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Commercial Banks



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Product Innovation Strategy and the Competitiveness of Kenyan Commercial Banks

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ABSTRACT

Purpose: This study investigated the effect of product innovation strategy on the competitiveness of Kenyan commercial banks and was anchored on Schumpeter's Innovation Theory and the Value Innovation Theory,

Methodology: The study adopted a positivist philosophy and descriptive-correlational design. Primary data were collected from bank executives, complemented by secondary data from the Central Bank of Kenya.

Findings: Bivariate regression analysis established that product innovation strategy has a positive and statistically significant effect on competitiveness ($R^2 = 0.108$, $F(1,134) = 16.147$, $p < .001$). The results demonstrated that product innovation had a positive and statistically significant influence on competitiveness, indicating that banks that introduce new or improved products are more likely to achieve competitive advantage. The findings confirm that product innovation is a key lever of competitiveness, enabling banks to differentiate offerings, enhance customer satisfaction, and strengthen market position. The study recommends that banks invest in product development capacity while regulators create an enabling environment for innovative yet responsible product introduction.

Unique Contribution to Theory, Policy and Practice: This study contributes to knowledge by demonstrating that product innovation strategy significantly enhances the competitiveness of commercial banks. Theoretically, it extends Schumpeter's Innovation Theory and Value Innovation Theory to the context of emerging financial markets. From a policy perspective, it provides evidence for regulators to create frameworks that encourage responsible innovation while safeguarding consumers. Practically, it informs banking practitioners that investing in product development and innovative offerings is a strategic approach to achieving market differentiation, improved customer satisfaction, and sustained competitive advantage.

Keywords: *Product Innovation, Competitiveness, Commercial Banks, Kenya, Innovation Strategy*

Background of the Study

In the increasingly turbulent environment of financial services, product innovation has emerged as a key strategic mechanism for firms seeking to enhance competitiveness, sustain growth, and better respond to evolving customer needs (Akinwale, Adepoju & Olomu, 2018). Product innovation in the banking sector refers to the introduction and commercialization of new or significantly improved financial products and services including digital platforms, mobile loan products, tailored savings schemes, e-wallets, and integrated business finance solutions that offer enhanced value to customers and help banks differentiate themselves in competitive markets. The strategic importance of innovation stems from its ability to drive organizational adaptability in the face of technological change, shifting market demand, and intensifying rivalry from non-traditional financial firms such as fintech start-ups (Boateng, Osei-Bryson & Effah, 2022). Research shows that competition from these new entrants encourages incumbent banking firms to innovate more actively, adopting technological advances to maintain or improve their competitive position (Distanont & Khongmalai, 2020).

Globally, the financial sector has undergone rapid digital transformation in recent decades, driven by advances in information technology, widespread internet connectivity, and changing consumer behaviour. Digital technologies such as mobile banking, cloud computing, application programming interfaces (APIs), and artificial intelligence now underpin many product innovation strategies, enabling banks to streamline services, reduce transaction costs, and tailor offerings to specific market segments. In advanced economies, such innovations have not only improved operational efficiency but also contributed to deeper financial inclusion and enhanced customer experience. These developments have expanded the scope of innovation beyond traditional credit and deposit products to include sophisticated digital solutions capable of transforming value creation and delivery mechanisms within the financial sector (Tsai, Chen & Yang, 2021).

In emerging markets like Kenya, product innovation has taken on particular significance due to the intersection of rapid technological adoption, a youthful and digitally savvy population, and competitive pressures from fintech firms that leverage technology to deliver financial services in unconventional ways. The rise of mobile money platforms, digital lending services, and alternative credit scoring systems has reshaped how both consumers and businesses access financial services, compelling traditional banks to innovate or risk losing market share. Research in Kenya indicates that product innovation is regularly undertaken by commercial banks as a strategy to meet diverse customer demands, particularly in the areas of mobile and internet banking, new types of deposit accounts, and value-added credit facilities (Wamburi, Kibe & Yatich, 2024).

