



Analysis of Finance Strategy and Organizational Performance of Tier One Commercial Banks in Kenya

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Abstract: Objectives: To determine the influence of finance strategies on performance of tier One listed commercial banks in Kenya. Finance strategy is crucial for banks to remain competitive. However, its influence on performance in banks has not been conclusively researched. **Prior work:** Studies have established a link between organizational performance and efficient management of assets. Use of mergers and acquisitions as a strategy has witnessed both successes and failures requiring deeper understanding on the application of finance strategies. **Approach:** Employing a positivist philosophy and a descriptive research strategy, data was gathered through structured questionnaires. Data analysis utilized descriptive statistics (frequencies, percentages, averages, standard deviations) alongside inferential statistics (correlation analysis). Research findings were presented using frequency tables. **Results:** The study found that there was a strong positive correlation between finance strategies and organizational performance of the banks. **Implications and value:** The study recommended development of guidelines on mergers and acquisitions, debt management, and financial restructuring by regulators to promote market stability. Banks could also encourage efficient resource allocation especially in digital infrastructure and prioritize high-return expenditures in technology to drive performance.

Keywords: Finance Strategy; Bank Performance; Tier One Banks

1. Introduction

Every business process exists with the overarching goal of strengthening the company's capacity to produce results. A company's strategic plan outlines the specific actions that will be implemented to achieve its objectives (Snihur et al., 2021). One of the key strategies in banking sector is finance which wield significant influence over a bank's financial growth, profoundly shaping its overall performance. Crafting effective finance strategies encompasses various facets, including mergers and acquisitions, judicious budgetary controls, and astute debt recovery mechanisms (Mukhtarov, 2023). Mergers and acquisitions serve as strategic levers enabling banks to broaden their market footprint, diversify product portfolio and attain economies of scale (Popli & Ladkani, 2020).

Bukovskis (2023) held that the restructuring of the banking industry in Slovenia was driven by the

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necessity to establish a robust banking sector capable of fulfilling its financial intermediation role at minimal costs. The primary goals included offering services in line with global standards, engaging foreign financial institutions and ultimately privatizing banks. The primary focus was on bolstering the capital foundation by engaging in mergers, acquiring local banks, and identifying strategic investors to inject additional capital (Piroska & Podvršič, 2020). Similarly, in Japan, Yanagawa (2020) established finance tactics in the banking sector, aimed at expediting the performance of banks. Additionally, according to research out of Europe, banks that employ finance strategies at functional levels do better than those who do not (Chiaromonte et al., 2022).

In Africa, finance strategy is now recognized as an essential instrument used by banks to manage the competitive market environment and improve overall efficiency. It assumes paramount importance for commercial banks seeking to grow the profits and build a strong capital base. In Nigerian banks, financial strategies, including mergers and acquisitions, budgetary control mechanisms, and debt recovery strategies have taken center stage as critical factors influencing the success or failure of commercial banks (Imhanzenobe, 2021). Adept execution of financial strategies not only propelled financial performance but also augmented market competitiveness, underscoring their indispensable role in navigating the intricacies of the banking sector (Imhanzenobe, 2021). Uwamariya et al. (2020) looked at how financial strategy-related operational results were affected by mergers and acquisitions in Rwandan commercial banks. In addition, Carlos et al. (2020) looked at how commercial banks in Burundi may improve their financial performance via debt collection tactics and budgetary management. Keeping the banking industry financially stable and profitable required strong debt collection procedures and adequate budgetary management methods (Carlos et al., 2020).

In recent years, Kenya's banking sector has experienced substantial growth, driven by advancements in technology and the evolving demands of customers. To effectively address these changes, industry players such as Cooperative Bank and Sidian Bank have embraced technology, marketing and workforce management strategies, aiming to enhance employee retention as a crucial aspect of their business choices within specific functional areas of the organization (Biringanine, 2020). These functional strategies enable commercial banks in Kenya to organize and mobilize distinct sub-units within the organization, ensuring the pursuit of the overall business strategy in daily operations (Chelangat & Namusonge, 2018).

Echoing the dynamic trajectory of Kenya's financial landscape, Irungu and Wainaina (2023) delineated the remarkable growth and expansion witnessed within the financial sector in recent years. Against this backdrop of burgeoning growth, commercial banks have adeptly embraced a spectrum of financial strategies, ranging from strategic mergers and acquisitions to the stringent implementation of budgetary control measures and adept debt recovery strategies. Such strategic orchestrations have catalyzed an upward trajectory in key performance indicators, bolstering profitability margins, fortifying asset quality, and consolidating overall financial stability within the sector.

