
**DYNAMIC CAPABILITIES AND PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA**


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# DYNAMIC CAPABILITIES AND PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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**ABSTRACT**

*This research intends to determine the effect of dynamic capabilities on the profitability of commercial banks in Nairobi City County, Kenya. Specifically, the study confirmed the influence of innovative capability, technical knowledge ability, learning culture ability, and service quality ability on the performance of commercial banks in Nairobi City County, Kenya. The study was supported by four frameworks: Dynamic Capabilities Theory, Resource-Based View Theory, Organizational Learning Theory, and the Balanced Scorecard Theory. This research employed a descriptive research design along with a purposeful sampling method. The intended audience consisted of 38 commercial banking institutions located in Nairobi City County, Kenya. A total of 228 staff working at these commercial banks participated in the survey. The group included 102 employees. Semi-structured questionnaires were employed for data. Face and content validity were assessed by obtaining expert opinions, while reliability was evaluated using Cronbach's alpha, with a threshold of 0.7 deemed acceptable. The information was examined using descriptive statistics and multiple regression methods, with the results presented in tables, charts, and graphs. The capacities for innovation, technical knowledge, service quality, and learning culture were identified as having a significant positive impact on the performance of commercial banks in Nairobi City County, Kenya. The research finds that innovative abilities allow banks to automate repetitive tasks, which decreases the time and resources needed for operations. Technical expertise allows banks to utilize data analytics to comprehend customer preferences and behaviors. Cultural competence allows bank employees to engage effectively with clients from various backgrounds, building trust and rapport. Excellent service quality results in enhanced customer satisfaction, which subsequently promotes loyalty. The research suggests that banks ought to improve and advance their mobile and online banking systems to ensure smooth customer experiences. Financial institutions ought to conduct workshops and seminars facilitated by industry specialists to address new trends, regulatory updates, and technological progress in banking. The banks ought to conduct regular training sessions for staff to enhance their abilities in customer service, product expertise, and communication.*

**Key Words:** *Innovation Capability, Technical Knowledge Capability, Learning Culture Capability, Service Quality Capability*

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## INTRODUCTION

Commercial banks are vital to the economy, providing essential services like loans and savings accounts and investments for consumers and businesses and its performance is often determined by how well they are doing in terms of profitability customer satisfaction and overall financial health (Sangmi & Nazir, 2020). According to Ally (2023), a strong performance by commercial banks is indispensable for a stable and healthy financial system which in turn supports economic growth and development. Therefore, monitoring and assessing the performance of commercial banks is essential for regulators, investors, and consumers to ensure the safety and stability of the banking industry.

Dynamic capabilities are essential in affecting the effectiveness of commercial banks by aiding their adjustment and reaction to evolving market dynamics, technological advancements, and regulatory mandates (Jarrar, 2021). Cheng, Fan and Huang (2023) observe that commercial banks can enhance their competitive edge and attain lasting expansion through constant improving their processes investing in innovation and nurturing a culture of continuous learning and adjustment. Additionally, banks that have strong dynamic capabilities are better equipped to navigate challenges, capitalize on opportunities, and achieve greater success than their competitors over time. Thus, it is essential for commercial banks to prioritize growth and improvement of their dynamic capabilities to ensure long-term realization in the ever-evolving banking industry.

Dynamic capabilities have been critical for commercial banks in Africa to respond to the distinct challenges and potential across the continent's different marketplaces. For instance, Ochie, Nyuur, Ludwig and Cunningham (2022) observe that the Central Bank of Nigeria's effort for broader financial accessibility has prompted banks to develop innovative products tailored to underserved segments. Banks such as Access Bank have launched initiatives to reach rural customers, sensing the opportunity to expand their customer base in a largely unbanked demographic. According to Mazzucato, Qobo and Kattel (2021), the standard Bank in South Africa has embraced digital transformation via investment in fintech partnerships and developing its own digital banking platform. This proactive approach has allowed the bank to enhance customer experience and streamline operations, positioning it as a leader within the realm of digital banking.

