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FINANCIAL MANAGEMENT PRACTICES AND BANK VALUE OF LISTED COMMERCIAL BANKS IN KENYA

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ST. PAUL'S UNIVERSITY

A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS AND LEADERSHIP STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE (FINANCE OPTION) OF ST. PAUL'S UNIVERSITY

JUNE, 2026

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DECLARATION

This thesis is my original work. It has never been presented in any other university or institution.

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Declaration by Supervisors

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DEDICATION

I dedicate this thesis to my parents Mr. and Mrs. Mwaluko, for their financial support during my entire academic life and my sibling for the encouragement they have given me through this research.

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ACKNOWLEDGMENT

The preparation of this thesis required dedication. For this reason, I am grateful to God to my parents and sibling for their financial support in undertaking this project.

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ABSTRACT

Despite the critical role that commercial banks play in Kenya's financial system and capital markets, bank value among listed commercial banks at the Nairobi Securities Exchange (NSE) has exhibited uneven performance therefore the study sought to examine the effect of financial management practices on bank value of commercial banks listed in Nairobi Securities Exchange, Kenya. Specifically, the study sought to assess the effect of capital structure management practices, liquidity management practices, and corporate investment practices on the bank value of listed commercial banks in Kenya. Finally, the study sought to assess the moderating effect of inflation on the relationship between financial management practices and bank value among commercial banks in Kenya. The study was guided by trade off theory, Keynesian Liquidity preference theory, net present value theory and market power theory. The study employed a mixed research design. The target population included all the 10 listed commercial banks in Kenya. Since the target population was manageable the study adopted census technique. The study collected secondary data from the annual audited reports of commercial banks published by the Central Bank of Kenya (CBK) from 2019 to 2023. Before data analysis, the study conducted diagnostic tests for linearity, heteroscedasticity, and normality to determine whether the data met the key assumptions required for panel data regression analysis. Data was analyzed using panel data regression. After analysis data was presented using tables and charts and bar graphs. From the findings, the study concluded that there exists a statistically significant and positive relationship between capital structure management practices and liquidity management practices with bank value. In addition, the study concluded that there is no statistically significant relationship between corporate investment practices and the bank value of listed commercial banks in Kenya. Finally, the findings revealed that inflation significantly moderates the relationship between financial management practices and bank value. From the finding the study recommended that commercial banks in Kenya strategically increase the use of retained earnings and equity financing while minimizing overreliance on long-term debt. In addition, the study recommended that banks institutionalize continuous monitoring of liquidity ratios and adopt real-time cash flow forecasting tools to improve both short-term and long-term liquidity planning.

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ACRONYMS AND ABBREVIATIONS

CBK	Central Bank of Kenya
CMA	Capital Markets Authority
DCF	Discounted Cash Flow
EVA	Economic Value Added
LVT	Loan-To-Value
NACOSTI	National Commission for Science, Technology, and Innovation
NOPAT	Net Operating Profit After Taxes
NPV	Net Present Value
SBI	State Bank of India
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
UAE	United Arab Emirates
VIF	Variance Inflation Factors

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OPERATIONAL DEFINITION OF TERMS

Bank Value	Refers to the market-based assessment of a bank's financial strength, growth prospects, and ability to generate sustainable returns for shareholders. (Ross, Westerfield, & Jaffe, 2022).
Capital Structure Management Practices	Involve the strategic decisions that a bank makes regarding the proportion of debt and equity financing used to fund its operations. (Berger & Bonaccorsi, 2021).
Commercial Banks	Refers to financial institutions that accept deposits from the public, provide loans, and offer a range of financial services (Mishkin & Eakins, 2021).
Corporate investment practices	Refer to the strategies and processes used by banks to allocate financial resources to income-generating and growth-oriented projects, such as loan portfolios, technological upgrades, and expansion initiatives. (Ross et al., 2022).
Financial management practices	Encompasses the planning, organizing, directing, and controlling of financial activities within an organization. (Atrill & McLaney, 2020).
Inflation	The sustained increase in the general price level of goods and services in an economy over time, which reduces the purchasing power of money and can affect banks' operating costs, interest income, and market valuation (Mishkin, 2019).
Liquidity management practices	Refers to strategies and policies employed by banks to ensure that they can meet short-term obligations, manage cash flow, and maintain sufficient liquid assets to support operations and regulatory compliance (Diamond & Rajan, 2022).

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Bank value remains a central indicator of financial soundness, investor confidence, and long-term sustainability of commercial banks, particularly in capital markets where shareholder wealth maximization is a primary objective (Ross, Westerfield, & Jaffe, 2022). Bank value, commonly reflected through market-based measures such as market capitalization, Tobin's Q, and share price performance, captures stakeholders' perceptions of a bank's current performance and future growth prospects. Globally, the banking sector operates in an increasingly complex and volatile financial environment characterized by regulatory reforms, technological disruption, macroeconomic uncertainty, and heightened competition, all of which exert significant influence on bank value (IMF, 2023). Consequently, effective financial management practices have emerged as a critical determinant of bank value, shaping how banks allocate resources, manage risks, and respond to changing economic conditions.

In both developed and emerging economies, weaknesses in financial management practices, particularly in capital structure decisions, liquidity management, and corporate investment choices, have been linked to declining bank value, financial distress, and market instability (Basel Committee on Banking Supervision, 2022). Suboptimal capital structure management may expose banks to excessive leverage risks or underutilization of equity financing, thereby eroding shareholder value. Similarly, ineffective liquidity management practices can undermine a bank's ability to meet short-term obligations, negatively affecting market confidence and valuation. Corporate investment practices that are misaligned with risk-return trade-offs or long-term strategic objectives may further diminish bank value through inefficient capital allocation and reduced profitability (Mishkin & Eakins, 2021). These challenges are often intensified by macroeconomic factors such as inflation, which directly influence interest rates, cost of capital, and real returns on financial assets.

In emerging markets, bank value is particularly sensitive to financial management practices due to relatively shallow capital markets, information asymmetry, and exposure to macroeconomic volatility (World Bank, 2023). Inflationary pressures, in particular, pose significant risks to bank valuation by distorting financial planning, increasing operational costs, and affecting borrowers' repayment capacity. While sound

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financial management practices can mitigate these adverse effects, weak inflation control mechanisms may moderate or weaken the relationship between financial management practices and bank value, leading to unpredictable market outcomes (IMF, 2023).

1.1.1 Financial management practices

In the banking context, financial management practices encompass capital structure management, liquidity management, and corporate investment practices, all of which directly influence risk exposure, profitability, market confidence, and ultimately bank value (Brigham & Ehrhardt, 2022). Effective financial management translates financial principles such as efficiency, prudence, transparency, and value maximization into operational decisions that shape how banks finance assets, manage cash flows, and invest in growth opportunities (Mishkin & Eakins, 2021). Within commercial banks, financial management practices involve strategic decisions on the optimal mix of debt and equity financing, maintenance of adequate liquidity buffers, and selection of investment projects that balance risk and return.

Well-executed financial management practices enhance bank value by improving profitability, reducing financial risk, and strengthening investor confidence. Optimal capital structure decisions lower the weighted average cost of capital and increase firm valuation. Adequate liquidity management reassures depositors and investors of a bank's solvency, thereby supporting market capitalization and share price stability. Strategic corporate investments contribute to sustainable growth, innovation, and competitive advantage, all of which are reflected in higher bank value (Mishkin & Eakins, 2021). Conversely, weak financial management practices can erode bank value through excessive leverage, liquidity shortfalls, inefficient investments, and heightened vulnerability to macroeconomic shocks.

Globally, commercial banks adopt various financial management practices. In the United States, commercial banks operate within a highly sophisticated and tightly regulated financial system where financial management practices are strongly oriented toward value maximization, risk containment, and market discipline. U.S. banks emphasize prudent capital structure management through strict adherence to Basel III capital adequacy requirements and internal capital planning processes aimed at optimizing leverage while minimizing the cost of capital (Basel Committee on Banking

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Supervision, 2022). Liquidity management practices are anchored on maintaining adequate liquidity coverage and stable funding ratios, supported by advanced asset–liability management systems and regular stress testing to withstand financial shocks (Mishkin & Eakins, 2021).

In Finland, commercial banks operate within the broader European Union regulatory framework, which emphasizes financial stability, transparency, and sustainable value creation. Finnish banks adopt conservative capital structure management practices aligned with the EU Capital Requirements Regulation and Directive, ensuring adequate capitalization and prudent leverage levels to support long-term bank value (European Central Bank, 2022). Liquidity management practices are strengthened through strict compliance with liquidity coverage and net stable funding requirements, supported by robust asset–liability management mechanisms that balance profitability and risk exposure. Corporate investment practices in Finnish banks prioritize low-risk, high-quality assets, digital banking infrastructure, and sustainable finance initiatives, reflecting a long-term value orientation. These disciplined financial management practices, combined with strong institutional oversight, have contributed to relatively stable bank valuations and resilience against economic volatility (IMF, 2023).

In South Africa, commercial banks have adopted financial management practices that closely mirror international best practices, particularly following the implementation of Basel III standards. Capital structure management is characterized by maintaining strong capital buffers and prudent leverage ratios to absorb potential losses and support investor confidence (South African Reserve Bank, 2022). Liquidity management practices involve maintaining defined target liquidity levels and actively managing maturity mismatches through asset–liability committees, ensuring banks can meet short-term obligations without undermining profitability. Corporate investment practices are informed by comprehensive risk assessment frameworks, focusing on diversified lending portfolios and strategic investments that enhance earnings stability. These practices have strengthened the resilience and market valuation of South African banks, although macroeconomic challenges and inflationary pressures continue to influence bank value dynamics (IMF, 2023).

In Ethiopia, financial management practices among commercial banks have evolved gradually within a historically state-dominated and tightly regulated banking

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environment. Capital structure management is largely shaped by regulatory requirements and limited access to external financing, resulting in conservative leverage levels and a strong reliance on retained earnings (Tadesse & Abebe, 2022). Liquidity management remains a central concern due to shallow financial markets and limited liquidity instruments, prompting banks to maintain high liquidity buffers to meet regulatory obligations and operational needs. (World Bank, 2023).

In Kenya, commercial banks, particularly those listed at the Nairobi Securities Exchange, operate in a competitive and increasingly regulated environment where financial management practices play a critical role in shaping bank value. Capital structure management is guided by the Central Bank of Kenya's prudential guidelines, which emphasize capital adequacy, risk-based capitalization, and compliance with Basel III principles to enhance stability and investor confidence (CBK, 2024). However, fluctuations in inflation and macroeconomic conditions continue to influence the strength of the relationship between financial management practices and bank value, underscoring the importance of sound financial governance and macroeconomic stability in Kenya's banking sector (IMF, 2023).

1.1.2 Capital Structure Management Practices

Capital structure management practices influence how banks balance risks and return in pursuit of enhanced market valuation. Decisions relating to leverage levels, equity financing, and retained earnings affect the cost of capital, earnings volatility, and investor perceptions of financial stability. Banks that maintain optimal capital structures are better positioned to absorb losses, comply with regulatory capital requirements, and signal long-term solvency to the market, thereby supporting higher bank value (Handema & Haabazoka, 2020). Well-capitalized banks tend to enjoy lower funding costs and stronger market confidence, which positively affects share prices and market capitalization (Pham, Hoang, & Pham, 2022).

Regulatory frameworks such as Basel III have further shaped capital structure management practices by emphasizing higher-quality capital, leverage control, and countercyclical buffers. While increased capital requirements may constrain short-term profitability, they enhance long-term bank value by reducing bankruptcy risk and earnings uncertainty (Basel Committee on Banking Supervision, 2022). Studies show that banks with prudent leverage policies and strong capital adequacy ratios are more

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resilient to macroeconomic shocks and are rewarded with superior valuations by investors, particularly during periods of financial stress (Demirgüç-Kunt, Martinez Peria, & Tressel, 2020).

1.1.3 Liquidity Management Practices

Liquidity management practices play a critical role in sustaining bank value by ensuring the continuous ability to meet short-term obligations while supporting profitable operations. Effective liquidity planning reduces the likelihood of distress financing, forced asset sales, and reputational damage, all of which negatively affect market valuation. Banks that maintain optimal liquidity levels are perceived as safer by depositors and investors, leading to improved confidence and stability in share prices (Olaleye, Adesina, & Yusuf, 2021). However, excessive liquidity holdings may reduce returns by tying funds in low-yield assets, thereby affecting value creation.

Modern liquidity management practices incorporate asset–liability management techniques, liquidity stress testing, and compliance with regulatory liquidity ratios such as the Liquidity Coverage Ratio and Net Stable Funding Ratio. These measures enhance the transparency and predictability of cash flows, contributing to improved investor perceptions and bank value (Basel Committee on Banking Supervision, 2022). Banks with strong liquidity positions exhibit lower earnings volatility and higher market valuations, particularly in environments characterized by economic uncertainty and inflationary pressures (Sathyamoorthi, Mapharing, & Dzimiri, 2020).

1.1.4 Corporate Investment Practices

Corporate investment practices influence bank value by determining how effectively financial resources are allocated to income-generating and growth-enhancing activities. Investment decisions involving lending portfolios, technological innovation, branch expansion, and strategic acquisitions directly affect future cash flows and profitability, which are key drivers of market valuation. Banks that consistently invest in projects with positive risk-adjusted returns enhance long-term earnings potential and shareholder wealth (Ross, Westerfield, & Jaffe, 2022). Conversely, inefficient or politically motivated investments may erode value through increased credit risk and capital misallocation.

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Sound corporate investment practices are supported by robust capital budgeting frameworks, risk assessment mechanisms, and alignment with long-term strategic objectives. Empirical literature shows that banks with disciplined investment appraisal processes and diversified investment portfolios experience superior market performance and valuation outcomes (Mishkin & Eakins, 2021). Additionally, investments in digital banking and financial innovation have been associated with improved operational efficiency and enhanced bank value, particularly in competitive, technology-driven markets (Frame, Wall, & White, 2019).

1.1.5 Bank Value

Bank value reflects the market's overall assessment of a bank's financial strength, growth prospects, and ability to generate sustainable returns for shareholders. It goes beyond accounting profitability to capture investors' expectations about future cash flows, risk exposure, governance quality, and resilience to economic shocks (Ross, Westerfield, & Jaffe, 2022). Bank value is commonly reflected through market-based indicators such as share price, market capitalization, and Tobin's Q, which incorporate both current performance and anticipated future outcomes (Demsetz & Villalonga, 2023). As such, bank value represents how effectively a bank converts its financial, human, and technological resources into long-term shareholder wealth under prevailing regulatory and macroeconomic conditions (Mishkin & Eakins, 2021).

Several dimensions of bank value are particularly relevant for listed commercial banks. Market valuation captures investors' perceptions of a bank's risk-return profile and growth potential, as reflected in share price movements and market capitalization (Fama & French, 2021). Earnings sustainability assesses the stability and predictability of profits over time, which influences dividend expectations and long-term valuation. Banks with stable and diversified income streams are generally valued higher due to reduced earnings volatility and lower perceived risk (Berger & Bouwman, 2017). Asset quality also plays a critical role, as high levels of non-performing loans undermine confidence in future cash flows and depress bank value (Gorton & Metrick, 2020).

Risk exposure constitutes another important dimension of bank value, particularly in the context of financial institutions that operate under leverage and maturity transformation. Excessive credit, liquidity, or market risk increases the probability of financial distress, thereby reducing market valuation (Diamond & Rajan, 2021). Capital

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adequacy and liquidity buffers mitigate these risks by enhancing solvency and reassuring investors of a bank's ability to withstand shocks. In addition, corporate governance and regulatory compliance influence bank value by shaping transparency, accountability, and strategic decision-making, which are closely monitored by capital market participants (Basel Committee on Banking Supervision, 2022).

Macroeconomic conditions further shape bank value by affecting interest rates, borrowing costs, asset prices, and real returns. Inflation, in particular, influences bank value through its impact on operating costs, loan performance, and the real value of earnings and capital (IMF, 2023). High and volatile inflation increases uncertainty, weakens purchasing power, and may erode investor confidence, thereby moderating the relationship between financial management practices and bank value. Conversely, a stable macroeconomic environment enhances the predictability of returns and strengthens market valuation (Demirgüç-Kunt, Martinez Peria, & Tressel, 2020).

1.1.6 Listed Commercial Banks in Kenya

Kenya's banking sector is a critical pillar of the national economy, contributing to financial intermediation, investment facilitation, and economic growth. The sector comprises commercial banks licensed by the Central Bank of Kenya (CBK), with 11 banks currently listed on the Nairobi Securities Exchange (NSE), including Equity Bank, KCB Group, Co-operative Bank, and Standard Chartered Kenya (CBK, 2024). Listed commercial banks play a dual role: they provide banking services to households and businesses while serving as instruments of wealth creation for investors through market valuation, dividends, and capital appreciation. Despite their strategic importance, these banks face persistent challenges that affect their market value, investor confidence, and long-term financial sustainability.

One of the key issues affecting listed banks is variability in market valuation and investor perceptions of risk. Data from the NSE indicate that share prices of some listed banks have fluctuated significantly over the past decade, often unrelated to changes in fundamental performance indicators such as profitability or asset growth (CMA, 2023). Such volatility reflects underlying concerns about capital adequacy, risk exposure, and management efficiency, which directly influence bank value. Weaknesses in internal financial management practices, such as suboptimal capital structure, inefficient liquidity management, and inconsistent investment decisions, have been identified as

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major contributors to declining or stagnating market valuation among certain listed banks (Berger & Bouwman, 2023).

Liquidity challenges also affect bank value in the Kenyan context. Although regulatory requirements mandate minimum liquidity ratios, some banks struggle to maintain adequate buffers to absorb shocks, meet short-term obligations, or respond to unexpected withdrawals (CBK, 2024). Periods of macroeconomic uncertainty, interest rate fluctuations, and inflationary pressures further exacerbate liquidity pressures, often resulting in temporary declines in share price and investor confidence. Poor liquidity management not only constrains operational flexibility but also signals potential vulnerability to market participants, thereby impacting the overall valuation of listed banks (Diamond & Rajan, 2001).

