



**INFLUENCE OF CUSTOMER VALUE PROPOSITION ON FINANCIAL PERFORMANCE OF  
COMMERCIAL BANKS IN KENYA**

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**ABSTRACT**

Competition in the banking sector in Kenya has significantly increased in the recent years because of the changing modern customer's needs that are unique, specific and dynamic. Reacting to this, banks are coming up with customer value propositions that customers would gain by banking with them and not their competitors. However, given the recent mixed performance in the banking sector in Kenya, its doubtful whether Customer Value Proposition influences Financial Performance of commercial banks in Kenya, hence a need for the study in establishing the influence of functional value proposition, economic value proposition, symbolic value proposition and superior value proposition on financial performance of commercial banks in Kenya. A descriptive research design was used and the target population was a census on the entire number of 40 licensed commercial banks as at 2020 where operations, retail banking and finance managers were targeted from each bank. Both primary and secondary data were used in analysis which indicated that functional value proposition ( $\beta = 0.139$ , P-value  $< 0.05$ ), economic value proposition ( $\beta = 0.155$ , P-value  $< 0.05$ ), symbolic value proposition ( $\beta = 0.151$ , P-value  $< 0.05$ ) and superior value proposition ( $\beta = 0.242$ , P-value  $< 0.05$ ) have a positive and significant influence on financial performance of commercial banks in Kenya.



This implies that an increase in adoption of these value propositions would lead to an increase in financial performance of commercial banks in Kenya significantly. The study recommended a need for the commercial banks to scan through their environment, understand the customer needs then revise their value propositions to attract more customers.

**Keywords:** *Economic Value, Functional Value, Symbolic Value, Superior Value, Financial Performance*

## BACKGROUND OF THE STUDY

Bank products have been changing overtime to meet the needs of customers. Even with the innovations, most banking products are homogenous with differences in terms of the name that the banks use to sell them to customers. Due to this nature, the most competitive edge for banks is in the quality of service offered (Uppal, 2010). Banks have mission and vision statements that state the direction the bank is taking in terms of strategy and its main purpose of existence. Through these statements, banks offer customers promises that they expect the customers to believe in and identify with. Customers hence attach the benefits to bank products and will only buy products that they feel will offer them value as per the bank's promise (Buttle, 2009). Customers create their own mental pictures of the value the organizations products are meant to create. This is called perceived value. A bank should be able to reconfigure its product and service offering to match the customer's value perception (Tuominen, 2004).

The banking industry has experienced tremendous growth in the last decade. Competition has been characterized by entry of new banks, expanded networks, new micro finance institutions, product innovation and price competition. Banks today provide solutions to customer problems. The days when customers had to put up with what banks had to offer are long gone. Banking business is more personalized, with products tailored to suit the customer needs. Banking, being more of service than a product due to its intangible nature requires excellent customer service, interpersonal skills and staff competence. Value is something the customer is prepared to pay. To the customer it is the benefits minus cost (Ryals, 2011). A value proposition is an explicit promise made by a company to its customers that it will deliver a particular bundle of value creating benefits (Buttle, 2009). It is a written statement focusing all the organization's market activities onto customer critical elements that create a significant differential within the customer's decision process, to prefer and/or purchase the organization's offering over a competitor's (Fifield, 2007). This is a promise of value to be delivered by an organization and the customers believe that value will be delivered. Creating a value proposition is a part of business strategy. Strategy is based on a differentiated customer value proposition.

Satisfying customers is the source of sustainable value creation (Kaplan and Norton, 2004). According to Hudadoff (2009), Customer value proposition is defined as the description of the experience the target user will realize upon purchase and use of a product. Customer value proposition is a realistic evaluation of how the product will be viewed by the users. It brings together customer intelligence, competitive insight and product valuation (Hudadoff, 2009). Perceived value is the mental picture of the benefits accrued from using a certain product or service. Perception of value is in two dimensions: the organization's perspective and the customers' perspective. From the (potential) customer's perception, the term focuses on the extra value that a product and/or service represents, as a result of which the customer's needs are responded to and the customer will respond by making a purchase (Vliet, 2014).