Despite this trend, empirical evidence about the extent and effectiveness of product innovation strategies in driving banks' competitiveness within the Kenyan context remains limited and somewhat fragmented. Whereas studies in other sectors and regions frequently report that product innovation enhances firm performance often measured in terms of profitability, market share, customer retention, and operational efficiency — similar robust empirical assessments specific to

Kenyan commercial banks are comparatively scarce (Tsai, Chen & Yang, 2021). Some studies focusing on financial performance or strategy implementation processes report positive associations between innovation and performance outcomes, but these findings are not yet wholly conclusive or generalizable across the sector (Doncheva, 2020).

In the Kenyan banking sector, commercial banks operate in a dynamic environment influenced by regulatory reforms, digital disruption, and changing economic conditions. Regulatory frameworks introduced by the Central Bank of Kenya have encouraged increased innovation to enhance efficiency, reduce costs, and improve financial sector stability. At the same time, consumer expectations have shifted towards faster, more accessible, and more personalized financial services, further elevating the strategic importance of product innovation. However, despite widespread implementation of innovative products, performance outcomes across banks have been inconsistent: some banks have successfully translated product innovation into competitive gains, while others have struggled to achieve significant improvements despite similar initiatives. This inconsistency suggests that product innovation's impact on competitiveness may be shaped by other organizational and environmental factors such as implementation capacity, institutional support, market segmentation strategies, and integration with broader strategic objectives (KNBS, 2023).

Scholars have also noted that, in financial services broadly, product innovation must be complemented by effective governance, risk management practices, and alignment with customer needs to achieve competitive advantage. While product innovation can improve customer satisfaction and operational effectiveness, it may also introduce new risks, such as cybersecurity vulnerabilities or operational complexities, underscoring the need for responsible innovation that balances growth imperatives with stability and consumer protection.

Collectively, these developments underscore the relevance of investigating the relationship between product innovation strategy and competitiveness in Kenya's commercial banking sector. Given the rapid evolution of financial technologies, competitive pressures from fintech firms, and heightened customer expectations for innovative services, understanding how product innovation influences competitive positioning and under what conditions is essential for both academic theory and practical strategy formulation. The current study therefore seeks to empirically assess this relationship, offering insights that can inform managerial decisions, regulatory frameworks, and future research on innovation in emerging market banking (Boateng, Osei-Bryson & Effah, 2022).

Statement of the Problem

Kenya's banking sector faces intense competition driven by fintech entrants, regulatory reforms, and shifting customer expectations. While many banks have launched innovative products such as digital loans, mobile apps, and tailored SME financing, performance outcomes remain inconsistent (CBK, 2023). Some banks record growth in market share, while others stagnate despite adopting similar product innovations (KBA, 2022). This raises the critical question, to what extent does

product innovation strategy influence competitiveness among Kenyan banks. Studies have shown that product innovation enhances customer loyalty, market share, and profitability in financial services (Mwangi, 2021; Ngeno, 2020). Previous studies in developed markets demonstrate a positive link between product innovation and firm competitiveness (Schumpeter, 1934; Rogers, 2003). However, empirical evidence in emerging markets, especially in sub-Saharan Africa, remains limited and fragmented. This study therefore sought to establish the effect of product innovation strategy on the competitiveness of commercial banks in Kenya.

Objective of the Study

- i. To assess the relationship between product innovation strategy and the competitiveness of Kenyan Commercial banks.

Theoretical Framework

Schumpeter's Theory of Innovation

Schumpeter (1934) and (1942) was among the first scholars to attempt to define Innovation under economic theory and entrepreneurship. In his earlier papers, he describes economic state of equilibrium for firms in a stable industry of routine economic activities, which is unsettled by the disequilibrium effects of innovation. The launch of new products and procedures, according to Schumpeter (1934), pulls economic systems away from equilibrium. In expounding the change from mundane economic growth to the dynamic economic expansion, Schumpeter introduced the concept of 'new combinations' referring to the introduction of a new product(s), new feature of a product, new production method, new market, new source of raw material supply. He further argues that innovation is establishing new production function that eventually leads to implementing new organization.

Kiveu, Namusonge., & Muathe (2019) argue that theory informs the various innovation strategies that a firm can use to generate value. This enhances firm's competitiveness as a firm innovating using these strategies can deepen their market share or venture into new market spaces created by the new combinations. The theory is relevant to this study in identifying innovation strategies that a firm can adopt to enhance their competitive advantage. It recognizes innovation strategies as the new production function and combinations that leads to a new organization.

