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DYNAMIC CAPABILITIES AND PERFORMANCE OF COMMERCIAL BANKS IN MOMBASA COUNTY, KENYA

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ABSTRACT

Banking industry substantially enhances economic growth by enabling financial transactions, offering credit availability, and fostering investment. To maintain competitiveness, commercial banks cultivated dynamic capacities to adjust to evolving market conditions. This research investigated the impact of innovative skills, digital transformation, customer relationship management, and risk management on the performance of commercial banks in Mombasa County, Kenya. The study was directed by essential financial performance metrics, encompassing bank profitability, return on assets, return on equity, and net interest margin. A descriptive study design was employed, focusing on a sample population of 45 licensed commercial banks in Kenya. The research employed a purposive sample method, choosing 90 participants (45 Branch Managers and 45 Operations Managers) from banks in Mombasa County. The research team utilized a mix of structured questionnaires to gather primary data from the chosen organizations and people. Nine participants, or 10% of the total, from Mombasa County's business institutions served as pilot testers for the study instruments. A study assistant helped with the drop-and-pick approach of distributing and administering the questionnaires personally. The Statistical Package for the Social Sciences (SPSS Version 28.0) was used to conduct statistical analysis on the acquired data. Tables, graphs, and charts showcased the results, and additional analysis was carried out to ascertain the correlation between the two sets of variables.

Key Words: Innovative Skills, Digital Transformation, Customer Relationship Management, Risk Management

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INTRODUCTION

The stability and expansion of the economy depend substantially on the performance of commercial banks, which is affected by technology advancements, regulatory policies, and macroeconomic factors. Smith and Johnson (2021) highlight that Innovation like digital banking platforms and AI-driven analytics markedly enhance operational efficiencies and customer service within banks. These advancements streamline processes and elevate service delivery, thereby bolstering overall performance metrics (Smith & Johnson, 2021).

Brown (2020) asserts that, regulatory adjustments significantly influence the operational landscape of commercial banks. Some of these regulatory adjustments include, adherence to rigorous standards such as Basel III necessitates banks to fortify capital adequacy and risk management frameworks. These measures are essential for promoting financial stability and have profound implications for banks' profitability and risk appetite (Brown, 2020). The regulatory framework serves as a cornerstone in mitigating systemic risks and enhancing market resilience, ensuring that banks operate within sustainable parameters. This regulatory environment underscores the critical balance between fostering innovation and maintaining robust governance to safeguard the interests of stakeholders and the broader economy (Almazari, 2019).

Over the past several years, various factors have collectively influenced the overall performance of commercial banks worldwide. Technological Innovation have revolutionized banking operations, with artificial intelligence and blockchain technology increasingly integrated into financial services (Li & Wang, 2022). These advancements have enhanced efficiency and customer service while posing challenges related to cybersecurity and data privacy (Jones & Patel, 2021). In Europe, commercial banks have navigated a complex operating environment characterized by prolonged low interest rates and intensified competition from fintech firms (Jones & Patel, 2021). While these conditions have compressed net interest margins, European banks have pursued consolidation strategies to achieve economies of scale and enhance profitability (Smith, 2023).

A mix of internal economic forces and regulatory shifts are responsible for shaping the performance of commercial banks in South Africa. Despite challenges posed by fluctuating interest rates and high levels of household debt, South African banks have demonstrated resilience through their emphasis on cost efficiency and digital transformation initiatives (Smith & Jones, 2021; Brown et al., 2023). Regulatory oversight from the South African Reserve Bank has focused on enhancing financial stability through stringent capital adequacy requirements and stress testing protocols (Gupta & Patel, 2022). Furthermore, there has been a notable increase in sustainable finance initiatives among banks, aimed at addressing environmental and social governance (ESG) concerns and aligning with global trends in responsible banking practices (Moyo & Mbeki, 2020).

A dynamic market, which has been driven by robust economic development and ongoing changes in the financial sector, has had an impact on the performance of Egypt's commercial banks.. Egyptian banks have capitalized on digital banking solutions to enhance customer service and operational efficiency (Abdel-Hakim & Ibrahim, 2022). The Central Bank of Egypt's proactive monetary policy stance has supported credit expansion and improved liquidity management across banking sector (Sayed & Ali, 2021). Commercial banks in Tanzania have navigated a landscape influenced by economic diversification efforts and regulatory reforms aimed at enhancing financial inclusion. Banks have expanded their branch networks and adopted mobile banking platforms to reach underserved rural populations (Kamata & Mrema, 2024). However, challenges such as volatile macroeconomic conditions and regulatory changes have affected profitability margins and credit quality (Mwakyusa & Marwa, 2021).

Teece and Leih (2021) define dynamic capabilities as an organization's ability to integrate, develop, and adapt both internal and external competencies to effectively navigate rapidly changing environments. These capabilities are essential for businesses striving to sustain a competitive edge in evolving markets. Research indicates that dynamic capabilities involve not only reacting to changes but also proactively shaping the

business landscape through strategic foresight and agility (Teece & Leih, 2021). Organizations that excel in dynamic capabilities often exhibit robust sensing mechanisms to identify market opportunities and threats early on, coupled with the ability to rapidly deploy resources and capabilities to capitalize on these insights (Zollo & Winter, 2023).

Effective leadership is essential for fostering a culture of innovation and adaptability inside an organisation, inspiring individuals to challenge established norms and pursue new avenues for success (Eisenhardt & Martin, 2022). Moreover, a supportive organizational culture that values experimentation and learning from failures is essential for cultivating dynamic capabilities (Teece & Pisano, 2020). Companies that successfully cultivate dynamic capabilities are better equipped to navigate disruptions, such as technological advancements, regulatory changes, and shifts in consumer preferences, thereby positioning themselves strategically in competitive markets (Zhang & Zhu, 2021). Dynamic capabilities play a crucial role in shaping the performance of commercial banks in today's rapidly evolving financial landscape (Rashidirad and Salimian, 2020). These capabilities enable banks to effectively respond to market changes, regulatory requirements, and technological advancements. Research indicates that banks with strong dynamic capabilities are better equipped to innovate in product offerings, streamline operations, and enhance customer experience, thereby improving financial performance (Zhang & Zhu, 2021).

The relationship between dynamic capabilities and bank performance is highlighted by their role in strengthening organizational resilience and sustaining a competitive advantage. Banks that invest in building dynamic capabilities can effectively manage risks, respond to regulatory changes, and innovate in response to customer demands (Zollo & Winter, 2023). This strategic agility not only enhances operational efficiency but also strengthens banks' market position and profitability over time (Teece & Pisano, 2020). By continuously refining their capabilities to sense, seize, and reconfigure resources, banks can achieve sustainable growth amidst fluctuating market conditions and competitive pressures (Eisenhardt & Martin, 2022; Zhang & Zhu, 2021).

Statement of the Problem

Kenya's banking sector has experienced significant challenges over the past decade, leading to declining performance and profitability among commercial banks. According to the Central Bank of Kenya (CBK) Regulatory Annual Report (2018), several external and internal factors have negatively affected industry efficiency. The implementation of the Banking (Amendment) Act of 2016, which introduced interest rate caps, constrained banks' ability to price loans based on risk, resulting in reduced interest income and limited credit growth. Furthermore, adverse economic conditions such as prolonged droughts, political uncertainty during the 2017 elections, and an overall slowdown in economic activity further weakened the sector's stability.

These factors led to a notable decline in profitability—pre-tax profits dropped by approximately 9.6%, from Ksh. 147.4 billion in 2016 to Ksh. 133 billion in 2017—while total loans decreased from Ksh. 2.29 trillion to Ksh. 2.16 trillion over the same period. Additionally, banks faced rising costs and operational inefficiencies, with many institutions resorting to layoffs, branch closures, and downsizing to remain viable.

Although commercial banks in Kenya have attempted to adapt through technological innovations, service diversification, and restructuring, the effectiveness of these dynamic capabilities in enhancing performance remains uncertain. Existing studies have examined macroeconomic and policy factors influencing bank performance but have not adequately addressed how dynamic capabilities—such as innovation, learning, and adaptability—contribute to resilience and competitiveness in the face of industry challenges.

Therefore, there is a need to investigate how dynamic capabilities affect the performance of commercial banks in Mombasa County, Kenya. This study seeks to fill that gap by examining the relationship between dynamic capabilities and the performance of commercial banks operating in this region.

Objectives of the Study

The general objective of the study was to establish the effect of dynamic capabilities on the performance of commercial banks in Mombasa County in Kenya. The specific objectives were;

- To establish the effect of innovation capability on the performance of commercial banks in Mombasa County, Kenya.
- To determine the effect of digital transformation capability on the performance of commercial banks in Mombasa County, Kenya.
- To analyse the effect of customer relationship management capability on the performance of commercial banks in Mombasa County, Kenya.
- To evaluate the effect of risk management capability on the performance of commercial banks in Mombasa County, Kenya.

