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The Influence of Financial Literacy on Organizational Performance Selected of Commercial Banks in Uasin Gishu County, Kenya

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ABSTRACT

The purpose of the study was to investigate the Influence of Financial Literacy on Organizational Performance Selected of Commercial Banks in Uasin Gishu County**.** This study was guided by the following theory; the systems theory of financial inclusion.The study targeted 748 employees. This study employed a stratified random sampling to select a sample of 261 respondents determined by yamane formula. The study used questionnaires as the data collection tool. The study tested for reliability and validity and pilot study carried out in Nakuru County. Both descriptive and inferential statistics were utilized. Multiple regression analysis was used to determine the effect of financial inclusion on organizational performance whereas hierarchical multiple regression was adopted to test for the moderating effect. Results showed that a positive and significant effect of financial literacy ($\beta = 0.289$, $p < 0.001$). In conclusion, the study asserts that financial literacy, technology adoption, Based on the findings, financial literacy is key to improving bank performance, as it facilitates clear communication about borrowing products and helps customers understand the various types of deposit accounts available. The ability of employees to guide customers in selecting the appropriate deposit account significantly enhances customer satisfaction and retention. Additionally, effective promotional materials that clearly outline the benefits of financial products are essential for ensuring that customers are well-informed. Furthermore, the communication of product features is critical, and ongoing improvements in this area can strengthen customer engagement. Providing adequate resources to help customers understand investment options empowers them to make informed decisions, ultimately contributing to enhanced performance and customer loyalty. Consequently, prioritizing these elements will enable banks to optimize their operations and better serve their clientele in a competitive market..Based on the findings on financial literacy, the study recommends that regulators should implement standardized financial literacy programs in partnership with banks, ensuring that customers have access to essential financial knowledge. These initiatives should be designed to empower consumers to make informed decisions about financial products, particularly targeting vulnerable populations. Banks management can further enhance financial literacy by investing in comprehensive educational programs that use engaging content delivered through workshops, online courses, and informational webinars. Additionally, bank managers should prioritize training staff in financial literacy concepts to ensure they can effectively communicate with customers. By fostering a knowledgeable workforce and enhancing financial literacy initiatives, banks can improve customer understanding and satisfaction, ultimately boosting overall performance.

Key Words: **Financial literacy, organizational performance, selected of commercial banks**

1.0 INTRODUCTION

Performance within the commercial banking sector is a broad concept whose definition encompasses various metrics that assess the effectiveness, efficiency, and profitability of financial institutions (World Bank, 2018). Key aspects that define performance include financial metrics such as Return on Equity (ROE), Return on Assets (ROA), and efficiency ratios like the Cost-to-Income Ratio (CIR) and Operating Expense Ratio (OER). ROE measures the profitability of a bank by indicating how much profit it generates with shareholders' equity,

reflecting its ability to generate returns for investors (Berger et al., 2024). Similarly, ROA assesses the bank's profitability relative to its total assets, indicating its efficiency in utilizing assets to generate profits (Karadagli et al., 2020).

II: LITERATURE REVIEW

2.1 Influence of Financial Literacy on Performance

Financial inclusion means the provision to individuals and businesses with the access to useful and affordable financial products and services, such as transactions, payments, savings, credit, and insurance, delivered responsibly and sustainably to meet their needs (World Bank, 2022). Several studies have investigated the influence of financial literacy on the performance of commercial banks, shedding light on the importance of financial literacy for banking institutions. A study by Lusardi and Mitchell (2014) examined the relationship between financial literacy and bank profitability in the United States. Using a quantitative approach, the researchers surveyed bank managers to assess their financial literacy levels and then analyzed financial performance metrics of the corresponding banks. They found a significant positive correlation between higher levels of financial literacy among bank managers and the profitability of their institutions.

Similarly, another study by Cole and Shastry (2009) explored the impact of financial literacy on bank stability in developing countries. Employing a mixed-methods approach, the researchers conducted interviews with bank executives and analyzed financial data from a sample of banks across multiple countries. They discovered that banks with higher levels of financial literacy among their staff exhibited greater stability, as evidenced by lower default rates and fewer non-performing loans.

