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Abstract

Commercial banks listed at the Nairobi Securities Exchange continue to experience episodes of financial instability despite operating under comprehensive corporate governance regulations and supervisory frameworks. This persistent instability raises concerns about whether conventional governance mechanisms adequately address the ownership structures, strategic relationships, and internal controls that shape the behaviour and resilience of banks in emerging markets. The purpose of this study was to examine the effect of strategic alliances on the financial stability of commercial banks listed at the Nairobi Securities Exchange. Financial stability was assessed using capital adequacy and liquidity. The study was anchored on Resource Dependence Theory (RDT). Guided by a pragmatist philosophical stance, the study adopted a mixed-methods approach with an explanatory design as the primary structure, complemented by descriptive elements for contextual understanding. The unit of analysis comprised the eleven commercial banks listed on the Nairobi Securities Secondary quantitative data was extracted from annual reports, audited financial statements, and regulatory publications. The study found that strategic alliances had a positive and statistically significant effect on both capital adequacy and liquidity among commercial banks listed at the Nairobi Securities Exchange. A unit increase in strategic alliances leads to a 0.0184 increase in capital adequacy and a 0.0246 increase in liquidity. The study concludes that strategic alliances enhance financial stability by improving resource mobilization, risk-sharing, and operational coordination, ultimately supporting banks' resilience and competitiveness. The study therefore recommends that the Central Bank of Kenya (CBK) and commercial banks should collaborate to develop credit guarantee schemes that enable firms to secure long-term loans for capital-intensive investments.

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Keywords: *Strategic Alliances, Financial Stability, Commercial Banks, Nairobi Securities Exchange, Capital Adequacy*

1.0 Introduction

Financial stability remains fundamental to economic resilience, with the banking sector playing a central role in sustaining credit flows, supporting investment, and maintaining macroeconomic continuity. Global experiences have shown that weaknesses in capital adequacy, liquidity management, and governance oversight can trigger rapid institutional distress and systemic instability. Events such as the 2008 global financial crisis and more recent failures, including Silicon Valley Bank in 2023, illustrate how governance shortcomings and risk-management lapses can undermine the soundness of otherwise sophisticated financial systems (IMF, 2021; FDIC, 2023). These cases demonstrate that financial instability often emerges not only from market shocks but also from structural weaknesses in governance systems, supporting the need for governance-oriented research in banking.

Within Sub-Saharan Africa, financial instability also persists despite the adoption of global supervisory reforms. Nigeria, for instance, has witnessed repeated cases of institutional distress, including the 2018 restructuring of Skye Bank into Polaris Bank and the 2024 revocation of Heritage Bank's license due to prolonged capital erosion and governance failures (Central Bank of Nigeria, 2018; 2024). In Ghana, the 2017 to 2019 banking-sector clean-up resulted in the closure of UT Bank, Capital Bank, and uniBank following significant deficiencies in capital positions, governance practices, and risk-management systems (Bank of Ghana, 2019). These regional experiences highlight persistent governance gaps and inconsistent regulatory enforcement, underscoring that regulatory reforms alone do not guarantee institutional stability.

Kenya's banking sector, although comparatively more regulated, continues to experience governance-related disruptions. The collapse of Imperial Bank in 2015 and the closure of Chase Bank in 2016 exposed weaknesses in board oversight, insider lending controls, and internal governance practices. The prolonged capital and asset-quality challenges at the National Bank of Kenya led to its acquisition by KCB Group in 2019 and later divestiture to Access Bank Plc in 2025 (CBK, 2023; Access Bank, 2025). Governance reforms undertaken by Equity Bank between 2020 and 2023, including digitisation, regional consolidation, and supported internal controls, demonstrated how deliberate governance interventions can support institutional resilience (KNBS, 2025). These mixed outcomes suggest that governance structures exert significant influence on institutional performance yet vary in effectiveness across banks.

Recent trends further indicate persistent fragility among listed commercial banks. Non-performing loans increased from 12.5 percent in 2019 to 14.5 percent in 2020, rising to approximately 16.1 percent by April 2024 (CBK, 2024). Several listed banks also breached the statutory liquidity ratio in early 2024, although average capital adequacy ratios declined from 18.3 percent in 2022 to 16.7 percent in 2024 (Economic Survey, 2025). These patterns point to continuing challenges in liquidity management, capital provisioning, and governance oversight, despite banks operating within a comprehensive regulatory environment.

Taken together, global, regional, and national evidence demonstrates that governance structures significantly shape financial resilience. This indicates a need to broaden governance inquiry beyond traditional board attributes and explore alternative models that capture relational, structural, and internal control mechanisms. These developments establish a compelling case for examining alternative governance models, specifically Keiretsu and

Internalism, and assessing how they interact with Kenya's regulatory framework to influence the financial stability of NSE-listed commercial banks.

Strategic alliances encompass formal financial, operational, or managerial partnerships that facilitate joint problem-solving and risk management across affiliated entities. Such alliances promote information sharing, alignment of objectives, and coordinated strategic responses, which can support liquidity positions and improve the collective capacity to manage shocks. In the banking sector, strategic alliances may take the form of joint ventures, long-term financing arrangements, or structured partnerships that improve institutional support and reduce exposure to idiosyncratic risks (Ngugi, 2022; OECD, 2021). These alliances are theorized to mitigate risk through mutual monitoring and shared expertise, contributing to more stable performance across interconnected institutions.

