International Journal of Management and Business Research

Volume 7, Issue 1, pg. 379-396, 2025 *ISSN 29769-91723*

IJMBR https://grandmarkpublishers.com/index.php/IJMBR/index

INNOVATIONS MANAGEMENT AND PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Commercial banks in Nairobi City County, Kenya, play a pivotal role in the country's economy, serving as the backbone of the financial sector. Commercial banks in Nairobi City County, Kenya, face various challenges which can be significantly influenced by innovation management. The general objective of the study is to determine the influence of innovations management on performance of commercial banks in Nairobi city county, Kenya. Specifically, the study sought to determine the effect of marketing innovation on performance of commercial banks in Nairobi city county, Kenya and to assess the influence of organizational innovation on performance of commercial banks in Nairobi city county, Kenya. This study was guided by Diffusion of Innovations Theory and Resource-Based View (RBV). Descriptive research design was employed where data was collected one point in time. The unit of analysis for the study was 41 commercial banks in Kenya (CBK, 2021) while the unit of observation was management employees. The accessible population was 246 individuals comprising of 41 top managers, 82 middle level managers and 123 lower-level managers. The study's sample size was reached at using Krejcie and Morgan sample size determination formula. Therefore, using the formula, the sample size for the study was 209 respondents. This study also used questionnaire to collect data relevant to this study. Quantitative data collected was analyzed using descriptive statistical techniques which are frequencies, mean, standard deviation. Inferential statistics which include Pearson correlation and the Regression Analysis Model was used to test the relationship between study variables. The significance of the model was tested at 5% level of significance. Data was analysed using Statistical Package for Social Sciences (SPSS) software. The study results were presented through use of tables and figures. The study concludes that marketing innovation has a positive and significant effect on performance of commercial banks in Nairobi city county, Kenya. The study also concludes that organizational innovation has a positive and significant effect on performance of commercial banks in Nairobi city county, Kenya. Based on the findings, the study recommends that the management of commercial banks in Kenya should implement automation of routine banking processes through advanced technologies. Automating tasks like data entry, customer onboarding, compliance checks, and loan processing can significantly reduce operational costs, minimize human error, and enhance service delivery speed.

Key Words: Innovations Management, Marketing Innovation, Organizational Innovation, Performance of Commercial Banks

Background of the Study

Commercial banks are financial institutions that provide a wide range of banking services to businesses, individuals, and governments. Their main functions include accepting deposits, offering savings and checking accounts, providing loans (such as personal loans, mortgages, and business loans), and facilitating payment services like money transfers and credit card processing (Manji & Laghari, 2022). Commercial banks operate to make a profit, and they typically earn revenue through the interest on loans, fees for services, and the spread between the interest rates they pay on deposits and the rates they charge on loans. They play a crucial role in the economy by helping with the circulation of money, supporting business growth, and providing credit to consumers. Commercial banks play a vital role in the economy by acting as intermediaries between savers and borrowers (Suwandi, Tjahjadi & Adiryanto, 2023). One of their primary functions is to accept deposits from individuals and businesses. These deposits may be in the form of savings accounts, checking accounts, or fixed deposits. By providing a secure place for people to store their money, commercial banks help maintain financial stability within the economy. They often offer various types of deposit accounts with different interest rates, which encourage savings among the public. The deposits collected are then used by the bank to fund loans and other financial activities (Suhag, *et al*, 2019).

A critical function of commercial banks is the provision of loans. Banks offer credit to individuals for purposes such as purchasing homes, starting businesses, or financing education. They also lend to corporations, which use the funds to expand operations, invest in new projects, or manage cash flow. By offering loans, commercial banks enable economic growth and development by facilitating consumer spending and business investment (Kowang, Long & Rasli, 2020). The interest charged on loans is one of the primary ways that commercial banks generate profit. Through their lending activities, banks help stimulate demand within the economy, which can lead to job creation and improved living standards. Commercial banks are essential players in the payment system (Al Nohoud & Awang, 2024). They offer a range of payment services, including electronic funds transfers, wire transfers, check clearing, and credit card processing. These services make it easier for individuals and businesses to make payments and manage their financial transactions. Commercial banks also provide online and mobile banking, which enhances convenience and accessibility for customers. By facilitating these payment systems, commercial banks support commerce and trade, both locally and internationally (Beyene, Shi & Wu, 2020).

Commercial banks also contribute to the stability and development of financial markets. They invest in government securities and corporate bonds, and their activities help ensure liquidity in the financial system. Furthermore, banks serve as a source of financial advice, offering services like wealth management, investment advice, and retirement planning (Kenea, 2020). Through these activities, commercial banks assist individuals in managing their personal finances and help businesses secure the necessary capital for growth. By maintaining a robust financial infrastructure, commercial banks help support the broader economy and foster financial inclusion (Kasyoka & Mulyungi, 2023). Commercial banks contribute to monetary policy implementation. Central banks, like the Federal Reserve in the U.S. or the European Central Bank in the Eurozone, use commercial banks as channels to influence the economy. Commercial banks respond to these changes by adjusting their lending rates and deposit rates, thereby affecting the overall economic activity, such as inflation and employment. In this way, commercial banks act as key players in ensuring that monetary policies are effectively transmitted to the economy (Ogundare & Ughovero, 2023).

Innovation management refers to the process of systematically managing an organization's innovations, from idea generation to the development and implementation of new products, services, or processes. It involves planning, organizing, and overseeing the entire innovation process to ensure that creative ideas are effectively transformed into valuable outcomes that contribute to the organization's growth, competitiveness, and long-term success (Mdoe, Mfinanga & Kanire, 2024). Innovation management involves overseeing and guiding the development and implementation of new ideas, products, services, or processes within an organization. It is crucial for ensuring that innovations align with the company’s strategic goals and are successfully executed. Product innovation often involves the development of unique features, advanced technologies, or more efficient designs that differentiate the product in the market (Kiarie & Lewa, 2020). Business process innovation refers to the improvement of internal processes, systems, and workflows that increase efficiency, reduce costs, or enhance quality. This type of innovation often involves adopting new technologies or methodologies to optimize the operations of the business (Mdasha, 2021).