Corporate investment practices constitute another area influencing bank value. Listed banks in Kenya make strategic investments in loan portfolios, digital banking infrastructure, regional expansion, and capital projects aimed at enhancing future profitability. However, misaligned investment decisions such as overexposure to high-risk loans or underinvestment in technological innovation have, in some cases, reduced returns on equity and eroded shareholder value (Mishkin & Eakins, 2021). Market reactions to such investment inefficiencies are reflected in declining share prices and reduced market capitalization, highlighting the direct link between corporate investment effectiveness and bank value.

1.2 Statement of the Problem

Despite the critical role that commercial banks play in Kenya's financial system and capital markets, the value of listed commercial banks on the Nairobi Securities Exchange (NSE) has exhibited persistent volatility and uneven performance. Although the banking sector has historically contributed a significant proportion of the NSE's total market value, with eight banks among the top ten most valuable listed firms and the sector accounting for about 38% of the market's total valuation of approximately KSh 2.62 trillion, current trends reveal sharp disparities in market valuation across banks and periods of declining investor confidence (Business Daily, 2025).

For instance, NCBA Group and Absa Bank Kenya recently overtook KCB Group in market valuation following a substantial decline in KCB's share price, which fell to an 11½-year low, pushing its market capitalization down to about KSh 64.43 billion

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despite its status as one of the largest lenders in the country (Business Daily, 2025). Moreover, nine out of the 11 listed banks are trading at price-to-book ratios below one, suggesting that investors value these institutions at less than their net assets, a strong indication of perceived undervaluation and weak market confidence (Business Daily, 2025). Additionally, broader asset trends point to structural pressures on the banking sector's valuation base. For the first time in over two decades, the total value of banking industry assets in Kenya declined by 1.6% to KSh 7.6 trillion, primarily driven by adverse economic conditions and contraction among large and medium-sized banks (Business Daily, 2025). This stagnation or asset shrinkage further complicates efforts to sustain bank value, as asset growth is a core determinant of future earnings, investor confidence, and market capitalization.

Several studies have examined the relationship between financial management practices and the performance of commercial banks. For instance, Njeri and Muiru (2021) investigated the effects of selected financial management practices on the financial performance of commercial banks in Kenya. Their findings indicated that capital structure management positively and significantly influenced the financial performance of these banks. Similarly, Sava (2021) explored the influence of financial management practices, including working capital management and capital structure decisions.

While these studies provide valuable insights, their focus was primarily on accounting-based financial performance indicators, such as return on assets, return on equity, and profit margins. In contrast, the current study emphasizes bank value as a market-based measure, incorporating factors such as share price, market capitalization, and Tobin's Q. Unlike financial performance, which reflects past or current operational efficiency, bank value captures investors' perceptions of future growth potential, risk management effectiveness, and overall market confidence (Demsetz & Villalonga, 2001; Ross et al., 2022). Consequently, financial management practices may have different effects on bank value than they do on traditional performance measures, especially under volatile market conditions and macroeconomic fluctuations. Therefore, the study sought to assess the effect of financial management practices on the bank value of commercial banks listed on the Nairobi Securities Exchange, Kenya.

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1.3 Objectives of the Study

The study was guided by both general and specific objectives

1.3.1 General Objectives

The general objective of the study was to examine the effect of financial management practices on the bank value of commercial banks listed on the Nairobi Securities Exchange, Kenya.

1.3.2 Specific Objectives

The following are the specific objectives that guided the study

i. To establish the effect of capital structure management practices on bank value of commercial banks in listed at the Nairobi Securities Exchange, Kenya.
ii. To assess the effect of liquidity management practices on bank value of listed commercial banks in Kenya.
iii. To examine the effect of corporate investment practices on bank value of listed commercial banks in Kenya.
iv. To evaluate moderation effect of inflation on the relationship between financial management practices and bank value of listed commercial banks in Kenya

1.4 Research Hypotheses

The study tested the following research hypothesis:

$H0_1$: There is no statistically significant relationship between capital structure management practices and the bank value of listed commercial banks in Kenya.

$H0_2$: There is no statistically significant relationship between liquidity management practices and the bank value of listed commercial banks in Kenya.

$H0_3$: There is no statistically significant relationship between corporate investment practices and the bank value of listed commercial banks in Kenya.

$H0_4$: There is no statistically significant moderating effect of inflation in the relationship between financial management practices and bank value of listed commercial banks in Kenya.

1.5 Significance of the Study

The study is significant to policymakers, particularly government officials in the Central Bank of Kenya (CBK), the Capital Markets Authority (CMA), and the Ministry

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of Finance, as it provides insights into how financial management practices influence the market value of listed commercial banks. The findings help identify gaps in capital structure management, liquidity management, and corporate investment practices, enabling policymakers to design regulatory frameworks and supervisory policies that promote financial stability, enhance investor confidence, and strengthen market governance. This, in turn, contributes to the sustainable growth and valuation of Kenya's banking sector.

The study is also beneficial to bank management and financial practitioners, including finance managers, treasurers, investment analysts, and risk officers within commercial banks. By highlighting areas where financial management practices may affect market valuation, the research provides practical guidance on optimizing capital structures, improving liquidity buffers, and enhancing investment decision-making. This supports more efficient, transparent, and value-oriented financial management strategies that improve bank performance, market confidence, and shareholder wealth.

Furthermore, the findings are relevant to investors, development partners, and researchers. Investors in banking stocks and financial instruments can use the study to assess the potential impact of management practices on bank value, informing portfolio allocation and risk management decisions. Scholars and researchers can benefit from new empirical evidence on the relationship between financial management practices and market-based bank value, identifying gaps in the literature and informing future studies on corporate governance, financial strategy, and capital market efficiency in Kenya and other emerging economies.

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1.6 Scope of the Study

The study focused on the effect of financial management practices on the bank value of listed commercial banks in Kenya. Specifically, it assessed the influence of capital structure management practices, liquidity management practices, and corporate investment practices on bank value. Inflation was examined as a moderating variable, influencing the relationship between financial management practices and bank value.

The unit of analysis was the listed commercial banks in Kenya, while the unit of observation consisted of 10 listed banks at the Nairobi Securities Exchange, including their finance managers, treasurers, investment officers, and risk management personnel. A census approach was adopted to include all targeted banks and relevant officers in

the data collection process. The study was conducted over a period of twelve months, from July 2024 to June 2025, and covered all listed commercial banks at the NSE where financial management decisions affecting bank value were actively implemented.

1.7 Limitations of the Study

The study encountered a number of limitations. First, the study relied exclusively on secondary data, which limited the researcher's ability to control the data's quality, scope, and level of detail. Some relevant aspects of financial management practices could not be directly observed or captured due to differences in reporting formats and disclosure levels among the listed commercial banks. To overcome this limitation, the study relied only on audited and officially published reports, ensured consistency by extracting comparable variables across all banks, and covered a five-year period (2019–2023) to enhance data adequacy and reliability.

Secondly, the use of secondary data restricted the study to historical information, making it difficult to capture real-time managerial decisions and emerging financial strategies that may influence bank value. This limitation was addressed by employing panel data regression analysis, which combined cross-sectional and time-series data to improve the robustness of the findings and to capture both bank-specific and time-related effects.

1.8 Assumptions of the Study

The study was based on the assumption that the secondary data obtained from the audited annual reports of commercial banks listed at the Nairobi Securities Exchange and publications by the Central Bank of Kenya were accurate, complete, reliable, and consistently prepared in compliance with applicable accounting standards and regulatory requirements. It was further assumed that the reported financial figures truly reflected the banks' financial management practices and market value over the study period, and that inflation data used in the analysis appropriately captured the prevailing macroeconomic conditions affecting the banking sector in Kenya.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on financial management practices which are presented in various sections. The first section presented the theoretical literature review, the second covered the empirical review, and the last section provided an overview of the conceptual framework, showing the relationships among the study's critical variables. This chapter also identified the research gaps that the current study needs to address in earlier studies.

2.2 Theoretical Review

This study was guided by several theories explaining the relationship between financial practices and bank value. This includes trade-off theory, Keynesian Liquidity preference theory, net present value theory and market power theory.

2.2.1 Trade-Off Theory

The Trade-off theory of capital structure, primarily developed by Modigliani and Miller (1958), focuses on the balance firms strike between the benefits and costs of debt and equity financing. According to this theory, firms aim to achieve an optimal capital structure by weighing the tax benefits of debt against the potential costs associated with financial distress. The theory suggests that there is an optimal level of debt where the marginal benefit of debt equals its marginal cost, thus maximizing the firm's value. According to Myers (1984), the trade-off theory highlights how firms optimize their capital structure by managing the balance between debt's tax benefits and the costs of financial distress. Jensen and Meckling (1976) argued that the trade-off theory also aligns with agency costs, where the use of debt can mitigate agency problems between shareholders and managers.

One of the strengths of the Trade-off theory is its comprehensive approach to understanding capital structure by incorporating both tax benefits and financial distress costs, providing a balanced view of how firms make financing decisions (Kraus & Litzenberger, 1973). It also aligns with empirical evidence showing that firms with stable cash flows and low growth opportunities tend to have higher debt ratios, reflecting the practical application of the theory (Frank & Goyal, 2003). Additionally,

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the theory's consideration of agency costs offers insights into how debt can reduce free cash flow problems and align managerial incentives with shareholder interests. The model's flexibility in accommodating real-world complexities, such as tax and bankruptcy costs, makes it a valuable tool for analyzing corporate finance decisions (Myers, 2010).

Despite its strengths, the Trade-Off Theory faces criticism for its assumptions and practical applicability. One critique is its reliance on the assumption that firms have perfect information and can accurately estimate the costs of financial distress, which is often not the case in reality. Additionally, the theory has been criticized for not adequately addressing the dynamic nature of capital structure adjustments and market imperfections (Rajan & Zingales, 2010). Critics like Harris and Raviv (2011) argue that the theory oversimplifies the capital structure decision by not fully incorporating market frictions and the varying impact of debt on firms of different sizes and industries. Moreover, the theory's focus on static optimal capital structure does not account for the flexibility firms may require to adapt to changing economic conditions (Miller, 2009).

The Trade-off theory of capital structure suggests that a bank's value is optimized by balancing the benefits of debt financing, such as tax shields and lower costs of capital, against the costs of potential financial distress and bankruptcy. In the context of commercial banks in Kenya, this theory can be used to explain how capital structure management practices affect bank value. By carefully managing the mix of debt and equity, banks can maximize their value by leveraging the tax advantages of debt while mitigating the risks associated with high leverage, such as increased interest expenses and financial instability. For Kenyan banks, applying the Trade-off theory involves assessing the trade-offs between maintaining adequate capital to absorb shocks and using debt to finance growth, thus ensuring that their capital structure supports sustainable value creation and financial stability in a dynamic economic environment.

2.2.2 Keynesian Liquidity Preference Theory

Keynesian liquidity preference theory, introduced by John Maynard Keynes in 1936, focuses on the demand for money as a key determinant of interest rates and economic activity. The theory emphasizes that individuals and firms prefer to hold liquid assets (money) for three main reasons: transactional, precautionary, and speculative motives. Keynes argued that changes in the money supply influence interest rates and overall

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economic conditions by altering individuals' and businesses' liquidity preferences. According to Baumol (2010), the transactional and precautionary motives reflect the need to manage day-to-day expenses and unexpected events, respectively. Tobin (2015) extended Keynes's theory with his liquidity preference theory, emphasizing the role of interest rates in balancing the demand for money against other assets. Miller and Orr (2011) introduced a model that combines Keynesian liquidity preference with transaction costs, suggesting firms manage liquidity by optimizing the trade-off between holding cash and incurring transaction costs.

Keynesian liquidity preference theory is praised for its comprehensive approach to understanding the role of money in the economy and its impact on interest rates (Keynes, 1936). It provides a clear framework for analyzing how changes in the money supply affect economic activity and interest rates, offering valuable insights into monetary policy (Baumol, 2010). The theory also highlights the importance of liquidity in financial decision-making, a crucial consideration for both individuals and firms (Tobin, 2015). Additionally, the theory's integration of transactional and speculative motives helps explain variations in money demand and interest rates under different economic conditions (Miller & Orr, 2011).

The Keynesian liquidity preference theory has been criticized for its assumptions and limitations. Critics argue that the theory oversimplifies the relationship between money demand and interest rates, failing to account for the complexities of modern financial markets (Friedman, 2014). The assumption that money demand is driven solely by transactional, precautionary, and speculative motives has been challenged, with some scholars suggesting that factors such as financial innovation and changing economic conditions play a more significant role (Lucas, 1988). Additionally, the theory does not adequately address the influence of global financial markets and the impact of monetary policy on liquidity preference (Cagan, 2015).

The Keynesian liquidity preference theory posits that individuals and institutions prefer to hold liquid assets over less liquid ones due to uncertainty and the need for immediate access to cash. This theory can be applied to commercial banks in Kenya to explain how liquidity management practices impact bank value. According to this theory, banks must balance their liquidity holdings to meet short-term demands while also investing in profitable but less liquid assets. By managing liquidity effectively, banks can ensure

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they have sufficient reserves to handle withdrawals and other obligations, thus avoiding liquidity crises and maintaining customer confidence. At the same time, prudent liquidity management allows banks to optimize returns on their investments. For Kenyan banks, aligning liquidity management with Keynesian principles helps sustain operational stability and enhance overall bank value, particularly in a volatile economic environment.

2.2.3 Net Present Value (NPV) Theory

The Net Present Value (NPV) Theory is a fundamental concept in financial management, is rooted in the work of Fisher (1930) and developed further by Modigliani and Miller (1958). This theory evaluates investment opportunities by calculating the present value of expected future cash flows and subtracting the initial investment. A project with a positive NPV is considered financially viable, as it is expected to generate more value than the cost of investment. Modigliani and Miller (1958) extended this by incorporating the effects of capital structure on NPV, demonstrating that the method remains effective regardless of financing choices. According to Brealey and Myers (2013), NPV is widely accepted as the most reliable method for investment evaluation due to its focus on cash flow generation rather than accounting profits. The theory is further supported by Ross, Westerfield, and Jaffe (2016), who argue that NPV accounts for the time value of money and risk, thereby providing a comprehensive measure of a project's worth.

NPV theory is valued for its ability to provide a clear and quantifiable measure of investment profitability, making it a fundamental tool for financial decision-making (Fisher, 1930). It accurately reflects the time value of money, offering a straightforward approach to evaluating the financial viability of projects (Modigliani & Miller, 1958). The method's focus on cash flows rather than accounting earnings ensures a more accurate assessment of potential returns (Brealey & Myers, 2013). Additionally, NPV accounts for the risk and uncertainty of future cash flows, providing a comprehensive evaluation of investment opportunities (Ross, Westerfield, & Jaffe, 2016).

Despite its strengths, NPV theory has been criticized for its reliance on precise cash flow forecasts and discount rates, which can be challenging to estimate accurately (Garrison, 2007). Critics argue that the method may not adequately address the flexibility and potential changes in investment opportunities over time, as it assumes a

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static investment environment (Copeland & Weston, 1988). Moreover, NPV does not account for non-financial factors such as strategic alignment or market conditions, which can influence a project's overall success (Higgins, 2012). Additionally, the theory assumes that cash flows are reinvested at the discount rate, which may not reflect the true reinvestment opportunities available (Garrison, 2007).

Net Present Value (NPV) Theory can be used to explain the impact of corporate investment practices on the value of commercial banks in Kenya by evaluating the profitability of potential investments. According to NPV Theory, an investment is considered valuable if its expected cash inflows, discounted to their present value, exceed the initial investment cost. For Kenyan banks, applying NPV Theory involves assessing various investment opportunities, such as expanding loan portfolios or investing in new technologies, by calculating their expected NPV. Investments with positive NPVs are likely to increase the bank's overall value by generating returns that exceed their costs. By prioritizing projects with high NPV, Kenyan banks can enhance their financial performance and shareholder value, ensuring that their investment decisions align with long-term growth objectives and contribute positively to their market valuation.

2.2.4 Market Power Theory

The Market power theory, primarily associated with industrial organization economics, is rooted in the work of Joan Robinson (1933) and Edward Chamberlin (1933). This theory focuses on how firms with significant market power can influence prices and profits by leveraging their control over market conditions. Firms with substantial market power can set prices above competitive levels, leading to higher profitability and increased market value. Chamberlin (1933) expanded this by describing how firms with differentiated products and market power can achieve higher profit margins. Tirole (2014) further developed the theory by exploring how firms use market power to engage in strategic behaviour, such as price discrimination and product differentiation, to maximize profits. Schmalensee (2017) examined the implications of market power on market structure and competition, emphasizing that firms with market power can sustain higher profitability through reduced competitive pressures.

The Market power theory provides valuable insights into how firms with significant control over market conditions can influence prices and profitability (Robinson, 1933).

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It highlights the role of market power in enabling firms to achieve higher profit margins through strategic pricing and product differentiation (Chamberlin, 1933). The theory's focus on strategic behaviour, such as price discrimination, offers a comprehensive understanding of how firms can exploit market power for competitive advantage (Tirole, 2014). Additionally, it emphasizes the importance of market structure in determining firm profitability, offering practical implications for antitrust regulation and competitive policy (Schmalensee, 2017).

Market power theory has faced criticism for its assumptions and applicability. Stigler (2012) argued that the theory may overestimate the impact of market power on profitability, as real-world market conditions often include competitive forces and regulatory constraints that can limit firms' pricing power. The theory has also been criticized for not adequately accounting for the dynamic nature of markets and the influence of technological change on market power (Nelson & Winter, 2010). Additionally, the focus on market power and pricing may overlook other factors, such as innovation and consumer preferences, that can also affect firm performance (Porter, 2010).

