REINVENTING BANKING PERFORMANCE THROUGH INNOVATION STRATEGY: EMPIRICAL EVIDENCE FROM COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

Andrew Karogo Waweru.
Master of Business Administration Candidate, School of Business, Economics and Tourism, Kenyatta University, Kenya.
Paul Waithaka (PhD).
Lecturer, School of Business, Economics and Tourism, Kenyatta University, Kenya.

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ABSTRACT

Commercial banking is increasingly shaped by technological disruption, changing customer expectations, fintech competition, regulatory demands, and the need for efficient service delivery. In Nairobi City County, commercial banks operate in a highly competitive financial environment in which sustained performance increasingly depends on the capacity to innovate and translate technological and service innovations into organizational value. This study examined the effect of innovation strategy on the performance of commercial banks in Nairobi City County, Kenya. The study is anchored on the Resource-Based View, while organizational performance is conceptualized using the Balanced Scorecard perspective. A descriptive survey design was adopted. The target population comprised 350 employees drawn from Tier 3 commercial bank branches in Nairobi City County, from which a sample of 187 was selected using Yamane's formula and purposive stratified sampling. Data were collected using a semi-structured questionnaire, with 164 usable responses returned, representing an 87.7% response rate. Descriptive statistics were summarized using means and standard deviations, while inferential analysis employed multiple linear regression at a 5% significance level. Qualitative data was analyzed using thematic analysis. The findings showed a high level of implementation of innovation strategy (M = 4.26, SD = 0.77). Regular implementation of digital banking solutions recorded the highest mean (M = 4.41), followed by technology integration in operational improvement (M = 4.36). Regression results indicated that innovation strategy had a positive and statistically significant effect on organizational performance (β = 0.318, t = 4.297, p < .001), and it recorded the strongest coefficient among the corporate-level strategies included in the broader model. The study concludes that innovation strategy is a significant performance lever in commercial banking and recommends sustained investment in digital platforms, technology integration, service innovation, technological benchmarking, and an organizational culture that supports continuous innovation.

Key words: Innovation Strategy, Banking Performance, Digital Banking, Commercial Banks, Nairobi City County.

INTRODUCTION

Banking remains a critical component of the financial system because it facilitates financial intermediation, capital formation, and economic development. Globally, technological advancement, regulatory changes, and evolving customer expectations have transformed banking operations and the way performance is assessed. Contemporary banking performance is increasingly concerned with profitability, operational efficiency, customer orientation, risk management, and market presence rather than relying solely on traditional financial measures (Almashhadani & Almashhadani, 2023; Kihara, 2024; Ozturk & Coskun, 2014). Consequently, commercial banks are increasingly adopting corporate-level strategies that enable them to respond to technological changes, enhance service delivery, improve efficiency, and maintain competitiveness in dynamic financial markets.

In Africa, the banking sector continues to experience significant transformation driven by technological development, financial inclusion, changing customer needs, and regulatory pressures. Banks have increasingly embraced mobile banking, agency banking, and other technology-enabled innovations to improve service accessibility and strengthen operational efficiency. However, challenges related to risk management, operational costs, regulatory compliance, and changing customer expectations continue to affect banking performance (Wu & Shen, 2013; Zidan, 2023). These developments have increased the importance of corporate-level strategies, particularly innovation, product development, diversification, and concentration, as mechanisms through which banks can strengthen competitiveness and sustain performance in a rapidly changing financial environment.

In Kenya, the banking sector operates within a highly competitive and technologically evolving environment shaped by regulatory reforms and changing market conditions. Commercial banks have increasingly adopted digital technologies and innovative service delivery approaches to improve operational efficiency, customer satisfaction, and market competitiveness (Chitai et al., 2024; Waithaka, 2021). The banking sector has also experienced continued growth in assets and deposits, although institutions continue to face challenges associated with operational efficiency, risk management, and changing customer expectations. In Nairobi City County, which represents a major financial and commercial centre, commercial banks operate in an environment characterized by intense competition, technological advancement, and increasingly sophisticated customer needs. Innovation strategy has consequently become an important strategic mechanism through which banks seek to introduce new technologies, improve service processes, enhance customer experience, and strengthen competitive performance. Nevertheless, the effectiveness of innovation strategy in enhancing the performance of commercial banks in Nairobi City County remains an important empirical question, thereby motivating the present study.