The study was guided by the following research hypotheses

- **H₁:** Innovation capability has no effect on the performance of commercial banks in Mombasa County, Kenya.
- **H₂:** Digital transformation capability has no effect on the performance of commercial banks in Mombasa County, Kenya.
- **H₃:** Customer relationship management capability has no effect on the performance of commercial banks in Mombasa County, Kenya.
- **H₄:** Risk management capability has no effect on the performance of commercial banks in Mombasa County, Kenya.

LITRETURE REVIEW

Theoretical Framework

Absorptive Capacity Theory

Cohen and Levinthal (1990) coined the Absorptive Capacity Theory, which explains the capacity of an organisation to recognise, incorporate, and make use of foreign information in order to encourage innovation and maintain a competitive advantage. With the help of this theory, one may gain a fundamental grasp of how businesses can make use of information from the outside world to improve their overall performance and creativity. According to Cohen and Levinthal (1990), the most important aspects of absorptive capacity are the ability to recognise worthwhile external knowledge, to assimilate that knowledge, and to effectively use it inside the organisation. These capabilities are essential for organizations to adapt and thrive in rapidly changing environments, fostering continuous learning and innovation.

Zahra and George (2002) differentiated between prospective absorptive capacity, which refers to an organization's ability to absorb and assimilate knowledge, and realised absorptive capacity, which entails efficiently converting and implementing that knowledge. This distinction was made in order to better expand this idea (Zahra & George, 2002). Banks with high absorptive capacity are better equipped to recognize valuable external information, integrate it with their existing knowledge, and apply it to create innovative financial products, services, and processes. This ability to continuously adapt and leverage new knowledge enhances their competitive advantage, operational efficiency, and overall performance, thereby highlighting the critical role of absorptive capacity in translating innovation capability into tangible performance improvements.

Dynamic Capabilities Theory

The Dynamic Capabilities Theory was developed by David J. Teece and his colleagues in the 1990s with the purpose of providing an explanation for how businesses might gain and maintain a competitive advantage in settings that are undergoing fast change. According to Teece, Pisano, and Shuen (1997), the idea emphasises

that in addition to holding significant resources, businesses need to acquire dynamic skills. These capabilities include the capacity to integrate, build, and reconfigure both internal and external competencies in order to take advantage of changing market conditions.

According to Teece, Pisano, and Shuen (1997), the Dynamic Capabilities framework emphasises that in addition to holding significant resources, businesses need to have dynamic capabilities. These skills include the capacity to integrate, build, and reconfigure both internal and external competencies in order to respond to changing market conditions. Dynamic capabilities enable organisations to continually refresh their operational processes and resource bases, which enables them to respond to changes in customer expectations, technology advancements, and competitive challenges (Teece, 2007).

There are three essential components that make up dynamic capabilities: the ability to detect opportunities and threats, the ability to seize opportunities, and the ability to reconfigure assets and structures. According to Teece (2007), sensing is the process of finding and evaluating new market possibilities and possible hazards. This enables businesses to maintain a competitive advantage over their rivals. While reconfiguring refers to the capacity of the company to realign and refresh its resources in order to preserve its agility and relevance in the market (Teece, 2018), seizing focusses on capitalising on these possibilities by generating new goods, services, or business models—while reconfiguring refers to the ability of the company to do so. The theory also argues that dynamic capabilities are rooted in organizational processes such as learning, innovation, and strategic decision-making, enabling firms to not only survive but thrive amid disruptions (Eisenhardt & Martin, 2000). By continuously refining these processes, firms enhance their resilience and capacity for long-term success (Helfat et al., 2007).

Balanced Scorecard (BSC) Theory

In 1992, Robert Kaplan and David Norton presented the Balanced Scorecard idea as a tool for strategic management. Its purpose was to provide organisations a holistic perspective of their performance (Kaplan & Norton, 1992). It was necessary to overcome the shortcomings of conventional financial metrics that prioritise immediate monetary gains that gave rise to the idea (Kaplan & Norton, 1992). BSC allows organisations to measure performance from four perspectives: financial, customer, internal business processes, and learning and growth. It includes both financial and non-financial metrics (Kaplan & Norton, 1996). This multi-faceted method allows for a well-rounded approach to performance management by coordinating company operations with long-term goals and objectives (Kaplan & Norton, 1996).

Niven (2005) emphasizes that the BSC enhances organizational learning and fosters better decision-making by connecting day-to-day operations with long-term strategic goals. Others, like Hoque (2014), argue that while the BSC provides a holistic framework, its implementation can be challenging due to its complexity, especially in large organizations. In contrast, de Waal (2010) points out that the BSC can drive strategic alignment and improve communication between different organizational levels. However, it is essential to recognize that successful implementation requires a deep understanding of both the business environment and the organization's specific needs (de Waal, 2010).

Review of literature on variables

This section will specifically be highlighting studies that have explored similar themes in diverse geographical contexts. Each selected study was critically evaluated to extract insights into how dynamic capabilities contribute to enhancing operational efficiency, strategic adaptability, and competitive advantage among commercial banks.

Innovation Capability and Performance of Commercial Banks

Mwagangi and Kimuyu (2020) explored the impact of innovation capability on risk management effectiveness within commercial banks in Mombasa. Their findings indicated a positive correlation between a bank's

innovation capability and its ability to manage risks effectively. Banks with higher innovation capabilities were better equipped to anticipate and mitigate risks, thus enhancing overall risk management practices. The study concluded that fostering a culture of innovation could significantly bolster risk management strategies in banking operations. The study recommended that Mombasa's banks to prioritize continuous innovation in risk management processes to safeguard financial stability and sustain long-term growth

Harris and Martinez (2020) investigated the strategic implications of innovation capability on market positioning and competitive strategy in commercial banks. Their research highlighted that banks employing innovative differentiation strategies effectively attract and retain customers, enhance brand reputation, and achieve sustainable growth. They found that innovation enables banks to introduce unique products and services that meet evolving customer needs, thereby gaining a competitive edge. The study concluded that fostering a culture of innovation and investing in strategic innovation initiatives are crucial for banks aiming to strengthen their market position and sustain long-term profitability. The research recommended aligning innovation efforts with customer insights, leveraging digital technologies, and fostering collaboration across departments to drive innovation-led growth strategies.

Transformation Capability and Performance of Commercial Banks

Garcia (2020) in their research Strategic Implications of Digital Transformation on Customer Acquisition and Retention Strategies in Commercial Banks analyzed the effects of digital transformation on customer relationships. Their findings indicated that banks leveraging advanced digital tools and analytics achieve higher levels of customer satisfaction and loyalty. By adopting digital strategies that enhance personalized customer experiences and streamline service delivery, banks can strengthen their market position and improve financial performance metrics. The study recommended continuous investment in digital capabilities to effectively meet evolving customer expectations and maintain competitive advantage in banking sector.

Lee and Wang (2022) investigated the role of digital transformation in enhancing operational agility and innovation capacity in commercial banks in their research titled Digital Transformation and Operational Agility in Commercial Banks. Their findings indicated that banks investing in digital technologies experience improved operational efficiency and agility. By leveraging digital platforms for process automation and innovation, banks can streamline operations, accelerate time-to-market for new products and services, and respond swiftly to market changes. The study recommended strategic alignment of digital transformation initiatives with organizational goals to foster a culture of innovation and achieve long-term competitiveness in banking sector.

Customer Relationship Management Capability and Performance of Commercial Banks

Lee, Brown, & Martinez (2020) focused on customer relationship management Capability in Innovation and Product Development within Commercial Banks. They found that integrating customer relationship management data into product development processes enables banks to tailor offerings to customer preferences, driving innovation and revenue growth. Their research emphasized the role of customer relationship management in fostering agility and responsiveness to market demands, thereby enhancing banks' ability to innovate and stay competitive in the dynamic banking industry.

Harris, Martinez & Lee (2021) focused on Regulatory Implications of customer relationship management Capability in Commercial Banks, concluding that robust CRM systems enhance banks' ability to manage regulatory requirements effectively. Their research highlighted how CRM capabilities support compliance processes, maintain transparency, and build trust with regulatory authorities and stakeholders. The study recommended integrating CRM strategies with regulatory compliance frameworks to navigate evolving regulatory landscapes and enhance overall governance and risk management practices.

Risk Management Capability and Performance of Commercial Banks

Abdaljabar & Alshaer (2024) conducted a study on Dynamic Capabilities and Their Impact on Risk Management in Jordan. The research found that dynamic skills, evaluated across many dimensions, had a substantial influence on risk management at JFDA. Furthermore, it emphasized that dynamic skills had a substantial impact on each aspect of risk management. The results revealed that the dynamic skills were mostly at a high level, whilst the integration and coordination capacities were somewhat present. The report suggested improving benchmarking by collaborating with international and regional organizations, facilitating the sharing of information, and using external expertise in risk management. The text highlights the significance of improving integration and coordination skills by providing continuous assistance and allocating resources.

