REVIEWED JOURNAL INTERNATIONAL of BUSINESS MANAGEMENT
ISSN 2663-127X

Vol. 7, Iss. 1 (2026), pp 132 –144, April 18, 2026. www.reviewedjournals.com, ©Reviewed Journals

IMPACT OF SERVICE INNOVATION ON THE COMPETITIVENESS OF COMMERCIAL BANKS IN MOMBASA COUNTY, KENYA

[1] Fenella Wakesho Mwamburi, [2] Clive Mukanzi, PhD, & [3] Scholastica K. Wamwayi, PhD

[1]MBA Candidate, Jomo Kenya University of Agriculture & Technology [JKUAT], Kenya
[2]Lecturer, Jomo Kenya University of Agriculture & Technology [JKUAT], Kenya

Accepted: March 30, 2026

DOI: https://doi.org/10.61426/business.v7i1.489

ABSTRACT

Strategic innovation has become central to competitiveness in banking as rapid technological change and growing pressure from financial technology firms reshape the industry. In Kenya, commercial banks continue to face operational inefficiencies and intense competition, increasing the need for effective service innovation. This study examined the influence of service innovation on the competitiveness of commercial banks in Mombasa County. It was guided by Innovation Diffusion Theory, Resource-Based View Theory, Strategic Alignment Theory, and Dynamic Capabilities Theory. The study adopted a cross-sectional survey design. The target population comprised 333 managers from 111 commercial bank branches in Mombasa County, including branch managers, customer service managers, and relationship managers. Using stratified random sampling, 135 respondents were selected. Data were collected through structured questionnaires and analysed using descriptive and inferential statistics. The findings showed that service innovation had a significant positive effect on bank competitiveness. The study concludes that when commercial banks adopt service innovations, they become more competitive by improving service delivery, strengthening customer satisfaction, and enhancing market differentiation. The study recommends that banks should strengthen digital service capabilities, improve customer-focused platforms, and build staff capacity to enhance service delivery and sustain competitive advantage.

Keywords: *Bank Competitiveness, Mombasa County, Strategic Innovation, Service Innovation*

CITATION: Mwamburi, F. W., Mukanzi, C., & Wamwayi, S. K. (2026). Impact of Service Innovation on the competitiveness of commercial Banks in Mombasa County, Kenya. *Reviewed Journal International of Business Management*, 7 (1), 132 – 144.

INTRODUCTION

Commercial banks worldwide were facing an evolving landscape marked by regulatory pressures, financial volatility, and technological disruption, all of which directly impacted their competitiveness and long-term sustainability. Traditionally, banks relied on interest income, physical branches, and conservative business models to sustain profitability. However, the emergence of financial technology firms, digital-only banks, and big tech players has intensified competition, reshaping how financial services are delivered (McKinsey, 2023). In response, many global banks have turned to service innovations to enhance operational efficiency, mitigate risks, and create superior customer experiences.

Key challenges included increasing compliance burdens under regulatory frameworks that have escalated operational costs (Hitachi Solutions, 2023). Simultaneously, cyber threats posed substantial risks, necessitating heavy investments in modern fraud detection, biometric authentication, and real-time risk monitoring (BankInfoSecurity, 2023). Furthermore, evolving customer preferences demanded seamless, omnichannel banking experiences. A recent survey by McKinsey (2023) revealed that 84% of banking executives consider innovation a key driver of future growth. Major institutions strategically embraced service innovations to maintain competitiveness, with banks like JPMorgan investing heavily in cloud migration and blockchain-based payments (JPMorgan, 2023), and others pursuing cloud-first strategies to scale digital operations (AWS, 2023). This underscored the hypothesis that service innovations were not merely a trend but a necessary adaptation for sustainable competitiveness.

The African banking landscape presented a unique interplay between financial inclusion, economic volatility, and regulatory evolution. While many African economies historically faced high levels of financial exclusion, service innovation, particularly in mobile banking and agency banking, has significantly expanded access to financial services. Mobile money platforms have revolutionized financial transactions, with Kenya's financial inclusion rate soaring from 26% in 2006 to over 84% in 2021 (OMFIF, 2023). African banks also contended with substantial structural challenges, including cybersecurity threats, high non-performing loan ratios, and inflationary pressures. Regulatory bodies across the region responded by tightening compliance measures and encouraging banks to enhance risk assessment models (CBK, 2022). Despite these challenges, banks that proactively adopted service innovations demonstrated superior resilience and growth. Digital-only banks in the region amassed millions of customers by leveraging digital identity verification and modern credit scoring (FinTech Africa, 2023).

