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**From Strategy to Value Creation: An Assessment of Uptake of Digital Marketing Strategy on Financial Performance of Commercial Banks in Kenya**

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**Abstract**

The strategic adoption of digital marketing innovation has become a critical source of competitive advantage for commercial banks operating in highly digitized and regulated environments. This study examines how digital marketing strategies are embedded within banking operations and translated into measurable financial outcomes. Anchored in Disruptive Innovation Theory, the research investigates the effect of digital marketing strategy uptake on the financial performance of commercial banks in Kenya, while examining the moderating role of government regulation. Digital marketing strategy uptake is conceptualized through distribution innovation, channel diversification, and market development, while financial performance is measured using return on equity (ROE). Guided by a positivist paradigm and descriptive research design, the study utilized panel data collected from licensed commercial banks in Kenya through structured questionnaires and audited financial statements. Data were analyzed using multiple regression analysis. Findings reveal that digital marketing strategy uptake has a positive and statistically significant effect on financial performance. Government regulation; manifested through taxation compliance, data protection requirements, and digital lending policy frameworks; significantly moderates this relationship by shaping how effectively digital initiatives translate into financial gains. The regression model demonstrates strong explanatory power ( $R^2 = 0.720$ ). The study extends Disruptive Innovation Theory within regulated financial markets and enriches digital marketing and strategic management literature by illustrating how banks convert digital initiatives into value-creating capabilities. Practically, the findings provide actionable guidance for policymakers and bank managers seeking to align digital marketing strategies with regulatory frameworks to enhance financial performance in emerging economies.

**Keywords:** digital marketing innovation, financial performance, government regulation, disruptive innovation theory.

## **1.0 Introduction**

### *1.1 Introduction to the Problem*

The rapid digitalization of financial services has fundamentally reshaped competitive dynamics within the global banking industry. In emerging economies such as Kenya, commercial banks operate in an environment characterized by fintech disruption, shifting customer expectations, and increasingly stringent regulatory oversight. While digital transformation is widely acknowledged as a driver of operational efficiency and customer engagement, its translation into measurable financial performance remains uneven. In particular, the strategic role of digital marketing innovation; beyond general digitalization has received limited empirical attention, despite its potential to influence profitability, market positioning, and shareholder value. Understanding how digital marketing strategies contribute to financial outcomes is therefore critical for banks seeking sustainable competitive advantage in highly regulated markets.

Prior studies conceptualize marketing innovation as the adoption of new marketing methods, channel enhancements, and distribution improvements aimed at improving firm performance (Tahir et al., 2018; Trott, 2017; Biemans, 2018). In the banking sector, digital tools such as social media platforms, search engine optimization, online advertising, and data-driven targeting mechanisms have enabled institutions to personalize customer engagement and refine campaigns in real time (Sorum, 2020; Ihm, 2019). Although empirical research generally supports a positive association between digital innovation and firm performance, much of the existing literature treats digitalization as a broad construct, with limited focus on the specific contribution of digital marketing strategy uptake to financial indicators such as return on equity (ROE). Moreover, few studies have examined this relationship within regulated financial systems, where government policies, taxation frameworks, data protection requirements, and digital lending regulations may condition strategic outcomes.

Anchored in Disruptive Innovation Theory, this study conceptualizes digital marketing strategy uptake as a value-creating mechanism that enables banks to reconfigure distribution channels, diversify communication platforms, and develop new markets in response to technological disruption. The theory suggests that firms that strategically adopt innovative approaches can outperform incumbents by redefining customer access and service delivery models. In this context, digital marketing innovation is not merely symbolic adoption of technology but a strategic capability embedded within core banking processes to enhance competitive positioning and financial returns.

Accordingly, the primary hypothesis of this study is that digital marketing strategy uptake positively influences the financial performance of commercial banks in Kenya, as measured by return on equity. A secondary hypothesis posits that government regulation moderates this relationship by shaping the extent to which digital marketing initiatives are effectively translated into financial gains. To test these hypotheses, the study employs a positivist research paradigm and a descriptive research design using panel data from licensed commercial banks in Kenya, analyzed through multiple regression techniques.

By integrating Disruptive Innovation Theory with empirical evidence from a regulated emerging market, this study contributes to strategic management and digital marketing literature by clarifying how banks convert digital marketing initiatives into measurable financial value. Practically, the findings offer evidence-based insights for policymakers and bank managers seeking to align digital marketing strategies with regulatory frameworks to enhance long-term financial performance.

### *1.2 The Importance of the Problem*

Despite significant investment in digital transformation, the financial benefits tied specifically to digital marketing strategies are not clearly established in banking research. While many studies show a positive link between digital innovation and company performance, these findings are often broad and do not clearly separate the impact of digital marketing strategies from other forms of technological adoption. Previous studies show that digitalization helps improve operational efficiency, attract more customers, and create new revenue streams, which can boost profitability. On the other hand, others suggest that digital investments can lead to higher costs, increased exposure to regulations, greater cybersecurity threats, and more unstable earnings, especially in highly regulated financial sectors. These differing views highlight the need for more detailed studies to understand how specific digital marketing strategies affect actual financial results.