Value Innovation Theory

Kim & Mauborgne (2004) socialized the concept of value innovation that emanated from their 1997 Harvard Business Review essay and later authored the book Blue Ocean Strategy in 2005. Value innovation is a strategic principle of "blue ocean strategy," a corporate approach that focuses on establishing new markets rather than fighting existing competition. Following that, Amit & Zott (2012) proposed value innovation theory, which describes a pursuit of both distinctiveness and relatively inexpensive strategies providing value for both the consumer and the organization.

Implementing Value Innovation faces some challenges especially for heavily regulated industries where a firm's options are limited, however, with a pragmatic eliminate-reduce-raise-create approach; a firm can identify innovative ways to beat competition. Zhang & Zhu (2022) uses Value Innovation Theory to study how business model innovation is promoted through social media strategic capability. Liao, Shu-Hsien; Kuo, Fang-I.; Ding, Li-Wen (2017) in their study on evaluating the effect of supply chain collaboration value innovation on competitive advantage found that the Taiwan Networking firms significantly improved their competitive advantage by using value innovation strategies. In their study, Kim & Mauborgne (2004) noted that Compaq were able to give users additional services space on their server product with twice the performance and a third of the price by adopting value innovation and hence stayed on top of the server industry.

The theory is relevant to this study in linking innovation strategies to firm's competitive advantage. It argues that a firm can not only eliminate the factors it competes on in the current market, but also create uncontested market space through simultaneous pursuit of innovation strategies that create value for both the customer and the business.

Innovation diffusion Theory (Roger 1962)

The Innovation Diffusion Theory (IDT) explains how innovations are communicated and adopted over time within a social system. It identifies five critical elements that influence the adoption process: (1) Innovation Characteristics (relative advantage, compatibility, complexity, trialability, observability); (2) Communication Channels (methods through which information flows); (3) Time (rate of adoption); (4) Social System (the norms and structure of the adopting group); and (5) Adopter Categories (innovators, early adopters, early majority, late majority, and laggards). The theory highlights that innovations diffuse more effectively when perceived as offering significant advantages, aligning with existing values and needs, and being relatively easy to understand and use. Adoption progresses as information spreads through effective communication channels and social structures.

Innovation Diffusion Theory provides a robust theoretical framework to examine how innovation strategies influence the competitiveness of Kenyan commercial banks. The theory's emphasis on the process of innovation adoption aligns well with the study's focus on understanding how banks integrate innovation into their strategies and operations to drive competitive advantage. By utilizing IDT, the study bridges the gap between innovation as a concept and its practical application in driving competitiveness within Kenya's banking sector. The theory helps frame the pathways and barriers to innovation adoption, ultimately guiding actionable recommendations for fostering an innovation-driven competitive edge. It helps assess how banks perceive the benefits and feasibility of adopting innovation strategies, such as marketing innovation, technological innovation, and process innovation, Examine how information about new strategies and practices is disseminated within and across banks, influencing adoption rates; Investigate how different bank tiers and leadership styles affect the pace and depth of innovation adoption. Analyze how social

and structural norms within banks enable or hinder innovation diffusion at organizational innovation strategy level.

Dynamic Capability Theory

Teece et al. (1997) developed the dynamic capacities theory in response to a significant weakness of the resource-based perspective of the company, which has been criticized for presuming resources and disregarding aspects surrounding resources. Dynamic capabilities take into account how resources are generated, integrated into the company, and used to gain a competitive edge. It is defined as the ability to develop, integrate, and reconfigure internal and external competences in order to respond quickly changing environs (Kiveu, Namusonge & Muathe, 2019). The theory is relevant to this study in linking innovation strategies to firm's competitive advantage. It argues that internal dynamic capabilities of a firm are rare innovation capability resources that a firm can give a firm a competitive advantage. It further argues that when a firm possesses rare resources and/or unique strategies that cannot be imitated by other firms, it has potential to compete and perform better than the other firms.