The banking sector in Kenya ranks among the most developed in Africa, characterized by a mix of local and international banks, a growing number of microfinance institutions, and a vibrant fintech ecosystem. The country has made significant strides in financial inclusion, largely driven by mobile banking and digital financial services (Muriithi & Waweru, 2021). According to Mutua (2023), the rise of mobile banking in Kenya, exemplified by M-Pesa, has transformed the financial landscape. Banks like Equity Bank have effectively sensed the shift towards mobile financial services and have adapted their offerings to include mobile banking solutions, thereby capturing a significant market share among the unbanked population.

The profitability, effectiveness, and stability of banks are often assessed using financial performance metrics. These metrics encompass profits, return on assets (ROA), return on investment (ROI) and evaluations of cost effectiveness. For instance, Pinto et al. (2020) emphasize the importance of financial ratios such as ROA and ROI in evaluating the profitability and effectiveness of banks. The performance of the product market has also been analyzed as a measure of a bank's success. It encompasses factors like sales growth and market share. Moreover, Soewarno and Tjahjadi (2020) assert that product market performance reflects a bank's ability to expand its customer base, attract customers, and compete effectively.

Moreover, the return on shareholders' wealth is considered a crucial measure of performance. According to Pinto et al. (2020) performance demonstrates the bank's capability to create value for its shareholders, considering both financial performance and market valuation. Return on shareholders' wealth is often assessed by examining stock market performance, which considers the bank's stock price appreciation and dividend payments. This indicator represents the market's assessment of the bank's potential for future growth and its capacity to provide shareholders with value (Pinto et al., 2020). An increased return on shareholders' equity suggests that the bank is producing satisfactory returns for its investors and effectively utilizing its resources to create shareholder value.

Studies have identified various types of dynamic capabilities that organizations can develop to enhance their performance and adaptability. Kurtmollaiev (2020) observed that Innovative capacity involves cultivating a culture of innovation, experimentation, and risk-taking within the firm. Scarpellini et al. (2020) noted that technical capability entails staying up-to-date with technological advancements and continuously upgrading and integrating technical resources. In another study, Bojesson and Fundin (2021) concluded that learning culture capability encompasses creating a culture focused on learning, promoting the exchange of knowledge, and fostering individual and collective learning capabilities. Moreover, Murschetz et al. (2020) observed that marketing capabilities involve understanding market trends, segmenting the market, positioning the firm’s services, and implementing marketing initiatives that enhance customer satisfaction and loyalty. In their study, Mutuku et al. (2019) concluded that knowledge management capabilities entail capturing and organizing tacit and explicit knowledge, facilitating knowledge sharing and transfer, and leveraging knowledge assets to enhance decision-making, innovation, and overall organizational performance. Furthermore, García- Dastugue and Eroglu (2019) examined how service quality affects operating performance and found that the service quality capabilities of companies are linked to enhanced operational performance. This study is going to adopt innovative, technical, learning culture, and service quality capabilities because they are the most applicable in this study.

In Kenya, commercial banks are essential to the financial system, serving as intermediaries for both borrowers and depositors and providing a wide array of financial services. These banks serve as key drivers of economic growth and development by mobilizing savings, facilitating investments, and supporting various economic activities (Otieno & Ndede, 2020). The banking sector in Kenya has undergone considerable expansion and change throughout the years. The CBK, functioning as the regulatory body for the industry and administrator, is essential in guaranteeing the stability, integrity, and efficacy of commercial banks by means of effective regulatory measures and supervision.

The banking landscape in Kenya encompasses both local and international banks operating within the country. Local banks such as Equity Bank Kenya Limited, Kenya Commercial Bank (KCB), and Co-op Bank of Kenya have established a robust presence and have been instrumental in encouraging financial accessibility and assisting in the growth of SMEs. International banks, including Standard Chartered Bank, Barclays Bank (now Absa Bank Kenya), and Citibank, have also ventured into the Kenyan market, bringing with them global expertise, extensive networks, and an extensive variety of financial services (Ndungu, & Muturi, 2019). These global banks frequently serve the requirements of multinational companies, major enterprises, and affluent individuals, providing specialized financial solutions and advisory services.

Considering the significant role that commercial banks play in the Kenyan economy, it is vital to comprehend their performance and dynamic capabilities so as to evaluate their influence on the financial sector, overall economic growth, and development. By examining the unique context of Nairobi City County, this research seeks to elucidate the strategies and capabilities employed by commercial banks to navigate the dynamic banking landscape and drive sustainable performance in Kenya.