Kenya’s banking sector was a case study in financial innovation, particularly in mobile banking and digital finance solutions. Over the past decade, technological disruptions have reshaped the industry, with mobile banking becoming the dominant channel for transactions. However, this transformation has not been without challenges, as banks contended with tightening regulations, economic uncertainties, and shifting customer expectations (CBK, 2022). Service innovations had been particularly crucial in Kenya’s banking evolution. The success of mobile banking platforms demonstrated the power of digital financial solutions in enhancing financial inclusion and operational efficiency. Banks processed a vast majority of their loans digitally, drastically reducing operational costs while improving accessibility (Equity Bank, 2023). Similarly, digital loan disbursements increased significantly following the launch of enhanced mobile platforms (KCB, 2023). Despite these advancements, the CBK’s (2022) report highlighted that the industry experienced dropping liquidity ratios, indicating financial pressures that necessitated innovative solutions.

In an increasingly dynamic financial landscape, strategic innovation, especially service innovation, presents an avenue that Kenyan banks could navigate for sustainable growth and competitiveness. The rapid proliferation of digital finance and the entry of non-traditional players demanded a more agile approach. Traditional banking models that relied solely on physical operations were increasingly becoming obsolete, with customers expecting real-time, personalized financial services across digital platforms (McKinsey, 2023). Regulated entities carry on banking activities as defined by the Banking Act (2004), and the industry comprises various institutions, including commercial banks, digital credit providers, and foreign exchange bureaus (CBK, 2023).

This study focused on commercial banks operating in Mombasa County, a key financial and trade hub. The region presented a unique competitive landscape where banks must innovate continuously to cater to a diverse clientele, namely corporate clients, small and medium enterprises, and retail customers. Given the economic significance of Mombasa, driven by port activities, trade, and tourism, the banking sector plays a crucial role in facilitating business growth and financial accessibility. Banks that fail to adapt to risk obsolescence, while those that embrace service innovations stand to secure long-term competitiveness and financial sustainability.

Statement of the Problem

Commercial banks are fundamental to Kenya’s economic growth, serving as key facilitators of business investment, trade, and employment creation. However, the sector is faced with intense competition from digital financial service providers, economic volatility, and rising regulatory constraints (CBK, 2022). While banks had historically relied on traditional strategies such as branch expansion, fee-based income, and interest margins, these models were increasingly unsustainable given technological advancements, changing customer expectations, and competitive pressures.

Several major competitiveness challenges threatened Kenyan banks. Fintech disruption and mobile money competition had intensified, with non-bank financial players, namely Safaricom’s M-Pesa, mobile loan apps, and peer-to-peer lenders, attracting millions of customers that previously relied on banks for financial services (OMFIF, 2023). Mobile money transactions in Kenya reached over Ksh 7.9 trillion in 2023, representing a massive volume of financial flow occurring outside traditional bank ledgers (CBK, 2023). The success of digital-only platforms suggested that traditional banks could consider innovating to avoid the risk of disintermediation. Rising non-performing loans and financial pressures also posed significant threats, as Kenyan banks’ NPL ratios remained high, with only marginal declines from 14.1% to 13.9% between 2021 and 2022, limiting credit expansion and revenue growth (KBA, 2022).

This persistent challenge indicated that conventional risk assessment models were insufficient, necessitating innovative service delivery models like modern credit scoring and advanced fraud detection. Additionally, operational inefficiencies and high cost-to-income ratios continued to hinder profitability, as many banks still relied on legacy systems and manual processes, leading to increased operational costs. The cost-to-income ratio of Kenyan banks surged to 74.1% in 2020 from 60.2% in 2019, highlighting a potential need for process automation and cloud-based service solutions (KBA, 2022). Furthermore, cybersecurity risks and fraud have escalated due to the increasing digitization of banking services, exposing institutions to data breaches and hacking attempts, requiring strategic investments in biometric security, real-time fraud monitoring, and modern service technology (BankInfoSecurity, 2023).

The significance of this study was further underscored by the fact that mobile money transactions in Kenya reached Ksh 7.9 trillion recently, signaling a major shift away from traditional banking (CBK, 2023). With over 90% of transactions now occurring digitally, banks might address their high cost-to-income ratios, which reached 74.1% in some years, by adopting the service innovations explored in this research to remain competitive against leaner, digital-only disruptors (PwC, 2023). While previous studies had examined product innovation, process innovation, market innovation, and managerial innovation (Jerop & Juma, 2014; Omai et al., 2018; Ouma et al., 2018; Asisi, 2023), there remained a critical research gap in understanding the specific role of service innovations, namely customer-centric digital platforms and digital financial inclusion strategies, on bank competitiveness.