1.1. Statement of the Problem

The core aim of financial institutions is to achieve their mission by delivering quality services, cultivating client relationships, leveraging intangible assets, and producing desired outcomes efficiently. However, organizational performance depends on numerous factors, including operational effectiveness, employee productivity, goal alignment, and an organization's overall culture. Collectively, these factors shape a bank's market performance and operational success. Given the

sensitivity of performance in the banking sector, banks have adopted strategic approaches, such as marketing strategies, technological innovations like mobile transactions and streamlined account opening via digital platforms.

Despite these efforts, organizational performance in Kenyan banks has lagged since 2017. According to the Central Bank of Kenya's supervisory report, pre-tax earnings among listed commercial banks dropped from KSh 85.35 billion in 2016 to KSh 75.39 billion in 2022—a decline of 14%. To mitigate declining revenues, banks took measures such as branch closures, employee layoffs, early retirement programs, and fee increases to boost non-interest income. These actions have impacted families' financial security, while banking industry earnings further declined from KSh 147.4 billion in 2017 to KSh 133.2 billion—a loss of KSh 14.2 billion. Moreover, in 2020, the industry saw the closure of 23 outlets and the layoff of 2,792 staff members.

These challenges underscore the need for banks to explore innovative ways to enhance organizational performance and prevent work force reductions, and ensure sustained economic contributions. A deeper understanding of how finance strategies relate with performance of tier one commercial banks could address the critical gap in understanding how financial strategies influence the performance of listed commercial banks in Kenya thus averting the economic impact of declining performance.

2. Literature Review

Commercial banks play a crucial role in the financial sector, primarily acting as intermediaries in managing funds. In their pursuit of improved financial performance, banks continuously explore various strategies that enhance net income, boost reserves, increase share values, and improve dividends (Sa'diyah & Widagdo, 2022). Numerous studies have identified a strong link between organizational performance in banks and factors such as efficient management and asset quality as well as effective expense control. In an environment where financial sector changes have become rapid and complex, financial institutions have adopted advanced financial techniques and strategies, such as mergers and acquisitions M&A, financial restructuring, debt recovery measures, navigating a landscape marked by volatility, competition and regulatory pressure (Ogendo & Ariemba, 2022).

Globally, financial restructuring and M&A activities have gained traction in the banking sector, aimed at scaling operations and creating synergies for enhanced performance. For example, in Indonesia and the U.S., banks employ M&A as a means to improve financial results and gain competitive advantages (Tambunan et al., 2021). Studies suggest that M&A outcomes can vary significantly, with some banks observing improvements in financial metrics, while others show little to no significant gains post-merger (Tambunan et al., 2021). Similarly, in China, financial institutions leverage M&A to expand market reach and manage risk, while integrating debt recovery mechanisms to strengthen financial stability (Lai et al., 2023). Despite these efforts, the effectiveness of mergers remains mixed, with research across different regions revealing both successes and limitations.

In Africa, economic reforms have led to significant shifts within the banking sector, primarily through M&A initiatives and financial restructuring. In countries such as Egypt and Ghana, banks have engaged in mergers to enhance performance, although research suggests these mergers do not always result in profitability improvements (Amewu & Alagidede, 2021). Challenges related to debt management have also surfaced, with commercial banks in countries like Nigeria introducing novel loan repayment mechanisms, including agent banking and digital platforms, to address rising non-

performing loans (Ita et al., 2020). These innovations have improved loan repayment processes and helped banks manage financial challenges, yet reliance solely on debt management strategies has sometimes led to increased financial instability (Yunusa et al., 2021).

In Kenya, banks have implemented flexible repayment plans and hardship programs to support customers facing financial difficulties, a proactive approach aimed at mitigating non-performing loans (Makori, 2023). Financial restructuring efforts have also been undertaken to stabilize the banking sector, with some institutions choosing to outsource debt recovery to collection agencies when in-house recovery methods prove ineffective (Kinyua & Kihara, 2021). Additionally, Kenya's banking sector has witnessed operational restructuring to improve performance, as evidenced by studies indicating enhanced outcomes for banks listed on the Nairobi Securities Exchange following restructuring efforts (Audi, 2022). Overall, the financial sector in Kenya has adopted strategic adjustments to address performance challenges and maintain competitiveness.

3. Methods Used

This study adopted a positivist paradigm and employed a descriptive cross-sectional design, enabling the collection of quantitative data at a single point in time without altering the study environment or influencing outcomes (Park et al., 2020). The target population comprised 88 participants from eight tier-one commercial banks who were heads of functional areas. The study used a census approach, including all 88 individuals in the population. Data collection was conducted through structured questionnaires. Data collected from surveys was entered into SPSS software for analysis. Descriptive statistics (frequency, percentages, mean, and standard deviation) and inferential statistics (correlation analysis) were used to draw conclusions on the research questions.

