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RESEARCH ARTICLE

# Influence of Innovation Approach on Competitive Structure of Tier 1 Commercial Banks in Kenya

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## ABSTRACT

In today's volatile business landscape, companies must continuously innovate to remain competitive. Innovation, encompassing the creation and implementation of new concepts across products, services, and technologies, is essential for meeting evolving market demands. Both radical and incremental innovation contribute to organizational financial performance (Abiodun, 2017). However, traditional banks often exhibit technological inertia, hindering their ability to adopt new methods efficiently. This reluctance presents an opportunity for challenger banks to pioneer technological advancements, diversify risk management strategies, and optimize resource utilization, leveraging instruments like asset securitization. This study investigates the impact of innovation approaches on the competitive structure of Tier 1 Commercial Banks in Kenya. Employing descriptive and correlational research designs, the study surveyed 182 respondents selected via stratified random sampling from a target population of 334 individuals across Tier 1 Commercial Banks. Quantitative data analysis utilized descriptive statistics, correlation, and regression analysis with SPSS version 26. Findings indicate a positive correlation between innovation and competitive structure, underscoring innovation's significance in sustaining competitive advantage. Technology adoption, including mobile banking and remote service delivery, also enhances competitive structure. Furthermore, the study highlights the contribution of risk diversification through new financial instruments and incremental innovations to financial success. Overall, the research emphasizes the critical role of innovation and technology in driving competitive advantage within the banking industry. It recommends that top management continuously expand their offerings of innovative products to remain competitive.

***Keywords***: *Influence; Innovation; Approach; Competitive; Structure; Tier 1*

## INTRODUCTION

Strategic positioning is the process of establishing and maintaining a unique place and image in the market for a banking and financial organization or its products and services (Dombrowski, Krenkel, & Wullbrandt, 2018). The goal is to differentiate this company from its key competitors by actual size and the way customers perceive its important characteristics compared to those of competitors. Porter (1980) identified three approaches to competitive strategy, including being the overall low-cost producer, differentiating products, and focusing on an identified market that a firm can leverage to improve its financial performance. To achieve success in strategic positioning, companies must create a distinct image and identity for their products or services, be aware of their strengths and weaknesses, exploit the opportunities available, and be able to adapt to changing circumstances by monitoring the market continuously. They must also be able to provide excellent service and build strong customer bonds to retain them over time (Ciobota, 2015). Ultimately, strategic positioning is crucial for banking and financial organizations to maintain a competitive edge in the market. The key to effective strategic positioning is to continuously monitor the market and adapt to changing circumstances. This requires a willingness to be flexible and to make changes as necessary to maintain a competitive edge. Companies that are successful in strategic positioning are those that can leverage their strengths to create a unique position in the market and differentiate themselves from their competitors. In addition, they must be able to provide excellent service to their customers and build strong customer bonds that will help to retain them over time.

In the United Kingdom, banking industry has been subject to product innovation in recent decades. These sorts of innovations often take place in one of two ways: either new financial instruments become accessible to customers or new institutions begin providing services that were previously unavailable. The "spectrum-filling" attribute of the innovation is the most important consideration in both scenarios (Hornuf, Klus, Lohwasser & Schwienbacher, 2021). The importance of product improvements to the investment banking industry cannot be overstated. In theory, these items are not overly complicated, and in fact, they have been traded for many years; nonetheless, it was not until the crucial work of Black and Scholes that it was able to price these products in an appropriate manner. However, developments in technology have made widespread application of such items conceivable. Because of advances in computing capacity, a wide variety of calculations involving increasingly complex derivative instruments are now feasible. These calculations cover a huge array of topics. In the past, banks were the exclusive providers of all services; but, with the advent of new innovations in the financial sector, these services can frequently be segmented into their individual components and delivered by distinct entities. This process of unbundling has lowered the entry barriers into the market because it is no longer necessary to provide the entire spectrum of services; companies are now able to focus on products and services in which they may be able to exploit some comparative advantage (Babajide et al., 2020).

In Brazil, banking industry was subjected to a number of extraordinary events, each of which resulted in substantial alterations to the sector's make-up. Many financial institutions found it difficult to adjust to the new environment. conditions that were put on them, which led to bankruptcies, mergers, takeovers, and privatizations as a result (Cavallo, Ghezzi & Rangone, 2020). Financial institutions often compete in broad marketplaces with many clients who are spread out over multiple locations. As a result, these institutions typically strive to attract customers by providing a diverse range of service options. Banks are implementing marketing strategies that target only a select sector in recognition of the fact that restricted resources prevent them from serving all clients in the market effectively. To realize the best chance for success, banks are pursuing this strategy (Kahveci & Wolfs, 2018).

Companies that are high-performing and effective generate radically different settings for their employees because they have a variety of human resources policies that are aimed at enhancing employee knowledge, abilities, and adaptability. According to Ndunga, Njati, and Rukangu (2016), the banking business is currently going through a period of hyper-competition in a variety of distinct fields all at once. In an effort to obtain a competitive advantage in today's digital age and to ensure their continued viability over the long term, financial institutions all over the world are doing research into future technologies and business models. Currently, the retail banking business in Africa only constitutes 38% of the country's GDP, which is half the average rate of emerging markets worldwide (Chironga, Cunha & De Grandis, 2018). On the other hand, banks in this region have obstacles in the form of low income and revenue rates, high levels of money use in the majority of countries, and limited coverage by credit bureaus (Zapp, 2017).