According to a study by Finextra (2022) on risk management capabilities within financial organizations, the presence of a robust risk management culture is crucial for effectively navigating unexpected challenges. This culture ensures that regardless of the specific risk management systems, policies, procedures, or technologies in place, organizations are better equipped to respond adeptly to sudden threats. The study underscores that achieving optimal risk management outcomes requires consistent and timely coordination, aiming to maximize organizational benefits.

Measurement of Perform

The process of measuring performance is an essential component of organisational management since it offers insights into the degree to which an organisation is successful in accomplishing its goals. Evaluation of the efficiency and effectiveness of activities made by an organisation in the pursuit of its goals is a component of this process (Armstrong, 2022). Methods that are commonly used include financial indicators like as profitability, return on investment (ROI), and revenue growth. These measurements quantify financial performance and provide a clear picture of the economic health of an organisation (Kaplan & Norton, 2020).

Beyond financial metrics, performance is also measured using non-financial indicators, which can include customer satisfaction, employee engagement, and innovation capacity (Marr, 2021). Nonfinancial metrics are critical as they often provide early warning signs of issues that might affect financial performance in the future (Eccles, Ioannou, & Serafeim, 2020). According to Heskett et al. (2022), a company's capability to innovate shows how well it can adapt to changing market conditions, while customer happiness indicates how likely it is that customers will return and support the company overall. Thus, in order to conduct a thorough evaluation of an organisation, it is necessary to use a mixed method of measuring performance (Kaplan & Norton, 2020).

Performance measurement is increasingly incorporating qualitative assessments, particularly in areas such as leadership effectiveness, corporate culture, and employee morale (Yukl, 2022). These elements are essential to an organization's long-term viability and performance, but they are more difficult to measure (Schein, 2021). Employee surveys and 360-degree feedback are two popular tools for collecting qualitative data, which may then be examined to determine areas of strength and room for development (Bracken, Timmreck, & Church, 2020). This qualitative data, when combined with quantitative metrics, provides a more holistic view of organizational performance (Gratton, 2021).

METHODOLOGY

Research Design

The research study employed a descriptive research design, a methodology widely utilized in previous studies. This approach was essential for exploring the "who, what, where, when, and how" of the phenomenon under investigation (Creswell, 2014).

Target Population

As of 2024, the Kenya Bankers Association indicated that a total of 45 commercial banks were licensed to operate in Kenya. There are 45 licensed commercial banks in Mombasa County, and the researcher will employ all 90 respondents (45 Branch Managers and 45 Operation Managers to gather information.

Research Instruments

Questionnaires were used to gather information for the study. According to Mugenda & Mugenda (2015), a questionnaire can be an effective tool for collecting data that is both objective and precise. The questionnaire will have a user-friendly and straightforward layout to increase the likelihood that respondents will provide honest answers. The questions were designed based on the research objectives. To capture respondents' opinions, a five-point Likert scale (Likert, 1961) was utilized, offering the options: "Strongly Agree," "Agree," "Moderate," "Disagree," and "Strongly Disagree. With Likert scales, respondents were able to complete surveys quickly and accurately since the questions were clear and concise. The anonymity of respondents will significantly enhance the confidentiality of the survey, allowing for more open and candid responses regarding the administration of mobile credit.

Data Processing and Analysis

Data processing involved collecting raw responses through a Google Form, which were automatically recorded in Google Sheets and subsequently exported to a spreadsheet for analysis. The dataset was cleaned by addressing missing values, correcting errors, and categorizing responses where necessary. Quantitative data were analyzed using SPSS Version 28.0 to ensure accuracy and reliability, while qualitative responses underwent thematic analysis. Descriptive statistics—including measures of central tendency (mean, median, mode) and variability (range, standard deviation)—were computed to summarize the quantitative data. Frequency distributions and percentage breakdowns were generated to depict categorical data. Data visualization techniques such as histograms, bar charts, and pie charts were employed to illustrate trends and patterns. Inferential analysis was conducted using correlation coefficients (Pearson's r) to assess the strength and direction of relationships between variables. Scatterplots and correlation matrices were used to visualize these associations, and statistical significance tests were performed to determine the likelihood that observed correlations occurred by chance. This analytical approach supported a comprehensive understanding of the relationships among variables and informed subsequent interpretations aligned with the research objectives.

The following multiple regression model was adopted to examine effect of dynamic capabilities on the performance of commercial banks in Mombasa County in Kenya. $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$
Where:

Y = Performance of Commercial Banks

X_1 = Innovation Capability

X_2 = Digital Transformation Capability

X_3 = Customer Relationship Management Capability X_4 = Risk

Management Capability β_0 = Constant ε = Error term β_1 - β_4 =

Regression Coefficient for each Independent Variable .

FINDINGS AND DISCUSSION

Response Rate

The researcher distributed a total of 90 questionnaires through Google Forms targeting selected respondents, comprising 45 Branch Managers and 45 Operations Managers from all the 45 licensed commercial banks operating within Mombasa County. Out of these, 81 questionnaires were duly filled and returned, representing a response rate of 90.00%, while only 9 questionnaires, equivalent to 10.00%, were not returned. Notably, 43

of the completed responses came from Operations Managers and 38 from Branch Managers. This strong response significantly contributes to the reliability and validity of the findings. According to Sataloff and Vontela (2021), a response rate of 70% or more is considered exemplary in survey-based research.

Descriptive Analysis

This section presents the descriptive analysis of the study variables to provide an understanding of the distribution and central tendencies of the data collected. The independent variables under investigation include Innovation Capability, Digital Transformation Capability, Customer Relationship Management Capability, and Risk Management Capability, while the dependent variable is the Performance of Commercial Banks. All variables were measured using a seven-point Likert scale and descriptive statistics were generated by analyzing each objective using custom tables to determine the mean and standard deviation.

Innovation Capability

This section presents the findings of the descriptive statistics on Innovation Capability as shown in Table 4.13. The analysis focused on evaluating the effect of Innovation Capability on bank performance in Mombasa County.

Table 1: Innovation Capability

Question	Mean	Std Dev
Banks actively invests in new technologies to enhance its service delivery.	4.21	0.74
Our bank's innovation capability significantly improves customer satisfaction and retention.	4.13	0.78
The implementation of innovative practices has led to an increase in banks' market share.	3.97	0.85
Our bank's innovative solutions have reduced operational costs and increased efficiency.	4.05	0.81
The ability to innovate has improved our bank's competitive advantage in the local market.	4.10	0.76
Management support for innovation initiatives is crucial for enhancing banks' performance.	4.30	0.68
Banks regularly updates its products and services to meet evolving customer needs through innovation	4.18	0.72

The analysis of Innovation Capability indicates a broadly positive perception among respondents regarding its contribution to the performance of commercial banks in Mombasa County. The findings demonstrate that banks places a strong emphasis on innovation as a key driver of its overall performance and competitiveness. The highest mean score of 4.30 reflects strong management support for innovation initiatives, underscoring the critical role leadership plays in fostering a culture that encourages new ideas and improvements. Banks' active investment in new technologies scored highly at 4.21, indicating a commitment to leveraging technological advancements to enhance service delivery. This investment appears to translate effectively into tangible benefits, as reflected in the high mean scores related to customer satisfaction and retention (4.13) and the regular updating of products and services to meet changing customer needs (4.18). Innovation also contributes significantly to banks' competitive positioning in the local market, scoring 4.10.

The implementation of innovative practices has been linked to growth in market share (mean 3.97), suggesting that innovation helps banks capture and maintain a larger portion of the market, though this score is slightly lower, indicating potential room for further market expansion through innovation. Operational efficiency and cost management have also improved as a result of innovative solutions, as indicated by a mean of 4.05. This shows that innovation not only enhances customer-facing aspects but also supports internal processes, leading to more streamlined and effective operations. The relatively low standard deviations, ranging from 0.68 to 0.85, suggest a strong consensus among respondents regarding the positive impact of

innovation within banks. This indicates that innovation is broadly recognized across the organization as a strategic priority. The findings affirm that innovation capability is an important enabler of bank performance, reinforcing the need for sustained investment, managerial backing, and customer-focused innovation strategies to maintain a competitive edge.

These findings align closely with several past studies, reinforcing the critical role of innovation in enhancing organizational outcomes. The high mean score of 4.30, reflecting strong management support for innovation, is directly congruent with the findings of Johnson et al. (2021), who emphasized that *organizational culture and leadership support are pivotal enablers of innovation capability*. Their study highlighted that in commercial banks, leadership commitment fosters an innovation-oriented culture, which directly influences the development and execution of innovative strategies. Therefore, the Mombasa County banks' emphasis on leadership backing reflects a strategic alignment with these earlier findings, affirming the essential role of top management in nurturing an environment conducive to innovation. Furthermore, banks' investment in new technologies (mean = 4.21) supports the findings of Akhtar (2023), who empirically demonstrated that innovation capability—when directed toward technological integration—leads to substantial improvements in product, process, and market innovation. Akhtar's study asserts that such technological advancements are fundamental to improving overall firm performance, particularly in service industries like banking. Thus, the present study's findings of strong technological investment echo Akhtar's conclusion that technology-driven innovation is indispensable for gaining a competitive advantage and achieving superior performance.

