopts a differentiated perspective, highlighting how cost efficiency, revenue diversification, elimination of inefficiencies, and financial innovation can be optimally applied across the various tiers of the banking sector.

4.10.2 Implications for Tier I Banks (Large Banks)

Tier I banks in Kenya characterized by large asset bases, extensive distribution networks, and strong capital positions are best positioned to leverage scale driven value creation strategies. The study's findings suggest that these institutions can extract greater benefits from innovation, diversification, and operational efficiency, provided that scale related complexities are effectively managed.

(a) Financial Innovation Leadership

The results indicate that financial innovation has a stronger positive impact on performance in larger banks. This reflects their superior access to capital, technological infrastructure, and skilled human resources. Consequently, Tier I banks should sustain their leadership in digital transformation by expanding digital product offerings, deepening data driven capabilities, and strengthening partnerships with fintech firms.

Given their financial capacity, these institutions are better able to absorb the upfront costs associated with innovation, allowing them to realize long term gains in efficiency, customer acquisition, and revenue growth.

(b) Revenue Diversification Advantage

The findings further show that revenue diversification is more effective in larger banks, largely due to their broad customer bases, established brand equity, and diversified service portfolios. This positions Tier I banks to scale non-interest income streams more effectively than smaller institutions.

Accordingly, large banks should continue to expand transaction based income, wealth management services, and digitally enabled financial products. Leveraging cross selling opportunities and integrated service platforms can further enhance revenue stability and growth.

(c) Managing Complexity and Inefficiency

Despite these advantages, the study highlights that cost inefficiencies can have amplified negative effects in large institutions. This is primarily due to organizational complexity, bureaucratic processes, and the persistence of legacy systems.

To mitigate these challenges, Tier I banks must prioritize operational efficiency through process reengineering, automation of back office functions, and rationalization of underperforming structures. Aligning scale with agility is therefore critical to sustaining performance gains.

Overall, the implications suggest that while Tier I banks possess significant strategic advantages, their long term performance depends on their ability to balance scale with efficiency, innovation, and organizational flexibility.

4.10.3 Implications for Tier II Banks (Mid-Sized Banks)

Tier II banks occupy a strategic middle ground within the Kenyan banking sector, combining moderate scale with operational flexibility. The study's findings suggest that these institutions can enhance performance by adopting hybrid strategies that balance efficiency, selective innovation, and focused market positioning.

(a) Selective Innovation Strategy

While financial innovation positively influences performance, midsized banks may face constraints in undertaking largescale digital transformation. As such, a selective approach to innovation is more appropriate. Tier II banks should prioritize targeted digital investments, leverage partnerships with fintech firms, and focus on high impact technologies that enhance service delivery and customer engagement.

This approach allows them to benefit from innovation without incurring the full cost burden associated with inhouse system development.

(b) Efficiency as a Competitive Lever

The results indicate that cost efficiency is a key determinant of performance. For Tier II banks, this presents an opportunity to strengthen competitiveness through operational optimization. By streamlining processes, reducing overhead costs, and improving resource utilization, these institutions can achieve meaningful performance gains.

Efficiency driven strategies are particularly important for midsized banks, as they operate in a competitive environment where both larger and smaller institutions exert pressure.

(c) Niche Market Positioning

The findings on revenue diversification suggest that Tier II banks can enhance performance by focusing on specialized market segments. Targeting niches such as small and medium sized enterprises (SMEs), specific industries, or underserved customer groups allows these banks to build expertise and differentiate their offerings.

This strategic positioning enables midsized banks to compete effectively without directly confronting larger institutions on scale, while also leveraging their relative agility to respond to market needs.

Overall, the results indicate that Tier II banks can achieve sustainable performance by combining efficiency, targeted innovation, and niche specialization within a coherent strategic framework.

4.10.4 Implications for Tier III Banks (Small Banks)

Tier III banks operate under tighter resource constraints, including limited capital, smaller customer bases, and less developed technological infrastructure. Nonetheless, the study's findings highlight several strategic pathways through which these institutions can enhance performance.

(a) Agility and Flexibility Advantage

Compared to larger institutions, small banks benefit from organizational agility, characterized by faster decision making, less bureaucratic complexity, and greater adaptability. This enables them to implement operational improvements and customer focused initiatives more rapidly, particularly in areas such as process optimization and service innovation.

(b) Focus on Cost Efficiency

The results indicate that cost inefficiencies have a significant negative impact on performance, underscoring the importance of lean operations for smaller banks. Tier

Tier III institutions should prioritize the elimination of redundant processes, optimize resource allocation, and consider outsourcing noncore functions to reduce overheads.

A disciplined approach to cost management is critical, as small banks have limited capacity to absorb inefficiencies compared to larger counterparts.

(c) Strategic Partnerships

Given their resource limitations, small banks can enhance competitiveness through strategic collaborations. Partnerships with fintech firms, shared digital infrastructure, and participation in “banking as a service” models provide access to technological capabilities without the need for substantial capital investment.

Such approaches enable Tier III banks to participate in digital transformation while maintaining financial sustainability.

4.10.5 Implications for Digital vs Traditional Banks

The findings highlight a widening performance gap between digitally advanced banks and those reliant on traditional, branch based models. This divergence reflects the central role of financial innovation in driving efficiency, scale, and revenue growth.

(a) Digital Leaders

Banks that have effectively adopted digital technologies benefit from lower operating costs, higher transaction volumes, and expanded customer reach. The positive and significant effect of financial innovation in the regression results indicates that digital capabilities are now a primary driver of competitive advantage.

As a result, digitally advanced banks are better positioned to scale services, deepen customer engagement, and diversify income streams. Sustained investment in digital platforms, data analytics, and ecosystem partnerships is therefore critical to maintaining market leadership.

(b) Traditional Banks

Banks that remain heavily dependent on physical branch networks face structural disadvantages, including higher operating costs, reduced competitiveness, and declining margins. The findings suggest that such institutions risk erosion of market share if they fail to adapt.

A strategic transition toward digital channels, supported by process automation and customer-centric platforms, is therefore essential for long term viability.

4.10.6 Implications for Financial Inclusion and Market Expansion

The results on financial innovation and revenue diversification have important implications for financial inclusion and sectoral growth.

(a) Expanding Access to Financial Services

Digital innovation enables banks to extend services to previously underserved populations by reducing transaction costs and lowering barriers to entry. Mobile based platforms, in particular, facilitate broader access to financial services, supporting inclusion while simultaneously increasing transaction volumes and revenue opportunities.

(b) Growth of Digital Ecosystems

The integration of banking services with mobile and digital platforms contributes to the development of financial ecosystems. These ecosystems enhance customer engagement, enable cross platform transactions, and create new income streams through value added services.

Overall, the findings reinforce the dual role of innovation as a driver of both financial performance and financial inclusion within the Kenyan banking sector.

4.10.7 Implications for Risk Management

While value creation strategies enhance performance, they also introduce new categories of risk that require careful management.

(a) Innovation Related Risks

The adoption of digital technologies exposes banks to cybersecurity threats, system failures, and evolving regulatory requirements. Effective governance, robust IT infrastructure, and compliance frameworks are essential to mitigate these risks.

(b) Diversification Risks

Revenue diversification, particularly through non-interest income, may increase exposure to market volatility. Income streams derived from transaction based services and financial markets can be sensitive to economic fluctuations, necessitating prudent risk management practices.

(c) Operational Risks

Operational restructuring, including branch closures and process reengineering, may lead to temporary disruptions and customer dissatisfaction if not carefully managed. Ensuring continuity of service and maintaining customer trust are therefore critical during transition phases.

Overall, the findings underscore the importance of integrated risk management frameworks that align with strategic initiatives. Banks must ensure that efforts to enhance performance do not inadvertently increase exposure to financial, operational, or technological risks.

4.10.8 Implications for Regulatory Policy

The findings provide important guidance for regulators, particularly the Central Bank of Kenya, in designing policies that foster innovation, stability, and competition within the banking sector.

(a) Promoting Innovation

Given the significant role of financial innovation in enhancing performance, regulatory frameworks should support the development of digital financial services. This includes fostering innovation friendly policies, enabling fintech integration, and encouraging the expansion of digital platforms. A balanced regulatory approach is required to facilitate innovation while safeguarding consumer interests and system integrity.

(b) Enhancing Stability

As banks adopt new value creation strategies, particularly those involving digital transformation and diversification, regulators must strengthen oversight mechanisms to ensure financial stability. This includes enhancing risk management requirements, monitoring systemic risks, and maintaining prudent lending standards. Effective supervision is essential to mitigate risks associated with rapid technological and structural changes.

(c) Supporting Competition

The findings also highlight the importance of a competitive banking environment. Regulators should facilitate the entry of new players, promote fair competition, and encourage efficiency across institutions. A competitive landscape drives innovation, improves service delivery, and enhances overall sector performance.

4.10.9 Strategic Implications for the Banking Sector

The study underscores the importance of adopting an integrated strategic approach to value creation within the banking sector. Rather than implementing strategies in isolation, banks should align cost efficiency, revenue diversification, operational restructuring, and financial innovation within a coherent framework.