In Rwanda, businesses have successfully used a wide range of different business strategies, including strategic mergers and acquisitions, diversification, strategic partnerships, and more. Strategic positioning is crucial since it incorporates not only an analysis of the market but also an analysis of the competition, the segmentation of the market, and the analysis of the company's own internal operations. "Positioning" is the process of expressing to customers how they feel about a company's products or services, as well as how that company's performance compares to that of its competitors on key qualities, in the energy industry, which is highly competitive (Mukeshimana, Nkechi & Jefferson, 2019). The recent wave of liberalization and increased competition has forced businesses to re-evaluate their external and internal environment, develop new skills, and create strategic visions to achieve future success (Sthapit, 2020). To remain competitive, companies must adapt to changing market conditions and develop new capabilities that will allow them to thrive in the future. By doing so, they can better understand their customers and the shifting business environment, which will ultimately help them to improve their performance and achieve their strategic objectives.

Kenyan banks face the continued effects of competition within their industry. Despite being the largest banks in the world during the interwar period, the "big four" retail banks in Kenya have seen their cozy oligopoly weaken since the 1960s, with the financial services sector now characterized by intense rivalry and cutthroat competition. In this environment, an aggressive search for and development of strategies that provide competitive advantages is necessary to compete effectively, as competitors increasingly employ offensive and defensive strategies to protect and increase their market share. Commercial banks operating in Kenya, as well as those operating in other countries, have been significantly impacted by factors such as relative cost advantage, which may stem from different operating strategies, organizational structures, regulatory requirements, or support from home governments (Ontita & Kinyua, 2020). In order to remain competitive, banks in Kenya must adapt and develop new strategies that provide unique advantages, as the competition continues to evolve and intensify.

The condition of generating a monetary profit is referred to as performance. It refers to the ability to turn a financial or economic gain into further capital. The profitability of the bank is used as a measurement of performance. Making a profit is the basic objective of every commercial endeavor; without it, the company will not be able to continue operating successfully over the long term (Omar & Makori, 2018). A company's income and expenses were measured to assess its profitability, with income defined as the money made from business activities, such as interest income for banks, and expenses defined as the money or resources spent as a result of business activities, such as interest paid out by banks on deposits. The income statement is the primary tool for determining a company's profitability, which is the most important indicator of its commercial success. It is the responsibility of business managers to increase the company's profitability, and they are always seeking ways to change their businesses to achieve this goal. To increase profitability, strategies such as total quality management (TQM) have been adopted, which aim to reduce losses caused by loan defaults and ultimately increase the profitability of banks (Amahalu, 2020). This underscores the importance of adopting effective strategies to increase profitability and maintain a competitive edge in the marketplace.

The effect that rival strategies have on the outcomes of business operations was carried out by Sheikh and Kimencu (2017) at the Barclays bank in Garrisa County, Kenya and revealed that strengthening the overall performance of the enterprises may be aided by enhancing the bank's competitive capabilities, and this was the result they reached. According to the results of the investigation, improved performance is reliant on various aspects of marketing, including promotions, as well as the value that is delivered to customers. Within Kenya's banking system, which is divided into the three groups, there are a total of 43 different banks that are currently in operation. There is no such thing, in the strictest sense, as a public bank because every single one of them strives to generate profits openly, even though they all share the same burdens of unpaid loans and engage in risky enterprises as part of their regular business. Both public and private commercial banks are included in this category.

According to Central Bank of Kenya (CBK) Report (2022), the Companies Act regulates the banking industry, while the CBK oversees banking supervision and classifies commercial banks based on their assets. Barclays Bank, Standard Chartered Bank, NCBA Bank Group, Kenya Commercial Bank, Diamond Trust Bank (DTB), Stanbic Bank, Cooperative Bank, and Equity Bank are all Tier 1 banks. They are the largest banks in Kenya with hundreds of billions in assets and are not likely to collapse financially. CFC Stanbic, Eco Bank, HFCK, Diamond Trust, I&M, Family Bank, and NIC are all Tier 2 banks, whereas Baroda, ABC, Fidelity, Guardian, and Jamii Bora are Tier 3 banks, consisting of small banks. Understanding the bank classification system is essential in assessing the stability and financial strength of banks, as well as their potential for growth and competitiveness in the banking industry.

The Kenyan banking sector experienced a decrease in performance in 2020, with profits before tax falling by 29.3% to Ksh.112.4 billion. The decrease in profitability was attributed to a lower increase in total income compared to the increase in total expenses, with a 177.2% increase in loan loss provisions being a significant contributor. As competition in the Tier 1 banks in Kenya is high due to the similarity of their products, strategic positioning plays a critical role in achieving a competitive advantage. With the Tier 1 banks controlling the biggest market share in Kenya's banking sector, accounting for 74.76% on December 31, 2021, it is crucial that they maintain their market share with increasing competition as a result of innovations. Strategic positioning brings together market analysis, competitive analysis, and segment analysis to internal banking analysis, ensuring that the banks offer quality and value to their customers (CBK report 2020).

Previous research studies have examined the impact of strategic alliances and IT capability management practices on market share and competitive advantage in the banking industry. Despite this, there is still a void in research since the aforementioned studies were carried out in a variety of settings and did not concentrate on strategic positioning. The current study intends to analyze the impact of strategic positioning on the competitive structure of Tier 1 commercial banks in Kenya so as to fill the void left by the previous research in this area. The study deficit on strategic positioning in Tier 1 commercial banks in Kenya is not addressed by these studies, however. As a result, the purpose of this research is to fill this void by investigating the impact that strategic positioning has on the competitive structure of Tier 1 commercial banks in Kenya. The main of this study was therefore to determine the influence of innovation approach on competitive structure of Tier 1 Commercial Banks in Kenya.