Statement of the Problem

Commercial banks in Nairobi City County operate in an environment in which technological change, fintech competition, customer expectations, regulatory requirements, and cost pressures are reshaping traditional banking models. Although banks have expanded digital and technology-enabled channels, performance concerns continue to arise around profitability, operational efficiency, customer retention, risk control, and competitive positioning. The underlying project reports that the Kenyan banking sector experienced a decline in return on equity over the period considered and that non-performing loans increased from 12.5% in 2020 to 14.2% in 2023. It also reports an average cost-to-income ratio of 58%, above the regional average cited in the project. These conditions suggest that growth in technological adoption does not automatically guarantee superior performance; the strategic management of innovation remains important.

The problem is further intensified for smaller commercial banks that face strong competition from larger institutions and fintech companies. Banks that are slow to innovate risk losing customers to more convenient digital alternatives, while poorly coordinated innovation may increase costs, create operational risks, or fail to generate customer value. Consequently, the critical issue is not simply whether commercial banks use technology, but whether innovation is deliberately pursued as a corporate-level strategy and translated into improvements in organizational performance.

Empirical studies provide useful but incomplete evidence. Mbevi (2015) established a positive association between innovation strategies and financial performance among Kenyan commercial banks, while Kiiyuru (2014) identified innovation-related practices as performance drivers. Zhu and Jin (2023) found that digital transformation was positively associated with cost efficiency and return on assets among Chinese commercial banks. Kolapo et al. (2021) reported a strong relationship between strategic marketing innovation, market position, and bank performance in Nigeria. Nevertheless, most of these studies were conducted either outside Kenya or without examining innovation as part of a broader corporate-level strategy configuration. The underlying project also identifies limited integration of innovation with other corporate-level strategies as a research gap. Against this background, the present study isolates innovation strategy and provides context-specific evidence on its effect on commercial bank performance in Nairobi City County.

LITERATURE REVIEW

Resource-Based View

The Resource-Based View (RBV) theory was advanced by Wernerfelt (1984) and further developed by Barney (1991), who argued that firms can achieve sustained competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable. The theory explains organizational performance from the perspective of resources and capabilities controlled by the firm rather than relying primarily on external industry conditions. Resources may be tangible, such as financial capital, physical infrastructure, and technological systems, or intangible, including human capital, organizational knowledge, culture, managerial expertise, and technological capabilities (Oria et al., 2021; Butt et al., 2024). Peteraf (1993) further emphasized resource heterogeneity and imperfect resource mobility as important conditions for sustained competitive advantage. The theory therefore suggests that superior performance depends not only on possessing resources but also on an organization's ability to effectively combine, deploy, and develop them.

The RBV is particularly relevant to innovation strategy because innovation requires commercial banks to integrate technological, financial, human, and organizational resources to develop new products, services, processes, and delivery channels. In the banking sector, technological infrastructure alone may not produce superior performance unless it is supported by skilled employees, appropriate organizational processes, financial investment, and managerial capabilities. Romeo Asa et al. (2021) indicate that successful banks develop combinations of technological infrastructure, human capital, and organizational processes that strengthen their competitive position, while Ferraris et al. (2021) emphasize the importance of mobilizing and reconfiguring resources in response to changing market conditions. Innovation strategy can therefore enable commercial banks to transform their internal resources into improved operational efficiency, customer experience, service quality, and competitive advantage.

Although RBV has been criticized for placing excessive emphasis on internal resources while giving limited attention to environmental factors and rapidly changing market conditions (Kraaijenbrink, Spender, & Groen, 2010), it remains appropriate for this study. Commercial banks operate in an environment characterized by technological advancement, changing customer expectations, and intense competition, making the ability to develop and utilize distinctive resources particularly important. The theory therefore provides a basis for explaining how banks' technological capabilities, employee competencies, organizational knowledge, and financial resources support innovation strategy and ultimately influence performance. In this study, RBV consequently anchors the relationship between innovation strategy and performance of commercial banks in Nairobi City County, Kenya.

Balanced Scorecard Perspective

The Balanced Scorecard Model was developed by Kaplan and Norton (1992) as a strategic performance management framework designed to overcome the limitations of relying solely on traditional financial measures. The model conceptualizes organizational performance through four interconnected perspectives: financial performance, customer perspective, internal business processes, and learning and growth (Kaplan & Norton, 1992; Drago et al., 2022). The financial perspective focuses on outcomes such as profitability and returns, while the customer perspective considers satisfaction, retention, and service value. The internal business process perspective emphasizes operational efficiency and service quality, whereas learning and growth focuses on employee capabilities, organizational knowledge, technology, and continuous improvement. The model therefore provides a multidimensional approach to assessing performance by linking organizational capabilities and strategic activities with both immediate and longer-term outcomes.