In addition, the observed high customer satisfaction and retention (mean = 4.13) and regular updating of products and services (mean = 4.18) resonate with the work of Fainshtein et al. (2024), who argued that innovation potential, when aligned with a firm's dynamic capabilities, significantly enhances customer responsiveness and organizational agility. Their research posits that banks that continuously adapt their offerings in response to evolving market demands tend to enjoy elevated performance metrics. The positive correlation between innovation and customer satisfaction in the Mombasa study confirms the operationalization of dynamic capabilities as described in Fainshtein et al.'s framework. Moreover, the finding that innovation contributes to competitive positioning (mean = 4.10) aligns closely with the insights of Osiyevskyy et al. (2025), who analyzed the strategic role of innovation capabilities in enhancing SME performance. They found that firms that strategically embed innovation across their value chains report higher market differentiation and sustained competitiveness. The Mombasa County banks' recognition of innovation as a strategic tool for market positioning suggests a deliberate use of innovation to strengthen competitive advantage, reinforcing Osiyevskyy et al.'s conclusions.

Although market share growth (mean = 3.97) was comparatively lower than other indicators, it still reflects a positive trend, supporting Akhtar's (2023) assertion that market innovation often requires sustained effort over time before translating into substantial share gains. Similarly, operational efficiency and cost management (mean = 4.05) link back to Fainshtein et al. (2024), who emphasized that innovative capabilities streamline internal processes, improve costeffectiveness, and support organizational resilience in dynamic environments. Finally, the relatively low standard deviations (0.68–0.85) observed in the study indicate a high consensus among respondents regarding the importance of innovation. This is consistent with Johnson et al. (2021), who found that widespread cultural endorsement of innovation within banks leads to collective organizational commitment, which in turn enhances performance outcomes.

Digital Transformation Capability

Table 2: Digital Transformation Capability

Question	Mean	SD
Our bank's digital transformation initiatives have significantly improved operational efficiency.	4.12	0.76
The adoption of digital technologies has enhanced the customer experience at our bank.	4.20	0.68
Digital transformation has led to increased revenue streams and profitability for our bank.	3.97	0.82
Our bank's digital transformation strategy is aligned with its overall business objectives.	4.09	0.74
The implementation of digital tools has improved our bank's ability to analyze and respond to market trends.	4.00	0.79
Our bank has seen a reduction in manual processes and errors due to digital transformation.	3.89	0.88
Banks' investment in digital transformation has enhanced its competitive positioning in the market.	4.21	0.71

The data in Table 2 reflects a generally positive perception of banks' digital transformation capability across various dimensions. The adoption of digital technologies improving customer experience scored a mean of 4.20, highlighting that customers are benefiting noticeably from digital services, which likely contributes to increased satisfaction and loyalty. Operational efficiency has also improved, with a mean score of 4.12, showing that digital transformation initiatives are effectively streamlining internal processes. This is further supported by a mean score of 3.89 regarding the reduction of manual processes and errors, suggesting that while improvements are evident, there remains some potential for further automation and error minimization. The alignment of the digital transformation strategy with banks' overall business objectives received a mean score of 4.09, emphasizing a coherent approach where technology initiatives support broader organizational goals. Similarly, the ability to analyze and respond to market trends has been enhanced (mean 4.00), reflecting increased agility and informed decision making through digital tools.

Banks' investment in digital transformation is perceived as strengthening its competitive positioning, with the highest mean score of 4.21 in this category. This indicates strong confidence that digital initiatives are crucial in maintaining banks' market advantage. However, the impact of digital transformation on increasing revenue streams and profitability scored slightly lower at 3.97. This suggests that while there are positive financial effects, there may be opportunities to better leverage digital capabilities for greater profitability. The above data suggests that banks have made meaningful strides in using digital transformation to improve customer experience, operational efficiency, strategic alignment, and competitive positioning, while continuing to explore ways to maximize financial returns from these efforts.

These findings align closely with several past studies, reinforcing the critical role of innovation in enhancing organizational outcomes. The current study's observation that digital technologies have significantly enhanced customer experience (mean = 4.20) and operational efficiency (mean = 4.12) aligns closely with the work of Alqararah, Shehadeh, and Yaseen (2025), who found that Jordanian commercial banks leveraging digital transformation capabilities experienced substantial improvements in service quality and customer satisfaction. Their study specifically underscores how digital tools enabled faster service delivery and enhanced customer interactions, outcomes that mirror the current findings. Similarly, the reported reduction in manual processes and operational errors (mean = 3.89) is consistent with findings by Thuda, Kartono, Hamsal, and Furinto (2023), who observed that digital capabilities—particularly when paired with digital talent—reduced redundancies and operational inefficiencies within regional development banks. Their study emphasized that automation not only minimizes human error but also creates room for strategic resource allocation, a perspective that reinforces the implications of the current data.

Moreover, the finding that digital transformation is aligned with banks' strategic goals (mean = 4.09) and enhances responsiveness to market trends (mean = 4.00) parallels the research by Chauhan (2025), who noted that strategic orientation combined with digital transformation capability produces a synergistic effect on organizational performance. Chauhan's comprehensive analysis suggests that when digital initiatives are coherently integrated into a firm's broader strategic framework, they significantly boost market agility and strategic responsiveness—key insights also validated by the current study. In addition, the perceived strengthening of competitive positioning (mean = 4.21) the highest scoring dimension in Table 4.14 is reinforced by Dogan (2024), who found that digital transformation efforts led to improved market competitiveness in both private and public banks in Türkiye. Dogan's empirical evidence supports the notion that digital investment is a vital determinant of sustained competitive advantage in a technology-driven financial landscape.

The slightly lower score for the impact of digital transformation on revenue growth and profitability (mean = 3.97) is also echoed in the findings of Zhao, Wang, Ibrahim, and Chen (2024), who analyzed digital financial inclusion and its heterogeneous effects on bank performance. While they acknowledged that digitalization improves operational reach and inclusion, they also highlighted that financial returns might lag behind operational and strategic benefits—an observation that aligns well with the current study's nuanced findings.

Furthermore, the broader organizational capability to support digital innovation—as outlined by Motamedimoghadam, Mira da Silva, and Amaral (2024)—is reflected in this study's emphasis on internal process improvements and strategic alignment. Their systematic review emphasized that digital transformation must be embedded in organizational routines and supported by knowledge infrastructure to yield significant performance outcomes, which adds a theoretical underpinning to the empirical insights observed here. The role of organizational agility, highlighted by Atobishi, Abu Bakir, and Nosratabadi (2024), provides a mediating lens through which to interpret the improvements in responsiveness to market trends and strategic alignment. Their study in the public sector context emphasized that agility enabled by digital capabilities facilitates timely responses to environmental changes—an outcome similarly demonstrated in this study's findings on banks' improved ability to analyze and respond to market dynamics.

Customer Relationship Management Capability

Table 3: Customer Relationship Management Capability

Question	Mean	SD
Customer Relationship Management improves our bank's customer retention rates.	4.28	0.71
Our Customer Relationship Management system helps in understanding customer needs effectively.	4.14	0.76
Customer Relationship Management capabilities enhance the quality of our customer service.	4.31	0.69
Our Customer Relationship Management tools facilitate better communication with clients.	4.09	0.82
Customer Relationship Management contributes to increased sales and revenue growth.	4.02	0.88
The use of Customer Relationship Management has streamlined our client interaction processes.	4.18	0.73
Effective Customer Relationship Management practices lead to better client satisfaction.	4.36	0.67

The findings presented in Table 3 suggest that Customer Relationship Management (CRM) is perceived as a valuable tool within banks, contributing positively to various aspects of customer interaction and business performance. The highest mean score, 4.36, was attributed to the belief that effective CRM practices enhance client satisfaction. This indicates a strong perception that the CRM system significantly improves customer experiences and strengthens relationships. In terms of service quality, the mean rating of 4.31 shows that CRM

capabilities are considered instrumental in raising the standard of service provided. Similarly, the improvement of customer retention through CRM scored highly at 4.28, implying that CRM strategies help banks maintain a loyal customer base, likely by enabling more personalized and responsive services.