Capital adequacy was assessed using the Capital Adequacy Ratio, which is calculated as a percentage of a bank's core capital relative to its risk-weighted assets. This ratio reflects the institution's capacity to absorb unexpected losses and maintain solvency during periods of heightened financial stress. International regulatory frameworks, particularly Basel III, emphasize capital adequacy as a fundamental safeguard intended to prevent institutional collapse and systemic contagion, especially in environments characterized by rising credit risk and economic uncertainty (Basel Committee on Banking Supervision, 2021; World Bank, 2023). Recent trends among NSE-listed banks show weakening capital buffers, with the average Capital Adequacy Ratio declining from 18.3 percent in 2022 to 16.7 percent in 2024, raising concerns about long-term institutional resilience (Economic Survey, 2025).

Liquidity was evaluated using two complementary measures, namely the Liquidity Coverage Ratio and the Liquidity Gap. The Liquidity Coverage Ratio assesses the adequacy of high-quality liquid assets relative to projected net cash outflows over a 30-day stress scenario and serves as a globally recognized Basel III benchmark for short-term liquidity strength. The Liquidity Gap provided an additional assessment by comparing expected cash inflows and outflows across different maturity periods, thereby highlighting structural funding mismatches that may not be captured within the Liquidity Coverage Ratio. These two indicators collectively offer a comprehensive measure of the bank's ability to respond promptly and effectively to liquidity pressures (IMF, 2021; CBK, 2024).

Adequate liquidity is central to depositor confidence, operational continuity, and the overall stability of credit markets. However, supervisory reports indicate persistent weaknesses among some NSE-listed banks. At least four institutions breached the minimum statutory liquidity ratio during the first quarter of 2024, reflecting ongoing challenges in short-term funding management and risk control practices (CBK, 2024; KNBS, 2025). Assessing both the Liquidity Coverage Ratio and the Liquidity Gap therefore provided a more comprehensive evaluation of institutional liquidity strength and vulnerability.

1.1 Statement of the Problem

Commercial banks listed at the Nairobi Securities Exchange continue to face persistent financial instability despite operating under established governance and regulatory frameworks. Non-performing loans increased from 12.5 percent in 2019 to 14.5 percent in 2020 and reached 16.1 percent by April 2024, pointing to weaknesses in credit risk management and broader governance failures across the sector (Central Bank of Kenya [CBK], 2020; CBK, 2024). Liquidity pressures have also intensified, with at least four listed banks breaching the statutory liquidity ratio of 20 percent in early 2024, although average capital adequacy declined from 18.3 percent in 2022 to 16.7 percent in 2024, signalling reduced shock absorption capacity (Economic Survey, 2025).

Although regulatory interventions such as the 2019 Banking Sector Charter and the implementation of Basel III reforms were intended to support oversight, persistent governance weaknesses continue to be highlighted across official regulatory publications. CBK Bank Supervision Reports have repeatedly cited deficiencies in board effectiveness, related-party lending, concentration risk, and inadequate risk mitigation among several listed banks (CBK, 2020; CBK, 2023). The Banking Sector Annual Reports similarly document recurring challenges in compliance culture, internal audit effectiveness, and adherence to prudential guidelines, even within large institutions that possess sophisticated governance structures (CBK, 2024). These patterns suggest that traditional governance mechanisms centred on board independence, shareholder protection, and audit quality may not sufficiently address the structural complexities shaping modern banking institutions.

Empirical evidence further supports governance shortcomings as recurrent drivers of institutional instability. CBK Bank Supervision Reports continue to identify weak internal controls, inadequate oversight of credit processes, and delayed escalation of emerging risks as contributing factors to financial distress among listed institutions (CBK, 2023; CBK, 2024). The Economic Survey and Banking Sector Annual Reports also highlight governance-induced credit risk accumulation, operational lapses, and restructuring interventions across banks (Economic Survey, 2025; CBK, 2024). Scholarly findings align with these regulatory observations. Muriuki and Karanja (2021) established that weak internal controls contributed to operational disruptions and financial distress, although Wanjiru and Karungu (2022) linked ineffective board oversight and poor strategic discipline to capital erosion and restructuring pressures. However, existing studies focus primarily on conventional governance mechanisms and rarely examine alternative models that may offer more resilient institutional safeguards.

Alternative governance approaches such as the Keiretsu model, characterized by strategic alliances have demonstrated potential to improve institutional stability in East Asian markets (Tanaka, 2021; Sato and Nakamura, 2022). Internalism, which emphasizes centralized decision-making, procedural discipline, and formalized internal oversight, has similarly been associated with reduced agency conflict and supported operational control (Ngugi, 2022; Muriuki and Karanja, 2021). Despite their conceptual relevance, the applicability and effectiveness of these governance models in Kenya's banking sector remain largely unexamined. Furthermore, although regulation significantly shapes governance behaviour, the moderating effect of the regulatory framework on the relationship between governance practices and financial stability has not been empirically tested (Kimani and Awuor, 2023). This study addressed these gaps by examining the effect of strategic allinaces on the financial stability of commercial banks listed at the Nairobi Securities Exchange.

1.2 Research Objective

To establish the effect of strategic alliances on financial stability in commercial banks listed at the Nairobi Securities Exchange.

1.3 Research Hypothesis

H₀: Strategic alliances have no statistically significant effect on the financial stability of commercial banks listed at the Nairobi Securities Exchange.