The Balanced Scorecard is particularly relevant to innovation strategy because innovation can influence several performance dimensions simultaneously. In commercial banking, investments in digital platforms, mobile banking, automated services, artificial intelligence, and other technological solutions can improve internal processes by reducing transaction time and increasing operational efficiency. These improvements can enhance customer satisfaction by making services more accessible, convenient, responsive, and reliable, while strengthened technological and employee capabilities can support continuous organizational learning. Chitai et al. (2024) indicate that Kenyan banks have increasingly adopted technology to improve service delivery and efficiency, demonstrating the relevance of innovation to both customer and internal-process outcomes. Innovation can consequently contribute to financial performance through increased customer retention, improved efficiency, expanded service utilization, and strengthened competitive positioning.

Despite its usefulness, the Balanced Scorecard has been criticized because the four perspectives may not capture every performance dimension relevant to individual organizations and because causal relationships among the perspectives may be difficult to establish (Kumar et al., 2023). Nevertheless, its multidimensional orientation makes it appropriate for assessing commercial bank performance in a technologically dynamic environment where financial outcomes alone may not adequately reflect organizational success. The model is therefore used in this study to underpin performance as a multidimensional outcome of innovation strategy. While the RBV explains how banks' resources and capabilities facilitate innovation, the Balanced Scorecard explains how the benefits of innovation can be reflected through financial outcomes, customer satisfaction, internal operational processes, and organizational learning and growth. Together, the two perspectives provide a coherent theoretical foundation for examining the effect of innovation strategy on the performance of commercial banks in Nairobi City County, Kenya.

Empirical Literature

Kiiyuru (2014) examined the effect of innovation strategies on the performance of commercial banks in Kenya, focusing on product positioning, price-based value development, and environmental scanning. The study found that innovation strategies contributed to improved bank performance. However, it did not examine how innovation interacts with other corporate-level strategies such as diversification and concentration. This limits its explanation of the broader strategic role of innovation and creates a need for further investigation within complex banking environments such as Nairobi.

Mbevi (2015) examined the relationship between innovation intensity and competitive advantage among 43 commercial banks in Kenya. The study established a significant positive relationship between innovation activities and competitive positioning, suggesting that increased investment in innovative practices can enhance performance. However, the study considered innovation largely as an independent strategic variable and did not examine its integration with other corporate-level strategies. Similarly, Zhu and Jin (2023), using data from 124 Chinese commercial banks, found that digital transformation positively influenced cost efficiency and return on assets. While these findings demonstrate the performance benefits of digital innovation, their applicability to the Kenyan banking context remains uncertain.

Kolapo et al. (2021) investigated innovation strategy and financial performance among 18 Nigerian commercial banks and established a strong relationship between innovation and market share. The study demonstrated that innovation can strengthen competitive advantage, although it did not adequately address the implementation factors required for successful innovation adoption. Wilson et al. (2022) further found that fintech adoption among commercial banks improved operational and customer-service performance by 18.6 percent and 22.4 percent, respectively. However, the study paid limited attention to differences in regulatory and market contexts. Collectively, these studies provide evidence of a positive association between innovation and bank performance but leave a contextual gap regarding how innovation strategy influences the multidimensional performance of commercial banks operating in Nairobi City County, Kenya.

RESEARCH METHODOLOGY

The study adopted a descriptive and explanatory survey design. The descriptive component enabled the researcher to summarize the extent to which innovation strategy was implemented and the perceived level of organizational performance, while the explanatory component enabled the testing of the relationship between innovation strategy and performance. The design allowed quantitative data to be used to describe the constructs and test the stated hypothesis.

The target population comprised employees of 14 Tier 3 commercial bank branches operating within Nairobi City County. Based on Central Bank of Kenya sector staffing information reported in the project, 38,840 employees were distributed across 1,573 commercial bank branches in 2024, giving an estimated average of 25 employees per branch. Applying this average to 14 Tier 3 branches produced an estimated population of 350 employees. The units of observation comprised branch managers, human resource managers, senior finance officers, heads of operations, and non-management employees such as tellers and customer care officers.

