STRATEGIC INNOVATION AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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MASTER OF BUSINESS ADMINISTRATION IN CORPORATE MANAGEMENT

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DECLARATION

Students Declaration

I attest that the accompanying dissertation proposal is all my own work and has not been published or submitted for credit elsewhere. Unless cited appropriately, I also affirm that it does not include any work by other authors or publishers

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed

Sign:  **Date: 27/10/2025**

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ABSTRACT

This study aimed to examine the impact of strategic innovation on the profitability of commercial banks in Kenya. Specifically, it focused on how technological innovation, business model innovation and market expansion influenced financial performance. The research was grounded in the Dynamic Capabilities Theory, Technology Acceptance Model, and Resource-Based View. A descriptive research design was employed, targeting all 42 commercial banks in Kenya, with 126 key participants drawn from the operations, finance, and marketing departments. A census sampling method was used. Data were collected through semi-structured questionnaires (primary data) and annual bank reports from 2019–2024 (secondary data), focusing on metrics such as ROE and ROA. Validity and reliability were ensured through expert consultation and pilot testing. Data analysis involved both descriptive and inferential statistics, and the results were presented using tables and graphs. The response rate was 77.8% of the respondents. The findings showed there is a significant positive trend towards business model innovation, technological innovation, while market expansion had moderate effect on financial performance of commercial banks in Kenya, business model innovation having the highest influence. The study recommends commercial banks in Kenya should intensify efforts to strengthen and scale up the adoption of business model innovations to enhance financial performance. Banks should further leverage data analytics and artificial intelligence to personalize services, improve decision-making, and expand financial inclusion. Future research ought to expand the scope beyond commercial banks to include other types of financial institutions such as microfinance institutions, SACCOs, and investment firms.

Key Words; Technological Innovation, Business Model Innovation Market Expansion, Financial Performance, Diagnostic Tests, Model fit

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DEDICATION

For the love and support they have shown me throughout my life, my proposal is dedicated to my parents.

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ACRONYMS AND ABBREVIATIONS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
ICPAK	Institute of Certified Public Accountants of Kenya
NSE	Nairobi Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment

OPERATIONAL DEFINITION OF TERMS

Business Model Innovation	refers to the steps taken to create, alter, or define the core elements and framework of a company model with the goals of providing novel value propositions, capitalising on unrealised market potential, and gaining a competitive edge (Anwar 2021).
Technological innovations	Make reference to the launch and deployment of novel systems, procedures, or technologies that significantly improve how businesses function (Azar & Ciabuschi, 2019).
Market Expansion	Is used to describe a corporate growth strategy in which organisations find new markets for their goods or services when there is no more opportunity to capture the markets that are already there (Ejike 2020).
Financial Performance	Gartenberg and Serafeim (2019) state that corporate financial performance over a given time period.
Strategic Innovation	Strategic innovation, as defined by Smolinski (2024), is the process of developing or modifying operational strategies with the purpose of gaining a competitive advantage and fostering the development of a firm.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Strategic innovation has emerged as a crucial lever for enhancing financial performance, especially within dynamic and competitive industries such as banking. Globally, strategic innovation involves rethinking business models, leveraging new technologies, and pursuing novel market opportunities to create value (Christensen, 1997; Markides, 1998). Smolinski (2024) defines strategic innovation as the development of new or enhanced operational strategies aimed at gaining competitive advantage and achieving scale. Similarly, Igbonaju, Liu, and Fang (2024) emphasize the role of strategic innovation in enhancing customer value and facilitating market expansion, both of which are essential for sustainable financial growth.

Strategic innovation has a foundational basis in theories such as the Resource-Based View (Barney, 1991), which posits that firms gain competitive advantage through unique, valuable, and inimitable resources—including their innovation capabilities. Teece (2010) reinforces this perspective by arguing that dynamic capabilities, such as the ability to innovate strategically, enable firms to adapt to volatile environments while maintaining superior performance. Porter (1996) further underscores that firms that fail to innovate risk obsolescence, especially in sectors with rapidly shifting competitive landscapes.

In the banking sector, strategic innovation has been instrumental in transforming financial operations through digital platforms, customer-centric services, and new product offerings (Gambal, Asatiani, & Kotlarsky, 2022). Banks that integrate customer insights with business strategy—an approach emphasized by Thakrak (2021)—are better positioned to offer differentiated services and remain financially viable. Strategic innovation also involves value innovation, as noted by Kim and Mauborgne (2005), where banks seek to create new markets through unique value propositions rather than competing in saturated ones.Across Africa,

banks are changing due to more people using fintech, updated regulations, and changing customer needs. Mobile money, digital wallets, and AI in banking are becoming more common, especially in Kenya, Nigeria, and South Africa. These changes affect how banking is done, pushing old-fashioned banks to come up with new ideas or risk becoming outdated.

New ideas include using mobile banking, easier digital sign-up, automatic credit scoring, and blockchain deals. These changes make banking run better, cheaper, and make customers happier, helping more people get access to banking, especially those who didn't have it before. Gambal, Asatiani, and Kotlarsky (2022) say that banks in Africa that don't use these new ideas may lose customers to newer fintech companies that can change faster to meet customer demands.

Kenyan banks face the same issues because of global changes, digital tools, and what customers want. But, it's not clear how much these new ideas affect how well banks do financially. Banks are using mobile banking, agent banking, and online loans, but there aren't many studies showing how new business models, technology, and reaching new markets affect bank profits. This study aims to address this matter by looking at how these innovation methods affect how well Kenyan banks do financially..

1.1.1 *Strategic Innovations*

Commercial banks implement strategic innovation through digital change, fintech partnerships, product diversity, and functional reorganizations (Lerner & Tufano, 2011; Chesbrough, 2003). Unlike other industries where innovation may focus predominantly on product development, banking innovation is largely centered on technological advancements, risk management, and regulatory compliance (Berger, 2003; Gopalakrishnan & Damanpour, 1997). Key innovations in the banking sector include mobile banking, blockchain integration, artificial intelligence-driven credit scoring, and robo-advisory services (King, 2013; Frame & White, 2004). Moreover, strategic innovation in banks must align with stringent regulatory

frameworks, cybersecurity concerns, and consumer trust issues (Claessens, Glaessner, & Klingebiel, 2002; Merton, 1995). Compared to manufacturing or retail sectors, banks face unique challenges in adopting disruptive innovations due to high compliance costs and the critical nature of financial data security (Beck, Demirgüç-Kunt, & Levine, 2006; Rajan & Zingales, 2003).

According to Christensen, Johnson, and Rigby (2002), banks must constantly evolve by integrating new technologies and redefining how they interact with customers. Barney (1991) and Prahalad and Hamel (1990) stress the fact that strategic innovations enable financial institutions to capitalise on their key capabilities, such as the reputation of their brand and the trust of their customers, in order to launch new goods and services that are tailored to the requirements of expanding markets. Porter (1996) emphasizes the importance of aligning strategic innovation with industry dynamics and ensuring that innovations comply with regulatory requirements while meeting evolving customer needs. Schumpeter (1942) further argues that disruptive innovations in banking are not just technological advancements but also involve new approaches to market positioning and resource allocation, which drive financial performance.

1.1.2 *Financial Performance*

According to the European Central Bank (2024), the performance of a bank is its ability to generate sustainable profits. Gartenberg and Serafeim (2019) also note that financial performance is the extent to which a company or business can effectively utilize its assets to achieve maximum revenues or income. Financial performance indicates the effectiveness of a business's assets to generate revenue within a profitable framework to create a competitive advantage (Bătae, Dragomir & Feleagă 2021). Okafor, Adeleye and Adusei (2021) state that financial performance indicates how well a firm utilizes its assets for revenue generation, which supports stakeholders in making decisions. In this research, the various definitions will

operationally define financial performance to implement the European Central Bank (2024) definition that it can indicate the overall financial health of the organization over a period of time.

Market share grows when innovative financial goods and services appeal to a wider audience (Barney, 2001; Peteraf, 1993). According to Zahra and George (2002) and Damanpour (1991), the process is often hampered by obstacles such as opposition to change, a lack of experienced workers, and large initial expenses. According to Zahra and George (2002) and Damanpour (1991), the absence of financial resources and trained human capital may create a considerable delay in the process of adoption and diminish the efficiency of attempts to innovate. According to Cohen and Levinthal (1990), effective integration of innovation methods needs congruence between the organization's goals and objectives. Nonaka and Takeuchi (1995) highlight the significance of a knowledge-creating culture in terms of its role in fostering innovation adoption.

Researchers and theorists have identified various measures of financial performance (Haniffa & Hudaib 2021). According to Kim, Yu, and Hassan (2019), important performance indicators do not only relate to ROA, firm size and returns on ROE) and ROS. ROA and ROE can among the most practiced and popular measurements of performance in relation to financial indicators. In general, indicators of financial performance were used only to determine whether people used their budget and/or placed orders, and indicators such as ROA, ROE, the balance of earnings per share and overall revenues were the measure of financial performance (Kemboi, 2022). However, the rapid growth of the financial sector has introduced other measures such as the adoption of new financial ratios and, financial benchmarks. In modern society, organizations are adopting various financial analysis approaches for the purposes of explaining financial performance (Malik, et al., 2021). In this study, financial performance will be

measured as a dependent variable, using profitability, return on assets and return on equity as indicators.

1.1.3 Commercial Banks in Kenya

Commercial banks are institutions that accept deposits from the public, provide differing levels of bank account services, provide loans, and contain fundamental financial instruments. The Kenyan government has established laws that govern the operational actions performed by financial institutions on a daily basis within the country and the Central Bank of Kenya (CBK) has proclaimed (published) its own enforcement of such rules in the industry. The Kenya Bankers Association (2023) describes there being 42 commercial banks as of 31st July, 2023 that are governed by the CBK within the banking sector in Kenya. The CBK report (2023) describes there being 3 tiers of commercial banks in Kenya; Tiers being determined by things like capital, net assets, reserves, client deposits, and the total accounts on which to make loans. The nine largest commercial banks account for 70.20 percent of the market, placing them in Tier 1. Tier 2 includes 10 banks that account for 21.24 percent of the market, and Tier 3 includes 21 smaller commercial banks that account for 8.50 percent of the market.

1.2 Statement of the Problem

The banking sector in Kenya has gone through substantial changes driven by strategic innovations, including agency banking, fintech partnerships, digital banking platforms, and diversification of products (Ndung'u, 2018; Mwega, 2016). Despite the level of innovation through the advancement of these innovations, the sector's financial performance has not performed uniformly, indicating a disconnect between those innovations and financial performance. As reported by evidence from the Central Bank of Kenya (2024), the return on assets (ROA), for instance, has remained static over the last five years, hovering between 4.0% and 4.7%. The return on equity (ROE) as well has dropped from 30% in 2020 to 24.7% for 2024. This experience shows an enduring gap between introduction of innovations and

realization of value. Certain banks like KCB and Equity banks, have succeeded to some extent in deploying mobile banking and online banking in their businesses, whereas others have found it difficult to fully cultivate technology into their operational (strategic) thinking (Laurencia & Riyanto, 2023). The case study of Equity Bank's Equitel demonstrates this problem: Equitel was initially successful, although it failed to meet its financial and strategic expectations, despite its early entry into the market and the initial capital invested, influenced by (1) regulation, (2) customer resistance, and (3) competition from Safaricom's mobile money - M-Pesa (Kapugama, 2019; Ndung'u, 2021).

These challenges suggest that the problem is not innovation, but instead how banks orchestrate and integrate innovative strategies internally. Various studies have examined innovation in sectors such as telecommunications, insurance, and manufacturing within the context of Kenya (e.g., Waithaka et al., 2021; Kanyuga, 2020; Pang et al., 2019), but few studies have investigated strategic innovation in the banking sector. Moreover, existing studies have generally examined innovation in isolation, either as technology or product innovation, and not as a holistic strategic capability that entails business model reconfiguration, market repositioning, and technological adoption. The depth of this problem is both empirical and conceptual, in that Kenyan banks continue to report variations in profitability despite the innovations that they adopt empirically, and conceptually, in our understanding of how strategic innovation informs realizable financial performance. This study attempts to reconcile the empirical and theoretical consequences of strategic innovation in the context of banking by examining strategic innovation as an integrated organizational capability and the influence of strategic innovation on financial performance in the context of Kenyan commercial banks. The results of the study will provide information and data for bank owners and executives, policymakers, and regulators as they seek to align their innovation strategies with the financial and competitive objectives of the growing banking context.

1.3 Objectives of the study

1.3.1 *General Objective*

The overall goal of the research was determine the effect of strategic innovation on financial performance of commercial banks in Kenya.

1.3.2 *Specific Objectives*

These particular goals served as the basis for the research;

i. To examine the effect of business model innovation on financial performance of commercial banks in Kenya.
ii. To determine the effect of technological innovation on financial performance of commercial banks in Kenya.
iii. To assess the effect of market expansion on financial performance of commercial banks in Kenya.

1.4 Research Questions

This investigation was based on the following research questions:

i. What is the effect of business model innovation on financial performance of commercial banks in Kenya?
ii. How does technological innovation affect financial performance of commercial banks in Kenya?
iii. To what extent does market expansion affect financial performance of commercial banks in Kenya?