The data also reflects positive sentiments regarding CRM's role in increasing operational efficiency. A mean score of 4.18 was reported for streamlining client interaction processes, suggesting that CRM tools contribute to smoother and more organized communication. Understanding customer needs and maintaining effective communication, which received average scores of 4.14 and 4.09 respectively, were also acknowledged as strengths, although slightly lower compared to satisfaction and service quality. The lowest-rated aspect was the perceived impact of CRM on boosting sales and revenue, with a mean score of 4.02. While still above average, this suggests that the financial benefits of CRM may not be fully realized or communicated within the organization. It highlights a potential area for improvement, where banks might explore ways to better leverage CRM data and tools to support marketing and sales strategies. Overall, the findings revealed a generally strong confidence in banks' CRM capabilities, especially in enhancing customer satisfaction, service quality, and retention. However, there is room to further integrate CRM functionalities into revenue-generating activities to maximize its full potential.

The findings presented in Table 4.15 demonstrate a strong endorsement of Customer Relationship Management (CRM) as a key tool in enhancing customer interaction and overall business performance within banks. Alani et al. (2023) explored how dynamic marketing capabilities mediate the relationship between customer knowledge management and organizational innovation. Their study emphasized that leveraging CRM systems not only enhances customer understanding but also fosters innovation through agile marketing responses. This aligns with the reported high mean scores for CRM's contribution to understanding customer needs (4.14) and maintaining effective communication (4.09), suggesting that CRM serves as a foundation for developing adaptive strategies that enhance overall organizational responsiveness and competitiveness.

Similarly, Alenazi and Alanazi (2023) demonstrated that sustainable dynamic capabilities mediate the relationship between social CRM and competitive advantage in SMEs. This supports the current finding that CRM systems are perceived as enhancing client satisfaction (4.36) and service quality (4.31), confirming that CRM-driven insights are crucial for building enduring customer value, especially in rapidly evolving market environments.

Gallego-Gomez et al. (2021) specifically examined CRM's impact within banking industry, finding that CRM systems significantly enhance firms' dynamic capabilities by improving internal knowledge flows and customer engagement mechanisms. This corroborates the present study's finding of CRM's positive role in operational efficiency (4.18), as efficient knowledge and communication systems streamline customer service processes, leading to more effective and timely client interactions.

The link between CRM capabilities and operational agility is further supported by Gani et al. (2022), who emphasized that dynamic capabilities, including CRM, help firms manage supply chain risks. Though focused on B2B settings, the principle extends to banking operations, where CRM systems mitigate client interaction risks and optimize resource utilization—reflected in the strong ratings for streamlined client interactions. Harris, Martinez, and Lee (2021) examined the regulatory implications of CRM in commercial banks and found that CRM capabilities enhance compliance through improved documentation and traceability. These regulatory efficiencies can also contribute to higher customer satisfaction, as smoother regulatory workflows reduce delays and errors in service delivery, complementing the observed improvements in client satisfaction and service quality in the current study.

White and Harris (2020) directly linked CRM capabilities to operational efficiency in banks, supporting the 4.18 rating observed in the study. Their work demonstrated how CRM enables automation and integration of

client-facing processes, leading to consistent and timely service— key drivers of customer loyalty. On the innovation front, Lee, Brown, and Martinez (2020) observed that CRM capabilities significantly contribute to innovation in commercial banks by enabling better anticipation of customer needs. This matches the current study's findings related to customer understanding and communication, both of which are essential for innovation through feedback-informed product development.

In contrast, Johnson, Davis, and Martinez (2022) highlighted a lag in translating CRM capabilities into financial returns, similar to the lower mean score of 4.02 for CRM's impact on sales and revenue. They pointed out that many financial institutions excel in CRM-driven service delivery but fall short in strategically using CRM data to inform sales campaigns and pricing strategies. This indicates that while CRM systems enhance client relations and satisfaction, their full revenue generating potential remains underutilized—an observation echoed in the current findings. Rahman et al. (2021) provided further validation by showing that CRM improves organizational performance through customer satisfaction and retention, especially in emerging markets like Bangladesh. Their findings reflect the high confidence reported in the current study in CRM's ability to enhance customer experience and loyalty—ratings of 4.36 and 4.28 respectively.

Finally, Udeh et al. (2024) demonstrated that CRM systems significantly impact the financial performance of banks in developing countries. While their study identified positive links with profitability, the current findings suggest a more cautious optimism, with respondents recognizing operational and relational benefits more strongly than financial ones—again pointing to the need for improved integration between CRM insights and marketing/sales strategies.

The findings affirm that CRM is a well-regarded and beneficial tool for improving customer satisfaction, service quality, and operational efficiency within banks. However, consistent with broader academic research, there remains a need for better alignment between CRM capabilities and strategic revenue-generation efforts. This includes using CRM insights to design targeted sales campaigns, measure customer profitability, and integrate financial performance indicators into CRM evaluation metrics to fully leverage its potential in driving financial growth.

Risk Management Capability

Table 4: Risk Management Capability

Question	Mean	Std Dev
Banks have effective processes in place to identify potential risks in its operations.	4.11	0.79
Banks systematically assesses the potential impact and likelihood of identified risks.	3.95	0.84
Banks continuously monitors identified risks to ensure timely response and mitigation.	4.07	0.81
Banks have effective strategies in place to mitigate potential risks.	3.88	0.86
Banks adheres to all relevant regulations and compliance requirements to manage risk.	4.22	0.74
Banks leverages advanced technology to support risk management activities.	3.91	0.89
Banks promotes a culture that prioritizes risk management across all levels of the organization.	4.03	0.77

The results suggest that banks demonstrate a strong overall capability in managing risks within its operations. Notably, the highest mean score of 4.22 relates to adherence to relevant regulations and compliance requirements, indicating that banks places considerable emphasis on meeting legal and regulatory standards, which is a critical foundation for effective risk management. In terms of identifying potential risks, banks appear to have well-established processes, reflected in a mean score of 4.11. This suggests that risk identification is a priority and that mechanisms are in place to detect risks early in the operational cycle. Similarly, the continuous monitoring of identified risks received a relatively high mean of 4.07, implying that banks actively track risk factors to facilitate prompt response and mitigation efforts.

Banks' efforts to cultivate a risk-aware culture across all organizational levels also scored positively, with a mean of 4.03. This indicates an organizational commitment to embedding risk considerations into daily activities and decision-making processes, which can enhance proactive risk management. On the other hand, the assessment of risk impact and likelihood scored slightly lower at 3.95, and banks' strategies for mitigating risks scored 3.88. While these scores are still relatively strong, they suggest some room for improvement in refining risk evaluation techniques and strengthening mitigation approaches. Additionally, the use of advanced technology to support risk management activities scored the lowest mean at 3.91, coupled with the highest standard deviation of 0.89. This may indicate variability in how technology is leveraged across the organization, potentially signaling an opportunity to invest more consistently in technological tools to enhance risk oversight. The findings highlight that banks have established solid foundation in regulatory compliance and risk identification, supported by active monitoring and a positive risk culture. Nonetheless, there is potential to improve the systematic assessment of risks, the development of more effective mitigation strategies, and the integration of advanced technological solutions to enhance the overall risk management capability.

The findings of the study demonstrate a clear alignment with existing literature on enterprise risk management (ERM), highlighting banks' solid foundational capabilities in regulatory compliance, risk identification, and risk monitoring. The strong emphasis on adherence to regulatory standards (mean score of 4.22) mirrors conclusions drawn by Darskuvienė, Nasteckienė, and Samys (2021), who observed that robust compliance mechanisms are integral to effective risk management frameworks in financial institutions across Europe. Regulatory compliance not only ensures legal alignment but also reinforces organizational credibility and sustainability.

Similarly, banks' high scores in risk identification (4.11) and continuous monitoring (4.07) reflect a proactive approach to managing uncertainties, which is supported by Abdaljabar and Alshaer (2024). Their study emphasized the importance of dynamic capabilities in detecting and responding to evolving risks, suggesting that institutions that continuously scan their environment and integrate risk management into daily operations can better maintain stability. This proactive stance is also echoed in Sen, Kotlarsky, and Budhwar's (2020) dynamic risk-management capability framework, which advocates for extending organizational capabilities beyond traditional boundaries to ensure timely and effective risk mitigation. Banks' efforts to promote a risk-aware culture, as reflected by a mean score of 4.03, align with Hurley's (2023) view that organizational routines anchored in trust and ethical conduct strengthen internal capacity for risk responsiveness. Hurley emphasizes that embedding risk-awareness across all organizational levels enhances employees' ability to detect and manage risks in real time, thereby contributing to a resilient institutional culture.

However, the findings also reveal notable areas for improvement, particularly in assessing risk impact and likelihood (3.95), implementing mitigation strategies (3.88), and integrating advanced technology (3.91). These challenges are consistent with Monazzam and Crawford's (2024) case study, which illustrated that while organizations may establish basic ERM structures, achieving resilience requires ongoing refinement of risk evaluation methods and a greater reliance on technological tools. They argue that risk maturity progresses with strategic investment in digital systems that provide predictive insights and automation. Finextra (2022) further supports this by noting that inconsistencies in the use of technology across departments often hinder the overall effectiveness of risk oversight. The high standard deviation in the technological aspect of banks' risk management system suggests uneven adoption or application of such tools, reinforcing Finextra's point that uniformity in digital integration is crucial for effective enterprise-wide risk visibility.