Customer value perception is an important factor in the customer's choice of a bank. The value arises from the benefits the customer derives or stands to gain by having a relationship with the bank. Often, there are differences between customer's perception of quality and the banks perceived quality offering. Customer's value can be classified under



emotional value which is more of the interpersonal relations they get with bank staff, functional value meaning the competency levels of contact personnel, price value which is the sum total of banks charges and fees on services that are passed to the customer. Often, emotional value is ranked higher than price (Ivanauskiene et al. 2012). No customer wants to buy a product that does not meet their specific need nor pay more if the product features have not changed (Zurich, 2011). Ndaa (2012) defines customer value proposition as the value an organization intends to create for its customers and stake holders. It articulates the benefits a customer derives from using an organization's products and the experience derived from interacting with customers. Under Banks perspective: perceived value is the internal value: that is shareholder's perspectives, where value is profit. Good corporate value is expressed in the mission, vision statements and objectives. A bank's unique ability to shape, reshape, configure and reconfigure assets to serve customer needs gives it a superior value perception and competitive advantage (Tuominen, 2004).

Today, bank customer needs have become more complex and in addition, customer requires products personalized according to their needs. In order to understand banks customer value proposition, it is important to evaluate the customer needs in terms of banking. Managers who deal with suppliers are busy people pressed for time, hence will buy from suppliers who deliver simple yet captivating value. (James *et al*, 2006). Over the years, the banking industry in Kenya has continually introduced a wide range of new products prompted by increased competition, Information Communication Technology growth and enhanced customer needs in order to improve economic value proposition of the customers (Nyathira, 2012). The Cytonn (2016) report indicated that there were mixed reactions after the collapse of three commercial banks in a span of 2 years in the Kenyan banking industry. The report blamed the collapse of the commercial banks on unsafe and unsound practices.

As a result, the report argued that the customers of the commercial banks held less trust in the local banks with the foreign owned commercial banks being preferred. Since then, commercial banks have embarked on a journey to reshape their functional, symbolic and superior value proposition (Mwangi, 2016). Mwangi (2016) also argued that the collapse of three commercial banks led to massive withdrawal of cash by depositors from the perceived smaller banks to perceived bigger banks which fall under tier one in Kenya. Consequently, the small lenders in the Kenyan banking industry are perceived as being riskier as compared to the bigger banks as categorized by the central bank of Kenya. This is an indication of damaged symbolic value which commercial banks need to work on if they are to perform.

Loyal customers are the key factor of success in all organizations. They spend money, they recommend to others and they repeat buy from the same organization, as long as it delivers consistent value (Hassan, 2012). Customers keep different bank accounts for different reasons mostly determined by the need served by the product or service. Every customer has an account with a particular bank for several reasons. Some customers will travel long distance to get to a certain bank while leaving banks around them that can offer the same product. Others will have one bank for all their needs for a long time irrespective of any price changes with the competitor bank. Banks can increase value proposition by making their offering superior on the few elements considered most important to the target customers (Anderson, Narus & Rossum, 2006).

## **STATEMENT OF THE PROBLEM**

The level of competition in the banking sector has tremendously increased. This has reshaped options of competitive performance since a modern customer has needs that are unique, specific and dynamic (Mwangi, 2016). Reacting to this, banks are coming up with customer value propositions (economic value, functional value, symbolic value and superior value) that customers would gain by banking with them and not their competitors (James *et al*, 2006). A key driving force



for this customer value approach is the fact that bank products are homogeneous (Vliet, 2006) thereby forcing the commercial banks to reinvent their approach in attracting the highly complex modern customer. Banks use corporate statements to describe the value that a customer would derive by working with them and it has been indicated that it plays a critical role in the bank's performance (Lynett, 2011).

The recent poor performance trends in the banking sector places a question mark on the role of customer value propositions on financial performance of commercial banks. The Central Bank of Kenya 2018 banking sector stability report indicated an increase in the value of gross non-performing loans (loan defaults) in the banking sector by 47.5% in the year 2017. The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 2.6% in March 2016 to 4.3% in March 2017. Furthermore, unlike in the year 2015 where the banking sector recorded an increase in profits before tax by 15%, there was only an increase in profits by 2.9% in the year 2017 which was neutralized by an increase in total expenses by 21.2% (Central Bank of Kenya Banking Sector Stability Report, 2018).

The report also indicated that the banking sector in Kenya had an increase in bad debts charge from Ksh. 3.8 billion in March 2015 to Ksh. 8.4 billion in March 2017. With a demonstration of three commercial banks collapsing in the last five years - that is Chase bank, Dubai bank and Imperial banks (Central Bank of Kenya Report, 2018) - there is perhaps a need to reevaluate whether the customer value propositions which the commercial banks in Kenya are aggressively following has a significant effect on these trends. The study therefore sought to establish the influence of Customer Value Proposition on Financial Performance of commercial banks in Kenya.