The Market Power Theory is relevant to this study as it provides a framework for understanding how commercial banks' ability to influence market prices and control competitive dynamics can affect their value. According to the theory, banks with greater market power through large market share, product differentiation, or control over pricing can generate higher profits, stabilize cash flows, and maintain stronger capitalization, all of which contribute to higher bank value. For listed commercial banks in Kenya, financial management practices such as capital structure decisions, liquidity management, and strategic investments can enhance a bank's market power by improving operational efficiency, reducing risk, and enabling competitive lending or investment strategies.

2.3 Empirical Review

2.3.1 Capital Structure Management Practices and Bank Value

Olunja (2025) investigated the role of capital structure in financial performance among Kenyan banks, focusing on Equity Group, KCB Group, and Stanbic Kenya over the financial years 2021–2023. The study adopted a quantitative research design, utilizing

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secondary financial data from audited financial statements and regulatory reports. Data were analyzed using regression and ratio analysis to examine the relationship between debt-to-equity ratios, Return on Equity (ROE), and Return on Assets (ROA). The findings revealed that Equity Group, which maintained the highest debt-to-equity ratio, achieved superior financial performance compared to KCB Group and Stanbic Kenya, highlighting the positive impact of leverage on profitability. The study concluded that capital structure significantly influenced financial performance in Kenyan banks, with higher leverage enhancing returns but also increasing financial risk. However, the study focused only on profitability measures such as ROE and ROA, leaving market-based indicators of bank value unexplored, which limits its applicability to investors concerned with market valuation. Additionally, the study was restricted to three banks, which may not fully capture the diversity of capital structure practices among all listed commercial banks in Kenya.

Widyastuti, Komara, and Layyinaturrobaniyah (2019) investigated the effect of capital structure on financial performance among commercial banks in Indonesia over the period 2009–2017. The study adopted a quantitative research design, utilizing annual data extracted from audited financial statements. Data were analyzed to examine the relationship between short-term loans, long-term debt, equity, and profitability measured through Return on Equity (ROE). The findings revealed that short-term loans had a significant positive influence on bank profitability, indicating that deposits and other short-term borrowings were considered the cheapest source of funding. The study concluded that while capital structure decisions, particularly short-term leverage, could enhance financial performance, banks needed to carefully manage liquidity risk to meet withdrawal obligations. However, the study focused primarily on profitability measures and firm value in the context of Indonesian banks, leaving market-based indicators of bank value among listed banks unexplored, which limits its applicability to investors concerned with market valuation.

Tran Thi Kim Oanh, Nguyen, Le, and Duong (2023) examined the impact of capital structure and bank liquidity on the performance of commercial banks in Vietnam, using 463 annual bank-year observations from 37 banks over the period 2003–2020. The study adopted a quantitative research design and employed Bayesian linear regression, complemented by Generalized Least Squares (GLS) estimations, to analyze the effects of leverage and liquidity on performance measures such as Return on Assets (ROA),

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Return on Equity (ROE), and Earnings Per Share (EPS). The findings revealed that a higher leverage ratio reduced ROA and ROE but positively influenced EPS, while bank funding liquidity had a significant positive effect on all performance indicators. The study concluded that both capital structure and liquidity management significantly affected bank performance, providing evidence for the Pecking Order Theory while contradicting the Trade-Off Theory. However, the study focused primarily on Vietnamese banks in a transition market, leaving market-based indicators of bank value, such as share price and market capitalization, unexplored, which limits the applicability of its findings to investors concerned with market valuation..

Morales and Garcia (2018) explored the influence of capital structure on corporate profitability in Brazilian retail companies. A cross-sectional research design was employed, with a sample of 300 firms chosen through random sampling. Data collection involved financial reports and interviews with financial managers, while data analysis was conducted using correlation and regression techniques. The study found a significant positive relationship between leverage and profitability, concluding that moderate debt use can enhance corporate profitability.

Zhang, Liu, Wang, and Chen (2021) examined the effects of capital structure decisions on the performance of technology firms in China. A longitudinal research design was used, tracking 150 firms over five years. Purposive sampling was employed to select firms, and data were collected from financial statements and annual reports. Using panel data analysis, the study found that firms with balanced debt and equity financing performed better than those relying heavily on either form. The study concluded that an optimal capital structure is vital for sustaining long-term growth. However, the study focused exclusively on technology firms, leaving its applicability to the banking sector unexplored, where capital structure dynamics and regulatory requirements differ significantly. Additionally, the study emphasized accounting-based performance measures without considering market-based indicators of firm or bank value, which limits insights for investors and market analysts.

Mbele, Owino, Njoroge, and Kariuki (2020) investigated the impact of capital structure decisions on the financial performance of manufacturing firms in Kenya. Using a descriptive research design, they selected a sample of 200 firms through stratified random sampling. Data were collected via structured questionnaires and analyzed using

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regression analysis. The findings revealed that firms with a higher debt-to-equity ratio experienced improved financial performance due to the tax shield benefits of debt. The study concluded that strategic capital structure management is crucial for enhancing firm performance. However, the study focused solely on manufacturing firms, leaving its applicability to the banking sector unexplored, where regulatory requirements and liquidity considerations play a significant role. Additionally, the study examined only accounting-based performance measures and did not include market-based indicators such as bank value or market capitalization, limiting its relevance to investors.

2.3.2 Liquidity Management Practices and Bank Value

Amira, Alala, and Musiega (2020) examined the influence of liquidity risk management on the financial performance of commercial banks in Kenya. The study adopted both explanatory and longitudinal research designs and analyzed panel data from 32 commercial banks covering the period 2010 to 2019. Descriptive and inferential statistics were applied using Eviews to assess the relationship between liquidity risk management and performance measures, specifically Return on Equity (ROE) and Return on Assets (ROA). The findings revealed that liquidity risk management had an insignificant negative effect on both ROE and ROA, suggesting that excessive focus on liquidity could limit profitability. The study concluded that while liquidity risk management is necessary for operational stability, it may reduce financial performance if not carefully balanced. However, the study focused only on accounting-based performance measures, leaving market-based indicators of bank value, such as share price or market capitalization, unexplored, which limits its relevance to investors and shareholders.

Zhu, Liang, and Yao (2025) examined how market value management (MVM) and liquidity management (LM) influence the relationship between shareholder equity management and firm performance, using data from 1,166 Australian companies over the period 2015–2023. The study adopted a quantitative research design and employed regression analysis to assess the moderating effects of MVM and LM on firm performance. The findings revealed that high market-value management enhanced market performance and investor expectations, while high liquidity management ensured financial stability and flexibility, thereby significantly moderating the U-shaped relationship between equity management and performance. The study

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concluded that effective financial management, combining market-value and liquidity strategies, is critical to improving firm performance. However, the study focused on Australian companies, leaving its applicability to Kenyan commercial banks unexplored, where regulatory frameworks, market dynamics, and investor behaviour differ considerably.

Matunda, Miroga, and Otinga (2024) examined the relationship between liquidity management and the financial performance of commercial banks in Kenya, considering the effects of capital adequacy, non-performing loans, inflation, and interest rates. The study adopted a quantitative research design and applied a random-effects model for panel data analysis, using data from the Central Bank of Kenya. The findings revealed that an increase in capital adequacy positively influenced Return on Assets (ROA) by 0.130 units, while a rise in non-performing loans negatively impacted ROA by 0.114 units. Inflation had a marginal negative effect, whereas interest rates positively influenced ROA by 0.875 units. The study concluded that effective liquidity management is crucial for optimizing financial performance while balancing regulatory requirements and operational demands. However, the study focused solely on accounting-based measures of financial performance, leaving market-based indicators of bank value, such as stock prices and market capitalization, unexplored, which limits its relevance to investors and market analysts.

Aluodo and Musau (2024) investigated the effect of liquidity management practices on the financial performance of microfinance banks in Nairobi City County, Kenya. The study adopted a descriptive research design and employed regression analysis using secondary data from the Central Bank of Kenya covering the period 2017 to 2022. The findings revealed that operational cash flow management and cash management had a significant positive impact on financial performance, whereas operational efficiency management had a negative impact. The study concluded that effective liquidity management is critical for enhancing financial performance and recommended adherence to statutory minimum liquidity ratios. However, the study focused exclusively on microfinance banks, leaving its applicability to commercial banks, especially those listed on the Nairobi Securities Exchange, unexplored. Additionally, the study emphasized accounting-based performance indicators such as profitability, without considering market-based measures of bank value**,** limiting its relevance for investors and market stakeholders.

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Murekatete, Mulyungi, and Ismail (2024) examined the effect of liquidity management practices on the profitability of commercial banks in Kigali, Rwanda, using Ecobank as a case study. The study adopted a census approach, targeting 20 bank staff from the operations, finance, and treasury departments, and collected both primary data through structured questionnaires and secondary data from documents such as books, journals, and online sources. The study concluded that effective liquidity management is crucial for ensuring financial stability and enhancing profitability. However, the study focused only on a single commercial bank in Rwanda, limiting the generalizability of the findings to other banks or contexts such as Kenyan commercial banks listed on the Nairobi Securities Exchange. Additionally, the study focused on accounting-based profitability measures without exploring market-based indicators of bank value, thereby reducing its relevance to investors.

2.3.3 Corporate Investment Practices and Bank Value

Ateino (2022) examined the relationship between financial performance and investment decision-making in Kenya, focusing on the interactions between profitability and liquidity as determinants of financial performance. The findings indicated that sound liquidity and profitability management are critical for enhancing organizational performance and supporting investment strategies that increase firm value. However, the study primarily focused on broad financial performance measures without specifically examining market-based indicators of bank value such as stock prices or market capitalization, limiting its applicability to investors in publicly listed commercial banks. Additionally, the study adopted a general descriptive approach without collecting firm-specific empirical data from banks, leaving a methodological gap regarding how investment and liquidity decisions are operationalized within Kenyan commercial banks.

Muhia (2025) assessed the influence of corporate governance practices on the financial performance of investment firms listed on the Nairobi Securities Exchange (NSE) between 2014 and 2023. The study employed a correlational research design within a positivist philosophy, using secondary data from NSE, CBK, and KNBS, and applied panel regression models to examine relationships between corporate governance, risk management, portfolio diversification, and asset allocation. The findings revealed that effective corporate governance, including diverse board compositions and the absence

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of CEO duality, positively and significantly influenced financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and composite performance measures. The study concluded that strong governance structures, board oversight, and internal control mechanisms enhance decision-making, investor confidence, and overall firm performance. However, the study focused exclusively on investment firms rather than commercial banks, leaving a contextual gap regarding how corporate governance practices affect bank value in the Kenyan banking sector.

Lee and Choi (2020) investigated the effects of corporate investment practices on the financial stability of South Korean conglomerates. A longitudinal research design was used, tracking 100 conglomerates over ten years. Purposive sampling was employed to select firms, and data were collected from financial statements and annual reports. Panel data analysis revealed that firms with diversified investment portfolios experienced greater financial stability. The study concluded that diversified investments are essential for mitigating risks and enhancing stability. However, the study focused on conglomerates rather than commercial banks, creating a contextual gap regarding the influence of corporate investment practices on bank value in the financial sector. Additionally, the research primarily assessed financial stability as the outcome, leaving market-based indicators of firm value unexplored, which limits its applicability for investors interested in bank valuation and shareholder wealth maximization.

Obare, Omondi, Wambugu, and Maina (2021) conducted a study on the impact of corporate investment practices on the growth of technology firms in Kenya. A cross-sectional research design was used, with a sample of 200 firms selected through stratified random sampling. Data were collected via structured questionnaires and analyzed using regression analysis. The findings revealed that strategic investment decisions in research and development significantly contributed to the growth and competitiveness of technology firms. The study concluded that technology firms must prioritize investment in innovation to sustain growth. However, the study focused exclusively on technology firms, leaving a contextual gap regarding the effects of corporate investment practices on the value of commercial banks in Kenya. Additionally, the research emphasized growth and competitiveness as outcome variables, without considering market-based indicators of firm value, limiting its relevance to investors and policymakers interested in bank valuation and shareholder wealth creation.

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2.3.4 Inflation and Bank Value

Lekupanai Leleok and Makori (2024) investigated the effect of inflation on non-performing loans (NPLs) in non-listed commercial banks in Kenya. The study employed an exploratory research design, utilizing panel data from 41 non-listed banks spanning the period 2013 to 2021. A panel regression model was applied to examine the relationship between inflation and NPLs, alongside other systemic risk factors such as interest rates and exchange rates. The study concluded that effective monetary policies are essential for mitigating the short-term impacts of inflation on NPLs and recommended that policymakers focus on short-term strategies to stabilize loan repayment capabilities. However, the study focused solely on non-listed commercial banks, leaving a contextual gap regarding listed banks where market valuation and investor expectations may interact differently with inflation.

Huridi, Malek, and Abdul Hadi (2024) examined the impact of inflation on the financial performance of commercial banks in Malaysia and Indonesia, using annual secondary data from 2005 to 2022. The study applied Ordinary Least Squares (OLS) regression and the Engle-Granger Cointegration (EG) test to assess short- and long-term relationships between inflation and bank performance, measured by the capital asset ratio (CAR) and Return on Equity (ROE). The study concluded that banks may adjust to anticipated inflationary trends, but continuous oversight is necessary to maintain stability. However, the research focused exclusively on banking sectors in Malaysia and Indonesia, creating a contextual gap in understanding how inflation affects financial performance in African or Kenyan banks, where economic structures, regulatory frameworks, and market conditions differ.

Moyo and Tursoy (2020) investigated the impact of inflation and exchange rate fluctuations on the financial performance of South Africa's four largest commercial banks, Standard Bank, Nedbank, Capitec Bank, and FirstRand Bank, over the period 2003 to 2019. Financial performance was measured using Return on Equity (ROE), while inflation and exchange rates served as independent variables. The study employed ARDL, FMOLS, and DOLS estimation techniques, revealing a significant inverse relationship between inflation and ROE, whereas exchange rate fluctuations exhibited a weak relationship with bank performance. The findings indicate that higher inflation negatively affects profitability, emphasizing the need for effective

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macroeconomic risk management in the banking sector. However, the study was limited to South African banks, creating a contextual gap regarding how inflation and currency fluctuations influence the financial performance of commercial banks in other developing economies, particularly Kenya. Additionally, the research relied solely on accounting-based measures of performance, leaving a conceptual gap in understanding the impact of inflation and exchange rate on market-based indicators, such as bank value, which are critical for investors and strategic decision-making.

Patel and Kumar (2020) investigated the impact of inflation on investment decisions in Indian real estate companies. A longitudinal research design was used, tracking 100 companies over ten years. Purposive sampling was employed to select firms, and data were collected from financial statements and annual reports. Panel data analysis revealed that high inflation rates discouraged long-term investments, leading to reduced growth and profitability. The study concluded that real estate companies should adopt inflation hedging strategies to protect investments. However, the study focused solely on Indian real estate companies, leaving a gap in understanding how inflation affects investment decisions in other sectors or emerging markets. Additionally, the research relied exclusively on quantitative financial data, overlooking managerial perspectives, investor behavior, and market sentiment that could influence investment decisions.

2.4 Summary of the Reviewed Literature

Table 2. 1: Summary of the Reviewed Literature

Authors	Topic of the Study	Findings of the Study	Research Gaps	How to Address the Gaps
Olunja (2025)	Role of capital structure in financial performance among Kenyan banks	Found that higher debt-to-equity ratios improved ROE and ROA, enhancing financial performance. Concluded that capital structure significantly influences bank profitability.	Focused only on profitability measures and limited to three banks. Market-based indicators of bank value were not examined.	The current study will examine capital structure management practices on both accounting- and market-based bank value of all listed commercial banks in Kenya

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				using a causal research design and quantitative secondary data from CBK annual reports.
Widyastuti, Komara & Layyinaturrobaniyah (2019)	Effect of capital structure on financial performance of Indonesian banks	Short-term loans positively influenced ROE, suggesting that deposits and other short-term borrowings are the cheapest source of funding.	Study context was limited to Indonesian banks and focused solely on profitability measures. Market-based bank valuation was not considered.	This study will focus on listed commercial banks in Kenya, investigating how capital structure decisions influence both accounting and market-based bank value using secondary CBK data.
Tran Thi Kim Oanh, Nguyen, Le & Duong (2023)	Impact of capital structure and liquidity on Vietnamese banks	Higher leverage reduced ROA and ROE but positively influenced EPS; bank liquidity positively affected all performance indicators.	Context limited to Vietnamese banks; emphasis was on accounting-based measures, leaving market-based indicators unexplored.	The current study will assess capital structure and liquidity management practices on accounting and market-based bank value among listed Kenyan commercial banks.
Morales & Garcia (2018)	Influence of capital structure on corporate profitability in Brazilian retail companies	Found a positive relationship between leverage and profitability; moderate debt enhances corporate profitability.	Study focused on retail sector in Brazil; banking sector context and market-based valuation were not considered.	This study will focus on capital structure practices in Kenyan commercial banks, examining both accounting and market-based bank value.