Marketing innovation involves new strategies to promote and sell products, such as the use of digital channels, personalized customer experiences, or innovative advertising techniques. This type of innovation aims to engage customers in new ways, improving the company’s market position (Kanyagi & Gichinga, 2022). Organizational innovation focuses on the structure, culture, and management practices within the organization itself. It includes changes that enhance collaboration, decision-making, and overall organizational performance. Innovation management thus includes fostering a culture of creativity and continuous improvement, ensuring that these various innovations are not only developed but also effectively integrated to enhance the organization's competitive advantage and long-term success (Guyo & Thorornjo, 2023). This study aimed to determine the influence of innovations management on performance of commercial banks in Nairobi city county, Kenya.

Kiarie and Lewa (2020) found that implementation of market innovation had a positive effect on organizational performance in health insurance service providers in Kenya market innovation plays a crucial role in fulfilling market needs in insurance companies, market innovation leads to opening up new markets in insurance companies and that market innovation plays a crucial role in responding to market opportunities in insurance companies and that market innovation enhances customer needs in insurance companies.

Mdasha (2021) found that the survival of SMEs in the current market conditions across the globe where there is serious competition is pegged on the adoption of innovative practices if they are to compete fairly with their larger counterparts and overseas competitors. SMEs use internet banking to improve accuracy and efficiency and to increase speed and reliability of the banking system. This is because the process is automated and is less prone to human errors. A conclusion can be made further that, re-engineering particularly to old processes and services will not only revitalize business products and processes, but also act as a form of organizational branding that is essential for performance

Kanyagi and Gichinga (2022) found that financial innovation significantly affects organizational performance in Mombasa Law courts. This was because financial innovation made all payments to the court easy and flexible. The study concluded that fines payment through the court integrated systems saves a lot of time and routing financial transaction through the integrated financial management information system (IFMIS) curbs corruption and enhances transparency and accountability. With financial innovations, the court saves operational costs since there is reduced paperwork in the court room.

Guyo and Thorornjo (2023) found a significant relationship between process innovation strategies and organizational performance hence the hospital management needs to focus on e-Health services used in generating health statistics and e-ticketing system used in enhancing efficiency in terms of service delivery since they reveal a great impact on organizational performance. The study further concludes that use of e-health systems in ordering treatment directly and hospital was able to create then maintain patient related medical problem list, hence concern is required since it is most preferred and it has strong influence on organizational performance, it is of much essence for organization to enhance various measures.

Karanja, Kahuthia and Gakenia (2023) found that process innovation has the highest positive influence on organizational performance. Process innovations assist companies to improve on quality of their products and services through better use of technologies, equipment's. Operational efficiency, effectiveness brand image improvement, sales growth and market rank performance are all as a result of process innovation as they enable the organization of firm to launch more enhanced products and services at a low cost which met the needs of the customer.

Statements of the Problem

Commercial banks play a critical role in the economic development of a country by providing financial services that support various sectors of the economy. In Kenya, commercial banks are pivotal in facilitating financial inclusion, offering savings and credit facilities, enabling business transactions, and supporting investment opportunities (Kiarie & Lewa, 2020). They also contribute to economic stability by managing currency circulation and offering investment products that allow individuals and businesses to grow their wealth. Additionally, commercial banks help the government in implementing monetary policies and promoting economic growth by funding infrastructure development and entrepreneurship (Kiarie & Lewa, 2020).

Commercial banks in Nairobi City County, Kenya, face various challenges related to profitability, market share, and customer satisfaction, which can be significantly influenced by innovation management. One of the most pressing challenges for commercial banks in Nairobi is maintaining consistent profitability. Despite the growth in Kenya's banking sector, the cost of operations, competition, and regulatory constraints have put pressure on banks' profit margins (Kanyagi & Gichinga, 2022). According to a report by the Central Bank of Kenya (CBK), the average Return on Assets (ROA) for Kenyan banks in 2023 was 2.1%, showing a slight decline from previous years, indicating struggles in maintaining robust profitability. Increased operational costs, such as the expense of adopting new technologies and regulatory compliance, further hinder profitability. Competition among banks in Nairobi has intensified, making it difficult for individual banks to grow their market share (Guyo & Thorornjo, 2023). Nairobi is home to both large multinational banks and smaller local banks, creating a highly competitive environment. In 2022, the market share of the largest bank, Kenya Commercial Bank (KCB), was around 15%, with the top five banks controlling approximately 50% of the market. The remaining market is divided among numerous smaller players, which struggle to capture a significant portion of customers. Banks need to innovate to offer differentiated products and services to increase their share in a saturated market (Karanja, Kahuthia & Gakenia, 2023).

Achieving high levels of customer satisfaction remains a significant challenge for banks in Nairobi, despite technological advancements. Although mobile banking and digital platforms have enhanced service delivery, many customers still experience dissatisfaction due to poor customer service, long transaction times, and system downtimes (Kiarie & Lewa, 2020). In a 2023 survey by the Kenya Bankers Association (KBA), 34% of respondents indicated that they were dissatisfied with the level of customer service in the banking sector. The study also revealed that many customers struggle with limited access to physical branches, especially in remote areas, and inadequate support for digital banking services (Guyo & Thorornjo, 2023).