## **OBJECTIVES OF THE STUDY**

- i. To determine the influence of Functional Value Proposition on financial performance of commercial banks in Kenya
- ii. To establish the influence of Economic Value Proposition on financial performance of commercial banks in Kenya
- iii. To establish the influence of Symbolic Value Proposition on financial performance of commercial banks in Kenya
- iv. To determine the influence of Superior Value Proposition on financial performance of commercial banks in Kenya

## **THEORETICAL LITERATURE REVIEW**

### **Institutional Theory**

Institutional theory proposed by DiMaggio (1957), is a theory that describes how an institution's environment influences the formal structures in an environment. Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates).

At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency. Meyer and Rowan (1991), argue that often these "institutional myths" are merely accepted ceremoniously in order for the organization to gain or maintain legitimacy in the institutional environment. Organizations adopt the "vocabularies of structure" prevalent in their environment such as specific job titles, procedures, and organizational roles. The adoption and prominent display of these institutionally-acceptable "trappings of legitimacy" help preserve an aura of organizational action based on "good faith". The theory is relevant to banking as it depicts the environments the banks operate in. Banks are regulated by the banking act through the central bank of Kenya. The regulations keep changing and banks have to



adhere with the directives. Kenya Bankers Association is another body that influences the operations of the banks. It seeks to harmonize some operations within banks by issuing some directives that banks are meant to adhere to. Examples of indirect regulations include the consumer protection ACT that requires banks to give all the information to the customers pertaining to bank charges and interests, fees and commissions especially in regard to loans.

### **Customer Value-Based Theory of the Firm**

Customer value-based theory of the firm, proposed by Slater (1997) is a microeconomic concept founded in neoclassical economics that states that firms (corporations) exist and make decisions in order to maximize profits. This theory is based on the following four pillars: Market orientation, continuous learning about customers, commitment to innovation and a customer value process-focused organization. The theory conceptualizes market orientation as a component of an organizational culture which aims to deliver superior customer value. While continuous customer-focused learning is conceptualized as the integrated learning processes that develop knowledge about customers, the concept of commitment to innovation is described rather loosely as an emphasis on business renewal (Kienzler *et al.*2019). Customer value process-focused organizational structures provide a foundation for developing and implementing the other three pillars. In summary, these four pillars help manage successful value proposition.

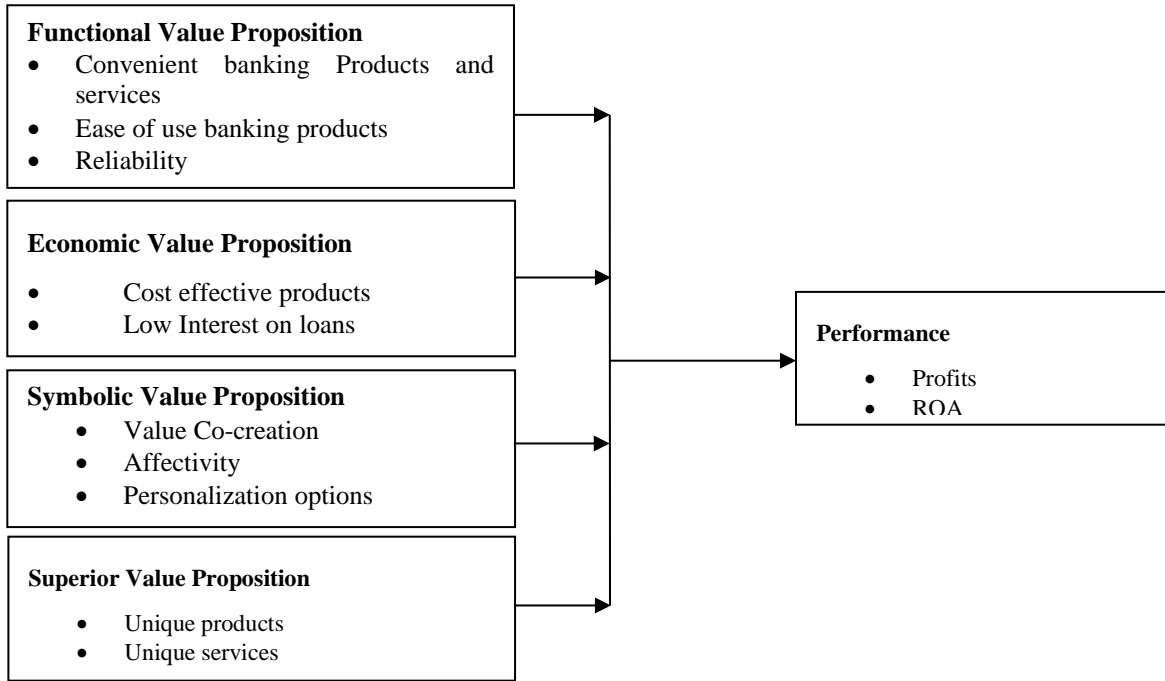
### **Agency Theory**

Jensen and Meckling (1976) proposed the theory. Agency theory in financial institutions means assessing the work being done for a principal (for instance an employer) by an agent (for instance an employee). Financial institutions are in the business of financial intermediation. This role involves mobilising funds from savers to create a pool where borrowers can access. In this role, the banks act on behalf of both depositors and borrowers. This is an agency relationship. Agency relationship also occurs when managers and directors act on behalf of the shareholders of the bank. Hence these managers are entrusted in making decisions that relate to allocation resources on behalf of the stake holders of the bank.