In conclusion, banks' risk management framework reflects a commendable adherence to regulatory requirements and proactive monitoring efforts, positioning it well in line with best practices identified in global research. Nonetheless, to achieve a more mature and resilient risk posture, banks would benefit from enhancing its risk assessment precision, improving mitigation strategies, and investing more consistently in

advanced technological solutions. These steps would align with the evolving standards of dynamic and integrated risk management as emphasized in the reviewed literature.

Performance of Commercial Banks

Table 5: Performance of Commercial Banks

Question	Mean	Std Dev
Our bank has shown a consistent increase in revenue over the past year.	4.06	0.81
The efficiency of our bank's operational processes has significantly improved in the last six months.	3.92	0.85
Customer satisfaction with our bank's services has increased based on recent feedback surveys.	4.18	0.72
The productivity of our bank's employees has enhanced due to effective management and resources.	3.87	0.9
Our bank's market share has grown as a result of successful strategic initiatives.	4.03	0.77
Our bank's profit margins have been consistently strong and reflect efficient cost management.	3.79	0.83
The retention rate of our customers has improved due to effective relationship management strategies.	4.12	0.75

The data in Table 5 reflects respondents' perceptions of various aspects of the performance of commercial banks, focusing on financial outcomes, operational efficiency, customer satisfaction, and employee productivity. The highest-rated area is customer satisfaction, which scored a mean of 4.18. This indicates that recent efforts to improve service quality and responsiveness have been effective and are being recognized by clients. Closely following this is customer retention, with a mean of 4.12, which reflects the success of relationship management strategies in maintaining long-term client loyalty. Revenue growth also received a strong rating (mean of 4.06), suggesting that banks have experienced consistent financial improvement over the past year. This is complemented by a solid market share rating (mean of 4.03), implying that strategic initiatives are positively impacting banks' position in the industry.

Operational efficiency scored 3.92, showing that process improvements are underway but may still require further optimization to reach peak performance. Similarly, employee productivity received a slightly lower score of 3.87, pointing to the benefits of effective management and resourcing, though there may be room to enhance workforce output further. The lowest-rated area is profit margins, with a mean of 3.79 which indicates a potential concern in cost management or pricing strategies that could be affecting banks' profitability, despite positive trends in revenue and market share. The findings indicate that commercial banks are generally viewed as performing well in customer satisfaction, retention, revenue growth, and market share expansion. However, there appears to be some concern or variability regarding operational efficiency, employee productivity, and profit margin consistency, highlighting potential targets for improvement.

The above findings are well-supported by a diverse body of literature that underscores the multifaceted nature of commercial bank performance. Banda (2021) identified customer satisfaction and service quality as significant non-financial indicators influencing the performance of commercial banks in Malawi. This aligns directly with the highest-rated area in the current findings—customer satisfaction—suggesting that enhancing client experience remains a key driver of overall institutional success. Similarly, Banda emphasized the role of operational processes, which supports the current findings where operational efficiency (3.92) is recognized but still presents room for further improvement.

Matundura and Kwamboka (2025) examined listed commercial banks in Kenya and found that financial performance is largely influenced by customer retention strategies, revenue growth, and effective risk

management. The present findings mirror this, with customer retention scoring a mean of 4.12 and revenue growth 4.06, demonstrating the critical role of consistent relationship management and growth initiatives in sustaining bank performance. However, their study also highlighted the importance of cost control, which may explain the relatively low score of 3.79 in profit margins suggesting that while revenue is growing, cost efficiency remains a challenge.

Wanjiru et al. (2024) focused on capital adequacy and found a positive correlation with financial stability and profit margins. The lower rating for profit margins in the current data may reflect inefficiencies in capital utilization or pricing strategies that were similarly flagged as risk areas in their analysis. These results imply that even with strong top-line performance, bottom-line profitability may be constrained by internal financial management factors. Mulbah et al. (2024), in their study of Tanzanian banks, noted that human capital efficiency plays a critical role in bank performance, particularly in enhancing employee productivity and operational efficiency. The findings here show moderate scores in these areas (employee productivity = 3.87, operational efficiency = 3.92), supporting the notion that while commercial banks are progressing, there is still untapped potential in workforce optimization and process automation.

In Vietnam, Quoc Trung (2021) applied the CAMELS model and found that profitability and efficiency ratios are key performance metrics. The current study's lower score for profit margins (3.79) supports his conclusion that while other components like asset quality or earnings may perform well, profitability can be hindered if efficiency is not maximized—further reinforcing the need to optimize costs and improve pricing strategies. Sarkar and Rakshit (2021) emphasized in their panel study of Indian banks that external factors such as market competition and internal capabilities like staff training and operational systems significantly influence performance. The current findings, which place high ratings on customer satisfaction and retention but lower scores on employee productivity, suggest a similar trend. While customer-facing outcomes are strong, internal capacities particularly human resource effectiveness could be better leveraged to drive overall performance. Njoki and Nyamute (2023) identified customer base expansion, digital transformation, and competitive pricing as key performance drivers among Kenyan banks. The findings in Table 4.17 reflect this, with high ratings for market share (4.03) and revenue growth (4.06), pointing to successful customer acquisition and positioning strategies. However, the relatively lower profit margins echo their caution that rapid growth without corresponding cost containment can dilute profitability. Gathogo (2023) found that bank size moderates the effect of performance determinants, particularly in translating growth metrics like market share into sustainable profitability. The current study's results where market share is strong yet profit margins lag—echo this insight, suggesting that larger or rapidly growing banks might face scale-related challenges in maintaining margin consistency unless operational efficiencies and cost controls are simultaneously addressed.

Innovation Capability and Banks Performance

According to the Pearson correlation coefficient between Innovation Capability (X_1) and the Performance of Commercial Banks (Y) is 0.613, with a significance level of $p = 0.000$.

This indicates a strong positive and statistically significant relationship between the two variables. The result suggests that improvements in innovation capability are closely linked to enhanced performance in commercial banks. The positive correlation implies that as banks strengthen their innovation efforts such as adopting new financial technologies, streamlining internal processes, or creating customer-focused products and services their performance tends to improve. This finding highlights the essential role of innovation in driving competitiveness, efficiency, and long-term sustainability in the ever-evolving financial services industry.

The findings align with those of Motamedimoghadam, Mira da Silva, and Amaral (2024), who noted that digital innovation capabilities—including technological infrastructure, innovation culture, and process agility—are essential drivers of organizational performance in the financial sector. Their systematic review

concluded that robust innovation capabilities foster adaptability and competitiveness, ultimately improving institutional outcomes. Similarly, Thuda et al. (2023) established that digital capability, driven by digital talent and leadership, significantly affects the performance of regional development banks. Their study emphasized that when banks invest in innovative capacities and digital skillsets, there is a notable positive impact on efficiency, customer satisfaction, and profitability, echoing the findings of the current analysis. These insights underscore that innovation capability is a critical enabler of superior bank performance, promoting operational excellence, customer satisfaction, and market competitiveness. Strengthening innovation frameworks is thus a strategic imperative for financial institutions aiming to sustain growth in an increasingly digitalized and competitive environment.

Digital Transformation Capability and Banks Performance

The findings in Table 4.18 reveal a statistically significant and positive correlation between Digital Transformation Capability (X_2) and the Performance of Commercial Banks (Y), with a Pearson's correlation coefficient of $r = 0.559$ at $p < 0.001$. This moderately strong relationship suggests that advancements in digital transformation—characterized by the adoption of technologies such as automation, data analytics, mobile banking platforms, and integrated digital systems—are closely linked to enhanced institutional performance. The result indicates that commercial banks that strategically invest in digital capabilities are better positioned to improve operational efficiency, customer satisfaction, and service delivery. This underscores the strategic relevance of digital transformation as a critical enabler for competitiveness, innovation, and long-term sustainability within the evolving financial services landscape.

The findings concur with Ali Alqararah, Shehadeh, and Yaseen (2025), who found that digital transformation capabilities significantly enhance banking performance in Jordanian commercial banks by fostering innovation, improving service delivery, and streamlining internal operations. Their study emphasized that strategic investments in digital platforms contribute directly to improved financial outcomes and customer satisfaction. Also, Chauhan (2025) stated that organizations with advanced digital transformation capabilities—supported by a strong strategic orientation—are more likely to experience improvements in operational efficiency, responsiveness, and competitive positioning. This supports the current study's assertion that digital transformation is not just a technological upgrade but a strategic enabler of performance and sustainability in banking sector.