Innovation management can significantly influence the performance of commercial banks in Nairobi City County. By adopting new technologies, processes, and services, banks can address the challenges they face in terms of profitability, market share, and customer satisfaction (Kanyagi & Gichinga, 2022). Various studies have been conducted in different parts of the world on innovations management and organization performance. For instance, Kiarie and Lewa (2020) investigated on the effect of innovation management on organizational performance in health insurance service providers. Mdasha (2021) assessed on the influence of innovation management on performance of entrepreneurial businesses and Kanyagi and Gichinga (2022) conducted a study on the effect of innovation management on the organizational performance. However, none of these studies focused on product innovation, business process innovation, marketing innovation and organizational innovation on performance of commercial banks in Nairobi city county, Kenya. To fill the highlighted gaps, the current sought to determine the influence of innovations management (product innovation, business process innovation, marketing innovation and organizational innovation) on performance of commercial banks in Nairobi city county, Kenya.

General Objective

The general objective of the study is to determine the influence of innovations management on performance of commercial banks in Nairobi city county, Kenya.

Specific Objectives

i. To determine the effect of marketing innovation on performance of commercial banks in Nairobi city county, Kenya
ii. To assess the influence of organizational innovation on performance of commercial banks in Nairobi city county, Kenya

Theoretical Review

Diffusion of Innovations Theory

Innovation Diffusion Theory (IDT) is a framework that seeks to explain how new ideas, practices, and technologies spread within and between social systems. Developed by Rogers (1962), the theory emphasizes the process by which innovations are communicated over time among the members of a social group. At its core, IDT identifies several key elements that influence the adoption of innovations, including the characteristics of the innovation itself, the communication channels used to disseminate information, the social system in which the innovation is introduced, and the individual adopter's characteristics (Ajayi, *et al*, 2024). One of the central components of IDT is the attributes of innovations, which are factors that determine how likely an innovation is to be adopted. Rogers identified five key attributes: relative advantage (the perceived benefits of the innovation compared to existing solutions), compatibility (how well the innovation aligns with existing values and practices), complexity (the perceived difficulty of using the innovation), trialability (the ease with which the innovation can be tested), and observability (the visibility of the innovation's results to others). These attributes play a critical role in shaping perceptions and, consequently, the rate of adoption among potential users (Kirabo, Namusonge & Iravo, 2022).

Another significant aspect of IDT is the adoption process, which occurs in several stages: knowledge, persuasion, decision, implementation, and confirmation. During the knowledge stage, potential adopters become aware of the innovation. In the persuasion stage, they form opinions about the innovation, which can lead to a decision to adopt or reject it (Mbogori & Moguche, 2021). Implementation involves putting the innovation into practice, and confirmation is the stage where adopters seek reinforcement of their decision, either strengthening their commitment or leading to discontinuance if the innovation does not meet expectations. IDT also emphasizes the importance of social networks and communication channels in the diffusion process. Innovations are often spread through interpersonal communication among peers, opinion leaders, and early adopters who influence others within their social networks. This social aspect highlights that the diffusion of innovations is not merely a linear process but rather a complex interplay of individual choices and social dynamics (Okundi & Muchemi, 2022).

Innovation Diffusion Theory (IDT) is built on several foundational assumptions that shape its framework and application. One key assumption is that the adoption of innovations is a rational process, where individuals assess the attributes of the innovation and make decisions based on perceived benefits and risks (Sifuna & Kamau, 2024). This rationality implies that the characteristics of the innovation—such as its relative advantage, compatibility, and complexity—play a critical role in determining its rate of adoption. Additionally, IDT assumes that the diffusion process occurs over time and follows a predictable pattern, where early adopters pave the way for later adopters. This view suggests that understanding the stages of the adoption process can help facilitate broader acceptance of innovations (Ajayi, *et al*, 2024).

Despite its strengths, IDT has faced several critiques that highlight its limitations. One significant criticism is that it can oversimplify the complexities of the adoption process. Critics argue that the model does not fully account for the influence of emotions, cultural factors, and social contexts on individuals' decisions to adopt innovations. This oversight can lead to a narrow understanding of why some innovations succeed while others fail, particularly in diverse or rapidly changing environments where social dynamics play a crucial role (Kirabo, Namusonge & Iravo, 2022). Another critique centers on the assumption that all innovations follow a linear diffusion process. In reality, the diffusion of innovations can be nonlinear and influenced by various external factors, such as market conditions, regulatory environments, and competitive dynamics. This variability challenges the theory's applicability across different contexts and suggests that the stages of adoption may not be universally relevant. For instance, innovations that disrupt existing markets might experience rapid adoption cycles, defying the traditional model's predictions (Mbogori & Moguche, 2021). This theory was used to determine the effect of marketing innovation on performance of commercial banks in Nairobi city county, Kenya.

Resource-Based View (RBV)

The Resource-Based View (RBV) theory founded by Barney (1991) is a strategic management framework that focuses on the internal resources and capabilities of a firm as sources of competitive advantage. At its core, RBV posits that a firm's unique bundle of resources and capabilities can enable it to achieve sustainable competitive advantage and superior performance in the marketplace (Ajayi & Adeyeye, 2023). Unlike traditional strategic management approaches that primarily focus on external factors such as market dynamics and industry structure, RBV emphasizes the importance of internal factors in determining a firm's success. RBV theory entails identifying and leveraging a firm's distinctive resources and capabilities to create value and achieve strategic objectives (Nyaimore, Warren & Shukla, 2020). Resources can include tangible assets such as physical infrastructure, financial capital, and technology, as well as intangible assets such as human capital, intellectual property, organizational culture, and reputation. These resources are considered valuable if they enable the firm to exploit opportunities or neutralize threats in the external environment. Capabilities, on the other hand, refer to the firm's ability to effectively deploy and utilize its resources to perform specific activities and achieve desired outcomes (Odhiambo, 2020).