The study hypothesized that service innovation could mitigate these challenges by improving operational efficiency, enhancing customer experience, and reducing risks. Given that banks in Mombasa County operated in a highly competitive financial environment, this research aimed to establish the extent to which service innovation influenced competitiveness in Kenyan commercial banks. Addressing this research gap provided actionable insights for banks seeking to leverage innovation to navigate emerging financial challenges and maintain market leadership.

LITERATURE REVIEW

Theoretical Review

The theoretical framework integrates two key theories, namely the Resource-Based View and the Strategic Alignment Theory, which align with the specific focus on innovative service delivery. The Resource-Based View theory, developed by Selznick (1957) and refined by Barney (1991), emphasized that firms achieved competitive advantage by leveraging valuable, rare, inimitable, and non-substitutable resources. In the context of service innovation, this theory highlighted how banks could develop unique capabilities, such as AI-driven financial advisory services, digital lending platforms, and blockchain-based transactions, to differentiate themselves from competitors. The theory suggested that banks with strong technological, human, and financial resources could create innovative service offerings that enhanced customer experience and satisfaction (Schroeder et al., 2002). For example, digital lending innovations like KCB M-Pesa and Equity Bank Equitel have revolutionized access to credit in Kenya. This demonstrated how leveraging internal resources enabled banks to develop competitive and scalable financial services. Thus, the Resource-Based View underpinned the core objective of assessing the influence of service innovation on bank competitiveness.

The Strategic Alignment Theory, formulated by Henderson and Venkatraman (1993), posits that the success of a firm depends on the alignment between its business strategy, IT strategy, organizational processes, and technology infrastructure. When applied to customer-centric service innovation, this theory highlighted the importance of integrating digital technologies with strategic business goals to enhance customer engagement. In banking, customer-centric innovations included personalized financial services, AI-enhanced customer interactions, and omnichannel banking experiences, all of which required strong strategic alignment between IT infrastructure and customer relationship management (Semler, 1997). For example, AI-driven credit scoring systems personalize loan approvals, improving customer satisfaction and retention. Banks that effectively align their customer engagement strategies with service innovation efforts gained sustainable competitive advantages. Therefore, the Strategic Alignment Theory provided a robust foundation for evaluating the role of customized, innovative services on the competitiveness of commercial banks in Mombasa County.

Empirical Review

Empirical literature shows that service innovation influences the competitiveness of commercial banks. In Mombasa, where banks compete with digital financial service providers, fintech firms, and mobile money operators, competitiveness can be assessed through market performance, financial performance, and operational efficiency. Together, these dimensions show how banks respond to competitive pressure while sustaining financial stability and customer loyalty.

Market performance reflects a bank's ability to attract and retain customers while expanding market share. Indicators such as deposits, loans, and transaction volumes show the bank's position within the sector. Competitive banks strengthen their customer base through digital banking platforms, strategic partnerships, and customer relationship management tools (Porter, 2011). Branch expansion and digital access also improve reach, especially where physical banking remains limited. In Mombasa, seamless digital banking has become essential for convenience and competitiveness.

Financial performance reflects a bank's ability to generate revenue, remain profitable, and manage risk effectively. Return on Assets (ROA) and Return on Equity (ROE) indicate how efficiently resources create value for shareholders (Bikker & van Leuvensteijn, 2024). Net Interest Margin (NIM) reflects lending and deposit pricing efficiency, while the Loan-to-Deposit Ratio (LDR) indicates liquidity management. In this environment, banks that diversify revenue through innovative financial products and digital lending gain a competitive edge.

Operational efficiency reflects how well banks deliver quality services at low cost. The cost-to-income ratio is a key measure, with lower ratios indicating greater efficiency. Banks improve efficiency through process automation, AI-driven transaction processing, and cloud-based systems that reduce costs and streamline service delivery (Mubarak et al., 2019). Faster transaction processing, reduced manual work, and stronger credit risk management further support competitiveness. Banks that combine innovation, differentiated services, and sound risk management are better positioned to outperform rivals.

Service innovation in banking involves improving financial products, digital services, and AI-enabled solutions to enhance customer experience and financial access (Kraus et al., 2019). As competition intensifies, banks must introduce innovative services to differentiate themselves from digital-only banks and fintech firms. Service innovation supports competitiveness through product differentiation, revenue diversification, and better customer experience. AI-powered advisory services, digital lending platforms, and personalized banking solutions help banks attract and retain customers (Faro et al., 2021). Real-time banking and omnichannel access also improve convenience and service quality. Digital lending platforms such as KCB M-Pesa and Equity Bank's Equitel have improved credit access while reducing processing time (Mubarak et al., 2019). Blockchain-based smart contracts also improve transaction efficiency and security by reducing paperwork and intermediaries (Tabrizi et al., 2019). Service innovation can be measured through customer satisfaction, adoption of digital financial products, growth in digital lending, and service differentiation.