2.1 Theoretical Review

The study was underpinned by Resource Dependence Theory (RDT). This theory was introduced by Pfeffer and Salancik (1978). The theory states that organizations are not self-sufficient and must rely on external actors for critical resources necessary for survival. This dependence exposes organizations to environmental pressures, since those who control essential resources can influence or constrain organizational behaviour. According to Pfeffer

and Salancik, organizational actions therefore arise not only from internal efficiencies but also from strategic responses to external constraints intended to stabilize access to scarce resources and reduce uncertainty.

The theory rests on the assumption that power in the external environment is unevenly distributed and that organizations act rationally to reduce vulnerability by forming inter-organizational linkages. These linkages may include reciprocal shareholding, strategic alliances, co-optation of powerful external actors, or long-term collaborative arrangements that limit exposure to environmental volatility. Subsequent scholarship, such as Hillman, Withers, and Collins (2009), affirms that firms adopt these mechanisms to secure resource flows, enhance predictability, and build resilience in competitive or unstable environments.

In this study, Resource Dependence Theory provides the conceptual foundation for understanding Keiretsu governance, particularly the focus on strategic alliances and cross-shareholding. Keiretsu networks, as examined in studies such as Tanaka (2021) and Sato and Nakamura (2022), illustrate reciprocal, long-term relationships that facilitate coordinated decision-making, shared oversight, and mutual support during financial stress. These structures align closely with Pfeffer and Salancik's proposition that organizations respond to uncertainty by constructing collaborative governance mechanisms that reduce dependence on external markets. Although Kenya does not possess formal Keiretsu systems, comparable resource-dependence patterns can be observed in groups such as KCB Group, where shared services, coordinated oversight, and integrated capital support reflect dynamics predicted by RDT (KCB Group, 2023).

The main strength of Resource Dependence Theory (RDT) lies in its clarity in explaining how external partnerships enhance organizational stability. In the banking sector, where institutions face liquidity pressures, high regulatory expectations and competitive risks, relational governance mechanisms such as strategic alliances can broaden access to capital, facilitate information exchange, and enable coordinated responses to external shocks. This logic underpins the expectation that strategic alliances among commercial banks may enhance financial stability by reducing vulnerability to resource fluctuations and strengthening collective resilience (Pfeffer & Salancik, 1978).

However, RDT has been critiqued for its emphasis on external forces while giving limited attention to internal governance dynamics. Hillman et al. (2009) note that the theory underrepresents organizational culture, leadership behaviour, and internal control structures, all of which also shape how banks respond strategically to resource dependencies. Furthermore, RDT assumes a largely rational adaptation to resource constraints, yet bank behaviour in practice may also be shaped by institutional pressures, political considerations, or regulatory interventions that do not always follow resource-based logic alone.

Resource Dependence Theory was deemed relevant to the study because it explains why commercial banks listed at the Nairobi Securities Exchange may pursue strategic alliances to promote liquidity positions, improve capital adequacy, and enhance resilience under conditions of market uncertainty. Banks, like other organizations, do not operate in isolation, they depend on external resources such as capital, market information, and technological capabilities, and strategic alliances offer a mechanism through which such dependencies can be managed collaboratively rather than absorbed individually. Through provision of externally oriented interpretation of governance behaviour, RDT offered a perspective through which the study examined how alliance-based resource-sharing arrangements among listed banks contribute to their financial stability, complementing internally focused theoretical perspectives that may otherwise be applied within the same conceptual framework.

2.2 Empirical Review

Strategic alliances refer to long-term cooperative arrangements between two or more institutions that seek mutual benefit through the exchange of resources, expertise, and capabilities without requiring mergers or acquisitions. Within the Keiretsu governance model, strategic alliances operate as external governance mechanisms that improve institutional resilience, facilitate joint risk management, and promote inter-organizational accountability. In commercial banking, such alliances enable institutions to pool infrastructure, share compliance systems, coordinate oversight functions, and support adaptability in response to regulatory and market pressures (Tanaka, 2021; CBK, 2024; OECD, 2021).

In this study, strategic alliances were assessed as a core construct of Keiretsu governance. They are conceptualized as structural governance mechanisms that influence financial stability by supporting resource sharing, coordinated compliance, and risk dispersion. This conceptualization aligns with the propositions of Resource Dependence Theory, which argues that firms form alliances to manage environmental uncertainty and secure access to critical resources (Pfeffer and Salancik, 2003; Hillman, Withers, and Collins, 2009). In Kenya's banking sector, strategic partnerships have been instrumental in improving institutional adaptability, risk governance, and stakeholder confidence, especially during periods of regulatory tightening or economic volatility (World Bank, 2022; Economic Survey, 2025).

Several empirical studies have explored the relationship between strategic alliances and financial performance in the banking sector, particularly under relational governance models such as Keiretsu. These alliances, often formalized through interbank partnerships, joint ventures, or cross-functional service arrangements, are believed to contribute to institutional resilience by enabling access to shared infrastructure, liquidity support, and regulatory intelligence. Sato and Nakamura (2022) examined long-term alliances among East African banks and found a positive correlation between strategic partnerships and financial stability indicators such as liquidity ratios and capital adequacy. Using a multivariate regression model, they demonstrated that alliance-based banks were more adaptive to regulatory changes and macroeconomic volatility. However, their regional focus excluded Kenya's national regulatory nuances, presenting a contextual gap that this study addressed.

In the Kenyan context, Mwangi and Otieno (2023) conducted a qualitative case study involving three banks that had engaged in alliance-driven collaborations. The study reported improved credit coordination, improved access to correspondent banking services, and increased deposit mobilization among partner institutions. Nonetheless, the study lacked quantitative analysis and did not measure the effect of such alliances on formal indicators of financial stability such as the liquidity ratio or non-performing loans, limiting the generalizability of the findings.