**Problem Statement**

The Kenyan economy has experienced fluctuations, with GDP growth rates varying significantly over the years. Economic challenges, such as inflation and currency depreciation, have impacted the banking sector's performance. The average ROA for Kenyan banks has hovered around 1.5% to 2%, which is lower than the regional average. The proportion of non-performing loans (NPLs) to total loans has been an essential indicator of performance. As of recent reports, NPLs in the Kenyan banking sector have exceeded 13%, signaling challenges in credit risk management and the capacity of banks to adjust to economic shifts. Although numerous banks uphold a CAR exceeding the regulatory threshold of 14.5%, their capacity to generate capital in reaction to market fluctuations has been constrained, indicating insufficient dynamic capabilities.

Various research studies have investigated the link between dynamic capabilities and the performance of commercial banks. For instance, Muithya and Muathe (2020) analyzed this relationship among microfinance institutions in Kenya, finding a notable positive correlation between dynamic capabilities and their success. However, this particular research focused solely on microfinance institutions. In another study, Mugambi (2021) looked at how dynamic capabilities influence the profitability of financial institutions in Nairobi City County, Kenya, concluding that skills in innovation, technical expertise, high-quality service, and a learning-oriented culture had a significant impact on the profitability of commercial banks. Yet, this research was limited to evaluating the performance of commercial banks from 2016 to 2019. Additionally, Aduwo and Deya (2022) investigated the link between dynamic capabilities and the competitive advantage of commercial banks in Kenya. Their findings suggested that marketing skills, knowledge management, technological prowess, and financial management abilities positively and significantly affect the competitive advantage of these banks. Nonetheless, this examination revealed a conceptual gap. Therefore, this study seeks to assess the dynamic capabilities and performance of commercial banks in Nairobi City County, Kenya.

**Study Objectives**

The general objective of this study was to ascertain the effect of dynamic capabilities on the performance of commercial banks in Nairobi City County, Kenya. The study was guided by the following specific objectives:

- To evaluate the impact of innovative capability on the performance of commercial banks located in Nairobi City County, Kenya.
- To determine the influence of technical knowledge capability on the performance of commercial banks in Nairobi City County, Kenya.
- To investigate the effect of a learning culture capability on the performance of commercial banks in Nairobi City County, Kenya.
- To examine the impact of service quality capability on the performance of commercial banks in Nairobi City County, Kenya.

**Hypotheses**

**$H_{01}$:** The innovative capacity does not significantly influence the performance of commercial banks in Nairobi City County, Kenya.

**$H_{02}$:** Technical knowledge capability does not significantly influence the performance of commercial banks in Nairobi City County, Kenya.

**$H_{03}$:** Learning culture capability does not significantly influence the performance of commercial banks in Nairobi City County, Kenya.

**$H_{04}$:** Service quality capability does not significantly influence the performance of commercial banks in Nairobi City County, Kenya.

## LITERATURE REVIEW

### Dynamic Capability Theory

The main theory grounding the study is dynamic capability theory which was developed in the late 20th century, with notable contributions by David J. Teece and his colleagues in the 1990s. The theory emphasizes an organization's capability to adapt, innovate, and reorganize its resources in response to changing market dynamics. Rooted in strategic management, the theory of dynamic capabilities posits that a firm's ability to adjust, innovate, and learn is critical for maintaining a competitive edge and achieving exceptional performance (Murschetz et al., 2020). This theory underscores the significance of dynamic capabilities in tackling market changes, advancements in technology, and regulatory requirements (Muithya & Muathe, 2020).

The dynamic capabilities theory highlights the importance of sensing abilities within organizations. Sensing capabilities refer to the ability to recognize and comprehend signals of change in the market, including alterations in customer preferences, regulatory changes, or advancements in technology. Organizations that excel in sensing capabilities are more likely to detect emerging trends and potential opportunities that could affect their performance (Muithya & Muathe, 2020). The theory further points that seizing is a capability crucial for organization's performance. (Ali et al., 2021). Seizing alludes to an organization's ability to capitalize on recognized possibilities by reorganizing its resources and capabilities. This may include rapid deployment of new technologies, development of innovative financial products, or establishment of strategic partnerships (Akter et al.,2020). The theory emphasizes that an organization with strong seizing capabilities can efficiently react to market fluctuations, gain a competitive edge and enhance their overall performance (Ali et al.,2021).

