Purpose

This study analyzes the effects of competition and risk-taking behavior on the stability of commercial banks in Kenya.

Design/methodology/approach

An unbalanced panel dataset of 36 licensed commercial banks in Kenya for 2001–2020 was extracted from the published financial statements. A dynamic panel data analysis model, a two-step system generalized method of moments (GMM), was employed.

Findings

The results indicate that competition reinforces bank stability, whereas banks’ risk-taking behavior has an inverse relationship with strength.

Practical implications

The study confirms the competition-stability nexus, implying that measures may be implemented to foster competition among banks with reduced concentration. These measures may include, but are not limited to, reduced entry barriers and optimal capital requirements. Second, efforts should be made to ensure excessive risk-taking by banks. Employing an elaborate exposure monitoring system with clear warning signs is recommended.

Originality/value

This study is unique in several ways. First, it employs structural and nonstructural measures of competition and ex post standards of banks’ risk-taking behavior. Second, contrary to past studies, this study uses various firm-level measures of bank stability. Lastly, it provides essential empirical evidence from the context of a developing economy, whose institutional and macroeconomic environments differ significantly from those of a developed economy.

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