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Zhang, Liu, Wang & Chen (2021)	Capital structure decisions and performance of technology firms in China	Balanced debt and equity financing led to better firm performance; optimal capital structure is vital for long-term growth.	Focused on technology firms; emphasis on accounting measures only; market-based indicators not included.	The current study will analyze capital structure management practices on accounting and market-based bank value of listed commercial banks in Kenya.
Mbele, Owino, Njoroge & Kariuki (2020)	Capital structure and performance of manufacturing firms in Kenya	Higher debt-to-equity ratios improved financial performance due to tax shield benefits.	Limited to manufacturing firms; market-based bank value not examined.	This study will focus on listed commercial banks in Kenya, incorporating both profitability and market-based indicators of bank value.
Amira, Alala & Musiega (2020)	Liquidity risk management and financial performance of Kenyan banks	Liquidity risk management had an insignificant negative effect on ROE and ROA; excessive focus on liquidity may limit profitability.	Accounting-based performance only; market-based indicators of bank value unexplored.	The current study will examine liquidity management practices and their effect on both accounting and market-based bank value of listed commercial banks in Kenya.
Zhu, Liang & Yao (2025)	Market value and liquidity management in Australian companies	High market value management enhanced performance; liquidity management ensured financial stability and	Conducted in Australia; regulatory and market differences make applicability to Kenyan banks uncertain.	This study will investigate liquidity management practices in Kenyan commercial banks and their impact on accounting and

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		flexibility.		market-based bank value.
Matunda, Miroga & Otinga (2024)	Liquidity management and performance of Kenyan banks	Capital adequacy positively affected ROA, non-performing loans negatively impacted ROA; interest rates had positive effects.	Focused on accounting measures only; market-based indicators of bank value not considered.	The current study will combine liquidity management analysis with market-based indicators of bank value among listed Kenyan commercial banks.
Aluodo & Musau (2024)	Liquidity management in microfinance banks, Nairobi	Cash flow and cash management positively influenced financial performance; operational efficiency management negatively impacted performance.	Limited to microfinance banks; market-based bank value not explored.	This study will focus on liquidity management practices in listed commercial banks, examining their effect on both profitability and market-based bank value.
Murekatete, Mulyungi & Ismail (2024)	Liquidity management and profitability of Ecobank, Rwanda	Effective liquidity management enhanced profitability and financial stability.	Single-bank study; findings not generalizable; market-based indicators unexplored.	The current study will investigate liquidity management across multiple listed Kenyan banks, linking practices to both accounting and market-based bank value.
Ateino (2022)	Investment decision-making and financial performance in Kenya	Sound liquidity and profitability management improved organizational performance and investment	Broad focus on financial performance; market-based bank value indicators not specifically	This study will focus on corporate investment practices and their effect on accounting and

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		outcomes.	examined; lack of bank-specific empirical data.	market-based bank value in listed commercial banks in Kenya.
Muhia (2025)	Corporate governance and financial performance of NSE-listed investment firms	Effective governance positively influenced ROA and ROE; strong board oversight enhanced performance.	Limited to investment firms; banking sector not studied.	This study examines corporate investment practices in Kenyan commercial banks, assessing effects on accounting and market-based bank value.
Lee & Choi (2020)	Corporate investment practices and financial stability of South Korean conglomerates	Diversified investments enhanced financial stability, mitigating risks.	Focused on conglomerates rather than banks; market-based indicators of value unexplored.	This study investigates corporate investment practices in listed Kenyan commercial banks and their effect on market-based bank value.
Obare, Omondi, Wambugu & Maina (2021)	Corporate investment practices and growth of technology firms in Kenya	Strategic investments in R&D enhanced growth and competitiveness .	Focused on technology firms; market-based bank value not examined.	This study will analyze corporate investment practices in listed commercial banks, linking them to market-based bank value.
Lekupanai Leleok & Makori (2024)	Inflation and non-performing loans in non-listed Kenyan banks	Inflation influenced NPLs; effective monetary policies recommended.	Focused only on non-listed banks; investor-focused market valuation not explored.	The current study examines the impact of inflation on accounting and market-based bank value in listed commercial

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				banks in Kenya.
Huridi, Malek & Abdul Hadi (2024)	Inflation and financial performance of banks in Malaysia & Indonesia	Banks adjusted to anticipated inflation; oversight required to maintain stability.	Banking context outside Kenya; African banking sector dynamics not considered.	This study investigates inflation effects on accounting and market-based bank value of listed commercial banks in Kenya.
Moyo & Tursoy (2020)	Inflation and exchange rate effects on South African banks	Higher inflation negatively affected ROE; exchange rate effects were weak.	Limited to South African banks; market-based bank value not examined.	This study examines inflation and currency fluctuations and their effects on accounting and market-based bank value in Kenyan listed banks.

2.5 Conceptual Framework

A conceptual framework provides a structured explanation of the key variables in a study and illustrates how they are presumed to relate to one another. It serves as a logical model that links the independent variables to the dependent variable, guided by existing theories and empirical evidence. The framework helps clarify the scope of the study, identify relevant variables, and guide data collection, analysis, and interpretation of findings. In this study, the conceptual framework explains how financial management practices influence the bank value of listed commercial banks in Kenya, while recognizing the role of macroeconomic conditions. The framework is anchored on the assumption that effective internal financial decisions enhance both the financial performance and market valuation of banks.

Independent Variable **Dependent Variable**

Capital Structure Management
- Total Assets
- Total Liabilities

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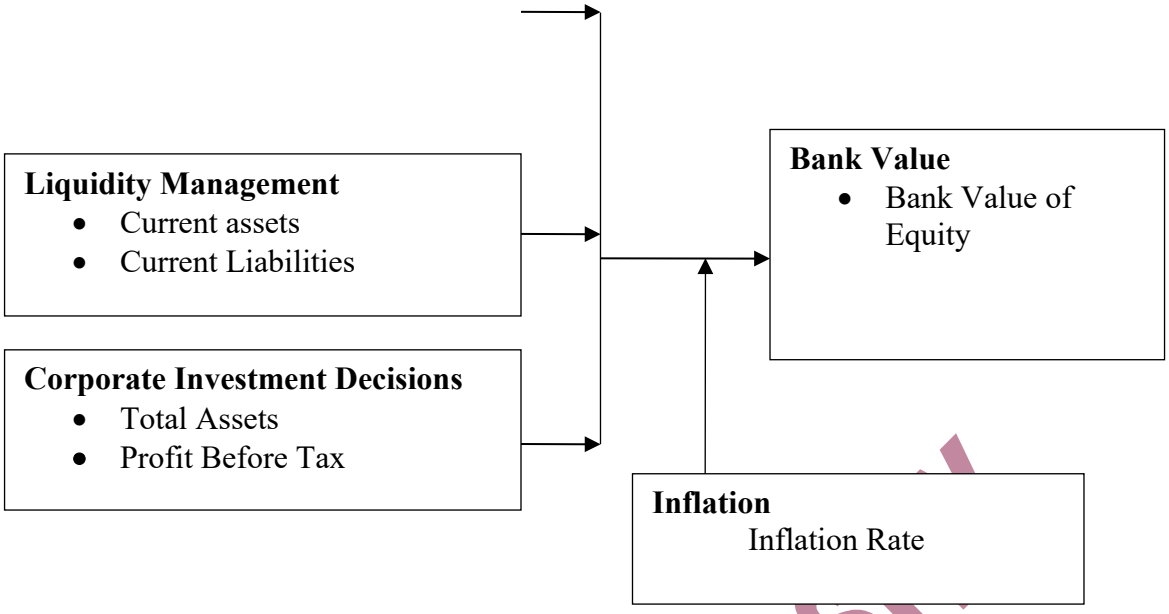


Figure 2. 1: Conceptual Framework for Financial Management Practices and Bank Value

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CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the methodology to be used for the study. It presents the research design, target population, sampling and sample size, data collection and data analysis, and ethical considerations.

3.2 Research Design

The study employed a mixed research design, integrating both descriptive and explanatory (causal) approaches. The adoption of a mixed research method was appropriate as it enabled the study to comprehensively examine financial management practices while also establishing their effect on bank value among commercial banks listed at the Nairobi Securities Exchange (NSE), Kenya. The descriptive component was suitable for systematically documenting the existing financial management practices, specifically capital structure management, liquidity management, and corporate investment practices, using observable and verifiable secondary data drawn from audited financial statements. This approach facilitated an objective assessment of trends and patterns in financial decision-making across the listed commercial banks over the period 2019 to 2023.

The explanatory component of the design was justified by the need to establish causal relationships between financial management practices and bank value, as well as to evaluate the moderating effect of inflation on this relationship. By applying panel data regression techniques, the study was able to analyze both cross-sectional and time-series variations, thereby enhancing the robustness and reliability of the findings. The census approach, involving all ten listed commercial banks in Kenya, further strengthened the design by eliminating sampling bias and ensuring comprehensive coverage of the study population. Overall, the mixed research design provided a rigorous framework for generating empirical evidence on how financial management practices influence bank value within the Kenyan banking sector.

3.3 Target Population

The target population for this study comprised all 10 listed commercial banks in Kenya as of December 31, 2022, that have been in operation from 2019 to 2023. Bryman and Bell (2018) define the population as the entire group of factors from which the

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researcher wants to draw conclusions. The entire set of constituents to whom the researcher can lawfully apply the findings is referred to as the target population.

3.4 Data Collection Instruments

This study used secondary data collection to gather information on capital structure management practices, liquidity management practices, corporate investment practices, inflation and bank value of listed commercial banks in Kenya. Secondary data refers to information obtained from preexisting sources (Johnston, 2019). Data was gathered from annual audited reports of commercial banks published by the Central Bank of Kenya (CBK) from 2019 to 2023. This time range is considered suitable as it allows for tracking changes in capital expenditure trends and evaluating their impact on the financial health of commercial banks. Data was collected using a data collection sheet (Appendix I). Financial statements used for data extraction were included balance sheets, statements of financial position, cash flow statements, and notes to the accounts. Data extraction was performed based on a document inspection guide.

3.5 Data Collection Procedure

The initial step for the researcher was to apply for a license with the National Commission for Science, Technology, and Innovation (NACOSTI) through St Paul's University. A formal request for access to the financial records required for the study was subsequently made to the Capital Markets Authority (CMA). After obtaining the necessary approvals, the researcher collected data from various commercial banks and the CBK.

3.6 Measurement of the Variables

The measures that was utilized to operationalize the study variables and simplify the application of the linear multiple regression analysis are shown in Table 3.4.

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Table 3. 1: Operationalization of the Variables

Variable	Proxy Value Measurement
Bank Value	Ratio of the market value of banks' equity to banks' book value of equity (Tobin's Q)
Capital Structure Management	The ratio of banks' total debt to their total assets is. Debt ratio. A low debt ratio will affect bank value positively while a high debt ratio will affect bank value negatively.
Liquidity Management	Ratio of banks' cash flow to their liabilities, which is the current ratio. A high current ratio will have a positive effect on the bank value, while a low current ratio will have a negative effect on the bank value.
Corporate investment practices	Ratio of banks' profit before tax to their total assets, which is the ROA ratio. A high ROA ratio will indicate a positive future growth in the bank value, while a low ROA ratio will indicate a negative future growth in the bank value.
Inflation	Consumer Price Index. An increase in the adjusted R-squared due to the inclusion of inflation will indicate the presence of a significant moderation effect of inflation in the relationship between the dependent and independent variables. A decrease in the adjusted R-squared due to the inclusion of inflation will indicate the presence of an insignificant moderation effect of inflation in the relationship between the dependent and independent variables.

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3.7 Data Analysis and Presentation

Data analysis comprises the organization of data obtained and the structuring of its significant components so that the findings are easily, efficiently, and effectively communicated. Data was analyzed using descriptive and inferential analysis. Descriptive analysis involved the use of frequencies, percentages, mean and standard deviation. Before the inferential analysis the study conducted a number of diagnostic test. The first diagnostic test was a multicollinearity test. Multicollinearity test is the phenomenon in which one independent variable in a multiple regression model may be linearly predicted from the analysis of the others to a given degree of accuracy (Sekaran & Bougie, 2010). The data was examined for multicollinearity by calculating the Variance Inflation Factor (VIF) and determining the tolerance (1/VIF). Independent variables are considered collinear if their VIF values are between 5 and 10. In case of the presence of multicollinearity, highly correlated variables were removed or combined into a single variable.

The second was autocorrelation tests, which were used to check the randomness of a dataset. Understanding the degree of autocorrelation helps in understanding the dependencies within the data, which is vital for making statistical inferences. In this case, the study used the Durbin-Watson test to check for the presence of autocorrelation in the regression model. If data shows autocorrelation, it means the residuals of the model are correlated, violating the assumption of independence. To address this issue, the researcher used autoregressive models, such as Generalized Least Squares (GLS) to correct for autocorrelation in the error terms.

The third test was the homoscedasticity test, which is a condition in which all the errors have a common variance across the observations. Homoscedasticity violates the homoscedasticity assumption and occurs when the error variance is different among the values of the independent variable. The presence of homoscedasticity creates biases in test statistics and confidence levels. A modified Wald test was utilized to test homoscedasticity. The presence of homoscedasticity was corrected by obtaining white's homoscedasticity-corrected standard errors of ordinary least squares estimators.

Inferential statistics involved the use of correlation and regression analysis to determine the nature, strength, and direction of the relationships between the study variables. Correlation analysis was used to establish the degree and direction of association

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between financial management practices, inflation, and bank value, while regression analysis was employed to determine the magnitude and significance of the effect of capital structure management, liquidity management, and corporate investment practices on bank value, as well as to assess the moderating effect of inflation on these relationships. The data obtained was presented in the form of means, and the results were presented in tables.

A multiple regression model was used in the study because it allows simultaneous analysis of the effects of two or more variables. The research adopted this model because the relationship between financial management practices and bank value was linear. Bank value was expressed as a function of financial management practices thus the multiple linear regression model below was used:

Bank value $= f$ (Financial management practices)

$Y = \beta_{\circ} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}$ ..... (Equation 1)

Where:

Y = Bank Value of banks as measured by Tobin Q (Market value of equity/ Book value of equity).

$\beta_{\circ}$ = y intercept of the regression equation.

$\beta_1, \beta_2, \beta_3$ = coefficients of X_1, X_2 , and X_3 respectively.

X_1 = Capital structure management of banks

X_2 = Liquidity management of banks.

X_3 = Corporate investment practices of banks.

$\mathcal{E}$ = Error term

To take into consideration the moderating effect of inflation, the study employed Moderated Multiple Regression (MMR). Aguinis & Ryan (2010) attest that MMR is an inferential process where the MMR regression and the unmoderated regression, which are two distinct least-squares regressions, are compared through the interaction of the independent variables with the moderating variable, resulting in the equation shown below:

$Y = \beta_{\circ} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_{11}(X_1 X_4) + \beta_{22}(X_2 X_4) + \beta_{33}(X_3 X_4) + \mathcal{E}$.....

(Equation 2)

Where:

Y = Bank Value of banks

X_4 = Inflation.

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3.8 Ethical Considerations

Prior to the commencement of data collection, the researcher obtained a research authorization license from the National Commission for Science, Technology, and Innovation (NACOSTI), in compliance with national research regulations governing scholarly studies in Kenya. As noted by Gelinas et al. (2018), researchers are required to secure approval from relevant institutions and regulatory bodies before accessing or utilizing research data, even where such data are secondary in nature.

In line with this requirement, formal permission was sought from St Paul's University, the Capital Markets Authority (CMA), and relevant regulatory and institutional bodies that oversee commercial banks to access published financial and market data. Since the study relied exclusively on secondary data, the information was obtained from publicly available and officially published sources, including audited annual reports of listed commercial banks, Central Bank of Kenya (CBK) publications, and Capital Markets Authority reports. No direct interaction with human participants or collection of primary data was involved.

Nevertheless, ethical principles relating to research integrity were strictly observed. The researcher ensured that all data sources were used solely for academic purposes and handled responsibly to avoid misrepresentation or misuse. Proper acknowledgment and citation of all data sources were observed to comply with copyright and intellectual property regulations. Where institutional data were used, care was taken to present aggregated findings without attributing sensitive interpretations to individual institutions in a manner that could be misleading or harmful.

The study was conducted with a strong commitment to academic honesty, transparency, and objectivity, ensuring accuracy in data analysis and reporting of findings. By adhering to established ethical guidelines and principles of responsible research conduct, the researcher upheld the integrity of the study while ensuring compliance with institutional, legal, and professional research ethics standards.

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CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the study's findings and discussion, based on an analysis of secondary data collected from published reports on listed commercial banks in Kenya. It begins by presenting the empirical results from descriptive and inferential statistical analyses, aligned with the study objectives and hypotheses. The chapter then discusses the findings by relating them to existing theories and empirical literature, highlighting areas of convergence and divergence. Through this discussion, the chapter interprets the implications of the results on capital structure management practices, liquidity management practices, corporate investment practices, inflation, and bank value, thereby providing a deeper understanding of how these variables interact within the Kenyan banking sector.

4.1 Descriptive Statistics

The study sought to ascertain the relationship between financial management practices and bank value of listed commercial banks in Kenya. The references included Annual Audited Reports of commercial banks in Kenya for a period of five (5 years, covering the period between 2019 and 2023.

4.1.1 Capital Ratio

The study sought to determine the capital ratio of commercial banks, which was calculated by dividing total assets by total liabilities. This ratio offers insight into the financial leverage of a bank, specifically, how much of its operations are financed through borrowed funds versus owned funds. The findings are indicated below

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Table 4. 1: Capital Ratio

	Capital Adequacy Ratio
Absa Bank	17.58756
Equity Bank	18.403016
DTB Bank	20.443296
KCB Bank	17.621984
Stanbic Bank	17.430272
NCBA Bank	17.637778
NIC Bank	17.672272
COOP Bank	19.206124
I&M Bank	21.097408
Standard Chartered Bank	17.797758

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The capital adequacy ratio (CAR) is a crucial indicator of a bank's financial strength, used to assess how well a bank can absorb potential losses and maintain solvency. It reflects the effectiveness of capital structure management practices, which is a key focus of this study. The Central Bank of Kenya (CBK) requires commercial banks to maintain a minimum capital adequacy ratio of 14.5%, comprising a 10.5% total capital requirement plus a 4.0% capital conservation buffer. An analysis of the CARs for the 11 listed commercial banks in Kenya over a five-year period reveals important insights into their financial management practices and the potential impact on bank value.

Among the banks analyzed, I&M Bank reported the highest mean capital adequacy ratio at 21.10%, indicating strong capitalization and prudent capital structure decisions. This reflects effective risk management and a solid financial cushion that can support expansion or absorb shocks. Similarly, DTB Bank and Cooperative Bank posted high CARs of 20.44% and 19.21%, respectively, suggesting robust capital positions that exceed regulatory requirements and reinforce long-term stability. These figures imply that such banks are likely to be perceived positively by investors and stakeholders, potentially translating into higher bank value as measured by Tobin's Q.