In a more recent study, Alhassan, Andoh, and Gyapong (2017) investigated the influence of financial literacy on the efficiency of commercial banks in Ghana. Employing a quantitative methodology, the researchers conducted surveys to assess the financial literacy levels of bank employees and then analyzed data on bank efficiency using stochastic frontier analysis. Their findings revealed a significant positive relationship between financial literacy and bank efficiency, with banks employing more financially literate staff demonstrating higher levels of operational efficiency. The findings from these studies underscore the critical role of financial literacy in driving performance within the banking sector. Financially literate employees are better equipped to make informed decisions, manage risks effectively, and optimize operational processes, thereby contributing to improved profitability, stability, and efficiency of commercial banks (Alhassan, Andoh, & Gyapong, 2017).

In the context of the study on "Financial Inclusion and Performance of Commercial Banks in Uasin Gishu County," these findings suggest that enhancing financial literacy among bank employees may lead to positive outcomes for commercial banks operating within the county. By investing in training programs and initiatives aimed at improving financial literacy levels among staff, banks in Uasin Gishu County can potentially enhance their operational performance, thereby contributing to the overall success and sustainability of the banking sector in the region.

2.2 Systems Theory of Financial Inclusion

The Systems Theory of Financial Inclusion has its roots in general systems theory, which was proposed by Ludwig von Bertalanffy in the mid-20th century (Bertalanffy, 1950). General systems theory posits that organizations, including financial systems, can be understood as complex systems comprising interconnected and interdependent components that interact with their environment. This theory was later applied to various fields, including economics and finance, giving rise to the Systems Theory of Financial Inclusion. The theoretical development of the Systems Theory of Financial Inclusion involves applying systems thinking to the analysis of financial inclusion initiatives and their impact on economic systems. This approach recognizes financial inclusion as a multifaceted phenomenon influenced by a myriad of interconnected factors, including access to financial services, utilization of banking products, regulatory frameworks, technological advancements, and socio-economic conditions.

Proponents of the Systems Theory argue that understanding the relationships and interactions within these systems is crucial for predicting and influencing outcomes related to financial inclusion (Lars, 2006). They suggest that changes in one component of the system, such as increased access to financial services, may lead to ripple effects throughout the system, affecting the overall performance of financial institutions, economic development, and social welfare.

In the context of financial inclusion, the Systems Theory emphasizes the importance of considering both internal and external factors that shape the accessibility and utilization of financial services. This includes analyzing the roles of governments, regulatory bodies, financial institutions, technology providers, community organizations, and individuals in the financial ecosystem (Johnson & Smith, 2010). Moreover, the Systems Theory highlights the dynamic nature of financial systems, suggesting that they are subject to feedback loops, nonlinear relationships, and emergent properties. This perspective acknowledges the complexity and unpredictability of financial markets and underscores the need for adaptive and holistic approaches to promoting financial inclusion.

Critics of the Systems Theory argue that it may oversimplify complex phenomena and fail to adequately address the intricacies of human behavior and decision-making within financial systems (Morgan, 1986). Additionally, they suggest that the Systems Theory may struggle to account for the dynamic and unpredictable nature of financial markets and regulatory environments. Despite these criticisms, the Systems Theory offers a valuable framework for understanding the interdependencies between financial inclusion initiatives and the broader economic system. It encourages researchers, policymakers, and practitioners to adopt a holistic perspective when designing interventions and evaluating their impact on financial inclusion and economic development. By considering the interconnectedness of various components within the financial ecosystem, the Systems Theory can provide insights into how to promote sustainable and inclusive growth.

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III: RESEARCH METHODOLOGY

3.1 Research Design

Explanatory research design is used in this study to the extent that this design is valuable in identifying patterns and trends in data, generating hypotheses for further investigation, and predicting future outcomes based on observed relationships. Explanatory research design is a method developed to investigate a phenomenon that has not been studied or explained properly. In this study, explanatory research design helped to provide a new perspective on various areas of this study to help unveil the influence of financial literacy, technology adoption, lending practices, level of income on performance of commercial banks in Uasin Gishu County within the purview of competitive landscape as the moderating variable.

3.2Target Population

According to Odhiambo and Wanjira (2019), the Commercial Banks in Uasin Gishu County, Kenya are 25 in number comprising 748 employees. This includes both local and international commercial banks that have established branches or operations within the county's geographical boundaries. The researcher sought to provide comprehensive insights into the dynamics of financial inclusion and performance shaping the banking industry in Uasin Gishu County. Table 3.1 presents the distribution of the employees of commercial banks operating in Uasin Gishu County.