1.5 Justification of the study

The study was justified on the basis that strategic innovation plays a critical role in enhancing the competitiveness and financial performance of commercial banks in Kenya. With the banking industry facing rapid technological advancements, increased regulatory requirements, and dynamic customer needs, banks are under pressure to adopt innovative strategies to remain relevant and profitable. By examining the effects of technological innovation, business model innovation, product and service innovation, and market expansion on financial performance, the study provided evidence-based insights into how innovation can be leveraged as a tool for sustainable growth. The findings therefore contributed to bridging the gap between theoretical perspectives on strategic innovation and its practical application in the Kenyan banking context.

Furthermore, the study was significant to policymakers, regulators, and practitioners in the financial sector. Institutions such as the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA) benefited from the study as it generated useful knowledge to guide regulatory frameworks and policy interventions that foster innovation-driven growth. For bank managers and executives, the study served as a benchmark for integrating strategic innovation into long-term strategies and daily operations, thereby improving financial performance, customer satisfaction, and resilience against external shocks. For scholars and researchers, the study added to the existing body of knowledge on strategic innovation and opened up new areas of inquiry for future research in emerging markets.

1.6 Significance of the study

The findings of the study was important to the following:

1.6.1 Government and policy makers

The Central Bank of Kenya was one of the government state departments that benefited from this study. Other policymakers who oversaw the operations of financial institutions, such as the KBA, also gained from the study since it offered insightful information and data that could improve regulatory frameworks, guide decision-making, and encourage the creation of more efficient banking procedures. The information from this study assisted these policymakers in implementing strategic innovation-related policies that enhanced the financial performance of these crucial organizations.

1.6.2 Management of commercial banks

In terms of establishing a benchmark for integrating strategic innovation into long-term strategy and daily operations, the study's findings were helpful to bank managers in the country. They boosted banks' competitiveness and financial performance while also supporting the development of closer relationships with stakeholders. Understanding how strategic innovation affected financial performance also encouraged managers to implement effective strategic innovation practices and supported banks' long-term sustainable growth, making them more resilient and adaptable in the face of adversity.

1.6.3 Scholars and Academicians

Because the study added to the existing knowledge on strategic innovation and financial success, the findings were highly relevant to academics and researchers working in the field. The understanding of the relationship between strategic innovation and the bottom lines of commercial banks was expanded, and new avenues for investigation were opened up as a result of this study. It also led to a better comprehension of effective strategic innovation in the banking industry.

1.7 Scope of the Study

The study adopted a mixed-methods approach, utilizing both primary and secondary data sources. Primary data were collected from senior managers, innovation officers, and strategy executives through structured questionnaires to gain insights into the design, implementation, and outcomes of strategic innovation initiatives. Secondary data were obtained from audited annual financial reports and CBK's banking supervision reports, covering the five-year period from 2019 to 2024. Key financial indicators analyzed included Return on Assets (ROA), Return on Equity (ROE), and Net Profitability, which were widely accepted as measures of financial performance. The scope was limited to strategic innovation dimensions relevant to the commercial banking context in Kenya, including technological innovation, business model innovation, product and service innovation, and market innovation. Microfinance institutions, Saccos, and non-bank financial institutions were excluded to maintain sectoral focus and regulatory comparability. By centering on this specific group, the study provided granular, sector-specific insights that informed strategic decision-making, policy development, and innovation management practices in the Kenyan banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this section of the study was to explore the correlation between strategic innovation and financial performance by reviewing the findings of previous studies in the field. A theoretical framework was presented in the first subsection, empirical data were examined in the second subsection, research gaps were identified, and a summary of the literature review was provided in the third subsection.

2.2 Theoretical Framework

The section examines the fundamental theories dynamic capabilities theory, TAM and and resource-based view.

2.2.1 *Dynamic Capabilities Theory*

Teece (1990)ut out this theory. Ambrosini and Bowman (2009) claim that Teece's (1990) work was the first to articulate the idea of dynamic capacities in a clear and concise manner. The author showed that RBV failed to propelry, indicating the strategy used by many successful companies to assume product innovation quickly, ensure flexibility, and have appropriate management coordinating and redeploying both internal and external talents (Teece, 2007). Due to the ever-changing environment, Teece (1990) asserts that strategic management, which is primarily concerned with adapting, reconfiguring, and incorporating resources of an organisation, both internal and external, in order to match dynamic market conditions, must be taken into consideration. Williamson (1999) also asserts that strategic management must be taken into consideration. According to Teece and Pisano (1994), a company's capacity to adapt, integrate, and reorganise its resources in response to a dynamic external environment determines its performance. Teece, Pisano, and Shuen (1997), on the other hand, describe

dynamic capabilities as an organization's capacity to adjust to a dynamic environment by enhancing, integrating, and reorganising its internal and external talents.

It has been argued that the theory is flawed for a variety of reasons, one of which is that the term "dynamic capability" is ambiguous (Arend & Bromiley, 2009). An argument against dynamic capacities has been that they are hard to measure experimentally (Ambrosini and Bowman, 2009). It has been argued that it is difficult to quantify both the underlying operational procedures and the relationship between dynamic capabilities and firm success. It is also challenging to quantify processes and routines that are ordinarily unique to businesses or parts of resource packages (Eisenhardt and Martin, 2000). There is a lack of a clear paradigm when it comes to the measuring of skills and the influence that they have on the performance of the company (Hedayati, Khalilzadeh, and Bahari, 2021). This theory is also criticised for being overly repetitious and for failing to sufficiently address dynamic capacities and how they function(Ambrosini & Bowman, 2009).

Applying the dynamic capacities theory to the question of how business model innovation affects the bottom lines of Kenya's commercial banks is a sound move. Teece, Pisano, and Shuen (1997) state that in today's fast-paced financial industry, commercial banks must constantly reinvent their business models to be competitive and financially stable. In Kenya, changes in tech, regulation, and what customers want are happening fast. Teece (2007) says that business model innovation (BMI) is a key skill that helps banks spot market changes, take chances, and change their assets to get better results. The idea of dynamic capabilities backs up the idea that BMI does this. By using this dynamic capabilities theory, people can see how BMI could improve a bank's financial performance. This theory gives a viewpoint that lets banks be more flexible, focus on customers, and be efficient. These are qualities that give banks a real edge in Kenya's banking world (Helfat et al., 2009).

2.2.2 *Technology Acceptance Model*

Davis offered backing for the Model in 1993. This model clarifies the factors influencing how users accept new information technology. The model includes two specific features that greatly affect how people feel about using tech and how they actually use it (Venkatesh & Davis, 2000). According to Cheung and Vogel (2013), the two variables that should be considered while deciding whether or not to adopt cutting-edge technology are the user's perception of the technology's value and the difficulty of using it. According to Davis (1989), when it comes to innovation, these two variables take into consideration how simple and helpful the new technology is for prospective buyers. Park, Nam, and Cha (2012) state that one way to show how much someone believes a framework will help them perform better is to utilise the idea of perceived usefulness. The characteristics that pertain to ease of use are the innovation's and the system's simplicity and comprehensibility (Venkatesh et al., 2003). In order to avoid implementation failure, resource waste, and sustainability issues, people must evaluate their attitudes towards the new information technology during the adoption process (Kim & Shin, 2015).

The Model has been criticised for a number of reasons, including the fact that the TAM only accounts for a small portion of the variables that could affect a person's decision to accept or use technology(Bagozzi, 2007). This model does not consider important things such as need, possible risks, and how society is impacted. Granič and Marangunič wrote in 2015, and Chuttur wrote in 2009, that the tech acceptance model is too simple and does not consider the social and mental factors that affect a person's choice to use tech. Some researchers also argue that the tech acceptance model is not a solid way to measure trends in adopting or using tech (Lee et al., 2003). Liu, Liao, and Peng (2005) state that the model does not really explain why some people who want to use tech never do. The tech acceptance model depends on people reporting things themselves, which can be skewed or wrong (Benbasat & Barki, 2007).

The tech acceptance model also helps figure out how tech changes affect how well Kenyan commercial banks do financially.Lee, Kozar, & Larsen (2003) TAM has been successfully used in organizational settings to predict the uptake of innovations, making it suitable for assessing the role of technological innovation in commercial banks. By understanding factors that influence technology acceptance, bank managers can design better training, communication, and system support strategies, which lead to higher technology adoption and better financial results (Chuttur 2009). Venkatesh and Davis (2000) in the banking sector, employee and customer acceptance of technologies affects system utilization, which ultimately impacts bank profitability and market competitiveness.

2.2.3 *Resource Based View*

Penrose (1959), Wernerfelt (1984) and Barney (1991) are the researchers who have made the most significant contributions to this resource-based perspective. This idea is used for assessing the value of the company's assets and how those assets affect the competitiveness of the business. The four theoretical pillars that support it are, according to Ireland, Ireland, the study of different talents; Ricardian and Penrosian economics; Michael et al., (2003) work on the anti-trust consequences of economics. Businesses are thought of as collections of resources in RBV (Wang, Senarathe & Rafiq, 2014). The theory lists certain characteristics of resources that the company should possess in order to obtain a competitive edge: non-substitutability, valuability, imitability, and rareness (Amit & Schoemaker 1993). A company that possesses a wealth of resources with all these qualities might use them to obtain a competitive edge. According to the notion, an organisation is made up of a variety of resources, such as people, money, and physical facilities (Priem & Butler 2001).

One drawback of RBV is that it is static, which means it can't explain how to maintain performance in a changing market (KRAAIJENBrink, Spender, and Groen, 2010). Teece (2010) argues that the RBV failed to adequately explain the ways in which certain successful businesses showcased quick and adaptable product innovation, lightning-fast response times, and the capacity of upper management to efficiently reorganise and repurpose internal and external competencies. Also, the RBV had no idea how certain companies showed such lightning-fast responses. Scholars of RBV have taken heat for allegedly arguing over the definition of crucial variables and concepts, which has led to inconsistencies in the theory's presentation (Bromley 2009). Those who support the RBV have also been criticised for not defining its basic structures well (Kraaijenbrink et al., 2010).

More especially, the hypothesis lends credence to the goal of ascertaining how expansion of the market affects the bottom lines of Kenya's commercial banks. One definition of competency offered by Dyer and Singh (1998) is an organization's skill in making good use of its resources. According to the Resource-Based Theory, a firm's ability to effectively package, manage, and deploy its strategic resources determines how well the organisation performs financially. Using existing resources when entering new markets is crucial, according to the RBV proposed by Kraaijenbrink, Spender, and Groen (2010). Businesses that consistently optimise and invest in their internal resources are better positioned to compete, which boosts their financial performance(Priem & Butler 2001). The capacity to complete a task successfully and efficiently is known as competence (Kraaijenbrink et al., 2010).

2.3 Empirical Review

The section provided a review on the related empirical studies according to the study’s variables.

2.3.1 Business Model Innovation and Financial Performance

Teece (2018) and Zott and Amit (2010) state that "Business Model Innovation" (BMI) is the method by which a company develops and implements new business models to enhance its internal value creation, delivery, and capture procedures. Teece argues that the key components of BMI include the following: customer segmentation, primary activities, revenue model, cost structure, partnerships, and value proposition (2010). Through creative combination of these elements, companies may gain competitive edge, improve operational effectiveness, and enter other markets (Chesbrough, 2010). Unlike conventional business models that concentrate on little changes, BMI entails basic changes in how companies run, present, and profit on their products and services (Chesbrough, 2010; Foss & Saebi, 2017). Bharadwaj et al. (2013) and Baden-Fuller & Haefliger (2013) both note that digital transformation is becoming an important factor in BMI. This is because it enables rethinking industrial structures. Modern technologies like blockchain, artificial intelligence, and big data may be used by companies via digital transformation. Acceptance of platform-based models, servitization, and subscription-based revenue streams has also been on the rise recently (Sorescu, 2017; Massa et al.). Though a lot of research has been done on the nature and forms of BMI, knowledge of the interaction between many kinds of BMI and their efficacy across various business environments is lacking (Spieth et al., 2014; Frankenberger et al., 2013).

In order to better understand the connection between body mass index (BMI) and financial performance, several theoretical views are helpful. BMI assists in the organisation of these resources in order to get the greatest possible financial outcomes (Barney, 1991; Helfat & Peteraf, 2003). The RBV asserts that businesses may gain a competitive edge by using certain internal resources. Based on Teece et al. (1997) and Eisenhardt and Martin (2000), Dynamic Capabilities Theory also proposes that businesses that consistently adapt their business models in response to changes in the market have a better chance of sustaining their

financial success. Schumpeterian Innovation Theory emphasises the disruptive character of BMI and argues that companies implementing drastic business model changes usually outperform rivals limited by inflexible systems (Schumpeter, 1934; Markides, 2006). In spite of the fact that these theories provide insightful analysis, real investigations sometimes discover that there is no causal relationship between BMI and financial success. Long-term and cross-industry studies are required (Foss & Saebi, 2018; Demil & Lecocq).