Equity Bank, Standard Chartered Bank, NIC Bank, NCBA, KCB, Absa, and Stanbic also maintained capital adequacy ratios ranging between 17.4% and 18.4%, indicating that these institutions manage their capital effectively while maintaining a strong balance between profitability and regulatory compliance. These banks demonstrate

responsible financial management and readiness to withstand adverse market conditions. Their consistent capital levels contribute to investor confidence and support the hypothesis that capital structure management practices positively affect bank value.

These findings reveal considerable heterogeneity in capital structure decisions among Kenya's listed commercial banks. Most of the banks demonstrate strong capital positions, reflecting effective governance and sound financial strategies. Moreover, in the context of inflation considered as a moderating variable in this study banks with stronger capital adequacy are better positioned to weather inflation-related risks, such as the erosion of asset value or increased credit risk. Therefore, capital adequacy serves not only as a regulatory requirement but also as a strategic tool that significantly influences the perceived and actual value of a bank in a competitive financial environment.

According to the Central Bank of Kenya (CBK), commercial banks are required to maintain specific capital adequacy levels to ensure soundness and stability in the banking sector. The key regulatory benchmarks include a minimum core capital to total risk-weighted assets ratio of 10.5%, a total capital to total risk-weighted assets ratio of 14.5%, and a core capital to total deposit liabilities ratio of 8%.

A strong capital structure enables a bank to absorb financial shocks, meet regulatory requirements, and maintain stability in the face of market fluctuations. The findings imply that most commercial banks in Kenya are well-capitalized and potentially resilient against economic shocks, which contributes positively to their bank value, a reflection of their market strength, investor confidence, and long-term sustainability. On the other hand, the presence of banks with extremely low capital ratios signals a need for enhanced regulatory monitoring and internal risk management reforms

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4.1.1.2 Trend of the Capital Ratio among Commercial Banks in Kenya

The study further sought to establish the trend in capital ratios among commercial banks over the 5-year period (2019-2023). The findings are indicated in Figure 4.1.



Figure 4. 1: Trend of the Capital Ratio among Commercial Banks in Kenya

The findings indicated that in the year 2019, the Capital Adequacy Ratio was 17.753%, indicating a healthy capital position among commercial banks. In 2020, the Capital Adequacy Ratio declined to 16.258%, marking the lowest point in the five-year period. This drop could be attributed to the financial strain caused by the COVID-19 pandemic and its economic disruptions, which affected banks' profitability and asset quality. However, in 2021, the Capital Adequacy Ratio surged to 18.186%, which was the highest level in the period. This sharp recovery is likely due to strong post-pandemic economic rebound, recapitalization efforts by banks, or more cautious lending practices aimed at reducing risk exposure.

In 2022, the Capital Adequacy Ratio remained robust at 17.803%, showing continued financial stability and prudence among the banks. In 2023, the Capital Adequacy Ratio declined slightly to 17.328%, remaining comfortably above the regulatory threshold of 14.5%. The trend indicates that Kenyan commercial banks have consistently maintained capital adequacy levels above the regulatory minimum throughout the five-year period. The dip in 2020 reflects a temporary shock from global economic disruptions, while the sharp recovery in 2021 and subsequent stability suggest prudent risk management, strong regulatory oversight, and resilience within the banking sector.

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High capital adequacy ratios indicate that banks have sufficient buffers to absorb financial shocks, ensuring stability in the banking sector. This also positively influences investor confidence and strengthens the banks' ability to support economic growth through lending. However, excessively high CARs may also indicate underutilization of capital, suggesting that banks could be overly cautious, possibly limiting credit availability to the private sector. Therefore, while maintaining capital strength is critical, an optimal balance is necessary to ensure both financial stability and operational efficiency.

4.1.2 Liquidity Ratio

The study sought to determine the liquidity ratio. In this study, liquidity was assessed using the liquidity ratio, calculated as current assets divided by current liabilities. This ratio is a common measure of a bank's short-term financial health and operational efficiency. A liquidity ratio of 1.0 or higher typically indicates that a bank has enough current assets to cover its short-term liabilities, suggesting a sound liquidity position. The findings are indicated in Table 4.2 below.

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Table 4. 2: Liquidity Ratio

	Liquidity Ratio
Absa Bank	1.140728
Equity Bank	1.167444
DTB Bank	1.199098
KCB Bank	1.208198
Stanbic Bank	1.155828
NCBA Bank	0.739794
NIC Bank	0.323242
COOP Bank	0.89677
I&M Bank	0.015454
Standard Chartered Bank	1.857108

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The findings among the 11 listed commercial banks reveal a significant variation in how these institutions manage their short-term financial obligations. Standard Chartered Bank reported the highest average liquidity ratio at 1.857, suggesting exceptional liquidity management and a strong ability to settle immediate liabilities. This level of financial health enhances trust among depositors and investors and likely contributes positively to its market valuation.

KCB Bank, DTB Bank, Equity Bank, and Absa Bank all maintained liquidity ratios slightly above 1.0—ranging from 1.14 to 1.21 indicating they meet regulatory expectations and operate with a healthy liquidity buffer. This balance between liquidity and profitability reflects prudent financial management and contributes to their ability to generate value over time.

Stanbic Bank, with a liquidity ratio of 1.156, and COOP Bank, at 0.897, fall into the moderate range. While Stanbic remains within the desirable range, COOP Bank's ratio falling just below 1.0 could indicate a slightly tighter liquidity position. This may reflect an aggressive asset allocation strategy, in which more resources are tied up in less-liquid investments. Although not alarming, such a position could require close monitoring to avoid liquidity strain during periods of market volatility.

On the other hand, a few banks demonstrated alarmingly low liquidity ratios. NIC Bank reported an average ratio of 0.323, NCBA Bank stood at 0.740, and I&M Bank recorded a critically low ratio of 0.015. These figures raise substantial concerns about their short-term financial flexibility. Such low liquidity ratios could mean that these banks are heavily reliant on longer-term assets or interbank borrowing to meet daily obligations. This weak liquidity position may expose them to cash flow difficulties, especially in times of economic uncertainty or unexpected fund withdrawals. For I&M Bank in particular, a liquidity ratio of 0.015 suggests a potentially serious imbalance that could undermine stakeholder confidence and the bank's market value.

The wide disparity in liquidity ratios across the banks suggests that liquidity management practices vary significantly and are a critical component of financial governance. Strong liquidity enhances investor trust, reduces default risk, and may positively influence a bank's Tobin's Q used in this study as a measure of bank value. Conversely, banks with consistently weak liquidity positions may see their market valuations suppressed due to perceived financial instability and the risk of regulatory non-compliance.

From a policy and performance standpoint, these findings underscore the importance of maintaining adequate liquidity not just for operational soundness but also as a strategic tool to enhance firm value. Banks with balanced liquidity positions are better equipped to navigate uncertain macroeconomic conditions, such as inflationary shocks or shifts in interest rates factors also explored in this study as moderating influences.

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4.1.2.1 Trend of the Liquidity Ratio among Commercial Banks for 5 years (2019-2023)

In addition, the study sought to determine the trend of the liquidity ratio among commercial banks in Kenya for 5 years. The findings are indicated in Figure 4.2.

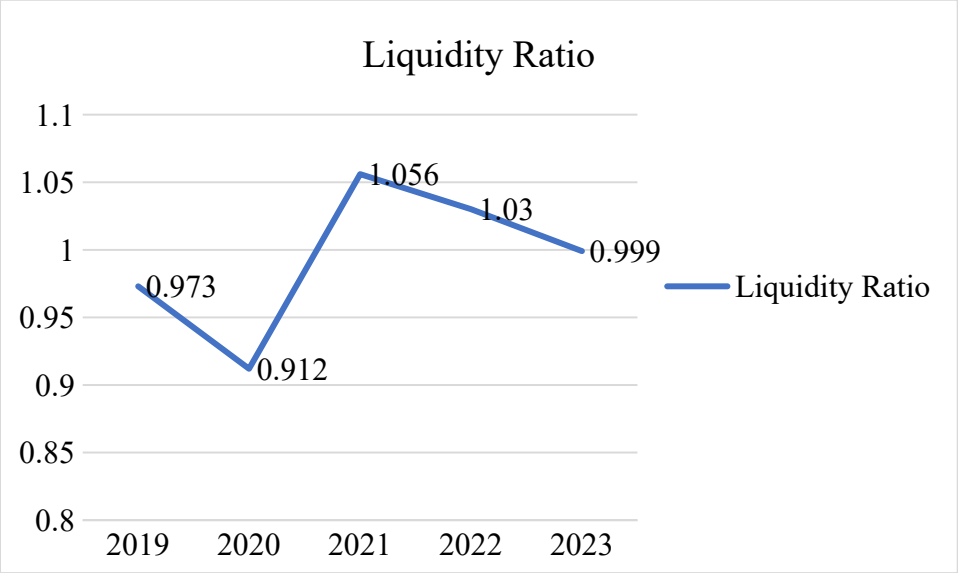


Figure 4. 2: Trend of Liquidity Ratio among Commercial Banks

Based on the 2019 findings, the liquidity ratio was 0.973, slightly below the ideal threshold of 1, indicating that commercial banks had marginally fewer liquid assets than current liabilities. In 2020, the liquidity ratio declined further to 0.912, reflecting a more constrained liquidity position. This decline could be attributed to the economic impact of the COVID-19 pandemic, where banks experienced increased withdrawals, reduced deposits, or delays in asset recovery. However, there was a significant improvement in 2021, with the liquidity ratio rising to 1.056. This sharp increase indicates that commercial banks enhanced their liquidity positions, likely through more prudent asset-liability management, increased deposit mobilization, or access to emergency funding facilities. In 2022, the liquidity ratio remained high at 1.03, indicating continued financial prudence and a strong ability of banks to meet short-term obligations.

In 2023, the liquidity ratio slightly decreased to 0.999. While marginally below the 1 threshold, it still indicates relative stability in liquidity management practices across the banking sector. The trend in liquidity ratios from 2019 to 2023 indicates that commercial banks in Kenya have generally maintained acceptable liquidity levels,

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except in 2020, when external shocks affected the financial system. The sharp recovery post-2020 indicates strong institutional resilience, effective liquidity management, and possibly favourable regulatory interventions by the Central Bank of Kenya to stabilize the sector.

Maintaining a healthy liquidity ratio is vital for depositor confidence, smooth banking operations, and preventing liquidity crises. However, an excessively high liquidity ratio may imply that banks are holding too many low-yielding liquid assets instead of investing in more profitable ventures, which could affect their overall returns.

4.1.3 Investment Ratio

The researcher sought to assess corporate investment using the investment ratio, calculated by dividing total investments by total assets. This ratio indicates the proportion of a bank's asset base allocated to investments, offering insight into how actively the bank engages in income-generating investment activities relative to its total resources. The generally recommended benchmark for capital adequacy in Kenya is a minimum capital adequacy ratio of 14.5% of total risk-weighted assets. This includes a 12% minimum requirement plus a 2.5% capital conservation buffer. The findings are as indicated in Table 4.3 below.

Table 4. 3: Investment Ratio

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From the findings, the investment ratios among the 11 listed commercial banks in Kenya cluster around the 20–30% range, indicating a generally cautious yet strategic approach to investment. NCBA Bank, NIC Bank, and Co-operative Bank all posted the highest investment ratio at 30.92%, suggesting a deliberate strategy to allocate nearly a third of their total assets to investments. This may reflect a focus on earning stable, low-risk returns, particularly from government securities, which are commonly favoured by Kenyan banks. While such a strategy may reduce exposure to credit risk and support stable income, it may also suggest a conservative growth approach, especially if lending activities are limited in favour of safer investment holdings.

Absa Bank (28.44%), DTB Bank (28.12%), and Equity Bank (26.46%) also recorded relatively high investment ratios, indicating a similar trend of asset allocation toward investment portfolios. These ratios suggest that these banks have developed strong investment policies as part of their financial management strategies, potentially boosting profitability through interest and capital gains. Such decisions are likely to have a positive impact on bank value, especially if the investment assets are liquid, low-risk, and yield steady returns.

Standard Chartered Bank (24.76%), I&M Bank (22.36%). These figures indicate a balanced approach to investment, diversifying income without overcommitting to financial assets at the expense of core lending operations. This investment behaviour

	Investment Ratio (%)
Absa	28.44
Equity	26.46
DTB	28.12%
KCB	20.32%
Stanbic	12.08%
NCBA	30.92%
NIC	30.9
COOP	30.9
I&M	22.36
Standard Chartered	24.76%

may appeal to investors seeking both income stability and growth potential, positively influencing Tobin's Q, the bank value indicator used in this study.

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Conversely, KCB Bank (20.32%) and Stanbic Bank (12.08%) posted the lowest investment ratios among the listed banks. For KCB, the 20.32% ratio still reflects a cautious but measured approach. However, Stanbic Bank's notably low investment ratio of 12.08% could imply a more aggressive strategy focused on traditional banking operations such as lending and fee-based income rather than investment income. While this may offer higher returns during economic expansion, it also exposes the bank to greater credit and operational risk. It suggests a more risk-tolerant investment strategy, which may enhance or diminish bank value depending on how well those risks are managed.

These variations in investment ratios reflect different corporate investment philosophies and risk appetites across Kenya's banking sector. Banks with higher ratios may prioritize income stability and capital preservation, particularly during periods of economic uncertainty or inflationary pressure, which are central to your study. On the other hand, banks with lower investment ratios may be more growth-focused, channelling funds into potentially higher-yielding but riskier lending and operational ventures.

From a performance and governance standpoint, the investment ratio directly reflects the bank's financial decision-making competence. High or moderate investment ratios, if paired with positive returns, can enhance a bank's market valuation by providing consistent income and financial resilience. However, overreliance on investments may also signal underutilization of lending opportunities, which could limit long-term growth.

4.1.3.1 Trend of Investment Ratio among Commercial Banks in Kenya

The research further sought to establish the trend in investment ratios among commercial banks in Kenya over the past 5 years. The findings are indicated in Figure 4.3

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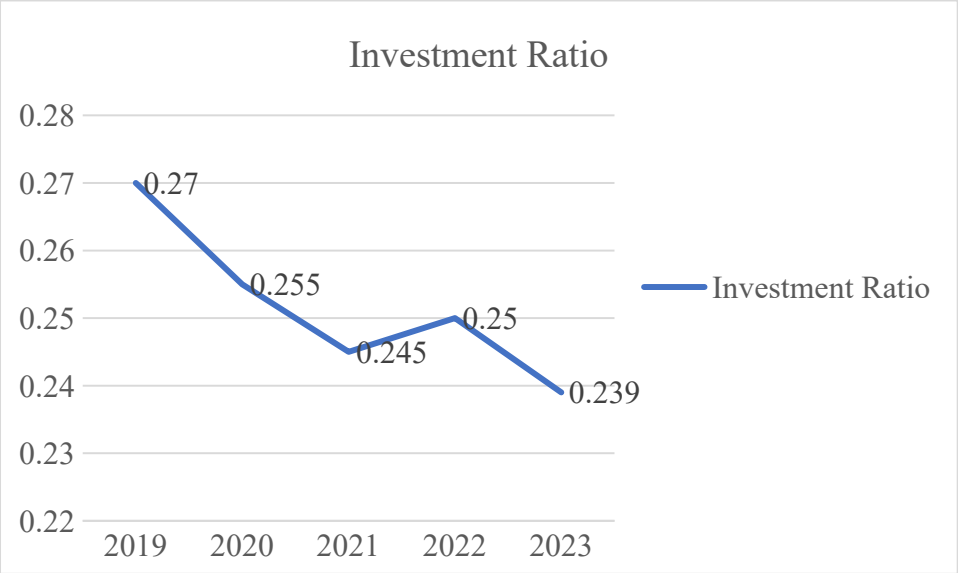


Figure 4. 3: Trend of Investment Ratio among Commercial Banks in Kenya

The findings indicated that in 2019, the investment ratio was 0.27, meaning 27% of total assets were allocated to investment activities. This was the highest ratio recorded during the five-year period, reflecting a relatively aggressive investment strategy among commercial banks during that year. However, the investment ratio steadily declined in the subsequent years, signaling a shift in the asset allocation strategies of banks.

In 2020, the investment ratio dropped to 0.255, and further decreased to 0.245 in 2021. The downward trend during this period could be attributed to uncertainties arising from the COVID-19 pandemic, during which banks may have reduced their investment exposure due to heightened risks in financial markets. This cautious approach was likely adopted to preserve capital and maintain liquidity during a volatile economic period.

In 2022, there was a slight increase in the investment ratio to 0.25, suggesting a modest return to investment activities as economic conditions began to stabilize. However, this rebound was short-lived, as the ratio declined again in 2023 to 0.239, the lowest level over the five-year span. This further reduction could imply a continued cautious investment stance, possibly due to lingering economic uncertainties, regulatory adjustments, or a strategic realignment toward other income-generating activities such as lending or fee-based services.

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The consistent decline in investment ratios from 2019 to 2023 has several implications. It may reflect a conservative shift in the financial strategy of commercial banks, prioritizing liquidity and risk management over aggressive investment pursuits. Alternatively, it might indicate evolving market dynamics or regulatory influences that discourage excessive exposure to investments in favour of more stable or regulated banking operations.

4.1.4 Inflation rate

The study assessed the inflation rate. For commercial banks, inflation plays a significant role as it can influence interest rates, loan repayment capacity, asset valuations, and overall financial decision-making. In this study, inflation was treated as a moderating variable to assess how it influences the relationship between financial management practices (such as capital structure, liquidity, and investment decisions) and the value of commercial banks, as measured by Tobin's Q. The findings are indicated in Table 4.4.

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Table 4. 4: Inflation Rate

		Inflation
N	Valid	50
	Missing	0
Mean		6.4000
Median		6.1000
Std. Deviation		1.11654
Minimum		5.20
Maximum		7.70
Sum		352.00

The findings revealed that the mean inflation rate during the period under review was 6.40%, while the median stood at 6.10%. The standard deviation was 1.1165, suggesting that inflation rates in Kenya have been relatively stable, with only slight fluctuations. The minimum recorded inflation rate was 5.20%, and the maximum was 7.70%, indicating that inflation levels remained within a moderate band.