The Resource-Based View (RBV) theory of strategic management is built upon several foundational assumptions that shape its approach to analyzing firm performance and competitive advantage. One key assumption of RBV is that firms are heterogeneous in terms of the resources and capabilities they possess. This means that each firm has a unique bundle of resources—both tangible and intangible—that is valuable, rare, difficult to imitate, and non-substitutable (VRIN) (Kagendo, *et al*, 2024). RBV posits that these distinctive resources and capabilities are the primary sources of sustained competitive advantage and superior performance. Another assumption of RBV is that firms are rational and profit-maximizing actors that seek to exploit their resources and capabilities to create value for stakeholders (Sila, Kegoro & Njagi, 2024). RBV theory also assumes that resources are not static, but can be developed, accumulated, and leveraged over time to enhance a firm's competitive position. This implies that firms can invest in building and renewing their resource base, as well as developing dynamic capabilities that enable them to adapt and respond effectively to changes in the external environment. Additionally, RBV assumes that markets are imperfect and that firms can earn economic rents by possessing unique resources and capabilities that are not fully captured by market prices. These rents can arise from factors such as brand reputation, customer loyalty, and proprietary technology (Ajayi & Adeyeye, 2023).

Despite its strengths, RBV theory has faced several critiques over the years. One criticism is that RBV may be tautological or circular in its reasoning, as the concept of valuable, rare, inimitable, and non-substitutable resources (VRIN) is somewhat subjective and difficult to operationalize empirically. Critics argue that firms may achieve competitive advantage through factors other than resources and capabilities, such as market positioning or network effects (Nyaimore, Warren & Shukla, 2020). Additionally, RBV has been criticized for its limited focus on external factors and industry dynamics, such as changes in customer preferences, technological innovation, and competitive rivalry. Some scholars argue that RBV may overlook the importance of these external factors in shaping a firm's competitive position and performance. Moreover, RBV theory has been criticized for its lack of prescriptive guidance on how firms can identify and develop valuable resources and capabilities (Odhiambo, 2020). While RBV provides a useful framework for understanding the sources of competitive advantage, it offers limited practical guidance on how firms can systematically analyze their resource base and make strategic decisions to enhance their competitive position. Critics also point out that RBV may be less relevant in industries characterized by rapid technological change and disruptive innovation, where traditional sources of competitive advantage may be short-lived (Kagendo, *et al*, 2024). This theory was used to assess the influence of organizational innovation on performance of commercial banks in Nairobi city county, Kenya.

Conceptual Framework

A conceptual framework is a structured, visual, or written representation that outlines the key concepts, variables, and their relationships within a study or project. The figure below shows the independent variables and the dependent variable

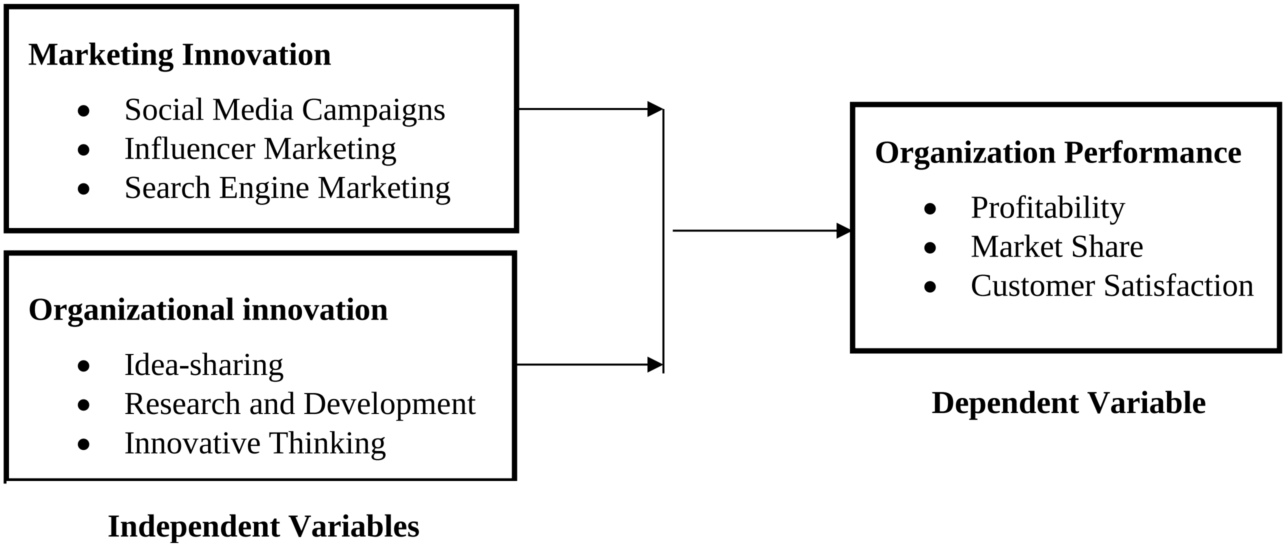

Figure 2. 1: Conceptual Framework

Marketing Innovation

Marketing Innovation refers to the development and implementation of new marketing strategies, tools, or techniques to meet the changing needs of consumers, improve customer engagement, and gain a competitive advantage in the market. This innovation can involve new approaches to advertising, branding, sales techniques, product positioning, digital marketing strategies, or customer experience enhancements (Okundi & Muchemi, 2022). Social media campaigns are organized marketing efforts designed to increase brand awareness, engage with a target audience, and drive specific business objectives through platforms like Facebook, Instagram, Twitter, LinkedIn, and TikTok. These campaigns typically involve creating and sharing content, such as images, videos, articles, or promotions, to engage followers and encourage interaction. The success of social media campaigns often relies on understanding the unique dynamics and user behavior of each platform. Key elements include creating visually appealing and relevant content, timing posts for optimal engagement, using targeted ads, and fostering meaningful interactions with followers (Sifuna & Kamau, 2024). Social media campaigns also provide real-time feedback, enabling brands to adjust their strategies quickly. By effectively utilizing hashtags, challenges, and interactive features, businesses can amplify their reach and create viral moments, making social media campaigns a powerful tool for brand visibility and consumer engagement (Ajayi, *et al*, 2024).