## METHODOLOGY

### Research Design

Descriptive and correlational study designs were employed for this study. Due to the fact that the purpose of the study was to determine the nature and features of the influence of innovation approaches on the competitive structure of Tier 1 Banks in Kenya, a descriptive research design was the most suitable method to use in this investigation. This approach was suitable for the study because it rigorously examines the analysis of the correlations between innovation approaches and competitive structures of the tier 1 commercial banks

### Target Population

The target population for this study consisted of 334 managers who worked for Tier 1 commercial banks in Kenya. These banks include Equity Bank, Kenya Commercial Bank, Absa Bank Kenya, Diamond Trust Bank, Cooperative Bank, NCBA Bank Kenya, I&M Bank Limited, Stanbic Bank Kenya Ltd, and Standard Chartered Bank Kenya (Central Bank Report, 2021). All the branches including head office management staff in Nairobi County formed respondents in this study that included; finance management, relationship management, and agent relationship management departments of Tier 1 commercial banks were targeted. This population was sampled because they are the ones who had information about innovative approaches within the tier 1 commercial banks in Nairobi County, Kenya. As a result, the study population for this investigation consisted of the 334 respondents drawn from Tier 1 commercial banks that participated in the survey (see Table 1). Because of limits on both time and resources, the population of the research was restricted to Tier 1 commercial banks that were based in Nairobi County.

**Table 1:**
*Target Population Distribution*

| Tier 1 commercial Banks | Categories | Populations | Percentage (%) |
|---|---|---|---|
| Equity Bank | Branch Managers | 21 | 6.3 |
| | Finance Managers | 17 | 5.1 |
| | Relationship Managers | 21 | 6.3 |
| | Agent relationship managers | 27 | 8.1 |
| Kenya Commercial Bank | Branch Managers | 17 | 5.1 |
| | Finance Managers | 12 | 3.6 |
| | Relationship Managers | 17 | 5.1 |
| | Agent relationship managers | 22 | 6.6 |
| Absa Bank Kenya | Branch Managers | 8 | 2.4 |
| | Finance Managers | 6 | 1.8 |
| | Relationship Managers | 13 | 3.9 |
| | Agent relationship managers | 11 | 3.3 |
| Diamond Trust Bank | Branch Managers | 4 | 1.2 |
| | Finance Managers | 2 | 0.6 |
| | Relationship Managers | 6 | 1.8 |
| | Agent relationship managers | 8 | 2.4 |
| Cooperative Bank | Branch Managers | 14 | 4.2 |
| | Finance Managers | 8 | 2.4 |
| | Relationship Managers | 16 | 4.8 |
| | Agent relationship managers | 14 | 4.2 |
| NCBA Bank Kenya | Branch Managers | 6 | 1.8 |
| | Finance Managers | 4 | 1.2 |
| | Relationship Managers | 7 | 2.1 |
| | Agent relationship managers | 8 | 2.4 |
| I&M Bank Limited | Branch Managers | 3 | 0.9 |
| | Finance Managers | 2 | 0.6 |
| | Relationship Managers | 5 | 1.5 |
| | Agent relationship managers | 6 | 1.8 |
| Stanbic Bank Kenya Ltd | Branch Managers | 4 | 1.2 |
| | Finance Managers | 2 | 0.6 |
| | Relationship Managers | 4 | 1.2 |
| | Agent relationship managers | 4 | 1.2 |
| Standard Chartered Bank | Branch Managers | 4 | 1.2 |
| | Finance Managers | 2 | 0.6 |
| | Relationship Managers | 3 | 0.9 |
| | Agent relationship managers | 6 | 1.8 |
| Total | | 334 | 100.0 |

Source: Kenya Bankers Association (2022)

## Sampling Design

In this particular research project, the sample frame comprised of a list of respondents from Tier 1 Commercial Banks. These banks include Equity Bank, Kenya Commercial Bank, Absa Bank Kenya, Diamond Trust Bank, Cooperative Bank, NCBA Bank Kenya, I&M Bank Limited, Stanbic Bank Kenya Ltd, and Standard Chartered.

### Sampling Technique

All tier 1 commercial banks were included in this study. Sampling was done for employees only and not tier 1 banks. Probability sampling method was utilized where stratified random sampling was employed. The process of stratification is based on the individuals' similar qualities or attributes (Zimano & Chilunjika, 2019). The main objective of stratified random sampling is to ensure that each subgroup is adequately represented in the sample and that the subgroups are proportionately represented in the sample (Chandran & Swarup, 2017). The use of this method enhances the sampling efficiency, improves the accuracy of the estimation, and ensures that the sample is representative of the population (Kanji, 2021).

### Sampling Size

The number of respondents for this study was calculated using the Taro Yamane formula, which resulted in a sample size of 182 people from the following financial institutions: Equity Bank, Kenya Commercial Bank, Barclays Bank of Kenya, Diamond Trust Bank, Cooperative Bank, Bank of Africa, and Standard Chartered (Kothari, 2004). The following is a presentation of the formula that was used to compute the size of the sample:

$$n = N / (1 + N (e^2))$$

where;

n is the sample size,
N is the population size, and
e is the margin of error.