Kimani and Awuor (2024) employed panel regression to examine inter-organizational partnerships among NSE-listed banks. Their findings indicated that strategic alliances were positively associated with capital adequacy and liquidity buffers, especially during the COVID-19 recovery period. However, the study did not account for how regulatory intensity or institutional compliance may mediate these outcomes, indicating the need for moderation analysis, which the present study incorporates.

The World Bank (2022) emphasized that strategic alliances in African banking contribute to financial inclusion, digital transformation, and compliance cost-sharing. Similarly, the Economic Survey (2025) reported that Kenyan banks engaged in fintech collaborations and shared service platforms experienced lower cost-to-income ratios and stronger liquidity positions during periods of monetary tightening. These insights indicate growing policy recognition of alliances as vehicles for improving financial stability.

2.3 Conceptual Framework

A conceptual framework offers a visual representation of how various factors relate to one another. In this framework, strategic alliances is the independent variable, while financial stability is the dependent variable. This can be observed in the conceptual framework in Figure 1.

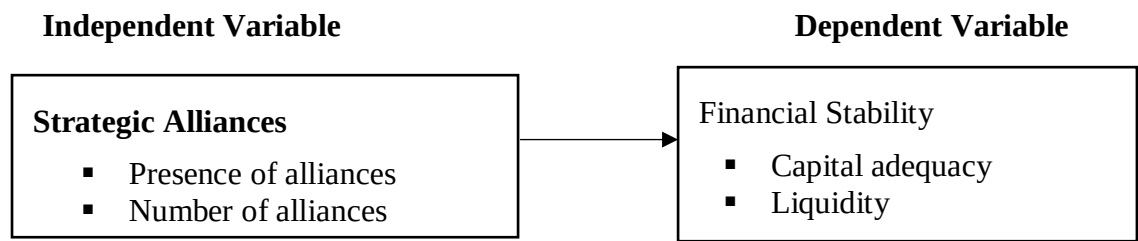


Figure 1: Conceptual Framework

3.0 Research Methodology

This study was grounded in the pragmatist paradigm, which prioritizes the practical value of inquiry and emphasizes the use of methods that best address the research problem. Pragmatism is premised on the belief that reality is complex, dynamic, and open to multiple interpretations. It therefore encourages methodological pluralism by allowing researchers to draw from both quantitative and qualitative traditions in order to generate findings that are useful, credible, and aligned with the objectives of the study (Creswell and Plano Clark, 2018). In line with the pragmatist worldview, this study adopted a mixed-methods approach that integrates quantitative and qualitative strands. The quantitative component reflects a positivist epistemology by employing objective measurements derived from audited financial statements, capital adequacy ratios, liquidity metrics, and governance disclosures. This strand facilitated statistical testing of the hypothesized relationships between strategic alliances and financial stability.

This study adopted an explanatory research design, consistent with the pragmatist paradigm and the mixed-methods approach. Explanatory designs are hypothesis-driven and are used to examine causal relationships between variables, making them suitable for studies that seek to identify the effect of independent variables on a dependent outcome (Bell, Bryman, and Harley, 2022). In this context, the explanatory design guided the analysis of how strategic alliances, influence financial stability indicators such as capital adequacy and liquidity. Although the explanatory design forms the core of this study, elements of descriptive research was incorporated to support the interpretation of results.

The target population comprised the eleven commercial banks listed on the Nairobi Securities Exchange as of 2024. These NSE-listed banks are analytically relevant due to their systemic importance, regulatory compliance obligations, and the availability of governance and financial data in the public domain. This study did not employ a sampling technique in the traditional sense, as it adopted a census approach. A census involves the inclusion of every unit of the population under investigation and was appropriate when the population is small, accessible, and sufficiently homogeneous to allow complete enumeration

This study employed structured data extraction templates specifically designed to reflect the mixed-methods approach and the constructs under investigation. These templates guided the systematic collection of quantitative data on capital adequacy and liquidity, as well as qualitative data related to strategic alliances. The study adopted a mixed-methods design that

integrates both quantitative and qualitative strands, although relying exclusively on secondary data sources. This approach is justified by the richness of publicly available financial disclosures, regulatory reports, and governance documentation, which collectively provide sufficient depth for both strands of analysis. As Saunders et al. (2019) affirm, the nature of selected data must align with the intended analysis and research design. The quantitative strand focused on numerical indicators of financial stability, specifically capital adequacy and liquidity. These indicators were extracted from audited financial statements, annual reports, and Central Bank of Kenya (CBK) statistical bulletins for the period 2019 to 2024. By combining structured financial metrics with interpretive analysis of governance disclosures, the study ensures an effective mixed-methods examination. This integrated approach generated comprehensive and contextually grounded insights into the relationship between corporate governance, regulatory frameworks, and financial stability in Kenya’s commercial banking sector.

The study followed a rigorous data collection process, using secondary data from credible sources like audited financial statements, governance disclosures, and regulatory publications. Pretesting ensured the reliability and validity of structured data extraction templates, while content, construct, and external validity were maintained by aligning indicators with relevant theories. Reliability was bolstered by standardized procedures, inter-coder checks, and clear documentation to ensure consistency and replicability. The study operationalizes strategic alliances through the presence and number of formal partnerships (nominal scale) and financial stability using capital adequacy and liquidity ratios (ratio scale), with data sourced from audited financial statements, governance disclosures, and regulatory publications.

