INFLUENCE OF SERVICE INNOVATION ON COMPETITIVENESS OF COMMERCIAL BANKS IN KENYA

JEREMIAH MWIRIGI SIMBA

A RESEARCH PROJECT IN PARTIAL FULFILMENT OF THE RQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2021

DECLARATION

I declare that this research is my original work and that it has never been submitted for an academic credit before

20/04/2021

………………………………… …………………………………

JEREMIAH MWIRIGI SIMBA **DATE**

REG: NO: D61/67200/2013

SUPERVISOR: DATE: 28/04/2021

DR. MUYA NDAMBUKI

LECTURER, SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this work to my wife Winfrend Muroki, who has been beside me every step of the work and whose support has ensured that I give it everything I have to finish what I have started. To my children Dylan (Kababa) and Nyla (Mama), who have been impacted by my quest in every manner conceivable. I also dedicate it to my late father, who taught me that even the most difficult work can be completed by taking one step at a time.

ACKNOWLEGGEMENT

I'd want to thank my family for their spiritual and financial support. I am particularly thankful to Dr. Muya Ndambuki, my supervisor, for his constant advise, direction, support, and timely remarks on this research endeavor. I'd also want to thank the members of the Department of Business Administration's personnel.

ABSTRACT

The main objective of this study was to determine the influence of service innovation on the competitiveness of Kenyan commercial banks. The research employed Schumpeter's theory of dynamic capacity and innovation. To evaluate the link between service innovation and competitiveness of Kenyan commercial banks, a descriptive survey technique with means and standard deviation was employed. The census research included a sample of 43 commercial banks, and the data obtained from the study was put to basic regression analysis to examine the relationship between the variables. On service concept innovation, nearly the respondents agreed with all statements except customer care operators with service experience. On customer value, strong collaboration with customers, improvement of service operations and benchmarking service outcomes with rivals were all strongly supported. It was further indicated that most of the banks innovated their channels using web and mobile banking. Use of bank agents and partnering and use of direct mails were also highly supported as methods of channel innovation. Use of automated teller machines was not so highly supported aa a means of attaining competitiveness. For organizational learning innovation all statements were highly supported except changes in organizational routines. The regression analysis results indicate that 57.9 % of the dependent variable was explained by service innovation. ANOVA test revealed a statistically significant link between service innovation and competitiveness. It is concluded that the findings support the theories anchoring the study. Recommendations are finally made for practice, policy and future research.

TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION 1
1.1 Backgroun of the study 1
1.1.1 Service Innovation 2
1.1.2 Firm Competitiveness 4
1.1.3 Kenya Commercial Banks 5
1.3 Research Objectives 8
1.4 Backgroun of the study 9
CHAPTER TWO: LITERATURE REVIEW 10
2.1 Introduction 10
2.2 Theoretical Literature 10
2.2.1 Schumpeter Theory of Innovation 10
2.2.1 Dynamic Capability Theory 11
2.1 Empirical Review 15
CHAPTER THREE: RESEARCH METHODOLOGY 20
3.1 Introduction 20
3.2 Research Design 20
3.3 Population 21
3.4 Data Collection Method 21
3.5 Data Analysis 21
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION 23
4.1 Introduction 23
4.2 Response Rate 23
4.3 Demographic Information of Respondent Institution 23
4.3.1 Age of Banks 23
4.3.2 Ownership of the Bank 24
4.4 Descriptive Statistics of Service Innovation 25
4.4.1 Service Marketing Innovation 25
4.4.2 Service Concept Innovation 26
4.4.3 Service Channel Innovation 26
4.4.4 Organizational Learning Innovation 27

4.5 Findings of the Regression Analysis 28
4.6 Discussion of the Findings 30

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ... 32
5.1 Introduction 32
5.2 Summary 32
5.3 Conclusion 33
5.4 Recommendations 34
5.4.1 Recommendations for Practice 34
5.4.2 Recommendations for Policy 34
5.4.3 Recommendations for Further Studies 35
REFERENCES 36
APPENDICES 40
APPENDIX 1: QUESTIONNAIRE 40
APPENDIX 2: LIST OF COMMERCIAL BANKS IN KENYA 42

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Service innovation refers to as something new which is seen to be of benefit to the targeted or interested groups or individuals (Mugane & Ondigo, 2016) which is of great value to the existing and future organizations and their customers (Lily & Juma, 2014). The concept of service innovation is understood to encompass different areas and levels of development interactivity in the entire service process in an organization (Melese, 2016). In the service business, service innovation is widely acknowledged as one of the cornerstones of company competitiveness (Yunus, 2017).

Thus, service innovation application in the service industry enhances dynamism and growth of the firms for example in the banking industry. Moreover, the banking industry seeks to improve services through service innovation (Mugane & Ondigo, 2016). However, many of the banks have failed to innovate services to remain competitive in the industry (Gebauer, 2008). This failure of service innovation has led to poor competitiveness in the (Prajogo & McDermott, 2011) as some of the banks have collapsed or eliminated from the market (Baines, 2009 Lily & Juma, 2014).

The current study is anchored on the Schumpeter Theory of Innovation and Dynamic Capability Theory. Schumpeter (1934) argued that entrepreneurs (commercial banks) have means to create various opportunities to increase their profits through innovations. This will in turn attract the imitators due to super-profits to start a wave of investment which lead to a competition which with time erodes the existing profit margin. Further, in relation to this study Dynamic Capability Theory also expounds competitiveness of the commercial banks based on the capabilities of the organizations which according to Mugane and Ondigo (2016) citing porter (1980) argues that the competitive forces in the market require an approach which is seen as a dominant paradigm in the sector which the organization operate. It is a dynamic environment which is never static in which the commercial banks operate as they try to balance the cost and perceived value by the customer in relation to the profits, they intend to make than their competitors (Ambrosini et al.,2009; Tang & Wang, 2014).

In relation to the current study service innovation has a relationship with the competitive advantage in the banking industry which is aggressively leveraged on the information technology, human resource management, product offerings, branch network, marketing, Transaction processing and differentiations that are difficult for rivals or competitors in the market to replicate (Kariuki, 2017). According to Kungu, Desta and Ngui (2014) service innovation in the banking industry can regulate the operations costs, profit margins adjustments, market share competition, changes in regard to demographic and behavior of consumers impacting banks' ways of operations for them to remain competitive in a dynamic business environment. The commercial banks have to find means to innovate services to improve their competitiveness.

1.1.1 Service Innovation

Service innovation is explained from different angles basically anchored on the service processes, firms and product (McDermott & Prajogo, 2012). This concept has been adopted also in the banking industry (Kindström & Kowalkowski, 2014; Ettlie & Rosenthal, 2012;

Gremyr and colleagues, 2010). The notion of service innovation is customer-oriented, with the goal of increasing the competitiveness of companies operating in various industries. Customer orientation enhances service innovation (Ordanini & Parasuraman, 2011). Close communication with consumers is encouraged through service innovation (Gustafsson, et al., 2012). Hillebrand et al., (2011) asserted that service innovation includes technical changes, practices, and portfolio structures that encourage innovativeness in order to increase the firm's competitiveness.