This issue is especially clear in developing economies, where laws related to regulation, taxes, and data protection heavily influence how banks use digital tools. In Kenya, commercial banks follow changing rules on digital lending and financial oversight, yet there is little evidence showing whether adopting digital marketing strategies directly improves shareholder returns like return on equity (ROE), or if regulatory factors influence this connection. Most existing research treats digital innovation as a general concept, without examining how specific strategies such as distributing products differently, using various sales channels, and expanding into new markets contribute to the strategic strengths of banks.

Filling this gap is important for both academic understanding and real-world applications. From a theoretical standpoint, it helps expand Disruptive Innovation Theory by exploring whether strategic digital marketing capabilities can offer long-term financial value in regulated markets. From a practical perspective, it provides guidance for policymakers and bank leaders looking to balance digital growth with regulatory adherence and financial security. Therefore, this study aims to assess how the adoption of digital marketing strategies affects the financial performance of commercial banks in Kenya and to explore how government regulations influence this relationship.

### *1.3 Relevant Scholarship*

Empirical scholarship has consistently examined marketing innovation as a strategic mechanism for enhancing firm performance, yet its specific financial implications within regulated banking environments remained insufficiently clarified. Tahir et al. (2018) conceptualized marketing

innovation as the implementation of new marketing methods involving substantial changes in product design, promotion, packaging, or distribution systems aimed at improving organizational outcomes. Subsequent studies extended this perspective by demonstrating that data-driven marketing approaches enhanced customer engagement and targeting efficiency, thereby contributing indirectly to improved performance metrics (Ferrell et al., 2021). However, much of this literature treated performance as a broad construct, often emphasizing market share, competitive positioning, or customer satisfaction rather than explicit financial indicators such as return on equity.

Empirical investigations across different contexts further revealed both the potential and limitations of marketing innovation strategies. Medrano and Olarte-Pascual (2016), using panel data from Spanish enterprises and binomial logit modeling, found that economic crises significantly reduced firms' propensity to pursue marketing innovation, suggesting that external environmental pressures condition strategic adoption decisions. Similarly, Wang et al. (2020) explored marketing innovation during the COVID-19 crisis in China and identified differentiated strategic responses; responsive, proactive, collective, and partnership-based approaches; yet their qualitative design did not quantify financial performance implications. These findings collectively indicated that while marketing innovation was recognized as strategically valuable, its measurable financial returns were context-dependent and methodologically underexplored. Within emerging markets, research increasingly examined marketing-related capabilities in banking institutions. Suandi et al. (2023), employing partial least squares analysis in Indonesian Islamic banks, demonstrated that convergence marketing and ethical marketing practices enhanced competitive advantage and indirectly influenced performance outcomes. In Kenya, Mwangi et al. (2018) found that market-oriented organizational culture positively affected bank performance, particularly when moderated by strategic leadership. Although these studies reinforced the importance of strategic orientation and marketing-related capabilities, they primarily focused on competitive advantage, organizational culture, or non-financial performance indicators such as return on assets and customer satisfaction. Direct examination of digital marketing strategy uptake and its effect on shareholder-centered metrics such as return on equity remained limited.

Moreover, prior research rarely incorporated regulatory conditions as a moderating variable, despite the heavily supervised nature of commercial banking systems. Existing studies tended to treat digital or marketing innovation as internally driven capabilities without sufficiently accounting for how taxation policies, data protection regulations, and digital lending frameworks might shape financial outcomes. This omission was particularly significant in regulated emerging markets such as Kenya, where compliance structures influence strategic flexibility and cost structures. Collectively, the literature established a general positive association between marketing innovation and organizational performance but revealed three critical limitations. First, the digital marketing strategy was often subsumed within broader innovation constructs, limiting conceptual precision. Second, financial performance was frequently measured using aggregate or indirect indicators rather than return on equity. Third, the moderating role of

regulatory frameworks in shaping the marketing innovation performance nexus remained underexplored.

The present study addressed these gaps by isolating digital marketing strategy uptake, operationalized through distribution innovation, channel diversification, and market development, and examining its direct effect on return on equity among licensed commercial banks in Kenya. In addition, the study extended prior scholarship by incorporating government regulation as a moderating variable, thereby situating digital marketing strategy within a regulated financial ecosystem. Through this approach, the research contributed to a more precise and contextually grounded understanding of how digital marketing capabilities translated into measurable financial value in emerging banking markets.