The study used panel regression to assess the impact of strategic alliances, measured by the presence and number of partnerships, on financial stability, measured by capital adequacy and liquidity ratios. Descriptive statistics summarized governance and financial data across the eleven NSE-listed commercial banks. The panel regression model allowed for controlling inter-bank variations and time-series data, ensuring accurate estimation of strategic alliances' influence on financial stability. This approach improved the model's explanatory power by addressing omitted variable bias and unobserved heterogeneity. The following models were used:

Model (i): Capital Adequacy

$$CA_{it} = \beta_0 + \beta SA_{it} + \varepsilon_{it} \dots\dots\dots (i)$$

Model (ii): Liquidity

$$LQ_{it} = \beta_0 + \beta SA_{it} + \varepsilon_{it} \dots\dots\dots (ii)$$

Where:

- CA_{it} = Capital Adequacy of bank i at time t
- LQ_{it} = Liquidity of bank i at time t
- SA_{it} = Number of Strategic Alliances of bank i at time t
- B₀ = Constant
- β = Predictor coefficients
- ε = Error term

4.0 Results, Findings and Discussion

4.1 Descriptive Analysis

Descriptive statistics were used to summarize the characteristics of the study variables for the eleven commercial banks listed at the Nairobi Securities Exchange over the period 2019 to 2024. This provided an overview of the distribution, trends and variability of strategic alliances alongside financial stability measured using capital adequacy and liquidity. Measures of central tendency and dispersion were adopted to describe the data, including the mean, maximum, minimum, and standard deviation. The descriptive statistics results are presented in Table 1.

Table 1: Descriptive Statistics

Variable	Obs.	Minimum	Maximum	Mean	Std. Deviation
CAR (%)	66	0.164	0.249	0.194803	0.0169288
LCR (%)	66	0.17	0.719	0.43027	0.142583
Liquidity Gap (%)	66	0.0128	0.0712	0.039452	0.0118382
Strategic Alliances	66	1	1	1	0

The descriptive results presented in Table 1 indicate the distribution and variability of financial stability and corporate governance models across the eleven commercial banks listed at the Nairobi Securities Exchange over the period 2019–2024. The findings show that the Capital Adequacy Ratio (CAR) recorded a mean of 0.1948 with a standard deviation of 0.0169, and values ranging between a minimum of 0.164 and maximum of 0.249. This suggests that most banks maintained stable and compliant capital levels, reflecting strong adherence to prudential requirements on core capital relative to risk-weighted assets. The low dispersion indicates consistency across institutions, implying that capital adequacy is well-regulated and uniformly enforced within the banking sector. Similarly, the liquidity gap recorded a mean of 0.0395 with a standard deviation of 0.0118, indicating moderate variation in short-term liquidity positioning across banks, with most institutions maintaining adequate liquidity buffers to meet short-term obligations.

However, the liquidity coverage ratio (LCR) exhibits higher variability compared to other financial stability indicators, with a mean of 0.4303 and a standard deviation of 0.1426, alongside a wide range between 0.17 and 0.719. This suggests differences in liquidity management strategies among banks, where some institutions maintain higher liquidity buffers although others operate closer to regulatory thresholds. Such variation reflects differences in asset-liability management practices, risk tolerance, and exposure to liquidity shocks. These findings indicate that although capital adequacy remains relatively stable across banks, liquidity management practices are more diverse and institution-specific. The results revealed that strategic alliances recorded a constant value (mean = 1, standard deviation = 0), indicating that all sampled banks were in established strategic alliances during the study period. This suggests that inter-organizational collaboration is a universal strategy within the sector, potentially improving access to financial resources, innovation, and market growth opportunities.

4.2 Trend Analysis

4.2.1 Trend Analysis on Capital Adequacy Ratio (CAR)

The trend analysis for Capital Adequacy Ratio (CAR) examined the yearly changes in banks’ capital strength between 2019 and 2024. This was important in determining whether commercial banks listed at the Nairobi Securities Exchange consistently maintained adequate core capital relative to risk-weighted assets over the study period. The analysis provides

information on the stability and resilience of banks in meeting regulatory capital requirements under varying economic conditions. The trend line is shown in Figure 2.