In particular, institutions should ensure that cost efficiency initiatives are complemented by innovation efforts, revenue diversification is supported by effective risk management, and scale advantages are balanced with organizational

agility. This integrated approach enables banks to respond effectively to a dynamic and competitive environment while achieving sustainable performance.

Overall, the findings emphasize that long term success in the Kenyan banking sector depends on strategic alignment, adaptability, and the ability to integrate multiple value creation mechanisms.

4.10.10 Conclusion

This section has demonstrated that the implications of value creation strategies vary significantly across different segments of the Kenyan banking sector. While large banks benefit from scale advantages and innovation capacity, smaller banks rely more on agility, cost efficiency, and strategic partnerships to remain competitive.

The findings underscore the importance of adopting context specific strategies that reflect institutional characteristics, resource capacity, and market conditions. Across all segments, the effectiveness of value creation strategies depends on the extent to which banks are able to integrate cost efficiency, revenue diversification, operational restructuring, and financial innovation within a coherent strategic framework.

Overall, the study confirms that bank performance in Kenya is driven by a combination of efficiency, innovation, and strategic resource utilization, with outcomes further shaped by structural factors such as bank size. By linking empirical evidence with theoretical insights, the study provides a comprehensive and contextually grounded understanding of value creation in the banking sector, with important implications for both policy and practice.

4.11 Chapter Summary

This chapter presented the empirical analysis and findings on the effect of value creation strategies on the financial performance of commercial banks in Kenya. Using a balanced panel dataset of 40 banks over the period 2015–2019, the study applied panel regression techniques to examine both direct and moderating relationships.

The chapter began with descriptive statistics and trend analysis, which revealed significant variation across banks in terms of profitability, cost structures, innovation adoption, and scale. The trends indicated a dynamic sector influenced by regulatory changes, digital transformation, and strategic adjustments by banks.

Correlation analysis provided preliminary evidence of relationships among the study variables and confirmed the absence of severe multicollinearity. Diagnostic tests further validated the suitability of the data for regression analysis, showing that key assumptions, including normality, homoscedasticity, and absence of autocorrelation, were largely satisfied.

The panel regression results demonstrated that all value creation strategies examined; cost reduction, revenue diversification, elimination of Non-Productive activities, and financial innovation, have statistically significant effects on financial performance. Cost inefficiencies were found to reduce profitability, while revenue diversification, operational efficiency, and innovation positively enhance performance.

The moderated model revealed that bank size plays a significant role in shaping these relationships. Larger banks were found to derive greater benefits from innovation and diversification, while also being more sensitive to cost inefficiencies. This confirms the importance of structural characteristics in influencing strategic outcomes.

The hypothesis testing results provided strong empirical support for all study hypotheses, reinforcing the validity of the conceptual framework. The discussion of findings further linked the empirical results to theoretical perspectives and existing literature, demonstrating both consistency with global evidence and important context specific differences.

The chapter also highlighted key sectoral implications, showing that the effectiveness of value creation strategies varies across different categories of banks. Large banks benefit from scale and innovation capacity, mid-sized banks rely on hybrid strategies, and smaller banks leverage agility and partnerships to remain competitive.

Overall, the findings confirm that bank performance in Kenya is driven by an integrated combination of efficiency, innovation, and strategic resource utilization, moderated by structural factors such as bank size. The chapter therefore provides a comprehensive empirical foundation for the conclusions and recommendations presented in Chapter Five.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a synthesis of the study by summarizing the key empirical findings, drawing evidence based conclusions, and outlining policy and managerial recommendations. It also highlights the study's contributions to theory, practice, and methodology, and identifies areas for future research.

The chapter is structured in alignment with the study objectives and the empirical results presented in Chapter Four. It integrates the key insights from the analysis to provide a coherent and comprehensive understanding of how value creation strategies influence the financial performance of commercial banks in Kenya.

5.2 Summary of the Study

The primary objective of this study was to examine the effect of value creation strategies on the financial performance of commercial banks in Kenya, with a particular focus on cost reduction, revenue raising strategies, elimination of Non-Productive activities, and financial innovation. Additionally, the study assessed the moderating role of bank size in influencing the relationship between these strategies and financial performance.

The study was anchored on four complementary theoretical frameworks: the Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and Economies of Scale Theory. These theories collectively provided a multidimensional perspective on how banks create value and achieve competitive advantage.

Methodologically, the study adopted a positivist research philosophy and a quantitative explanatory research design. A census approach was used, covering all 40 licensed commercial banks in Kenya over the period 2015–2019. Secondary data were collected from audited financial statements and Central Bank of Kenya reports.

A balanced panel dataset comprising 200 observations was analyzed using panel regression techniques.

Both base and moderated models were estimated using the Fixed Effects Model, as determined by the Hausman test. Diagnostic tests confirmed that the data satisfied key assumptions of regression analysis, including absence of multicollinearity, heteroscedasticity, and autocorrelation.

5.3 Summary of Key Findings

The general objective of the study was to examine the effect of value creation strategies on the financial performance of commercial banks in Kenya, with bank size as a moderating variable. The analysis focused on four key strategies: cost reduction, revenue raising, elimination of Non-Productive activities, and financial innovation.**5.3.1 Cost Reduction Strategy**

The findings show that cost reduction, proxied by the cost-to-income ratio, has a negative and statistically significant effect on financial performance. This indicates that higher operational inefficiencies reduce profitability, while improved cost management enhances performance. Overall, cost efficiency emerges as a critical driver of bank performance.

5.3.2 Revenue Raising Strategy

Revenue raising strategies were found to have a positive and significant effect on financial performance. This suggests that diversification into non-interest income sources enhances profitability and strengthens financial resilience. Banks that expand income streams through fees, commissions, and digital services are better able to reduce reliance on interest income and withstand market fluctuations.

5.3.3 Elimination of Non-Productive activities

The elimination of Non-Productive activities has a positive and statistically significant impact on performance. This implies that operational restructuring and process optimization contribute to improved efficiency and profitability. Banks that streamline operations by removing underperforming branches, redundant processes, and non-value adding activities are able to utilize resources more effectively and enhance overall performance.

5.3.4 Financial Innovation Strategy

Financial innovation exhibits a strong positive and significant effect on bank performance. The adoption of digital technologies and innovative financial services improves efficiency, expands customer reach, and supports revenue growth. However, the impact of innovation tends to be gradual, reflecting the time required to realize returns from technology investments.

5.3.5 Moderating Effect of Bank Size

The study establishes that bank size significantly moderates the relationship between value creation strategies and financial performance. Larger banks derive greater benefits from revenue diversification and financial innovation, while also experiencing more pronounced effects of cost efficiency and inefficiencies. This indicates that the effectiveness of strategic initiatives varies across institutions, depending on their scale and resource capacity.

Overall, the findings confirm that value creation strategies significantly influence bank performance, and that their impact is shaped by structural factors such as bank size.

5.4 Conclusions

Based on the empirical findings, several key conclusions can be drawn.

5.4.1 Value Creation Strategies are Critical Drivers of Performance

The study concludes that value creation strategies; cost efficiency, revenue diversification, operational restructuring, and financial innovation, are critical determinants of financial performance in commercial banks in Kenya.

5.4.2 Need for an Integrated Strategic Approach

No single strategy is sufficient to drive performance. Sustainable competitive advantage requires an integrated approach that aligns cost management, innovation, and revenue diversification within a coherent strategic framework.

5.4.3 Financial Innovation is a Key Growth Driver

Financial innovation emerges as a major driver of performance, reflecting the growing importance of digital transformation. Banks that invest in digital platforms and technological capabilities are better positioned to enhance efficiency, expand market reach, and sustain growth.

5.4.4 Efficiency as a Foundational Requirement

Despite the importance of innovation and diversification, operational efficiency remains a necessary condition for profitability. Cost inefficiencies continue to erode performance, particularly in competitive and regulated environments.

5.4.5 Role of Bank Size in Strategic Effectiveness

Bank size significantly influences the effectiveness of value creation strategies. Larger banks benefit from economies of scale, resource availability, and technological capacity, which enhance the impact of strategic initiatives.

5.4.6 Theoretical Conclusion

The study validates and integrates four key theoretical perspectives: the Resource-Based View, Efficiency Structure Theory, Innovation Diffusion Theory, and Economies of Scale Theory. Bank performance is multidimensional and requires the strategic integration of efficiency, innovation, and scale.

5.5 Policy and Managerial Recommendations

5.5.1 Recommendations for Bank Management

Banks should prioritize cost optimization through automation, process reengineering, and operational restructuring to enhance efficiency and profitability. At the same time, institutions should strengthen revenue diversification by expanding non-interest income streams, particularly through digital financial services and transaction based products.

Investment in financial innovation should be intensified through the adoption of digital technologies, fintech partnerships, and customer-centric platforms. In addition, banks should continuously eliminate Non-Productive activities by rationalizing branch networks, streamlining processes, and phasing out legacy systems.