### Resource Based View Theory

The Resource-Based View (RBV) theory was initially introduced by Penrose E.T. in 1959. This theory suggests that a company's distinctive resources and capabilities play a crucial role in influencing its competitive advantage and overall performance (Penrose, 1959). It emphasizes the significance of strategic assets such as human resources, technological systems, brand reputation, and customer relationships for an organization (Miller, 2019). Furthermore, the theory examines how dynamic capabilities, which are part of the firm's resource base, aid in the development, acquisition, integration, and reconfiguration of strategic resources (Gitau & Mang'ana, 2021).

The RBV adopts a firm-level analysis perspective and identifies the role of dynamic capabilities in building sustainable resource advantages as well as long-term financial performance. The process of revitalizing competencies to align businesses with the changing environment is considered dynamic, encompassing innovation in marketing and the critical element of timing (Mutuku et al., 2019). Forecasting the future business landscape and the rapid advancement of technology pose challenges. Strategic management primarily focuses on integrating, adapting, and adjusting internal and external abilities, resources, and talents within organizations to match them with the continually evolving business environment, with capabilities serving as a driving force.

### Organizational Learning Theory

Organizational learning theory began to take shape in the late 20th century, with key contributions from researchers such as Chris Argyris and Donald Schön (1978), Peter Senge (1990), and James G. March (1991). As Zhang and Zhu (2019) note, organizational learning theory examines how organizations acquire, understand, and utilize information to enhance performance. This theory elucidates the learning processes and organizational routines inside commercial banks that enable the creation and implementation of dynamic capabilities (Al-Hawary et al., 2020). The theory examines how organizational culture, leadership, information systems, and knowledge-sharing practices influence the effectiveness of dynamic capabilities in improving bank performance in Kenya.

According to organizational learning theory, an organization operating in a dynamic environment can achieve a competitive advantage by adapting its goals and techniques for achieving those goals (Lwanga et al., 2022). To facilitate learning, organizations need to consciously align their actions with desired outcomes when responding to changing circumstances. The learning process starts with data collection. The organization establishes a valid connection between actions and outcomes, identifies the environmental conditions that render them valid, determines the likelihood of achieving the expected outcomes, and recognizes potential challenges. Once information is collected, it is interpreted. Often, organizations compare expected and actual results to update their knowledge. The next step is action/adaptation, where the organization takes the interpreted data and selects new action-to-outcome links that are most suitable for the current business environment. Once the adaptation stage is completed, the organization updates its knowledge base to incorporate the selected action-to-outcome links, uncertainties, probabilities, and applicable conditions (Lwanga et al., 2022). This process continues interactively, and feedback is continuous and interactive across all phases.

**Balance Scorecard Model**

The Balanced Scorecard framework, created by Kaplan and Norton in the early 1990s, seeks to evaluate organizational performance through a blend of financial and non-financial criteria (Terziev et al, 2020). The model emphasizes the alignment of organizational operations with its vision and strategy to enhance both external and internal communication and to assess performance relative to strategic objectives. It has four dimensions: consumer viewpoint, innovation and learning, internal company processes, and financial perspective. The first three aspects provide leading performance indicators, but the financial viewpoint presents trailing performance indicators (Terziev et al, 2020).

The customer perspective enables organizations to evaluate their capability to provide top-notch products and services, guarantee efficient deliveries, and achieve overall customer satisfaction. Krylov (2019) observe that many organizations place a strong emphasis on their customers and have a customer-focused mission statement that guides their performance evaluation. Managers are responsible for translating the overall mission statement into key measures that reflect the aspects important to customers. The BSC model is a strategic management instrument that assists firms in converting their vision and strategy into achievable goals across four dimensions: financial, customer, internal processes, and learning and development. Consequently, banks may use the BSC to monitor essential financial metrics, including ROE, ROA, and net interest margins. This helps in assessing the bank's financial health and sustainability. In addition, the BSC can help banks measure customer satisfaction through surveys and feedback mechanisms, allowing them to improve service delivery and retain clients.