This agency relationship also brings about agency problems. Managers and senior leaders in a bank are not always willing to take high risks that would benefit shareholders (Bosse & Phillips, 2016). The risk could take the form of lowering prices and transaction fees, expansion strategies and recruitment and compensation. Lowering of prices would be beneficial to the customers and may probably increase the customer numbers hence market share. This would eventually lead to improved performance which translates into good returns for shareholders. Expansion strategies would lead to the increased bank presence. Managers may shun the idea due to huge capital investments involved.



## CONCEPTUAL FRAMEWORK



**Independent Variables**

**Dependent variable**

**Figure 1 Conceptual Framework**

## EMPIRICAL LITERATURE REVIEW

Payne, Frow and Eggert (2017) conducted a study to establish the evolution, development, and application of customer value proposition and its effect on financial performance. It was established that customer value proposition (CVP) has a critical role in communicating how a company aims to provide value to customers and in so doing, it attracts more customers to the company which helps to improve its revenue generation. Rintamäki, Kuusela and Mitronen, (2007) conducted a study which focused on identifying competitive customer value propositions in retailing. The paper draws on existing literature on customer value and competitive advantage in developing a hierarchical model of value propositions and establishing a link between customer value and competitive advantage. The study revealed that four value propositions, economic, functional, emotional, and symbolic are critical in enabling a company gain competitive advantage and superior performance.

Doligalski, Zaborek and Sysko–Romańczuk (2015) conducted a study to establish the relationship between value proposition and firm performance taking a case of Polish online companies. Through a survey of 150 Polish online firms, it was established that customer value proposition does not necessarily improve the sales profit margin. Baumann, Le Meunier-FitzHugh and Wilson (2017) established the challenge of communicating reciprocal value promises here there



is buyer-seller value proposition disparity in professional services. The findings indicated that the customer's value proposition was consistent with the value sought by the seller. The study however revealed surprising disparities in the value dimensions offered by the seller and indicated that there is discrepancy between the seller's value proposition and co-creative behavior which impedes the parties' subsequent collaboration and resource integration.

A study was conducted by Lindic and da Silva (2011) to establish the customer value propositions by Amazon Company. Through a case study, the study revealed that some of the products offered by Amazon had been presented in their customer value proposition as those with high performance, ease of use, reliability, flexibility and affectivity. The study attributed the great success of Amazon to these value propositions. Skålén, Gummerus, Von Koskull and Magnusson (2015) explored value propositions and service innovation and its effect on firm performance. Through a survey of eight firms, the paper finds that ten common practices, organized in three main aggregates, constitute and fulfill value propositions: i.e., provision practices, representational practices, and management and organizational practices.

Amit (2001) focused on value creation in e-business and explored the theoretical foundations of value creation in e-business by examining how 59 American and European e-businesses that had recently become publicly traded corporations create value. The study established that in e-business new value can be created by the ways in which transactions are enabled. It was revealed that the value creation potential of e-businesses hinges on four interdependent dimensions, namely: efficiency, complementarities, lock-in and novelty. Weinstein (2016) focused on finding out the superior customer value through strategies for winning and retaining customers. The study after a thorough review of over 500 firms indicated 10 key talking points for improving customer value. They included understanding customer choices, identifying customer segments, increasing their competitive options (for example, offering more products), avoiding price wars, improving service quality, strengthening communications, focusing on what is meaningful to customers, building customer loyalty, improving brand success and developing strong customer relationships. Those once were termed as the drivers of superior firm performance.

## **RESEARCH METHODOLOGY**

Descriptive research design was used in this study. The target population of the study comprised of the 40 commercial banks licensed by CBK to operate in Kenya. There are 8 large, 11 medium and 21 small tiered commercial banks in Kenya according to CBK (2018) report. The study focused on three respondents from each commercial bank that is operations manager, retail banking manager and finance manager where a census was used to target the 120 respondents. Both primary and secondary data was used in the study.