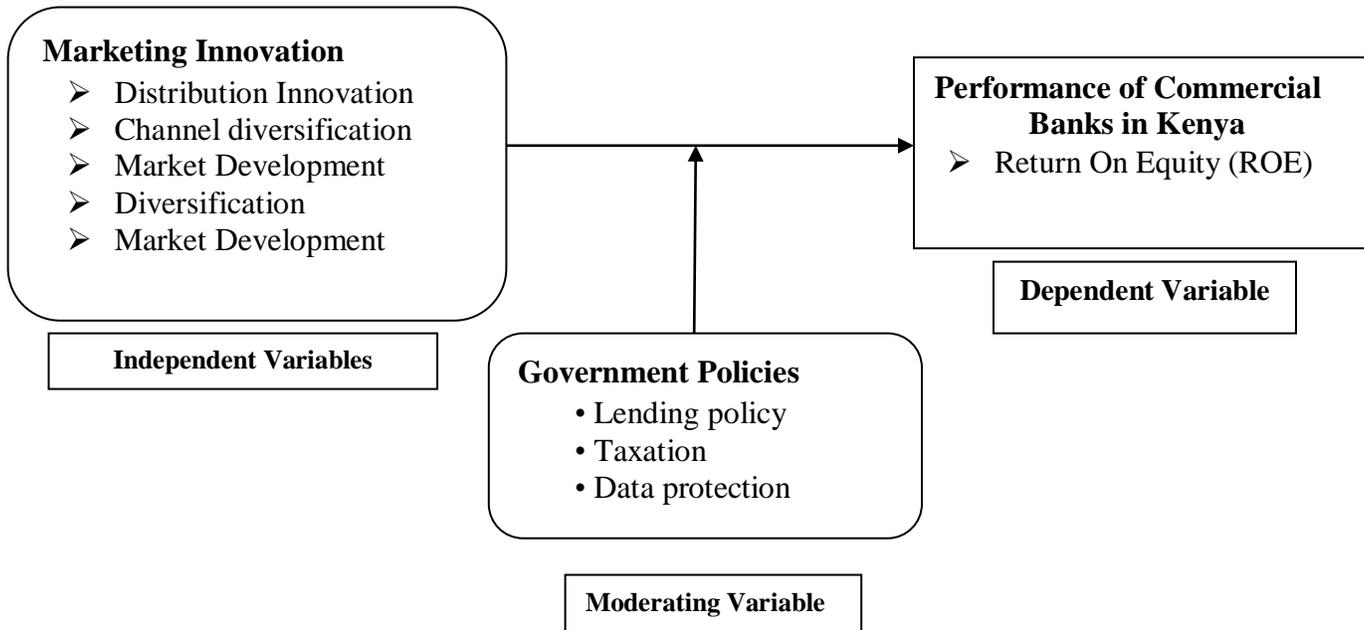


Figure 1: Conceptual Framework

*1.4 Hypotheses and Their Correspondence to Research Design*

Building on the problem of inconsistent evidence regarding the financial impact of digital marketing strategies in regulated banking environments, this study proposed hypotheses derived from both Disruptive Innovation Theory and recent empirical literature. Digital marketing strategy uptake was conceptualized as a multi-dimensional capability encompassing distribution innovation, channel diversification, and market development. The study also incorporated the moderating influence of government policy, recognizing that taxation, data protection, and digital lending regulations may condition the translation of digital marketing initiatives into financial returns. The hypotheses were structured to test both the direct effect of digital

marketing strategy uptake on financial performance and the conditional effect of regulatory oversight.

**H0<sub>1</sub>:** There was no statistically significant relationship between the uptake of digital marketing innovation strategy and the financial performance of commercial banks in Kenya.

*Rationale:* Prior studies indicated that marketing innovation enhances organizational performance through improved customer engagement, market reach, and operational efficiency (Tahir et al., 2018; Ferrell et al., 2021; Vitorino et al., 2020). Within banking, digital marketing tools including; online advertising, social media campaigns, and data-driven customer targeting enabled banks to optimize distribution channels, diversify communication platforms, and develop new markets, potentially increasing return on equity (ROE) (Misati et al., 2019; Omwanza & Jagongo, 2019). The sub-dimensions of digital marketing strategy uptake; distribution innovation, channel diversification, and market development; were hypothesized to collectively influence financial performance by enabling banks to reach more customers efficiently and improve revenue generation, consistent with Disruptive Innovation Theory (Christensen et al., 2018).

**H0<sub>2</sub>:** There was no statistically significant relationship between the moderating effect of government policy, the uptake of digital innovation strategy, and the financial performance of commercial banks in Kenya.

*Rationale:* Evidence suggested that regulatory frameworks in emerging markets condition the effectiveness of digital strategies (CBK, 2022; Gupta et al., 2023). Government policy; including taxation compliance, data protection provisions, and digital lending regulations; may enhance or constrain how distribution innovations, channel diversification, and market development translate into financial gains (Ndungu & Muturi, 2019). By explicitly incorporating regulatory moderation, this hypothesis tested whether the financial benefits of digital marketing uptake depended on adherence to government policy, aligning theoretical predictions with practical institutional constraints in Kenya's banking sector.

The study employed a positivist paradigm and a descriptive-explanatory research design using panel data from licensed commercial banks in Kenya. Multiple regression analysis tested the direct effect of digital marketing strategy uptake on ROE (H0<sub>1</sub>) and incorporated an interaction term between digital marketing strategy uptake and government policy to assess moderation effects (H0<sub>2</sub>). The panel data allowed control for temporal and cross-sectional variation, strengthening causal inference. This design ensured that both primary and conditional hypotheses were empirically estimable and logically aligned with the theoretical rationale.

