Review of: "Innovative Financial Services and Commercial Banks' Profitability in Africa"

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Innovative Financial Services and Commercial Banks'

Profitability in Africa

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I. **General Comments**

This study examines an important topic for African countries: the effect of innovative financial services on commercial banks' financial performance. Adopting services, such as ATMs and mobile and online banking, is crucial for improving financial inclusion and economic growth on the continent. This article utilizes appropriate methods, including a 13-year panel analysis of audited data from the 17 oldest African commercial banks. The results suggest that these innovative services positively affect bank profitability. While providing useful information, this study could also benefit from major revisions. Expanding the sample beyond the 17 oldest banks would include more African financial institutions and provide a broader picture. Integrating primary data from bank executives and customer surveys complements the quantitative analysis. Examining the different impacts on various customer segments and financial institutions would add nuances. Analyzing the challenges and obstacles to adopting innovations across different African countries would provide an important context. A more in-depth analysis of regulations and infrastructure-influencing innovations is beneficial. Broadening the scope to other relevant innovations, such as digital finance and mobile payments, would enrich this study.

Overall, this study provides a good starting point for this important issue. Additional revisions would strengthen the analysis and enhance the usefulness of the results to African policymakers and researchers.

II. Specific Comments

1. **Introduction**

The introduction could begin by outlining the unique challenges of the African banking sector, such as low banking penetration and lack of infrastructure, drawing on the study by Mlachila et al. (2021).

It would continue with an expanded literature review covering financial innovations (Banyen & Biekpe, 2020; R.C. & I.V., 2021), financial inclusion (Jajah et al., 2020), mobile banking services (Ky et al., 2019; Mawejje & Paul, 2019), digital finance (Bousrih, 2023) and their impact on bank performance and profitability in Africa (Chipeta & Muthinja, 2018;

Nyang'iye et al., 2022).

The problem statement would highlight the limitations of existing studies regarding the lack of longitudinal (Bashiru et al., 2023) and qualitative data (Khamis & AbRashid, 2018).

The conceptual framework would draw on theories such as diffusion of innovation (Rogers, 2003), technology acceptance (Davis, 1989), and strategic contingency (Hofer, 1975).

The hypotheses could explore the differentiated impact of financial innovations based on bank type firm age (Yongjie, 2023), and regulatory context (Obadire & Obadire, 2023).

The methodology would specify the selection of banks (Ozili, 2021), data sources (Zhou et al., 2022), and analytical methods (Yang et al., 2023).

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2. Literature Review:

The review covers key concepts but lacks depth in the critical analysis of prior studies. It would be good to evaluate more closely the methodological limitations, gaps in the literature, and divergences between the findings of the cited studies. Some recent references are missing, notably the studies by Banyen & Biekpe (2020), R.C & O (2021), and Jajah et al. (2020). These studies could have enriched the analysis. The review would benefit from categorizing the studies by themes or research subquestions to better structure the analysis. The positioning of this study relative to the limitations identified in the literature must be explained more clearly.

3. Hypotheses:

The hypotheses are logical, but very general. It would be interesting to refine these based on the theories and studies cited. More specific hypotheses can be formulated, for example, on the differentiated impact of financial innovations on customer satisfaction versus operational costs. The five theories presented can be linked more directly to the hypotheses developed in this study.

In summary, the literature review would gain from a deeper critical analysis, and the hypotheses could be refined based on previous theories and studies. The addition of recent references can improve the conceptual framework. These improvements strengthened the relevance and added value of this study. I feel free to contact me if you would like to discuss these proposals in more detail.

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4. Data and method.

The choice of a mixed approach, combining quantitative and qualitative methods, is relevant for addressing the research question at hand. Mixed-methods research is defined as an approach that integrates qualitative and quantitative research questions, methods, and findings (Noyes et al., 2019). This approach allows for a comprehensive understanding of the topic by combining different types of data and analysis techniques. However, the implementation of the mixed approach in the study is not clearly described. The authors mention using both quantitative and qualitative methods for data analysis but do not provide details on how these two types of data were integrated and triangulated. The use of a talking table has been discussed as a data integration strategy in mixed methods research (Jantsch & Neves, 2023), which could have been a useful approach for integrating the quantitative and qualitative data in this study.

The correlational and descriptive research design used in the study is appropriate for examining relationships between variables (Abdallah, 2022). However, it is important to note that this design does not allow for establishing causal links between innovative financial services and banks' financial performance. To establish causal relationships, an experimental design would have been more robust (Walters et al., 2022; Fan & Yu, 2023).