4. Results

4.1. Descriptive Statistics

Finance strategy was assessed through four main indicators: mergers and acquisitions, debt management, financial restructuring, and financial expenditure, each representing measurable aspects that offered a systematic method for quantifying and analyzing this variable within the study. Responses were collected on a five-point scale: SD (Strongly Disagree), D (Disagree), M (Moderate), A (Agree), and SA (Strongly Agree). The study established that finance strategy influences the organizational performance of listed commercial banks in Kenya (mean = 3.48 and standard deviation = 0.592). The relatively low standard deviation indicated a fairly consistent perception of finance strategies across the banks. The findings inferred that, particularly operational restructuring, with 40.5% agreeing and 39.3% strongly agreeing, a high mean of 4.12 and a low standard deviation of 0.924, is a critical strategy for improving efficiency in banks. Additionally, debt restructuring received strong support, with 50.0% strongly agreeing and 33.3% agreeing, suggesting that debt restructuring was a highly utilized and effective strategy in managing liabilities (mean score = 4.29 and standard deviation = 0.872). The finding agreed to that of Karani (2020) that debt restructuring helped many Kenyan banks manage their financial obligations more efficiently, leading to improved financial health and sustainability. The majority of respondents agreed (34.5%) or strongly agreed (25.0%) that issuing shares to new shareholders enhances the liquidity of listed commercial banks (mean = 3.63 and a standard deviation = 1.138). This indicated that share issuance was considered an effective liquidity

management tool. Njiru (2019) echoed these sentiments, observing that share issuance attracted new investors and enhanced liquidity in Kenyan banks, ultimately improving financial stability. Cost-cutting was a somewhat important strategy, though not the primary focus for all banks as majority moderately agreed 32.1% (mean= 3.37 and SD = 1.095). Kimani (2017) found that although cost reduction strategies are essential for performance enhancement, Kenyan banks tend to balance cost management with other growth initiatives, such as technological advancements. Further, debt and equity restructuring techniques were used to revitalize the financial situation of publicly traded commercial banks, (mean = 3.19; SD=1.331). Waweru (2020) suggested that while restructuring is an important strategy, its success is highly contingent on how well it is executed and tailored to the specific financial context of the bank. The payment of dividends was seen positively, (32.1% agreeing and 26.2% strongly agreeing) that it attracts new shareholders, resulting (mean = 3.60; SD= 1.183). This suggested that dividends were considered an attractive incentive for shareholders. The findings mirrored those of Muriuki (2018) who found that dividend payments in Kenyan banks led to increased investor confidence, enhancing shareholder value and performance. Also, the respondents supported that budgetary forecasting helps banks control their expenditure (mean = 3.90; SD= 0.989). This implied that budgetary forecasting was a widely accepted financial management practice. Similarly, debt recovery was considered an effective method for improving financial performance (Mean= 3.61; S. D = 1.053). Majority of respondents agreed with mixed perceptions that asset restructuring was somewhat prevalent but not universally emphasized (mean = 3.25 SD = 1.040). Otieno (2020) supported this finding, indicating that asset restructuring plays a key role in optimizing financial resources but may not be prioritized equally across all banks.

Conversely, mergers and acquisitions appeared to be underutilized. In particular, the study revealed that a substantial portion of respondents strongly disagreed (50.0%) and disagreed (20.2%) that mergers and acquisitions were predominantly used by listed commercial banks as a development strategy (mean = 2.02; SD = 1.261).

4.2. Inferential Statistics Results

Bivariate Pearson product-moment correlation analysis was used to measure the strength and direction of the relationship between finance strategies and organizational performance. Further, the analysis assessed whether the associations reached statistical significance or not. The dependent measure was found to be positively and significantly correlated with the financing method ($r=.551^{**}$, $n=84$, $P=0.000$), according to the study. This indicated that organizational performance in Kenya's listed commercial banks tended to grow with enhancements or improved finance strategies. The results aligned with those of Nurgaliyeva et al. (2022), who noted that good financial management techniques improve organizational results by guaranteeing appropriate resource allocation, budgeting, and financial stability in commercial banks. The model summary showed an R Square value of .551, indicating that 55.1% of the variance in organizational performance was explained by the independent variable; finance strategy. The study concluded that finance strategy provided a statistically significant influence on the organizational performance of listed commercial banks in Kenya thus rejecting the null hypothesis.

5. The Study Recommendations

The study suggested that regulatory bodies, such as the Central Bank of Kenya, should enhance guidelines around mergers and acquisitions to ensure that these actions support market stability and fair competition. Additionally, policies promoting best practices in debt management would encourage banks to maintain optimal debt ratios, reducing financial risks. In practice, banks should develop clear strategies that fit their long-term goals, supported by thorough due diligence and integration planning. In debt management, establishing frameworks that balance growth and risk is essential, with dedicated teams monitoring debt levels and adjusting to market conditions. It was further recommended that the Trade-off theory should be examined in the context of other financial institutions other than banks such as insurance companies and micro finance institutions to shed more light on finance strategies and organizational performance.

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