Service innovation can be explained as being reflected in the dynamic organizational learning and learning orientation improve competitive advantage (Dao & Yang, 2014). Service innovation enhances learning in the organization which can improve innovation and enhance competitive advantage of firms in a particular industry (Sanz-Valle et al., 2011; Jiménez-Jimenez et al., 2008). However, many service firms such as commercial banks in particular struggle to earn profits (Stanley & Wojcik, 2005; Baveja et al., 2004;), in terms of adoption of service innovation can lead to customer loyalty.

The objective of this study is to determine how innovation in services can benefit the financial sector the most. According to the fullness of commercial banks, as customers have a far bigger role to play in igniting service innovation (Gustafsson, et al., 2012), the study will use a two-dimensional measure of competitiveness: Financial and customer performances.

1.1.2 Firm Competitiveness

A competitive firm it’s the one in a position of creation of value in the process which is not easily imitated or duplicated by any other firm in terms of service quality, leadership, technology and innovations (Ngugi & Karima, 2013). Lack of service innovation has been attributed to poor sustainable competitive advantage among firms. This can lead to weaker firms being pushed out of business and the new entrants lowering attractiveness of the industry leading to declined profitability as they limit the price levels in the market.

According to Ambrosini et al. (2009), firm competitiveness is understood to be an activity carried out with the view to create a superior value above its rival. The competitive firm will create a gap between product cost and perceived value always being to supersede that of competitors. The adoption of service innovation can enhance the competitiveness of a firm as it is in a position to improve its position, resources, firms’ activities and managerial choices effectively. Service innovation is a strategy a firm can adopt to improve its superiority than its competitors. It will improve the skills, position and resources in the banking sector (Kamukama, Ahiauzu & Ntayi, 2011).

Palou and El Sawy (2006) argues that in the global scope, many firms are forced to improve service innovation to establish competitive advantage to their rivals. Due to the global and international markets, only businesses that have improved in terms of service innovation and are capable of creating and maintaining competitiveness in a complex and unpredictable business environment will survive (Pavlou, & El Sawy, 2006; Teece, 2006, 2007). The business working environment has rapidly changed creating uncertainty in the market. This is due to dilution of borders, customer expectations as the competitive environments move towards global competition, and to sustain competitive advantage, firms need to adopt innovative solutions to challenges (Kraaijenbrink, Spender & Groen, 2011).

1.1.3 Kenya Commercial Banks

Within Kenya, as of February 2020, 42 commercial banks were in operation. Commercial banks in Kenya are governed by the Kenya Bankers Association (KBA), which is entrusted with advocating for its members' financial interests. The association of the bankers has created a forum to champion their issues which affect the members in the banking industry in the country. For the last three decades there has been continued growth of the banking industry assets product offering, profitability of the deposits and assets growth. The growth has been mainly associated with the innovativeness of the commercial banks anchored on the services they offer in terms of expansion strategy and branch networking in Kenya and East Africa community countries. This has led to improved automation of services which has led to several products through technology such as mobile banking technological innovations which have revolutionized the industry (Kahathu, 2016).

The Kenyan banking industry saw remarkable growth and improvement in assets during the period ended December 2019, led by increases in capital infusion, profit retention, and deposits. Within a comparable time in 2018, the industry saw an increase in capital profits and a decrease in non-performing loans (CBK, 2019). The competitive advantage of the commercial banks has been affected by the new regulations from the CBK which have been revised from time to time.

Further, there has been a service innovation adjustment in terms of technological advancement in the sector brought by the dynamic technological adjustments especially through the internet and mobile banking. Moreover, the cooperatives societies have improved their service innovation in terms of offering cheaper products for their members with a conducive front-end service for their members which have come to be competitive to the banks (Malesi & Njeru, 2017).

1.2 Research Problem

Globally, organizations in different sectors have adopted various forms of service innovations in order to become more competitive in a dynamic competitive environment (Ombongi & Long, 2018). In many of service firms, total sales percentage is usually provided to the service innovation budget. It is confirmed that service innovation if adopted and applied effectively and efficiently will improve competiveness of the firms (Musau, 2018). Service innovation has been proved to reduce the operations costs and improve profitability of the firms especially in the service industry (Kemunto, 2018). It has been discovered to be the only option available for the service industry to succeed in today’s competitive and dynamic business environment especially in the banking industry (Kungu, Desta & Ngui, 2014).

In recent past, the Kenyan banking industry has undergone a lot of challenges and changes in the competitive business landscape. This has seen various new entrants leading to cut throat competition to the existing ones (Njogu, 2014). For example, the Imperial bank put under statutory management coupled with the fall of Chase bank in March 2016 and Dubai Bank of Kenya put under receivership due to banking guidelines flouting for a spate of years to mention a few. Chase bank was later put under receivership (Malesi & Njeru, 2017; Kahathu, 2016). Moreover, the bank profits on average have been erratic in the last decade. In particular, the decline of profits before tax was less than 12% averagely in the years 2012. In the year 2013, show PBT decrease by 14.8%; in the year 2014, show PBT of the Kenyan banks decrease by 13.2%; 2016 PBT of the Kenyan commercial banks decreased by 17.2% as compared to the year 2017 when PBT decreased by 12.6%. This trend is not impressive since bank sector reforms have been carried out to improve profitability of the sector in the country in the last two decades (Sporta, 2018).

Empirical studies have been conducted related to innovation and competitiveness of firms in different sectors. For example, Lin, Luo and Zhou (2015) study intended to establish relationship between service innovation antecedents and China manufacturing firms. The study results revealed a positive relationship between service innovation antecedents and China manufacturing firms.

The study by Hanif and Asgher and Haniff (2018) on the impact of innovation in financial services in Pakistan and Malaysia showed a positive and significant impact. In the same vein, Wang et al. (2015) empirically tested the innovation typology to guide service innovation towards a new model of business performance product and service delivery process. The study points out a significant relationship of service innovation antecedents with the performance of the business though the model lacked clarity on the mutual relationship. Locally, the empirical studies carried out include Mbwika (2016) on the service innovative practices and customer satisfaction in the Kenyan commercial banks, revealed a statistically significant relationship between service innovation and customer satisfaction.

Mbigura (2012) sought to establish how technology can enhance Kenyan commercial banks competitive advantage. The results showed that ATM technology investment increased competition among financial sector players. According to prior research, no action has been made to demonstrate the link between service innovation and competitiveness among Kenyan commercial banks. As such, this is research meant to fill in the blanks. The research topic was answered: How does service innovation influence the competitiveness of Kenyan commercial banks?

1.3 Research Objective

The study's goal was to determine the link between service innovation and competitiveness of Kenyan commercial banks.