The sampling method used in the study, which involved selecting the 17 oldest commercial banks in Africa, may introduce bias (Masindi & Singh, 2022). Stratified random sampling would have been preferable to ensure the representativeness of the sample (Tran & Lương, 2020). This would have allowed for a more accurate generalization of the findings to the larger population of commercial banks in Africa (Akinsola & Ikhide, 2018).

The use of secondary data in the study, specifically audited financial statements, is relevant for examining banks' financial performance (Adesina & Mwamba, 2018). However, the study lacks details on the interview guide, sampling, and content analysis methods used for analyzing the qualitative data (Gopichandran & Subramaniam, 2021).

The authors mention the use of quantitative and qualitative methods for data analysis without specifying which specific methods were used or how they were combined (Kleih et al., 2021). A mixed methods framework for analyzing visual data has been proposed that allows for the flexible application and integration of different quantitative and qualitative analysis methods (Kirikkaya & Basaran, 2019). This framework could have been useful for integrating the different types of data in the study.

While the use of quantitative regression analysis is appropriate for examining the relationship between innovative financial services and banks' financial performance (Yekini, Adelopo, & Lloydking, 2019), more robust econometric techniques could have been used to control for potential biases and improve the validity of the results (Khan et al., 2021; Shannon et al., 2020). Advanced econometric techniques, such as instrumental variable regression or panel data analysis, could have been employed to address potential issues such as omitted variables and endogeneity (Farajnezhad, 2022).

In summary, the methodological approach used in the study would benefit from more rigor, transparency, and robustness (Mtsweni, Serumaga-Zake, & Kruger, 2020; Krupa, Farbarzevics, & Salame, 2019). The integration of quantitative and qualitative data could have been better described and justified (Leonard & Stanley, 2020). The use of more advanced econometric techniques could have strengthened the validity of the results (Oyetade, Obalade, & Muzindutsi, 2020). Additionally, the study could have provided more details on the interview guide, sampling, and content analysis methods used for analyzing the qualitative data.

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5. Results of the paper.

The results of the study suggest that innovative financial services such as ATM, mobile banking, and internet banking have a positive effect on the profitability of commercial banks in Africa (Khalifaturofi'ah, 2021). However, it is important to interpret these results with caution due to several methodological weaknesses in the study.

Firstly, the lack of a control group and an experimental design prevents establishing a causal link between the variables (Shihadeh et al., 2018). Therefore, it cannot be asserted with certainty that innovative services cause improved profitability.

Secondly, the non-random sample of only 17 historic banks limits the generalization of the results to the entire African banking sector (Kumar et al., 2022). The small sample size may not be representative of the diverse range of banks in Africa, and therefore, the findings may not be applicable to all banks in the region.

Thirdly, the study relies on secondary data that covers a relatively short period, and the addition of primary data is insufficient to offset this lack (Chipeta & Muthinja, 2018). The limited time frame may not capture the long-term effects of financial innovation on bank profitability.

Furthermore, the lack of details on the qualitative analysis in the study hinders a good understanding of how this data supports the quantitative conclusions (Nazaritehrani & Mashali, 2020). Without a comprehensive qualitative analysis, it is difficult to fully assess the validity and reliability of the quantitative findings.

Lastly, the study could have benefited from the use of more advanced econometric techniques to uncover any potential confounding factors that may influence the observed relationship (Wang et al., 2022). By employing more sophisticated statistical methods, the researchers could have better identified and accounted for other variables that may be driving the relationship between financial innovation and bank profitability.

In conclusion, while the results suggest a positive link between financial innovation and bank profitability in Africa, it is important to approach these findings with caution due to the methodological weaknesses of the study. Further research with a more rigorous methodology, including a larger and more diverse sample, longer time frame, and advanced econometric techniques, is needed to confirm and strengthen these preliminary findings (Jajah et al., 2020).

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6. Discussion and conclusion

Although corroborating previous studies, the discussion of the results remains superficial, not sufficiently discussing the potential limitations or theoretical implications of the obtained conclusions. Additionally, the link between quantitative and qualitative results deserves further analysis. As for the conclusion, it summarizes the main results without mentioning the weaknesses of the study requiring further research. Concrete recommendations for stakeholders as well as avenues for future research would also have strengthened the relevance of these sections. Overall, the lack of a critical perspective on the results and the study itself undermines the credibility of the discussion and conclusion, which would benefit from explicitly stating the limitations for more rigor.

III. **Decision**

Based on my review, this study makes a valuable contribution by examining the important topic of how innovative financial services impact commercial bank profitability in Africa. The research methods are appropriate, and the results provide initial evidence that ATM, mobile banking, and online banking positively affect bank profitability. However, there are opportunities to strengthen this paper through additional revisions. Expanding the sample size, incorporating primary data, providing more context on country and institutional differences, and broadening the scope to include other relevant innovations would enrich this analysis.