The McKinsey 7S Framework

Peters and Waterman (1980) developed the McKinsey 7S model/frameworks a strategic planning tool aimed at depicting how organisation effectiveness, performance and competitiveness can be achieved through the interactions of seven key elements/factors:(1) Strategy, (2) Structure, (3) Systems, (4) Shared values, (5) Style, (6) Skills and (7) Staff. A key note of the model is that all the seven elements are interlocked such that a change in one requires change in the other elements, for the firm to operate effectively. The framework argues that right alignment and fortification of these seven factors can help a firm gain competitive advantage and improve performance. The theory argues that, for a strategy to be competitive and yield desired results for the firm, it must be implemented well and in alignment with the other six elements of the McKinsey 7S model.

The model/framework is relevant to this study as it demonstrates the linkage between strategy and other organizational elements that enhance firm's competitiveness and performance. The framework can be used to determine how innovation strategies can be alignment alongside other firm elements to create and sustain competitive advantage. Chmielewska, Stokwiszewski, Markowska, & Hermanowski (2022) uses McKinsey 7S framework to evaluate the performance of public hospitals. Muigai, & Gitau (2018) used the McKinsey 7S Framework in their study on the effect of innovation strategies on the performance of banking industry in Kenya and found out that the model explained the linkage between the innovation strategies to other organization factors that enhance banks performance.

Trade theory of Competitive Advantage and Porters Diamond Model

The trade theory of competitive advantage developed in earlier years of 1990s by Michael Porter was the origin of explaining competitive advantage, albeit larger focus on national and country competition relative to another (Fagerberg & Srholec, 2017). Melitz (2003) seminal theoretical

model was the first formal adoption of empirical research on industry and firm level competitiveness. The economic and business literature like Falciola, Jansen, & Rollo (2020) recognizes and quotes that it is the firms, not nations, which compete in international markets and countries do not buy or sell goods overseas; companies do.

The theory and the model is relevant to this study as it points to the conditions or determinants that a firm can use to improve their innovation capabilities and subsequently influence the competitive advantage. Tsai, Chen, & Yang (2021) uses Porters Diamond Model to study competitiveness of Solar Photovoltaic Industry in Chung (2016) uses Porters Diamond Model to study the competitiveness of the logistics cluster among Asia Main Countries. Márkus (2008) used Porters Diamond Model to measure firm-level competitiveness for a 500-company sectoral representative sample and validated that the model provides a relevant framework to measure relative competitiveness of firms.

Conceptual Framework

Independent Variable

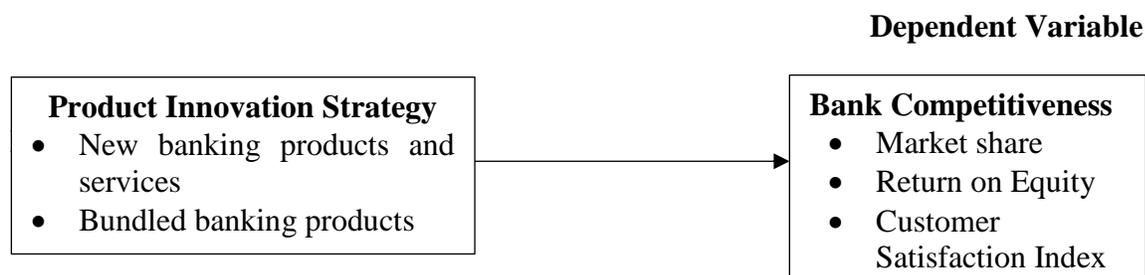


Figure 1: Conceptual Framework

Product Innovation Strategy

Product Innovation originated from Schumpeter's Innovation theory, as creation of novel or enhanced goods sellable on the market (Schumpeter, 1934). Product innovations provides the user with a novel functionality or existing functionality modified to perform in a new way (Mugendi, & Karugu, 2022). Product Innovation circles around differentiation of products as either new products or revamped product via quality improvements like packaging, branding etc. (Ebersberger, Herstadtr & Nordli, 2021). Fowinkel (2014) highlights that the concept of product innovation is wider and includes modifications in the consumption of a product or service in the market, use of new materials or new product development.