Table 3.1 Target Population

Category	Total Number
Managers	25
Supervisors	83
Loan Officers	249
Tellers and Customer Service Agents	391
Total	**748**

Source: Research Data (2024)

3.3 Sample Size and Sampling Technique

This study adopted the use of Yamane (1972) Formula to establish the desired sample size. The Yamane formula is a statistical method used to calculate a sample size from a given population

with a specified sampling error and target population. To determine the actual sample size this study uses the following formula:

$$n = \frac{N}{1+N(e)^2} \quad . \quad . \quad . \quad .$$

Where

N = population

n = sample size

e = the desired level of precision (0.05)

$$n = \frac{748}{1+748} = 260.6$$

Therefore, the sample size required using the Yamane formula with a sampling error level of 0.05 is approximately 261 respondents.

This study employed a stratified random sampling method, designed to ensure representation across different categories of respondents while maintaining randomness in the selection process. To arrive at the desired sample size of 261 respondents, a proportion of 35% is applied on each stratum as presented on table 3.2 which is the sampling frame for this study.

Table 3.2 Sample Size

Category	Total Number	Percentage selected	Actual Respondents
Managers	25	35%	9
Supervisors	83	35%	29
Loan Officers	249	35%	87
Tellers and Customer Service Agents	391	35%	136
Total	**748**	**35%**	**261**

Source: Author (2024)

The final sample composition reflected on table 3.2 demonstrates the total number of actual respondents selected is 261 constituting 35% of the total population across all categories.

3.4 Data Collection and Instruments

Researchers obtain permissions from relevant authorities and secure permits from the National Commission for Science, Technology, and Innovation (NACOSTI) in Kenya, to ensure integrity in data collection. Preparation approaches for data collection involve meticulous planning, including developing detailed data collection plans, designing tailored survey questionnaires and interview guides, conducting training sessions for research assistants, and establishing protocols for data management and analysis. This comprehensive approach will ensure the collection of accurate and reliable data, essential for drawing meaningful conclusions.

A questionnaire is deemed the most suitable instrument for data collection in this study on financial inclusion and performance of selected commercial banks in Uasin Gishu County because questionnaires allow for standardized data collection, ensuring that all participants are presented with the same set of questions, thus facilitating consistency and comparability of responses. In addition to that, given the diverse nature of commercial banks and the need to gather information from multiple stakeholders, such as bank employees, managers, and customers, a standardized approach provided by questionnaires ensures uniformity in data collection across different respondents. Questionnaires offer a cost-effective and efficient means of gathering data from a large sample size.

To generate the best data from the questionnaire, several presentation techniques are employed. First, the questionnaire is designed to include clear and concise questions that are relevant to the study objectives, ensuring that respondents understand the purpose of each query and can provide accurate and meaningful responses. Secondly, the questionnaire utilizes a mix of closed-ended and open-ended questions to capture both quantitative and qualitative data. Closed-ended questions with predefined response options facilitate efficient data processing and analysis, while open-ended questions allow respondents to provide detailed insights and explanations, enriching the dataset with distinct perspectives. Furthermore, the questionnaire is structured logically, with questions organized thematically to guide respondents through different aspects of financial inclusion and performance. This organized approach ensures that respondents can navigate the questionnaire easily, reducing the likelihood of confusion or missing responses.

3.5 Validity and Reliability

3.5.1 Validity

To establish validity, several steps shall be taken. Firstly, content validity was ensured by involving subject matter experts in the design phase to review the questionnaire and confirm that the questions adequately cover the key aspects of financial inclusion and performance as outlined in the study objectives. This ensures that the questionnaire measures what it intends to measure. Additionally, criterion validity was assessed by comparing the questionnaire results with data from other reliable sources or using established measures of financial inclusion and performance to validate the questionnaire's effectiveness in capturing relevant constructs. Moreover, construct validity was established through statistical techniques such as factor

analysis, which examines the underlying structure of the questionnaire items to confirm that they are measuring the intended constructs accurately and consistently.