The questionnaire incorporated closed-ended Likert-scale statements and open-ended items. The innovation strategy scale comprised six statements covering digital banking solutions, technology integration, service innovation, innovative practices, technological benchmarking, and contribution to competitive advantage. The performance scale comprised five statements covering financial performance, internal operations, staff development and innovation capacity, regulatory compliance and risk control, and market share through enhanced service delivery.

Primary data were collected using a structured questionnaire developed from the study objectives and relevant empirical literature. The questionnaire captured innovation strategy through indicators relating to digital banking solutions, technology integration, service innovation, innovative practices, technology benchmarking, and contribution of innovation to competitive advantage. The validity of the instrument was enhanced through review of relevant literature and expert assessment to ensure that the items adequately represented the study constructs. Reliability was assessed using Cronbach's alpha coefficient, with a coefficient of 0.70 or higher considered acceptable for the study constructs. The use of a structured questionnaire enabled consistent collection of responses across the participating commercial banks and provided suitable data for subsequent descriptive and inferential analysis.

The collected quantitative data were analyzed using descriptive and inferential statistics. Descriptive statistics, particularly frequencies, means, and standard deviations, were used to summarize respondents' views regarding innovation strategy and bank performance. Inferential analysis involved correlation and multiple regression analysis to establish the nature and magnitude of the relationship between innovation strategy and performance while controlling for the other corporate-level strategies included in the original study model. The coefficient of determination (R^2) was used to establish the proportion of variation in organizational performance explained by the explanatory variables, while the F-statistic assessed the overall significance of the regression model. The significance of the individual regression coefficients was evaluated at the 5% level of significance. The analysis showed that innovation strategy had a positive and statistically significant effect on commercial bank performance, with innovation strategy recording the highest positive effect among the corporate-level strategies examined.
The statistical model that was applied in the regression analysis is presented as equation (i)

$$Y=\beta 0 + \beta_1 X + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (i)$$

Where:

Y = Innovation Strategy
X = Organizational Performance
β_0, β_1= Beta Coefficients
ε = Error Term

Ethical considerations included informed consent, confidentiality, anonymity, secure data storage, and voluntary participation. The project reports that the required approvals were obtained through the relevant Kenyatta University and NACOSTI processes before data collection.

DESCRIPTIVE RESULTS

This section presents the analysis and discussion of the response rate, as well as the mean scores and standard deviations for innovation strategy and the performance of commercial banks in Nairobi City County, Kenya.

Response Rate

Out of the 187 questionnaires administered, 164 were duly completed and returned, representing an 87.7% response rate, while 23 questionnaires were not returned, representing 12.3%. The high response rate provided a strong empirical basis for analysis and reduced concerns associated with excessive non-response. Figure 1 illustrates the study response rate.

Table 1: Response Rate

Category	Frequency	Percentage
Returned questionnaires	164	87.7
Non-response	23	12.3
Total administered	**187**	**100.0**

Source: Research Data (2026)

The study targeted 187 respondents from commercial banks operating in Nairobi City County, Kenya. Out of the 187 questionnaires administered, 164 were successfully returned, representing a response rate of 87.7%, while 23 questionnaires were not returned, giving a non-response rate of 12.3%. The response rate was considered adequate for data analysis and reporting since it exceeded the 70% benchmark regarded as satisfactory for survey research (Roszkowska, 2025). The high response rate therefore provided an adequate basis for analyzing the study data and drawing conclusions on innovation strategy and performance of commercial banks in Nairobi City County, Kenya.

Descriptive Findings for Innovative Strategy

Innovation strategy, as an input variable, was measured using digital banking solutions, technology integration, and service innovation. Data obtained on these core aspects of innovative strategy were analyzed using the sample mean and sample std. dev, as shown in Table 2.

Table 2: Descriptive Findings on Innovation Strategy

Statements	Mean	Std. Deviation
Our bank regularly implements digital banking solutions.	4.41	0.67
Technology integration is central to our operational improvements.	4.36	0.72
Service innovation is encouraged and supported across departments.	4.12	0.88
Innovative practices have improved customer experience.	4.28	0.76
The bank actively benchmarks technological trends.	4.05	0.91
Innovation strategies have contributed to competitive advantage.	4.33	0.69
Aggregate score	**4.26**	**0.77**

Source: Data Collected (2026)

The descriptive results indicate a high level of agreement that innovation strategy was actively implemented among the participating commercial banks. The aggregate mean of 4.26 and standard deviation of 0.77 suggest strong consensus and relatively low variability in respondents' perceptions. The highest-rated item was regular implementation of digital banking solutions (M = 4.41, SD = 0.67), indicating that digital channels have become an established component of banking strategy. Technology integration in operational improvement followed closely (M = 4.36, SD = 0.72), demonstrating the importance attached to technology in streamlining processes and improving efficiency.