These values fall within the Central Bank of Kenya's target inflation range, which is generally maintained between 2.5% and 7.5% to support economic stability. The findings, therefore, imply that the inflationary environment during the study period was largely stable and within manageable limits, minimizing its potential to cause severe distortions in financial management practices or in the valuation of commercial banks.

However, even within this moderate range, inflation can have dampening effects on bank profitability and value by influencing interest rate margins, increasing operating costs, and affecting customer borrowing behavior. As a moderator, inflation may either strengthen or weaken the relationship between financial decisions and bank value depending on how effectively banks anticipate and respond to changes in the inflationary environment.

This implies that inflation levels suggest a relatively stable macroeconomic environment in Kenya during the study period, but also emphasize the need for banks to factor inflation into strategic financial decisions, particularly those affecting capital allocation, asset pricing, and long-term investment planning.

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4.1.4.1 Trend of the Inflation Rate in Kenya

The study further sought to establish the trend of inflation in Kenya for the 5 years. The findings are indicated in Figure 4.4.

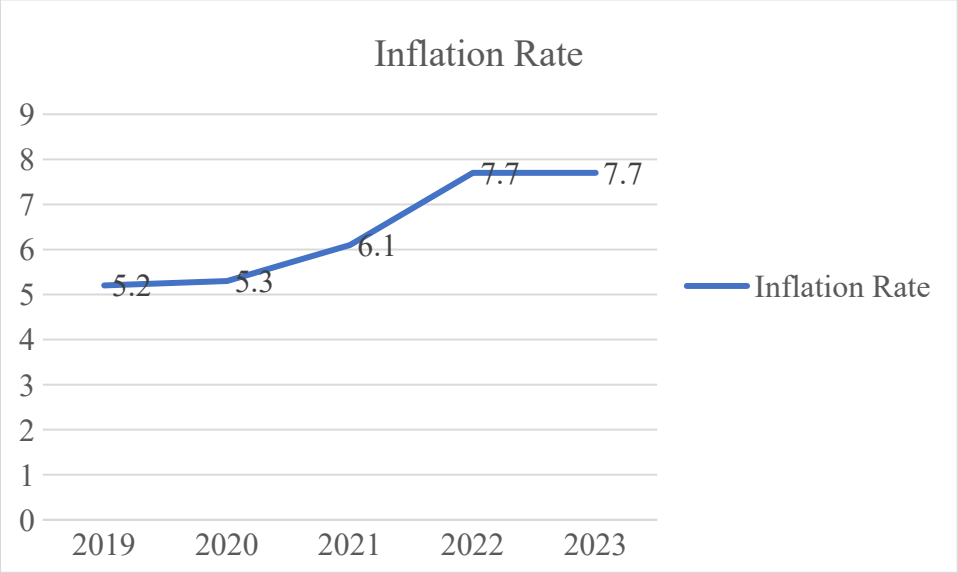


Figure 4. 4: Trend of the Inflation Rate in Kenya

The inflation trend in Kenya over the five-year period from 2019 to 2023 shows a gradual but steady increase in overall price levels. In 2019, the inflation rate was 5.2%, within the Central Bank of Kenya's preferred medium-term target range of 2.5% to 7.5%. This rate indicated a relatively stable economic environment with moderate increases in consumer prices. The following year, 2020, saw a slight uptick in inflation to 5.3%. This modest rise could be attributed to pandemic-related supply chain disruptions and increased operational costs that were passed on to consumers, although overall price pressures remained relatively contained.

A more notable increase occurred in 2021, when inflation rose to 6.1%. This acceleration likely reflected recovering demand following the easing of COVID-19 restrictions, coupled with global supply constraints and rising prices of essential goods such as fuel and food. The situation intensified in 2022 when the inflation rate surged to 7.1%, reaching the upper boundary of the Central Bank's target range. This increase was influenced by global geopolitical tensions (notably the Russia-Ukraine conflict), which disrupted international trade and drove up commodity prices, especially for fuel and food products.

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The inflation rate remained at 7.1% in 2023, indicating persistent inflationary pressures. The continued rise in inflation during this period may be attributed to structural issues in the supply chain, sustained high energy costs, and climate-related challenges affecting agricultural output. The stability of the inflation rate at this elevated level suggests that while inflation did not worsen, it also did not ease, potentially exerting continued pressure on household incomes and business operations.

The implications of this trend are multifaceted. For consumers, rising inflation erodes purchasing power, leading to a higher cost of living. For businesses, especially in the banking sector, inflation can influence interest rate decisions, affect credit demand, and alter the valuation of financial instruments. From a monetary policy perspective, the sustained high inflation may compel the Central Bank to adopt tighter monetary policies, such as raising interest rates, to anchor inflation expectations.

4.1.5 Bank Value

The study sought to determine the bank value. Bank value was measured using Tobin's Q ratio, which is calculated as the market value of equity divided by the book value of equity. Tobin's Q is a widely accepted financial metric that indicates how the market values a firm relative to its accounting value. A Tobin's Q greater than 1 suggests that the market perceives the bank as having strong growth potential or superior intangible assets, while a ratio less than 1 indicates undervaluation or possible inefficiencies. The findings are indicated in Table 4.5.

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Table 4. 5: Return on Assets

D	Tobin's Q Ratio
Absa	1.164
Equity	1.590
DTB	1.332
KCB	0.954
Stanbic	1.332
NCBA	1.000
NIC	1.000
COOP	1.158
I&M	0.120
Standard Chartered	1.104

From the findings the Tobin's Q for the 11 listed commercial banks in Kenya reveals that Equity Bank leads with the highest Q ratio of 1.59, indicating that the market perceives this bank as highly valuable relative to its asset base. This suggests strong investor confidence in Equity Bank's financial management practices, growth strategy, and profitability prospects. The high ratio implies that Equity Bank is efficiently using its assets to generate value and is expected to sustain future performance, making it a positive benchmark in this study.

DTB Bank and Stanbic Bank follow closely, each with a Tobin's Q of 1.332. These values reflect strong market performance and affirm that investors recognize these institutions as well-managed and financially sound. The positive valuation indicates that their financial management practices particularly in capital structuring, liquidity, and investment are contributing effectively to market confidence and corporate value.

Absa Bank and Co-operative Bank also report healthy Tobin's Q ratios of 1.164 and 1.158, respectively, while Standard Chartered Bank's is 1.104. All three banks are valued above their asset bases, reflecting investor confidence in their operational efficiency, governance frameworks, and financial health. These institutions likely benefit from prudent financial management strategies that align with stakeholder

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expectations and regulatory standards, reinforcing the central thesis of your study—that sound financial decisions enhance bank value.

NCBA and NIC Bank each have a Tobin's Q of 1.000, which implies that their market value exactly matches their asset value. While not undervalued, these banks are not commanding a market premium. This could reflect a neutral investor outlook, potentially due to conservative financial strategies, moderate growth prospects, or uncertainty regarding future profitability. Their performance suggests that while they are stable, they may need to enhance capital deployment efficiency or improve market communication to raise their perceived value.

KCB Bank, with a Tobin's Q of 0.954, is slightly undervalued by the market. Despite being one of Kenya's largest banks, this figure may indicate market concerns about its efficiency at converting assets into profits or its exposure to risk. The relatively low ratio could also be a reflection of market sentiment regarding its investment strategies or perceived vulnerabilities, such as overexpansion or credit exposure. This calls for a review of its financial management practices, especially regarding how its capital and liquidity are utilized.

For I&M Bank, in particular, a Tobin's Q of 0.12 indicates deep undervaluation, possibly reflecting market skepticism about its business strategy or financial sustainability. These results reinforce the importance of aligning financial decisions with value-creation strategies and investor expectations.

The variance in Tobin's Q across the listed banks has direct implications for your study. It validates the hypothesis that financial management practices—particularly capital structure, liquidity, and investment policies—play a critical role in influencing bank value. Banks that manage these functions efficiently are rewarded with higher market valuations, while those that fall short tend to be undervalued. Moreover, the results suggest that investor confidence, transparency, and responsiveness to macroeconomic conditions, such as inflation, significantly shape how a bank's financial decisions are perceived and priced in the market.

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4.1.5.1 Trend of Bank Value among Commercial Banks

The study further sought to establish the trend in bank value among commercial banks in Kenya over the 5-year period. The findings are indicated in Figure 4.5

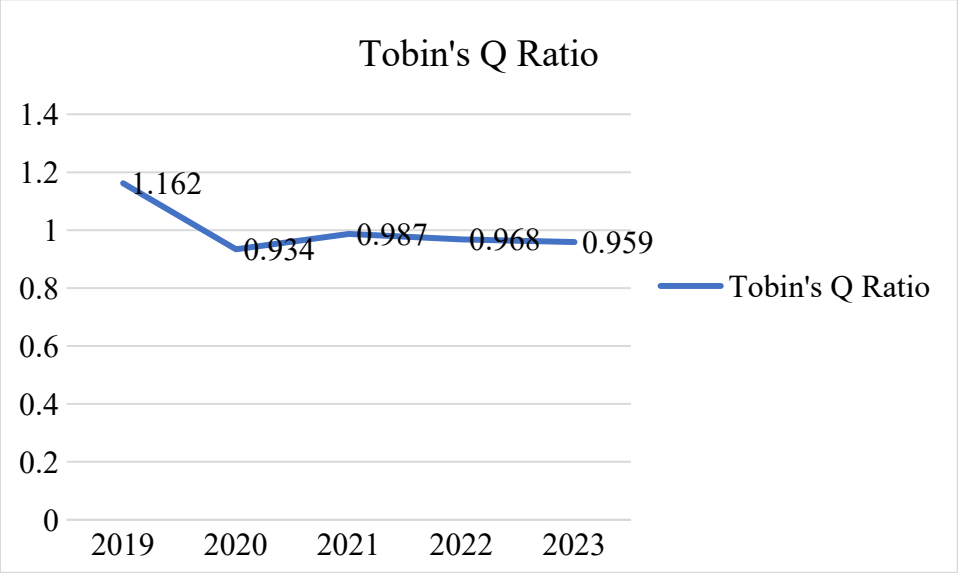


Figure 4. 5 Trend of Bank Value among Commercial Banks

The trend in bank value for commercial banks in Kenya over the five-year period from 2019 to 2023, as measured by the Tobin Q ratio, reflects fluctuations in market valuation of banks' equity relative to their book value. Based on the 2019 findings, the Tobin Q ratio was 1.162, indicating that the market value of listed commercial banks was significantly higher than their book value. This suggests strong investor confidence in the banking sector, possibly due to favourable financial performance, stable macroeconomic conditions, and effective risk management practices at the time.

However, in 2020, the Tobin Q ratio declined sharply to 0.934. This drop coincided with the onset of the COVID-19 pandemic, which severely disrupted economic activities, triggered financial market volatility, and weakened investor sentiment. The reduction in market valuation relative to book value reflects a more cautious market outlook, possibly due to increased credit risk, reduced profitability, and general economic uncertainty during that period.

In 2021, the Tobin Q ratio rose slightly to 0.987, indicating that the market had begun to regain confidence in the banking sector as the economy gradually recovered from the effects of the pandemic. However, the ratio still remained below 1, showing that

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full investor optimism had not been restored. This could be attributed to lingering concerns over loan defaults, regulatory pressures, or a slow economic rebound.

The years 2022 and 2023 showed a continued but modest decline in the Tobin Q ratio to 0.968 and 0.959, respectively. This sustained market undervaluation could be linked to persistent macroeconomic challenges, including inflationary pressures, currency depreciation, and geopolitical uncertainties that are affecting financial markets globally. Additionally, structural issues within the banking sector, such as rising non-performing loans or limited innovation in product offerings, may have dampened investor sentiment.

Overall, the trend in Tobin Q from 2019 to 2023 suggests that while commercial banks in Kenya enjoyed a period of high market valuation in 2019, subsequent years have seen a decline in investor confidence. This decline underscores the importance of strengthening fundamentals such as asset quality, profitability, and corporate governance to enhance the market perception and valuation of banks. It also highlights the need for policy stability and strategic innovation to restore and sustain investor trust in the sector.

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4.1.5.2 Comparison of Ratios

Table 4. 6: Comparison of Ratios

	Capital Adequacy Ratio	Liquidity Ratio	Investment Ratio	Inflation Rate (%)	Tobin's Q Ratio
Absa	17.58756	1.140728	28.44	6.4	1.164
Equity	18.403016	1.167444	26.46	6.4	1.590
DTB	20.443296	1.199098	28.12	6.4	1.332
KCB	17.621984	1.208198	20.32	6.4	0.954
Stanbic	17.430272	1.155828	12.08	6.4	1.332
NCBA	17.637778	0.739794	30.92	6.4	1.000
NIC	17.672272	0.323242	30.92	6.4	1.000
COOP	19.206124	0.89677	30.92	6.4	1.158
I&M	21.097408	0.015454	22.36	6.4	0.120
Standard Chartered	17.797758	1.857108	24.76	6.4	1.104

The findings indicate that the capital adequacy ratios among the banks show that most institutions maintain healthy capital buffers above the regulatory minimum of 14.5% set by the Central Bank of Kenya. I&M Bank, for example, recorded the highest capital adequacy ratio at 21.09%, indicating robust capital reserves and a strong capacity to absorb potential losses. DTB (20.44%), Co-operative Bank (19.21%), and Equity Bank (18.40%) also demonstrate solid capital structures. This suggests potential fragility and a limited buffer to cushion financial shocks, which could negatively affect its perceived value and investor confidence.

In terms of liquidity, which reflects the bank's ability to meet short-term obligations, the results vary widely. Standard Chartered Bank displayed the strongest liquidity position with a ratio of 1.857. These figures suggest that these banks have maintained sufficient liquid assets to meet maturing liabilities, enhancing their stability and short-term resilience. Conversely, I&M Bank's liquidity ratio was a startlingly low 0.015, raising concerns about its immediate financial flexibility. Similarly, NIC (0.323) and NCBA (0.739) showed low liquidity, suggesting that these banks may be relying heavily on illiquid assets or external funding to meet obligations, conditions that pose substantial operational risk and may explain their relatively modest Tobin's Q values.

When examining the investment ratio, which measures the proportion of total assets allocated to investments such as securities or bonds, Co-operative Bank, NCBA, and

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NIC all reported the highest value at 30.92%. This indicates a strategic tilt toward portfolio investments, likely focused on government securities or low-risk financial instruments. Absa (28.44%), DTB (28.12%), and Equity (26.46%) also maintained relatively high investment ratios, reflecting efforts to generate stable returns while managing credit risk. On the lower end, Stanbic Bank (12.08%) and KCB (20.32%) displayed a greater focus on lending and traditional banking operations, possibly aiming for higher yields but at increased risk exposure. While high investment ratios may indicate cautious income diversification, overly conservative investment strategies could limit long-term growth potential and competitiveness.

The inflation rate is constant at 6.4% across all banks, likely representing the average macroeconomic inflation during the study period. While inflation is static in value, it acts as a moderating factor in the relationship between financial decisions and bank value. In this context, banks with weaker capital or liquidity positions are more exposed to inflationary pressures, which can erode asset values and magnify the cost of funds.

Tobin's Q ratio, used in this study as a measure of bank value, provides critical insight into how the market evaluates the effectiveness of each bank's financial management decisions relative to the replacement cost of their assets. A Tobin's Q value greater than one indicates that the market values the bank above the book or replacement value of its assets, signaling strong investor confidence, positive growth expectations, and perceived efficiency in resource utilization. Conversely, a value below one suggests market undervaluation, often reflecting investor concerns regarding profitability, risk exposure, liquidity adequacy, or strategic positioning.

Equity Bank recorded the highest Tobin's Q ratio of 1.59, implying substantial market overvaluation relative to asset replacement costs. This indicates that investors perceive Equity Bank as creating value beyond its tangible assets, likely due to effective capital structure management, strong liquidity buffers, diversified investment strategies, and sustained earnings growth. The high ratio reflects robust market confidence in the bank's long-term growth prospects and strategic leadership. Similarly, DTB and Stanbic Bank, each with a Tobin's Q of 1.332, demonstrate strong market valuation, suggesting that investors regard these institutions as operationally efficient, financially stable, and capable of generating future returns that exceed their asset base.

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In contrast, I&M Bank recorded a significantly low Tobin's Q of 0.12, signaling pronounced market undervaluation. This extreme undervaluation suggests deep investor skepticism regarding the bank's ability to convert its asset base into future earnings. Notably, despite having the highest capital adequacy ratio, the bank's exceptionally low liquidity position appears to have negatively influenced market perception, underscoring the importance of liquidity management in shaping bank value. This finding suggests that capital strength alone is insufficient to enhance bank value if short-term financial flexibility and risk management are weak.

NIC Bank and NCBA, each with a Tobin's Q of 1.0, are perceived by the market as fairly valued, indicating a balance between their asset replacement costs and market valuations. These ratios suggest that investors view the banks' current financial performance, risk profile, and growth potential as adequately reflected in their market prices, with no strong expectations of near-term over- or underperformance.

Co-operative Bank and Absa Bank, with Tobin's Q values of 1.158 and 1.164 respectively, reflect moderate but positive market valuation. These ratios indicate that investors have confidence in the banks' financial management practices, governance structures, and ability to generate sustainable returns, albeit without the aggressive growth expectations observed for Equity Bank. Standard Chartered Bank, with a Tobin's Q of 1.104, also demonstrates favorable market valuation, supported by strong liquidity levels and a stable earnings profile.

Overall, the Tobin Q ratios provide valuable insight into how capital structure, liquidity management, and investment decisions collectively influence bank value. The results highlight that banks with balanced financial strategies and strong liquidity positions tend to enjoy higher market valuation, while weaknesses in liquidity and strategic positioning can significantly erode bank value despite strong capital adequacy. These findings reinforce the relevance of Tobin Q as a robust indicator of market-based bank value and investor sentiment within the Kenyan banking sector.