5.5.2 Recommendations for Policymakers and Regulators

Regulators should promote innovation friendly policies that support digital transformation while ensuring financial stability and consumer protection. There is also a need to enhance sector wide efficiency through policies that encourage operational optimization and technological adoption.

Furthermore, policymakers should support financial inclusion by promoting digital financial services and expanding access to banking, particularly in underserved regions.

5.5.3 Recommendations for Investors

Investors should evaluate banks based on efficiency indicators, innovation capabilities, and revenue diversification strategies, as these provide a more comprehensive assessment of long term performance and sustainability.

5.6 Contribution to Knowledge

5.6.1 Introduction

This study contributes to the literature on strategic management and banking by providing an integrated, empirically grounded, and context specific analysis of the relationship between value creation strategies and financial performance. Unlike prior studies that examine isolated determinants, this research adopts a multidimensional framework that captures both direct and interaction effects, while incorporating the moderating role of bank size.

5.6.2 Theoretical Contribution

This study makes a substantive theoretical contribution by advancing a multi-theoretical integration framework in which bank performance is explained as the outcome of interacting strategic dimensions rather than isolated variables.

(a) Integration of Complementary Theories

The study integrates four major theoretical perspectives; Resource-Based View (RBV), Efficiency Structure Theory (EST), Innovation Diffusion Theory (IDT), and Economies of Scale Theory, into a unified explanatory framework. While these theories are often applied independently, the findings demonstrate that their combined application provides a more complete account of bank performance.

Within this integrated framework, RBV explains the role of internal capabilities in driving innovation and diversification; EST accounts for efficiency and cost optimization; IDT explains the adoption and performance effects of financial innovation; and Economies of Scale Theory captures size related advantages.

Collectively, this integration shows that value creation in banking is inherently multidimensional, requiring theoretical pluralism rather than single theory explanations.

(b) Extension of Moderation Theory in Banking

The study extends theoretical understanding by modelling bank size as a moderating variable, demonstrating that the effectiveness of value creation strategies varies across institutions. This highlights that strategic outcomes are contingent on structural characteristics such as scale and resource endowment.

By moving beyond direct effect models to incorporate interaction effects, the study provides empirical support for context contingent strategy–performance relationships and enriches strategic management research in banking.

(c) Reconceptualization of Value Creation in Banking

The study further advances theory by reconceptualizing value creation as an integrated system comprising efficiency, innovation, and revenue strategies. Rather than treating these dimensions independently, the findings demonstrate their complementarity and interdependence in shaping performance outcomes.

This shifts the analytical perspective from fragmented strategy analysis toward integrated strategic systems thinking, offering a more nuanced and holistic understanding of how banks create and sustain value.

5.6.3 Methodological Contribution

This study makes a significant methodological contribution by strengthening the analytical approach used to examine banking sector performance, particularly through the application of advanced panel data techniques and rigorous model validation.

(a) Application of Panel Data Techniques

The study employs a balanced panel dataset comprising 40 banks observed over a five year period, enabling a more robust analysis than single dimension datasets. This approach allows for control of unobserved heterogeneity across banks, captures dynamic relationships over time, and improves estimation efficiency.

Compared to cross-sectional studies, which provide only static insights, and timeseries studies, which lack cross unit variation, the use of panel data offers a more comprehensive and reliable analytical framework.

(b) Integration of Moderation Analysis in Panel Regression

The study extends methodological practice by incorporating interaction terms within the panel regression framework to capture moderation effects. This enables the examination of conditional relationships and provides deeper insight into how value creation strategies interact with structural factors such as bank size.

This represents a key advancement, as many empirical banking studies focus primarily on direct effects and overlook the role of interaction dynamics in shaping performance outcomes.

(c) Multidimensional Operationalization of Variables

The study adopts a robust approach to variable measurement by utilizing multiple proxies for value creation strategies and applying standardized financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). In addition, appropriate transformations, including logarithmic scaling of total assets, are applied to enhance comparability across institutions.

This multidimensional operationalization improves construct validity, strengthens measurement reliability, and enhances the overall analytical robustness of the study.

(d) Robust Diagnostic and Model Validation Approach

Methodological rigor is further strengthened through comprehensive diagnostic testing, including multicollinearity assessment using Variance Inflation Factors (VIF), heteroscedasticity testing using the Breusch–Pagan test, autocorrelation testing using the Wooldridge test, and model selection through the Hausman test.

These procedures ensure the reliability of the estimated coefficients, the validity of statistical inference, and the replicability of the findings.

Overall, the study enhances methodological rigor by integrating advanced econometric techniques with a robust validation framework, thereby providing a reliable and comprehensive approach to analyzing bank performance.

5.6.4 Empirical Contribution

This study makes important empirical contributions, particularly within the context of emerging economies, by providing context specific evidence and advancing the understanding of value creation strategies in banking.

(a) Evidence from a Developing Economy Context

The majority of existing empirical studies on bank performance are concentrated in developed economies with mature financial systems. This study contributes by providing evidence from Kenya, a dynamic and rapidly evolving banking environment characterized by digital innovation and structural transformation.

By focusing on this context, the study enhances the contextual relevance of the literature and strengthens the external validity of findings for emerging markets, where institutional and market conditions differ significantly from developed economies.

(b) Integrated Analysis of Value Creation Strategies

The study addresses a key gap in the literature by examining multiple value creation strategies simultaneously and demonstrating their combined effect on financial

performance. The findings confirm that cost efficiency improves profitability, revenue diversification enhances stability and performance, financial innovation drives long term competitiveness, and elimination of inefficiencies strengthens operational effectiveness.

This integrated approach provides a more comprehensive empirical understanding of how strategic variables interact to influence bank performance.

(c) Empirical Validation of Moderation Effects

The study further contributes by providing empirical evidence on the moderating role of bank size in strategy–performance relationships. The results show that larger banks derive greater benefits from innovation and diversification, while smaller banks rely more on efficiency and agility.

By quantifying these interaction effects, the study demonstrates the presence of institutional heterogeneity and adds new insight into how structural factors influence strategic outcomes.

(d) Contribution to Policy and Practice Oriented Knowledge

The study bridges the gap between theory and practice by generating evidence based insights relevant to key stakeholders, including bank managers, regulators, and investors. The findings inform strategic decision making, support the design of regulatory frameworks, and enhance investment evaluation by identifying the key drivers of sustainable performance.

Overall, the study provides a comprehensive empirical contribution by integrating multiple strategies, incorporating moderation effects, and offering context specific insights that enrich both academic literature and practical application in the banking sector.

5.6.5 Contribution to Strategic Management Practice

Beyond its academic contributions, the study provides practical strategic insights for banking institutions by demonstrating the importance of integrated strategy implementation. The findings show that performance is enhanced when cost efficiency, revenue diversification, operational restructuring, and financial innovation are aligned within a coherent strategic framework.

The study also highlights the critical role of financial innovation in sustaining competitiveness, particularly in digitally evolving markets. At the same time, it emphasizes that innovation must be balanced with operational efficiency, as cost inefficiencies can offset potential gains from growth oriented strategies.

The proposed strategic framework in Section 5.9 further strengthens this contribution by translating empirical findings into an actionable model that can guide decision making and strategy formulation within commercial banks.

5.6.6 Contribution to Policy and Financial Sector Development

The study contributes to policy discourse by identifying the key drivers of banking sector performance and highlighting the strategic importance of digital transformation, revenue diversification, and efficiency improvements.

The findings support the development of innovation friendly regulatory frameworks that encourage technological advancement while maintaining financial stability. In addition, the study reinforces the need to promote financial inclusion strategies, particularly through digital financial services that expand access to banking.

Furthermore, the results underscore the importance of strengthening risk management frameworks to address emerging risks associated with innovation and diversification.

Overall, the study provides evidence based insights that can inform policy formulation and support the sustainable development of the financial sector. The findings are consistent with World Bank (2023), which emphasizes that digital

transformation is a key driver of financial inclusion and banking sector development in emerging economies.

5.6.7 Conclusion

In summary, this study makes a comprehensive contribution to knowledge by advancing theoretical integration, strengthening methodological rigor, and providing context specific empirical evidence on banking sector performance. By demonstrating that value creation strategies operate as an interconnected system shaped by institutional characteristics such as bank size the study offers a more nuanced and holistic understanding of performance dynamics in the Kenyan banking sector.

The findings extend existing literature while also providing a solid foundation for future research and informed strategic decision making within the financial services industry.

5.7 Limitations of the Study

Despite its contributions, the study has several limitations. First, it relies on secondary data, which may limit deeper insights into internal strategic processes and managerial decision making. Second, the study period (2015–2019) does not capture more recent developments, particularly the effects of the COVID19 pandemic and the acceleration of digital transformation.

Additionally, the exclusion of macroeconomic variables and the use of proxy measures for certain strategic constructs may constrain the comprehensiveness of the analysis. These limitations may affect the generalizability of the findings and should be considered when interpreting the results.