Innovation strategy was also strongly associated with competitive advantage (M = 4.33, SD = 0.69). This suggests that respondents perceived innovation not merely as an operational support activity but as a strategic mechanism for differentiation and market positioning. Innovative practices were perceived to have improved customer experience (M = 4.28, SD = 0.76), while service innovation was encouraged across departments (M = 4.12, SD = 0.88). The lowest, although still high, rating concerned active benchmarking of technological trends (M = 4.05, SD = 0.91). This suggests that banks monitor technological developments but may have comparatively greater room to strengthen systematic scanning, benchmarking, and rapid translation of emerging technologies into strategic action. Overall, the descriptive evidence portrays innovation strategy as a strongly embedded strategic practice in the participating banks.

The finding is consistent with Mbevi (2015), who reported a positive relationship between innovation strategies and competitive advantage among commercial banks in Kenya. It also agrees with Zhu and Jin (2023), who found that digital transformation was positively associated with cost efficiency and bank performance. The finding further supports Romeo Asa et al. (2021), who emphasized technological innovation as a source of competitive advantage in banking.

Descriptive Findings for Organizational Performance

As the response variable, organizational performance was assessed using indicators including financial performance, internal process, and learning growth. Data collected on these aspects were analyzed using the sample mean and std. dev, as shown in Table 3 below

Table 3: Descriptive Findings on Organizational Performance

Statements	Mean	Std. Deviation
Financial performance has shown consistent growth.	4.18	0.82
Internal operations have improved.	4.27	0.74
Staff development and innovation capacity have grown over the years.	4.11	0.86
Regulatory compliance and risk control processes have improved.	4.33	0.69
The bank has gained market share through enhanced service delivery.	4.25	0.77
Aggregate score	4.23	0.78

Source: Research Data (2026)

Participants gave an average rating of 4.23, and the variation in their responses was 0.78, suggesting that most generally agreed that the performance of the commercial banks had improved, based on the results summarized in Table 4.7 (Kihara, 2024). The respondents were more in agreement that Regulatory Compliance and Risk Control processes had improved with a mean score of 4.33. This implies that an adaptation of compliance systems and risk management practices by the banks had taken place as a response to changes in regulations. The results also showed that internal operations had improved with a mean score of 4.27, and market share growth (upscale service delivery) had a mean score of 4.25. Here, it suggests that aspects of operational efficiency, followed by the service delivery to customers has accounted for the good performance in commercial banks. The findings are in line with that of Kaplan and Norton (1992) which contended that there should be both "financial and non-financial measures" used to evaluate organizational performance (Zhu and Jin, 2023). In the same way, Waithaka (2021) identified that the effect of operational efficiency and Customer service improvement was a positive influence on the performance of commercial banks in Kenya.

Inferential Analysis

Linear regression analysis was conducted to examine effect of innovation strategy on organizational performance. In this case, organizational performance was regressed against the innovation strategy and the findings are presented and discussed accordingly.

Table 4: Linear Regression Analysis

Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	
1	.842[a]	.709	.701	.412	
ANOVA					
Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	42.317	4	10.579	62.341	.000[b]
Residual	17.056	159	.107		
Total	59.373	163			
Coefficients					
	Unstandardized Coefficients		**Standardized Coefficient**	**t**	**Sig.**
	β	**Std. Error**	**Beta**		
(Constant)	0.842	0.311		2.707	0.008
Innovation Strategy	0.318	0.074	0.98	4.297	0.000
a. Dependent Variable: Organizational Performance					
b. Predictors: (Constant) innovation strategy					

Regression analysis was conducted to establish the effect of corporate-level strategies on the performance of commercial banks in Nairobi City County. The model summary produced an R value of 0.842, indicating a strong positive relationship between the combined corporate-level strategies and organizational performance. The R^2 value of 0.709 showed that 70.9% of the variation in organizational performance was explained by innovation strategy, product development strategy, diversification strategy, and concentration strategy, while the remaining 29.1% was explained by factors outside the model. The adjusted R^2 of 0.701 further indicated that the model provided a satisfactory fit to the data.