Creative business models are linked to better earnings, sales, and market worth (Zott & Amit, 2007; Bock et al., 2012), and research shows a positive link between business model innovation and financial success. For tech firms, digital business models lead to higher returns because of scalability and network effects (Sorescu, 2017; Wirtz et al., 2016). Likewise, research in industry and services points to the importance of process innovation for better efficiency and cost management (Cheng et al., 2014; Amit & Zott, 2012). Altering the main product can also boost customer retention and income by better serving customer needs (Chesbrough, 2010).Studies by Sosna, Trevinyo-Rodríguez, and Velamiri (2019) shown that companies adopting continual business model adaption attract bigger market sectors. Likewise, Amit and Zott (2012) showed that digital platforms using BMI such as e-commerce markets have been able to expand quickly and control their respective sectors. Some research, however, imply that business size, industry maturity, and regulatory environment all affect how BMI influences financial performance (Clauss, 2017; Foss & Saebi, 2018.). This discrepancy highlights a knowledge vacuum in the contextual elements influencing the BMI-financial performance correlation (Bouncken & Fredrich, 2016; Cortimiglia et al., 2016).

Although much research has been done on BMI and financial success, certain areas need for further investigation. Although artificial intelligence, blockchain, and the Internet of Things currently have little to do with affecting BMI (Bouncken & Fredrich, 2016; Clauss, 2017), emerging technologies Comparative studies spanning many industries and geographical

regions might help to better grasp how BMI influences financial performance under different market conditions (Foss & Saebi, 2018; Sorescu, 2017). Future research may also discover a wonderful route by include advances in sustainability-oriented company models and their consequences on long-term financial performance (Wirtz et al., 2016; Amit & Zott, 2012). Dealing with these gaps will improve the theoretical and practical knowledge of BMI's influence in promoting sustained financial success (Chesbrough, 2010; Teece, 2018).

2.3.2 Technological innovation and Financial Performance

According to Rogers (2003), technological innovation occurs when new or significantly enhanced products, services, or technology are introduced, which in turn makes them more efficient, standard, and competitive. According to Tushman and Rosenkopf (2017), businesses may innovate in three ways: by releasing new products or services; by improving current production processes; and by introducing new business models that provide value for consumers. Improvements to physical equipment, tools, and manufacturing processes were the mainstays of traditional technical innovation (Tushman & Rosenkopf, 2018). In contrast, modern technological innovations are driven by digital transformation, artificial intelligence (AI), and data-driven processes. Modern innovations evolve at an accelerated pace due to computing advancements (Christensen,2019). Industry disruptions and digital transformation have had a significant impact on technical innovation in the last several years, say Belhadi, Kamble, Fosso Wamba, and Queiroz (2022). The use of state-of-the-art technologies, especially AI and ML, could hasten the innovation and product development processes, say Davenport and Ronanki (2018). According to Financial Times (2024), technologies that are empowered with artificial intelligence improve market research, design, prototyping, simulations, and consumer personalisation, hence greatly optimising processes and efficiency. Davenport and Ronanki (2018) state that in order for businesses to remain competitive, they are required to innovate in response to industry disruptions, which are often brought about by

technology breakthroughs. On the other hand, the majority of research focus exclusively on technological innovation in developed countries, which leaves gaps in our knowledge of its influence on emerging areas (McKinsey, 2020).

The connection between technical innovation and financial success may be understood via a number of different theoretical dimensions. Technical innovation is seen by Wernerfelt (1984) as a crucial resource that enhances the capabilities of a company's internal processes, leading to competitiveness, according to the Resource-Based View (RBV). Improved operational efficiency, distinct products, and lower costs are the results. In addition, the Dynamic skills Theory proposes that in order for businesses to adapt to changes in their surroundings, they must continually transform and reorganise their resources, which includes their technical skills. 1997 publication by Teece, Pisano, and Shuen. In order for businesses to maintain a competitive edge, technological innovation helps them to recognise possibilities, grab those chances by investing in new technologies, and adapt their business models (Teece, 2018). Schumpeter's Innovation Theory of Creative Destruction, which was published in 1934, postulates that technical innovation breakthroughs upset current market structures, hence replacing obsolete company models with modern solutions that are both more efficient and inventive. This phenomena clarifies how companies using disruptive technical innovation such as digital payments and blockchain gain a financial advantage over conventional rival (Aghion & Howitt, 1992). There is a need to understand how technological capacities drive financial performance in many economic sectors (Eisenhardt & Martin, 2000). Empirical studies sometimes struggle to prove a causal relationship between technological innovation and financial performance, despite the insightful analysis offered by these theories.

Empirical studies of companies using creative technology have mostly shown enhanced efficiency, cost savings, and competitive advantages that translate into financial success (Brynjolfsson & Hitt 2000; Hall & Lerner, 2010). By combining outside ideas and

technological partnerships, Chesbrough (2023) showed that open innovation models enable companies to reach greater revenue growth. Analogously, companies with high absorptive capacity in technical innovation acquired a competitive edge and increased their market share, according to Cohen and Levinthal (2018). The kind of technical innovation a company uses determines its financial results greatly. Incremental innovation, which focuses on gradual improvements, leads to steady revenue growth and cost efficiency (Dosi,2016). On the other hand, radical innovation, such as the introduction of entirely new business models or technologies, often results in high financial rewards but comes with increased risks (Koech, 2024). Process innovation, including automation and lean manufacturing, has been linked to cost reductions and efficiency improvements, ultimately enhancing financial performance (Hammer,2022). A study on Tesla's electric vehicle technology demonstrated how continuous innovation in battery technology and autonomous driving contributed to its market dominance and profitability (Mangram, 2022). Similarly, In the pharmaceutical sector, Pfizer's investment in mRNA vaccine technology resulted in record-breaking revenue growth (Dolgin, 2021). The monetary effects of new technology like blockchain and quantum computing need more study (Kim & Min 2020).

A number of obstacles and restrictions reduce the efficacy of technical innovation, despite its widespread recognition as a critical driver of financial success. Many firms struggle with resistance to change, particularly in well-established industries. Hannan and Freeman (1984) highlighted those organizational structures and routines create rigidity, limiting the ability to adapt to technological advancements. Chesbrough (2010) noted that the financial burden of R&D, infrastructure, and talent acquisition can be a major deterrent for firms with limited resources. Blind (2012) found that firms in heavily regulated industries, such as healthcare and finance, face complex approval processes that delay technological deployment. Addictionally, Hall and Lerner (2010) pointed out that uncertainty in R&D outcomes

contributes to delayed financial returns, making it difficult for firms to forecast profitability. Investing in technologies that do not align with a firm's core competencies can lead to inefficiencies. Tripsas and Gavetti (2000) found that firms that fail to integrate new technologies with existing business models often struggle to extract financial value. The rise of digital transformation exposes firms to cyber threats. According to PwC's (2020) Global CEO Survey, executives rank cybersecurity as one of the top risks affecting digital investments. Deeper understanding could come from future studies looking at how industry-specific elements affect technological innovation outcomes. Davenport & Ronanksi, 2018; Davenport & Ronanki, 2018).

Future studies should focus on the function of digital technologies, comparative studies across sectors, and the long-term financial effect of sustainability-driven innovation (Brynjolfsson & McAfee, 2017; Iansiti & Lakhani 2017). To better understand how tech changes financial results in markets, look at different industries and places. Tech updates have varied financial results depending on company size. Small companies might have a hard time adopting these updates(Bouwman et al., 2018). Investments in things like renewable energy and environmentally responsible production can also make a brand look better and sell more. Sustainable tech progress can help companies last longer and perform better financially by cutting down on risks from using up resources and climate change and also increase revenue (Lo & Kwan, 2017).Dealing with these gaps will help to increase the theoretical and practical understanding of the impact of technology innovation in supporting sustainable financial success (Bouncken & Fredrich, 2016; Clauss, 2017).

2.3.3 Market Expansion and Financial Performance

Expanding into new markets is a crucial part of company growth since it increases market share and profits, which in turn drives industry expansion (Ejike 2020). Key components of market growth include doing market research, segmenting the target audience, adapting the marketing

mix, selecting an entrance technique, and assessing the associated risks (Wu, Wu, and Zhou, 2022). Segmentation and targeting allow businesses to identify the most suitable customer groups, ensuring that marketing efforts are directed effectively (Doyle, 2011). Traditional market expansion strategies primarily involved physical presence, partnerships, franchising, and mergers and acquisitions (Kotler & Keller, 2016). These conventional approaches often required significant capital investment, extensive supply chain networks, and a reliance on localized consumer behaviors (Porter, 1985). However, with the advent of digital transformation, modern market expansion has shifted towards leveraging technology, data analytics, and e-commerce platforms to penetrate new markets more efficiently and cost-effectively (Brynjolfsson & McAfee, 2014). The use of artificial intelligence (AI), big data, cloud computing, and digital marketing strategies has redefined how companies scale their operations (Westerman, Bonnet, & McAfee, 2014). Despite the significant advancements in digital transformation, gaps remain in understanding the interplay between market expansion and industry disruptions. Existing research has primarily focused on the technological aspects of digital transformation and its immediate benefits for market expansion (Bughin, LaBerge, & Mellbye, 2018).

The connection between market growth and financial success may be rationalised via a number of different theoretical perspectives. According to Wernerfelt (1984), market expansion is a strategic technique by which businesses may utilise their own resources and advance their financially successful endeavours. According to Teece, Pisano, and Shuen (1997), RBV's emphasis on utilising existing resources is expanded upon by Dynamic Capabilities Theory, which puts the spotlight on the firm's ability to adjust, combine, and rearrange resources in reaction to changing market circumstances. To maintain financial performance in demanding and uncertain markets, companies must have dynamic skills like supply chain agility, digital transformation, and customer interaction strategies as part of

market development (Helfat & Peteraf, 2003). Introduced by Schumpeter (1942), Schumpeterian Innovation Theory stresses the part that creative destruction where fresh ideas replace out-of-date technology, business models, and companies plays in upsetting current markets. Notwithstanding its importance, however, there are still gaps in knowledge on how companies in different sectors and countries use Schumpeterian innovation for financial development and expansion of their markets.

Empirical studies suggest that when companies grow their markets, their finances usually get better. This is often because they can produce goods more cheaply at a larger scale, which then improves profits overall (Johanson & Vahlne, 2015; Hitt et al., 2019; Gielens & Dekimpe, 2001). In banking, research indicates that banks that use digital ways to grow—like e-commerce and online platforms—tend to see their revenue climb faster than those that only grow in more traditional ways (Zhou, et al., 2019; Remirez et al., 2018). Similarly; Organic growth, through increased sales and customer acquisition, has been linked to stable long-term revenue generation (Penrose,2021). On the other hand, inorganic growth, such as mergers and acquisitions, often results in immediate financial performance improvements but can also lead to integration challenges (2023). Export market expansion has been shown to enhance firm resilience and long-term financial stability, particularly for manufacturing firms (Leonidou, Katsikeas, & Samiee, 2022). Bartlett and Ghoshal (2020) on McDonald's international expansion revealed how strategic franchising and localization efforts contributed to sustained revenue growth and global dominance. Similarly, Amazon's expansion into international e-commerce markets has significantly increased its revenue and market valuation (Chaffey, 2021). Several gaps still exist even with a lot of study on financial performance and market development. First, little research on the long-term viability of financial rewards from market growth (Ejike, 2020). Second, especially in developing

countries (Luvusi, 2020), more study is needed on how the rise of digital and technologically driven markets affects financial performance.

Though its potential advantages abound, market growth is hampered by various factors that reduce its financial effect. According to Peng et al. (2018), companies joining international markets can find complicated legal systems that impede seamless operations and entrance. According to otabe and Czinkota (2017), large capital needs can impede companies from effectively expanding their activities. Hannan and Freeman (2019) underlined that structural rigidity within companies might impede efforts at market development, therefore hindering adaptation to new markets. Companies entering new markets need long periods of adaptation before they can realise profitability and income development, according to Zahra and George (2022). Gielens and Dekimpe (2015) noted that the learning curve and high startup expenses of companies entering foreign markets may cause first financial losses. Product uptake may be limited by consumer tastes and cultural variations.

Companies entering international markets often face customer opposition and brand unfamiliarity, Czinkota and Ronkainen (2023) underlined. Lack of expertise in worldwide operations among Rugman and Verbeke (2024) companies might cause them to overreach resources, hence creating financial difficulty. According to Luo (2017), multinational companies can find unanticipated difficulties in politically unstable areas. Future research may examine how companies effectively negotiate regulatory complexity while growing globally (Remirez et al., 2018).