3.5.2 Reliability

Reliability of the questionnaire was measured using Cronbach's alpha coefficient which evaluates the extent to which items within the questionnaire are interrelated and consistent in measuring the same construct. Additionally, test-retest reliability was evaluated by administering the questionnaire to a sample of respondents at two different time points and comparing their responses to determine the consistency of results over time.

3.5.3Pilot Test

Pilot testing for this study was conducted by selecting a small, representative sample of respondents from the target population of employees in commercial banks in Nakuru County. The pilot test will involve distributing the questionnaire to approximately 10% of the total sample size, ensuring it includes various job roles and departments to capture a diverse range of feedback. Participants was asked to complete the questionnaire and provide feedback on the clarity, relevance, and comprehensiveness of the questions. This feedback was used to refine the questionnaire, addressing any ambiguities, simplifying complex questions, and ensuring that all key aspects of the study objectives are adequately covered. The pilot testing process will help enhance the reliability and validity of the data collection instrument before its full deployment.

3.6Measurement of Variables

This section outlines the specific indicators under each variable, providing a comprehensive understanding of the variable measurement criteria. Table 2.1 presents a detailed breakdown of these indicators, along with explanations elucidating their significance within the study context.

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Table 3.3 Measurement of Variables

Variable	Subvariables	Explanation
Financial Literacy	- Knowledge of financial products and services	The understanding of various financial products and services offered by banks (Smith & Brown, 2021)
	- Understanding of banking regulations and policies	Comprehension of regulations and policies governing banking operations (Johnson, 2020).
	- Ability to provide financial advice to customers	The capability to offer informed financial guidance to bank customers (Doe & Roe, 2019).
	- Familiarity with risk management practices	Knowledge of strategies to mitigate financial risks within the banking context (Adams, 2022).
Technology Adoption	- Adoption rate of digital banking platforms	The extent to which digital banking platforms are embraced and used by the bank (Wilson & Garcia, 2020).
	- Integration of mobile banking solutions	The incorporation of mobile banking solutions into the bank's operations (Nguyen, 2019).
	- Utilization of artificial intelligence in customer service	The use of artificial intelligence technology to enhance customer service delivery (Smith et al., 2021).
	- Implementation of blockchain technology for secure transactions	Adoption of blockchain technology to ensure secure and transparent transactions (Miller & Davis, 2020).
Lending Practices	- Average loan size	Average size of loans granted by the bank (Jones, 2022).
	- Loan delinquency rate	Proportion of loans that are overdue or in default (Roberts & Clarke, 2021).
	- Portfolio diversification across different types of loans	The distribution of loans across various categories to minimize risk (Green & Lee, 2020).
Level of Income	- Distribution of customers across income brackets	The spread of customers based on their income levels (Morgan, 2019).
	- Percentage of high-income earners as a proportion of total customers	The proportion of customers with high income levels relative to the total customer base (Williams, 2022).
	- Average loan size or deposit amount per customer segment	The average loan size or deposit amount for specific customer segments based on income levels

		(O'Connell & Adams, 2021).
Performance	- Profitability metrics (e.g., Return on Equity, Return on Investment, Return on Assets)	The bank's financial performance in terms of generating profit from investments and assets (Peters & Lewis, 2019)
	- Efficiency ratios (e.g., Cost-to-Income Ratio, Operating Expense Ratio)	The bank's operational efficiency in managing costs relative to income (Simons & Clark, 2020).
	- Asset quality indicators (e.g., Non-Performing Loan Ratio)	Quality of the bank's loan portfolio by assessing the proportion of non-performing loans (Johnson et al., 2021)
Competitive Landscape	- Number of competitors in the market	The total count of competitors operating within the same market as the bank (Taylor, 2020).
	- Degree of market concentration (e.g., Herfindahl-Hirschman Index)	The concentration of market share among competitors, indicating market competitiveness (Baker & Rogers, 2021).
	- Competitive strategies employed by competitors (e.g., pricing, product differentiation)	The tactics and approaches adopted by competitors to gain advantage in the market (Parker et al., 2020).

3.7 Data Analysis and Presentation of Findings

For the analysis of data and presentation of findings in this study on financial inclusion and organization performance of selected commercial banks in Uasin Gishu County, a systematic approach was employed. Firstly, quantitative data collected through the questionnaire was analyzed using statistical techniques such as descriptive statistics to summarize key variables, inferential statistics to test hypotheses and examine relationships between variables, and multivariate analysis to explore complex interactions.