2 Materials and Methods

2.1 Research Philosophy

The study was grounded in the positivist research philosophy, which aligns with its emphasis on empirical observation, hypothesis testing, objectivity, and the use of quantitative methods to generate generalizable findings (Alita et al., 2019). Positivism assumes that valid knowledge is derived from observable and measurable phenomena and is best produced through the systematic application of the scientific method, including data collection, statistical analysis, and logical inference (Wang & Cheng, 2020). The philosophy further underscores researcher neutrality and detachment to minimize bias and ensure objectivity in knowledge production (Bayan & Dexter, 2021). By prioritizing quantitative evidence, positivism facilitates the identification of patterns and relationships that support the formulation of broadly applicable explanations and predictions, thereby contributing to cumulative scientific knowledge (Shrikant, 2019).

2.2 Target population

The unit of analysis was 38 commercial banks in Kenya at the head offices in Nairobi of each bank. The unit of observation was commercial bank employees with a targeted population of 1,470 employees from three management levels consisting of 341 Senior Managements,410 Middle Level Management and 719 First line Management.

Table 1: Target Population

Table with 3 columns: Target Group, Target Population, Percentage. Rows include Senior Management (341, 23%), Middle Level Management (410, 28%), First line Management (719, 49%), and Total (1,470, 100%).

2.3 Sampling Procedure and Sample Size

To enhance representativeness, the study adopted stratified random sampling. Respondents were grouped into homogeneous strata based on management level senior, middle, and first-line management and random samples were drawn from each stratum. This approach ensured proportional inclusion of all management levels, provided equal selection opportunity, and enabled meaningful comparison of responses, thereby supporting objective conclusions (Kesmodel, 2018; Knief & Forstmeir, 2021).

The study utilized Slovin formula to arrive at the sample size as indicated as follows: -

n = N / (1 + Ne^2).....(i)

Where: -

**n** = The Required Sample Size

**N**=Population size

**e** = margin of error the study is ready to accept  $\pm 5\%$

Thus: - Level of precision at 95% confidence level.

$$n = \frac{1470}{1+1470(0.05)^2} \quad n=315 \text{ Respondents}$$

### 2.3.1 Measures and Covariates

The study incorporated key measures and covariates to examine and control factors influencing the link between digital marketing innovation and financial performance in Kenyan commercial banks. Digital marketing innovation captured offerings such as distribution innovation, channel diversification and market development. Financial performance was assessed using return on equity as an indicator. Government policies and regulatory frameworks were included as covariates to account for their influence on banking operations and digital initiatives. The inclusion of these variables strengthened the validity and reliability of the analysis by controlling for potential confounding effects.

### 2.3.2 Research Design

The study adopted a descriptive research design, drawing data from all 38 licensed commercial banks in Kenya. This design supported comparative and correlational analysis necessary for assessing the relationship between digital marketing innovation and financial performance.

### 2.3.3 Data collection and analysis

Primary data were collected using structured questionnaires administered to 1,470 employees across different management levels to enhance objectivity, confidentiality, and response consistency (Cai et al., 2021). The instrument comprised sections on respondent characteristics and study variables and was pilot-tested prior to the main survey. Reliability was confirmed with Cronbach's alpha coefficients meeting the acceptable threshold of 0.7 (Shrestha, 2020), while validity was established through content and face validation procedures (Drost, 2011). Diagnostic tests for normality and heteroscedasticity were conducted to confirm the reliability of the results. Hypotheses were tested using multiple regression at a 5% significance level ( $p < 0.05$ ), with additional checks for linearity, multicollinearity, and distributional assumptions. Quantitative data were analyzed using SPSS version 26, generating descriptive statistics such as means, standard deviations, and factor loadings, while regression analysis was applied to evaluate the proposed relationships.

The base line model was specified as:

$$Y_i = \beta_{0i} + \beta_{1i} X_i + \epsilon_i \dots\dots\dots ii)$$

To assess the moderating effect, an extended panel model was estimated as:

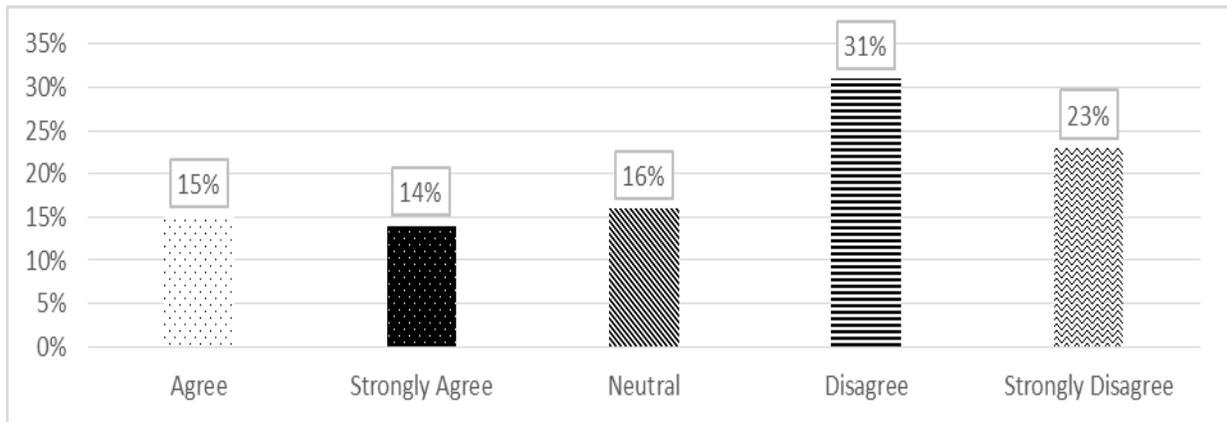
$$Y = \beta_0 + \beta_1 X_1 + \beta_2 M + \epsilon \dots\dots\dots iii)$$