4.2 Diagnostic Test

With the aim of justifying the use of the regression model, the study conducted pre-estimation tests

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4.2.1 Multicollinearity

The study conducted a multicollinearity test to assess whether the variables were correlated. Multicollinearity occurs when two or more independent variables are highly correlated with each other. When multicollinearity is present in a regression model, it can be difficult to determine the unique contribution of each independent variable to the outcomes. The study result is presented in Table 4.7

Table 4. 7: Test of Multicollinearity Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Capital structure management practices	.955	1.047
	Liquidity management practices	.982	1.018
	Corporate investment practices	.945	1.058

From the findings, the tolerance and Variance Inflation Factor (VIF) values are as follows: capital structure management practices (tolerance=0.955, VIF=1.047); liquidity management practices (tolerance=0.982, VIF=1.018); and corporate investment practices (tolerance=0.945, VIF=1.058). The study results imply that all tolerance values for the four variables under study were above 0.10 and VIF values were all less than 10. This indicates that the data used had no significant multicollinearity issues, ensuring that the unique contribution of each independent variable to the outcomes can be reliably interpreted

4.2.2 Autocorrelation Test

Autocorrelation refers to the correlation of a variable with itself over time. When autocorrelation is present, it implies that the current value of the variable is related to its past values. This can lead to biased estimates of the regression coefficients, as the effect of the independent variables may be attributed to the autocorrelated error term rather than the true relationship between the variables. The results of the test of the autocorrelation assumption are presented in Table 4.8

Table 4. 8: Autocorrelation Test Results

Model	R	Durbin-Watson
1	.471[a]	.740

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The results, as indicated in Table 4.8, revealed that the Durbin-Watson statistic value was 0.856. This implies that the study variables had no autocorrelation because they met the Durbin-Watson threshold of 0 to 4. The Durbin-Watson test reports a test statistic with a value from 0 to 4, where values close to 2 denote no autocorrelation. In conclusion, the data collection instruments were found to be valid and reliable and, therefore, can be used for data collection in the main study.

4.2.3 Homoscedasticity Test

Homoscedasticity is a statistical concept that refers to the assumption of constant variance in the errors (or residuals) of a regression. The researcher sought to determine homoscedasticity using scatterplot diagram. The findings are indicated by the Scatter plot figure 4.6 below.

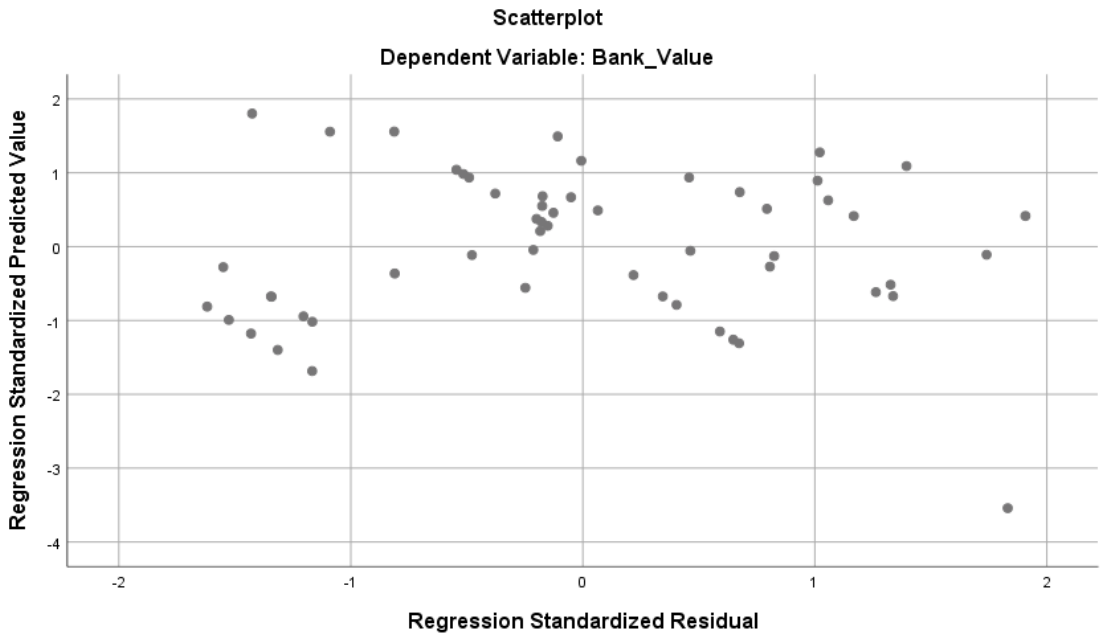


Figure 4. 6: Homoscedasticity Test

Based on the findings, the spots are diffuse and do not form a clear, specific pattern; therefore, the regression model does not exhibit a homoscedasticity problem. The findings agree with those of Freedman (2016), who argued that the spread and dispersion of residuals across different predictor values indicate violations of homoscedasticity.

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4.3 Inferential Statistics

4.3.1 Correlation Analysis

The researcher conducted a correlation analysis to assess the relationship between the independent and dependent variables. The Pearson correlation coefficient, ranging from +1 to -1, measures the strength of a linear correlation between two variables. A value less than 0 indicates a negative correlation, meaning that a decrease in one variable is associated with a decrease in the other variable. Conversely, a value greater than 0 represents a positive correlation, where an increase in one variable leads to an increase in the other. A value of 0 signifies no association between the two variables. A perfect positive correlation occurs when any increase or decrease in one variable is proportionally matched by a similar change in the other variable.

Table 4. 9: Correlation Analysis

		Capital structure	Liquidity management	Corporate investment
Capital structure management practices	Pearson Correlation	1		
	Sig. (2-tailed)			
	N			
Liquidity management practices	Pearson Correlation	-.074	1	
	Sig. (2-tailed)	.590		
	N	50	50	
Corporate investment practices	Pearson Correlation	.207	-.124	1
	Sig. (2-tailed)	.129	.369	
	N	50	505	50
Bank Value	Pearson Correlation	.235**	.357**	.163
	Sig. (2-tailed)	.008	.007	.233
	N	50	50	50

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The findings indicated that the correlation between capital structure management and bank value was 0.235, with a significance level of 0.008, implying a positive and statistically significant relationship at the 0.01 level. This finding suggests that improvements in capital structure management are moderately associated with increases in the value of listed commercial banks in Kenya. This result is best explained by the Trade-Off Theory, which posits that firms seek an optimal capital structure by

balancing the benefits of debt financing, particularly tax shields, against the costs of financial distress. The positive association observed in the study supports the argument that prudent use of debt enhances firm value up to an optimal level. The findings are consistent with Mbele, Owino, Njoroge, and Kariuki (2020), who argue that firms with higher but well-managed debt-to-equity ratios experience improved financial performance due to the tax advantages associated with debt financing.

With regard to liquidity management, the study found a statistically significant and moderate positive relationship with bank value, as evidenced by a correlation coefficient of 0.357 and a p-value of 0.007. This implies that banks that effectively manage liquidity by maintaining adequate capacity to meet short-term obligations without financial strain tend to exhibit higher market valuations. This finding is strongly supported by the Keynesian Liquidity Preference Theory, which emphasizes the importance of liquidity in reducing uncertainty and enhancing confidence among economic agents. According to the theory, institutions that maintain sufficient liquidity are perceived as safer and more stable, especially during periods of economic uncertainty. In the context of the Kenyan banking sector, effective liquidity management signals financial soundness, depositor security, and operational resilience, particularly in the aftermath of shocks such as the COVID-19 pandemic and rising inflation. These attributes enhance investor confidence, leading to higher Tobin's Q ratios and overall bank value.

Lastly, the findings revealed a correlation of 0.163 between corporate investment practices and bank value, with a p-value of 0.233, indicating a weak and statistically insignificant relationship. This suggests that corporate investment decisions, measured by the ratio of total investments to total assets, do not exert a strong or immediate influence on the market valuation of listed commercial banks in Kenya. This outcome can be interpreted through the Net Present Value (NPV) Theory, which holds that only investments with positive NPVs contribute to firm value. The insignificant relationship observed implies that not all investment expenditures undertaken by banks necessarily translate into value-enhancing projects from the market's perspective. It is possible that investors place greater emphasis on the quality, timing, and risk profile of investments than on their sheer magnitude, leading to a muted response in bank value to aggregate investment levels.

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4.3.2 Multiple Regression Without the Moderating Variable

The study carried out a regression analysis to evaluate the combined effect of Capital structure management practices, Liquidity management practices and Corporate investment practices on the bank value of listed commercial banks in Kenya

4.3.2.1 Model Summary Without the Moderating Variable

The researcher sought to determine the value of R^2. The R-squared is the proportion of variance in the dependent variable which can be explained by the independent variables.

Table 4. 10: Model Summary Without the Moderating Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.471[a]	.222	.176	.43231

The R-squared in this study was 0.222, which shows that the four independent variables (capital structure management practices, liquidity management practices, and corporate investment practices) can explain 22.2% of the bank value of listed commercial banks in Kenya, while other factors explain 22.2%.

4.3.2.2 Analysis of Variance Without the Moderating Variable

The study conducted an Anova test to determine whether the model of is statistically fit to be adopted in the study. The findings are indicated in Table 4.11

Table 4. 11: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.714	2	1.357	6.685	.005[b]
	Residual	9.532	47	.203		
	Total	12.245	49			

From the findings, the F-value was 6.685, which shows that the model was fit in predicting the influence of the independent variables on the dependent variable. The p-value was 0.005, which is less than 0.05, which implies that the model was good in predicting how the three independent variables (Capital structure management practices, Liquidity management practices and Corporate investment practices) affect the bank value of listed commercial banks in Kenya.

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4.3.2.3 Regression Coefficient

The study generated the regression coefficients for the model.

Table 4. 12: Model Regression Coefficient

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	-.150	.358		-.419	.677
Capital structure management practices	.029	.016	.230	1.819	.007
Liquidity management practices	.354	.112	.394	3.164	.003
Corporate investment practices	.011	.009	.164	1.294	.201

The results showed that capital structure management has an unstandardized coefficient (B) of 0.029, a standard error of 0.016, a t-value of 1.819, and a p-value of 0.0075, indicating a positive, weak, and statistically significant effect on bank value. This suggests that for each 1-unit increase in the capital structure ratio, the bank's value is expected to increase by 0.029 units, holding other factors constant. The standardized beta of 0.230 further demonstrates a moderate contribution in standardized terms. The p-value was less than the 0.05 significance threshold, leading to the rejection of the null hypothesis that capital structure management has no effect on bank value. Therefore, the study concluded that capital structure management has a statistically significant effect on the bank value of listed commercial banks. These findings are supported by the Trade-Off Theory, which posits that firms balance the benefits of debt, such as tax shields, against the costs of financial distress to optimize value. The positive effect observed implies that commercial banks that manage their debt and equity mix prudently can enhance their market value, confirming the theory's argument that an optimal capital structure can improve financial performance and investor perception (Mbele, Owino, Njoroge, & Kariuki, 2020).

Regarding liquidity management, the unstandardized coefficient (B) was 0.354 with a standard error of 0.112, a t-value of 3.164, and a p-value of 0.003, indicating a statistically significant positive effect on bank value. This implies that a 1-unit increase in the liquidity ratio leads to a 0.354-unit increase in bank value, all else held constant.

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Among all the variables analyzed, liquidity management had the highest standardized beta coefficient (0.394), making it the strongest predictor of bank value in the model. The p-value is less than 0.05, leading to the rejection of the null hypothesis that liquidity management has no effect on bank value. Therefore, the study concluded that liquidity management has a positive and statistically significant effect on the bank value of listed commercial banks. These findings are consistent with the Keynesian Liquidity Preference Theory, which emphasizes the importance of liquidity in reducing uncertainty and enhancing confidence among investors. Banks that maintain optimal liquidity are better positioned to meet short-term obligations, respond to policy changes, and pursue investment opportunities, which enhances operational stability, depositor safety, and investor confidence. Consequently, well-managed liquidity significantly contributes to higher market valuation, reinforcing the theory's assertion that liquidity is a key determinant of financial stability and value creation in the banking sector.

Furthermore, corporate investment practices demonstrated a positive but statistically insignificant effect on bank value, with an unstandardized coefficient (B) of 0.011, a standard error of 0.009, a t-value of 1.294, and a p-value of 0.201. The standardized beta coefficient of 0.164 indicates a relatively weak contribution to the overall variation in bank value. This suggests that a unit increase in the ratio of total investments to total assets is associated with only a marginal increase in bank value, assuming other factors remain constant. The p-value is greater than 0.05, so the null hypothesis that corporate investment practices have no effect on bank value cannot be rejected. Therefore, the study concluded that corporate investment practices do not have a statistically significant effect on the bank value of listed commercial banks.

These findings are consistent with the Net Present Value (NPV) Theory, which posits that only investments expected to generate positive net present values enhance firm value. The weak and insignificant effect observed implies that not all investment decisions made by commercial banks in Kenya are perceived by the market as value-creating. Investors likely emphasize the quality, risk-adjusted returns, and timing of investments rather than the total investment level. Therefore, while corporate investment practices can contribute to bank value, their impact is limited unless investments are carefully aligned with profitable, value-generating opportunities. From the findings, the overall multiple regression model is

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Y= - 0.150+ 0.029 Capital Structure Management Practices + 0.354 Liquidity Management Practices + 0.011 Corporate Investment Practices

4.3.3 Multiple Regression with Moderating Variable

The researcher conducted a regression analysis to assess the moderating influence of inflation on the relationship between financial management practices and the bank value of listed commercial banks in Kenya.

Step One: Regression of Composite financial management practices on bank value

In this step financial management practices is regressed on bank value.

Table 4. 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.735[a]	.540	.531	.50858

a. Predictors: (Constant), Composite Financial management practices

From the findings, the R Squared value was 0.540. This means that 54.0% of the variation in bank value among listed commercial banks in Kenya can be explained by composite financial management practices. This finding implies that financial management practices play a pivotal role in determining the market performance and overall value of listed commercial banks.

Table 4. 14: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.586	1	14.586	56.391	.000[b]
	Residual	12.415	48	.259		
	Total	27.001	49			

From the findings, the F-value was 56.391 and the p-value (Sig.) was 0.000, which is less than the conventional threshold of 0.05. This indicates that the regression model is statistically significant, meaning that composite financial management practices significantly predict the bank value of listed commercial banks in Kenya

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Table 4. 15: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.882	.352		2.507	.016
	Financial management practices	.988	.132	.735	7.509	.000

a

From the findings, the unstandardized beta coefficient was 0.988, implying that for every one-unit increase in composite financial management practices, the value of listed commercial banks in Kenya improves by 0.988 units. The model also shows a strong t-value of 7.509 and a p-value of 0.000, reinforcing the significant contribution of financial management practices in enhancing key outcomes such as shareholder value, market confidence, and long-term financial stability of banks.

Step Two: Regression of Bank Value on Composite Financial management practices, Inflation and Interaction

In this step, bank value was regressed against Composite Financial management practices, Inflation and Interaction The results of the regression model are as shown below.

Table 4. 16: Model Summary for Bank Value on Composite Financial management practices, Inflation and Interaction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944[a]	.891	.887	.24995

a. Predictors: (Constant), Composite Financial management practices, Inflation and Interaction

The results indicated that the R-squared value is 0.891, which implies that 89.1% of the variation in bank value among listed commercial banks in Kenya can be explained jointly by composite financial management practices, inflation, and their interaction term. The Adjusted R Square of 0.887 accounts for the number of predictors in the model and shows minimal shrinkage, thereby affirming the robustness and stability of the regression model.

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Table 4. 17: ANOVA for Bank Value on Composite Financial Management Practices, Inflation and Interaction

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.065	3	12.033	192.604	.000[b]
	Residual	2.936	46	.062		
	Total	27.001	49			

a. Dependent Variable: Bank Value
b. Predictors: (Constant), Composite Financial management practices, Inflation and Interaction

From the findings, the F-statistic is 192.604 with a significance value (Sig.) of 0.000, which is less than the conventional alpha level of 0.05. This indicates that the overall regression model is statistically significant. In other words, at least one of the predictors composite financial management practices, inflation, or their interaction term has a significant effect on bank value.

Table 4. 18: Coefficients for Bank Value on Composite Financial management practices, Inflation and Interaction

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.302	.260		1.163	.251
	Composite Financial management practices	.229	.118	.170	1.941	.048
	Inflation	1.307	.106	1.082	12.318	.000
	Interaction	.012	.023	.074	.511	.012

a. Dependent Variable: Bank Value

From the regression results, the constant ($\beta = 0.302$, $p = 0.251$) is not statistically significant, implying that bank value cannot be meaningfully explained when all predictors are held at zero. The coefficient for Composite Financial Management Practices (FMD) is $\beta = 0.229$ ($p = 0.048 < 0.05$). This indicates that, holding other variables constant, a one-unit increase in financial management practices is associated with a 0.229 unit increase in bank value. The result is statistically significant at the 5% level, suggesting that prudent financial management positively contributes to bank value.

The coefficient for Inflation (INF) is $\beta = 1.307$ ($p = 0.000 < 0.05$). This shows that a one-unit increase in inflation is associated with a 1.307-unit increase in bank value, holding other variables constant. This predictor is highly significant, indicating that inflation has a strong and positive effect on bank value in the model. The coefficient for the Interaction term (FMP × INF) is $\beta = 0.012$ ($p = 0.012 < 0.05$). This finding confirms the presence of a statistically significant enhancing effect. Specifically, it suggests that the relationship between financial management practices and bank value is enhanced (significantly influenced) by inflation. In practical terms, the positive interaction means that as inflation rises, the contribution of financial management practices to bank value is strengthened.

From your coefficients table:

$$Y=0.302+0.229(FMD)+1.307(INF)+0.012(FMD\times INF)$$

Finally, the study examined the moderating effect of inflation on the relationship between financial management practices and bank value. The interaction coefficient was positive and statistically significant ($\beta = 0.012$, $p = 0.012 < 0.05$), indicating that inflation significantly strengthens the association between financial management practices and bank value. These results led to the rejection of the null hypothesis, confirming that inflation plays a significant moderating role in this relationship among listed commercial banks in Kenya.