5.8 Suggestions for Further Research

Future research should extend the study period to incorporate recent developments, including the impact of COVID19 and the continued evolution of digital financial ecosystems. There is also a need to integrate macroeconomic variables, such as

inflation and interest rates, to better capture the broader economic environment influencing bank performance.

Further studies could expand the scope beyond the banking sector to enhance generalizability across industries. Methodologically, the application of advanced econometric techniques such as Generalized Method of Moments (GMM) would help address potential endogeneity issues and improve causal inference.

In addition, qualitative research focusing on organizational culture, leadership, and strategic decision making processes would provide deeper insights into the mechanisms underlying value creation in financial institutions.

5.9 Strategic Framework for Value Creation in Banking

5.9.1 Introduction

While the preceding sections have presented the findings, conclusions, and recommendations of the study, this section extends the contribution of the research by developing a strategic framework for value creation in banking. The framework translates the empirical results into a structured, practical, and theoretically grounded model designed to guide strategic decision making in commercial banks.

The proposed framework integrates the four key value creation strategies examined in the study; cost efficiency, revenue diversification, elimination of Non-Productive activities, and financial innovation, while explicitly incorporating the moderating role of bank size. It reflects the multidimensional and interdependent nature of value creation in contemporary banking environments, where performance is shaped not by isolated strategic actions but by the alignment and interaction of multiple strategic dimensions.

By linking empirical findings with theoretical insights, the framework provides a coherent basis for understanding how banks can achieve sustainable performance through integrated and context sensitive strategic approaches.

5.9.2 Conceptual Basis of the Framework

The proposed framework is grounded in an integrated theoretical foundation that combines complementary perspectives to explain value creation in banking. Specifically, it draws on Efficiency Structure Theory (EST), Resource-Based View (RBV), Innovation Diffusion Theory (IDT), and Economies of Scale Theory, each of which explains a distinct but interrelated dimension of bank performance.

Efficiency Structure Theory underpins the cost reduction and elimination of Non-Productive activities, emphasizing the role of operational efficiency in enhancing profitability. The Resource-Based View explains how internal capabilities, particularly those related to revenue diversification, enable banks to generate sustainable competitive advantage. Innovation Diffusion Theory provides the basis for understanding the adoption and impact of financial innovation, highlighting the role of digital transformation in improving efficiency and expanding market reach. Economies of Scale Theory informs the moderating role of bank size, explaining how scale influences the effectiveness of strategic initiatives.

The framework therefore conceptualizes bank performance as the outcome of aligned and interacting strategic dimensions, rather than isolated strategic actions. It emphasizes that value creation arises from the integration of efficiency, innovation, resource capabilities, and structural characteristics, reflecting the complex and dynamic nature of modern banking environments.

5.9.3 Core Components of the Framework

The strategic framework comprises four interdependent components that collectively drive value creation and financial performance in the banking sector. Each component represents a distinct strategic dimension, but their effectiveness is maximized when implemented in an integrated and coordinated manner.

(a) Cost Efficiency Layer

This component focuses on optimizing operational structures to enhance profitability and resource utilization. It encompasses initiatives such as process automation, cost

control mechanisms, resource optimization, and the adoption of lean operational structures.

The empirical findings confirm that reducing cost inefficiencies significantly improves financial performance, underscoring the importance of efficiency as a foundational driver of profitability. However, the framework emphasizes that cost efficiency should not be pursued in isolation; it must be balanced with strategic investments, particularly in innovation, to avoid constraining long term growth.

(b) Revenue Diversification Layer

This component emphasizes the expansion of income sources beyond traditional interest-based revenue. It includes the development of non-interest income streams, digital transaction revenues, fee based services, and broader product diversification.

The study demonstrates that revenue diversification enhances both profitability and financial resilience, especially in regulated environments where interest margins are constrained. By reducing dependence on a single income source, banks are better positioned to withstand market fluctuations and sustain performance over time.

(c) Operational Optimization Layer (Elimination Strategy)

This layer focuses on the elimination of inefficiencies that do not contribute to value creation. It involves branch rationalization, removal of redundant processes, streamlining of organizational structures, and the reallocation of resources toward high value activities.

Operational optimization ensures that banks maintain strategic focus while improving efficiency and responsiveness. The findings indicate that such restructuring initiatives play a significant role in enhancing overall performance by reducing waste and improving resource utilization.

(d) Financial Innovation Layer

Financial innovation represents the central and most dynamic component of the framework. It encompasses digital banking platforms, mobile financial services, fintech integration, and data driven decision making capabilities.

The empirical results demonstrate that financial innovation has a strong positive effect on performance and acts as a multiplier across other strategic components. By enhancing efficiency, expanding customer reach, and enabling new revenue streams, innovation reinforces the effectiveness of cost efficiency, revenue diversification, and operational optimization strategies.

Overall, these components operate as an integrated system, where the interaction among strategic dimensions generates synergistic effects that drive sustainable performance in the banking sector.

5.9.4 Moderating Role of Bank Size

The framework incorporates bank size as a critical moderating variable that influences the effectiveness of value creation strategies. This reflects the study's empirical finding that the impact of strategic initiatives on financial performance varies depending on institutional scale and resource capacity.

Large banks (Tier I) benefit from economies of scale, extensive resource endowments, and advanced technological capabilities. These advantages enable them to implement innovation and revenue diversification strategies more effectively, while also amplifying the effects of both efficiency gains and inefficiencies.

Medium sized banks (Tier II) occupy an intermediate position, balancing efficiency and innovation. Their strategic focus is typically on targeted investments and selective implementation of value creation strategies, allowing them to remain competitive without the extensive resource base of larger institutions.

Small banks (Tier III), by contrast, rely on agility, flexibility, and niche market positioning. Their relatively lean structures enable faster decision making and

adaptability, while strategic partnerships particularly with fintech firms allow them to access innovation without significant capital investment.

This differentiation ensures that the framework is context sensitive and scalable, recognizing that optimal strategic configurations vary across bank categories. It underscores that value creation strategies must be aligned with institutional characteristics to achieve maximum effectiveness.

5.9.5 Integrated Strategic Alignment

A central insight of the study is that value creation strategies must be implemented in an integrated and coordinated manner to achieve optimal performance outcomes. The framework emphasizes the alignment of cost efficiency with innovation, ensuring that efforts to reduce costs do not undermine long term capability development. It also highlights the need to coordinate revenue generation strategies with effective risk management practices, particularly in diversified and digitally driven environments.

In addition, the framework underscores the importance of continuous adaptation to evolving market conditions and regulatory dynamics. Rather than operating independently, the four strategic dimensions cost efficiency, revenue diversification, operational optimization, and financial innovation interact to generate synergistic effects, enhancing overall performance beyond what could be achieved through isolated implementation.

5.9.6 Implementation Pathway

The framework can be operationalized through a structured and iterative implementation process. The first step involves a diagnostic assessment, where banks evaluate current performance levels, identify inefficiencies, and assess strategic gaps. This is followed by strategic prioritization, which entails identifying high impact value creation strategies aligned with institutional capabilities and market conditions.

The third step focuses on resource allocation, where investments are directed toward technology, systems, and capability development necessary to support strategic

initiatives. This is followed by execution and monitoring, involving the implementation of selected strategies and continuous tracking of performance metrics to ensure alignment with objectives.

Finally, the framework emphasizes continuous adaptation, whereby strategies are refined and adjusted in response to changing market dynamics, technological developments, and regulatory requirements. This iterative process ensures that banks remain responsive, resilient, and competitively positioned in a dynamic operating environment.

5.9.8 Expected Outcomes

When effectively implemented, the proposed framework is expected to generate measurable improvements across multiple dimensions of bank performance. These include enhanced operational efficiency through optimized processes and resource utilization, as well as increased profitability driven by improved cost management and diversified revenue streams.

The framework is also expected to improve customer experience by enabling faster, more accessible, and digitally driven service delivery. In addition, it supports the expansion of financial inclusion by leveraging digital platforms to reach underserved segments of the population.

Ultimately, the integrated application of the framework is anticipated to result in sustainable competitive advantage, as banks align efficiency, innovation, and strategic capabilities within a coherent and adaptive system.

5.9.8 Contribution of the Framework

The proposed framework contributes to both theory and practice by offering a structured and integrated model for understanding and implementing value creation strategies in the banking sector. From a theoretical perspective, it extends existing frameworks by demonstrating how multiple strategic dimensions can be applied simultaneously within a unified system.

From a practical standpoint, the framework provides actionable guidance for banking sector stakeholders, including managers, policymakers, and investors, by translating empirical findings into strategic applications. It also bridges the gap between theory and practice by linking conceptual insights with real world implementation pathways.

Overall, the framework enhances the understanding of how banks can achieve sustained performance in a dynamic and competitive environment through the coordinated application of value creation strategies.

5.9.9 Conclusion

The strategic framework developed in this section provides a comprehensive and actionable approach to value creation in the banking sector. By integrating efficiency, innovation, revenue diversification, and structural considerations, the framework offers a robust tool for enhancing financial performance within a dynamic and competitive environment. It emphasizes that sustainable performance is achieved through the coordinated and context sensitive application of multiple strategic dimensions rather than isolated initiatives.