While secondary data obtained from CBK annual reports between the year 2014 and 2019 was used to measure financial performance of the commercial banks, quantitative primary data collected using a structured questionnaire was used to measure value propositions. After collecting the data, it was keyed into excel sheet and checked for completeness. The Statistical Package for Social Sciences (SPSS version 24) was then used to analyze the data. The study produced descriptive statistics as well as regression analysis to achieve the relationships between the variables. The regression analysis was an ordinary least square regression as shown below:



$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Financial Performance of Commercial Banks

X<sub>1</sub> = Functional Value Proposition

X<sub>2</sub> = Economic Value Proposition

X<sub>3</sub> = Symbolic Value Proposition

X<sub>4</sub> = Superior Value Proposition

ε = error term,

β<sub>0</sub> = Constant

β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>, β<sub>4</sub> = Regression coefficients.

## RESEARCH FINDINGS AND DISCUSSIONS

### Response Rate

The target population of the study was 120 respondents summing up as operations managers, retail banking managers and finance managers. Therefore, a total of 120 questionnaires were issued from which 98 were properly filled. Out of the number of questionnaires issued, a total of 98 questionnaires were filled which gives a response rate of 82%.

### Reliability Test

The study conducted a pilot test to determine the reliability of the research instrument. A pilot test was conducted using 8 respondents who were given the draft questionnaire and their responses were used to establish the reliability of the questionnaire. The results in Table 1 indicate that the Cronbach Alpha Values of the variables in the study were above 0.7 to mean that they were reliable. Exploratory Factor analysis was also conducted and based on a rule of thumb, all the questions had a factor loading above 0.4 hence they met the threshold for construct validity.

**Table 1 Reliability Results**

Variable	Cronbach's Alpha	Number of questions	Decision	Conclusion
Functional Value Proposition	0.763	4	> 0.7	Reliable
Economic Value Proposition	0.821	4	> 0.7	Reliable
Symbolic Value Proposition	0.776	4	> 0.7	Reliable
Superior Value Proposition	0.830	4	> 0.7	Reliable





### Description of Functional Value Proposition among Commercial Banks

Statements on Functional Value Proposition were rated on a Likert scale and the responses summarised in form of mean and standard deviation as presented in Table 2. It was established that the commercial banks in Kenya have come up with convenient banking products to improve customers functional value to a moderate extent ( $M = 3.46, SD = 1.19$ ), have come up with convenient banking services to improve customers functional value to a high extent ( $M = 3.74, SD = 1.15$ ), normally ensure that the banking products they introduce are easy to use in order to improve customers functional value ( $M = 2.88, SD = 1.54$ ) and are also reliable in order to improve customers functional value ( $M = 4.09, SD = 0.81$ ). On average, it can be agreed that functional value propositions have been implemented by the commercial banks to a high extent ( $M = 3.54, SD = 1.18$ ).

**Table 2 Descriptive Findings of Functional Value Proposition**

Statement	Mean	Standard Deviation
The bank has come up with convenient banking products to improve customers functional value	3.46	1.19
The bank has come up with convenient banking services to improve customers functional value	3.74	1.15
The bank normally ensures that the banking products it introduces are easy to use in order to improve customers functional value	2.88	1.54
The bank normally ensures that the banking products it introduces are reliable in order to improve customers functional value	4.09	0.81
<b>Average</b>	<b>3.54</b>	<b>1.18</b>

### Description of Economic Value Proposition among Commercial Banks

Statements on Economic Value Proposition were also rated on a Likert scale and the responses summarised in form of mean and standard deviation as presented in Table 3. The results presented in Table 4.3 revealed that the commercial banks in Kenya have strived to come up with cost effective products in order to enhance the economic value of the customers to a moderate extent ( $M = 3.40, SD = 1.27$ ), have low interest on various loan products in order to enhance the economic value of the customers to a moderate extent ( $M = 3.47, SD = 1.33$ ), ensure that its services meet productivity benefits to the customers in order to enhance the economic value of the customers to a high extent ( $M = 3.81, SD=1.32$ ) and also ensure that their services are highly improved in order to reduce the transaction costs and hence enhance economic value of the customers to a high extent ( $M = 3.95, SD = 1.18$ ). On average, it can be agreed that economic value propositions have been implemented by the commercial banks to a high extent ( $M = 3.66, SD = 1.27$ ).