Where,  $\beta_0$ =Constant  $\beta_{1,=}$  are regression coefficients corresponding to the independent variables,  $X_1$ = independent variable digital marketing innovations  $M$ = moderating variable; government policy  $\epsilon$ = is the error term.

**3. Results and Discussion**

Marketing Innovation Strategy on Performance of Commercial Banks

Figure 2 Test of Hypothesis on Uptake of Digital Marketing Innovation Strategy



The figure addressed the statement that the uptake of digital marketing innovations has no significant influence on the financial performance of commercial banks in Kenya, with respondents indicating their level of agreement or disagreement. The results show that 40 respondents (15.4%) agreed and 37 (14.2%) strongly agreed with the statement, while 42 (16.2%) were neutral. In contrast, 60 respondents (23.1%) disagreed and 81 (31.2%) strongly disagreed. Overall, the majority rejected the statement, implying that respondents acknowledged a strong and significant influence of digital marketing innovation uptake on the performance of commercial banks in Kenya. These results are consistent with Millan et al. (2023), who reported that financial process, product, and market innovations significantly and positively influence the financial performance of commercial banks in Mombasa County.

Table 2 Descriptive Statistics on Marketing Innovation

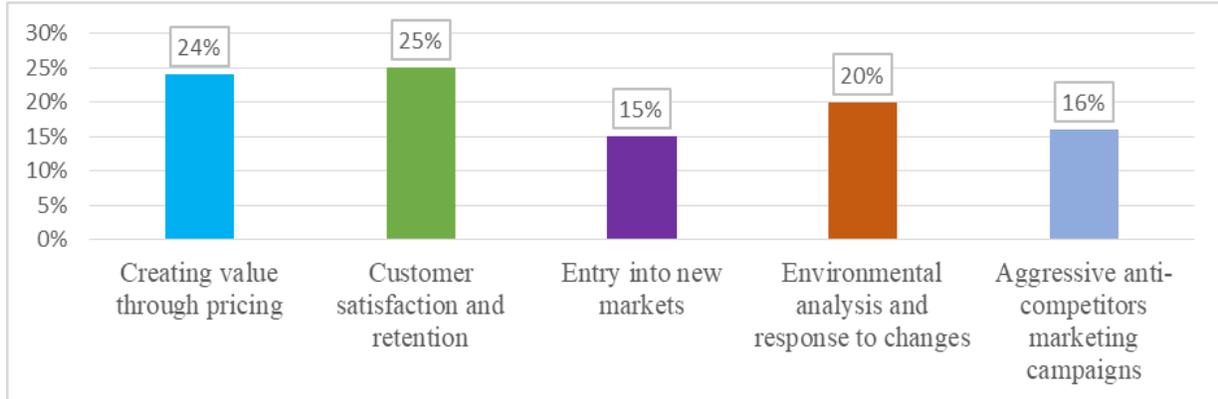
<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>N</b>
Uptake of digital marketing innovations has no significant influence on performance of commercial banks in Kenya.	3.32	1.377	260
The firm uses of various media channels to market its products	2.43	1.306	260
The firm creates value through pricing	2.56	1.420	260
The firm introduces new marketing approaches	2.65	1.245	260
The firm does environmental analysis and responses to changes in the environment.	2.65	1.245	260
The firm deal with customers suggestion or complaints urgently and with utmost care	2.46	1.301	260
What form of market innovation strategies does your firm employ?	2.80	1.419	260
Outline ways products in your organization reach its intended individuals	2.12	1.033	260
Which new products has your bank developed or introduced into the market in the last five (5) years	2.22	1.014	260
<b>Average Score</b>	<b>2.58</b>	<b>1.262</b>	<b>260</b>

Table above presents the analysis of marketing innovation items using means and standard deviations. The results indicate that mean scores ranged from 2.12 to 3.32, while standard deviations varied between 1.033 and 1.377. These results relate to items assessing how organizational products reach target customers and whether the uptake of digital marketing innovations significantly influences the performance of commercial banks in Kenya. Responses on product reach revealed that commercial banks employ multiple approaches, including channel diversification (90.6%), distribution innovation (85.7%), market development (50.2%), while 35.5% of respondents were unsure. These findings suggest that banks utilize diverse marketing innovation practices, which managers should continuously evaluate and refine to enhance effectiveness, growth, and competitiveness, particularly within the digital space.