Prior studies support the link between service innovation and competitiveness. Yu Sheng and Ibrahim (2019) found that service innovation in Ghana's banking sector significantly improved customer satisfaction, trust, and loyalty, though weak digital integration limited adoption in some banks. Chemitei and Mukatia (2019) reported that digital product innovation in microfinance institutions in Nakuru contributed to firm survival and competitive advantage, although their study did not examine long-term sustainability. Matriano and Khan (2019) also found that banks in Oman that adopted AI-powered chatbots and real-time analytics experienced higher digital banking adoption, despite some customer resistance.

Service Innovation	→	Competitive Advantage of Banks in Mombasa, Kenya
▪ AI-powered customer service ▪ New credit, savings and investment products ▪ Personalized financial advisory services		▪ Market share ▪ Profits ▪ Product diversification ▪ Service Differentiation

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

This study adopted a cross-sectional survey design to examine how strategic technology-driven innovation practices influence the competitiveness of commercial banks in Mombasa County. A cross-sectional design was appropriate because it enabled the collection of quantitative data at one point in time and provided a practical basis for describing current conditions and testing relationships among the study variables (Creswell & Creswell, 2018; Kothari, 2004). The target population comprised branch managers, customer service managers, and relationship managers drawn from 111 branches of 38 commercial banks operating in Mombasa County. Using stratified random sampling across the three managerial strata, 45 branches were selected, yielding a sample of 135 respondents. Data were collected using self-administered structured questionnaires containing closed-ended Likert-scale items. A drop-and-pick-later approach was used, and follow-up through email and phone calls helped improve the response rate.

After collection, the data were cleaned to remove errors, inconsistencies, and incomplete responses, then coded and analyzed using SPSS version 25. Descriptive statistics, including means and standard

deviations, were used to summarize response patterns, while inferential analysis employed correlation and multiple regression to test the relationships between innovation practices and bank competitiveness. The estimated model was:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where Y represented the competitiveness of commercial banks, X1 represented process innovation, X2 represented service innovation, X3 represented customer-centric innovation, and X4 represented financial inclusion strategies. Although the full regression model included all four predictors, this article specifically reports the β2 coefficient for service innovation, while the remaining variables were retained in the model as control variables.

FINDINGS

These study findings are based on a response from 100 respondents. The descriptive statistics were presented first and then the hypothesis testing results.

Descriptive Statistical Analysis

This section presents the descriptive statistical analysis of the study variables based on respondents' perceptions. Descriptive statistics were employed to summarize the central tendency and dispersion of the responses, thereby offering a foundational understanding of the data distribution across key constructs.

The objective of the study was to determine the influence of service innovation on the competitiveness of commercial banks in Mombasa County. The objective's variable was measured using AI-powered customer service, new credit, savings, and investment products, and personalized financial advisory services. A five-point Likert scale was utilized to capture respondents' opinions, with the scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Each item score reflected the perceived level of agreement with the corresponding statement. The results were summarized in Table 1.

Table 1: Descriptive Statistics for Service Innovation

Statements	Mean	S.D
Our bank effectively uses Artificial Intelligence (AI) to enhance the efficiency of customer service	3.01	0.712
The implementation of AI technologies has significantly improved the quality of our bank's services	3.61	0.799
The bank provides valuable AI-enhanced financial advisory services to its customers	3.47	0.814
The availability of personalized financial advice has significantly improved customer satisfaction in our bank	3.28	0.834
Our bank offers innovative savings and investment products tailored to meet the evolving needs of customers	3.81	0.51
The introduction of new savings and investment products has contributed to increasing customer loyalty and engagement	3.71	0.847
Aggregate	3.482	0.753

The analysis of service innovation initiatives indicated that commercial banks recognized the role of innovative products and technologies in enhancing competitiveness, although the extent of impact varied across different areas. Respondents reported moderate agreement that the use of artificial intelligence (AI) improved the quality of services (Mean = 3.61; S.Dev = 0.799) and that AI-enhanced financial advisory services were available to clients (Mean = 3.47; S.Dev = 0.814). However, the effectiveness of AI in enhancing customer service efficiency was rated lower (Mean = 3.01; S.Dev = 0.712), suggesting that banks were at varying stages of AI integration, and further investment and training may be needed to fully leverage AI capabilities. While AI adoption existed, its current impact on operational efficiency in customer service may be modest. Banks needed to invest further in AI tools, training and integration to fully realize efficiency gains. AI technologies could enhance accuracy, speed, and reliability in service delivery, contributing to customer satisfaction and competitive advantage when implemented effectively. AI-powered advisory services could improve decision-making for clients, increase trust, and position banks as innovative service providers, and limited implementation may hinder full competitive potential.