Though a lot of study has looked at financial success and market growth, certain issues call for further study. Emerging technologies include artificial intelligence, blockchain, and the Internet of Things still have little known influence on how markets grow (Ejike 2020; Remirez et al., 2018). Teece (2018) underlines that companies using digital channels may reach scalable growth while preserving financial sustainability. Comparative research across sectors and

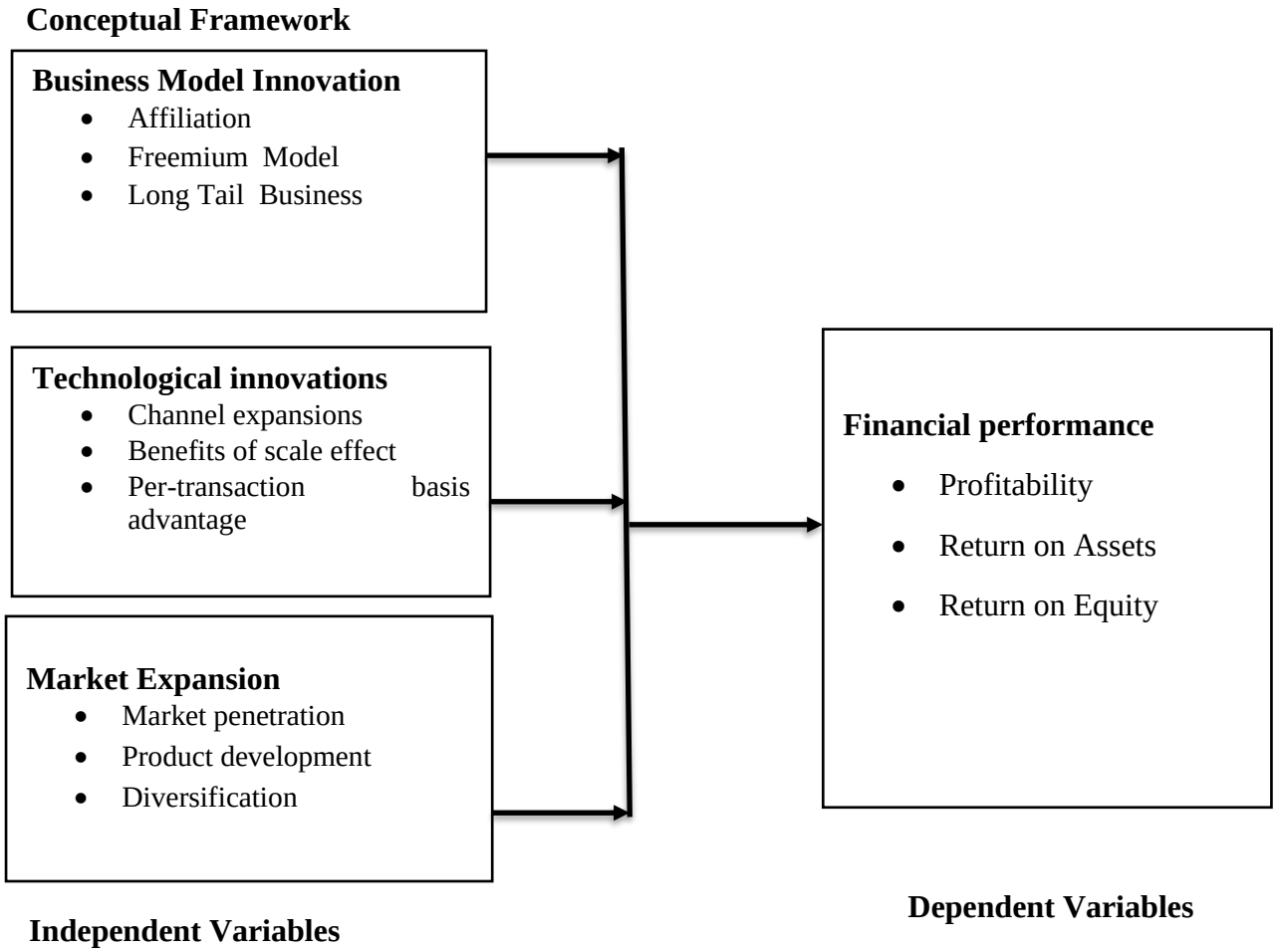
geographical areas should provide more light on how financial results vary depending on market development (Pisano, 2015; Porter & Heppelmann, 2014). Strategies for market growth vary in financial effects across companies and sectors. Furthermore, entering markets with environmentally friendly business models and sustainable goods may stimulate regulatory incentives and consumer loyalty (Schaltegger & Wagner, 2017). Sustainability-driven market expansion can enhance firm resilience against economic fluctuations, environmental regulations, and changing consumer preferences (Lo & Kwan, 2017).

2.4 Conceptual Framework

Figure 1 shows a conceptual framework that was created using the pertinent literature that was studied. It illustrates the connection between financial performance (a dependent variable) and several forms of strategic innovation (an independent variable).

FIGURE 1

Conceptual Framework



Source: (Author, 2025)

2.5 Operationalization and Measurement of Research Variables

The operationalisation of variables and their measurement methods are detailed in the previous section, as can be seen in Table 1.

TABLE 1

Operationalization of Variables

Variable	Indicators	Operational Definition	Measurement Scale
Business Model Innovation	•Affiliation •Freemium Model •Long Tail Business	refers to the process of creating, modifying, or defining the fundamental components of a business model in order to offer fresh value propositions, take advantage of unexplored market opportunities, and gain a competitive advantage.	Likert/ Interval
Technological innovations	•Channel expansions •Benefits of scale effect •Per-transaction basis advantage	Talk about the adoption and use of new methods, procedures, or technology that significantly improve how businesses function.	Likert/ Interval
Market Expansion	•Market penetration •Product development •Diversification	Refers to a corporate growth strategy in which organisations find new markets for their goods or services when there is no more opportunity to capture the markets that are already there.	Likert/ Interval
Financial Performance	Profitability Return on Assets Return on Equity	This is the measure of output in financial terms Profitability = Total revenue less total costs ROA= EBT/Total assets	Ratio

ROE=Net Income/
Shareholders Equity

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research approach, covering the study's design, participant details, sampling strategy, data collection methods, data analysis techniques, and how the research variables were defined and measured.

3.2 Research Design

The design employed in this study was a cross-sectional descriptive research design. Dannels (2020) stated that descriptive studies allow researchers to systematically characterize individuals or groups. The cross-sectional aspect of the study was warranted as the study intended to collect data from the participants at a single point in time to efficiently assess the existing relationship between strategic innovation and financial performance, without the influence of time on the relationship. The cross-sectional design allowed the researcher to capture a snapshot of existing practice and outcomes from various banks at the same point in time, as well as address compatibility between various banks when conducting settle case analysis. In addition, the cross-sectional design contributes to minimizing recall bias and reducing overall cost and time to longitudinal studies (Abutabenjeh & Jaradat, 2021). A cross-sectional design also makes quantifying data collection and analysis more feasible using either descriptive and inferential statistic, and can enhance the rigidity and reliability of findings (Burkholder & Crawford, 2018).

3.3 Target Population

Dahabreh and Hernán (2019) said the target population is just all the items or products you could sample for a study. Creswell and Creswell (2018) noted that it's very important to define

your target group in research. It makes sure your study results are relevant and can be applied more generally.

This research wanted to gather information from a sample that mirrored the whole population. The aim was to take a fraction of the population, the target group, and use their data to make bigger deductions about the society. Saunders et al. (2019) mentioned that picking and describing the study group carefully helps researchers lessen bias and make their results more widely applicable. So, the population this study looked at was all 42 commercial banks working and watched over in the country (CBK, 2024).

In total, 126 people took the survey. We watched and gathered data from workers in the Information Technology, Innovation, and Marketing departments. The study was aimed at managers, supervisors, and professional staff in these departments because they are heavily involved in planning, accepting, and putting in place new projects and tech. Table 2 displays that these people together were the target population for this study.

TABLE 2

Target Population

Category	**No of Management in each bank**	**Total**
IT department	1	42
Innovation department	1	42
Marketing Department	1	42
Total	**3**	**126**

Source: Researcher (2025)

3.4 Sample Size and Sampling Procedure

McMillan and Schumacher (2019) defined sampling as picking items or people from a bigger group. In banking, deciding on strategy wasn't just up to the IT, Innovation, and Marketing areas. Important people such as CEOs, COOs, CFOs, and Strategy Heads also had a big part in creating, agreeing on, and watching over the strategies. These leaders made sure what each section did matched the bank's total plan and lasting aims. What they said mattered to the study because they had wider views on using resources, handling risks, and matching rules.

Top managers also verified how plans turned into actions across areas. Section managers and workers shared details on doing the work. Senior leaders gave a higher-level view of how choices were made and how well the bank did. Mixing these views made the results more trustworthy and thorough.

For picking the sample, the study thought all Kenyan commercial banks had the Marketing, Finance, and Operations areas needed to make strategies work. The study used a census to include all 42 licensed banks in Kenya because the group was small. Israel (1996) said a census works if the group is small since it gets rid of mistakes from sampling and shows everything. Following McMillan and Schumacher (2019), the study looked at all 42 commercial banks as the whole group, not just a part of it.

The chiefs of Marketing, Finance, and Operations from each bank were watched, adding up to 126 people. They were picked because they directly led and checked strategic moves in their banks. Their jobs meant they knew the skills and had the management control to give real and useful information for this study.

3.5 Data Collection Instruments

This research relied on both primary and secondary information. As noted by Creswell and Creswell (2018), the choice of research tools depended on the study's aims, method, and needed

data. Semi-structured questionnaires were employed during the main data collection phase. Questionnaires are often used in survey research because they can gather large amounts of info (Bryman, 2016).

From start to finish, structured questionnaires were used to collect data. The questionnaire was split into two parts: Section A collected background info, while Sections B, C, and E provided data directly related to the study's aims. This let the researchers measure the opinions of those surveyed. Secondary data on profitability, return on equity, and return on assets were collected from 2019 to 2024 by looking at the banks' yearly reports using a data collection form.

3.6 Data Collection Procedures

Saunders, Lewis, and Thornhill (2019) state that data collection involves systematically finding and compiling relevant info on topics of interest. The researcher employed this approach to answer the study's main questions. The research used a mix of primary and secondary sources. A pre-formatted questionnaire was used to get the main data. Targeted respondents were given structured questions in a drop-and-pick style. The researcher delivered the surveys to individuals at each bank and picked them up after completion.

An Excel template was created for gathering secondary data, and the researcher entered observations of each variable for each company. The three predictors in this study were profitability, return on equity, and return on assets, while financial performance was the regressor variable. Data was gathered for each company listed at the banks for five years, from 2019 to 2024.

3.7 Pilot Test

Before distributing the questionnaire to the target group, we carried out a preliminary assessment to confirm its clarity and understandability. Performing a pilot test on a smaller scale before conducting large-scale research allowed the researcher to assess the feasibility, dependability, and validity of research instruments and procedures (Merriam & Tisdell, 2016). A pilot test was conducted to identify any problems with the setup and procedures, and it also gathered information to serve as a proxy for probability sampling. One way the researcher determined whether the data collected during the pilot test was sufficient to address the research questions was through a preliminary analysis (Saunders, Lewis, and Thornhill, 2019).

The pre-test sample size varied between one percent and ten percent, as stated by Mugenda and Mugenda (2003), depending on the overall sample size. For the purpose of this investigation, the pilot test used ten percent of the overall sample population. Since the sample consisted of 126 people, the pilot project involved distributing 12 questionnaires, which represented 10% of the total sample size. The HDFC Bank was selected as the site where the surveys were delivered to respondents. It is worth noting that HDFC Bank was chosen to conduct the secondary inquiry partly because of the potential ethical considerations of undertaking a pilot study in the same 42 financial institutions as the main study.

3.7.1 Validity of the Research Instrument

To ensure the research instruments measured the intended variables, their validity was checked throughout the study (Creswell & Creswell, 2017). The study sought to confirm both external and content validity. External validity was assessed by comparing the conceptual model with the actual findings. Content validity was improved by getting and using supervisor feedback on the research proposals (Saunders, Lewis, & Thornhill, 2019).

3.7.2 Reliability of Research Instruments

Bryman (2016) stated that a measurement is reliable if it gives similar results when used repeatedly on the same subjects. This study made sure that the results were fair and objective by using a grading method based on real-world situations (Kline, 2015). To see if each thing being measured was reliable, an internal consistency analysis, inter-rater reliability, and parallel reliability were done using Cronbach's Alpha. Tavakol and Dennick (2011) noted that if a variable's Cronbach Alpha Coefficient wasn't at least 0.7, it wasn't considered for later studies.

3.8 Data Processing and Analysis

This section discusses how data was processed and analyzed. First, data was gathered. Then, it was processed through coding, sorting, putting into tables, and editing. The coded data was examined with SPSS Version 25, a statistics program for social sciences (Kumar, 2019). Both descriptive and inferential statistics were used to analyze the data. Descriptive statistics included central tendency and variation measures, as well as tables showing percentages and frequency distributions (Silverman, 2020). To find links between the study variables, multiple linear regression analysis, part of inferential statistics, was used. The equation below shows the general framework for how strategic innovation relates to financial performance:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

Y =Financial Performance

α - Is the regression constant or intercept,

β_1, $\beta_2$and β_3– Are regression coefficients or change induced in Y by each X_1, X_2 and X_3 that are predictor variables,

X1 = Business Model Innovation

X2 = Technological innovations

X3 = Market Expansion

Ɛ (Extraneous) – The part not explained by the variables that still affects the overall trend, but doesn't explain the differences in the results.

The results were shared in formal presentations to the banks involved; these presentations included an overview of the main findings and suggestions. Also, KCA University got a copy of the final paper. Groups like the Kenya Bankers Association (KBA) who had an interest were also brought in, making sure the study helped grow knowledge and practices across the banking industry. In terms of academics, the findings were presented at conferences and made available in journals, reaching people working in the field and academics.