Studies done on the relationship between product innovation and firm's competitiveness indicate positive relationship with some indicating a significant correlation while others indicating non-significant correlation. Mugo, & Macharia (2021) found that product innovation has a positive significant effect on competitive advantage of Kenyan telecommunication companies, with a unit increase in product innovation resulting to 0.133 increase in the competitiveness. Research done by Mochama (2021) on Kenyan financial technology (fintech) companies found that, holding all

other factors constant, a unit increase in product innovation caused 0.123 positive effect on competitive advantage. Empirical studies in Kenyan banking found product innovation enhances competitiveness (Odhiambo & Anyieni, 2023; Trott, 2017). Asisi et al. (2023) found positive and significant effects in Tier 1 banks, while Matilda, Kerre, and Makau (2024) observed similar outcomes in Tier III banks. Mobile, internet, and agency banking products also boost financial inclusion, thereby strengthening competitiveness (Koori, Wanjiku, & Atheru, 2020).

In his research on Kenyan commercial banks, Kariuki (2017) found that, holding all other factors constant, a unit increase in product innovation increased competitive advantage by 0.579. Kiveu, Namusonge, & Muathe (2019) indicated that product innovation had positive non-significant effect on the Kenyan manufacturing firm's competitive advantage ($\beta = 0.19$, $p = 0.834 > 0.05$). Other studies by Obati. (2019), Mburu (2016) and Amboka & Ssemugenyi (2014) all indicate that product innovation is an independent variable that has positive effect on firm's competitiveness. However, product innovations may be easily replicated, limiting sustainable advantage (Sorescu & Spanjol, 2008). Over-proliferation can also confuse customers (Frame & White, 2014), while Laeven, Levine, and Michalopoulos (2015) caution that innovation costs can outweigh benefits for smaller banks.

This study considers Product Innovation as an independent variable for various reasons including: (1) Product Innovation resulting from product differentiation through modifications of existing product allows a firm to eliminate the factors it competes on in the market like price and hence attracting new customers or venturing into new market space. (2) Product innovation can result to new product in the market that opens a new revenue stream for the business and improve market share in the industry. By leveraging on product innovation, firms can introduce a new product in market that opens new market segment or targeting a different customer base and enhance its competitive advantage. Differentiation strategy is largely achieved through product innovation and directly influences firm's competitive position if customers accept the product. Consequently, we raise the hypothesis that product innovation has a positive impact on firm's competitive advantage.

Competitiveness

Firm's competitiveness is a multivariate construct including both financial and nonfinancial indicators and hence the variables should be measured in a co-joined manner Doncheva (2020), Maudos, (2017). Generally, superior market or economic performance are considered as the indicators of competitive advantages (Depperu, & Cerrato; 2005) with profitability being regarded as the most important metric for determining competitive performance. Profitability ratios can be used to gauge economic performance in the short term, while financial performance metrics such as Return on Assets (ROA), Return on Sales (ROS), Return on Investment (ROI), Value added per org employee, and others are employed in the long run. In a market or industry where products are largely homogenous, relative productivity and cost leadership are good indicators of competitiveness. The nonfinancial indicators of competitiveness mostly used are market share,

customer loyalty/satisfaction index, suppliers' loyalty, staff retention etc. as fronted by Doncheva (2020), Maudos, (2017), Depperu, & Cerrato (2005).

Market share

This is a relative indicator of firm's control of the market, usually measured as a percentage of the customer size, transaction volumes etc. relative to the industry total (Doncheva, (2020), Maudos, (2017), Depperu, & Cerrato, (2005). Since firms might chase market share at the price of profitability, the competitiveness indicator becomes skewed, evaluation should take into account both profitability and market share. A profitable market share should take into account a firm's market share while maintaining the industry profitability norm. Most of the studies have primarily used market share as the synthetic measure of competitiveness of firms. Kata (2012) measures the competitiveness of local banks using market share. The bigger the market share, the more competitive the firm is considered.

Return on Equity (ROE)

This variable indicates profitability as a factor of the equity investment to the business (Doncheva, 2020). Return on Equity (ROE) is an indication of the ability of the firm to satisfy shareholders and attract financial investment with sustained return to shareholder's value. It indicates how well the bank is utilizing its equity to generate profits for its shareholders. ROE is a widely used profitability metric in the banking industry because it provides insights into the bank's ability to generate returns for its shareholders relative to the equity invested. A higher ROE indicates better profitability and efficiency in utilizing shareholder funds. Muigai, & Gitau (2018) uses Return on Equity (ROE) to measure performance of banks and as an indicator of the competitiveness of the banks. Firms with high ROE compared to their peers are considered more competitive.