Influencer marketing is a strategy that leverages influential individuals, typically on social media platforms, to promote a brand, product, or service. These influencers, who often have large, engaged followings, help brands reach their target audience in an authentic and personal way. Influencer marketing can be particularly effective because consumers tend to trust recommendations from people they follow more than traditional advertising (Kirabo, Namusonge & Iravo, 2022). Brands partner with influencers based on their relevance to the target audience, their credibility, and the alignment of their values with the brand. Influencer marketing can take many forms, such as sponsored posts, product reviews, unboxing videos, or collaborations on limited-edition products. One of the key benefits of influencer marketing is the ability to create a more relatable and humanized connection with potential customers. However, it requires careful selection of influencers to ensure authenticity and avoid potential backlash if an influencer's values do not align with the brand's (Mbogori & Moguche, 2021). Search Engine Marketing (SEM) refers to the practice of promoting websites by increasing their visibility in search engine results through paid advertising, commonly referred to as pay-per-click (PPC) advertising. SEM involves creating targeted ads that appear on search engines like Google or Bing when users enter specific keywords or search queries related to a brand's products or services. Advertisers bid on keywords, and the ads are displayed based on relevance, ad quality, and bid amount (Okundi & Muchemi, 2022). One of the key benefits of SEM is its ability to provide immediate results and measurable outcomes, allowing businesses to adjust their campaigns for maximum effectiveness. SEM complements search engine optimization (SEO), which focuses on organic search ranking, by providing a paid channel for businesses to gain visibility while working to improve their organic ranking. A successful SEM campaign requires careful keyword research, compelling ad copy, and a well-optimized landing page to convert clicks into customers. Given its pay-per-click model, SEM also allows for highly targeted, cost-effective advertising, making it a popular choice for businesses aiming to drive traffic quickly and efficiently (Sifuna & Kamau, 2024).

Organizational Innovation

Organizational Innovation refers to the process of introducing new or significantly improved structures, practices, or strategies within an organization to enhance its effectiveness, efficiency, and overall performance. This innovation can involve changes in how a company is organized, how decisions are made, or how resources are allocated and managed (Sila, Kegoro & Njagi, 2024). The aim is to improve operational workflows, enhance collaboration, foster creativity, and adapt to evolving market conditions or internal needs. Idea-sharing is a collaborative process where individuals within or outside an organization exchange concepts, solutions, and insights to solve problems, generate new ideas, or improve existing products or services (Ajayi & Adeyeye, 2023). This practice fosters creativity and innovation by bringing together diverse perspectives and expertise. In a business context, idea-sharing is often facilitated through brainstorming sessions, collaborative platforms, meetings, or innovation hubs, encouraging employees to contribute freely without the fear of judgment (Nyaimore, Warren & Shukla, 2020). The open exchange of ideas can lead to breakthroughs that might not occur in isolated environments, and it helps in refining and enhancing concepts. By promoting a culture of idea-sharing, companies can create an environment where innovation thrives, and employees feel more engaged and valued. Moreover, it can be a key driver for continuous improvement and can result in more efficient problem-solving and the development of competitive advantages (Odhiambo, 2020).

Research and Development (R&D) is a critical function within organizations that focuses on the creation of new products, services, or technologies, as well as the improvement of existing ones. R&D involves scientific research, market analysis, prototyping, and testing to ensure that innovations are viable and meet consumer needs. It serves as the foundation for product innovation and technological advancement, enabling businesses to stay competitive by developing cutting-edge solutions. R&D can be resource-intensive, requiring significant investment in time, capital, and expertise (Kagendo, *et al*, 2024). However, the long-term benefits are substantial, including the development of proprietary technologies, intellectual property, and the ability to enter new markets. Companies that prioritize R&D are often better positioned to lead in their industries by continuously offering innovative solutions and adapting to changing market demands. Effective R&D practices also involve close collaboration with academic institutions, research organizations, or external innovators to enhance the scope and impact of new discoveries (Sila, Kegoro & Njagi, 2024). Innovative thinking refers to the ability to think creatively and differently about problems, opportunities, and challenges, with the goal of developing new and effective solutions. It involves stepping outside traditional ways of thinking and exploring new approaches, methodologies, or concepts. Innovative thinking is crucial in driving progress, as it encourages individuals to challenge the status quo, experiment with unconventional ideas, and find novel ways to add value (Ajayi & Adeyeye, 2023). This type of thinking is often nurtured through a mindset of curiosity, open-mindedness, and resilience, allowing individuals or teams to adapt to change and find fresh solutions even in uncertain or complex situations. In an organizational context, fostering innovative thinking requires creating an environment where risk-taking is encouraged, failure is seen as a learning opportunity, and employees feel empowered to experiment. By adopting innovative thinking, businesses can improve their problem-solving capabilities, differentiate themselves from competitors, and stay ahead of industry trends, contributing to sustainable growth and success (Nyaimore, Warren & Shukla, 2020).

Empirical Review

Marketing Innovation and Organization Performance

Ajayi, *et al* (2024) investigated on marketing innovation and the performance of small and medium enterprises in Oyo township, Nigeria: The Mediating Role of Research and Development (R&D). The study adopted a survey research design and data. A structured questionnaire was used to collect data from 175 small-medium enterprises in Oyo township using a convenient sampling technique. The study found that th there was a joint influence of (product innovation, digital marketing technologies, collaboration innovation, and distribution channel innovation) on perceived performance. The study found that research & development mediated the relationship between perceived workload and life satisfaction. The study concluded that marketing innovation influences SMEs' performance and research & development also mediated the link between marketing innovation and SMEs performance.