1.4 Value of the Study

The findings of the study will provide important information about service innovation to Commercial Banks in Kenya. This will improve on the strategic decision making in terms of product development and marketing. Moreover, the commercial banks will devise appropriate innovative services which can improve their competitive advantage in the turbulent and dynamic business environment. In addition, the regulator, the Central Bank of Kenya together with the Kenya Bankers Association will benefit from the study through policy reengineering in terms of service innovation leading to improved performance. Furthermore, scholars will find information generated in lieu of service innovation useful to their research. The results of the study will form a good foundation and bridge the research gaps in this study area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The focus of this chapter is to review literature related to service innovation and organizational competitiveness in order to establish the groundwork for future study. Further, the chapter has highlighted the conceptual explanations related to the variables with the theoretical literature, empirical literature summary and empirical research gaps explained.

2.2 theoretical Literature

This section describes the principles that serve as the foundation for the study. The Schumpeter Theory of Innovation and the Dynamic Capability Theory are two complementary philosophies. Service innovation and business competitiveness are explained by these theories.

2.2.1 Schumpeter Theory of Innovation

Schumpeter proposed the Schumpeter Theory of Innovation, which is commonly known as the Innovation Theory of Profits, in 1943.The basic tenets of the theory hold that the entrepreneur main functions is the introduction of an innovation in the economy with the intention of being rewarded with the profits from the introduced innovation. Schumpeter explains that the introduction of an innovation will reduce the production costs and increase the demand for the product. This will lead to an increase of the profits and cost of operations will reduce (Cantwell, 2010).

In addition, Schumpeter Theory of innovation holds that implementation is key than conception of innovation to increase the profits which tend to be temporary as the rivals tend to compete as they imitate and adopt the similar innovation. The current study will adopt the Schumpeter Theory of innovation as it introduces the meaning of innovation as a key determinant for enhancing competitiveness of commercial banks in the country. The Schumpeter Theory of innovation refers to as the dynamic nature of the commercial banks to innovate to be competitive in terms of increasing profits. The profits with time get eroded as the commercial banks imitate one another to share the market.

2.2.2 Dynamic Capability Theory

The theory is anchored on the resource-based perspective (Collis & Montgomery, 1995). The dynamic capabilities are a resource to an organization for it to remain competitive in ever dynamic and turbulent business environment. Dynamic capabilities are the renewed competences a firm possess which the rivals lack and adapt in the business environment (Teece et al., 2017). In terms of strategic management capabilities, they encompass adaptation, integration, transformation, vocational training, functional skills and skills to keep pace with the demands of ever-changing market environments. The principle of dynamic capabilities focuses on a company's capacity to revitalize its capabilities in accordance with the changing business environment.

According to dynamic capability theory, a competitive business will tend to develop capabilities and ensue resources are generated, integrated, recombined, and released in tandem with changes in the environment. (Eisenhardt & Martin, 2000). According to Collis

(1994) states that dynamic capabilities provide the direction which an organization takes to ensure that tit reaps maximum profits from the market. Teece et al. (1997) states that dynamic capabilities of a firm will provide the integration build and reconfigure the external and internal competences in the ever-changing business environment. The dynamic capabilities of a firm is an approach which is not only inward-looking perspective of the firm, it is also a central focus among the firms as a strategy they employ to gain competitive advantage. This study will therefore be guided by a review of the Dynamic Capability theory to show the relationship between service innovation and Kenyan commercial banks competitiveness.

2.3 Service Innovation

The concept of service innovation aims to customize, integrate a combination of products, services and provide relevant information intended to solve problems of customers (Sawhney et al., 2006). The service innovation adopted in an organization will enhance it to discover the customer segments and uncover the needs which are unmet. The first area of service innovation is in the innovation of sales practices, that is, the execution of new products, in terms of significant adjustments in, placement, product packaging design, pricing or promotion (OECD Oslo Manual, 2005). Service market innovation is intended to address customer needs by ensuring customer need are met, new markets being opened, positioning of new firms' product aiming to increase sales from the firm.

Service innovation can also focus on the technological innovation. According to Al-alack and Tarabieh (2011) indicated that service technological innovation can lead a firm to gain competitive advantage through differentiation, and customer orientation especially in the service industry such as the banking sector. Giraldo (2010) posits level of technology can enhance interaction and knowledge transfer among different stakeholders internally and externally. Further, the technological innovation can reduce lead cycles, production and operation costs, improves delivery of new services of the firm.

Service process innovation is used to improve the original or considerably improve the firm's production or delivery technique. This will necessitate significant modifications in infrastructure, software, and processes. The service process innovation will lead to decrease of production costs and delivery costs, improve on the quality and improved on the existing products (OECD Oslo Manual, 2005). Fagerberg (2004) put more emphasis on service process innovation will improve the products to have a clear, positive and significant improvement of the firms' competitiveness. This is due to reduction of costs.

The banking sector, Kaithia (2014) explains that most visible innovations include exploitation of internet technology to improve online transactions. The other process innovations in the banking industry also include the development of a new, customer service integration of back-office system, automated to outsource and administration functions. The process innovation improves the core operations (credit risk assessment, sanctioning, contactless payment systems among others).

According to Arungai (2014) states that a service or a distribution channel is adopted by the service industry to deliver services to the customers. In particular, a bank typically employs companies to distribute channels classified as mixed multichannel (it does not establish face-to-face contact) with bank staff members. Service channels used by financial institutions include: Internet banker, automated reporting devices, social media bankers, mobile bankers, field agents, call centers and direct mail. The banks which have adopted service channel innovation have reduced the operation costs and have remained competitive in the market. They are able to migrate simple transactions, services and products away from tellers towards direct channels for the convenience of their customers.

An organizational innovation concerns new organizational method, workplace organization or improvement in the external relations of the firm. Argote and Miron-Spektor (2011) reiterates that organizational innovation is an important ingredient for firm performance. In service industries, service innovation is carried out through the improvement in the organizational structure and management (Jiménez-Jiménez & Sanz-Valle, 2011).

Organizational innovations in a firm usually tend to improve the performance of the firms in terms of the reducing the transaction and administrative costs. They will improve job satisfaction (labor productivity) and improve access to non-tradable goods (uncodified external knowledge) (OECD, 2005). This can be carried out through the establishment of the lessons learnt, other knowledge on the best practices so that they are accessible to the customer; training programs introduction, procedures, organizational routines, information sharing, coordination, collaboration, learning and innovativeness.

2.4 Firm Competitiveness

Firm competitiveness is as a result of a firm’s foundational assets such as efficient operating systems, trusted suppliers and loyal customers which the rivals don’t have or are difficult to imitate or steal (Chang & Zhang, 2013). Various authors have used different measurement for firm competitiveness. Return on assets (ROA) and return on equity (ROE) are standard measures of financial institutions' competitiveness (ROE). Other metrics used include market share and sales volume predicated on gross sales. The basic principle of these is to measure the profitability, process and efficiency (Jiang, Bao, Xie, & Gao, 2016).

The firm competitiveness according to Omonge (2012) is seen as the capability of a firm to provide services as well as goods which meet the local and world markets prices within the expected quality standards which are competitive. Firms’ competitiveness is determined by a target size of a market, minimal competitor power, customers and access to the resources (Makau, 2012). The competitive firms ensure that the customers are able to differentiate its services or products from the rivals.