**Table 3 Descriptive Findings of Economic Value Proposition**

Statement	Mean	Standard Deviation
The bank has strived to come up with cost effective products in order to enhance the economic value of the customers	3.40	1.27
The bank has low interest on various loan products in order to enhance the economic value of the customers	3.47	1.33
The bank ensures that its services meet productivity benefits to the customers in order to enhance the economic value of the customers	3.81	1.32
The bank ensures its services are highly improved in order to reduce the transaction costs and hence enhance economic value of the customers	3.95	1.18
<b>Average</b>	<b>3.66</b>	<b>1.27</b>

### Descriptive Findings of Symbolic Value Proposition among Commercial Banks

Statements on Symbolic Value Proposition were also rated on a Likert scale and the responses summarised in form of mean and standard deviation as presented in Table 4. The study findings indicate that among the commercial banks in Kenya, the customers are involved in value co-creation so that they can feel part of the brand to a high extent ( $M = 3.56$ ,  $SD = 1.26$ ), the banks have come up with ways of ensuring customer's affectivity with its banking products to a high extent ( $M = 3.57$ ,  $SD = 1.30$ ), use public relations strategies to ensure that the brand is top to make the customers be identified with it proudly to a moderate extent ( $M = 3.05$ ,  $SD = 1.37$ ) and that there are various programmes set aside to ensure personalization of services to customers to a moderate extent ( $M = 2.89$ ,  $SD = 1.46$ ). On average, it can be agreed that the extent of implementation of symbolic value propositions by the commercial banks in Kenya is to a moderate extent ( $M = 3.27$ ,  $SD = 1.35$ ).

**Table 4 Descriptive Findings of Symbolic Value Proposition**

Statement	Mean	Standard Deviation
The customers are involved in value co-creation so that they can feel part of the brand	3.56	1.26
The bank has come up with ways of ensuring customers affectivity with its banking products	3.57	1.30
There are various programmes set aside to ensure personalization of services to customers	2.89	1.46
The bank uses public relations strategies to ensure that the brand is top to make the customers be identified with it proudly	3.05	1.37
<b>Average</b>	<b>3.27</b>	<b>1.35</b>



### Description of Superior Value Proposition among Commercial Banks

Statements on Superior Value Proposition were also rated on a Likert scale and the responses summarised in form of mean and standard deviation as presented in Table 5. The results in Table 5 indicated that the commercial banks in Kenya try to ensure that its products are unique in order to enhance its superior value to a high extent ( $M = 4.10$ ,  $SD = 0.83$ ), ensure that their services are unique in order to enhance its superior value to a high extent ( $M = 4.48$ ,  $SD = 0.50$ ), provide niche services in order to be associated with a certain niche to a moderate extent ( $M = 3.47$ ,  $SD = 1.18$ ) and also provide niche products in order to be associated with a certain niche to a high extent ( $M = 3.64$ ,  $SD = 1.18$ ). On average, it can be agreed that the extent of implementation of superior value propositions by the commercial banks in Kenya is to a high extent ( $M = 3.92$ ,  $SD = 0.92$ ).

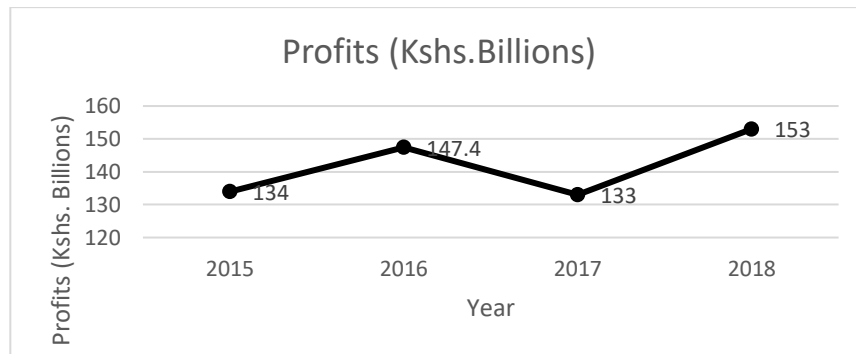
**Table 5 Descriptive Findings of Superior Value Proposition**

Statement	Mean	Standard Deviation
The bank tries to ensure that its products are unique in order to enhance its superior value	4.10	0.83
The bank tries to ensure that its services are unique in order to enhance its superior value	4.48	0.50
The bank provides niche services in order to be associated with a certain niche	3.47	1.18
The bank provides niche products in order to be associated with a certain niche	3.64	1.18
<b>Average</b>	<b>3.92</b>	<b>0.92</b>