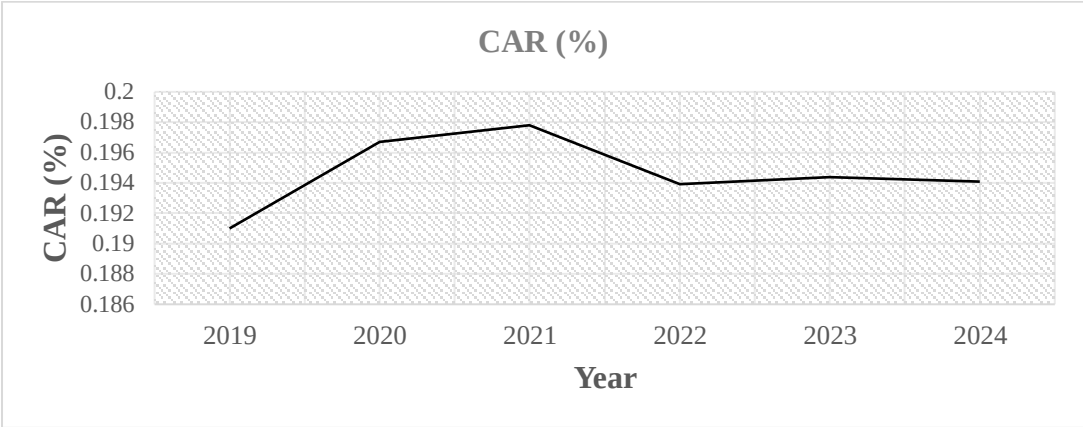


Figure 2: Trend Line on Capital Adequacy Ratio

The trend line in Figure 2 illustrates the annual changes in the average Capital Adequacy Ratio (CAR) of commercial banks listed at the Nairobi Securities Exchange from 2019 to 2024. In 2019, the average CAR stood at 19.1%, indicating that banks maintained capital levels above the minimum regulatory requirement, reflecting a strong capital base at the beginning of the study period. This ratio increased to 19.67% in 2020, representing an improvement in capitalization, which may be attributed to conservative risk management and improved capital retention during a period characterized by increased economic uncertainty.

In 2021, the CAR further increased to 19.78%, marking the highest level observed during the study period. This upward trajectory suggests a deliberate improvement in capital buffers, likely driven by prudential strategies aimed at scaling up solvency and absorbing potential credit risks. The consistent increase from 2019 to 2021 reflects a period of capital consolidation, where banks focused more on financial resilience and regulatory compliance. However, the results show that in 2022 the CAR declined to 19.39%, indicating a marginal contraction in capital adequacy. This reduction is associated with increased lending activities and expansion in risk-weighted assets as banks responded to improving economic conditions. In 2023, the ratio slightly increased to 19.44%, suggesting a modest recovery in capital levels as institutions adjusted their capital structures to align with evolving risk exposures.

The results further show that in 2024 the CAR recorded a slight decline to 19.41%, indicating stabilization within a narrow range. The trend demonstrates a stable capital adequacy position, with CAR consistently maintained above 19% throughout the study period. This stability reflects effective regulatory oversight by the Central Bank of Kenya and adherence to prudential requirements such as Basel III guidelines. The observed pattern indicates that commercial banks maintained adequate capitalization levels despite minor fluctuations, thereby supporting their capacity to absorb financial shocks and maintain operational stability. The trend suggests a well-capitalized banking sector characterized by resilience, regulatory compliance, and prudent financial management practices, which are critical determinants of financial stability.

4.2.2 Trend Analysis on Liquidity Coverage Ratio (LCR)

The trend analysis for Liquidity Coverage Ratio (LCR) examined the yearly changes in banks’ short-term liquidity positions between 2019 and 2024. The trend line is shown in Figure 3.

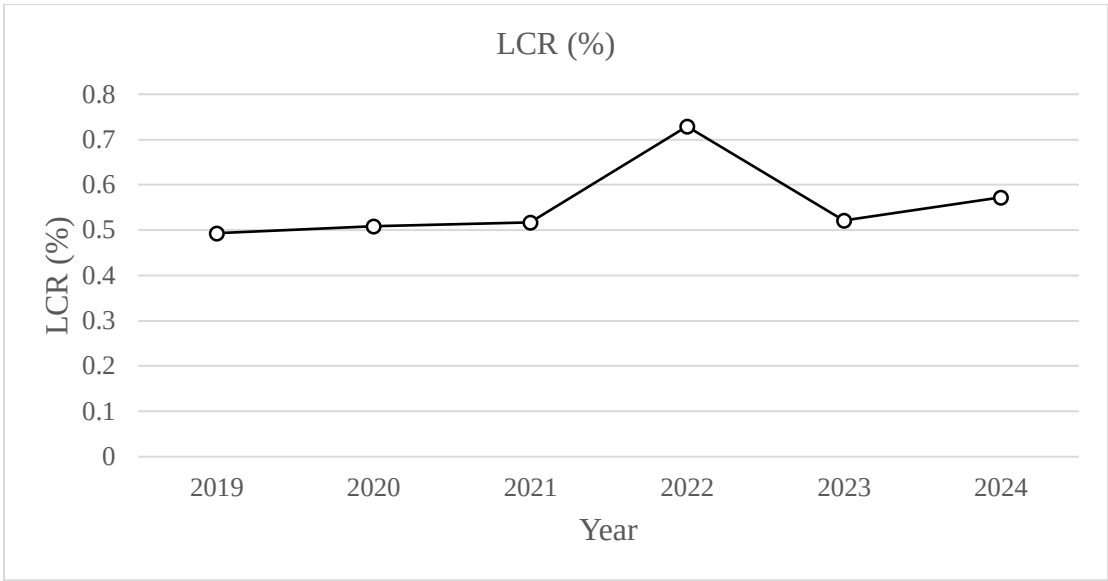


Figure 3: Trend Line for Liquidity Coverage Ratio

The trend line in Figure 3 illustrates the annual changes in the average Liquidity Coverage Ratio (LCR) of commercial banks listed at the Nairobi Securities Exchange from 2019 to 2024. In 2019, the average LCR stood was 49.33%, indicating that banks maintained moderate levels of high-quality liquid assets relative to their short-term net cash outflows. This ratio increased to 50.82% in 2020 indicating an improvement in liquidity positions, possibly driven by cautious liquidity management and regulatory guidance during periods of economic uncertainty. In 2021, the LCR further increased to 51.67%, suggesting continued supporting of liquidity buffers as banks improved their capacity to withstand short-term financial stress. The upward trend from 2019 to 2021 indicates a gradual improvement in liquidity resilience, consistent with prudent asset-liability management practices.