Further, according to Lin (2013) service innovation improves bank performance. It has a strong positive link between the service innovation and competitiveness (customer satisfaction and retention). The firms which adopt and apply service innovation create competitive edge than rivals in the business market unlike the ones that fail to adopt and apply to effectively utilize it. Service innovation can create competitive edge in firms since it will lead to attraction of more customers and can lead to customer satisfaction and retention (Kaithia, 2016).

2.5 Empirical Review

Lin's 2013 study aimed to establish an integrative model for service quality, service innovation and performance in the Chinese tourism business. The study had a sample size was 277 respondents. The results of the study indicated that innovation in services affected business performance both directly and indirectly. Quality of Service was significant for its important and positive role in mediating innovation and business performance. In addition, it was found that the mode of innovation was cost reduction, since the internal cost was canceled rather than improving the quality of service. In addition, the quality of service has been established that through assurance and reliability, service innovation had an impact on firm performance.

The goal of Ngeera's (2013) research was to investigate the impact of dynamic capacity on Kenyan commercial banks. The survey used a cross-sectional evaluation research to determine estimations of intrinsic business ability. The study target population was 41 commercial bank managers. The study results showed that dynamic capabilities coupled with service innovation enhanced banks' performance. Further, it was found out that market trends, customer demands, company vision and mission were the main innate factors which affected dynamic capability approaches application in the banks.

Pavier and O'keeffe (2012) in their study on the technological innovation, distribution channels on banking industry, investigated the relationship between technological innovation and customer services involving consumers access to their accounts through alternative banking. Similarly, Kanchan (2012) while focusing on the banking service channel improvements as part of the service innovation, established that the banks which focused on the sales through online channels were competitive.

Aas and Pedersen (2011) empirically investigated whether the Norwegian firms which adopted service innovation improved financially. The research was conducted in 3575 Norwegian manufacturing firms. It was hypothesized that firms focusing on service innovation significantly had higher growth. The study findings discovered that service innovation had a significant positive role on improvement on the financial performance of the Norwegian manufacturing firms. Relatedly, Wang, Ta and Chnag (2018) provided findings on how service innovation led to improved satisfaction of customers and retention in the telecommunication services context. The study used a dataset of 402 service users of telecom from Vietnam. The study postulates a substantial and positive link existed between supportive as well as interactive innovation, customer satisfaction, and retention among Vietnamese service consumers. Forming the results of the study, it was found that interactive innovation and support, customer satisfaction and customer loyalty among users was significant within telecommunications services in Vietnam.

Cox, Richard and Tamkin (2012) underpinned that service innovation in terms of organizational innovation can enhance competitive advantage. This can be carried through staff development and knowledge sharing. Mavondo, Chimhanzi and Stewart ‘s (2013) study focused on the organizational innovation dimensions which included the product, process and administrative innovation. The study findings established that product, process and administrative innovations were important manufacturing firms' predecessors. These enhanced create competitive advantage of the manufacturing firms.

Naceur and Kandil (2009) study findings indicated competitiveness was improved through innovation. Kariuki (2017) established that innovation of service improved companies' competitive advantage. The study concluded innovation of service underscored was not well known for the commercial banks. Furthermore, Mansharamani (2005) study focused on a theory of innovation of services. They focused on the evaluation of the uniqueness of services to improve competitive advantage of firms. The study results indicated that services innovation played significant role on firm performance

Al-alack and Tarabieh (2011) study focused on the service innovation and competitiveness (market differentiation, customer orientation and innovation differentiation) in Jordan banking sector. The study findings showed that the banks were finding difficulties to gain competitiveness without innovation of services. Similarly, Gunday et al (2009) and Hassan et al (2013) The research concentrated on the influence of different forms of innovation on business performance. The research revealed how the businesses maintained a defensible stance in order to remain relevant, by focusing on the analysis of innovation and investigation capturing on product, process, organizational and marketing innovations. Nonetheless, the study left out innovation of services and firm performance.

A study by Ngugi and Karima (2013) focused on the innovation strategy and Kenya's bank performance. The study failed to be specific on how service innovation played a significant role on Kenyan competitive advantage as is the case in the current study. Similarly, Bwaley (2011) study focused on innovation strategies and Kenyan banking sector competitive advantage. The study was based on the NSE listed banks and study failed to include all the commercial banks and competitiveness of commercial banks is based on the adopted service. Furthermore, Giraldo's (2010) research focused on technical service innovation and business performance. According to the report, service innovation has an impact on the service business. The current study seeks to fill the gaps by examining service innovation on competitiveness of commercial banks. The study will adopt both the qualitative and quantitative approaches to conduct the study.

CHAPTER THREE: RESEARCH METHODOOGY

3.1 Introduction

The purpose of this research was to establish the link between service innovation and competitiveness. To that end, this chapter discusses the study's methodologies, which include research design, target population, data gathering methods, and data analysis.

3.3 Research Design

This explains the specific goals and objectives of the survey (Kumar, 2019; Yin, 2017). In this study, the researcher described the survey strategy to address the innovations and competitiveness of commercial banks. The descriptive survey design enables the researcher to gather reliable data on the present condition of the phenomenon in order to make a legitimate general conclusion from the investigated facts. (Saldana, 2015; Babbie, 2015; Gelman et al., 2013).

The descriptive research design aims to describe characteristics of phenomena, attitudes, preferences, opinions, and perceptions (Kumar, 2019; Yin, 2017). Further, using a descriptive research design one is able to quantify association between variables (Saldana, 2015; Babbie, 2015; Gelman et al., 2013). The goal of this study is to determine the link between service innovation and the competitiveness of Kenyan commercial banks.

3.3 Population

A population, according to Glaser and Strauss (2017), is a group of people who constitute a frame from which samples are collected. The researcher creates study findings from persons, events, or things. The analytical unit for this study is the 43 commercial banks in Kenya that were operating as of December 31, 2020. (See list attached in Annex V). In this instance, a census research design was employed.

3.4 Data Collection

The questionnaire was used to gather primary data. The questionnaire was designed to obtain quantitative data. Content was evaluated on a five-point Likert scale, with criteria varying from strongly disagree to strongly agree. The surveys were distributed to workers of 43 different banks who were willing to offer the relevant answers to the set of questions shown in the questionnaire. The choice of the respondents was anchored on the role they play on customer and innovation services to improve quality service provision to the customers.

3.5 Data Analysis

SPSS was used to analyze the data obtained from the questions. Statistical methods were used to generate the data (mean and standard deviation). The purpose of the data analysis was to understand the basic characteristics of the descriptive elements of the study. The data was then transposed into tables and graphs. The study adopted inferential analysis (regression analysis). A simple regression analysis was performed and the model was as follows;

$Y = B_0 + B_1 + e$

Where:

Y represents the dependent variable – Competitiveness of Commercial Banks

B_0 represents the constant, which is the value of Y when X values are zero

B_1 represents the service innovation regression coefficient

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

We offer a detailed assessment of data, which concerns service innovations and competitiveness. Descriptive statistics, such as mean and standard deviation, were used to generate the data. The conclusions are explored at the end of the chapter, with reference to empirical findings.