Regarding the statement on whether customer suggestions or complaints are handled promptly and with care, the mean score was 2.46 with a standard deviation of 1.301. The results show that 29.2% strongly disagreed, 24.2% were neutral, and only 8.1% strongly agreed, indicating dissatisfaction with responsiveness to customer concerns. Prior studies note that delayed customer response may lead to customer defection, revenue loss, reputational damage, higher operational costs, and employee stress. The study further found that firms employ multiple media channels to market their products, reflected by a mean of 2.43 and a standard deviation of 1.306, with 30.8% agreeing, 26.9% strongly agreeing, 21.2% neutral, and 10.8% disagreeing. Similarly, value creation through pricing recorded a mean of 2.56 and a standard deviation of 1.420. Overall, the findings indicate that commercial banks adopt varied marketing approaches that

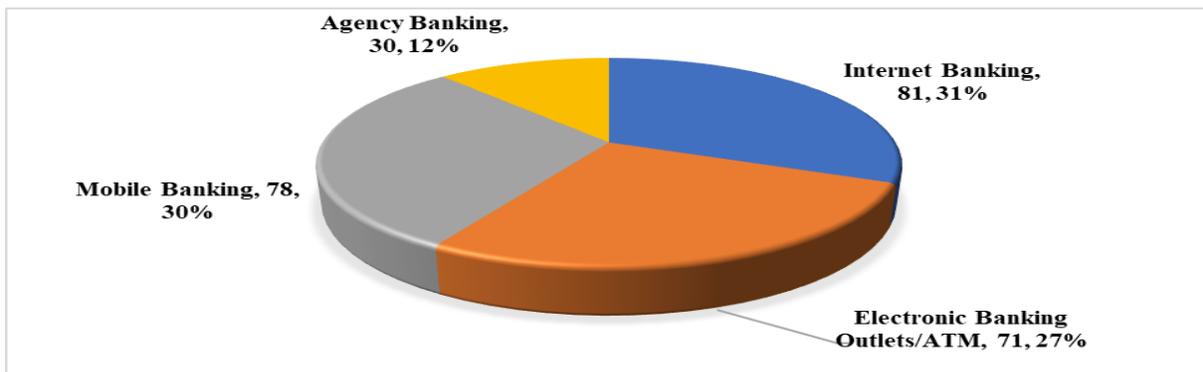
support value creation and positively influence performance, underscoring the need for strong customer service and effective marketing strategies to sustain competitiveness.

Figure 3 Strategies Employed by Commercial banks in Marketing Innovation



The figure shows that value creation through pricing is a widely used market innovation strategy, cited by 24% of respondents, indicating an effort to achieve market differentiation through competitive and customer-oriented pricing. Similarly, 25% of respondents identified customer satisfaction and retention as a key strategy, reflecting a strong focus on relationship building and loyalty through quality service delivery. Market expansion was reported by 15% of respondents, suggesting that the firm pursues growth by entering new markets or targeting additional customer segments. Environmental scanning and responsiveness to market changes were noted by 20% of respondents, highlighting the firm’s emphasis on monitoring market trends, competition, and external forces to adapt proactively. In contrast, 16% indicated the use of aggressive competitor-focused marketing, implying selective deployment of assertive tactics to defend or expand market share. Consistent with Liu and Atuahene-Gima (2018), these findings underscore the need for managers to regularly assess and align market innovation strategies with organizational objectives, customer expectations, and competitive conditions to strengthen performance and sustain growth.

Figure 4 New Digital products Developed by Commercial Banks



The findings indicate that internet banking is the most widely introduced new product, cited by 31.2% of respondents. Mobile banking closely follows at 30.0%, reflecting growing reliance on mobile applications and SMS-based services for customer convenience. Electronic banking outlets, including ATMs, were identified by 27.3% of respondents, suggesting continued investment in expanding access channels. Agency banking accounted for 11.5%, highlighting efforts to extend basic banking services to remote and underserved populations. These results imply that bank managers should regularly evaluate the performance of new digital products, identify areas for further innovation, and align offerings with customer needs while supporting adoption through targeted marketing and staff training (Bustinza et al., 2019). Consistent with Gupta et al. (2023), the findings show that banks increasingly rely on internet- and mobile-based products, though their effectiveness depends on third-party connectivity providers. In addition, adequate organizational resources and capabilities enhance marketing planning, streamline workflows, improve campaign monitoring, and strengthen brand consistency (Kogo & Kimenchi, 2018).