3.9.1 Diagnostic Tests

To see if the linear regression requirements held true, I used some tests. These included checks for equal variance, correlation between predictors, and normally distributed errors.

3.9.1.1 Normality Test and Linearity

In the normality test, it was important to check that the residuals of the dependent variable's predicted scores were evenly distributed (Silverman, 2020). For the residuals to be considered following a linear trend, they had to show a linear association with the expected scores of the

dependent variable; there should have been no important departures from a normal distribution (Chen, 2016). The Shapiro-Wilk test was used in this study to test for normality.

3.9.1.2 Multicollinearity

Multicollinearity referred to the relationship between the independent variables. It was said to exist when the independent variables showed a substantial correlation—r = 0.9 and above (Hair et al., 2019). Multiple regressions were greatly affected by this. For instance, two variables with a bi-variate correlation of 0.7 or greater were not to be utilised in the same study without careful consideration (Gujarati & Porter, 2020). Multicollinearity was checked using the VIF. Generally, if the VIF values fell below 10 (Farrar & Glauber, 2017), there was no multicollinearity problem.

3.8.1.3 Heteroscedasticity

According to Gujarati and Porter's (2020) classification, heteroscedasticity was a situation that occurred when the variable that reflected the error exhibited an inconsistent degree of variance. The width of the residual scatter plots grew in proportion to the value of the predictor variable (Wooldridge, 2020). This was because the length of the plots represented the variation in the error term. Claiming that the error term remained constant was not acceptable if the width of the p-p plots of the residuals increased or decreased as a function of the predictor variable's magnitude (Greene, 2018).

3.10 Ethical Consideration

This study adhered to strict ethical standards to safeguard the rights and welfare of all participants. Prior to data collection, the researcher obtained formal authorisation and approval from KCA University and relevant organisational authorities. A letter was then issued to participants, clearly outlining the purpose and objectives of the study and reassuring them that the information collected would be used solely for scholarly purposes.

Participation was entirely voluntary. Informed consent was obtained from all participants, who were made aware of their rights, including the freedom to refuse participation, withdraw at any stage without penalty, or decline to provide specific information. Participants also retained the right to rescind any data they had already provided.

Confidentiality and anonymity were guaranteed by anonymising responses and avoiding the disclosure of any identifying information. We used pseudonyms and coding when needed. All data was stored safely in files that needed a password to open, and any paper copies were locked away. Only the researcher could get to the data. We kept the data as long as the university said we had to, and then we destroyed it so no one could get to it without permission.

We kept possible risks to a minimum. For example, if some questions made people uncomfortable, they could skip them. We also made sure that no secret business information was revealed. The ethics committee looked over and gave permission for this research. We made it clear if there were any conflicts of interest so that the study was honest and fair.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter carefully examines the data gathered for the research goals presented in Chapter One. It starts by looking at how many targeted people responded. Then, it talks about the reliability test and covers the background of the people who answered, giving important details about who they are and what they think. After that, diagnostic tests are shown to check if the statistics used in the study are correct. Lastly, what was found about the study topics is presented using basic statistics (average and standard difference) and more advanced statistics (correlation, ANOVA, and regression analysis), showing the key results of the research.

4.2 Response Rate

This study looked at 126 people working in different commercial banks that are approved by the Central Bank of Kenya. We sent out questionnaires and got 98 back fully answered, which is a good response rate of 77.8%. This rate is good enough and really shows what the larger group is like. Hennink et al. (2020) state that a response rate over 50% is okay, and Sileyew (2019) says that 60% or more makes sure it properly represents the group being studied. The achieved response rate therefore surpasses these thresholds. When compared with previous studies, the result is equally impressive. For instance, Saunders, Lewis, and Thornhill (2011) reported a response rate of 81%, whereas Ledikwe et al. (2019) attained 72%. These comparisons highlight the effectiveness of the current study's data collection process and reflect strong engagement from respondents. A summary of the response rate is presented in Table 3.

TABLE 3

Response Rate

Response	Frequency	Percent
Returned	98	77.2%
Unreturned	48	22.8%
Total	**126**	**100%**

Source: Researcher (2025)

4.3 Reliability Test

The reliability of the questionnaire was assessed using Cronbach's Alpha, a statistical measure of internal consistency. According to the commonly accepted rule of thumb, a coefficient between 0.6 and 0.7 indicates acceptable reliability, while values of 0.8 or higher reflect good reliability. For this study, a threshold of 0.7 was adopted as the benchmark. The results of the reliability test are summarized in Table 4.

TABLE 4

Reliability Results

Variables (Constructs)	Number of items	Cronbach Alpha
Role of business model innovation	6	0.935
Technological innovation	6	0.956
Market expansion	6	0.958
Overall	**18**	**2.849**

Source: Researcher (2025)

As presented in Table 4, the Cronbach's Alpha coefficients for all the study variables exceeded the minimum threshold of 0.7 (Creswell & Creswell, 2017). Specifically, the coefficient for business model innovation was 0.935, technological innovation recorded 0.956, and market

expansion achieved 0.958. These results indicate that the 5-point Likert scale items used to measure the study constructs were highly reliable and thus suitable for further analysis.

4.4 Demographic Information

This section presents the findings on the demographic characteristics of the respondents, focusing on gender, age, years of experience, and level of education.

4.4.1 Gender of Respondents

The study aimed to establish the gender distribution of the respondents, as presented in Table 5.

TABLE 5

Gender of Respondents

Gender	Frequency	Percentage
Male	68	69.4%
Female	30	30.6%
Total	98	100.0%

Source: Researcher (2025)

Table 5 reveals that 69.4% of the respondents were male, while 30.6% were female. This shows that although the majority of finance officers were male, both genders were represented in the study, helping to reduce the risk of skewed responses. Nonetheless, the findings highlight a clear gender imbalance, with men forming a larger proportion of respondents. Such disparity may influence the study outcomes, as perspectives and experiences often vary by gender. In particular, respondents' gender could shape their views and attitudes toward strategic innovation and financial performance. Female participants, for instance, may contribute distinct insights related to gender-specific issues within the banking sector.

4.4.2 Age Distribution of the Respondents

The study established the age of the respondents, and the findings on their age distribution were shown in Table 6 below

TABLE 6

Respondents' Age Distribution

Age	Frequency	Percentage
25-30 Years	11	11.2%
31-40 years	58	59.2%
Above 40 years	29	29.6%
Total	**98**	**100.0%**

Source: Researcher, (2025)

Table 6 above shows that 59.2% of respondents were between the ages of 31 and 40, 29.6% were over 40, and 11.2% were between the ages of 25 and 30. A wide variety of viewpoints and experience levels are brought about by the respondents' distribution across age groups. Through the inclusion of perspectives from people at different phases of their careers, this diversity enhances the study's conclusions. Bias towards a single age group was removed because the respondents' age distribution suggests that all age groups were represented in the study. Different age groups' responses might be consistent with commercial banks' hierarchical structure. While older respondents might offer a more strategic or executive-level perspective, younger respondents might share ideas from entry-level or early-career roles.

4.4.3 Respondents Years of Experience

The study examined the respondents' years of experience within the organization, as presented in Table 7 below.

TABLE 7

Respondents Years of Experience

Years of Experience	Frequency	Percentage
Below 10 Years	13	13.3%
11-20 Years	40	40.8%
21-30 Years	33	33.7%
Over 30 Years	12	12.2%
Total	**98**	**100.0%**

Source: Researcher, (2025)

Table 7 indicates that 40.8% of the respondents had served in their organizations for 11–20 years, 33.7% for 21–30 years, 13.3% for less than 10 years, and 12.2% for over 30 years. These findings show that the majority of respondents had more than 10 years of experience, suggesting that they possessed sufficient knowledge and understanding of how strategic innovations have evolved within their banks and how these relate to financial performance. Consequently, their responses to the research questions were deemed reliable.

4.4.4 Position held in the Organization by Respondents

The study sought to determine the positions held by respondents within their organizations, with the results presented in Table 8 below.

TABLE 8

Position held in the Organization by respondents

Level of Management	Frequency	Percentage
Senior Management	85	86.7%
Middle Level	13	13.3%
Low Level	0	0%
Total	**98**	**100.0%**

Source: Researcher, (2025)

86.7% of respondents were in senior management, 13.3% were in middle management, and 0% were in senior management staff, according to table 8 above. This suggests that the data probably represents the organization's strategic and high-level decision-making viewpoints, as the majority of respondents were in senior management. This can cause the results to be less representative of the experiences or difficulties faced by middle and operational management, instead emphasising organisational leadership, long-term vision, and high-level priorities.

4.4.5 Respondents Educational Level

The researcher asked the respondents what their greatest level of schooling was. The results of the investigation are displayed in Table 9.

TABLE 9

Respondents Educational Level

Highest Education Level	Frequency	Percentage
Graduate	37	37.8%
Masters	60	61.2%
Doctorate	1	1.0%
Total	**98**	**100.0**

Source: Researcher, (2025)

The results indicate that most respondents (61.2%) had a master's degree as their highest level of education, 37.8% held an undergraduate degree, while 1.0% had attained a doctorate. This demonstrates that the respondents were well-educated, which enhances the credibility and reliability of the responses provided for data analysis. The varied educational backgrounds also contribute to a diverse pool of perspectives. Varying education levels bring different skills,

knowledge, and ways to tackle problems, giving the study varied views on money performance and new plans.

4.5 Descriptive Analysis

This section shows the descriptive statistics for the study variables: strategic innovation and financial performance. Mean values are interpreted using Amrhein, Trafimow, and Greenland's (2019) categories: 1.00–2.49 (very weak), 2.50–3.49 (weak), 3.50–4.49 (strong), and 4.50–5.00 (very strong). Standard deviation is analyzed to see how consistent the data is. Values below 0.5 mean the data is consistent, while higher values mean more variation (Mishra et al., 2019). In short, these descriptive statistics give an overview of the main features of the study variables.

4.5.1 Business Model Innovation and Financial Performance

This study sought to find out how new business models impact the financial results of Kenyan commercial banks. Table 10 shows the basic statistics for business model innovation.

TABLE 10

Descriptive Statistics on Business Model Innovation

Business Model Innovation	N	Mean	Std. Deviation
To provide clients with more services, the bank partners with outside financial service companies.	98	3.93	1.23
The product offerings have been enhanced by strategic partnerships with fintech companies.	98	3.36	1.07
The bank charges for its premium features but offers basic financial services for free.	98	3.65	1.20
The freemium business model has greatly increased cl ient retention and engagement.	98	3.91	1.06
Beyond standard banking services, the bank's digital banking systems meet a variety of client needs.	98	3.65	1.25
The bank targets specific client categories with its specialized financial solutions.	98	3.67	1.23
Cumulative average	98	3.70	1.18

Source: Researcher, (2025)

The participants agreed that provide clients with more services, the bank partners with outside financial service companies as shown by a Mean of 3.93 and SD of 1.23. The product offerings have been enhanced by strategic partnerships with fintech companies with a mean of 3.36 and S.D of 1.07. Beyond standard banking services, the bank's digital banking systems meet a variety of client needs with a mean of 3.65 and 1.20. The freemium business model has greatly increased client retention and engagement by a Mean of 3.91 and SD of 1.06. With a mean of 3.65 and SD 1.25, the bank's digital banking systems satisfy a range of customer needs in addition to regular banking services. With a mean of 3.67 and SD 1.23, the bank's specialised financial solutions cater to particular clientele groups. The results show that the standard deviation was 1.18 and the mean score was 3.70. The high mean score indicates that Kenyan commercial banks have embraced business model innovation to a great extent. It also demonstrates that respondents generally have a high degree of agreement. Similarly, the standard deviation indicates that while a large number of respondents may support the business model innovation, there is still a great deal of variety in the respondents' perceptions of the scope or efficacy of these practices. Some respondents may strongly agree, while others may be neutral or even disagree.

These findings are consistent with Teece (2018) and Zott and Amit (2010), who emphasized the importance of business model innovation in enhancing organizational competitiveness. They also concur with Haefliger (2013), who pointed out that businesses use creative strategies to stay relevant in changing contexts. The findings also corroborate the findings of Clauss (2017) and Sosna, Trevinyo-Rodríguez, and Velamuri (2019), who emphasised the importance of business model innovation in fostering long-term success and value generation. According to Amit and Zott (2012), digital platforms that use BMI, including e-commerce markets, have been able to gain influence over their respective industries and grow rapidly.

4.5.2 Technological innovation and Financial Performance

The purpose of the study was to assess the effect of technological innovation on the financial performance of commercial banks in Kenya. Table 11 provides the descriptive statistics related to technological innovation.