The provision of personalized financial advice was moderately acknowledged as improving customer satisfaction (Mean = 3.28; S.Dev = 0.834). This indicated that while some banks delivered tailored services effectively, there was inconsistency across institutions. On the other hand, the introduction of innovative savings and investment products received higher ratings (Mean = 3.81; S.Dev = 0.510), and respondents agreed that such products contributed to increased customer loyalty and engagement (Mean = 3.71; S.Dev = 0.847). Personalized advice was key to client retention and satisfaction. Inconsistent applications may limit banks' ability to strengthen loyalty through innovation. Product innovation addressed evolving customer needs, increasing competitiveness by attracting and retaining clients in a dynamic financial market. Innovation in product offerings led to customer loyalty, strengthened market share and enhanced the bank's competitive positioning.

Overall, the aggregate effect of service innovation initiatives was positively assessed (Mean = 3.482; S.Dev = 0.753), demonstrating that innovation in AI applications, personalized financial services, and tailored product offerings collectively strengthened service quality, customer satisfaction, and loyalty. While AI-driven operational efficiency required further enhancement, these initiatives positioned banks to remain competitive in an evolving financial services environment, attracting and retaining clients through both technological and product-driven innovations.

The study's findings on service innovation revealed that commercial banks in Mombasa County recognized the strategic importance of AI-driven innovations, financial advisory services, and new credit, savings, and investment products in enhancing competitiveness. AI-driven innovations were acknowledged for improving the efficiency of customer service and streamlining operations. This aligned with previous research by Ramadani et al. (2019), who found that product and service innovation positively influenced firm performance, particularly in dynamic and transition economies. By integrating AI technologies, banks could automate routine tasks, reduce errors, and optimize service delivery, which enabled them to respond quickly to customer needs and market changes. Similarly, Alyahya'ei, Husin, and Supian (2020) highlighted that innovation significantly strengthened the performance of SMEs through enhanced operational efficiency, demonstrating the cross-sectoral relevance of technological adoption.

Financial advisory services also emerged as a key dimension of service innovation, with banks leveraging advanced tools to offer personalized and value-added advice. These services enhanced customer satisfaction, loyalty, and engagement, thereby contributing to competitive advantage. Findings in Ghana by Yu Sheng and Ibrahim (2019) supported this view, showing that service innovation improved service delivery, customer satisfaction and loyalty. Moreover, Chemitei and Mukatia (2019) emphasized that product and service innovations in microfinance institutions directly influenced organizational viability and profitability, reinforcing the role of innovative advisory services in strengthening competitiveness.

The introduction of new savings and investment products was similarly recognized as instrumental in diversifying offerings, meeting evolving customer needs and increasing market share. These findings echoed the results of Sukartini, Kencanawati, and Lasmini (2019) and Mbogori, Gichohi, and Moguche (2018), who reported that product innovation enhanced firm performance by responding to market demands, improving product quality and fostering customer engagement. Mwarenge and Kinyua (2022) also noted that microfinance banks that actively pursued product innovation could achieve significant improvements in operational performance and market positioning.

Overall, the study underscored that service innovation in the form of AI integration, financial advisory enhancements, and tailored savings and investment products strengthened operational efficiency, customer satisfaction, and market competitiveness. These results were consistent with global evidence from Malaysia (Kiumarsi et al., 2019) and Zimbabwe (Chivandi & Maziriri, 2020), which demonstrated that service innovation positively impacted customer loyalty, retention, and organizational performance. The findings suggested that banks that prioritized service innovation were better equipped to differentiate themselves, adapt to competitive pressures, and achieve sustainable growth in a rapidly evolving financial landscape.

The study also sought to establish the competitiveness status of commercial banks in Mombasa County. This was the study's dependent variable and was measured using, profits, market share, product diversification and service differentiation. A five-point Likert scale was utilized to capture respondents' opinions, with the scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Each item score reflected the perceived level of agreement with the corresponding statement. The results are summarized in Table 2.

Table 2: Descriptive Statistics for Community Development Initiative		
Statements	Mean	S.D
The bank has consistently achieved high profitability over the past three years	3.28	0.834
The bank's profit margins have improved due to technological innovations in recent years	3.4	0.925
The bank has introduced new financial products to meet diverse customer needs	3.61	0.799
Product diversification has contributed significantly to the bank's competitiveness in the market	3.76	0.845
The bank provides unique and differentiated services that set it apart from competitors."	3.43	0.764
The bank's service quality is consistently better than its competitors, contributing to customer loyalty	3.76	0.845
The bank has a growing market share in Mombasa compared to other banks	3.6	0.576
Market share expansion has been a major focus in the bank's strategic plan	3.57	1.009
Aggregate	3.551	0.825

The analysis of commercial banks' competitiveness in Mombasa County indicated a moderate to strong performance across key dimensions. Respondents moderately agreed that banks have consistently achieved profitability over the past three years (Mean = 3.28; S.Dev = 0.834), and that technological innovations had contributed to improving profit margins (Mean = 3.40; S.Dev = 0.925). These findings suggested that while banks maintained a reasonable level of financial stability, there was variation in perceptions of how effectively technology drives profitability. While profitability was moderate, consistent earnings provided financial stability, enabling banks to reinvest in innovation and expand services. Technological innovations contributed to operational efficiency and cost reduction, which enhanced competitiveness, though banks might still face challenges in fully leveraging technology.