### Trends in Financial Performance of Kenyan Commercial Banks

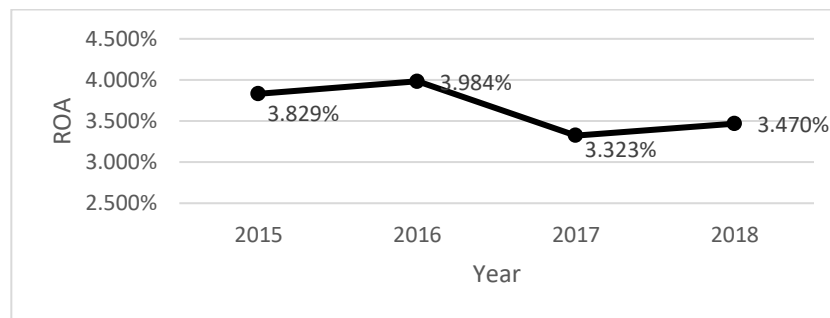
The study established the trends in financial performance of commercial banks in Kenya for the period 2015 to 2019. The profits for the years 2015 to 2018 were obtained from CBK records and used to draw trends shown in Figure 2. The results indicate unsteady trends in financial performance (profits) of commercial banks. The year 2015 had lower profits of Kshs. 134 billion which increased to Kshs. 147.4 billion in the year 2016. However, the figure deteriorated in the year 2017 to Kshs. 153 billion which can perhaps be attributed to the interest rate cap. This mixed performance supports the statement of the problem and the need for customer value propositions.





**Figure 2 Trend Analysis of Profits of Commercial Banks (2015-2018)**

The values of ROA were also established between the year 2015 and 2018 and used to draw trends as shown in Figure 3. Of no difference to the profits trends is the ROA trends which reflect unsteady increasing and decreasing trends. From a figure of 3.83% in the year 2015, the ROA of the commercial banks increased to 3.98% in the year 2016 before deteriorating to only 3.32% in the year 2017 for similar reasons as the deteriorations in profits-interest rate cap. The slight increase in ROA in the year 2018 to 3.47% was till lower than the value of the year 2016 which indicates that the financial performance of commercial takes a strong unsteady trend.



**Figure 3 Trend Analysis of ROA of Commercial Banks (2015-2018)**

**Regression Analysis**

The study adopted a multiple regression analysis to establish the magnitude and significance of the customer value propositions on financial performance of commercial banks in Kenya. The findings indicated the model summary, ANOVA and model coefficients as discussed below.

**Model Summary**

In the model summary, there is presentation of the R (Joint correlation) as well as R Square (Coefficient of determination). The value of R indicates the joint correlation of all the four customer value propositions. The value of R<sup>2</sup> on the other hand indicates the proportion of financial performance accounted by customer value propositions. The model summary



results as depicted in Table 6 indicates that the four customer propositions (Superior value proposition, Symbolic value proposition, Economic value proposition, Functional value proposition) are important in explaining up to 83.2% of the variation in financial performance of commercial banks in Kenya. Only a small fraction, that is 16.8%, of the variation in financial performance is explained by other factors other than customer value propositions which can be investigated in future studies.

**Table 6 Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.912	0.832	0.824	0.18728
Predictors: (Constant), Superior value proposition, Symbolic value proposition, Economic value proposition, Functional value proposition			

**Model ANOVA**

The model ANOVA results shows whether the regression model linking customer value propositions to financial performance of commercial banks was a good fit. The model ANOVA results are indicated in Table 7. The results demonstrate that the regression model linking customer value propositions to financial performance of commercial banks was a good fit ( $P < 0.05$ ). This shows that the results are reliable in making meaningful deductions.

**Table 7 Model ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	16.109	4	4.027	114.815	.000
Residual	3.262	93	0.035		
Total	19.371	97			
Dependent Variable: Financial Performance					
Predictors: (Constant), Superior value proposition, Symbolic value proposition, Economic value proposition, Functional value proposition					

**Regression Model Coefficients**

The regression results in Table 8 indicated that functional value proposition has a positive and significant influence on financial performance of commercial banks in Kenya ( $\beta = 0.139$ ,  $P$ -value  $< 0.05$ ). This implies that an increase in adoption of functional value proposition would lead to an increase in financial performance of commercial banks in Kenya by 0.139 units. The findings of the study are consistent with the findings of a study by Rintamäki, Kuusela and Mitronen, (2007) which revealed that four value propositions, economic, functional, emotional, and symbolic are critical in enabling a company gain competitive advantage and superior performance. It was also shown that economic value proposition has a positive and significant influence on financial performance of commercial banks in Kenya ( $\beta = 0.155$ ,  $P$ -value  $< 0.05$ ). This implies that an increase in adoption of economic value proposition would lead to an increase in financial performance of commercial banks in Kenya by 0.155 units as shown in a study by Doligalski et al. (2015).