*3.1 Moderating Effect of Government Policies on Performance of Commercial Banks*

Table 3: Descriptive Statistics on Government Policies

<b>Category</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>N</b>
(a)Lending Policy	2.73	1.319	260
(b)Taxation	2.59	1.345	260
(c)Data Protection	2.81	1.341	260
<b>Average Score</b>	<b>2.71</b>	<b>1.335</b>	<b>260</b>

The table above illustrates the impact of three government policies that is lending policy, taxation, and data protection on the performance of commercial banks. The mean scores indicate a moderate influence, ranging from 2.59 for taxation to 2.81 for data protection. Lending policy, with a mean of 2.73 (SD = 1.319), moderately affects operational flexibility by shaping credit demand and financial stability. Taxation policies, scoring a mean of 2.59 (SD = 1.345), indirectly influence profitability through tax regulations. Data protection policies, with the highest mean of 2.81, have a notable impact due to strict standards on cybersecurity and data handling, enhancing customer trust while affecting operational costs. Overall, these results suggest that regulatory policies moderately influence bank performance, balancing operational limitations and benefits. These findings align with Allen, Qian, & Qian (2021), who highlighted the moderating role of government policies on bank performance, showing that credit regulations can significantly affect banks in diverse African regulatory environments. Similarly, Mohamad Hassan (2019) demonstrated that global regulatory frameworks, such as Basel Accords, improve bank productivity, particularly in capital and market discipline, though effects vary by region and economic stability. Ong’ong’o and Eddie (2021) further found that financial repression policies

such as interest rate controls, capital requirements, and reserve ratios significantly impact Kenyan commercial banks, recommending adjustments to maintain minimal interest rate spreads. Together, these studies reinforce that government policies on lending, taxation, and data protection play a crucial moderating role, with their effects depending on local economic conditions, regulatory capacity, and specific policy focus areas.

Table 4: Return on Equity as Performance indicator of Commercial Banks, Year 2018 - 2022

2018	2019	2020	2021	2022	Average
22.88%	22.11%	14.2%	22.3%	26.5%	21.598%

Secondary data were sourced from the annual supervisory reports of the Central Bank of Kenya (CBK). The banking sector recorded an average return on equity (ROE) of 22.6% over the period under review, reflecting robust profitability and operational efficiency. The degree to which Kenyan commercial banks have adopted specifically digital marketing innovations and the resulting impact on financial performance merits detailed analysis. Understanding the current landscape of digital marketing innovation uptake offers critical insights that can inform targeted strategies, accelerate successful digital transformation, and enhance the overall financial performance of the banking sector.

*Regression analysis*

Regression Model Results on Uptake of Digital Marketing Innovation Strategy to Performance of Commercial Banks.

Table 5 Model Summary of Marketing Innovation Strategy

Model	R	Adjusted R Square	Change Statistics							
			Std. Error of the Estimate	Square Change	F Change	df1	df2	Sig. Change	F Durbin-Watson	
	.849 <sup>a</sup>	.720	.719	.45350	.720	663.917	1	258	.000	.361

a. Predictors: (Constant), Marketing, b. Dependent Variable: ROE

Table 6 Hypothesis Testing on Marketing Innovation Strategy

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
Regression		136.540	1	136.540	663.917	.000 <sup>b</sup>
Residual		53.060	258	.206		
Total		189.600	259			

a. Dependent Variable: ROE

b. Predictors: (Constant), Marketing

Table 7 Regression Coefficient of Marketing Innovation Strategy

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlation	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial
(Constant)	.188	.069		2.743	.007	.53	.323		
Marketing Innovation	.894	.035	.849	25.767	.000	.825	.962	.849	

a. Dependent Variable: ROE

Table 5 shows that  $R^2 = 0.720(72\%)$  variation in marketing innovation causes variations in returns in equity. Table 6 shows a one-way ANOVA, which shows that the regression is significant for the study where Sig.0001 is < F-Value 663.917, which means that the hypothesis is rejected. Therefore, marketing innovation has a positive and significant influence on the performance of commercial banks.

Table 7 indicate the  $P < 0.0001$  indicates that marketing innovation significantly and positively influences returns on equity. Specifically, on average, for every unit increase in marketing innovations the return on equity is predicted to rise by 0.849. The standardized coefficient (Beta = 0.849) suggests that marketing innovations are predictor of return on equity.

The predicted model coefficient for marketing innovation took the form:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon, \dots\dots\dots(iv)$$

$$Y = 0.188 + 0.849 X_1$$

**Regression on Moderating Effect of Government Policies to Financial Performance of Commercial Banks**

Table 8 Model Summary of Moderating Effect of Government Policies

Model	R	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change	Durbin-Watson
					F	df1	df2		
	.857 <sup>a</sup>	.734	.44239	.734	710.789	1	258	.000	.571

a. Predictors: (Constant), Government

b. Dependent Variable: ROE

Table 9 Hypothesis Test on Moderating Effect of Government Policies

<b>ANOVA</b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression		139.107	1	139.107	710.789	.000 <sup>b</sup>
Residual		50.493	258	.196		
Total		189.600	259			

a. Dependent Variable: ROE

b. Predictors: (Constant), Government

Table 10 Regression Coefficient of Moderating Effect of Government Policies

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>	<b>95.0% Confidence Interval for B</b>		<b>Correlation</b>		
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>			<b>Lower Bound</b>	<b>Upper Bound</b>	<b>Zero-order</b>	<b>Partial</b>	<b>Part</b>
Government	0.795	0.03	0.857	26.661	.000	0.736	0.854	0.857	5.257	0.857

a. Dependent Variable: ROE

Table 8 shows that  $R^2 = 0.734(73\%)$  variation in moderating effect of government policies causes variations in returns in equity. Table 9 shows a that the regression on moderating effect of government policy is significant with Sig.0001 is < F-Value 710.789 which means that the hypothesis is rejected. Therefore, moderating effect of government policy has a positive and significant influence on the financial performance of commercial banks. Table 10 presents the regression results on the moderating effect of government policies on commercial bank performance, using Return on Equity (ROE) as the dependent variable. The findings indicate that the moderating effect of government policy significantly and positively impacts ROE. Specifically, for every one-unit increase in the moderating effect of government policy, ROE is predicted to increase by 0.857. The standardized coefficient (Beta = 0.857) highlights government policy as a strong predictor of ROE.