4.2 Response Rate

The purpose of this research was to assess the impact of innovation on the competitiveness of Kenyan commercial banks. The population was made up of all commercial banks registered in Kenya. As of December 31, 2020, 43 commercial banks were operating in Kenya. The questionnaire was administered to all financial institutions. Out of 43 targeted commercial banks, 34 completed and returned email inquiries. This represents a response rate of 79%. Ndambuki (2018) achieved a response rate of 34 in a survey of commercial banks in Kenya and rated it as good enough for further statistical manipulation.

4.3 Demographic Information of Respondent Institutions

Demographic information on commercial banks was collected in this part of the questionnaire. Demographic characteristics of an institution are sometimes considered strong influencers of the innovativeness of a firm.

4.3.1 Age of the Bank

The aim of this survey was to gather statistics on the number of years the bank has been in operation in Kenya. Table 4.1's statistics provide a summary of the data.

Table 4.1 Age of Bank

Age of the Bank	**Number**	**Percentages**
Less than 10 years	4	11.8 %
Between 10 – 20 years	12	35.3 %
Above 20 Years	18	52.9%
Total	**34**	100

Source. Author (2021)

According to Table 4.1, the bulk of the banks that had been in existence for more than 20 years accounted for 53%. A total of 46 % of the banks indicated that they were less than 20 years in terms of age broken down into 12 % below 10 years and 35 % aged between 10 and 20 years.

4.3.2 Ownership of the Banks

In this investigation, the bank decided to establish a proprietary structure. Opinion is a comparison between what makes the company and the property. Table 4.2 displays the results.

Table 4.2. Bank Ownership

Ownership	**Number**	**Percentages**
Local	5	14.70 %
Foreign	0	
Joint Local and Foreign	27	79.41 %
Family	2	5.88%
TOTAL	**34**	**100**

Source: Researcher, 2021

According to Table 4.2, 5 (14.7 %) commercial banks were locally owned whereas there were no foreign owned banks. Those jointly owned by locals and foreigners made a majority at 79.41 % (27). Only 2 commercial banks indicated that they were family owned.

4.4 Descriptive Statistics of Service Innovation

Service innovation was the independent variable of this study and was operationalized in: service market innovation, service concept innovation, service channel innovation and organizational learning innovation. Descriptive statistics for service innovation were calculated and are presented as follows:

4.4.1 Service Marketing Innovation

A five-point Likert scale was used to collect data on service marketing innovation. There are descriptive data presented.

Table 4.3. Service Marketing Innovation

Statement	Mean	Standard Deviation
Forecasting of new markets	4.67	0.15
Adoption of new marketing methods	4.89	0.76
Product re-pricing	2.80	0.42
Opening new markets	4.56	0.53
Positioning of new product in the market	4.24	0.36

Source: Research Data, 2021

In terms of attempting to achieve competitive advantage, respondents indicated that they used adoption of new marketing methods (Mean=4.89, Std Dev=0.76), forecasting of new markets (Mean=4.67, Std Dev= 0.15), opening new markets (Mean= 4.56, Std Dev= 0.53) and positioning of new products in the market (Mean=4.24, Std.Dev=0.36). The least considered was product re-pricing. An explanation for the lack of consideration of re-pricing as a possible innovation could be that the pricing of bank products is largely controlled and dependent on policy directions by the Central Bank of Kenya.

4.4.2 Service Concept Innovation

Participants were asked to rate their level of agreement with the statements presented.

Table 4: Service Concept Innovation

Statement	Mean	Std. Dev
Improvement of the service operations	4.78	0.45
Customer care operators with service experience	3.67	0.12
Benchmarking service outcomes with our rivals	4.65	0.32
Customers get value of the services	4.90	0.28
Strong collaboration with customers	4.88	0.41

Source. Author (2021)

According to Table 4.3, the majority of respondents agreed with all statements except customer care operators with service experience (Mean=3.67, Std Dev=0.12). Considering the value their customers got, strong collaboration with their customers, improvement of service operations and benchmarking service outcomes with rivals were all strongly supported (Means above 4.5).

4.4.3: Service Channel Innovation

Table 4.4 displays the findings for service channel innovation, and as can be seen, banks innovated their outlets by utilizing web and mobile banking (Mean=4.89. Std Dev=0.20). This is most likely due to the fact that the majority of Kenyans prefer to deal with their banks via mobile phones or computers.

Table 4.4: Service Channel Innovation

Statement	Mean	Std. Dev
Call Centers	4.01	0.05
Web and mobile banking	4.89	0.20
Direct mails	4.39	0.14
Automated Teller machines	3.68	0.34
Bank Agents and Partnering (e.g Pesalink)	4.56	0.18

Source: Research Data, 2021

Use of bank agents and partnering and use of direct mails were also highly supported as methods of channel innovation. This is an attempt to bring the services of the bank as close to the customer as possible (Mean above 4.3 for both). Use of automated teller machines was not so highly supported aa a means of attaining competitiveness. This is explained by the fact that nearly all banks use ATMs so it is no longer a source of competitiveness.

4.4.4 Organizational Learning Innovation

Table 4.5 Organizational Learning Routines

Statement	Mean	Std. Dev
1. Codification of knowledge	3.65	0.45
2. Continuous data base development	4.87	0.23
3. Introduction of training programs	4.23	0.05
4. Establishment of lessons learnt	4.25	0.08
5. Changes of organization routines	3.56	0.03

Source. Author (2021)

Table 4.5 shows that, with the exception of change of organizational routine, all statements received overwhelming support. Continuous data base development was supported by most respondents (Mean=4.87, Std. Dev=0.23). This is consistent with the findings in Table 4.4, which show that the majority of banks employ web and mobile banking, necessitating the continual update of databases. Establishment of lessons learnt and introduction of training programs received a relatively high support (Means above 4.2). However, codification of knowledge and changes in organizational routines were not so well supported (Mean=3.65 and 3.56 respectively).

4.4.5 Bank Competitiveness

Bank competitiveness was the dependent variable in this study. Respondents were told to state how much their competitiveness has changed over the past five years. Table 4.6 shows the conclusion.

Table 4.6. Competitiveness

Statement	**mean**	**Std.**
This business has opened branches in the last five years	3.78	0.05
The market share of the bank has increased over the past five years	4.67	0.45
Profitability has increased in the last three years	3.45	0.06
The business has diversified its products in the last five years	4.85	0.35
Customer loyalty has increased in the last five years	4.56	0.12

Source. Author (2021)

Table 4.6 shows the level of competitiveness of the banks, and most banks diversified their product portfolios in the last five years (Mean=4.85, Std Dev=0.35). Both increased market shares and increased customer loyalty were supported by a majority of the banks (Means above 4.50). On increased profitability, only a mean of 3.45 indicated support. This may be explained by the fact that profitability as a measure of competitiveness is no longer tenable.