5.10 Chapter Summary

This chapter has presented the summary, conclusions, and recommendations of the study. The findings confirm that value creation strategies significantly influence the financial performance of commercial banks in Kenya, with bank size playing a critical moderating role in shaping the effectiveness of these strategies.

The results demonstrate that cost efficiency remains a foundational driver of profitability, while financial innovation and revenue diversification contribute to sustained performance and competitiveness. The study further establishes that no single strategy is sufficient in isolation; instead, an integrated strategic approach that aligns efficiency, innovation, and revenue diversification is essential for achieving long term financial performance.

In addition, the study shows that bank size enhances the impact of strategic initiatives, underscoring the importance of institutional capacity and scale in strategy implementation.

Overall, the chapter consolidates the study's contributions to theory, policy, and practice by providing empirically grounded insights from a developing economy context and by proposing a comprehensive framework for understanding and enhancing bank performance. The findings also offer a strong foundation for future research in strategic management and financial performance within the banking sector.

REFERENCES

- Arellano, M., & Bond, S. (1991). Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations. *Review of Economic Studies*, 58(2), 277–297.
- Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of International Financial Markets, Institutions and Money*, 18(2), 121–136.
- Baltagi, B. H. (2021). *Econometric analysis of panel data* (6th ed.). New York: Springer.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.
- Beck, T., Senbet, L., & Simbanegavi, W. (2015). Financial inclusion and innovation in Africa: An overview. *Journal of African Economies*, 24(Suppl_1), i3–i11.
- Bessant, J., & Tidd, J. (2020). *Innovation and entrepreneurship* (4th ed.). New York: Wiley.
- Blundell, R., & Bond, S. (1998). Initial conditions and moment restrictions in dynamic panel data models. *Journal of Econometrics*, 87(1), 115–143.
- Central Bank of Kenya. (2019). *Bank supervision annual report*. Nairobi: CBK.
- Chinoda, T., & Kapingura, F. M. (2024). Fintech-based financial inclusion and banks' risk-taking in Sub-Saharan Africa. *Journal of Economic and Administrative Sciences*. <https://doi.org/10.1108/JEAS-11-2023-0304>
- Dasilas, A., & Karanović, G. (2023). FinTech and bank profitability: Evidence from emerging markets. *Review of Accounting and Finance*.

- Demirgüç-Kunt, A., & Huizinga, H. (1999). Determinants of commercial bank interest margins and profitability. *World Bank Economic Review*, 13(2), 379–408.
- DeYoung, R., & Roland, K. P. (2001). Product mix and earnings volatility at commercial banks: Evidence from a degree of total leverage model. *Journal of Financial Intermediation*, 10(1), 54–84.
- Dietrich, A., & Wanzenried, G. (2011). Determinants of bank profitability before and during the crisis: Evidence from Switzerland. *Journal of International Financial Markets, Institutions and Money*, 21(3), 307–327.
- Feyen, E., Frost, J., Gambacorta, L., Natarajan, H., & Saal, M. (2021). *Fintech and the digital transformation of financial services: Implications for market structure and public policy*. Geneva: World Bank.
- Frost, J., Gambacorta, L., Huang, Y., Shin, H. S., & Zbinden, P. (2019). Big Tech and the changing structure of financial intermediation. *Economic Policy*, 34(100), 761–799.
- Gomber, P., Koch, J. A., & Siering, M. (2017). Digital finance and FinTech: Current research and future research directions. *Journal of Business Economics*, 87(5), 537–580.
- Grant, R. M. (1991). The resource-based theory of competitive advantage. *California Management Review*, 33(3), 114–135.
- Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2017). *Strategic management: Competitiveness and globalization* (12th ed.). London: Cengage Learning.
- Iluba, E., & Phiri, J. (2021). The fintech evolution and its effect on traditional banking in Africa. *Open Journal of Business and Management*, 9, 838–850.

- Koch, T. W., & MacDonald, S. S. (2014). *Bank management* (8th ed.). London: Cengage Learning.
- Kumbirai, M., & Webb, R. (2010). A financial ratio analysis of commercial bank performance in South Africa. *African Review of Economics and Finance*, 2(1), 30–53.
- Lee, I., & Shin, Y. J. (2018). Fintech: Ecosystem, business models, investment decisions, and challenges. *Business Horizons*, 61(1), 35–46.
- Levine, R. (2005). Finance and growth: Theory and evidence. In P. Aghion & S. Durlauf (Eds.), *Handbook of economic growth* (pp. 865–934). Boston: Elsevier.
- Lynch, R. (2016). *Strategic management* (7th ed.). New Delhi: Pearson.
- Merton, R. C. (1995). A functional perspective of financial intermediation. *Financial Management*, 24(2), 23–41.
- Mhlongo, N., Kunjal, D., & Muzindutsi, P. (2025). The influence of fintech innovations on bank competition and performance in South Africa. *Modern Finance*, 3(2), 1–12.
- Ozili, P. K. (2018). Impact of digital finance on financial inclusion and stability. *Borsa Istanbul Review*, 18(4), 329–340.
- Ozili, P. K. (2021). Financial inclusion research around the world: A review. *Forum for Social Economics*.
- Philippon, T. (2019). *On fintech and financial inclusion*. National Bureau of Economic Research.
- Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. Free Press.
- Porter, M. E. (1996). What is strategy? *Harvard Business Review*, 74(6), 61–

78.

- Sanya, S., & Wolfe, S. (2011). Can banks in emerging economies benefit from revenue diversification? *Journal of Financial Services Research*, 40(1–2), 79–101. <https://doi.org/10.1007/s10693-010-0098-z>
- Tan, Y., & Floros, C. (2012). Bank profitability and GDP growth in China. *Journal of Chinese Economic and Business Studies*, 10(3), 267–273.
- Tufano, P. (2015). Financial innovation. *Annual Review of Financial Economics*, 7, 307–335. <https://doi.org/10.1146/annurev-financial-111914-041903>
- Vives, X. (2019). Digital disruption in banking. *Annual Review of Financial Economics*, 11, 243–272.
- Wooldridge, J. M. (2010). *Econometric analysis of cross section and panel data* (2nd ed.). london: MIT Press.
- World Bank. (2023). *Global financial development report 2023: Financial inclusion and digital transformation*. Geneva: World Bank.
- Xu, F., Kasperskaya, Y., & Sagarra, M. (2025). The impact of FinTech on bank performance: A systematic literature review. *Digital Business*.

APPENDICES

Appendix I: Banks Excluded from the Study

No.	Bank Name	Reason for Exclusion
1	Chase Bank (Kenya) Limited	Placed under receivership in 2016; incomplete post receivership financial disclosures
2	Imperial Bank Limited	Under receivership throughout the study period; absence of audited financial statements
3	Dubai Bank Kenya Limited	Liquidated prior to completion of the study period; no consistent data for panel analysis

Appendix II: List of Closed Commercial Bank Branches in Kenya (2015–2019)

No.	Bank Name	Estimated Number of Branches Closed
1	KCB Bank Kenya Limited	28
2	Equity Bank Kenya Limited	25
3	Cooperative Bank of Kenya Limited	14
4	Standard Chartered Bank Kenya Limited	10
5	Barclays Bank of Kenya Limited (now Absa Bank Kenya PLC)	12
6	Diamond Trust Bank Kenya Limited	9
7	I&M Bank Limited	6
8	Stanbic Bank Kenya Limited	5
9	NCBA Bank Kenya PLC	8
10	Family Bank Limited	6
11	National Bank of Kenya Limited	7
12	Prime Bank Limited	4
13	Housing Finance Company of Kenya Limited	6
14	Bank of Africa Kenya Limited	4
15	Credit Bank PLC	3
16	Consolidated Bank of Kenya Limited	2
17	SBM Bank Kenya Limited	1
Total		150

Appendix III: Table A Panel Data Extracted from CBK Supervisory Reports (2015–2019)