The Taro Yamane formula is commonly used to determine the sample size required for a given population size, margin of error, and confidence level (Mugenda & Mugenda, 2003).

$$n = \frac{334}{1 + 334(0.05)2}$$

$$= 182 \text{ Respondents}$$

**Table 2:**
*Sample Size Distributions*

| Tier 1 commercial Banks | Categories | Sample Size | Percentage (%) |
|---|---|---|---|
| Equity Bank | Branch Managers | 11 | 6.3 |
| | Finance Managers | 9 | 5.1 |
| | Relationship Managers | 11 | 6.3 |
| | Agent relationship managers | 15 | 8.1 |
| Kenya Commercial Bank | Branch Managers | 9 | 5.1 |
| | Finance Managers | 7 | 3.6 |
| | Relationship Managers | 9 | 5.1 |
| | Agent relationship managers | 12 | 6.6 |
| Absa Bank Kenya | Branch Managers | 4 | 2.4 |
| | Finance Managers | 3 | 1.8 |
| | Relationship Managers | 7 | 3.9 |
| | Agent relationship managers | 6 | 3.3 |
| Diamond Trust Bank | Branch Managers | 2 | 1.2 |
| | Finance Managers | 1 | 0.6 |
| | Relationship Managers | 3 | 1.8 |

| | | | |
|---|---|---|---|
| | Agent relationship managers | 4 | 2.4 |
| Cooperative Bank | Branch Managers | 8 | 4.2 |
| | Finance Managers | 4 | 2.4 |
| | Relationship Managers | 9 | 4.8 |
| | Agent relationship managers | 8 | 4.2 |
| NCBA Bank Kenya | Branch Managers | 3 | 1.8 |
| | Finance Managers | 2 | 1.2 |
| | Relationship Managers | 4 | 2.1 |
| | Agent relationship managers | 4 | 2.4 |
| I&M Bank Limited | Branch Managers | 2 | 0.9 |
| | Finance Managers | 1 | 0.6 |
| | Relationship Managers | 3 | 1.5 |
| | Agent relationship managers | 3 | 1.8 |
| Stanbic Bank Kenya Ltd | Branch Managers | 2 | 1.2 |
| | Finance Managers | 1 | 0.6 |
| | Relationship Managers | 2 | 1.2 |
| | Agent relationship managers | 2 | 1.2 |
| Standard Chartered Bank | Branch Managers | 2 | 1.2 |
| | Finance Managers | 1 | 0.6 |
| | Relationship Managers | 2 | 0.9 |
| | Agent relationship managers | 3 | 1.8 |
| **Total** | | **182** | **100.0** |

Source: Researcher (2022)

## Data Collection Tool

The purpose of the study was to determine the impact that strategic positioning has on the competitive structure of Tier 1 Banks in Kenya and analyze its implications. In this investigation, it was decided that a questionnaire was the most useful instrument to make use of. It is generally agreed that a questionnaire is the most accurate instrument for measuring self-sufficiency in terms of relationships, items, or events that already exist, as well as attitudes and behaviors that are self-reported (Creswell, & Creswell, 2017). Additionally, it is believed that the questionnaire is ideal since it enables data to be collected in a speedy and effective manner. The use of a questionnaire also makes it possible to conduct statistical analyses based on correlation and inference in addition to descriptive statistics. After doing a literature review on the specific research objectives, the researcher constructed the questionnaire based on the findings of the review. The utilization of questions taken from the relevant body of research not only helps improve the reliability and validity of the instrument but also helps save a significant amount of time when comparing the findings to those of earlier research.

The study used questions which was closed ended form to save time and facilitating simpler analysis because they happen to be in an instant usable form. The questionnaire entailed information of the organization which consisted of statement about the questions of research. The researcher applied the Likert 5- Point Scale; whereby 1 represent ‘strongly disagree, 2 represent ‘disagree’, 3 ‘neutral’, 4 represent ‘agree’ and 5 ‘strongly agree’. The questionnaires were categorized into two parts. The first part entails demographic information while the second section were questions related to the specific objectives of the study.

### Data Analysis Methods

The first thing that needed to be done was to go through the questions and cross out any that were unanswered or incomplete. This was followed by a double check to make sure everything was correct. In order to conduct an analysis of quantitative data and investigate the dynamic connection that exists between independent and dependent variables, descriptive statistics and the Pearson correlation were used. From the responses provided by the respondents, descriptive statistics were used in order to determine percentages, means, and standard deviations.

We employed linear regression analysis to investigate the nature of the connection that exists between the independent and the dependent variables. This method is appropriate anytime it is necessary to do a comparison between quantitative variables (the dependent) and any other elements that are said to be independent. The approach of data analysis known as multiple regression is adaptable and might be useful for accomplishing the aforementioned goal. In order to arrange and examine the data, the version 26 of the SPSS program was used. The findings of the research were simplified and made more simply digestible by the use of charts, tables, and graphs to explain the conclusions. The findings of the investigation were computed with the use of the equation for the linear regression model.

$$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \varepsilon$$

Where;

$Y$ = Competitive Structure of Banks
$X_1$ = Innovation Approach
$X_2$ = Strategic Assets
$X_3$ = Nature of The Product
$\beta 0$ = the constant term

The study findings were presented in various formats, including charts, tables, and graphs, to make the results easy to understand.

### Ethical Considerations

Data collection is an important process that involves several different steps that must be carried out before the primary study can begin (Mukeshimana, Nkechi, & Jefferson, 2019). One of the initial steps is to ensure that the research instrument meets the requirements outlined in the study's protocol. In addition, the researcher must obtain ethical clearances and permission from relevant institutional entities before initiating the data collection process. The researcher sought permissions from their supervisor and the research office to conduct the study. After obtaining authorization and a study permit from the National Council for Science Technology and Innovation (NACOSTI), the researcher proceeded to the next step of the data collection method, which was to begin collecting the data. As a result of the COVID-19 pandemic, the questionnaires were made available online, which made it possible for the researcher to gather replies that had been completed in a very short amount of time.

Personal administration of the questionnaires online provided a number of benefits, including the capability to carry out the research remotely and the capability to contact a large number of respondents in a relatively short amount of time. Prior to the administration of the questionnaire, the respondents were each given a copy of the introduction letter as well as the ethical review that was conducted by the institutional research board. Using this technique guaranteed that the respondents received enough information on the research as well as the method of data collecting. In addition to this, the researcher made certain that the respondents were enthusiastic about taking part in the study and were aware of their entitlements as participants. In general, the procedure of collecting the data was carried out in a way that was both professional and ethical, which ensured that the findings acquired were trustworthy and genuine.