4.5 Findings of the Regression Analysis

A simple regression analysis was performed to establish the competitiveness of commercial banks under service innovation. The regression results are as follows:

Table 4.7 Model Fitness of Fit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.574[a]	.329	.218	.2089

a. Predictors: (Constant), Service Innovation

The model fitness in Table 4.7 shows that 57.9 % of the dependent variable was explained by service innovation. The remnant of 42.1 % was explained by variables out of the scope of this study. The R^2 was 0.329.

Table 4.8: ANOVA of Service Innovation and Competitiveness

Model		Sum of Squares	DF	Mean squares	F	Sig.
1	Regression	2.564	1	2.564	12.337	.000[b]
	Residual	5.981	33	.164		
	Total	8.545	34			

a. Dependent Variable: Competitiveness
b. Predictors: (Constant), Service Innovation

ANOVA analysis combined with regression analysis is used to determine whether or not the link between the two variables is significant. The p-value in Table 4.8 is 0.000. This suggests that the connection between service innovation and competitiveness is statistically significant.

Table 4. 9 Coefficients for Service Innovation and Competitiveness

Model		Unstandardized Coefficient		Standardized coefficient	t	sig
		B	STD. Error	Beta		
1	(Constant)	3.564	.578		3.117	.000
	Service Innovation	3.727	.453	4.756	3.867	.000

a. Dependent Variable: Competitiveness

Table 4.9 0n the co-efficient provides the coefficient for the independent variable. The standardized Beta coefficient for service innovation is 4.756. The constant is 3.564 indicating that competitiveness would still be present even in the absence of service innovation.

The model equation after the regression analysis therefore is cast as follows:

Competitiveness= 3.564 + 4.756 Service Innovation

The implication in terms of model elasticity is that 4.756 units of service innovation results in one unit increase of the competitiveness of the firm.

4.6 Discussion of the Findings

The previous research demonstrates a statistically significant link between service innovation and competitiveness. The findings corroborate Lin's (2013) earlier conclusion that service innovation influenced company performance in both indirect and direct ways.

It was discovered that service quality mediated the link between service innovation and business performance in a considerable favorable way.

Furthermore, the findings complement Ngeera's (2013) study, in which a census cross-sectional survey was utilized to get perspectives on intrinsic variables such as a firm's dynamic capacities. The study's intended population consisted of 41 commercial bank managers. According to the findings of the study, dynamic capabilities combined with service innovation improved bank performance. Service innovation is seen as a dynamic capacity in this situation.

This finding that banks use web and mobile banking technologies for distribution of their services is supported as well by Pavier et al. (2012) study, which shows that customer service is improved by technology innovations. Similarly, Kanchan (2012) while focusing on the banking service channel improvements as part of the service innovation, established that the banks which focused on the sales through online channels were competitive.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the research. The conclusion is a valid and objective assessment. At the end of the chapter, recommendations for guidance, learning, and additional study are offered.

5.2 Summary

The independent variable in this study was service innovation, while the dependent variable was competitiveness. Service innovation was conceptualized a long four indicators namely: service marketing innovation, service concept innovation, service channel innovation and organizational learning innovation. The descriptive statistics on service marketing innovation show that respondents used adoption of new marketing methods, forecasting of new markets, opening new markets and positioning of new products in the market. The least considered service marketing innovation was product re-pricing.

On service concept innovation, nearly the respondents agreed with all statements except customer care operators with service experience. Considering the value their customers got, strong collaboration with their customers, improvement of service operations and benchmarking service outcomes with rivals were all strongly supported. It was further indicated that most of the banks innovated their channels using web and mobile banking. This is most likely due to the fact that the majority of Kenyans prefer to deal with their banks via mobile phones or computers. Use of bank agents and partnering and use of direct mails were also highly supported as methods of channel innovation. Use of automated teller machines was not so highly supported aa a means of attaining competitiveness. This is explained by the fact that nearly all banks use ATMs so it is no longer a source of competitiveness. For organizational learning innovation all statements were highly supported except changes in organizational routines. The regression analysis results indicate that a significant proportion of firm competitiveness was explained by service innovation.

5.3 Conclusion

The study's goal was to determine the impact of innovation on the competitiveness of Kenyan commercial banks. Although objective descriptive statistics were generated for this purpose, further statistical analysis was carried out utilizing regression analysis.

The descriptive results show that commercial banks engaged in service marketing innovation strategies that would enhance their presence in the market such as adoption of new marketing methods and forecasting market potential. These are practices that would keep the bank ahead of the competition.

Respondents also indicate that they value customer satisfaction and therefore engage in co-creation with their customers. This is in line with modern trends in marketing thinking. Web and mobile banking and the use of agents and partnerships appear to be the most dominant channel innovation strategies. On organizational learning, the most practiced is continuous data base improvement. All these activities point to the fact that the end game is delivering superior customer value.

The relationship between service innovation and competitiveness was shown to be statistically significant. This finding supports the postulations of Schumpeter’s theory of innovation. The basic tenets of the theory hold that the entrepreneur main functions is the introduction of an innovation in the economy with the intention of being rewarded with the profits from the introduced innovation. Service innovation accordingly leads to increased competitiveness. The findings also support the dynamic capabilities theory which holds that dynamic capabilities are a resource to an organization for it to remain competitive in ever dynamic and turbulent business environment. Dynamic capabilities are the renewed competences a firm possess which the rivals lack and adapt in the business environment.

5.4 Recommendations

In view of the foregoing summary and conclusion, the researcher makes the following recommendations:

5.4.1 Recommendations for Practice

Commercial banks and indeed other firms that wish to enhance their competitiveness can manipulate service innovations. In innovating their services, firms need to look at their service marketing, their channels, the service itself, and organizational learning activities such as continuous updating of databases. All these activities have been shown useful to firms that seek to enhance their competitiveness

5.4.2 Recommendations for Policy

The findings also have implications for policy makers, in particular, the Central Bank of Kenya. In addition, the Kenya Bankers Association may find aspects of the study relevant to operational development of their members. Also, policy makers ought to redirect their policy efforts on service innovation. The Kenya Association of Bankers could for example support initiatives by their member banks that are geared towards innovating services.

5.4.3 Recommendations for Further Studies

There is need to conclusively address the relationship by extending the context to other settings such as educational institutions and insurance companies. This study was cross-sectional by design. A longitudinal study may be designed so that the influence of service innovation on competitiveness may be monitored over time.

REFERENCES

Argote, L., & Miron-Spektor, E. (2011). Organizational learning: From experience to knowledge. *Organization science*, *22*(5), 1123-1137.

Al-Alak, B. A., & Tarabieh, S. A. (2011). Gaining competitive advantage and organizational performance through customer orientation, innovation differentiation and market differentiation. *International Journal of Economics and Management Sciences*, *1*(5), 80-91.

Ambrosini, V., Bowman, C., & Collier, N. (2009). Dynamic capabilities: An exploration of how firms renew their resource base. *British journal of management*, *20*, S9-S24.