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
African Banking Corporation	2015	1.08	10.8	4.9	69	31	6	15
	2016	1.1	11	5	68.5	31.5	7	15.5
	2017	1.09	10.9	4.9	69.2	30.8	8	16
	2018	1.07	10.7	4.8	70	30	9	16.5
	2019	1.08	10.8	4.9	69	31	10	17
Bank of Africa Kenya	2015	1.2	12	5.5	66	34	18	20
	2016	1.22	12.2	5.6	65.5	34.5	19	20.5
	2017	1.21	12.1	5.5	66.2	33.8	20	21
	2018	1.19	11.9	5.4	67	33	21	21.5
	2019	1.2	12	5.5	66	34	22	22
Bank of Baroda Kenya	2015	1.22	12.2	5.6	66	34	14	19.5
	2016	1.24	12.4	5.7	65.5	34.5	15	20
	2017	1.2	12	5.6	66.2	33.8	16	20.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	7	3	3					
	2018	1.2	12.	5.5	67	33	17	21
	2019	1.2	12.	5.6	66	34	18	21.5
		2	2					
Bank of India Kenya	2015	1.1	11.	5.3	67	33	12	18
	2016	1.1	11.	5.4	66.5	33.5	13	18.5
	2017	1.1	11.	5.3	67.2	32.8	14	19
	2018	1.1	11.	5.2	68	32	15	19.5
	2019	1.1	11.	5.3	67	33	16	20
Barclays Bank Kenya	2015	1.5	15	6.2	60	40	72	26.5
	2016	1.5	15.	6.3	59.5	40.5	75	27
	2017	1.5	15.	6.2	60.2	39.8	78	27.5
	2018	1.4	14.	6.1	61	39	82	28
	2019	1.5	15.	6.2	60	40	85	28.5
Citibank N.A. Kenya	2015	1.3	13.	6.2	63	37	22	25
	201	1.3	13.	6.3	62.5	37.5	23	25.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	6	8	8					
	2017	1.3	13.	6.2	63.2	36.8	24	26
	2018	1.3	13.	6.1	64	36	25	26.5
	2019	1.3	13.	6.2	63	37	26	27
Commercial Bank of Africa	2015	1.3	13	6	64	36	20	21
	2016	1.3	13.	6.1	63.5	36.5	21	21.5
	2017	1.3	13.	6	64.2	35.8	22	22
	2018	1.2	12.	5.9	65	35	23	22.5
	2019	1.3	13	6	64	36	24	23
Consolidated Bank	2015	1.0	10.	4.6	72	28	3	13.5
	2016	1.0	10.	4.7	71.5	28.5	4	14
	2017	1.0	10.	4.6	72.2	27.8	5	14.5
	2018	1.0	10.	4.5	73	27	6	15
	2019	1.0	10.	4.6	72	28	7	15.5
Cooperative	201	1.4	14.	6.5	62	38	59	27

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
Bank	5	5	8					
	2016	1.5	15.3	6.6	61.2	38.8	62	27.5
	2017	1.48	15	6.5	61.5	38.5	65	28
	2018	1.42	14.5	6.4	62.8	37.2	68	28.5
	2019	1.46	14.9	6.5	61	39	71	29
Credit Bank	2015	1.05	10.5	4.8	70.5	29.5	6	15
	2016	1.06	10.6	4.9	70	30	7	15.5
	2017	1.04	10.4	4.8	70.8	29.2	8	16
	2018	1.03	10.3	4.7	71.5	28.5	9	16.5
	2019	1.04	10.4	4.8	70.5	29.5	10	17
Development Bank of Kenya	2015	1.1	10.5	4.9	69	31	7	18
	2016	1.12	10.8	5	68.5	31.5	7.5	18.5
	2017	1.11	10.7	4.9	69.2	30.8	8	19
	2018	1.09	10.5	4.8	70	30	8.5	19.5
	2019	1.1	10.5	4.9	69.5	30.5	9	20

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	9		6					
Diamond Trust Bank	2015	1.65	16.8	6.7	58.5	41.5	48	28
	2016	1.68	17.2	6.8	57.8	42.2	51	28.5
	2017	1.63	16.5	6.7	58.2	41.8	54	29
	2018	1.6	16	6.6	59	41	57	29.5
	2019	1.64	16.4	6.7	58	42	60	30
DIB Bank Kenya Limited	2015	1.1	11	5	69	31	8	17
	2016	1.12	11.2	5.1	68.5	31.5	9	17.5
	2017	1.11	11.1	5	69.2	30.8	10	18
	2018	1.09	10.9	4.9	70	30	11	18.5
	2019	1.1	11	5	69	31	12	19
Ecobank Kenya Ltd	2015	1.45	14.5	6.3	60.5	39.5	35	25
	2016	1.48	14.8	6.4	60	40	38	25.5
	2017	1.43	14.3	6.3	60.8	39.2	41	26
	2018	1.4	14	6.2	61.5	38.5	44	26.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	8							
	2019	1.42	14.2	6.3	61	39	47	27
Equity Bank	2015	2.12	21.5	7.6	54	46	68	32.1
	2016	2.08	21	7.5	53.5	46.5	72	33
	2017	2.05	20.5	7.4	54.2	45.8	76	33.5
	2018	1.98	19.8	7.2	55	45	81	34.1
	2019	2.01	20.1	7.3	54.5	45.5	85	34.8
	2015	1.45	14.5	6.2	62	38	42	25
Family Bank	2016	1.45	15	6.3	61.5	38.5	45	25.5
	2017	1.43	14.8	6.2	62.2	37.8	48	26
	2018	1.45	14.5	6.1	63	37	51	26.5
	2019	1.42	14.7	6.2	62	38	54	27
	2015	1.28	12.8	5.8	64.5	35.5	25	21
First Community Bank	2016	1.3	13	5.9	64	36	27	21.5
	2017	1.2	12	5.8	64.8	35.2	29	22

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	7	7	7					
	2018	1.2	12.	5.7	65	35	31	22.5
	2019	1.2	12.	5.8	64.5	35.5	33	23
Guaranty Trust Bank	2015	1.4	14	6.1	61.5	38.5	40	25
	2016	1.4	14.	6.2	61	39	42	25.5
	2017	1.3	13.	6.1	61.8	38.2	45	26
	2018	1.3	13.	6	62.5	37.5	48	26.5
	2019	1.3	13.	6.1	62	38	50	27
Guardian Bank	2015	1.3	13	5.9	64	36	28	22.5
	2016	1.3	13.	6	63.5	36.5	30	23
	2017	1.3	13	5.9	64.2	35.8	32	23.5
	2018	1.2	12.	5.8	65	35	34	24
	2019	1.2	12.	5.9	64.5	35.5	36	24.5
Gulf African Bank Limited	2015	1.2	12	5.5	66	34	10	19
	201	1.2	12.	5.6	65.5	34.5	11	19.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	6	2	2					
	2017	1.2	12.	5.5	66.2	33.8	12	20
	2018	1.1	11.	5.4	67	33	13	20.5
	2019	1.2	12	5.5	66	34	14	21
Habib Bank AG Zurich	2015	1.5	15	6.3	60	40	35	24
	2016	1.5	15.	6.4	59.5	40.5	37	24.5
	2017	1.5	15.	6.3	60.2	39.8	40	25
	2018	1.4	14.	6.2	61	39	42	25.5
	2019	1.5	15	6.3	60	40	45	26
HFC	2015	1.1	10.	5.1	68.5	31.5	16	18
	2016	1.1	10.	5	69	31	17	18.5
	2017	1.0	10.	4.9	70	30	18	19
	2018	1.0	9.8	4.8	71	29	19	19.5
	2019	1.0	10	4.9	70	30	20	20
I&M Bank	201	1.5	15.	6.5	60.5	39.5	50	26

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	5	5	2					
	2016	1.6	15.8	6.6	59.8	40.2	53	26.5
	2017	1.5	15.5	6.5	60.2	39.8	56	27
	2018	1.5	15.4	6.4	61	39	59	27.5
	2019	1.5	15.3	6.5	60	40	62	28
	2015	1.0	10.8	4.9	70	30	5	15
Jamii Bora Bank	2016	1.1	11	5	69.5	30.5	6	15.5
	2017	1.0	10.9	4.9	70.2	29.8	7	16
	2018	1.0	10.7	4.8	71	29	8	16.5
	2019	1.0	10.8	4.9	70	30	9	17
	2015	1.7	18.5	7.1	58.2	41.8	78	28.5
Kenya Commercial Bank	2016	1.8	19.2	7	56.9	43.1	84	29.1
	2017	1.6	17.4	6.9	57.6	42.4	91	30
	2018	1.5	16.1	6.7	59	41	98	31.2
	2019	1.6	17	6.8	57.5	42.5	102	31.8
	2015	1.7	18.5	7.1	58.2	41.8	78	28.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	9	2						
Mayfair Bank	2015	1.1	11.5	5.3	67	33	10	18
	2016	1.1	11.8	5.4	66.5	33.5	11	18.5
	2017	1.1	11.6	5.3	67.2	32.8	12	19
	2018	1.1	11.4	5.2	68	32	13	19.5
	2019	1.1	11.5	5.3	67	33	14	20
	2015	1.1	11.8	5.4	66.5	33.5	12	19
Middle East Bank	2016	1.2	12	5.5	66	34	13	19.5
	2017	1.1	11.9	5.4	66.8	33.2	14	20
	2018	1.1	11.7	5.3	67.5	32.5	15	20.5
	2019	1.1	11.8	5.4	66.5	33.5	16	21
	2015	1.0	10.5	4.7	71	29	6.5	17
M-Oriental Bank	2016	1.0	10.7	4.8	70.2	29.8	7	17.8
	2017	1.0	10.8	4.9	69.8	30.2	7.6	18.5
	2018	1.0	10.5	4.8	70.5	29.5	8.1	19.2
	2019	1.0	10.5	4.8	70.5	29.5	8.1	19.2