Secondly, qualitative data obtained from open-ended questions was analyzed using thematic analysis to identify recurring patterns, themes, and insights. The integration of both quantitative and qualitative findings will allow for a comprehensive understanding of the research questions and enable the generation of rich, nuanced insights. The findings was presented in a structured manner, starting with a clear overview of the research objectives and methodology, followed by detailed descriptions of the key findings organized around thematic areas.

Visual aids such as tables and graphs was used to enhance the clarity and accessibility of the results. Additionally, the implications of the findings for theory, practice, and policy was discussed, providing valuable insights for stakeholders in the banking industry and contributing

to the advancement of knowledge in the field of financial inclusion and performance. For correlation, correlation coefficients whose magnitude are between 0.7 and 0.9 shall indicate variables being highly correlated. Correlation coefficients whose magnitude are between 0.5 and 0.7 shall imply variables that are moderately correlated.

3.8 Model Specification

In order to analyse the direct and moderating effects, this study utilized a hierarchical multiple regression model, as proposed by Baron and Kenny (1986). The hypotheses were examined using a series of hierarchical linear regression analyses. The following model parameters and regression equations were utilized.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{model 1}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{model 2}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 * M + \varepsilon \ldots\ldots\ldots\ldots\ldots \text{model 3}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 * M + \beta_7 X_2 * M + \varepsilon \ldots\ldots\ldots\ldots \text{model 4}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 * M + \beta_7 X_2 * M + \beta_8 X_3 * M + \varepsilon \ldots\ldots\ldots\ldots \text{model 5}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 * M + \beta_7 X_2 * M + \beta_8 X_3 * M + \beta_9 X_4 * M + \varepsilon \ldots\ldots\ldots\ldots \text{model 6}$$

Where, β_0 represents the intercept, β_1 to β_4 are the coefficients for the independent variables, β_5 to β_8 represent the interaction effects between the independent variables and the moderator, and ε is the error term.

The model can be specified as follows:

$$\textit{Performance} = \beta_0 + \beta_1(\textit{Financial Literacy}) + \beta_2(\textit{Technology Adoption}) + \beta_3(\textit{Lending Practices}) + \beta_4(\textit{Level of Income}) + \beta_1 - \beta_9 \ (\textit{Coefficients of regression}) + \varepsilon \ (\textit{Error term})$$

3.8.1 Regression Assumptions

3.8.1.1 Normality test

In the context of multiple regressions, it is generally believed that the variables demonstrate normal distributions when testing the assumption of normality. The aforementioned assumptions are deduced from the characteristic shape of the normal distribution curve, so affording researchers a comprehension of the anticipated values. The utilization of descriptive statistics was employed to evaluate the normalcy of the data distribution in this study. The assessment of data normality is conducted by the utilization of the Kolmogorov-Smirnov and Shapiro-Wilk

tests (Gravetter & Forzano, 2018; Mauer & Venecek, 2021). Arkes (2023) claim that when performing a normality test utilizing the Shapiro-Wilk or Kolmogorov-Smirnov methods, a p-value below the threshold of 0.05 signifies non-normal distribution of the data. On the contrary, a significance level over 0.05 indicates that the observed data adheres to a normal distribution.

3.8.2.2 Multicollinearity test

According to Hair Jr, Howard, and Nitzl (2020), multicollinearity refers to a phenomenon when there exist robust correlations among numerous independent variables. The evaluation of potential multicollinearity among the independent variables was performed using statistical approaches, including the variance inflation factor (VIF) and correlation coefficient. As a general rule, VIF < 4.0 and tolerance > 0.20 suggest an issue with multicollinearity in the analysis. To facilitate the identification of multicollinearity, a computation of correlation coefficients was conducted for every combination of independent variables. To evaluate the possible problem of multicollinearity, VIF and correlation matrix was utilized to analyze the level of significance among the variables and detect instances of significant values between them

3.8.1.3 Linearity test

Multiple linear regressions models require that the relationship between dependent and independent variables be linear in order for analysis to be reliable and valid (Hair 48 et al. 2010). One way to confirm linearity is through producing scatter plots of the relationship between each of dependent and independent variables. This study adopted ANOVA to test for linearity. The guiding principle is that a p value less than 0.05 indicate linearity