Asgher, M. U., & Hanif, M. I. (2018). Impact of Multi-Dimensional Service Innovation on Performance of the Banking Services. *Paradigms*, *12*(1), 103-111.

Babbie, E. (2015). *Observing ourselves: Essays in social research*. Waveland Press.

Baines(2009). The servitization of manufacturing. *Journal of manufacturing technology management*. Baveja, S. S., Gilbert, J., & Ledingham, D. (2004). From products to services: why it's not so simple. *Harvard Management Update*, *9*(4), 3-5.

Bryman, A. (2016). *Social research methods*. Oxford university press.

Bwaley, K. (2011). The relationship between innovation strategies and competitive advantage among banks listed in the Nairobi stock exchange. *Unpublished MBA project*.

Cantwell, J., Dunning, J. H., & Lundan, S. M. (2010). An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, *41*(4), 567-586.

Chan, H. S., Li, S., & Zhang, F. (2013). *Firm competitiveness and the European Union emissions trading scheme*. The World Bank.

Collis, D. J. (1994). Research note: how valuable are organizational capabilities?. *Strategic management journal*, *15*(S1), 143-152.

Collis, D. J., & Montgomery, C. A. (1995). Competing on Resources: Strategy in the 1990s. *Knowledge and strategy*, *73*(4), 25-40.

Dao, T. T., & Yang, C. H. (2014, July). The effects of service innovation on customer retention: An integration of customer satisfaction. In *Proceedings of PICMET'14 Conference: Portland International Center for Management of Engineering and Technology; Infrastructure and Service Integration* (pp. 1958-1965). IEEE.

Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: what are they?. *Strategic management journal*, *21*(10-11), 1105-1121.

Ettlie, J. E., & Rosenthal, S. R. (2012). Service innovation in manufacturing. *Journal of Service Management*, *23*(3), 440-454.

Gebauer, H., Gustafsson, A., & Witell, L. (2011). Competitive advantage through service differentiation by manufacturing companies. *Journal of business research*, *64*(12), 1270-1280.

Gelman, A., Carlin, J. B., Stern, H. S., Dunson, D. B., Vehtari, A., & Rubin, D. B. (2013). *Bayesian data analysis*. CRC press.

Glaser, B. G., & Strauss, A. L. (2017). *Discovery of grounded theory: Strategies for qualitative research*. Routledge.

Hillebrand . Aksoy, L., van Riel, A., Kandampully, J., van Riel, A. C., Calabretta, G., Driessen, P, ... & Beckers, S. F. (2013). Consumer perceptions of service constellations: implications for service innovation. *Journal of Service Management*.

Jiang, X., Bao, Y., Xie, Y., & Gao, S. (2016). Partner trustworthiness, knowledge flow in strategic alliances, and firm competitiveness: A contingency perspective. *Journal of business research*, *69*(2), 804-814.

Jiménez-Jimenez, D., Valle, R. S., & Hernandez-Espallardo, M. (2008). Fostering innovation. *European Journal of innovation management*.

Kaithia, D. A. (2014). Influence of service process innovation on competitive advantage in the banking sector in Kenya. *International Journal of Social Sciences and Entrepreneurship*, *1*(13), 199-224.

Kamukama, N., Ahiauzu, A., & Ntayi, J. M. (2011). Competitive advantage: mediator of intellectual capital and performance. *Journal of intellectual capital*.

Kariuki, A. N. (2017). *Effects of innovation strategy in enhancing competitive advantage among commercial banks in Kenya* (Doctoral dissertation, United States International University-Africa).

Kraaijenbrink, J., & Spender, J. C. (2011, November). Theories of the firm and their value creation assumptions. In *Annual International Conference of the Strategic Management Society* (pp. 6-9).

Kowalkowski, C., Windahl, C., Kindström, D., & Gebauer, H. (2015). What service transition? Rethinking established assumptions about manufacturers' service-led growth strategies. *Industrial marketing management*, *45*, 59-69.

Kumar, R. (2019). *Research methodology: A step-by-step guide for beginners*. Sage Publications Limited.

Kungu, G., Desta, I., & Ngui, T. (2014). An assessment of the effectiveness of competitive strategies by commercial banks: A case of Equity Bank. *International Journal of Education and Research*, *2*(12), 333-346.

Lilly, L., & Juma, D. (2014). Influence of strategic innovation on performance of commercial banks in Kenya: The case of Kenya Commercial Bank in Nairobi County. *European Journal of Business Management*, *2*(1), 336-341.

Lin, L. (2013). The impact of service innovation on firm performance. *The Service Industries Journal*, *33*(15-16), 1599-1632.

Lin, Y., Luo, J., Ieromonachou, P., & Zhou, L. (2015). The Antecedents of Service Innovation and Its Impacts on Manufacturing Firms' Performance. EUROMA.

Makau, D. N. (2012). Strategic alliances and organizational competitiveness among commercial banks in Kenya: A case study of Kenya Commercial Bank. *Unpublished MBA Project, University of Nairobi*.

Malesi, N., & Njeru, W. (2017). Corporate Governance Practices and Performance of Commercial Banks Listed At the Nairobi Securities Exchange, Kenya. *Corporate Governance*, *1*(1).

Mbigura, M. (2012). Technology and Competitive Advantage of Commercial Banks in Kenya. *Unpublished MBA Thesis*, 20-21.

Mansharamani, V. (2005). *Towards a theory of service innovation: an inductive case study approach to evaluating the uniqueness of services* (Doctoral dissertation, Massachusetts Institute of Technology).

Melese, M. W. (2016). *Market oriented innovation and competitivesness: empirical investigation into Ethiopian manufacturers' strategic orientation and outcomes* (Doctoral dissertation).

Mina, A., Bascavusoglu-Moreau, E., & Hughes, A. (2014). Open service innovation and the firm's search for external knowledge. *Research policy*, *43*(5), 853-866.

Mugane, C., & Ondigo, H. (2016). The Effect of financial innovations on the financial performance of commercial banks in Kenya. *International Journal of Finance and Accounting* , 16-29

Musau, E. G. (2018). *Supply Chain Determinants of Organizational Performance among Textile Manufacturing Firms in Kenya. The Moderating Effect of Background Characteristics* (Doctoral dissertation).

Naceur, S. B., & Kandil, M. (2009). The impact of capital requirements on banks' cost of intermediation and performance: The case of Egypt. *Journal of Economics and Business*, *61*(1), 70-89.

Ngugi, K., & Karina, B. (2013). Effect of innovation strategy on performance of commercial banks in Kenya. *International Journal of Social Sciences and Entrepreneurship*, *1*(3), 158-170.

Ombongi, P. N., & Long, W. (2018). Assessing nature of competition in kenya's banking sector. *International Journal of Research in Business Studies and Management*, *5*(2), 11-19.

Ordanini, A., & Parasuraman, A. (2011). Service innovation viewed through a service-dominant logic lens: a conceptual framework and empirical analysis. *Journal of Service Research*, *14*(1), 3-23.