Product and service innovation emerged as a critical competitive factor. Respondents agreed that banks have introduced new financial products to meet diverse customer needs (Mean = 3.61; S.Dev = 0.799) and that product diversification significantly contributed to competitiveness (Mean = 3.76; S.Dev = 0.845). Product diversification helped attract new customers, retain existing clients, and improve market relevance. It offers multiple financial solutions, differentiating banks from competitors and providing strategic advantages in market positioning.

Similarly, high service quality that fostered customer loyalty was recognized as a key strength (Mean = 3.76; S.Dev = 0.845), although the provision of uniquely differentiated services received moderate agreement (Mean = 3.43; S.Dev = 0.764), indicating potential areas for further enhancement. Maintaining superior service quality directly enhanced retention, satisfaction, and long-term competitiveness. Differentiation was key in attracting clients but some banks may need to enhance uniqueness to stand out effectively.

Market positioning and growth are also notable. Respondents agreed that banks have a growing market share in Mombasa (Mean = 3.60; S.Dev = 0.576) and that expansion of market share formed a strategic focus (Mean = 3.57; S.Dev = 1.009), highlighting the importance of strategic planning for competitive advantage. Increasing market share strengthened brand presence and provided leverage to invest in technology and service innovation. Strategic emphasis on growth supported long-term competitiveness, though consistent execution across all banks may vary.

Overall, the aggregate mean of 3.551 (S.Dev = 0.825) demonstrated that commercial banks in Mombasa exhibited moderate competitiveness, with strengths in product diversification, service quality, and market expansion, while opportunities remain to enhance differentiation and technological impact. Banks in the area were actively leveraging multiple strategies to remain competitive, but there was room to further strengthen differentiation, technological adoption, and market expansion to maximize competitive advantage.

The study's findings on the competitiveness of commercial banks in Mombasa County indicated that banks performed variably across measures of profitability, product diversification, service differentiation and market share. Respondents generally acknowledged that banks had introduced innovative financial products to meet diverse customer needs and that service quality contributed to customer loyalty and market positioning. Product diversification was viewed as particularly impactful, allowing banks to differentiate themselves and attract broader client bases, thereby strengthening competitiveness. Service differentiation was similarly recognized, with unique offerings and tailored customer experiences perceived to enhance client retention. Market share expansion also featured prominently, reflecting strategic efforts to capture a larger portion of the Mombasa banking sector. Overall, the findings suggested that commercial banks actively pursued strategies to remain competitive in a dynamic financial environment.

These results were largely consistent with extant literature. Performance-based measures, such as profitability ratios including ROA and ROE, were widely acknowledged as key indicators of bank competitiveness (Bikker & van Leuvensteijn, 2024). The study's findings on product diversification and service differentiation aligned with the literature emphasizing innovation and customer satisfaction as critical drivers of competitiveness (Anielak, 2018; Lutsenko, 2023). Similarly, efforts to expand market share echoed structural measures highlighted in prior research, including concentration ratios and market power assessments, which influenced competitive dynamics (Benzid & Chermat, 2023; Lutsenko, 2023). However, while the study focused on internal strategies and innovations, it did not directly measure efficiency-based metrics such as cost-to-income ratios or frontier analyses (Quaranta, Raffoni, & Visani, 2018), which the literature identified as crucial to understanding operational competitiveness.

Notably, the findings highlighted a proactive approach by banks in adopting innovations, which included digital and service-oriented strategies, to maintain competitiveness in a challenging environment. This is consistent with the literature emphasizing the role of technological adoption, product innovation, and customer-focused strategies as determinants of competitive advantage (Lutsenko, 2023; Anielak, 2018). At the same time, external factors such as regulatory frameworks, financial stability, and market conditions may influence the effectiveness of these strategies, underscoring the importance of contextual considerations in assessing bank competitiveness. The study therefore corroborated prior research while emphasizing the centrality of innovation and customer-centric practices in sustaining a competitive edge in the Mombasa banking sector.