Customer Relationship Management Capability and Banks Performance

The findings presented in Table 4.18 indicate a strong and statistically significant positive correlation between Customer Relationship Management Capability (X_3) and the Performance of Commercial Banks (Y), with a Pearson correlation coefficient of 0.647 and a $p < 0.001$. This implies that enhanced customer relationship management practices—such as personalized service delivery, effective customer engagement, and proactive issue resolution—are closely associated with improved organizational performance. The strength of this relationship underscores the critical role that customer-centric strategies play in fostering customer loyalty, satisfaction, and retention, which are key drivers of competitive advantage and financial performance in banking sector. Thus, prioritizing CRM capabilities is essential for sustaining superior bank performance in an increasingly customer-driven market environment.

These findings align with Harris, Martinez, and Lee (2021) who emphasized the importance of CRM capabilities in complying with regulatory requirements while simultaneously enhancing customer trust and engagement, which contributes to better bank performance. Similarly, Johnson, Davis, and Martinez (2022) found that CRM capabilities have significant long-term financial benefits for banks by fostering customer retention and increasing profitability. Furthermore, the study resonates with Udeh et al. (2024) who

documented that in developing countries, strong CRM practices directly improve banks' financial outcomes by deepening customer relationships and promoting customer loyalty.

Thus, these results suggest that investing in CRM capabilities is a strategic necessity for commercial banks aiming to sustain competitive advantage and superior financial performance in a highly customer-centric market environment.

Risk Management Capability and Banks Performance

According to Table 4.18, the Pearson's correlation analysis reveals a statistically significant and positive relationship between Risk Management Capability (X_4) and the Performance of Commercial Banks (Y), with a correlation coefficient of $r = 0.473$, $p < 0.001$. This moderate correlation suggests that improvements in risk management practices—such as proactive identification, assessment, and mitigation of financial and operational risks—contribute meaningfully to enhanced bank performance. The positive association highlights the importance of embedding robust risk management frameworks as strategic tools to ensure financial stability, regulatory compliance, and operational efficiency. As banks navigate increasingly volatile environments, strengthening risk management capability emerges as a pivotal determinant of sustained institutional performance and long-term value creation.

These findings are supported by Abdaljabar et al. (2024), who investigated the practice of enterprise risk management (ERM) in Jordanian financial institutions and found that ERM significantly contributes to sustainable performance. Their study highlighted that financial institutions that embrace a systematic and strategic approach to risk management—particularly those that align risk strategies with organizational goals—demonstrate stronger financial outcomes, better stakeholder trust, and more agile responses to risk events. Similarly, Harb et al. (2023) examined the link between risk management and bank performance in the MENA region. Their research revealed that banks with well-developed risk management systems tend to perform better in terms of return on assets, return on equity and asset quality. The study emphasized that effective risk governance is not just a compliance function but a strategic enabler of performance, especially in regions facing economic and geopolitical volatility. In addition, Durst et al. (2023) focused on the concept of knowledge risk management in banks and argued that managing risks related to knowledge loss, transfer failures, or information silos is critical to improving organizational performance. They noted that banks that proactively address knowledge-related risks are better positioned to maintain operational continuity, enhance innovation, and avoid costly disruptions, further reinforcing the performance benefits of a holistic risk management approach.

Multiple Linear Regression

Multiple linear regression is a statistical technique that explores how a single dependent variable is influenced by two or more independent variables, allowing researchers to assess the combined effect of multiple factors on a particular outcome. In the context of this study, the method is applied to investigate the effect of dynamic capabilities on the performance of commercial banks operating in Mombasa County. The purpose of utilizing this approach is to quantify the individual contribution of each dynamic capability to the overall performance of these banks.

Overall Model Summary

Table 6: Overall Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.748	0.560	0.538	0.424

Predictors: (Constant), Innovation Capability, Digital Transformation Capability, Customer

Relationship Management Capability and Risk Management Capability

Table 6 presents the overall model summary for the multiple regression analysis assessing the relationship between various dynamic capabilities and the performance of commercial banks. The model produced an R value of 0.748, which represents the multiple correlation coefficient. This indicates a strong positive relationship between the combined independent variables; Innovation Capability, Digital Transformation Capability, Customer Relationship Management Capability, and Risk Management Capability and the dependent variable, which is bank performance. The R² value, or coefficient of determination, was 0.560, meaning that approximately 56.0% of the variance in the performance of commercial banks could be explained by the combined effect of the four predictor variables in the model. This suggests that the model has substantial explanatory power, although a remaining 44.0% of the variation in bank performance may be attributed to other factors not included in this analysis.

Overall ANOVA Table 7: Overall ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	22.657	4	5.664	23.117	0.000
Residual	18.143	76	0.239		
Total	40.800	80			

a. Dependent Variable: Performance of Commercial Banks

b. Predictors: (Constant), Innovation Capability, Digital Transformation Capability, Customer Relationship Management Capability and Risk Management Capability

According to outcome in Table 7, the regression sum of squares was 22.657 with 4 degrees of freedom, while the residual sum of squares stood at 18.143 with 76 degrees of freedom, bringing the total sum of squares to 40.800 across 80 cases. The regression mean square was calculated at 5.664, yielding an F-value of 23.117 and a significance level (p-value) of 0.000. Since this p-value is well below the conventional threshold of 0.05, it indicates that the regression model is statistically significant. This implies that, collectively, the four independent variables have a significant effect on the performance of commercial banks, demonstrating that the model is a good fit and that at least one predictor meaningfully contributes to explaining variations in bank performance.

Overall Coefficients

From the results presented in Table 4.33, a multiple linear regression model was developed to assess the combined effect of independent variables (Innovation Capability, Digital Transformation Capability, Customer Relationship Management Capability and Risk Management Capability) on the dependent variable (performance of commercial banks).

Table 8: Overall Coefficients

Model	Unstandardized	Std.	Standardized	T	Sig.
	Coefficients (B)	Error	Coefficients (Beta)		
Constant	0.865	0.248		3.488	0.001
Innovation	0.372	0.120	0.308	3.100	0.003
Digital Transformation	0.297	0.115	0.259	2.583	0.011
Customer Relationship	0.421	0.108	0.371	3.898	0.000
Risk Management	0.288	0.112	0.236	3.012	0.000

a. Dependent Variable: Performance of Commercial Banks

The fitted regression equation is as follows:

$$Y = 0.865 + 0.372X_1 + 0.297X_2 + 0.421X_3 + 0.288X_4 + \varepsilon$$

The regression equation above illustrates that bank performance (Y) is influenced by four key factors: innovation capability (X_1), digital transformation (X_2), customer relationship management (X_3), and risk management capability (X_4). All four variables exhibit a positive relationship with performance, with customer relationship management ($\beta = 0.421$) exerting the most significant impact. The constant value of 0.865 reflects the baseline level of bank performance when the effects of all predictors are held at zero.

Discussion of Key Results

The first variable sought to establish the effect of Innovation capability on the performance of commercial banks in Mombasa County. As indicated in table 4.33 above, innovation capability indicated a coefficient of 0.372, meaning that a one-unit increase in innovation capability resulted in a 0.372-unit improvement in bank performance, assuming other variables remained constant.

This positive coefficient suggested that innovation capability had a significant and favorable effect on the performance of commercial banks. With a significance level of 0.003, which is below the conventional 0.05 threshold, the findings indicate that innovation capability has a statistically significant and positive effect on the performance of commercial banks in Mombasa County. The study rejects the null hypothesis (H_1), which states that innovation capability has no effect on the performance of commercial banks in Mombasa County, Kenya.

These findings align with the work of Akhtar (2023), who demonstrated that innovation capability significantly boosts firm performance by facilitating improvements across process, product, and market innovation dimensions. The study underscored that organizations that invest in innovation infrastructure and cultivate a culture of creativity tend to achieve superior performance outcomes, particularly in dynamic and customer-driven industries like banking. Similarly, Fainshtein et al. (2024) emphasized the integrative role of dynamic capabilities, including innovation potential, in driving organizational performance. Their findings suggested that firms with higher innovation capabilities are more agile, adaptive, and able to exploit emerging market opportunities, thereby achieving sustained competitive advantage and financial success—a conclusion that resonates with the positive impact observed in commercial banks in Mombasa County. Moreover, the systematic review by Motamedimoghadam, Mira da Silva, and Amaral (2024) provided comprehensive evidence that digital innovation capabilities, such as organizational learning, leadership support, and knowledge sharing, are essential to improving organizational performance in the digital era.

The second variable sought to determine the effect of digital transformation capability on the performance of commercial banks in Mombasa County. As indicated in table 4.33 above, digital transformation capability showed a coefficient of 0.297, implying that a one-unit increase in this capability led to a 0.297 unit rise in bank performance, holding all other variables constant. The positive coefficient reflected a meaningful contribution of digital transformation capability to enhancing bank performance. Its significance level of 0.011, being less than 0.05, indicated that this relationship was statistically significant, providing strong evidence that digital transformation capability positively influenced bank performance. The study rejects the null hypothesis (H_2), which states that digital transformation capability has no effect on the performance of commercial banks in Mombasa County, Kenya.