The regression results also indicated that symbolic value proposition has a positive and significant influence on financial performance of commercial banks in Kenya ( $\beta = 0.151$ , P-value < 0.05) implying that an increase in adoption of symbolic value proposition would lead to an increase in financial performance of commercial banks in Kenya by 0.151 units. The findings of the study are consistent with that of a study by Skalen et al. (2015) which indicated a positive significant effect. Furthermore, superior value proposition was established to have a positive and significant influence on financial performance of commercial banks in Kenya ( $\beta = 0.242$ , P-value < 0.05) implying that an increase in adoption of superior value proposition would lead to an increase in financial performance of commercial banks in Kenya by 0.242 units. The findings are consistent with the findings of a study by Weinstein (2016) which demonstrated that superior customer value was a key determinant for winning and retaining customers.

**Table 8 Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.291	0.141		9.148	0.000
Functional Value Proposition	0.139	0.038	0.229	3.661	0.000
Economic Value Proposition	0.155	0.030	0.271	5.116	0.000
Symbolic Value Proposition	0.151	0.027	0.347	5.596	0.000
Superior Value Proposition	0.242	0.044	0.300	5.555	0.000
Dependent Variable: Financial Performance					

**CONCLUSION**

The study concludes that when commercial banks in Kenya come up with convenient banking products to improve customers functional value, convenient banking services to improve customers functional value, ensure that the banking products they introduce are easy to use as well as reliable in order to improve customers functional value, it leads to a significant improvement in financial performance of commercial banks. The study also concludes that when commercial banks in Kenya have come up with cost effective products in order to enhance the economic value of the customers, have low interest on various loan products in order to enhance the economic value of the customers, ensure that its services meet productivity benefits to the customers in order to enhance the economic value of the customers and also ensure that their services are highly improved in order to reduce the transaction costs and hence enhance economic value of the customers, it leads to a significant improvement in financial performance of commercial banks.

Another conclusion of the study is that when commercial banks involve customers in value co-creation so that they can feel part of the brand, come up with ways of ensuring customer’s affectivity with its banking products, use public relations strategies to ensure that the brand is top to make the customers be identified with it proudly and implement various programmes to ensure personalization of services to customers, it leads to a significant improvement in financial performance of commercial banks. It can also be concluded that when commercial banks in Kenya try to ensure that its products are unique in order to enhance its superior value, ensure that their services are unique in order to enhance its superior value, provide niche services in order to be associated with a certain niche and also provide niche products in order to be associated with a certain niche, it leads to a significant improvement in financial performance.



## **RECOMMENDATIONS**

Based on the findings that functional value proposition is positively and significantly associated with the financial performance of commercial banks in Kenya, the study recommends an improvement in practices geared towards improvement of its adoption. Such practices can be coming up with convenient banking products to improve customers functional value, convenient banking services to improve customers functional value and ensuring that the banking products introduced are easy to use as well as reliable in order to improve customers functional value.

Since it was demonstrated that economic value proposition is positively and significantly associated with the financial performance of commercial banks in Kenya, the study recommends the management of commercial banks in Kenya to improve its economic value proposition practices. This can be done by coming up with cost effective products in order to enhance the economic value of the customers, having low interest on various loan products in order to enhance the economic value of the customers, ensuring that their services meet productivity benefits to the customers in order to enhance the economic value of the customers and also ensuring that their services are highly improved in order to reduce the transaction costs and hence enhance economic value of the customers.

Based on the findings that symbolic value proposition is positively and significantly associated with the financial performance of commercial banks in Kenya, the study recommends the management of the commercial banks and other financial institutions to improve their symbolic value propositions such as involving customers in value co-creation so that they can feel part of the brand, coming up with ways of ensuring customer's affectivity with its banking products, using public relations strategies to ensure that the brand is top to make the customers be identified with it proudly and implementing various programmes to ensure personalization of services to customers.

Since it was established that superior value proposition is positively and significantly associated with the financial performance of commercial banks in Kenya, the study recommends the management of the commercial banks and other financial institutions to enhance its adoption by ensuring that its products are unique in order to enhance its superior value, ensuring that their services are unique in order to enhance its superior value, providing niche services in order to be associated with a certain niche and also providing niche products in order to be associated with a certain niche.

## **AUTHOR CONTRIBUTIONS**

Joyce G. Meeme sought for the study authorization from NACOSTI as well as the commercial banks. She developed the study methodology that also comprised preparing a checklist that was used in data collection. She further interpreted and analyzed the data then wrote a report which was revised by Dr. Julius Bichanga.

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## CONFLICT OF INTEREST

The authors declare that there are no conflicts of interest regarding the publication of this manuscript. In addition, the ethical issues; including plagiarism, informed consent, misconduct, data fabrication and/ or falsification, double publication and/or submission, redundancy has been completely observed by the authors.

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