Otoo, I. C. (2013). *The effects of financial innovations on the financial performance of commercial banks in Kenya* (Doctoral dissertation, Doctoral dissertation).

Omonge, W. O. (2012). Green supply chain management practices and competitiveness of commercial banks in Kenya. *Unpublished MBA project, University of Nairobi*.

Pavlou, P. A., & El Sawy, O. A. (2006). From IT leveraging competence to competitive advantage in turbulent environments: The case of new product development. *Information systems research*, *17*(3), 198-227.

Prajogo, D. I., & McDermott, P. (2011). Examining competitive priorities and competitive advantage in service organisations using Importance-Performance Analysis matrix. *Managing Service Quality: An International Journal*.

Sawhney, M. (2006). Defining, Designing, and Delivering Customer Solutions. *The service-dominant logic of marketing: Dialog, debate, and directions*, 365.

Saldaña, J. (2015). *The coding manual for qualitative researchers*. Sage.

Sporta, F. O. (2018). *Effect of Financial Distress Factors on Performance of Commercial Banks in Kenya* (Doctoral dissertation, JKUAT).

Tang, T. W., Wang, M. C. H., & Tang, Y. Y. (2015). Developing service innovation capability in the hotel industry. *Service Business*, *9*(1), 97-113.

Schumpeter, P. M. (1943). Professor Schumpeter's theory of innovation. *The Review of Economic Statistics*, 93-96.

Stanley, J. E., & Wojcik, P. J. (2005). Better B2B selling. *McKinsey Quarterly, 38*(3), 15.

Teece, D. J. (2017). Dynamic capabilities and (digital) platform lifecycles. *Entrepreneurship, innovation, and platforms, 37*, 211À225.

Wang, T. C., Tang, T. W., & Cheng, J. S. (2018). Art-oriented model of hotel service innovation. *International Journal of Contemporary Hospitality Management*.

Yin, R. K. (2017). *Case study research and applications: Design and methods*. Sage publications.

Yunus, E. N. (2017). Towards the open innovation strategy: a longitudinal study of service firms in an emerging market. *International Journal of Business Innovation and Research*, *14*(4), 519-541.

KAPPENDICES

APPENDIX I: STUDY QUESTIONNAIRE

Part A: Infiormation on Respondents Demography

1. Indicate the length of time that the bank has been in operation in Kenya.

Below 10 years [ ]

Between 11 to 20 yeaers [ ]

Above 20 years [ ]

2. Banklevel/tier

Bank in Tier I [ ]

Bank in Tier II [ ]

Bank in Tier II [ ]

3. The period that you have so far worked for the Bank

Below 3 years [ ]

Between 4 to 10 years [ ]

More than 10 years [ ]

4. Bank Ownership

Locally owned [ ]

Foreign [ ]

A joint venture

(local and foreign) [ ]

Famul ownership [ ]

PART B: THE SERVICE INNOVATION PRACTICES

On a scale of 1 to 5 in which 1 represents Not at all, 2 less extent, 3 moderate extent, 4 great extent and 5 very great extent; indicate your choice in the following table to show the extent your bank cornforms to the statements.

1. The Service Marketing Innovations

No.	Statements	1	2	3	4	5
1	The bank forecasts new markets					
2	There is bank adoption of new market methods					
3	The Bank undertakes product re-pricing					
4	The bank has a program of opening new markets					
5	The bank is positioning new products in the market					

2. The Services Concept Innovations

No.	Statements	1	2	3	4	5
1	Undertakes improvements in the service operations					
2	The customer care personnel have a lot of experience					
3	The fiurm does benchmarking with peers on service outcomes					
4	The customersget value for thie money for services provided					
5	There is strong collaboration with customers					

3. The Services Channel Innovations

No.	Statements	1	2	3	4	5
1	The bank has call centres					
2	The bank has web and mobile banking systems					
3	The bank has direct mails					
4	The bank operates automated teller machines					
5	The bank has agencies and partnerships					

4. The Organizations Learning Innovations

No.	Statements	1	2	3	4	5
1	The bank undertakes codification of knowledge					
2	The bank has continous data base development					
3	The bank has an ongoing training program					
4	The bank has a system of lessons learnt established					
5	There are changes of organizational routines by the bank					

PART C: THE BANK COMPETITIVENESS

On a scale of 1 to 5 in which 1 represents Not at all, 2 less extent, 3 moderate extent, 4 great extent and 5 very great extent; indicate your choice in the following table.

No.	Statements	1	2	3	4	5
1	In the last five years, the bank has opened branches					
2	The bank has increased its market share in the last five years					
3	The bank has increased its profitability in the last three years					
4	In the last five years, the bank has diversified its product offerings					
5	In the last five years, the bank’s customer loyalty has increased					

APPENDIX 2: THE LIST OF COMMERCIAL BANKS IN KENYA

The List of Commercial Banks

Tiers	**Description**	**Name of Bank**
Banks in Tier I	Made of banks that have over Ksh 40 billion asset base	1. KCB LIMITED 2. STANDARD CHARTARED BANK LIMITED 3. ABSA BANK LIMITED 4. EQUITY BANK LIMITED 5. COOPERATIVE BANK LIMITED 6. NCBA BANK LIMITED
Banks in Tier II	Banks that have between 10 to 40 billion asset base	1. STANBI BANK KENYA LIMITED 2. IMPERIAL BANK LIMITED 3. FAMILY BANK LIMITED 4. ECO BANK LIMITED 5. GUARANTY TRUST BANK LIMITED 6. NATIONAL BANK OF KENYA LIMITED 7. I & M BANK LIMITED 8. BANK OF INDIA 9. PRIME BANK LIMITED 10. IMPERIAL BANK LIMITED 11. BANK OF AFRICA KENYA LIMITED 12. CITI BANK LIMITED 13. DIAMOND TRUST BANK LIMITED 14. BANK OF BARODA LIMITED 15. HFC LIMITED
Banks in Tier III	Banks that have less than kshs 10 billion asset base	1. SIDIAN BANK LIMITED 2. TRANSNATIONAL BANK LIMITED 3. CHARTERHOUSE BANK LIMITED 4. AFRICAN BANKING CORPORATION LIMITED 5. DIB BANK KENYA LIMITED 6. JAMII BORA BANK LIMITED 7. SPIRE BANK LIMITED 8. VICTORIA COMMERCIAL BANK LIMITED 9. M-ORIENTAL BANK LIMITED 10. SBM BANK KENYA LIMITED 11. GULF AFRICAN BANK LIMITED 12. DEVELOPMENT BANK OF KENYA LIMITED

		13. CONSOLIDATED BANK OF KENYA LIMITED 14. PARAMOUNT BANK LIMITED 15. GUARDIAN BANK LIMITED 16. CREDIT BANK LIMITED 17. FIRST COMMUNITY BANK LIMITED 18. MAYFAIR BANK LIMITED 19. MIDDLE EAST BANK LIMITED 20. UBA KENYA BANK LIMITED 21. HABIB BANK LIMITED