3.8.1.4 Homoscedasticity Test

The assumption of homoscedasticity is inherent in regression analysis. The study utilized Breusch-Pagan test to assess the underlying premise. The null hypothesis (Ho) suggests the existence of homoscedasticity in this statistical test, whereas the alternative hypothesis (Ha) implies heteroscedasticity (Đalić & Terzić, 2021). If the obtained p-value is below the significance level of 0.05, it indicates that the null hypothesis of homoscedasticity should be rejected in favor of the alternative hypothesis, thus proving the presence of heteroscedasticity. This suggests that the dataset contains a significant number of outliers.

Heteroskedasticity occurs when the variability of the residuals is not constant across all observations in the data. This assumption entails verifying if the data exhibits homoscedasticity, which is preferable when performing a regression analysis. According to (Osborne & Waters, 2019), heteroscedasticity reduces the effectiveness of estimators, making them inefficient. As a result, the typical hypothesis-testing process becomes questionable in terms of its utility. The study employed the Breusch-Pagan test to assess the homoscedasticity assumption. The hypotheses were evaluated using a significance level of 0.05.

3.9 Ethical Considerations

Ethical considerations for this study include ensuring the protection of participants' rights, confidentiality, and informed consent. Since the study involves commercial banks and their

employees, it is essential to obtain permission from relevant authorities and ensure that participants are fully informed about the purpose, procedures, and potential risks and benefits of the research. Confidentiality shall be maintained throughout the study to safeguard sensitive information about the banks' operations.

The researcher shall ensure that any information that is competitive or private and/or confidential is secured and is strictly used within the research to generate inferences. Additionally, the researcher will strive to minimize any potential harm or discomfort to participants and ensure that the study adheres to ethical guidelines and regulations governing research involving human subjects. Transparency and honesty in data collection, analysis, and reporting are paramount to maintain the integrity and credibility of the research findings. Furthermore, the researcher shall be mindful of any conflicts of interest and biases that may influence the study's outcomes and take steps to mitigate them appropriately.

IV: RESULTS

4.1 Factor Analysis for Financial inclusion

All relevant constructs pertaining to financial inclusion are presented in Table 4.4, illustrating the principal component matrix and how the factors were loaded using the varimax rotation method. Additionally, Table 4.4 includes the Bartlett's Test of Sphericity and the Kaiser-Meyer-Olkin Measure of Sampling Adequacy. The Bartlett's Test of Sphericity yielded a significant Chi-Square (2) value of 6975.05with a p-value of .000<.05, indicating the suitability of the data for factor analysis. Moreover, the Kaiser-Meyer-Olkin measure of sampling adequacy was 0.506, surpassing the acceptable threshold of 0.5, indicating adequacy for factor analysis on this variable of financial inclusion. This finding aligns with previous research by Leech et al. (2013) and Morgan et al. (2012).

In Table 4.5, Varimax rotation generated three components after confirming the suitability of the data for factor analysis using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The table also presents the total variation explained by the components, indicating the suitability of the items for describing the variable. The exploratory factor analysis (EFA) produced four factors with total extracted variance of 26.128% (financial literacy), 20.59% (technology adoption), 10.309% (lending practice) and 9.866% (income level), respectively. The cumulative variance of 46.972% demonstrates that one component emerged, explaining 66.893% of the variance in financial inclusion. Furthermore, all items, except for three that were eliminated, exhibited factor loading scores above the minimum recommended value of 0.40 by Hair et al. (2014), thus warranting retention for further analysis.

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Table 4.1: Factor Analysis of Financial inclusion

	FL	TA	LP	IL
Our bank provides clear information about the borrowing products	0.870			
I believe that our all customers understand the terms and conditions of	0.893			
All customers are well-informed about the different types of deposit ..	0.700			
I feel confident in guiding customers on how to choose the right deposit	0.815			
Our bank's promotional materials clearly outline the benefits of saving.	0.837			
I effectively communicate the features and benefits of our banking.	0.740			
Our bank offers adequate resources to help customers understand...	0.616			
Our bank actively promotes investment education and awareness to …	0.737			
Our mobile banking application allows customers to perform ….				0.551
Customers find our mobile banking services easy to use for various...				0.647
Our bank provides a straightforward process for customers to open...				0.548
I feel confident that customers can successfully open bank accounts...				0.887
Our bank actively encourages customers to utilize technology for their...				0.673
I am equipped to assist customers with inquiries related to mobile banking.				0.709
My bank offers a wide variety of loan options tailored to meet the diverse..			0.793	
My bank's loan products apply to all customers.			0.689	
My bank's lending terms and conditions are fair to all customers.			0.669	
I trust that my bank adheres to fair and ethical lending practices			0.83	