Customer Satisfaction

Customer satisfaction is a widely accepted non-financial indicator of firm competitiveness. It reflects how well a firm meets or exceeds customer expectations, which directly influences loyalty, retention, and long-term profitability. In banking, where products are often homogenous, superior service quality and customer experience become key differentiators of competitiveness. Higher satisfaction leads to greater loyalty, fewer defections, and increased referrals, all of which bolster performance (Mutambik, 2023; Tegambwage & Kasoga 2024).

Empirical studies show that higher customer satisfaction predicts stronger market share and profitability and is associated with repeat patronage and reduced switching costs. Wamburi, Kibe & Yatich (2024) found that customer intimacy strategies explained 67.5% of competitiveness variability among Tier III Kenyan banks ($R = .822$). Kenyan banking data confirms by KBA report highlights that poor service remains the top reason (47.3%) customers switch banks, ahead of high fees and weak digital capabilities. In Kenya, the Customer Satisfaction Index (CSI) by the Kenya Bankers Association (KBA) and Central Bank of Kenya (CBK) reports consistently link higher

satisfaction scores with stronger deposit growth and competitive positioning (KBA, 2020–2024; CBK, 2020–2024).

Thus, customer satisfaction is a robust and practical measure of competitiveness, complementing financial indicators such as ROE and market share by capturing the customer-driven dimension of competitive advantage.

RESEARCH METHODOLOGY

The study adopted a quantitative research approach, using survey data collected from innovation focused across commercial banks in Kenya. Competitiveness was operationalized through indicators such as market share growth, return on equity and customer satisfaction. Product innovation strategy was measured by examining the extent of new product development and rollout, customization of products, and value added services to improve existing offerings.

The research was anchored in a positivist philosophy, which emphasizes objectivity and the use of quantitative methods to test hypotheses. A convergent parallel mixed methods design was adopted, whereby both quantitative and qualitative data were collected concurrently, analyzed separately, and triangulated during interpretation. Quantitative data comprised structured survey responses and secondary data from the Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA), while qualitative insights were obtained from open-ended questionnaire responses.

The study population consisted of 199 bank executives drawn from the 39 licensed commercial banks in Kenya, representing the units of observation. A census approach was used, complemented by purposive stratified sampling to ensure adequate representation from each bank tier. The unit of observation was innovation-focused bank executives, while the unit of analysis was the individual banks categorized by tier. Respondents were executives directly involved in strategy, innovation, product development, operations, and ICT.

Data collection was undertaken using structured questionnaires as the primary source, supplemented by secondary data from CBK reports and annual publications from commercial banks. Data analysis involved descriptive statistics to summarize the sample (means, standard deviations, and frequencies), correlation analysis to assess relationships among variables, and simple linear regression analysis to evaluate the bivariate effect of product innovation on competitiveness. Results were presented in tables and regression models to ensure clarity and comparability.

Bivariate regression analysis was used to examine the direct relationship between product innovation and competitiveness. The model was specified as:

$$Y = \beta_0 + \beta_1 X, \text{ where}$$

Y = Competitiveness of the bank

X = Product innovation strategy

RESEARCH FINDINGS AND DISCUSSION

Descriptive Analysis

Product Innovation Strategy

The objective of this study was to examine how product innovation strategy influences the competitiveness of Kenyan commercial banks. Respondents were asked to indicate the extent of their agreement with various statements on a five-point Likert scale. The results show a high overall mean score ($M = 4.27$, $SD = 0.93$), with 85.4% of respondents agreeing that their banks had adopted key aspects of product innovation. This indicates that banks actively pursue initiatives such as introducing new products, enhancing existing offerings, and tailoring financial services to evolving market needs.

Table below shows that 78.0% of respondents agreed their banks frequently introduced new products ($M = 4.09$, $SD = 0.88$), while 84.7% confirmed regular introduction of new services ($M = 4.09$, $SD = 0.88$). A significant majority (94.9%) reported that banks continually improved the value proposition of products to sustain competitiveness ($M = 4.48$, $SD = 0.84$). Similarly, 91.5% highlighted the provision of value-added services ($M = 4.42$, $SD = 0.91$), while 89.8% agreed that bundled “one-stop shop” solutions were widely offered ($M = 4.31$, $SD = 1.00$). Further, 86.4% of respondents noted that new products and services introduced were superior to those of competitors ($M = 4.10$, $SD = 0.89$). A majority also agreed that bank size influences the ability to innovate ($M = 4.10$, $SD = 1.08$), and 89.8% confirmed that innovation has led to growing product penetration ($M = 4.29$, $SD = 0.95$). Collectively, 86.5% agreed that product innovation strategies have provided a competitive edge in the industry ($M = 4.42$, $SD = 0.97$).