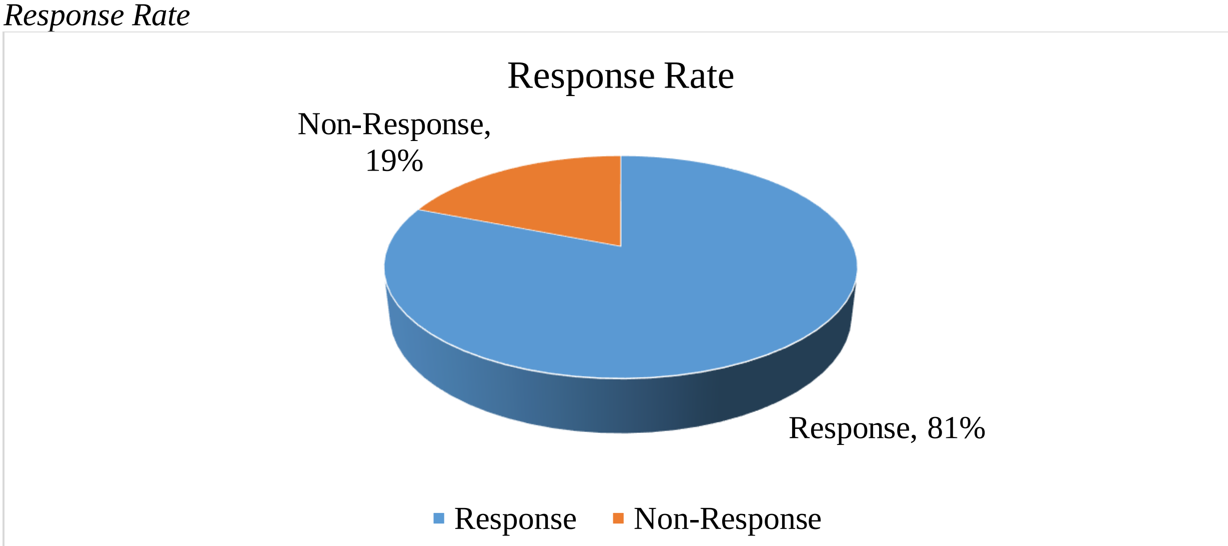
A test of questionnaire for the purpose of pretesting and validating the questionnaire was done. During this test, ten respondents were utilized for the purpose of testing the instrument's validity and reliability; however, these respondents were not included in the real study. According to Mugenda and Mugenda (2012), constructing the group that employ the test of the questionnaire only requires using 10% of the total size of the sample.

## RESULTS

### Response Rate

The researchers used stratified random sampling method to select 182 top managers from Tier 1 commercial banks in Kenya and distributed questionnaires to them. Among the distributed questionnaires, 147 were correctly filled out and returned, resulting in a response rate of 81%. Although some questionnaires were not returned due to the unavailability of the targeted respondents, the response rate was deemed adequate and representative by Brewer's criterion (2017) as it exceeded the minimum response rate of 50%. The response rate was also considered excellent and sufficient for analysis, conclusion-making, and result presentation, as per Kothari's (2019) classification. This high response rate reflects the respondents' willingness to participate in the study, which increases the validity of the findings. Thus, the results obtained from the returned questionnaires can be confidently analyzed and presented.

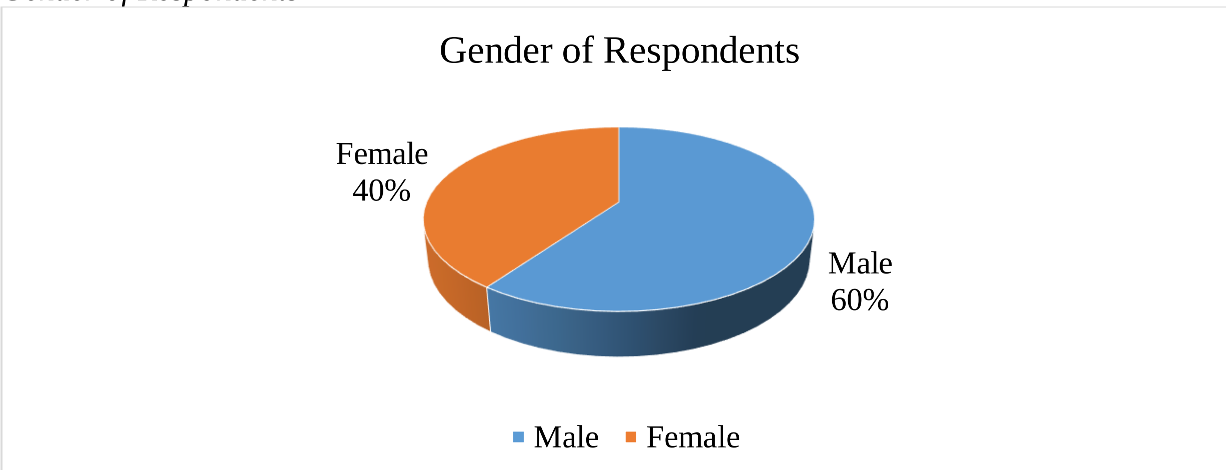
**Figure 1:**
*Response Rate*



**Gender of Respondents**

The research examined the demographic background of the respondents from the commercial banks. The findings revealed that 60% of the respondents were male, while 40% were female, indicating that the number of male respondents was higher than that of female respondents.