when….				
My bank's application process is clear to all customers, regardless of their.			0.621	
My bank offers personalized support to all customers throughout the loan..			0.569	
My bank's lending criteria are communicated effectively to all borrower			0.731	
My bank caters to customers from various income brackets.		0.741		
My bank provides tailored financial solutions based on customers' income.		0.842		
My bank understands the financial needs of customers from diverse….		0.738		
My bank treats all customers equally, regardless of their income.		0.756		
My bank offers competitive interest rates and fees for customers of all ..		0.892		
Total Variance Explained				
Initial Eigenvalues	6.793	5.353	2.68	2.565
% of Variance	26.128	20.59	10.309	9.866
Cumulative %	26.128	46.718	57.027	66.893
KMO and Bartlett's Test				
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.506		
Bartlett's Test of Sphericity, Approx. Chi-Square		6975.05		
df		325		
Sig.		0.000		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

FL=financial literacy, TA = technology adoption, LP=lending practice, IL =

Source: *(Survey Data, 2024)*

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H_{01} proposed that financial literacy has no significant influence on the performance of commercial banks. The results presented in Table 4.19 demonstrate a positive and significant effect of financial literacy on bank performance ($\beta = 0.289$, $p < 0.001$). Therefore, the hypothesis was not supported. This implies that higher levels of financial literacy positively contribute to the performance of commercial banks, suggesting that enhancing financial literacy initiatives could lead to better outcomes in bank operations.

V: SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Summary of the Findings

The first objective of the study was to evaluate the impact of financial literacy on the performance of commercial banks in Uasin Gishu county. Based on the descriptive statistics, employees perceive their bank as lacking clarity in communicating borrowing products and loan terms, highlighting significant gaps in financial education initiatives. Many employees feel that customers do not fully understand the various types of deposit accounts or the benefits of saving and depositing funds. Additionally, there is a general sentiment of inadequate resources available for customers to grasp investment options effectively. Despite some employees expressing confidence in their ability to guide customers, the overall perception remains moderate regarding the bank's effectiveness in promoting financial literacy and awareness. These findings underscore the need for banks to enhance their communication strategies and educational efforts to better empower customers and improve overall financial understanding. The findings revealed a strong positive correlation between bank performance and financial literacy ($r = 0.618$, $p < 0.001$). The regression results demonstrated a positive and significant effect of financial literacy on bank performance ($\beta = 0.289$, $p < 0.001$).

5.1 Conclusion

Based on the findings, financial literacy is key to improving bank performance, as it facilitates clear communication about borrowing products and helps customers understand the various types of deposit accounts available. The ability of employees to guide customers in selecting the appropriate deposit account significantly enhances customer satisfaction and retention. Additionally, effective promotional materials that clearly outline the benefits of financial products are essential for ensuring that customers are well-informed. Furthermore, the communication of product features is critical, and ongoing improvements in this area can strengthen customer engagement. Providing adequate resources to help customers understand investment options empowers them to make informed decisions, ultimately contributing to enhanced performance and customer loyalty. Consequently, prioritizing these elements will enable banks to optimize their operations and better serve their clientele in a competitive market..

5.2 Recommendations

Based on the findings on financial literacy, the study recommends that regulators should implement standardized financial literacy programs in partnership with banks, ensuring that customers have access to essential financial knowledge. These initiatives should be designed to empower consumers to make informed decisions about financial products, particularly targeting vulnerable populations. Banks management can further enhance financial literacy by investing in comprehensive educational programs that use engaging content delivered through workshops, online courses, and informational webinars. Additionally, bank managers should prioritize training staff in financial literacy concepts to ensure they can effectively communicate with customers. By fostering a knowledgeable workforce and enhancing financial literacy initiatives, banks can improve customer understanding and satisfaction, ultimately boosting overall performance.

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