TABLE 11

Descriptive Statistics on Technological innovation

Technological innovation	N	Mean	Std. Deviation
The technological innovations employed here are quite effective.	98	3.49	1.01
Employees at this bank are proficient in putting advanced technologies into practice.	98	3.61	1.04
This bank uses customer-friendly technology.	98	3.67	1.06
This bank's ICT system has improved process openness and accountability.	98	3.85	1.06
This bank has been able to increase its channels thanks to technological advancements.	98	3.82	1.01
The bank invest in technology frequency	98	3.86	1.02
Cumulative average	98	3.72	1.04

Source: Researcher, (2025)

Here, the technological advancements are highly effective, as seen by the mean of 3.49 and SD of 1.01. This bank's employees are adept at implementing cutting-edge technologies, as seen by their mean score of 3.61 and standard deviation of 1.04. The customer-friendly technology used by this bank has a mean score of 3.67 and SD of 1.06. With a mean of 3.85 and SD of 1.06, this bank's ICT system has enhanced process transparency and accountability. Thanks to technical developments, this bank has expanded its channels, as evidenced by its mean of 3.82 and S.D. of 1.01. A mean of 3.86 and standard deviation of 1.02 indicate that the bank invests in technology on a regular basis. The overall mean score of 3.72 indicates a high level of commitment to technological innovation among the commercial banks operating in the

country. The standard deviation also suggests that while there is a strong commitment overall, there may be some variations in the extent to which these practices are implemented among individual commercial banks.

The study results agree with Tushman and Rosenkopf (2017), businesses may innovate in three ways: by releasing new products or services; by improving current production processes; and by introducing new business models that provide value for consumers as shown by a high mean and low standard deviation. The findings also concur with Belhadi, Kamble, Fosso Wamba, and Queiroz (2022), as well as Davenport and Ronanki (2018), underscoring the role of technological innovation in strengthening organizational performance. The kind of technical innovation a company uses determines its financial results greatly. Incremental innovation, which focuses on gradual improvements, leads to steady revenue growth and cost efficiency (Dosi,2016).

4.5.3 Market Expansion and Financial Performance

The purpose of the study was to assess the effect of market expansion on the financial performance of commercial banks in Kenya. Table 12 provides the descriptive statistics related to Market Expansion

TABLE 12

Descriptive Statistics on Market Expansion

Market Expansion	N	Mean	Std. Deviation
Rapid product and company promotion is made possible by market penetration	98	3.38	1.33
Product development enables the company to take advantage of chances to promote novel customer preferences.	98	3.76	1.36
Product development creates a higher value proposition for the target audiences of a company and its brand.	98	3.44	1.29

Because market transaction expenses are eliminated, forward diversification lowers costs.	98	3.47	1.29	
The organisation can access more markets thanks to diversification.	98	3.56	1.16	
The bank has expanded its market territory to other regions	98	3.54		1.29
Cumulative average		3.53		1.29

Source: Researcher, (2025)

As shown on Table 12, rapid product and company promotion is made possible by market penetration with 3.38 mean and S.D of 1.33. Product development enables the company to take advantage of chances to promote novel customer preferences with mean of 3.76 and 1.36. Product development creates a higher value proposition for the target audiences of a company and its brand with a mean of 3.44 and S.D of 1.29. Because market transaction expenses are eliminated, forward diversification lowers costs with a mean of 3.47 and S.D of 1.29. The organisation can access more markets thanks to diversification with a mean of 3.56 and S.D of 1.16. The bank has expanded its market territory to other regions to follow with mean of 3.54 and S.D of 1.29. The overall mean score of 3.53 indicates that there is moderate level of commitment to market expansion among the commercial banks in Kenya. The standard deviation suggests that while there is a mode commitment overall, there may be some variability in the extent to which these market expansion strategies are adopted and implemented among individual banks.

The findings concur with Ejike (2020) expanding into new markets is a crucial part of company growth since it increases market share and profits, which in turn drives industry expansion. According to Peng et al. (2018), companies joining international markets can find complicated legal systems that impede seamless operations and entrance. The results also align with Wu, Wu, and Zhou (2022), as well as Bughin, LaBerge, and Mellbye (2018), who

similarly highlighted the significance of market expansion strategies in strengthening organizational competitiveness and sustainability. Hannan and Freeman (2019) underlined that structural rigidity within companies might impede efforts at market development, therefore hindering adaptation to new markets.

4.5.4 Financial Performance

The results of the independent variable, financial performance, were examined in the commercial banks and summarized in Table 13.

TABLE 13

Financial Performance

stats	Profitability	ROE	ROA
min	-2254919	0.087561	-3.49749
max	5.164507	20.52476	2.507004
mean	3231507	0.507366	0.045694
sd	7079225	1.52935	0.420827

Source: Researcher, (2025)

As presented in Table 13, the profitability analysis shows considerable variation in performance among commercial banks. The minimum profitability was recorded at -2,254,919 KES, while the maximum reached 51.6 million KES. The mean profitability of 3,231,507 KES suggests that, on average, banks posted modest profits during the period under review. The big standard deviation (7,079,225 KES) points to real change, meaning some banks did well, but others lost money. This difference between the lowest and highest profits shows the different money problems and chances in the business, and it might come from changes in how risks are handled, how well things are done, and what the market is like.

The Return on Equity (ROE) numbers also make these differences in money results clear. The lowest ROE was 0.087561%, but the highest was 20.52476%. This means returns for shareholders changed a lot between banks. The average ROE was 0.507366%, which is

kind of low, so Kenyan banks probably didn't make big equity returns then. The standard deviation was 1.52935, and showed how performance changed. Some banks were good at handling capital and investments, while others had difficulty using their equity well.

The Return on Assets (ROA), which checks how well banks use assets to make profits, also had some changes. The lowest ROA was -3.49749%, showing some banks lost money from their assets. The highest was 2.507004%, meaning a few banks used assets in a good way. The average ROA was 0.045694%, which isn't high and means the business wasn't that good overall. A standard deviation of 0.420827 shows the changes, meaning some banks made returns from assets, but others had a hard time making a profit.

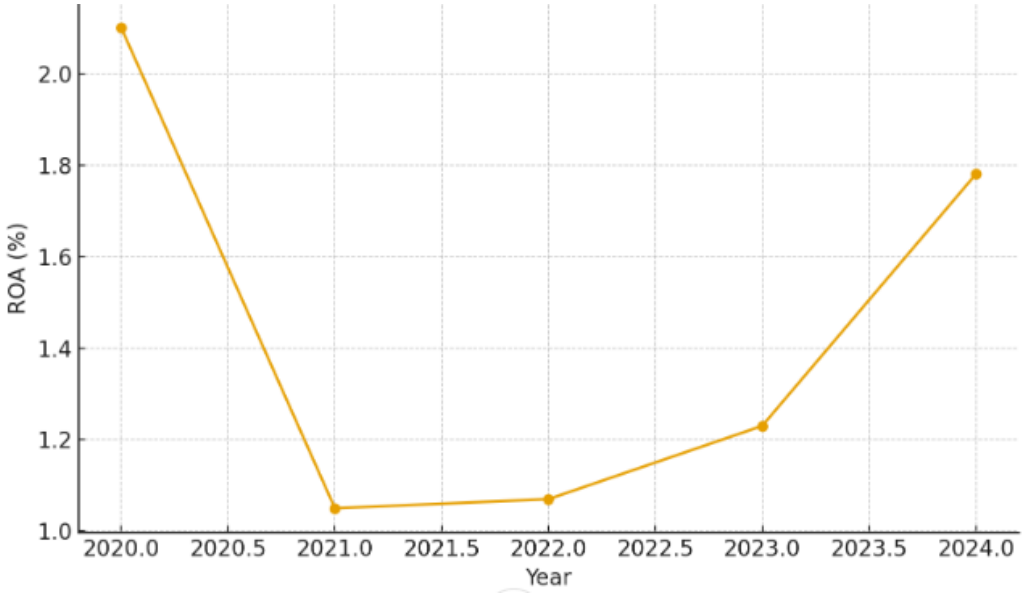


Figure 2: Trend Analysis between 2020 and 2024 for ROA

The Return on Assets (ROA) from 2020 to 2024 shows how well banks used their assets to make money.

Figure 2 shows that in 2020, the average ROA was 2.10%, which means they were doing okay. In 2021, the ROA went down to 1.05%, probably because of the COVID-19 pandemic, which caused a lot of uncertainty and made it harder for businesses to make money.

In 2022, banks started to get back on their feet, and the ROA went up a bit to 1.07%, which means things were slowly getting back to normal. This positive trend went on in 2023, with the ROA going up to 1.23%, and it reached its highest point at 1.78% in 2024. This steady increase suggests banks didn't just recover from the earlier problems, they also got better at using their assets to make profits.

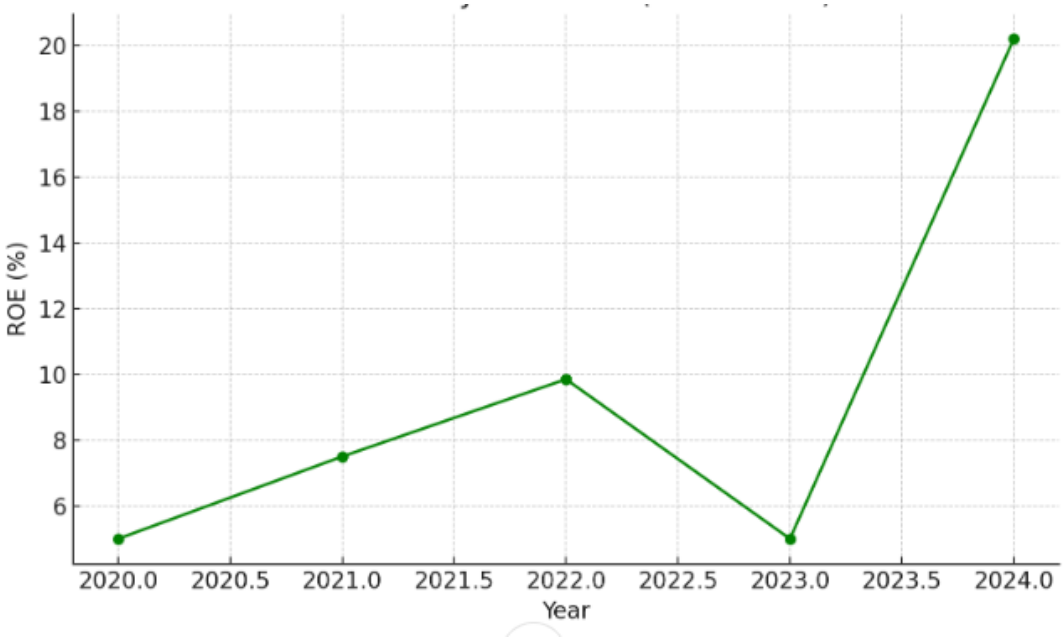


Figure 3:Trend Analysis between 2020 and 2024 for ROE

The Return on Equity (ROE) from 2020 to 2024 shows how well banks made profit from shareholders' investments. In 2020, the ROE was 5.0%, which means the returns were okay. It increased to 7.5% in 2021 and further to 9.85% in 2022, indicating improving profitability and effective cost management. In 2023, ROE declined to 5.0%, largely due to challenges from loan defaults requiring higher provisions. By 2024, ROE peaked at 20.2%, the highest in the period, reflecting strengthened profitability and efficient equity management.

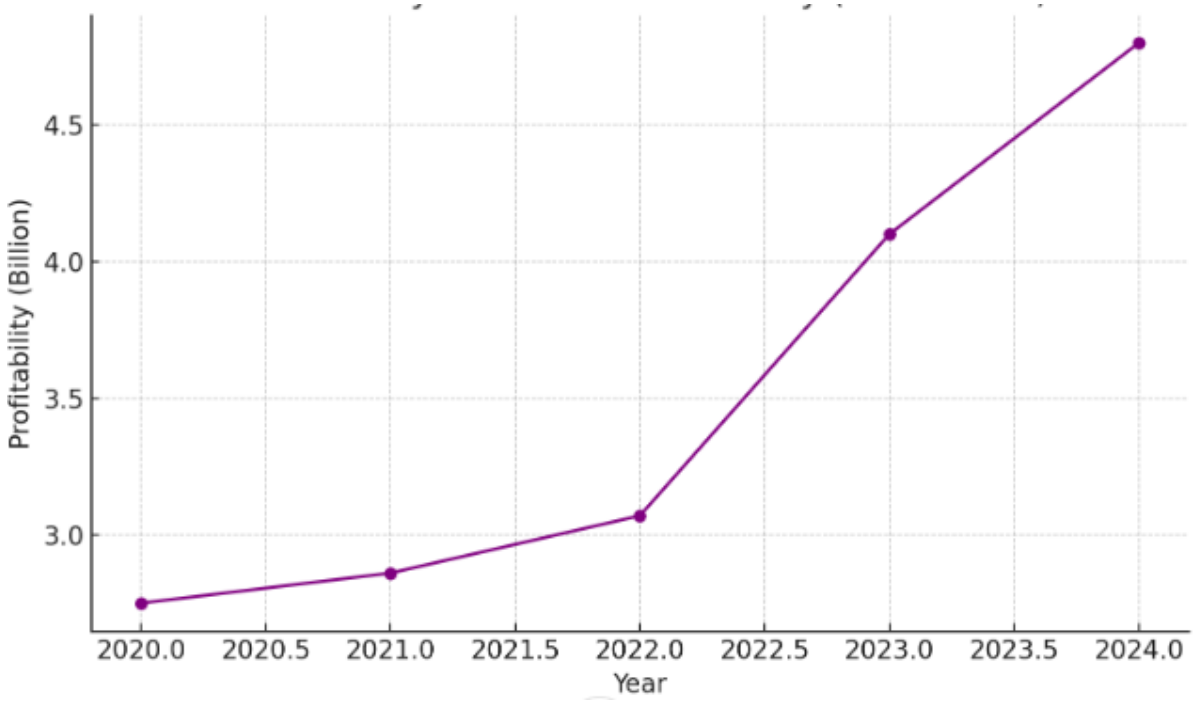


Figure 4: Trend Analysis between 2020and 2024 for profitability

The data on bank profitability from 2020 to 2023 indicates a steady improvement in financial performance. As shown in Figure 4, profitability was approximately 2.75 billion in 2020. In 2021, it increased to 2.86 billion, driven by the accelerated adoption of digital banking services during the COVID-19 pandemic, which maintained service delivery, improved customer access, and reduced operational costs.