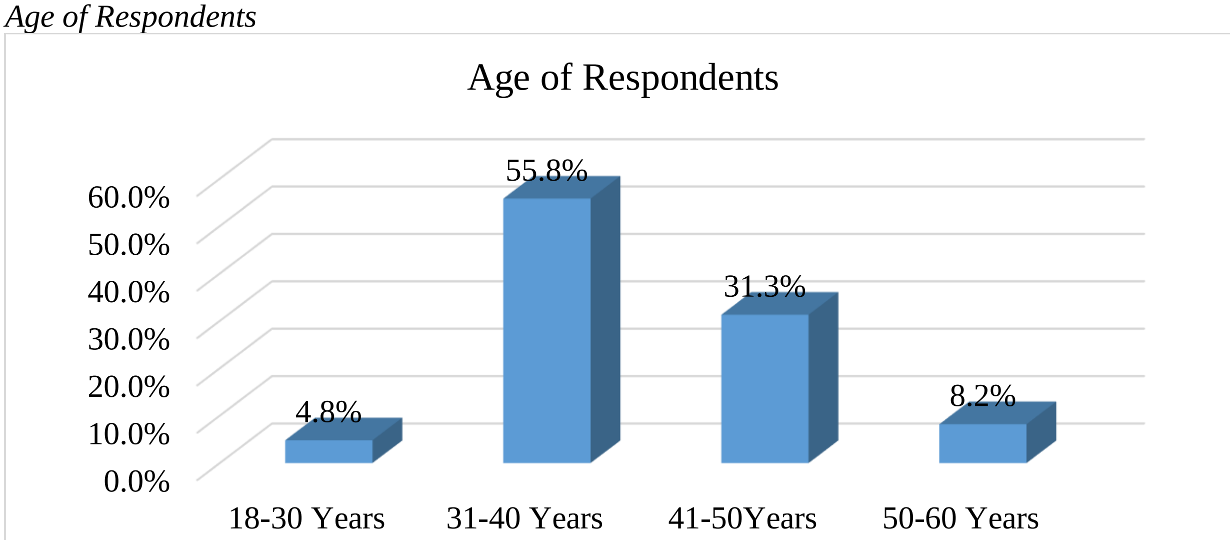
**Figure 2:**
*Gender of Respondents*




**Age of Respondents**

Based on the data collected, it was found that there was a low representation of respondents aged between 18 to 30 years at 4.8%, while the majority of respondents, which accounted for 55.8%, were between the ages of 31 to 40 years. In addition, 31.3% of the respondents were between the ages of 41 to 50 years, and only 8.2% of the respondents were aged between 50 to 60 years.

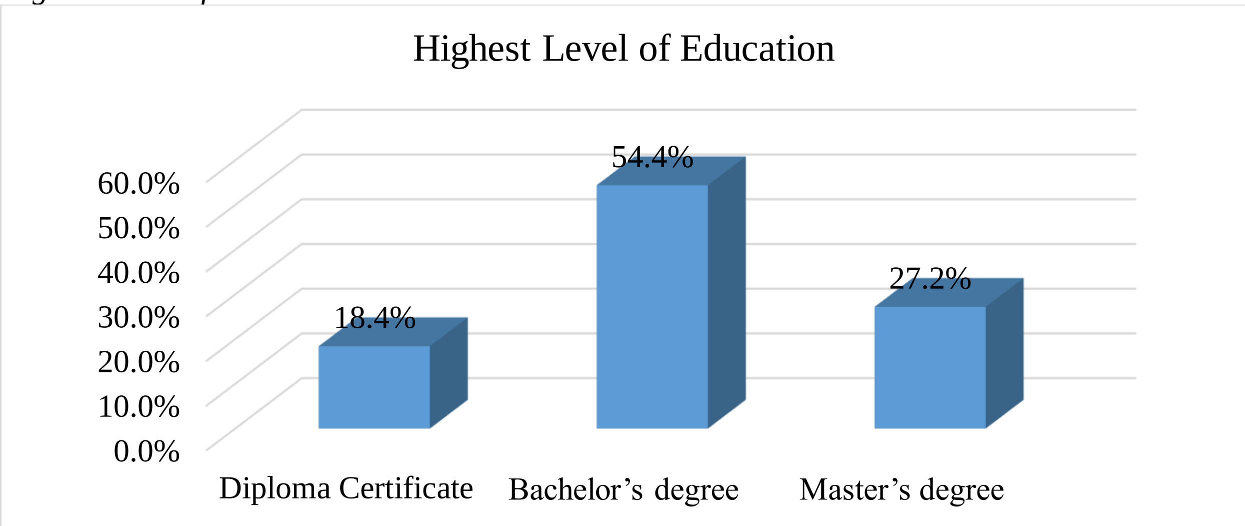
**Figure 3:**
*Age of Respondents*



### Highest Level of Education

The study's results revealed that a significant proportion of respondents had attained higher education levels, with 54.4% holding bachelor's degrees and 27.2% holding master's degrees. Furthermore, 18.4% of respondents had diploma certificates.