These findings align with studies that emphasize the role of product innovation in enhancing competitive advantage through differentiation, customer acquisition, and retention (Odhiambo & Anyieni (2023); Mugo & Macharia, 2021; Kiveu, Namusonge, & Muathe, 2019; Trott, 2017).

Table 1: Descriptive Statistics for Product Innovation Strategy

S/No	Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation	SN
1	We frequently introduce new banking products to the market	1.69%	1.69%	18.64%	42.37%	35.59%	4.085	0.877	
2	We frequently introduce new banking services to the customers	1.69%	5.08%	8.47%	52.54%	32.20%	4.085	0.877	

3	The new products and services we introduce to the market are superior to the competition	3.39%	1.69%	8.47%	54.24%	32.20%	4.102	0.885
4	Our bank's size influences our ability to innovate our products	3.39%	6.78%	11.86%	32.20%	45.76%	4.102	1.078
5	We involve customers in the development of new products	3.39%	0.00%	18.64%	35.59%	42.37%	4.136	0.955
6	We offer bundled banking products to our customers as a package	3.39%	3.39%	8.47%	47.46%	37.29%	4.119	0.948
7	We offer our banking products under one roof (one stop shop) for our customers	5.08%	1.69%	3.39%	37.29%	52.54%	4.305	1.004
8	We offer value added services to our customers	3.39%	1.69%	3.39%	32.20%	59.32%	4.424	0.914
9	We frequently improve the value proposition of our products to the customers to sustain our competitiveness	3.39%	0.00%	1.69%	35.59%	59.32%	4.475	0.838
10	We apply agile product development methods	3.39%	1.69%	11.86%	30.51%	52.54%	4.271	0.980
11	Our products have a growing market penetration due to our innovations	3.39%	3.39%	3.39%	40.68%	49.15%	4.288	0.948
12	Our product innovation strategies give us better competitive edge in the industry	3.39%	1.69%	8.47%	22.03%	64.41%	4.424	0.969
	Average score	3.25%	2.40%	8.90%	38.56%	46.89%	4.2707	0.928

Competitiveness of Kenyan Commercial Banks

The descriptive findings demonstrated that respondents generally perceived their banks as competitive. Overall, 91.5% (M = 4.3447, SD = 0.4228) of executives agreed that their banks had delivered consistent performance over the past five years. Similarly, 89.8% (M = 4.390, SD = 0.670) confirmed that customer bases had grown, largely driven by innovative products and customer-centric value propositions.

Customer satisfaction and experience emerged as particularly strong indicators. Respondents rated customer satisfaction with their banks' products and services highly (M = 4.492, SD = 0.728) and confirmed that their offerings met customer needs better than competitors (M = 4.508, SD = 0.679). These results underscore the critical role of customer experience in sustaining competitiveness. Agility in translating new ideas into marketable products was somewhat lower but still positive

($M = 4.237$, $SD = 0.858$), suggesting that while banks innovate, not all innovations are rapidly commercialized. Talent competitiveness was also evident, with 81.4% ($M = 4.220$, $SD = 0.930$) affirming that their institutions could attract and retain top performers, while sustainable shareholder returns were endorsed by 88.1% ($M = 4.424$, $SD = 0.792$).