In 2022, profitability increased to 3.07 billion, reflecting the bank's recovery from the previous year and the broader economic rebound. Growth continued in 2023, with profitability rising to 4.10 billion, driven by improved operational efficiency, higher revenues, and increased lending activity. By 2024, profitability reached 4.80 billion, the highest in the period, demonstrating the bank's resilience and ability to capitalize on emerging opportunities.

4.6 Diagnostic Test

The diagnostic tests conducted included normality, multicollinearity, and heteroscedasticity assessment

4.6.1 Normality Test

Normality tests are used to assess whether a dataset follows a normal distribution. According to Razali and Wah (2011), the normal (Gaussian) distribution is a symmetrical probability distribution widely used in statistics due to its mathematical tractability and common occurrence in natural phenomena. This study employed the Shapiro-Wilk test, which calculates a W statistic to evaluate the null hypothesis that the sample originates from a normally distributed population. As noted by Khatun (2021), if the p-value exceeds the chosen significance level, typically 0.05, the null hypothesis is not rejected, indicating that the data are normally distributed.

TABLE 14

Normality Test Results

	Shapiro-Wilk		
	Statistic	**df**	**Sig.**
Business Model Innovation	0.916	98	0.074
Technological innovation	0.924	98	0.092
Market Expansion	0.807	98	0.061
Financial Performance	0.896	98	0.056

Source: Researcher, (2025)

The results of the Shapiro-Wilk test, presented in Table 14, show that all variables had p-values greater than 0.05. Since $p > 0.05$, the data are normally distributed, indicating that the study variables exhibit linearity.

4.6.2 Multicollinearity

In regression analysis, multicollinearity happens when two or more independent variables in a multiple regression model are highly related (Daoud, 2017). This high multicollinearity can make it difficult to understand the coefficients and lead to results that aren't reliable or stable. To deal with this, multicollinearity tests were done using both the Variance Inflation Factor (VIF) and Tolerance measures. The results can be found in Table 15.

TABLE 15

Multicollinearity Test Results

Model	**Collinearity Statistics**	
	Tolerance	**VIF**
(Constant)		
Business Model Innovation	0.994	1.006
Technological innovation	0.810	1.234
Market Expansion	0.815	1.228

Dependent Variable: financial Performance

Source: Researcher, (2025)

The results suggest that multicollinearity isn't a concern because all variables had VIF values below 5. In the case of business model innovation, a VIF of 1.006 and a tolerance of 0.994 point to very little collinearity, indicating it is mostly independent of other predictors. Similarly, technological innovation had a VIF of 1.234 and tolerance of 0.810, while market expansion had a VIF of 1.228 and tolerance of 0.815, both reflecting very low collinearity and independence from other variables in the model.

Since all three independent variables have VIF values well below 5, it can be concluded that there is no significant multicollinearity in the model. This suggests that one can assess each variable's specific role in explaining changes in financial performance. These results are in line with Shieh's (2010) findings, which state that a VIF of 1 means no collinearity is present, but a VIF of 5 suggests high collinearity.

4.6.3 Heteroscedasticity Test

Heteroscedasticity, or non-constant variance, is a violation of a key assumption in linear regression (Rice, Wirjanto & Zhao, 2020). As noted by Teles and Chan (2022), it occurs when the variance of the error terms is not consistent across different levels of the independent variable(s), potentially leading to unreliable estimates and difficulties in interpreting regression results.

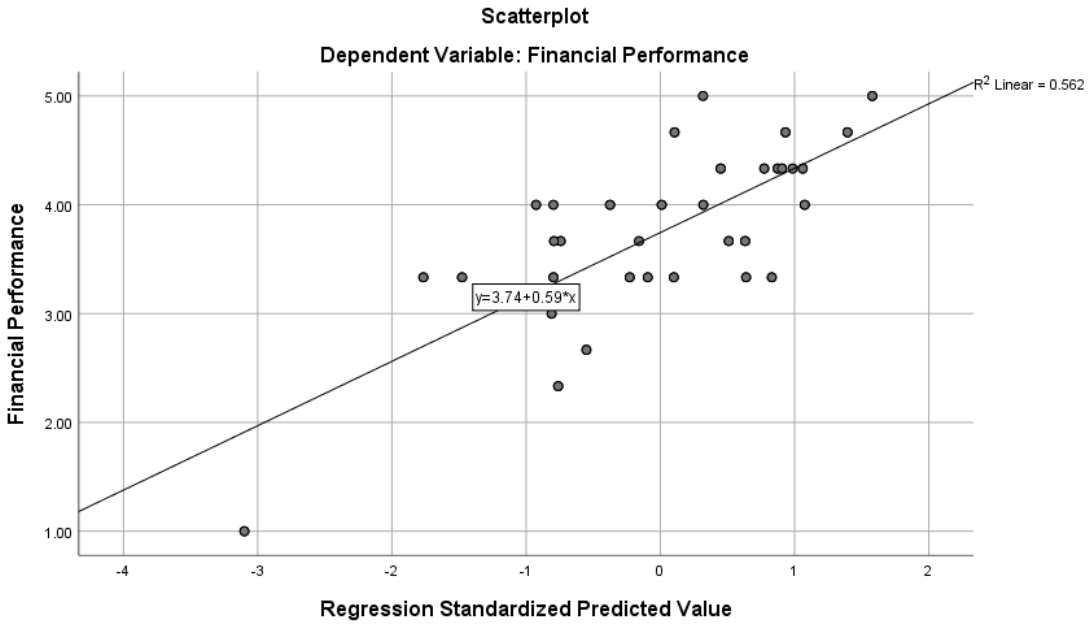


Figure 5: Heteroscedasticity Test

As shown in Figure 5, homoscedasticity was assessed using multiple regression, where both the dependent and independent variables represented satisfaction scores. The scatter plot shows

no discernible pattern, indicating that the regression model does not exhibit a heteroscedasticity problem.

4.7 Correlation Analysis

This section shows the correlation coefficients for the variables investigated in this study. Spearman's rho correlation was used to check the link between strategic innovation (the independent variable) and financial performance (the dependent variable). This method also helped measure the strength of this link. Spearman's rank correlation coefficient (ρ), first proposed by Pearson in 1909, is a way to measure how statistically dependent two variables are without needing to meet specific distribution assumptions. It checks how strong and in what direction two variables are related, where a monotonic relationship means they tend to increase or decrease together consistently (Weisstein, 2006).

TABLE 16

Correlation Analysis Results

Scale		FP	BMI	TI	ME
Financial Performance	Pearson Correlation	1.000	.445**	.470**	.574**
Business model Innovation	Pearson Correlation		1.000	0.483	.470
Technological Innovation	Pearson Correlation			1.000	.574
Market Expansion	Pearson Correlation				1.000

Source: Researcher, (2025)

The correlation analysis showed a positive, moderate between business model expansion and financial performance for Kenyan commercial banks (correlation coefficient = 0.445, p < 0.000). This agrees with Ndung'u (2018), who also found a positive between model expansion and better financial results when studying the impact of business model expansion on Kenyan commercial banks' financial performance.

The Spearman's rho correlation analysis showed a positive, moderate association between technological innovation and financial performance at the 95% confidence level (correlation coefficient = 0.470, p < 0.000). This is in line with Chesbrough (2023), whose work suggested that technological innovation models help businesses grow their revenue.

Looking at market innovation, the correlation analysis points to a positive and strong association between market expansion and the financial performance of commercial banks at the 95% confidence level (correlation coefficient = 0.574, p < 0.05). This is in line with Rahi, Akter, and Johansson (2021), who saw that commercial bank use market expansion strategies across branches, with diverse boards reflecting national composition to boost financial performance.

4.8 Inferential Statistics

The following section presents the R^2 value from the regression model summary, the F-statistic from the ANOVA, and the t-statistics for the regression coefficients, which collectively describe the linear relationship between strategic innovation and financial performance.

4.8.1 Model Summary

The study employed multiple regression analysis to examine the effect of strategic innovation on financial performance, with the results presented in Table 17.

TABLE 17

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.750[a]	0.562	0.548	0.53042

a. Predictors: (Constant), Business model innovation, technological innovation, market expansion

Source: Researcher, (2025)

The model summary presented in Table 17 indicates a strong association between the predictors and the dependent variable, with an R value of 0.750, reflecting a robust linear relationship. The R^2 value of 0.562 shows that business model innovation, technological innovation, and market expansion collectively explain about 56.2% of the variation in financial performance, while the remaining 43.8% is due to other factors beyond the scope of this study.

4.8.2 Regression Analysis of Variance

The regression model was evaluated using ANOVA to assess its significance, and the results are presented in Table 18.

TABLE 18

Analysis of Variance Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.954	3	11.318	40.228	.000[b]
	Residual	26.446	94	0.281		
	Total	**60.400**	**97**			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Business model innovation, technological innovation, market expansion

Source: Researcher (2025)

As presented in Table 16, the ANOVA results show that the model is statistically significant in predicting the effect of business model innovation, technological innovation, and market expansion on the financial performance of commercial banks in Kenya ($F = 40.228$; $p < 0.05$). Given that $p < 0.05$, the model is significant at the 95% confidence level, confirming that the variables included in the equation are essential predictors of financial performance.

4.8.3 Regression Coefficients

The regression coefficients in Table 19 indicate that strategic innovation has a statistically significant effect on financial performance.

TABLE 19

:**Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Beta	**Std. Error**	**Beta**		
1	(Constant)	0.661	0.300		2.205	0.030
	Business model innovation	0.320	0.053	0.415	6.066	0.000
	Technological innovation	0.283	0.051	0.420	5.537	0.000
	Market expansion	0.243	0.064	0.290	3.831	0.000

a. Dependent Variable: Financial Performance

Source: Researcher, (2025)

The results show that the regression weights of the three independent variables were statistically significant, as presented in Table 19. Business model innovation ($B = 0.320$, $p < 0.05$), technological innovation ($B = 0.283$, $p < 0.05$), and market expansion ($B = 0.243$, $p < 0.05$) all demonstrated significant effects on financial performance. This indicates that the relationships between the study variables were important at the 5% level.

The unstandardized coefficients represent the expected change in the dependent variable resulting from a one-unit change in the independent variables. Accordingly, a 1% increase in business model innovation leads to a 32.0% improvement in financial performance, and a 1% increase in technological innovation results in a 28.3% improvement. In comparison, a 1% increase in market expansion contributes to a 24.3% improvement in financial performance.

Therefore, the regression equation is. $Y = 0.661 + 0.320\ X_1 + 0.283\ X_2 + 0.243\ X_3 + \varepsilon$

Where;

Y=Financial Performance, X_1 = Business model innovation, X_2 = technological innovation, X_3 = market expansion, Ɛ = error term.

The coefficient of business model innovation ($0.320X_1$) implies that for every unit increase in business model innovation, financial performance improves by 0.320 units, holding other variables constant. These findings align with Foss and Saebi (2017), who argued that business model innovation positively influences financial performance in banks by driving cost reductions, strengthening brand reputation, and enhancing regulatory compliance. However, the results contradict Jayeola (2020), who acknowledged that while business model innovation can improve financial performance in specific contexts, it may also impose substantial costs that negatively affect short-term profitability.

The coefficient of technological innovation was 0.283, indicating that for every unit increase in technological innovation, financial performance increases by 0.283 units, holding all other factors constant. These findings align with Christensen's (2019) argument that technological innovation enhances firm performance. On the other hand, the results contradict those of Olumbe, Nyamute, Ondigo, and Kithinji (2021). Technologies empowered with artificial intelligence improve market research, design, prototyping, simulations, and consumer personalisation, thereby greatly optimising processes and efficiency.

The coefficient of market expansion ($0.243X_3$) indicates that for every unit increase in market expansion, financial performance increases by 0.243 units when all other factors are held constant. These findings are consistent with Ejike (2020), who emphasized that modern market expansion increasingly relies on technology, data analytics, and e-commerce platforms to access new markets more efficiently and at lower costs. Leonidou, Katsikeas, and Samiee (2022) agreed that expanding into new markets has a positive and significant impact on a company's financial results, demonstrating its ability to drive growth. These results differ from those of Otabe and Czinkota (2017). They warned that entering new markets can sometimes

harm a company's finances due to issues such as high start-up costs, cultural differences, and wasted resources.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter recapitulates the study, presents the main results in relation to the study's objectives, and offers conclusions and recommendations on the relationship between strategic innovation and financial performance in Kenyan commercial banks.