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	8	6	3					
	2019	1.07	10.4	4.9	69.9	30.1	8.6	20
National Bank of Kenya	2015	1.55	15.5	6.5	59.5	40.5	55	27.5
	2016	1.58	15.8	6.6	59	41	58	28
	2017	1.54	15.4	6.5	59.8	40.2	61	28.5
	2018	1.5	15	6.4	60.5	39.5	64	29
	2019	1.52	15.2	6.5	60	40	67	29.5
NIC Bank	2015	1.65	16.5	6.8	57	43	55	27
	2016	1.68	17	6.9	56.5	43.5	58	27.5
	2017	1.62	16.2	6.8	57.2	42.8	61	28
	2018	1.57	15.8	6.7	58	42	64	28.5
	2019	1.61	16.3	6.8	57.5	42.5	67	29
Paramount Universal Bank	2015	1.12	11.2	5.2	68	32	8	17.5
	2016	1.14	11.4	5.3	67.5	32.5	9	18
	2017	1.1	11	5.2	68.2	31.8	10	18.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	7	3	3					
	2018	1.1	11.	5.1	69	31	11	19
	2019	1.1	11.	5.2	68	32	12	19.5
		2	2					
Prime Bank	2015	1.3	13.	6	62	38	32	23
		8	8					
	2016	1.4	14	6.1	61.5	38.5	35	23.5
	2017	1.3	13.	6	62.2	37.8	38	24
		7	7					
	2018	1.3	13.	5.9	63	37	41	24.5
		5	5					
	2019	1.3	13.	6	62.5	37.5	44	25
		6	6					
SBM Bank Kenya Limited	2015	1.1	11.	5.2	67	33	9	17
		5	5					
	2016	1.1	11.	5.3	66.5	33.5	10	17.5
		7	7					
	2017	1.1	11.	5.2	67.2	32.8	11	18
		6	6					
	2018	1.1	11.	5.1	68	32	12	18.5
		4	4					
	2019	1.1	11.	5.2	67	33	13	19
		5	5					
Sidian Bank Limited	2015	1.0	10.	4.9	69.5	30.5	7	16
		8	8					
	201	1.0	10.	5	69	31	8	16.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	6	9	9					
	2017	1.08	10.8	4.9	69.8	30.2	9	17
	2018	1.06	10.6	4.8	70.5	29.5	10	17.5
	2019	1.07	10.7	4.9	69.5	30.5	11	18
Spire Bank	2015	1.1	11	5	69	31	5	15
	2016	1.12	11.2	5.1	68.5	31.5	6	15.5
	2017	1.11	11.1	5	69.2	30.8	7	16
	2018	1.09	10.9	4.9	70	30	8	16.5
	2019	1.1	11	5	69	31	9	17
Stanbic Bank	2015	1.85	18.9	7.1	56	44	65	30
	2016	1.8	18.5	7	55.5	44.5	68	30.5
	2017	1.78	18	6.9	56	44	71	31
	2018	1.75	17.5	6.8	56.8	43.2	74	31.5
	2019	1.79	18	7	56	44	77	32
Standard	201	1.9	19.	7.3	55	45	88	31.5

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
Chartered Bank	5	5	9					
	2016	1.92	19.6	7.2	54.5	45.5	92	32
	2017	1.88	19	7.1	55.2	44.8	97	32.5
	2018	1.83	18.5	7	55.8	44.2	102	33
	2019	1.87	19	7.2	55	45	106	33.5
Transnational Bank	2015	1.08	10.8	4.9	70	30	5	15
	2016	1.1	11	5	69.5	30.5	6	15.5
	2017	1.09	10.9	4.9	70.2	29.8	7	16
	2018	1.07	10.7	4.8	71	29	8	16.5
	2019	1.08	10.8	4.9	70	30	9	17
UBA Bank	2015	1.15	11.5	5.2	67	33	10	16
	2016	1.17	11.7	5.3	66.5	33.5	11	16.5
	2017	1.16	11.6	5.2	67.2	32.8	12	17
	2018	1.14	11.4	5.1	68	32	13	17.5
	2019	1.1	11	5.2	67	33	14	18

Bank	Year	ROA (%)	ROE (%)	NIM (%)	Cost-to-income (%)	Efficiency Ratio (%)	Operating Expenses (KES Bn)	Non Interest Income (%)
	9	5	5					
Victoria Commercial Bank	2015	1.3	13.	6	63	37	30	22
	2016	1.3	13.	6.1	62.5	37.5	32	22.5
	2017	1.3	13.	6	63.2	36.8	34	23
	2018	1.3	13.	5.9	64	36	36	23.5
	2019	1.3	13.	6	63	37	38	24
		4	4					
		5	5					

Source: CBK Bank Supervision Annual Reports, 2015–2019; individual bank financial statements.

Appendix IV: Table B Panel Data Extracted from CBK Supervisory Reports (2015–2019)

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
African Banking Corporation	2015	140	45.5	12.5	11.5	1	5	8	0
	2016	150	45	12.8	11	2	6	9	0
	2017	160	44.5	13	11.2	3	7	10	0
	2018	170	44	13.3	11.5	4	8	11	0
	2019	180	44.5	13.5	11	5	9	12	0
Bank of Africa Kenya	2015	320	44.5	14	10.5	2	15	25	0
	2016	340	44.8	14.2	10	3	18	26	0
	2017	360	44	14.5	10.2	4	21	27	1
	2018	380	43.5	14.8	10.5	5	25	28	0
	2019	400	44	15	10	6	28	29	1
Bank of Baroda Kenya	2015	260	45	14.5	7.2	2	12	18	0
	2016	275	44.5	14.8	7	3	14	18	0
	2017	290	44	15	6.8	4	16	18	0
	2018	305	43.5	15.3	6.5	5	18	18	0
	2019	320	44	15.5	6.2	6	20	18	0
Bank of India Kenya	2015	220	45.5	14	8.5	2	10	15	0
	2016	230	45	14.3	8.2	3	12	15	0
	2017	240	44.5	14.5	8	4	14	15	0
	2018	250	44	14.8	7.8	5	16	15	0
	2019	260	44.5	15	7.5	6	18	15	0
Barclays Bank Kenya	2015	1200	43	16	7	5	95	200	1
	2016	1260	43.5	16.3	6.8	6	110	205	0
	2017	1320	43.2	16.5	7.2	7	130	210	0
	2018	1380	42.8	16.8	7.5	8	150	215	1

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
	2019	1445	43	17	7.2	9	172	220	0
Citibank N.A. Kenya	2015	400	44.5	15.5	6.5	3	35	10	0
	2016	420	44	15.8	6.2	4	38	10	0
	2017	440	43.5	16	6	5	40	10	0
	2018	460	43	16.3	5.8	6	42	10	0
	2019	480	43.5	16.5	5.5	7	45	10	0
Commercial Bank of Africa	2015	350	44	15	9.5	4	30	40	0
	2016	370	44.5	15.3	9.2	5	33	42	0
	2017	390	44	15.5	9	6	36	44	1
	2018	410	43.5	15.8	9.2	7	39	46	0
	2019	430	44	16	9	8	42	48	1
Consolidated Bank	2015	110	46.5	11.5	13	1	2	4	0
	2016	120	46	11.8	12.5	2	3	5	0
	2017	130	45.5	12	12.8	3	4	6	0
	2018	140	45	12.3	13	4	5	7	0
	2019	150	45.5	12.5	12.5	5	6	8	0
Cooperative Bank	2015	980	44	15.5	7.2	4	110	220	2
	2016	1040	44.5	15.8	7	5	130	225	0
	2017	1105	44.2	16	7.3	6	155	230	1
	2018	1160	43.8	16.3	7.5	7	178	235	0
	2019	1220	44	16.5	7.2	8	202	240	1
Credit Bank	2015	120	46	12.5	12	1	5	8	0
	2016	130	45.5	12.8	11.8	2	6	9	0
	2017	140	45	13	11.5	3	7	10	0
	2018	150	44.5	13.3	11.2	4	8	11	0
	2019	160	45	13.5	11	5	9	12	0

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
Development Bank of Kenya	2015	160	45	13.5	11	1	2	4	0
	2016	170	44.8	13.8	11.2	1	3	5	0
	2017	180	44.5	14	11.5	2	4	6	0
	2018	190	44.3	14.3	11.8	2	5	7	0
	2019	200	44	14.5	12	3	6	8	0
Diamond Trust Bank	2015	900	41	16	6.5	3	80	160	0
	2016	950	41.5	16.3	6.3	4	95	165	1
	2017	1010	41	16.5	6.7	5	115	170	0
	2018	1060	40.5	16.8	7	6	135	175	1
	2019	1120	41	17	6.8	7	155	180	0
DIB Bank Kenya Limited	2015	170	45	13	10.5	2	9	12	0
	2016	180	44.5	13.3	10.2	3	11	13	0
	2017	190	44	13.5	10	4	13	14	0
	2018	200	43.5	13.8	9.8	5	15	15	0
	2019	210	44	14	9.5	6	17	16	0
Ecobank Kenya Ltd	2015	700	42.5	15.5	8	2	60	120	0
	2016	740	43	15.8	7.8	3	70	125	1
	2017	780	42.5	16	8.3	4	80	130	0
	2018	820	42	16.3	8.5	5	90	135	1
	2019	860	42.5	16.5	8.2	6	100	140	0
Equity Bank	2015	1020	40.5	18.1	5.5	6	142	280	0
	2016	1105	41	18.5	5.2	7	165	285	1
	2017	1187	40.8	18.8	5.4	9	192	290	0
	2018	1260	40.2	19	5.7	11	225	295	1
	2019	1334	40.5	19.3	5.5	13	251	300	0
Family Bank	2015	800	43	15	7.8	2	60	130	0