In 2022, the LCR rose significantly to 72.90%, suggesting that banks accumulated higher levels of liquid assets, potentially as a precautionary response to evolving macroeconomic risks or changes in regulatory expectations. Such increase may also reflect reduced lending activity or increased holdings of government securities, which are typically classified as high-quality liquid assets. The results however show that in 2023 the LCR declined to 52.15%, indicating a normalization of liquidity levels as banks possibly reallocated excess liquidity toward income-generating assets. In 2024, the ratio increased again to 57.22%, suggesting a renewed supporting of liquidity buffers and improved short-term solvency positions.

These trend line results on LCR demonstrates a generally upward trend with moderate fluctuations, indicating that listed commercial banks generally maintained adequate liquidity levels throughout the study period. The LCR remained above the thresholds, reflecting the sector’s ability to absorb short-term liquidity shocks and meet regulatory requirements enforced by the Central Bank of Kenya. These findings suggest that the banking sector exhibited strong liquidity management practices, supporting overall financial stability and resilience.

Trend Analysis on Liquidity Gap

The trend analysis for liquidity gap analyzed the yearly changes in banks’ short-term asset–liability positions between 2019 and 2024. The trend line is shown in Figure 4.

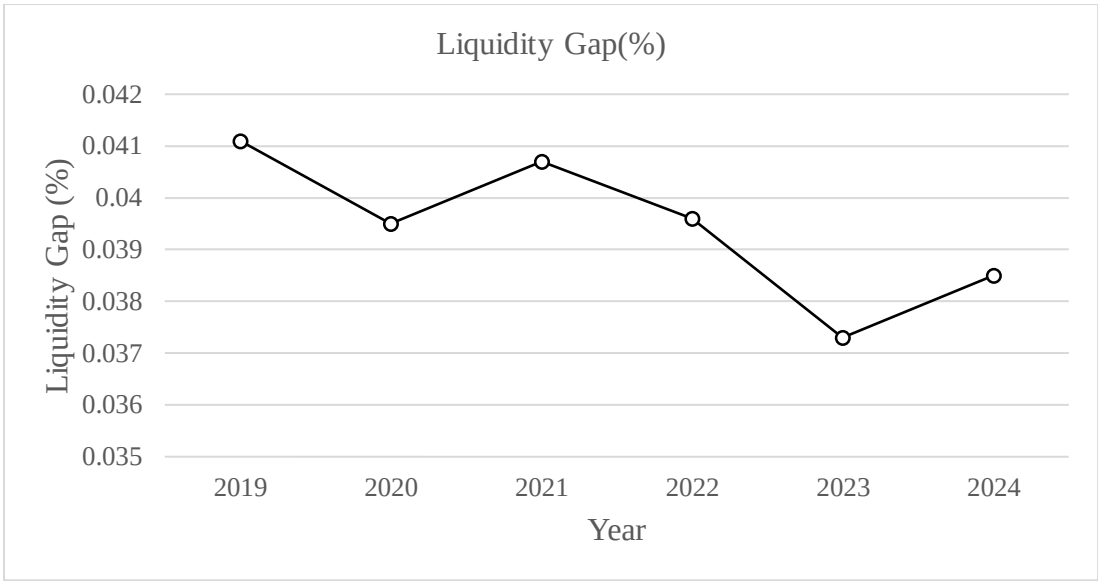


Figure 4: Trend Line on Liquidity Gap

The trend line in Figure 4 presents the progression of the average liquidity gap for commercial banks listed at the Nairobi Securities Exchange over the period 2019 to 2024. The results show that in 2019 the liquidity gap was 4.11%, indicating that banks maintained a moderate surplus of short-term assets relative to short-term liabilities, thereby supporting their ability to meet immediate financial obligations. In 2020, the ratio declined slightly to 3.95%, suggesting a marginal reduction in liquidity buffers, possibly reflecting increased utilization of liquid assets during a period of constrained economic activity. In 2021, the liquidity gap increased to 4.07%, signaling a recovery in short-term liquidity positions as banks adjusted their asset-liability structures to support operational liquidity. The results also show that in 2022, the ratio declined again to 3.96%, indicating a slight tightening of liquidity positions, which may be associated with increased lending or shifts in balance sheet composition.

The downward movement continued into 2023, where the liquidity gap reached 3.73%, representing the lowest level observed during the study period. This decline suggests that banks operated with relatively narrower liquidity margins, potentially reflecting more aggressive asset deployment or improved efficiency in liquidity utilization. In 2024, the liquidity gap increased to 3.85%, indicating a modest recovery in liquidity buffers as banks rebalanced their short-term assets and liabilities. The trend depicts moderate fluctuations within a relatively narrow range, suggesting that banks consistently maintained positive liquidity gaps throughout the study period. This indicates a stable liquidity position with limited exposure to severe mismatch risk. The observed pattern demonstrates that although banks actively adjust their short-term asset-liability structures in response to changing economic and operational conditions, they maintain sufficient liquidity buffers to support financial stability and meet regulatory expectations set by the Central Bank of Kenya.

4.3 Correlation Analysis

Correlation analysis was employed to assess how strategic alliances relate to financial stability indicators, Capital Adequacy Ratio (CAR) and Liquidity, among commercial banks listed at the Nairobi Securities Exchange. Table 2 shows the results.