This finding can be interpreted through the lens of Market Power Theory, which suggests that firms operating in dynamic economic environments can leverage strategic financial management to maintain or enhance market value. The significant moderating effect of inflation implies that changes in the macroeconomic environment, such as rising price levels, influence how financial management practices, particularly capital structure, liquidity and investment decisions, translate into market valuation. In periods of higher inflation, banks that effectively adapt their financial management strategies are better able to sustain investor confidence and protect their market value, consistent with the theory's emphasis on strategic positioning and value preservation under changing market conditions.

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Table 4. 19: Summary of Research Hypotheses Tests

Research hypothesis	Hypothesis Test	Results
There is no significant relationship between capital structure management practices and the bank value of listed commercial banks in Kenya	**Reject H_{0_1} if P - value<** 0.05	Reject H_{0_1}
There is no significant relationship between liquidity management and the bank value of listed commercial banks in Kenya.	**Reject H_{0_1} if P-value<** 0.05 0.05	Reject H_{0_2}
There is no significant relationship between corporate investment practices and the bank value of listed commercial banks in Kenya.	**Reject H_{0_1} if P-value<** 0.05 0.05	Fail to Reject H_{0_3}
There is no significant moderating effect of inflation in the relationship between financial management practices and bank value of listed commercial banks in Kenya.	**Reject H_{0_4} if P-value<** 0.05	Reject H_{0_4}

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CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a detailed summary of the major findings of the study in accordance with the research objectives. The chapter further presented conclusions and offered recommendations and suggestions for areas of further study.

5.2 Summary of Findings

This section presents a concise summary of the key findings of the study derived from the analysis of secondary data from the listed commercial banks in Kenya. It highlights the main results in relation to capital structure management practices, liquidity management practices, corporate investment practices, inflation, and their influence on bank value. The summary provides an integrated overview of the study outcomes, serving as a basis for drawing conclusions and making recommendations.

5.2.1 Capital structure management practices

Capital structure management practices among listed commercial banks in Kenya were found to be largely conservative, with most banks maintaining capital levels above regulatory requirements and relying more on internal financing, such as retained earnings, rather than long-term debt. This cautious approach reflects the risk-averse nature of the banking sector and helps minimize exposure to financial distress and interest rate volatility, thereby enhancing financial stability and operational flexibility.

Correlation analysis revealed a positive and statistically significant relationship between capital structure management practices and bank value ($r = 0.235$, $p = 0.008$). This indicates that improvements in how banks' balance debt and equity financing are moderately associated with higher market valuation, suggesting that investors and stakeholders favor banks with sound capital structure decisions.

Regression results further confirmed this relationship, showing a positive but weak statistically significant effect of capital structure management practices on bank value ($\beta = 0.029$; standardized $\beta = 0.230$; $p < 0.05$). This implies that incremental improvements in capital structure efficiency contribute positively to bank value when other factors are held constant, even though the effect size remains modest. Overall, the findings underscored the importance of prudent capital structure decisions in enhancing

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investor confidence, reducing the cost of capital, and improving the market valuation of listed commercial banks in Kenya.

5.2.2 Liquidity management practices

The analysis revealed that the listed commercial banks in Kenya maintained current assets nearly twice their short-term liabilities, indicating a deliberate strategy of maintaining surplus liquidity buffers. This approach reflects disciplined financial operations and a strong emphasis on depositor protection and operational continuity, particularly in an environment characterized by economic uncertainty, inflationary pressures, and heightened regulatory scrutiny.

Correlation analysis showed a moderate and statistically significant positive relationship between liquidity management practices and bank value ($r = 0.357$, $p = 0.007$). This finding suggests that banks that effectively manage their liquidity positions by ensuring the ability to meet short-term obligations without distress tend to enjoy higher market valuations. The result highlights investors' sensitivity to liquidity risk and the importance of liquidity as a signal of financial soundness.

Regression results further reinforced this relationship, indicating that liquidity management practices had the strongest positive and statistically significant effect on bank value among all the independent variables in the model ($\beta = 0.354$; standardized $\beta = 0.394$; $p = 0.003$). This implies that a unit improvement in liquidity management leads to a substantial increase in bank value, underscoring liquidity as a critical driver of investor confidence, regulatory compliance, and financial resilience. Overall, the findings demonstrated that maintaining optimal liquidity levels is essential for enhancing market valuation, enabling banks to withstand financial shocks, respond effectively to policy changes, and pursue strategic investment opportunities without compromising stability.

5.2.3 Corporate investment practices

The findings indicated that listed commercial banks in Kenya placed considerable emphasis on long-term corporate investment decisions, particularly in technology infrastructure, strategic partnerships, and asset diversification. This trend reflected a sector-wide recognition of investment as a key driver of innovation, operational efficiency, and long-term competitiveness. Investments in digital banking platforms,

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data analytics, and strategic alliances were viewed as essential for aligning bank operations with evolving customer expectations and regulatory requirements.

However, correlation analysis revealed that the relationship between corporate investment practices and bank value was positive but weak and statistically insignificant ($r = 0.163$, $p = 0.233$). This suggested that although banks actively engaged in investment activities, such investments did not translate into immediate improvements in market valuation. The weak association implied that investors may not strongly factor investment levels measured as the ratio of total investments to total assets into short-term assessments of bank value.

The regression analysis further supported this observation, showing that corporate investment practices had a positive but statistically insignificant effect on bank value ($\beta = 0.011$; standardized $\beta = 0.164$; $p = 0.201$). Compared to capital structure and liquidity management practices, corporate investment contributed minimally to explaining variations in bank value. This finding indicated that while investment decisions are strategically important, their financial benefits may take longer to materialize and may not be immediately reflected in market-based performance measures such as Tobin's Q. Overall, the findings suggested that corporate investments in Kenyan commercial banks play a more pronounced long-term strategic role rather than exerting an immediate influence on bank value, highlighting the need for improved disclosure, clearer investment signaling, and stronger alignment between investment outcomes and shareholder value.

5.2.4 Inflation

The findings revealed that inflation in Kenya remained relatively stable during the study period, with only moderate fluctuations. This macroeconomic stability provided a predictable operating environment for listed commercial banks, supporting effective financial planning, interest rate pricing, and investment decision-making. Stable inflation reduced uncertainty in credit markets and enabled banks to forecast cash flows, interest margins, and funding costs more accurately, thereby enhancing operational efficiency and strategic consistency.

Inferential analysis demonstrated that inflation had a statistically significant effect on bank value. In the moderation model, inflation recorded a strong positive regression

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coefficient (β = 1.307, p = 0.000), indicating that increases in inflation were associated with higher bank value when financial management practices were held constant. This finding suggests that Kenyan banks can anticipate inflationary trends and adjust lending rates, pricing strategies, and asset portfolios to protect or enhance shareholder value during inflationary periods.

Further, the interaction term between inflation and composite financial management practices was positive and statistically significant (β = 0.012, p = 0.012), confirming inflation's moderating effect. This implies that inflation strengthens the relationship between financial management practices and bank value. In periods of rising inflation, banks with strong capital structure, liquidity management, and investment practices are better positioned to translate sound financial management into improved market valuation.

At the model level, the inclusion of inflation and the interaction term significantly improved the explanatory power, with the R^2 increasing from 0.540 to 0.891 in the base model. This substantial increase indicates that inflation is a critical contextual factor in understanding bank value dynamics in Kenya. Overall, the findings underscore the importance of integrating macroeconomic conditions, particularly inflation, into financial management strategies to enhance resilience, investor confidence, and long-term value creation in the banking sector.

5.2.5 Bank Value

The findings on bank value revealed that Kenyan commercial banks have been achieving strong and sustainable market valuations, primarily driven by strategic financial management practices, operational efficiency, and customer-focused initiatives. Metrics such as Return on Assets (ROA), profitability, and service quality indicate a steady upward trend in value creation, reflecting the effectiveness of management decisions in enhancing both financial performance and stakeholder confidence.

Inferential analysis confirmed that financial management practices significantly influence bank value. The correlation analysis showed positive and statistically significant relationships between capital structure management (r = 0.235, p = 0.008) and liquidity management (r = 0.357, p = 0.007) and bank value, while corporate

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investment practices had a weaker, non-significant correlation ($r = 0.163$, $p = 0.233$). These findings indicate that banks' strategic choices in capital structure and liquidity are critical in shaping investor perceptions and overall market valuation.

Regression analysis further highlighted the magnitude of these effects. Without the moderating variable, liquidity management emerged as the strongest predictor of bank value ($B = 0.354$, $p = 0.003$, $\beta = 0.394$), followed by capital structure management ($B = 0.029$, $p = 0.007$, $\beta = 0.230$). Corporate investment practices, although positive, did not significantly influence bank value ($B = 0.011$, $p = 0.201$, $\beta = 0.164$). The base model explained 22.2% of the variation in bank value ($R^2 = 0.222$), indicating that other factors beyond financial management practices also contribute to value creation.

When inflation was introduced as a moderating factor, the model's explanatory power increased substantially ($R^2 = 0.891$), indicating that 89.1% of the variation in bank value could be accounted for by the interaction between financial management practices and inflation. The moderation analysis revealed that inflation positively enhanced the effect of financial management practices on bank value (interaction $\beta = 0.012$, $p = 0.012$). This demonstrates that prudent financial strategies, when combined with favourable macroeconomic conditions, significantly strengthen market valuation, long-term stability, and shareholder confidence in Kenyan commercial banks.

5.3 Conclusion

5.3.1 Capital Structure Management Practices

From the findings the study concluded that capital structure management practices significantly and positively influence bank value, highlighting the importance of balancing debt and equity financing in commercial banks. The correlation analysis supports this, showing $r = 0.235$ with a p-value of 0.008, significant at the 0.01 level. This indicates that banks adopting prudent capital structure strategies favoring optimal leverage, equity financing, and retained earnings can enhance financial stability, reduce the cost of capital, and improve investor confidence. Effective capital structuring not only strengthens operational resilience but also signals financial discipline to the market, thereby increasing the perceived and actual value of the institution.

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5.3.2 Liquidity Management Practices

Furthermore, the study concluded that liquidity management was the most influential determinant of bank value. The correlation coefficient r = 0.357, with a p-value of 0.007, indicates a statistically significant positive relationship. Banks that maintain strong liquidity buffers, efficiently manage cash flows, and meet short-term obligations are better positioned to navigate market shocks, comply with regulatory requirements, and sustain investor trust. This demonstrates that robust liquidity practices not only safeguard financial stability but also directly enhance market valuation, reinforcing liquidity's critical role as a strategic financial management tool.

5.3.3 Corporate Investment Practices

In addition, the study concluded that corporate investment practices have a weak and statistically insignificant relationship with bank value (r = 0.163, p = 0.233). While banks actively invest in technology, infrastructure, and strategic initiatives, the immediate impact of these investments on market valuation appears limited. This may be due to the long-term nature of investment returns or the low visibility of investment quality to investors. The findings suggest that, although corporate investments are essential for innovation and competitiveness, their contribution to short-term bank value is minimal without effective communication of strategic benefits and measurable outcomes.

5.3.4 Moderating Effect of Inflation

Finally, the findings indicated that inflation significantly moderates the relationship between financial management practices and bank value, as evidenced by the substantial increase in explanatory power when it is included in the model. The R^2 increased from 0.540 (composite financial management practices alone) to 0.891 when inflation and the interaction term were added, indicating that 89.1% of the variation in bank value is jointly explained by financial management practices, inflation, and their interaction. The regression analysis further shows a positive and significant interaction ($\beta = 0.012$, $p = 0.012$), demonstrating that inflation amplifies the effect of financial management on bank value. This suggests that macroeconomic conditions can significantly strengthen or constrain the benefits of capital structure, liquidity, and investment decisions.

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5.4 Recommendations

The findings indicated a positive and statistically significant relationship between capital structure management practices and bank value, showing that improvements in capital structure moderately enhance commercial banks' value. Therefore, the study recommended that commercial banks in Kenya strategically increase the use of retained earnings and equity financing while minimizing overreliance on long-term debt. Banks should design capital structure policies aligned with their risk appetite and growth objectives, and regulators should strengthen supervisory frameworks to encourage sustainable internal financing and limit excessive leverage, ensuring compliance with Basel III capital adequacy requirements.

In addition, the findings indicated a statistically significant and moderate positive relationship between liquidity management practices and bank value, highlighting that banks with robust liquidity management enjoy higher market valuations and operational stability. Therefore, the study recommended that banks institutionalize continuous monitoring of liquidity ratios, such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and adopt real-time cash flow forecasting tools to improve both short-term and long-term liquidity planning. Banks should maintain effective contingency funding plans to address sudden liquidity needs, and the Central Bank of Kenya (CBK) should regularly update liquidity stress-testing guidelines and provide technical support to ensure banks can simulate and prepare for economic shocks.

Furthermore, the findings indicated a weak and statistically insignificant relationship between corporate investment practices and bank value, suggesting that while investment activities are undertaken by banks, they do not directly or immediately influence market valuation. Therefore, the study recommended that banks refine investment strategies to prioritize projects with clear, measurable returns, especially in areas that enhance operational efficiency and customer experience, such as digital banking platforms, cybersecurity, and analytics-driven service improvements. Investments should be guided by rigorous cost-benefit analyses, and banks should periodically review strategic investments to discontinue underperforming projects. Authorities should encourage greater transparency and disclosure of investment outcomes to foster investor confidence and improve market-based assessments of capital allocation efficiency.

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Finally, the findings indicated that inflation significantly moderates the relationship between financial management practices and bank value. Therefore, the study recommended that banks integrate inflation-sensitive strategies into financial decision-making, including adaptive interest rate management, prudent debt structuring, and dynamic liquidity planning. By considering macroeconomic conditions, banks can preserve value, maintain operational efficiency, and optimize both short-term performance and long-term valuation in volatile economic environments.

5.5 Areas for Further Research

Based on the findings, the study recommended that a comparative study be conducted to assess the impact of capital structure on value between tier 1 and tier 2 commercial banks in Kenya. In addition further study should be conducted to assess the role of digital investment strategies in enhancing the financial value of banks in the Post-COVID Era.

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APPENDICES

APPENDIX I: RECOMMENDATION LETTER

ST. PAUL'S UNIVERSITY

Private Bag 00217 LIMURU, KENYA
Email: office@spu.ac.ke
Website: www.spu.ac.ke

Tel Office: +254 (0) 20-2020505/10
Mobile: +254 (0) 728 - 669000
(0) 736 - 424440

BOARD OF POSTGRADUATE STUDIES

4th February, 2025

National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

RE: RECOMMENDATION FOR LYN KAVULI MWALUKO – MBADIST587621 TO CONDUCT RESEARCH

This letter confirms the above-named person is a student in the Master of Business Administration (MBA) Program at St. Paul's University.

After completion of the course work, the student is engaged in major research work leading to a Thesis/Dissertation writing. The student's selected topic is:

"Financial management decisions and bank value of commercial banks in Kenya."

Kindly grant this student the required permit.

Yours Faithfully

DIRECTOR POSTGRADUATE STUDIES ST. PAUL'S UNIVERSITY 04 FEB 2025 P.O. BOX 00217 LIMURU

Dr. John Muhome
Director, Board of Postgraduate Studies

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APPENDIX II: ISERC RESEARCH PERMIT

ST. PAUL'S UNIVERSITY

Private Bag 00217 Limuru,
Kenya
Email: office@spu.ac.ke
Website: www.spu.ac.ke

Tel Office: +254 (0) 20-2020505/10
Mobile: +254 (0) 728-669000
(0) 736-424440

REF: SPU/284/2024 **Date: 12th November 2024**

TO: Lyn Mwaluko
St. Paul's University

Dear Lyn,

==========

REF: Financial Management Decisions and Bank Value of Commercial Banks in Kenya

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Greetings,

This is to inform you that SPU- Institutional Scientific Ethics Review Committee has reviewed the above-named research proposal. **Your ERB approval number is 305, for the period between 12th November 2024 – 12th November 2025 (1 year).**

This approval is subject to compliance with the following requirements;

i. Only approved documents including (informed consents, study instruments) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SPU- Institutional Scientific Ethics Review Committee.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SPU- Institutional Scientific Ethics Review Committee within 72 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect

the integrity of the research must be reported to *SPU- Institutional Scientific Ethics Review Committee* within 72 hours

v. Clearance for export of biological specimens must be obtained from relevant institutions.

vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.

vii. Submission of an executive summary report within 90 days upon completion of the study to SPU- Institutional Scientific Ethics Review Committee.

viii. Please note that it is within the ISERC's mandate to monitor your research and to do random visits to the site. All research is subject to post approval monitoring.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) ***https://research-portal.nacosti.go.ke*** **and also obtain other clearances needed.**

Yours sincerely,



Dr. Daniel Nzengya, PhD
Chairperson
SPU- Institutional Scientific & Ethics Review Committee



APPENDIX III: NACOSTI PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **202653**

Date of Issue: **08/April/2025**

RESEARCH LICENSE



This is to Certify that Ms.. LYN KAVULI MWALUKO of Saint Paul University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: FINANCIAL MANAGEMENT DECISIONS AND BANK VALUE OF COMMERCIAL BANKS IN KENYA for the period ending : 08/April/2026.

License No: **NACOSTI/P/25/418064**

202653

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

APPENDIX IV: DATA COLLECTION SHEET

Year	Total Assets Value in Billion	Total Liabilities Value in Billion	Capital Ratio	Current Assets Value in Billion	Current Liabilities Value in Billion	Liquidity Ratio	Profit Before Tax Value in Billion	Corporate Investment Ratio	Inflation rate (%)	Book Value of Equity in Billion
2018										
2019										
2020										
2021										
2022										

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APPENDIX V: LIST OF LISTED COMMERCIAL BANKS IN KENYA

Absa Bank
Equity Bank
DTB Bank
KCB Bank
Stanbic Bank
NCBA Bank
NIC Bank
COOP Bank
I&M Bank
Standard Chartered Bank

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