Kirabo, Namusonge and Iravo (2022) examined on market innovation and performance of telecommunications industry in Rwanda. This study report applied descriptive survey design and utilized both qualitative and quantitative data. The study population included the 133 Top and middle level, managers of mobile phone operator companies in Rwanda. The study found that market innovation is positively and significantly correlated with Performance of Telecommunication industry. The study concluded that the companies benefits tremendously when the market innovation was taken into account for the efficient performance of the telecommunication industry in Rwanda.

Mbogori and Moguche (2021) researched on the effect of market innovation on performance of the cement manufacturing firms in Kenya. The study was guided by the theory of marketing. It adopted descriptive research design. The target population was all the department heads in all the nine cement manufacturing firms. The total number of departments in all the firms was 79. The study found that market innovation positively and significantly affect performance of the cement manufacturing firms in Kenya. The study concluded that market innovations have a positive and significant effect on performance of the cement manufacturing companies in Kenya.

Okundi and Muchemi (2022) conducted a study on marketing innovation strategy and entrepreneurial performance of small and medium enterprises in Nakuru East Town Sub-County. The study engaged a descriptive and explanatory research design that targeted 126 respondents. The study found that there is a strong positive and significant relationship between marketing innovation strategy and entrepreneurial performance of SMEs in Nakuru East Town Sub-County.

The study concluded that market innovation strategy is statistically significant in its effect on entrepreneurial performance of SMEs in Nakuru East Town Sub-County.

Organizational Innovation and Organization Performance

Ajayi and Adeyeye (2023) assessed on the impact of organizational innovation on the performance of small and medium-sized enterprises (SMEs) in Ilorin Metropolis. A questionnaire was used to collect primary data from 200 respondents. The study found that there is a significant relationship between product innovation, process innovation and marketing innovation and performance of SMEs. The study concluded that organizational innovation variables (Product innovation, process innovation and marketing innovation) will jointly and independently predict performance of SMEs.

Nyaimore, Warren and Shukla (2020) conducted a study on an assessment of the influence of organizational innovation on performance of mobile telecommunication companies in Rwanda: a case Study of MTN, Rwanda. The study adopted a descriptive research design that included collection of primary data using questionnaires. A total of 133 MTN employees at MTN Centre in Kigali formed the target population. The study found that administrative innovation, technological innovation and marketing innovation were significantly associated to company performance. The study concluded that administrative innovation, technological innovation and marketing innovation has a direct positive impact on company performance.

Odhiambo (2020) researched on organizational innovation and performance of nonprofit organizations in Kenya. The study adopted a descriptive cross sectional research design. The target population was the top and middle managers of Non Profit Organizations in Kenya which were selected through random sampling. The study found that a strong positive correlation between organizational innovation and organization performance. The study concluded that organization innovation is a good predictor of organization performance.

Kagendo, *et al* (2024) examine on the uptake of digital organizational innovations on financial performance of commercial banks in Kenya. Adopting a positivist philosophy, the study targeted a population of 1,470 employees across 39 commercial banks in Kenya, utilizing a stratified random sampling technique to select a sample size of 315 participants. A descriptive research design was employed. The study found a positive and significant correlation between the adoption of digital innovations and the financial performance of commercial banks. The study concluded that digital organizational innovations have a significant influence on performance of commercial banks in Kenya.

RESEARCH METHODOLOGY

Research Design

The descriptive research design was employed where data was collected one point in time. Creswell and Creswell (2019) notes that a descriptive survey seeks to obtain information that describes existing phenomena by asking questions relating to individual perceptions and attitudes. The design is considered suitable as it allows an in-depth study of the problem under investigation. Descriptive research design was adopted when describing the given situation, a phenomenon, it takes into consideration current believes customs and also traditions in data collection (Baumgartner, Strong & Hensley 201).

Target Population

According to Creswell (2019), a population is a well-defined set of people, services, elements, event, and group of things or households that are being investigated. Egbert (2019) also defined population as the entire set of units from which the investigation information is to be utilized to make derivations. Target population characterizes those units for which the discoveries of the investigation are implied to be generalized from. The unit of analysis for the study was 41 commercial banks in Kenya (CBK, 2023) while the unit of observation was management employees. The accessible population was 246 individuals comprising of 41 top managers, 82 middle level managers and 123 lower-level managers.

Sample and Sampling Techniques

Sample refers to a part of or fraction of population that is being investigated upon. It can also be defined as a group of individuals who are engaged or participating in a study. Wilson (2019) defined it as selected elements such as objects, subjects or people that participate in a particular study. Samples are used to reflect the entire attributes of a given population under investigation such that the study's findings can be generalized to the entire population. A good sample size should be enough to adequately represent the characteristic of the population being studied. Sahu (2017) notes that the best sample should give enough data on the population and this data should be adequate and capable of being analyzed easily.

The study's sample size was reached at using Krejcie and Morgan sample size determination formula (Russell, 2013). The formula used for arriving at the sample size is;

$$n = \frac{x^2NP(1-P)}{\left(ME^2(N-1)\right) + (x^2P(1-P))}$$

Where:

n=sample size

x^2=Chi-square for the specified confidence level at 1 degree of freedom

N=Population size (246)

P = is the proportion in the target population estimated to have characteristics being studied. As the proportion was unknown, 0.5 was used.

Chuan and Penyelidikan (2019) indicate that the use of 0.5 provides the maximum sample size and hence it is the most preferable.

ME=desired margin of Error (Expressed as a proportion) 236.25/1.5754

$$n = \frac{1.96^2 246 * 0.5 * 0.5}{(0.05^2 * 246) + (1.96^2 * 0.5 * 0.5)}$$

$$n = 207$$

Therefore, using the formula, the sample size for the study was 207 respondents. The respondents were chosen with the help of simple random sampling technique.