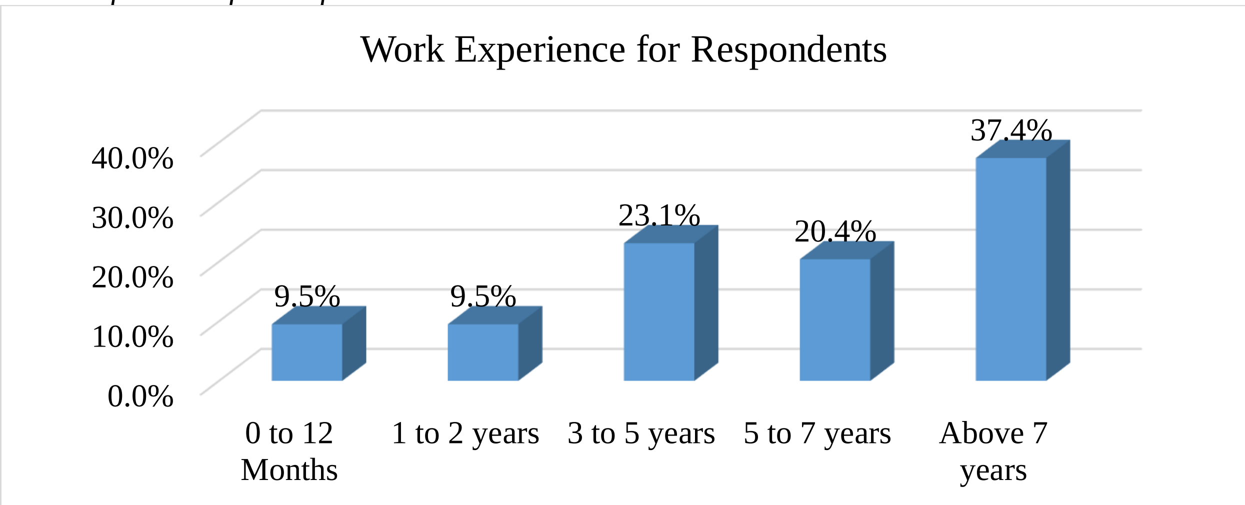
**Figure 4:**
*Highest Level of Education*




### Work Experience for Respondents

The study results presented in Table 4.5 indicate the length of service of the respondents in Tier 1 commercial banks. The majority of the respondents (37.4%) had worked for more than seven years, while 20.4% had worked for between five and seven years. Those who had worked for three to five years accounted for 23.1%, while those who had worked for one to two years and zero to twelve months were represented by 9.5% respectively.

**Figure 5:**
*Work Experience for Respondents*



### Influence of Innovation Approach on Competitive Structure

This study aimed to investigate the relationship between innovative strategies and competition among Tier 1 commercial banks in Kenya. The results showed a positive correlation between innovation and competitive structure, with means ranging from 3.4898 to 4.4014 and standard deviations ranging from 0.8412 to 1.3415. The study found that innovation is a significant source of sustained competitive advantage, with means of 4.2177 and 4.3810 and standard deviations of 0.9688 and 0.8627. Additionally, the research showed that the use of technology, including mobile banking and remote delivery of services, contributes to competitive structure, with means ranging from 4.0136 to 4.4014 and standard deviations ranging from 0.8412 to 1.0979. The study suggests that diversification of risk through the introduction of new financial instruments and incremental innovations can also contribute to financial success, with means ranging from 4.1837 to 4.3265 and standard deviations ranging from 0.877 to 1.0205.

**Table 3:**
*Influence of Innovation Approach on Competitive Structure*

| | N | Mean | Std. Deviation |
|---|---|---|---|
| The bank is required to continually broaden the range of creative goods and services it provides. | 147 | 3.4898 | 1.3415 |
| Throughout the banking industry, the innovative process has a significant impact on how possibilities are created. | 147 | 4.2177 | 0.9688 |
| It is generally agreed upon that innovation is one of the most essential factors contributing to a sustained competitive advantage. | 147 | 4.3810 | 0.8627 |
| The spread out of risk that results from the introduction of new financial instruments, such as the securitization of assets, is called diversification. | 147 | 4.3265 | 0.8771 |
| The provision of services is carried out from off-site locations, such as the mobile phones of customers, internet platforms, and automated teller machines. | 147 | 4.4014 | 0.8412 |
| The information and communication technologies are employed by nonbank-led models for the purpose of communicating transaction data, while bank-focused models use automated teller machines and the internet as access tools to a bank account. | 147 | 4.2925 | 0.9877 |
| It is believed that mobile banking may fulfill the specific requirements of unbanked clients. | 147 | 4.1837 | 1.0205 |
| Banks may improve their financial performance via the use of incremental innovations. | 147 | 4.0136 | 1.0979 |
| One of the very technologically-driven businesses, banking is one of the places where technical rivalry is fierce on both a national and international scale. | 147 | 4.2245 | 0.9494 |
| The technical capabilities of an organization are the primary determinant of that organization's capacity to create and market new goods. | 147 | 4.1837 | 0.9510 |
| The bank is required to continually broaden the range of creative goods and services it provides. | 147 | 4.3673 | 0.9442 |
| Average | 147 | 4.1892 | 0.9856 |

### Correlation Analysis between Innovation Approach and Competitive Structure

Table 4 presents the correlation between innovation approach and competitive structure of Tier 1 commercial banks in Kenya. The Pearson Correlation Coefficient of 0.815 (p=0.000) indicates a strong positive correlation between innovation approach and competitive structure. This means that an innovative approach by commercial banks is significantly associated with a positive competitive structure.

**Table 4:**
*Correlation Analysis between Innovation Approach and Competitive Structure*

| Correlations | | | |
|---|---|---|---|
| | | Innovation Approach | Competitive Structure |
| Innovation Approach | Pearson Correlation | 1 | .815** |
| | Sig. (2-tailed) | | .000 |
| | N | 147 | 147 |
| Competitive Structure | Pearson Correlation | .815** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 147 | 147 |

**. Correlation is significant at the 0.01 level (2-tailed).

### Regression Analysis between Innovation Approach and Competitive Structure

The results of the regression analysis presented in Table 5 indicate a strong positive correlation between innovation approach and competitive structure, with a correlation coefficient of 0.815. The adjusted R2 of 0.663 implies that 66.1% of the changes in competitive structure can be attributed to the innovation approach. However, there is a residual of 33.9% that may be explained by other factors beyond the scope of the current study.