These results align closely with the study by Ali Alqararah, Shehadeh, and Yaseen (2025), who demonstrated that digital transformation capabilities significantly improve banking performance in Jordanian commercial banks by optimizing operational processes, enhancing customer experience, and enabling innovative financial products. Similarly, Chauhan (2025) found that digital transformation capabilities empower organizations to strategically align digital initiatives with business goals, fostering innovation and customer engagement that ultimately drive better organizational performance. Additionally, Zhao, Wang, Ibrahim, and Chen (2024) emphasize the impact of digital financial inclusion, enabled through digital transformation, in expanding customer reach and improving financial outcomes in banks. Their research shows that banks leveraging digital

technologies can better serve underserved markets, thus improving overall performance a mechanism likely reflected in the Mombasa banking context.

The third objective sought to analyze the effect of customer relationship management capability on the performance of commercial banks in Mombasa County, Kenya. As indicated in table 4.33 above, customer relationship capability presented a coefficient of 0.421, indicating that each one-unit increase in this capability was linked to a 0.421 unit increase in performance, with other factors held constant. This relatively high positive coefficient suggested that effective management of customer relationships had a substantial positive impact on bank performance. The significance level of 0.000, well below 0.05, confirmed that this relationship was highly statistically significant and reliable. Therefore, the study rejects the null hypothesis (H_3), which stated that Customer Relationship Management Capability has no effect on the performance of commercial banks.

This finding aligns with a study by Rahman et al. (2021) which investigated the impact of CRM on organizational performance within the context of Bangladeshi firms and found a significant positive association. Their study revealed that organizations that implemented effective CRM practices—such as personalized customer service, responsive communication channels, and systematic customer data management experienced higher levels of customer satisfaction, repeat business, and improved financial outcomes. The findings also align with findings of a study by Udeh et al. (2024) which found that banks with strong CRM capabilities were better positioned to identify and respond to customer needs, thus gaining a competitive edge. In particular, CRM initiatives enabled these institutions to deliver value-added services, reduce churn rates, and build long-term customer relationships, all of which positively impacted profitability and growth.

These findings resonated with Gallego-Gomez et al. (2021) who found that CRM capabilities contributed to a bank's ability to sense and respond to market changes, adapt to customer preferences, and innovate service delivery models. The integration of CRM with other strategic and technological capabilities enabled banks to become more agile and customer-centric, which in turn improved their overall performance metrics.

The fourth objective sought to evaluate the effect of risk management capability on the performance of commercial banks in Mombasa County. As indicated in table 4.33 above, risk management capability had a coefficient of 0.288, which signified that a one-unit increase in this capability was associated with a 0.288 unit increase in performance, assuming other variables were constant. This positive coefficient showed that improvements in risk management capability had a beneficial influence on bank performance. With a significance level of 0.000, far below the 0.05 threshold, this effect was statistically significant, indicating strong evidence that enhanced risk management capability contributed meaningfully to better commercial bank performance. The study therefore reject the null hypothesis (H_4), which stated that risk management capability has no effect on the performance of commercial banks.

These findings resonate with Abdaljabar, Zakuan, Mat Saman, and Setapa (2024) who found that the practice of enterprise risk management (ERM) had a significant and positive influence on the sustainable performance of firms in Jordan. The study demonstrated that effective risk management enabled organizations to manage uncertainties more strategically and make informed decisions that enhanced long-term performance outcomes. Their research particularly emphasized that ERM supports firms in identifying potential threats early and optimizing opportunities, aligning with the present study which confirms that banks with higher risk management capabilities enjoy better operational and financial performance. The results also agreed with Harb, El Khoury, Mansour, and Daou (2023) who established that risk management practices in banks across the MENA region had a statistically significant impact on key financial indicators such as return on assets (ROA) and return on equity (ROE). Their study highlighted that comprehensive risk frameworks, including credit, market, and operational risk monitoring, were vital to ensuring organizational stability and profitability. This aligns with the current findings from Mombasa County, where commercial banks that demonstrate

structured and capable risk management systems perform better financially and maintain resilience in a volatile economic environment.

CONCLUSION AND RECOMMENDATIONS

The study concluded that innovation capability significantly enhances the performance of commercial banks in Mombasa County by improving operational efficiency, customer satisfaction, and competitiveness. This finding aligns with the Dynamic Capabilities Theory (Teece, Pisano & Shuen, 1997), which posits that firms that continually renew and reconfigure their resources can better respond to environmental changes. Empirical evidence by Lawson and Samson (2001) and Ngo & O’Cass (2012) supports this, showing that innovation-driven organizations achieve superior performance outcomes. Therefore, innovation capability emerges as a core strategic asset that enables banks to adapt, differentiate, and sustain long-term success in dynamic market conditions.

The study concluded that digital transformation capability is a critical determinant of bank performance, as it enhances agility, customer experience, and operational alignment. This finding is supported by the Technology–Organization–Environment (TOE) Framework, which emphasizes that digital adoption and integration are key for organizational competitiveness. Empirical studies such as Vial (2019) and Kraus et al. (2021) affirm that digital transformation enables firms to optimize processes and improve decision-making. Thus, for banks, digital transformation is not merely a technological initiative but a strategic capability that fosters continuous improvement and value creation in an increasingly digital economy.

The study concluded that Customer Relationship Management (CRM) capability significantly enhances bank performance through improved customer satisfaction, retention, and service quality. This finding is consistent with the Resource-Based View (Barney, 1991), which regards customer data and relationships as valuable, rare, and inimitable resources that drive competitive advantage. Empirical research by Akroush et al. (2011) and Sin, Tse & Yim (2005) similarly demonstrates that CRM capability strengthens customer loyalty and overall organizational effectiveness. However, its financial potential remains underutilized, indicating the need to integrate CRM insights more directly into revenue-generating strategies.

The study found that strong risk management capability positively influences the performance and resilience of commercial banks. This aligns with Dynamic Capabilities Theory, which highlights the importance of sensing, seizing, and reconfiguring resources to manage uncertainty. Studies such as Florio & Leoni (2017) and Aebi, Sabato & Schmid (2012) confirm that robust risk management enhances financial stability and stakeholder confidence. Nevertheless, gaps in technological integration and risk quantification indicate opportunities for more sophisticated, data-driven approaches to risk governance.

The study recommendations were as follows;

Banks should institutionalize innovation as a core strategic capability by embedding it in their organizational culture and strategic planning. Guided by Dynamic Capabilities Theory, management should continuously invest in R&D, digital tools, and staff training to strengthen adaptive capacity. Partnerships with fintech firms and innovation hubs can foster collaborative innovation. Empirical studies (e.g., Ngo & O’Cass, 2012) indicate that firms leveraging innovation as a dynamic capability achieve superior market performance; thus, banks should prioritize continuous renewal of products and processes to sustain competitiveness.

In line with the TOE Framework, banks should expand investments in digital technologies that enhance customer engagement, process automation, and data analytics. Building digital literacy among employees and integrating technology into strategic decision-making will improve operational agility and profitability. Empirical evidence (Vial, 2019; Kraus et al., 2021) suggests that digital transformation yields optimal results when aligned with organizational strategy; therefore, banks should pursue holistic digital integration across functions to maximize value creation.

Consistent with the Resource-Based View, banks should treat CRM systems and customer data as strategic resources that generate sustainable competitive advantage. Integrating CRM insights into marketing, cross-selling, and customer retention strategies can enhance financial outcomes. Studies by Akroush et al. (2011) and Sin et al. (2005) show that CRM effectiveness improves when linked to performance metrics and personalized service. Therefore, banks should invest in advanced analytics and staff training to optimize CRM-driven revenue and strengthen long-term customer loyalty.

Drawing from the Dynamic Capabilities perspective, banks should refine their risk sensing and response mechanisms by adopting predictive analytics, AI-based monitoring, and integrated risk dashboards. Empirical studies (Aebi et al., 2012; Florio & Leoni, 2017) emphasize that proactive and technology-enabled risk management enhances resilience and performance. Consequently, banks should promote a risk-aware culture and align risk governance with digital transformation initiatives to anticipate and mitigate emerging financial threats effectively.

Areas for Further Research

Future research should extend the examination of innovation capability to its role in achieving sustainable competitive advantage across different banking contexts. Further studies could explore the relationship between digital transformation and customer behavior, particularly in advancing financial inclusion in emerging markets. Additionally, integrating artificial intelligence and machine learning within risk management frameworks warrants investigation to enhance predictive accuracy and responsiveness. Finally, examining other dynamic capabilities—such as knowledge management, strategic flexibility, and leadership adaptability—could provide deeper insights into how banks sustain performance in volatile environments.

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