Table 1: Sample Size

Category	Target Population	Sample Size
Top level Managers	41	34
Middle Level managers	82	69
Lower-Level Managers	123	104
Total	**246**	**207**

Data Collection Instruments

This research used a questionnaire to collect primary data. According to Patton *et. al (*2019), a questionnaire is appropriate in gathering data and measuring it against a particular point of view. It provides a standardized tool for data collection. Structured questions were used to collect primary data from the field. Questionnaires were preferred because they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the research problem (Dempsey, 2019). According to Kothari (2018), the information obtained from questionnaires is free from bias and researchers' influence and thus accurate and valid data was gathered. The preference for the questionnaire is based on the premise that it gives respondents freedom to express their views or opinions more objectively.

According to Krishnaswamy, Sivakumar and Mathirajan (2019), questionnaire method of data collection is good because the standardized and impersonal format of a questionnaire has uniformity and help in getting data objectively. In using questionnaires respondents' anonymity and confidentiality is assured and they are able to complete them when it is convenient and in their own time (De-Vaus, 2019)

Pilot Study

A pilot test was conducted to assess the questionnaire's validity and reliability of the data that was collected. According to Copper and Schindler (2019), a pilot test is conducted to detect weaknesses in the design and instrumentation and provide a proxy data for selection of probability sample. According to Leedy and Ormrod (2019), a pilot study is an excellent way to determine the feasibility of the study. The subjects participating in the pilot study were not included in the final study to avoid survey fatigue. Twenty one questionnaires were piloted that represented 10% of the target population.

Data Analysis and Presentation

Data obtained from the field was coded, cleaned, and entered into the computer for analysis using the SPSS version 25. The data was summarized in order to see emerging trends and issues around specific themes, which are dependent on the variables and objectives. Presentation of data was done in form of quantitative and qualitative reports which were presented in forms of tables and essay. For the quantitative reports, the tables consisted of mean and standard deviation values that were used to make interpretation of the analysis. Percentage, mean and standard deviation were used to show the frequency of responses. Tables were used to display the rate of responses and to facilitate comparison. Qualitative reports were presented in form of essay which was discussed as per the study objectives aligned with the theories and empirical study.

Descriptive statistical included frequency, percentages, mean and standard deviation. Inferential statistical analysis used was multiple regression and correlation analysis. The significant of each independent variable was tested at a confidence level of 95%.

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Descriptive Statistics

Marketing Innovation and Organization Performance

The third specific objective of the study was to determine the effect of marketing innovation on performance of commercial banks in Nairobi city county, Kenya. The respondents were requested to indicate their level of agreement on various statements relating to marketing innovation and performance of commercial banks in Nairobi city county, Kenya. The results were as presented in Table 2.

From the results, the respondents agreed that social media campaigns increases their brand awareness and customer engagement (M=3.925, SD= 0.898). In addition, the respondents agreed that social media campaigns contribute to higher sales and revenue (M=3.817, SD=0.665). Further, the respondents agreed that influencer marketing boosts their brand credibility and customer trust (M=3.731, SD= 0.761).

From the results, the respondents agreed that collaborating with influencers leads to a significant increase in their customer base (M=3.597, SD=0.899). The respondents also agreed that search engine marketing increases their website traffic and online visibility (M=3.585, SD= 0.816). In addition, the respondents agreed that search engine marketing leads to higher conversion rates and sales (M=3.568, SD=0.788).

Table 2: Marketing Innovation and Organization Performance

	Mean	**Std. Deviation**
Social media campaigns increases our brand awareness and customer engagement.	3.925	0.898
Social media campaigns contribute to higher sales and revenue.	3.817	0.665
Influencer marketing boosts our brand credibility and customer trust.	3.731	0.761
Collaborating with influencers leads to a significant increase in our customer base.	3.597	0.899
Search engine marketing increases our website traffic and online visibility.	3.585	0.816
Search engine marketing leads to higher conversion rates and sales.	3.568	0.788
Aggregate	**3.704**	**0.805**

Organizational Innovation and Organization Performance

The fourth objective of the study was to assess the influence of organizational innovation on performance of commercial banks in Nairobi city county, Kenya. Respondents were requested to indicate their level of agreement with statements on organizational innovation and performance of commercial banks in Nairobi city county, Kenya. The results were as shown in Table 3.

From the results, the respondents agreed that idea-sharing initiatives contribute to the development of innovative solutions in their organization (M= 3.939, SD= 0.916). In addition, the respondents agreed that a culture of idea-sharing enhances their ability to adapt and respond to market changes (M= 3.869, SD= 0.863). The respondents also agreed that their organization’s investment in R&D leads to the creation of new products and services (M=3.823, SD=0.796).

From the results, the respondents agreed that R&D activities significantly improve their competitive position in the market (M= 3.811, SD= 0.815). In addition, the respondents agreed that promoting innovative thinking improves decision-making and strategic planning within the organization (M= 3.762, SD= 0.871). Further, the respondents agreed that innovative thinking fosters a more dynamic and adaptable work environment (M=3.731, SD=0.779).

Table 3: Organizational Innovation and Organization Performance

	Mean	Std. Dev.
Idea-sharing initiatives contribute to the development of innovative solutions in our organization.	3.939	0.916
A culture of idea-sharing enhances our ability to adapt and respond to market changes.	3.869	0.863
Our organization's investment in R&D leads to the creation of new products and services.	3.823	0.796
R&D activities significantly improve our competitive position in the market.	3.811	0.815
Promoting innovative thinking improves decision-making and strategic planning within the organization.	3.762	0.871
Innovative thinking fosters a more dynamic and adaptable work environment	3.731	0.779
Aggregate	**3.823**	**0.840**

Organization Performance

The respondents were requested to indicate their level of agreement on various statements relating to performance of commercial banks in Nairobi city county, Kenya. The results were as shown in Table 4.