Table 2: Descriptive Statistics on Bank's Competitiveness

S/No	Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Deviation	SD
1	The bank has consistently delivered competitively favorable performance over the last 5 years	0.00%	3.39%	5.08%	40.68%	50.85%	4.390	0.743	
2	The banks customer base is consistently growing as a result of offering innovate products with compelling value proposition	0.00%	0.00%	10.17%	40.68%	49.15%	4.390	0.670	
3	The bank translates new ideas quickly into new products and services that meet customer needs	0.00%	3.39%	16.95%	32.20%	47.46%	4.237	0.858	
4	Our customers report high overall satisfaction with the bank's products and services.	0.00%	3.39%	3.39%	33.90%	59.32%	4.492	0.728	
5	Our products and service experience meet customers' needs better than competitors.	0.00%	1.69%	5.08%	33.90%	59.32%	4.508	0.679	
6	The bank has consistently offered sustainable shareholder returns over the last 5 years	0.00%	3.39%	8.47%	30.51%	57.63%	4.424	0.792	
7	The bank attracts and retains top talent in the market, that drives innovation and business performance	1.69%	3.39%	13.56%	33.90%	47.46%	4.220	0.930	
	Average score	0.24%	2.66%	8.96%	35.11%	53.03%	4.3447	0.4228	

Simple Linear Analysis

To determine the influence of product innovation strategy on the competitiveness of the Kenyan commercial banks, a linear regression was used and as shown in table the regression model was statistically significant ($r^2 = 0.108$, $p < 0.05$). This therefore implies that product innovation strategy positively and significantly influences the competitiveness of commercial banks in Kenya. The results further indicates that product innovation strategy accounts for about 10.8% of the variations observed in the competitiveness of commercial banks in Kenya.

Table 1: Regression Model Summary, Product innovation and competitiveness (all banks)

a) Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.328 ^a	.108	.101	.40092

a. Predictors: (Constant), Production innovation

b) ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.595	1	2.595	16.147	.000 ^a
	Residual	21.538	134	.161		
	Total	24.134	135			

a. Predictors: (Constant), product innovation

b. Dependent Variable: Competitiveness

c) Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.837	.377		7.532	.000
	Production innovation	.353	.088	.328	4.018	.000

a. Dependent Variable: Competitiveness

Based on the regression coefficients results in table 3c, the regression equation connection production innovation and competitiveness in the commercial banks therefore becomes:

$$Y = \beta_0 + \beta_1 X_1 + e$$

$$Y = 2.837 + 0.353X_1 + 0.088$$

Where: Y= Bank Competitiveness and X₁ = Product innovation strategy

The coefficient 0.353 implies that improvement in production innovation strategy by one unit will increase the competitiveness of commercial banks by 0.353 units.

Test for Hypothesis

The first objective of the study was to assess the relationship between product innovation Strategy and Competitiveness of Kenyan Commercial Banks.

Ho₁: Product Innovation Strategy has no significant role on the competitiveness of Kenyan Commercial Banks.

The regression model was statistically significant ($r^2 = 0.108$, $p < 0.05$). This therefore implies that product innovation strategy positively and significantly influences the competitiveness of commercial banks in Kenya.

CONCLUSION AND RECOMMENDATIONS

Conclusions

The findings reinforce theoretical arguments that product innovation is a cornerstone of competitiveness in dynamic markets. In the Kenyan banking sector, customers increasingly demand flexible, technology-enabled, and user-friendly financial products. Banks that deliver innovative offerings such as mobile-based credit products, tailored SME loans, and digital savings solutions gain a competitive edge through customer loyalty and increased market penetration.

However, the study also suggests that product innovation alone may not sustain competitiveness without complementary investments in technology, organizational efficiency, and customer-centric marketing. Replication of innovative products by competitors may diminish long-term advantage, highlighting the importance of continuous innovation cycles.

This study concludes that product innovation strategy significantly enhances the competitiveness of Kenyan commercial banks. By offering new and improved financial products, banks are able to attract customers, increase profitability, and strengthen their market position. Policymakers and industry leaders should encourage and support banks to invest in product innovation as a key lever for sustaining competitiveness in an increasingly disruptive financial landscape

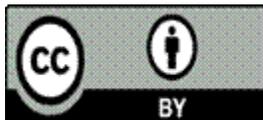
Recommendations

It is recommended that bank managers allocate resources to systematic product development processes and embed customer feedback into product design. Regulators, led by the Central Bank of Kenya, should balance consumer protection with the need to encourage innovation by streamlining approval processes for new products.

Future research should investigate the joint effect of product innovation with other innovation strategies like, technological, marketing, process and organizational innovation in competitiveness of Kenyan commercial banks. Additionally, a further study is recommended on the moderating factors such as bank size in shaping the relationship between product innovation and competitiveness.

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