Inferential Statistics

This section presents the inferential analysis of the relationship between bank competitiveness and the study variables. First, bivariate relationships were examined using correlation analysis. Second, the joint effects of the predictors on the dependent variable were estimated using a multivariable regression model. Although the full model included process innovation, customer-centric innovation, and financial inclusion strategies, this article specifically focuses on the coefficient for service innovation. The remaining variables were retained in the model as covariates to adjust for their influence and to estimate the net effect of service innovation on banks' competitiveness.

The correlation analysis showed that Service Innovation exhibited a positive and statistically significant correlation with competitiveness ($r = 0.544$, $p < 0.01$), which is considered a strong relationship. This suggested that banks which introduced innovative products and services, such as AI-driven solutions, financial advisory services and new investment products, were more likely to outperform competitors. Innovation improved value creation, service quality, and customer loyalty, aligning with extant literature on the positive impact of service innovation on firm performance (Yu Sheng & Ibrahim, 2019; Mwarenge & Kinyua, 2022).

The strong correlation emphasized the critical role of continuous innovation in sustaining competitiveness in Mombasa's banking sector.

Multivariable regression analysis was used to determine the influence of the independent variables as specified by the multiple regression model in the methodology. It was also used to determine how independent variables influenced the dependent variable collectively. Table 3 presents the model summary of the multivariate regression analysis. degrees.

Once the correlation among the variables was ascertained, the study proceeded to perform the multiple regression analysis, whose results are presented in Tables 3-5.

The correlation coefficient (R) was 0.634, indicating a strong positive relationship between the independent variables and bank competitiveness. This suggested that together, these organizational practices were closely associated with improved performance in terms of profits, product diversification, service differentiation, and market share.

The coefficient of determination (R^2) was 0.4019, implying that approximately 40.19% of the variability in bank competitiveness could be explained by the four predictors. This was a substantial proportion, indicating that these variables collectively had a meaningful impact on competitiveness. The adjusted R^2 of 0.3767 accounted for the number of predictors and the sample size, confirming that over 37.67% of the variation in competitiveness was attributed to these strategic innovations after adjusting for potential bias.

Table 3: Model Summary

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	.634a	0.4019	0.3767	0.306405

Table 4: ANOVA results determined whether the regression model was a good fit for the data.

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.994	4	1.4985	15.96115	.000b
	Residual	8.919	95	0.093884		
	Total	14.913	99			

a. Dependent Variable: Competitiveness of Commercial Banks in Mombasa County, Kenya

b. Predictors: (Constant), Process Innovation, Service Innovation, Customer-Centric Innovation, Financial Inclusion Strategies

The total sum of squares for the model was 14.913, of which the regression sum of squares was 5.994, while the residual (or error) sum of squares was 8.919. The mean square for the regression was 1.4985, and the mean square of the residuals was 0.093884. The model yields an F-statistic of 15.961 with 4 and 96 degrees of freedom and a p-value (Sig.) of .000, which was well below the conventional threshold of 0.05. This statistically significant result implied that the regression model provided a good fit and that collectively.

The multivariable regression analysis was conducted to assess the individual contribution of each independent variable, process innovation, service innovation, customer-centric innovation, and financial inclusion strategies on the performance of commercial banks in Mombasa, Kenya. Table 5 presents the unstandardized coefficients (B), standardized coefficients (Beta), t-statistics, and associated significance levels for each predictor in the model.

Table 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.175	0.418		2.8110	0.005
Process Innovation	0.199	0.079	0.221	2.5190	0.029
Service Innovation	0.431	0.117	0.386	3.6838	0.001
Customer-Centric Innovation	0.319	0.104	0.281	3.0673	0.002
Financial Inclusion Strategies	0.164	0.071	0.157	2.3099	0.022

a. Dependent Variable: Performance

The findings indicated that environmental sustainability practice had a satisfactory and considerable influence on the brand competitiveness in the telecommunication industry in Kenya ($\beta = 0.067$, $p< 0.05$). This infers that a unit increase in environmental sustainability practice resulted in a 0.067-unit improvement in brand competitiveness in the telecommunication industry in Kenya.

The findings revealed that Service Innovation emerged as the strongest predictor of bank competitiveness. The variable recorded an unstandardized coefficient (B) of 0.431, with a standard error of 0.117 and a standardized beta of 0.386. The corresponding t-value was 3.6838, and the p-value was 0.001, indicating high significance at the 1% level. This implies that AI-driven innovations, financial advisory services, and new savings and investment products are instrumental in differentiating banks and driving market competitiveness. The higher beta demonstrated that service innovation exerted the most pronounced effect among the studied predictors.