Table 2: Correlation Matrix

Variables	Strategic Alliances	Capital Adequacy Ratio (CAR)	Liquidity
Number of Strategic Alliances	1.0000	0.3124*	0.2486*

The findings revealed that number of strategic alliances have a positive and statistically significant association with Capital Adequacy Ratio ($r = 0.3124^*$), indicating that the number of strategic alliances a bank has is associated with their capital adequacy positions. This implies that alliances improve resource sharing, risk diversification, and adaptability to regulatory demands. This finding is consistent with those of Sato and Nakamura, who found that alliance-based banks exhibited improved capital adequacy and liquidity stability. Similarly Mwangi and Otieno reported improved operational coordination and deposit mobilization among partner banks.

The study also found that number of strategic alliances has a positive and statistically significant association with liquidity ($r = 0.2486^*$), suggesting that banks engaged in collaborative partnerships tend to maintain stronger short-term liquidity positions. This implies that alliances improve access to financial resources, interbank support, and operational flexibility, which are critical in managing short-term obligations. This finding is consistent with Sato and Nakamura, who found that strategic partnerships improved liquidity resilience among banks. Similarly, Mwangi and Otieno reported improved deposit mobilization and improved financial coordination among alliance-driven banks.

4.4 Panel Regression Analysis

Study conducted panel regression analysis to establish the effect of number of strategic alliances on financial stability as measured using capital adequacy ratio among commercial banks listed at the Nairobi Securities Exchange. Panel regression was adopted because it accounts for both cross-sectional and time-series variations, enabling more efficient and consistent estimates although controlling for unobserved heterogeneity across banks. In this model, Capital Adequacy Ratio (CAR) was specified as the dependent variable and strategic alliances as explanatory variable. The regression results on CAR model are presented in Table 3.

Table 3: Panel Regression Results using CAR Model

Dep. Var: CAR	Coef. (β)	Std. Err.	z	P> z
Number of Strategic Alliances	0.0184	0.0072	2.56	0.011
Constant	0.1425	0.0312	4.57	0.000
P-value: 0.0000				

Estimated Model

$CA = 0.1425 + 0.0184SA$

Where:

CA = Capital Adequacy

SA = Number of Strategic Alliances

The panel regression results presented in Table 3 show that number of strategic alliances, provide moderate explanatory power in determining capital adequacy with a p-value of 0.0000 indicates that the overall model is statistically significant at the 5% level. The positive constant ($\beta = 0.1425$) suggests that even in the absence of the explanatory variables, banks maintain a baseline level of capital adequacy, reflecting sector resilience and regulatory safeguards. The findings indicate that number of strategic alliances have a positive and statistically significant effect on capital adequacy ($\beta = 0.0184$, $p = 0.011 < 0.05$). This shows that a unit increase in strategic alliances is expected to lead to 0.0184 units in capital adequacy ratio. This finding supports the outcome of a study by Mwangi and Otieno (2023) which observed improved operational coordination and deposit mobilization among alliance-driven banks. Table 4 shows regression results using liquidity model.

Table 4: Panel Regression Results (Liquidity Model)

Dep. Var: Liquidity	Coef. (β)	Std. Err.	z	P> z
Number of Strategic Alliances	0.0246	0.0091	2.70	0.007
Constant	0.3017	0.0824	3.66	0.001
P-value: 0.0000				

The estimated model is presented here below:

$$LQ = 0.3017 + 0.0246SA$$

Where:

LQ = Liquidity

SA = Number of Strategic Alliances

The results show that number of strategic alliances have a positive and statistically significant effect on liquidity ($\beta = 0.0246$, $p = 0.007 < 0.05$). This implies that increased collaboration among banks improves their short-term liquidity positions, likely through improved access to interbank funding, correspondent banking networks, and shared financial infrastructure. A unit increase in number of strategic alliances leads to a 0.0246 unit increase in liquidity, holding other factors constant. This finding is consistent with the findings of Mwangi and Otieno (2023) who reported that number of alliance-driven collaborations improved deposit mobilization and financial coordination among Kenyan banks, although their study lacked quantitative validation.

5.0 Conclusion

Strategic alliances significantly affect financial stability of commercial banks listed at the Nairobi Securities Exchange, leading to rejection of the null hypothesis. Inter-organizational collaborations create strong institutional linkages that improve resource mobilization, risk-sharing, and operational coordination, thereby supporting both capital adequacy and liquidity positions. Strategic alliances function as critical governance mechanisms that enable banks to respond effectively to market dynamics and financial uncertainties. In addition, alliances improve institutional adaptability by facilitating access to financial networks and technological capabilities. The effectiveness of these collaborations depends on their strategic alignment, governance integration, and the ability to translate partnerships into measurable financial outcomes. Besides improving financial performance, strategic alliances support institutional resilience and competitiveness within the banking sector.

6.0 Recommendations

The study recommends that commercial banks listed at the Nairobi Securities Exchange should scale up strategic alliances as a core governance strategy for improving financial stability. Banks should deliberately establish formal collaboration frameworks that go beyond informal partnerships, including joint ventures, interbank lending agreements, and shared digital infrastructure platforms. In addition, institutions should align alliance strategies with their risk management and capital optimization objectives to ensure that partnerships translate into measurable financial outcomes. Banks should also develop governance structures that clearly define roles, responsibilities, and performance metrics within alliances to improve accountability and coordination. Furthermore, management should continuously evaluate the effectiveness of partnerships through performance audits and strategic reviews to ensure sustained value creation. Besides forming alliances, banks should invest in relationship management capabilities to maximize the long-term benefits of collaborative networks.

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