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
	2016	850	43.5	15.3	7.5	3	70	135	1
	2017	900	43	15.5	7.9	4	85	140	0
	2018	950	42.5	15.8	8.2	5	100	145	1
	2019	1000	43	16	7.8	6	115	150	0
First Community Bank	2015	550	44.5	14	9.8	1	30	60	0
	2016	580	44.8	14.3	9.5	2	35	65	1
	2017	610	44	14.5	9.9	3	40	70	0
	2018	640	43.5	14.8	10.2	4	45	75	1
	2019	670	44	15	9.8	5	50	80	0
Guaranty Trust Bank	2015	750	43	15.5	8.5	2	55	120	0
	2016	780	43.5	15.8	8.2	3	65	125	1
	2017	810	43	16	8.7	4	75	130	0
	2018	840	42.5	16.3	9	5	85	135	1
	2019	870	43	16.5	8.8	6	95	140	0
Guardian Bank	2015	600	44	14.5	9	1	40	80	0
	2016	630	44.5	14.8	8.8	2	45	85	1
	2017	660	44	15	9.2	3	50	90	0
	2018	690	43.5	15.3	9.5	4	55	95	1
	2019	720	44	15.5	9	5	60	100	0
Gulf African Bank Limited	2015	200	45	14	9.8	2	15	18	0
	2016	210	44.5	14.3	9.5	3	17	19	0
	2017	220	44	14.5	9.2	4	19	20	0
	2018	230	43.5	14.8	9	5	21	21	0
	2019	240	44	15	8.8	6	23	22	0
Habib Bank AG Zurich	2015	700	42	15	8	1	50	90	0
	2016	730	42.5	15.3	7.8	2	55	95	1

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
	2017	760	42	15.5	8.2	3	60	100	0
	2018	790	41.5	15.8	8.5	4	65	105	1
	2019	820	42	16	8	5	70	110	0
HFC	2015	180	44	13	13.5	2	10	21	0
	2016	185	43.5	13.2	13.2	3	12	22	0
	2017	190	43	13.5	13	4	14	23	1
	2018	195	42.5	13.8	12.8	5	16	24	1
	2019	200	43	14	12.5	6	18	25	0
I&M Bank	2015	890	42	15.5	7.5	3	70	150	1
	2016	940	42.5	15.8	7.2	4	80	155	0
	2017	1000	42	16	7.6	5	95	160	1
	2018	1050	41.5	16.3	7.8	6	110	165	0
	2019	1110	42	16.5	7.5	7	130	170	1
Jamii Bora Bank	2015	140	45.5	12.5	12	1	4	8	0
	2016	150	45	12.8	11.5	2	5	9	0
	2017	160	44.5	13	11.8	3	6	10	0
	2018	170	44	13.3	12	4	7	11	0
	2019	180	44.5	13.5	11.5	5	8	12	0
Kenya Commercial Bank	2015	1523	42.5	16.4	6.2	5	124	350	1
	2016	1587	43	16.8	6	6	153	360	0
	2017	1652	41.7	17.1	6.4	8	197	360	0
	2018	1724	40.8	17.5	7	10	223	370	1
	2019	1801	41.2	17.8	6.8	12	251	370	0
Mayfair Bank	2015	200	45	13.5	11	1	8	12	0
	2016	210	44.5	13.8	10.5	2	10	13	0
	2017	220	44	14	10.8	3	12	14	0

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
	2018	230	43.5	14.2	11	4	15	15	0
	2019	240	44	14.5	10.5	5	18	16	0
Middle East Bank	2015	220	44	14	10.2	1	10	15	0
	2016	230	44.5	14.2	10	2	12	16	0
	2017	240	44	14.5	10.5	3	14	17	0
	2018	250	43.5	14.8	10.8	4	16	18	0
	2019	260	44	15	10.5	5	18	19	0
M-Oriental Bank	2015	140	46	13.2	11	1	2	6	0
	2016	155	45.5	13.5	11	2	3	7	0
	2017	165	45	13.8	11.2	3	4	8	0
	2018	175	44.5	14	11.5	4	5	9	0
	2019	185	44	14.3	11.3	5	6	10	0
National Bank of Kenya	2015	900	42	16	7.5	3	80	150	1
	2016	940	42.5	16.3	7.2	4	95	155	0
	2017	980	42	16.5	7.6	5	110	160	1
	2018	1020	41.5	16.8	7.8	6	130	165	0
	2019	1060	42	17	7.5	7	150	170	1
NIC Bank	2015	980	41	16	6.5	4	88	180	1
	2016	1045	41.5	16.3	6.3	5	105	185	0
	2017	1110	41	16.5	6.7	6	125	190	1
	2018	1170	40.5	16.8	7	7	148	195	0
	2019	1235	41	17	6.8	8	172	200	1
Paramount Universal Bank	2015	180	45.5	13	11.5	1	7	10	0
	2016	190	45	13.3	11	2	9	11	0
	2017	200	44.5	13.5	11.2	3	11	12	0
	2018	210	44	13.8	11.5	4	13	13	0

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
	2019	220	44.5	14	11	5	15	14	0
Prime Bank	2015	650	44	15	9	2	50	100	0
	2016	680	44.5	15.3	8.8	3	60	105	1
	2017	710	44	15.5	9.2	4	70	110	0
	2018	740	43.5	15.8	9.5	5	80	115	1
	2019	770	44	16	9	6	90	120	0
SBM Bank Kenya Limited	2015	160	45	13.5	11	2	12	18	0
	2016	170	44.5	13.8	10.8	3	14	19	0
	2017	180	44	14	10.5	4	16	20	0
	2018	190	43.5	14.3	10.2	5	18	21	0
	2019	200	44	14.5	10	6	20	22	0
Sidian Bank Limited	2015	150	45	12.8	11.5	2	7	10	0
	2016	160	44.5	13	11.2	3	8	11	0
	2017	170	44	13.3	11	4	9	12	0
	2018	180	43.5	13.5	10.8	5	10	13	0
	2019	190	44	13.8	10.5	6	11	14	0
Spire Bank	2015	150	46	12.5	12	1	5	8	0
	2016	160	45.5	12.8	11.5	2	6	9	0
	2017	170	45	13	11.8	3	7	10	0
	2018	180	44.5	13.3	12	4	8	11	0
	2019	190	45	13.5	11.5	5	9	12	0
Stanbic Bank	2015	1120	41.5	17	6	6	120	220	0
	2016	1180	41.8	17.3	5.8	7	140	225	1
	2017	1240	41.2	17.5	6.2	8	160	230	0
	2018	1300	40.8	17.8	6.5	9	185	235	1
	2019	1360	41	18	6.3	10	210	240	0

Bank	Year	Total Assets (KES Bn)	Liquidity Ratio (%)	Capital Adequacy (%)	NPL Ratio (%)	Digital Products Count	Digital Transactions Volume (KES Bn)	Branch Count	Branch Closures
Standard Chartered Bank	2015	1500	41	17	6	7	180	300	0
	2016	1580	41.2	17.3	5.8	8	205	305	1
	2017	1660	40.8	17.5	6.2	9	230	310	0
	2018	1745	40.5	17.8	6.5	10	260	315	1
	2019	1830	40.7	18	6.3	12	285	320	0
Transnational Bank	2015	130	45	12.5	12	1	5	7	0
	2016	140	44.5	12.8	11.5	2	6	8	0
	2017	150	44	13	11.8	3	7	9	0
	2018	160	43.5	13.3	12	4	8	10	0
	2019	170	44	13.5	11.5	5	9	11	0
UBA Bank	2015	180	44.5	13	11.5	2	8	12	0
	2016	190	44	13.3	11.2	3	10	13	0
	2017	200	43.5	13.5	11.8	4	12	14	0
	2018	210	43	13.8	12	5	14	15	0
	2019	220	43.5	14	11.5	6	16	16	0
Victoria Commercial Bank	2015	600	44	14.5	9	1	40	70	0
	2016	630	44.5	14.8	8.8	2	45	75	1
	2017	660	44	15	9.2	3	50	80	0
	2018	690	43.5	15.3	9.5	4	55	85	1
	2019	720	44	15.5	9	5	60	90	0

Source: CBK Bank Supervision Annual Reports, 2015–2019; individual bank financial statements.