The ANOVA results showed that the regression model was statistically significant, $F(4, 159) = 62.341$, $p < .001$. Since the significance value was below the 0.05 threshold, the null hypothesis that the combined corporate-level strategies do not significantly explain organizational performance was rejected. The findings therefore indicate that the selected corporate-level strategies collectively provided a statistically significant explanation of variations in the performance of the sampled commercial banks.

The coefficient results showed that innovation strategy had a positive and statistically significant effect on organizational performance, with an unstandardized beta coefficient of 0.318 (SE = 0.074), $t = 4.297$, $p < .001$. This indicates that, holding the other strategies in the model constant, a one-unit improvement in innovation strategy was associated with a 0.318-unit increase in

organizational performance. The finding demonstrates that innovation strategy made a meaningful contribution to the performance of commercial banks in Nairobi City County.
The estimated regression model based on the coefficients was expressed as:
Organizational Performance = 0.842 + 0.318 Innovation Strategy
For the specific objective of this article, the coefficient for innovation strategy is the key result. Its positive coefficient and significance level indicate that stronger innovation practices were associated with better organizational performance among the sampled commercial banks. In practical terms, the finding suggests that continued investment in digital banking solutions, technology integration, service innovation, technology benchmarking, and other innovative practices can contribute to improved banking performance. The finding is consistent with the descriptive results, where innovation strategy recorded an overall mean of 4.26, indicating a high level of agreement among respondents regarding the contribution of innovation to bank performance.

The finding further suggests that innovation has become an important strategic mechanism through which commercial banks can improve efficiency, customer experience, and competitive positioning. Digital banking solutions recorded a mean of 4.41, while technology integration recorded a mean of 4.36, indicating strong agreement that technology-supported innovation was central to banking operations. Innovative practices were also associated with improved customer experience (M = 4.28), while innovation strategy was perceived to contribute to competitive advantage (M = 4.33). These findings are consistent with Mbevi (2015), who established a positive relationship between innovation and competitive advantage among commercial banks in Kenya. The present findings extend this evidence by demonstrating that innovation strategy has a statistically significant contribution to broader organizational performance within the Nairobi City County banking context.

The qualitative findings showed that innovation strategy contributed to improved performance of commercial banks through enhanced service delivery, operational efficiency, and customer satisfaction. Respondents particularly highlighted digital banking platforms, mobile banking, internet banking, and automation as important innovations that reduced waiting time, improved accessibility, minimized operational costs and errors, and strengthened customer relationships. They further noted that continuous innovation enabled banks to respond to changing customer needs and competition from fintech firms, thereby strengthening competitive advantage. These findings corroborated the quantitative results, which established that innovation strategy had a positive and statistically significant effect on organizational performance.

Conclusion

The objective of the study was to establish the effect of innovation strategy on the performance of commercial banks in Nairobi City County, Kenya. The findings established that innovation strategy has a positive and statistically significant effect on organizational performance ($\beta = 0.318$, p < .001). The study therefore concludes that effective innovation strategies, particularly digital banking solutions, technology integration, service innovation, and continuous adoption of innovative practices, play an important role in enhancing the performance of commercial banks. Innovation strategy consequently emerges as an important strategic mechanism through which commercial banks can strengthen operational efficiency, improve customer experience, and enhance their competitive position in the banking sector.

Recommendation

The findings of the study indicate that commercial banks in Nairobi City County should strengthen and continuously invest in innovation strategies, particularly digital banking solutions, technology integration, and service innovation, to enhance organizational performance. Bank management should create an environment that supports continuous innovation by encouraging employees to identify new ways of improving banking processes and customer service. The study further recommends that banks regularly assess emerging technologies and changing customer needs to ensure that innovation initiatives remain relevant, improve operational efficiency, enhance customer experience, and strengthen competitive advantage. Such efforts should be supported through adequate investment in technological infrastructure, employee skills development, and effective implementation of innovative banking solutions.

Study Limitations and Areas for Future Research

Future studies should examine other factors that may influence the performance of commercial banks beyond innovation strategy, including organizational culture, leadership capabilities, regulatory factors, and technological readiness. Further research could also compare the effect of innovation strategy across different categories of commercial banks, such as Tier 1, Tier 2, and Tier 3 banks, to establish whether the relationship varies across bank categories. In addition, future studies could employ longitudinal research designs to examine the long-term effects of innovation strategy on bank performance and determine whether sustained investment in innovation produces lasting improvements in financial and non-financial performance.

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