**Table 5:**
*Regression Analysis between Innovation Approach and Competitive Structure*

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .815[a] | .663 | .661 | .42432 |

a. Predictors: (Constant), Innovation Approach

The researcher carried out a regression analysis with a 95% level of significance. Table 6 presents the findings of the ANOVA, which shows that the regression model was significant as the calculated F-value of 285.906 is greater than the critical F-value of 3.9059 at 1 and 147 degrees of freedom. The study also had a p-value of 0.000, indicating that there was a strong relationship between innovation approach and competitive structure.

**Table 6:**
*ANOVA between Innovation Approach and Competitive Structure*

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 51.478 | 1 | 51.478 | 285.906 | .000[b] |
| | Residual | 26.107 | 145 | .180 | | |
| | Total | 77.585 | 146 | | | |

a. Dependent Variable: Competitive Structure
b. Predictors: (Constant), Innovation Approach

From the results presented in Table 7, the study found out that the coefficient of innovation approach was 0.837, indicating a positive relationship between the two variables. This suggests that for every unit increase in innovation approach, competitive structure increases by 0.837 units. The regression equation is represented as Y= 1.146 + 0.837X1, where Y is the competitive structure and X1 is the innovation approach. The constant value of 1.146 represents the expected value of competitive structure when the innovation approach is zero. The t-value of 16.909 was significant at the 0.01 level, indicating that the innovation approach has a significant effect on competitive structure**.**

**Table 7:**
*Coefficients between Innovation Approach and Competitive Structure*

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 1.146 | .171 | | 6.685 | .000 |
| | Innovation Approach | .837 | .049 | .815 | 16.909 | .000 |

a. Dependent Variable: Competitive Structure

## DISCUSSION

The findings of this study affirmed the existing body of literature on the significance of the innovative approach in shaping the competitive structure of commercial banks. A strong positive correlation (0.815) was found between the innovation approach and competitive structure, reinforcing the studies conducted by Abualloush et al. (2016) and Loi & Dang (2023). Their research demonstrated that innovative financial products and services allow banks to tap into new customer bases and penetrate previously unexplored markets. This parallels our findings, suggesting that an innovative approach can enhance the competitive framework, acting as a key determinant of success for Tier 1 commercial banks in Kenya.

Product innovation, an integral part of the innovation approach, has been repeatedly validated by research as a significant contributor to increased market share, customer loyalty, and profitability in banking (Abualloush et al., 2016; Zarutskie, 2013; Loi & Dang, 2023). The data analyzed in our research further consolidates this proposition, indicating that the product innovation dimension of the innovation approach accounts for substantial changes in the competitive structure. It suggests that innovative banking products and services not only attract new customers but also significantly enhance customer loyalty by catering to their evolving needs, reflecting the views of Yasar (2020) and Zarutskie (2013).

Service innovation, another aspect of the innovation approach, has also been recognized in previous literature as a defining factor in bank differentiation, customer loyalty, and operational efficiency (Adi & Suwardana, 2021; Zarutskie, 2013; Abualloush et al., 2016). Consistent with these studies, our regression analysis demonstrated a significant correlation between service innovation and competitive structure. Moreover, our findings revealed that service innovation directly influences customer satisfaction and loyalty, aligning with the research of Liu et al. (2021), which emphasizes the role of service innovation in fostering trust and personal connection with customers.

Technological innovation, which includes mobile banking applications, personalized digital services, and data analytics, has been identified as another vital component of the innovation approach. The research conducted by Al-Dmour et al. (2023) and Chesaina & Gitonga (2019) corroborates our findings, demonstrating that technological innovation significantly influences customer engagement and competitiveness. The integration of technology in banking processes leads to enhanced customer experience, increased efficiency, and cost reduction. Further, our findings suggest that tech innovation has transformed service delivery channels, enabling greater customer access and differentiation, aligning with the insights of Wonglimpiyarat (2018) and Abad-Segura et al. (2020).

Lastly, process innovation, described in our study as a component of the innovation approach, is identified in prior research as a mechanism that boosts efficiency and enhances customer experiences (Duong & Swierczek, 2019; Chesaina & Gitonga, 2019). In line with these studies, our regression analysis emphasized the positive correlation between process innovation and competitive structure. The finding suggests that banks can enhance their competitive edge by refining their processes and making them more customer-centric, echoing the insights of Arthur (2017) and Abad-Segura et al. (2020). These results underscore the critical role of process innovation in managing risk, compliance, and building trust, ultimately strengthening the competitive stance of commercial banks.

## Conclusion (s)

In conclusion, the banking industry has witnessed an increase in the availability of innovative goods and services, particularly among Tier 1 banks. The innovation process plays a significant role in identifying and pursuing opportunities, making it a key source of long-term competitive advantage. Technological advancements have had a significant impact on the financial services industry, and a bank's ability to compete on both a local and global scale, as well as its technological expertise, determines its ability to create and promote new products. Banks that are early adopters of new technologies and innovations will continue to remain ahead of their competitors and create value for their customers. Banking models that use automated teller machines and the internet as access methods have been implemented, and mobile banking has been identified as a solution to meet the needs of unbanked customers. Incremental innovations have also proven to be beneficial to the overall financial performance of banks.

## Recommendation (s)

To remain competitive in the financial industry, Tier 1 banks must consistently offer innovative products and services, which requires top management to prioritize and expand their range of offerings. Innovation is a crucial factor in gaining and sustaining a competitive edge, and banks must continually implement strategies to align their operations with the latest technological advancements. This ensures their relevance in the market and enhances their ability to compete.

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