5.2 Summary of the Study

This study aimed to investigate the impact of new business models, technological advancements, and market growth on the financial standing of Kenyan commercial banks. Specific goals guided the research.

5.2.1 Business Model Innovation on Financial Performance

The primary aim of this study was to investigate the impact of business model changes on the financial results of Kenyan commercial banks. The data suggest that these banks have generally adopted business model innovation, but not entirely, which indicates a significant level of dedication within the banking industry. Although commitment is usually apparent, the standard deviation highlights differences in how individual banks implement these innovations. There is also a moderately positive link between business model innovation and financial success. Regression analysis reveals a statistically significant positive correlation ($p < 0.05$), emphasising that business model innovation substantially improves the financial outcomes of these banks in Kenya.

5.2.2 Technological Innovation on Financial Performance

The second goal of this study was to examine how technological changes affect the financial performance of banks in Kenya. Data shows that banks are increasingly utilising technology,

such as mobile banking, online payments, and automated services. These changes appear to be making things run more smoothly, making customers happier, and reaching a broader audience. The results suggest that new technology is crucial for banks to remain competitive and achieve financial success. There's a clear link between increased technology use and improved financial results. Statistical analysis supports the idea that as banks improve their use of new technology, their financial performance improves.

5.2.3 Market Expansion on Financial Performance

This study's third goal was to examine how expanding into new markets impacted the financial performance of banks in Kenya. The research revealed that banks are somewhat committed to expanding into new markets.

These plans have been implemented to some extent. Their success could be enhanced by investing more in underserved areas, offering a broader range of products, and leveraging online platforms to reach new customers. The data show a link between expanding into new markets and financial success ($p < 0.05$). Regression analysis confirms a statistically significant positive link ($p < 0.05$), suggesting that expanding into new markets helps improve financial results.

5.3Conclusions

The following section discusses how the study's results relate to its original objectives.

5.3.1 Business Model Innovation and Financial Performance

This study found that when Kenyan commercial banks introduce new business models, their financial performance tends to improve. While not all banks have fully adopted these models, a significant amount of effort is being invested in them across the industry. The fact that some banks are ahead of others implies that there's still room for growth. The data, which is statistically sound, supports the idea that business model innovation has a real, positive impact

on financial performance. This suggests that if banks focus on developing and expanding these new models, they could gain a lasting competitive edge and achieve better financial results.

5.3.2 Technological Innovation on Financial Performance

This study concludes that technological improvements have a positive impact on the financial performance of banks in Kenya. The results show that banks are committed to adopting new technologies, such as mobile banking, online payments, and automated services. This makes things work better, keeps customers happy, and includes more people in the financial system. With 95% confidence, we can say that as technology improves, bank finances also improve. Additionally, tests reveal a strong link ($p < 0.05$), supporting the notion that technological improvements are crucial for banks to remain competitive and grow steadily

5.3.3 Market Expansion on Financial Performance

The study concludes that market expansion has a statistically significant and positive effect on the financial performance of commercial banks in Kenya. Although the findings indicate a moderate level of commitment to market expansion, the results suggest that greater emphasis on extending operations into underserved regions, diversifying financial products, and leveraging digital platforms could further enhance effectiveness. The positive correlation established, along with regression results at $p < 0.05$, confirms that market expansion significantly contributes to improved financial outcomes. This implies that strengthening market expansion strategies can provide banks with a broader customer base, improved competitiveness, and sustainable economic growth.

5.4 Recommendations

The study yielded several key insights that could help Kenyan commercial banks expand their financial growth through innovative business models, technological advancements, and increased market reach. First, Kenyan commercial banks could focus more on refining their

business models to improve financial performance. They can achieve this by ensuring that creative methods are standardised across the banking world to maintain consistent results. Banks also need to keep improving their business models to stay ahead. Collaborating with tech companies and others to develop practical solutions can also be beneficial.

Additionally, the study suggests that Kenyan commercial banks must continue to adopt new technology to maintain strong financial performance. They can allocate more resources to initiatives such as mobile banking, online payments, and automated services. Banks must also ensure that their cybersecurity is robust to maintain customer trust. Banks should utilise data analysis and AI to personalise services, make informed decisions, and increase inclusion in banking. When banks align their technology with what customers want, they can become more efficient, competitive, and profitable in the long run.

Lastly, the study suggests that Kenyan commercial banks strive to expand their markets to enhance their financial performance. This means extending to areas that lack sufficient banking services, offering a wider range of products, and utilising online tools to reach a broader audience. Banks should also develop banking options for people in rural areas and those with low incomes. They can reach out to customers using online and mobile banking. If banks focus on expanding and reaching a broader audience, they can attract more customers, become more competitive, and sustain long-term financial growth.

5.5 Limitations of the Study

During this research, we encountered several challenges. Some people didn't want to share private info because they worried it could be used against them. This meant we couldn't get as much in-depth data as we wanted. Additionally, many people were very busy, which made it difficult for them to complete the forms on time. The data gathering process was made more difficult by the banks' rules, which lengthened the procedure.

This work was conducted over a specific period to avoid overlooking some long-term issues that may arise. Results and new ideas can change due to factors outside the company, such as the economy, new regulations, and market developments. This work only examined banks in Kenya, so the results may not apply to banks in other locations with different rules, cultures, or economies. What we found is specific to Kenya and may differ in other places.

This work only took data at one point in time. Because of this, we can't see how new ideas evolve and how they ultimately impact financial results. For example, new technology or expanding into new markets might yield quick results, but we can't know if they will last. A longer study would demonstrate how these factors impact financial results over time.

5.6 Recommendations for Future Research

For further studies, the research can be expanded to consider other financial organisations, such as microfinance groups and investment companies. This will help determine if the results of innovation on economic performance in banks are consistent across the financial industry. Comparing different financial organisations can provide a better understanding of how changes to business plans and new technologies contribute to success in various situations.

Lastly, future research should utilize a longitudinal research design to evaluate the short and long-term impacts of strategic innovations on financial outcomes. The present study utilized a cross-sectional approach that investigated newsfeeds (captured at one moment in time). A longitudinal design could investigate how innovations unfold, develop until maturity, and ultimately how they influenced financial performance over a lengthy period of time. Longitudinal research can provide a greater understanding of how sustainable innovation outcomes can be and, when are the innovation outcomes felt in terms of their financial performance. Further, longitudinal research can also provide insight into identifying upward trends of innovation, at what stage do particular innovation approaches yield the best return,

and how market dynamics and regulatory issues may impact innovation performance. Furthermore, future research can examine moderating and/or mediating factors such as organizational culture, leadership, regulatory climate and customer adoption. Understanding these elements longitudinally would yield a better understanding of the complexity and time-dependence of innovation and financial outcomes and would lead to better, sustainable and adaptive strategic planning in the banking context.

5.7 Areas for future Research

First, future research could explore the role of business model innovation in other types of financial institutions, such as microfinance institutions, SACCOs, and investment firms, beyond commercial banks. Investigating how different institutional contexts influence the adoption and effectiveness of innovative business models would provide a broader understanding of strategic innovation in the financial sector and its impact on economic performance.

Second, further studies could focus on technological innovation by examining emerging technologies such as artificial intelligence, blockchain, and big data analytics in the banking sector. Research could investigate not only adoption levels but also how the integration of advanced technologies influences efficiency, customer satisfaction, and long-term financial outcomes, providing insights into the evolving technological landscape in finance.

Third, future research could consider market expansion strategies in greater depth, including their effectiveness in underserved regions, rural areas, and digital marketplaces. Studies could also examine the moderating or mediating effects of factors such as regulatory policies, competitive pressures, and customer behaviour on the relationship between market expansion and financial performance, thereby offering more nuanced recommendations for strategic growth in the banking sector.

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APPENDICES

Appendix I: KCA University Consent Letter

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BOARD OF POSTGRADUATE STUDIES

KCAU/BPS/2025 *Date: Monday, September 01, 2025*

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: EDWIN ONDIMU MOMANYI- REG NO. 23/08414

It is my distinct pleasure to introduce Edwin Ondimu Momanyi, a student at our institution pursuing a Master of Business Administration - Corporate Management degree in the School of Business.

Edwin is conducting research on the topic ***"Strategic innovation and financial performance of commercial banks in Kenya."*** His study has been reviewed and approved by the University's Ethics Review Committee, Approval No. KCAUSERC/ SOB0213. which is part of the requirements of the program he is pursuing. The research as well as the data procured thereof shall be used for academic purposes only. Any assistance accorded to him is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

DR. JACKSON NDOLO
DIRECTOR, BOARD OF POST GRADUATE STUDIES

Appendix II: Letter of Introduction

Dear Respondent

REF: REQUEST FOR RESEARCH DATA

I am pursuing a Master of Business Administration in Corporate Management at KCA University. The impact of financial planning and analysis on the economic performance of companies listed on the Nairobi Securities Exchange is the subject of my current research. I am writing to express my sincere hope that you will be able to contribute to the investigation by taking twenty-five minutes to complete it. Please fill out the form using your personal opinions rather than those of the organisation. Every piece of information supplied will be handled with the utmost confidentiality. In response to your request, a comprehensive report on the research will be sent to you. Your reply will be greatly valued.

I really appreciate any help you can provide.

……

Edwin Momanyi

Appendix III: Questionnaire for Respondents

The primary goal of this study is to assess the impact of strategic innovation on the financial performance of Kenyan commercial banks.

SECTION I: DEMOGRAPHIC INFORMATION

You are requested to fill out your personal information in the spaces below

Please tick only one response.

1. Indicate your gender: Male [ ] Female [ ]
2. What is your age?

Below 25 yrs [ ] 25- 30 yrs [ ] 31-40 yrs [ ] Above 40 yrs [ ]

3. Years of experience in the organization

Below 10 [ ] 11-20 [ ] 21-30 [ ] Above 30 [ ]

4. Level of Management

Senior level [ ] Middle level [ ] Lower level [ ]

5. Your highest attained education level?

Diploma [ ] Graduate [ ] Masters[ ] Doctorate [ ]

SECTION TWO: STRATEGIC INNOVATION

Please indicate the degree to which you agree with the following statements about the evolution of business models, technological advancements, and the increase of market share in the banking industry. Use a scale of 1-5, where (1-Stronly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5- Strongly agree.

Business Model Innovation	**1**	**2**	**3**	**4**	**5**
To provide clients with more services, the bank partners with outside financial service companies.					
Strategic partnerships with fintech companies have enhanced the product offerings.					

The bank charges for its premium features but offers basic financial services at no cost.					
The freemium business model has significantly increased client retention and engagement.					
Beyond standard banking services, the bank's digital banking systems cater to a diverse range of client needs.					
The bank targets specific client categories with its specialised financial solutions.					
Technological innovation	**1**	**2**	**3**	**4**	**5**
The technological innovations employed here are pretty practical.					
Employees at this bank are proficient in implementing advanced technologies.					
This bank uses customer-friendly technology.					
This bank's ICT system has improved process openness and accountability.					
This bank has been able to increase its channels thanks to technological advancements.					
The bank invests in technology frequently.					
Market Expansion	**1**	**2**	**3**	**4**	**5**
Rapid product and company promotion is made possible by market penetration.					
Product development enables the company to capitalise on opportunities to cater to emerging customer preferences.					

Product development creates a higher value proposition for a company's target audiences and its brand.					
Because market transaction expenses are eliminated, forward diversification lowers costs.					
The organisation can access more markets thanks to diversification.					
The bank has expanded its market territory to other regions.					

Appendix IV Data Collection Checklist

Financial Measure	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Profitability						
Return on Assets						
Return on Equity						

Appendix V: List of Licensed Commercial Banks

1. African Banking Corporation
2. Guaranty Trust Bank (K)
3. Bank of Baroda (K)
4. Guardian Bank
5. Bank of India
6. Gulf African Bank
7. ABSA Bank
8. Habib Bank A.G. Zurich
9. Bank of Africa Kenya
10. Habib Bank
11. Charter House Bank
12. Imperial Bank
13. Standard Bank of Mauritius
14. I and M Bank
15. Citibank N. A. Kenya
16. NCBA Bank
17. Jamii Bora Bank
18. Consolidated Bank of Kenya

19. Cooperative Bank of Kenya
20. KCB Bank of Kenya
21. Credit Bank
22. Middle East Bank (K)
23. Development Bank of Kenya
24. National Bank of Kenya
25. Diamond Trust Bank
26. DIB Bank
27. M-oriental Bank
28. Ecobank Kenya
29. Paramount Bank
30. Spire Bank
31. Prime Bank
32. Equity Bank Kenya
33. Sidian Bank
34. Family Bank
35. Stanbic Bank
36. Fidelity Commercial Bank
37. Standard Chartered Bank Kenya
38. First Community Bank
39. Trans National Bank
40. UBA Kenya Bank
41. Mayfair Bank
42. Victoria Commercial Bank

Source: Central Bank of Kenya Report (2025)