Consequently, bank management should closely monitor and leverage government policies and regulations, as they can substantially influence financial performance. This analysis emphasizes the importance of government policy as a key driver of commercial banks' profitability. Consequently, the predicted model coefficient was predicted in the form:

$$Y = \beta_0 + \beta_1 M + \varepsilon , \dots\dots\dots(v)$$

$$Y = 0.394 + 0.857M$$

Table 11 Regression Coefficient with Moderating Variable

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.051	.046		1.111	.268	.039	.141		
Marketing	.183	.044	.173	4.156	.000	.096	.269	.257	3.891
Government	.169	.045	.182	3.762	.000	.081	.258	.190	5.257

a. Dependent Variable: ROE

Table 11 depicts relatively weak moderating effect of government policy on uptake of marketing innovations (B = 0.183, p = 0.000) but statistically significant influence on ROE. The role of government as a moderating factor amplifies these effects, highlighting the importance of strategic alignment with government policies to enhance the impact marketing innovations on a bank's financial performance, particularly in terms of ROE. The findings align with Baron and Kenny's method, confirming that government policy moderates the relationship between innovation efforts and financial outcomes (Baron & Kenny, 1986). Managers should explore innovative marketing approaches tailored to their target market segments to potentially boost profitability. While government policies have a positive significant impact on ROE, it's essential for bank managers to stay informed about regulatory changes and anticipate their potential effects.

$$Y = 0.51 + 0.173X_1 + 0.182M \dots\dots\dots (vi)$$

**4. Conclusions**

The findings indicate that marketing innovation has a positive and significant impact on the financial performance of commercial banks. To reach customers effectively, banks employ various marketing strategies, including value creation through pricing, enhancing customer satisfaction and retention, entering new markets, conducting environmental analysis, responding to market changes, and occasionally using aggressive competitor-focused marketing. In support of marketing innovation, banks have developed products such as Internet Banking, Mobile Banking, electronic banking outlets including ATMs, and agency banking, with rapid growth in Internet and mobile banking as key business and marketing tools. While banks conduct environmental analysis and respond to changes to some extent, the study noted delays in addressing customer suggestions and complaints. This underscores the need for more thorough

environmental scanning to develop marketing initiatives that align with evolving customer demands. Strategic deployment of digital marketing techniques, including personalized approaches like email marketing, has been shown to enhance return on equity (ROE) and overall performance. Although value creation through pricing and the use of media channels for marketing digital products is evident, there remains an opportunity for commercial banks to diversify and optimize digital channels to further improve financial outcome. Government regulations have a positive relationship with marketing innovation and overall bank performance in Kenya. However, commercial banks still face challenges related to regulatory compliance, data security, legal integration, and limited resources. While supportive policies help banks navigate digital transformation and harness the benefits of innovation, stringent regulations on cybersecurity and data privacy can constrain their ability to fully meet the expectations of tech-savvy customers, who remain vulnerable to fraud. These constraints can impede the smooth adoption of digital innovations, limiting their potential impact on ROE

## **5. Recommendations**

Commercial banks can develop personalized digital distribution channels that do not necessarily revolve around mobile and internet banking to reach new, deserving yet unreached markets. Commercial banks can develop strategies around real-time chat, where customer concerns are dealt with urgently and with utmost care. The government can ensure widespread communication coverage and internet connectivity for customers to access banking services at any time. Commercial banks have not optimally achieved the benefits from digital marketing innovations due to skills shortages and content creation complexities. Commercial banks can invest in marketing automation tools, data analytics capabilities, and talent development to overcome the challenges associated with digital marketing innovations. Machine Learning (ML) and artificial intelligence can be employed in marketing innovations to allow better prediction of market movements, proactively monitor customer behavior, and identify anomalies in real-time. On government policies, recommendation is hereby given that data must be well-defined, structured, and organized to be useful for analysis and decision-making. Commercial banks can leverage the application of Big Data and Data analytics, Biometric technology, and cloud computing to enhance customer data protection as a regulatory requirement. Tax policies should not be a hindrance to innovations but a catalyst for encouraging more digital innovation in the banking space. Future research should continue to monitor the impact of evolving government policies on the banking sector and explore strategies for enhancing regulatory effectiveness, improving ROE, and strengthening the assumption of digital innovations. Commercial banks can make use of digital wealth management platforms such as Robo-advisors that use algorithms to analyze customer risk profiles, investment goals, and market trends, providing personalized investment recommendations and asset allocation strategies, hence attracting tech-savvy customers and expanding banks' wealth management offerings.

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