From the results, the respondents agreed that the company experiences an increase in overall profitability over the past year (M=3.882, SD=0.876). In addition, the respondents agreed that the organization effectively manages its costs to maximize profitability (M=3.876, SD=0.897). Further, the respondents agreed that the organization successfully increases its market share in the industry (M=3.872, SD=0.784).

From the results, the respondents agreed that their company holds a leading position in the market relative to competitors (M=3.741, SD=0.712). In addition, the respondents agreed that the organization consistently meets or exceeds customer expectations (M=3.645, SD=0.587). Further, the respondents agreed that their company regularly collects feedback from customers to improve its offerings (M=3.626, SD=0.876).

Table 4: Organization Performance

	Mean	Std. Deviation
The company experiences an increase in overall profitability over the past year.	3.882	0.876
The organization effectively manages its costs to maximize profitability	3.876	0.897
The organization successfully increases its market share in the industry.	3.872	0.784
Our company holds a leading position in the market relative to competitors.	3.741	0.712
The organization consistently meets or exceeds customer expectations.	3.645	0.587
Our company regularly collects feedback from customers to improve its offerings.	3.626	0.876
Aggregate	**3.774**	**0.789**

Correlation Analysis

This research adopted Pearson correlation analysis determine how the dependent variable (performance of commercial banks in Nairobi city county, Kenya) relates with the independent variables (marketing innovation and organizational innovation).

Table 5: Correlation Coefficients

		Organization Performance	Marketing Innovation	Organizational Innovation
Organization Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	184		
Marketing Innovation	Pearson Correlation	.838**	1	
	Sig. (2-tailed)	.001		
	N	184	184	
Organizational Innovation	Pearson Correlation	.846**	.138	1
	Sig. (2-tailed)	.000	.067	
	N	184	184	184

There was a very strong relationship between marketing innovation and performance of commercial banks in Nairobi city county, Kenya ($r = 0.838$, p value =0.001). The relationship was significant since the p value 0.001 was less than 0.05 (significant level). The findings are in line with the findings of Ajayi, *et al* (2024) who indicated that there is a very strong relationship between marketing innovation and organization performance.

The results also revealed that there was a very strong relationship between organizational innovation and performance of commercial banks in Nairobi city county, Kenya ($r = 0.846$, p value =0.000). The relationship was significant since the p value 0.000 was less than 0.05 (significant level). The findings are in line with the findings of Kagendo, *et al* (2024) who indicated that there is a very strong relationship between organizational innovation and organization performance.

Regression Analysis

Multivariate regression analysis was used to assess the relationship between independent variables (marketing innovation and organizational innovation) and the dependent variable (performance of commercial banks in Nairobi city county, Kenya)

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861	.741	.740	.592

a. Predictors: (Constant), marketing innovation and organizational innovation

The model summary was used to explain the variation in the dependent variable that could be explained by the independent variables. The r-squared for the relationship between the independent variables and the dependent variable was 0.741. This implied that 74.1% of the variation in the dependent variable (performance of commercial banks in Nairobi city county, Kenya) could be explained by independent variables (marketing innovation and organizational innovation).

Table 7: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	112.304	2	56.152	719.897	.000[b]
1	Residual	7.018	181	.039		
	Total	119.322	183			

a. Dependent Variable: performance of commercial banks in Nairobi city county, Kenya
b. Predictors: (Constant), marketing innovation and organizational innovation

The ANOVA was used to determine whether the model was a good fit for the data. F calculated was 719.897 while the F critical was 2.422. The p value was 0.000. Since the F-calculated was greater than the F-critical and the p value 0.000 was less than 0.05, the model was considered as a good fit for the data. Therefore, the model can be used to predict the influence of marketing innovation and organizational innovation on performance of commercial banks in Nairobi city county, Kenya.

Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.218	0.057		3.825	0.000
	marketing innovation	0.359	0.093	0.358	3.860	0.001
	organizational innovation	0.366	0.096	0.367	3.813	0.000

a Dependent Variable: performance of commercial banks in Nairobi city county, Kenya

The regression model was as follows:

$$\mathbf{Y = 0.218 + 0.359X_1 + 0.366X_2 + \varepsilon}$$

The results revealed that marketing innovation has significant effect on performance of commercial banks in Nairobi city county, Kenya $\beta1=0.359$, p value= 0.001). The relationship was considered significant since the p value 0.001 was less than the significant level of 0.05. The findings are in line with the findings of Ajayi, *et al* (2024) that there is a very strong relationship between marketing innovation and organization performance.

In addition, the results revealed that organizational innovation has significant effect on performance of commercial banks in Nairobi city county, Kenya $\beta1=0.366$, p value= 0.000). The relationship was considered significant since the p value 0.000 was less than the significant level of 0.05. The findings are in line with the results of Kagendo, *et al* (2024) who revealed that there is a very strong relationship between organizational innovation and organization performance.

Conclusions

The study concludes that marketing innovation has a positive and significant effect on performance of commercial banks in Nairobi city county, Kenya. Findings revealed that social media campaigns, influencer marketing and search engine marketing influence performance of commercial banks in Nairobi city county, Kenya.

The study also concludes that organizational innovation has a positive and significant effect on performance of commercial banks in Nairobi city county, Kenya. Findings revealed that idea-sharing, research and development and innovative thinking influence performance of commercial banks in Nairobi city county, Kenya.

Recommendations

The study recommends that the management of commercial banks in Kenya should adopt data-driven personalized marketing strategies using customer analytics and behavioral insights. By leveraging data from digital platforms and transaction histories, banks can create targeted marketing campaigns that offer personalized financial products, promotions, and services aligned with individual customer needs and preferences.

The study also recommends that the management of commercial banks in Kenya should adopt a flexible and collaborative organizational structure that encourages cross-functional teams and open communication. By breaking down traditional departmental silos and promoting a culture of innovation and shared decision-making, banks can enhance adaptability, foster creativity, and respond more effectively to market changes and customer needs.

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