Table 5 shows that Service Innovation had the strongest positive effect on competitiveness ($\beta = 0.386$, $p = 0.001$), indicating that AI-driven innovations, financial advisory services, and new credit, savings, and investment products substantially improved customer satisfaction, differentiation, and market share. Hence, the study rejected the null hypothesis and concluded that service innovation was a critical driver of competitiveness. This finding aligned with Ramadani et al. (2019) and Alyahya'ei, Husin, and Supian (2020), who established that product and service innovation positively influence firm performance, and with Yu Sheng and Ibrahim (2019), who emphasized the role of service innovation in enhancing customer satisfaction and loyalty in the banking sector.

CONCLUSIONS

The findings revealed that service innovation is a critical driver of competitiveness for commercial banks in Mombasa County. AI-driven solutions, personalized financial advisory services, and innovative credit, savings, and investment products collectively enhanced service quality, customer satisfaction, and market differentiation. Among the predictors, service innovation exerted the strongest influence, highlighting that banks that strategically embed technological and product innovations are better positioned to attract and retain clients. The evidence underscores that innovation is not only a mechanism for operational efficiency but also a strategic tool for fostering customer loyalty, improving market share, and sustaining competitive advantage in a dynamic banking environment. Banks that underinvest in service innovation risk lagging more agile competitors. Thus, when commercial banks invest in service innovations such as digital platforms, customer-focused solutions, and staff capability development, they become more competitive through improved service delivery, stronger customer satisfaction, and greater market differentiation.

RECOMMENDATIONS

In Service innovation was identified as the most influential factor in bank competitiveness. Bank management should prioritize the deployment of AI-driven financial advisory services and personalized investment platforms to differentiate their offerings from competitors. Institutions should foster a culture of continuous research and development to launch innovative digital lending products that cater to evolving consumer financial needs. Regulators should develop guidelines that encourage the adoption of tailored financial products to enhance overall customer satisfaction and sector competitiveness.

REFERENCES

Adame, B. O. (2021). The Ethiopian telecom industry: gaps and recommendations towards meaningful connectivity and a thriving digital ecosystem. *Heliyon*, *7*(10).

Ahmed, R. R., Streimikiene, D., & Zheng, X. (2021). The impact of proactive environmental strategy on the competitive and sustainable development of organizations. *Journal of Competitiveness*, *7*(1), 6 – 11.

Anielak, K. (2018). *The impact of innovation on the improvement of the competitiveness of banks: An analysis of case studies*. *Ekonomia Międzynarodowa, 22*, 55–78. https://doi.org/10.18778/2082-4440.22.03

Asisi, G. I. (2023). *Strategic innovation and competitiveness of commercial banks in Kenya* [Doctoral thesis, Masinde Muliro University of Science and Technology]. https://ir-library.mmust.ac.ke/xmlui/handle/123456789/2695?show=full

Benzid, Y., & Chermat, I. (2023). Market concentration metrics and their impact on banking competitiveness: A comprehensive analysis. *Journal of Studies in Economics and Management, 6*(2), 371–387. https://asjp.cerist.dz/en/article/242598

Bikker, J. A., & van Leuvensteijn, M. (Eds.). (2014). *A new measure of competition in the financial industry: The performance-conduct-structure indicator*. Routledge.

Central Bank of Kenya. (2022a). *Annual report 2022*. https://www.centralbank.go.ke/uploads/cbk_annual_reports/319054182_2022%20Annual%20Report.pdf

Central Bank of Kenya. (2022b). *Bank supervision annual report 2022*. https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf

Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). Sage. https://edge.sagepub.com/creswellrd5e

Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Age International.

Lutsenko, D. (2023). *Competitiveness of the bank and ways to increase it* [Thesis, Vilnius University]. https://epublications.vu.lt/object/elaba%3A157963309/

Matriano, M. T., & Khan, M. F. R. (2019). Customer-centric innovation: Case of Oman entrepreneurship. *International Journal of Management, Innovation & Entrepreneurial Research, 5*(1), 33–39. https://doi.org/10.18510/ijmier.2019.515

Quaranta, A. G., Raffoni, A., & Visani, F. (2018). A multidimensional approach to measuring bank branch efficiency. *European Journal of Operational Research, 266*(2), 746–760. https://doi.org/10.1016/j.ejor.2017.10.009

Ramadani, V., Hisrich, R. D., Abazi-Alili, H., Dana, L.-P., Panthi, L., & Abazi-Bexheti, L. (2019). Product innovation and firm performance in transition economies: A multi-stage estimation approach. *Technological Forecasting and Social Change, 140*, 271–280. https://doi.org/10.1016/j.techfore.2018.12.010

YuSheng, K., & Ibrahim, M. (2019). Service innovation, service delivery and customer satisfaction and loyalty in the banking sector of Ghana. *International Journal of Bank Marketing, 37*(5), 1215–1233. https://doi.org/10.1108/IJBM-06-2018-0142