**Empirical Review**

**Innovative Capability and Organizational Performance**

The study by Edeh et al. (2020) focused on how innovation capabilities influence success export firms from developing market firms. The researchers investigated the impact of efficient and functional innovation abilities on export outcomes. They employed quantitative research with a cross-sectional survey design and regression analysis. The research suggested that both effective and operational innovation capabilities positively and significantly influenced export performance. Moreover, the influence of operational innovation capabilities was determined to exceed that of effective innovation capabilities. Nevertheless, the study did not investigate the particular strategies, practices, or mechanisms by which operational innovation capabilities could potentially have a more significant impact than effective innovation capabilities on the export performance of developing firms. The research concentrated on export companies, but this study concentrated on commercial banks.

Zhang (2004) examined how innovation capability affects the success of multinational corporations operating in China's transitional economy. The research analyzed the correlation between organizational success and innovation capabilities. The researcher analyzed empirical data from 3,843 Chinese industrial companies using regression analysis. The outcomes suggested a complex connection between performance and innovation capabilities, with both independent and interactive effects. The study does not provide detailed insights into the specific nature of these independent and interactive effects, leaving room for further exploration and understanding of the underlying dynamics. The research concentrated on China, but this study concentrated on Kenya.

**Technical Knowledge Capability and Organizational Performance**

Lam et al. (2021) investigated the influence of an organization's competencies in information technology, knowledge management, and organizational learning on its performance. The research delved into the connection between IT capabilities and organizational outcomes. Employing quantitative methodologies, the researchers conducted regression analysis. The findings indicated that information technology (IT) positively affects organizational performance, implying that organizations with stronger IT capabilities achieve superior results. Nevertheless, the study does not specifically address the possible mediating or moderating factors that could clarify how information technology impacts organizational performance. The study concentrated on high-tech firms whereas the present research concentrated on the banking sector.

Siqueira & Bruton (2010) conducted research with the objective to ascertain the connection among investments in technical skills and the performance of developing economies. The study assessed the connection between technical capability and company performance. The researchers employed quantitative evaluation of economic indicators and investment levels. The findings indicated that companies with low technical capability demonstrated average performance in their economic indicators, with lower investments compared to those with average technical capability. Nevertheless, these results do not undermine the value of individual companies or the success of the country, rather, they support the country's focus on basic industries. The last research concentrated on high-tech companies, but the present investigation examined the banking industry.

**Learning Culture Capability and Organizational Performance**

According to Hussain et al. (2023) collaborative research was conducted by the Aerican Society of T&D and the International Business Machines Corporation to assess how learning culture capability affects organizational performance. The research aimed at ascertaining how the performance of an organization is influenced by certain indicators of learning culture capability including mentoring and document repositories. It was discovered that 60% of the study participants utilized mentoring as a means of knowledge transfer, while 50% continued to rely on document repositories for capturing knowledge (Hussain et al., 2023). The research highlighted a difference in the knowledge transfer techniques utilized by participants regarding learning culture capability and organizational performance. Research centered on Pakistan, but this study zeroed in on Kenya.

Ahmed (2017) performed a research examining the effects of development on performance and capability enhancement, utilizing empirical data from Pakistan. The research utilized quantitative analysis of empirical evidence and value chain link.

The findings revealed that large-sized and multinational companies in Pakistan fostered a learning culture, invested in development, and enhanced their managerial capabilities, resulting in improved performance. However, no direct link was established between the size and ownership of organizations with performance and managerial capabilities. The study was focused on Pakistan large sized multinational companies while this research focused on Kenyan commercial banks in Nairobi City County.

**Service Quality Capability and Organizational Performance**

Sibonde and Dassah (2021) examined how service quality capability influences employee motivation and productivity within the retail industry. Mixed-methods research combining quantitative analysis of employee motivation and productivity with qualitative insights was employed. The findings revealed that enhanced service quality capability fosters higher employee motivation and productivity in the retail sector, contributing to improved organizational performance. However, there was limited research on the mechanisms through which service quality enhances employee motivation. The research was done in South Africa, but this study took place in Kenya.

Raza et al. (2020) investigated how service quality capability relates to brand reputation in the financial services industry. The research focused on understanding the connection between the ability to provide quality service and the brand reputation in this sector The results showed that service quality capability significantly contributes to building a positive brand reputation in the financial services industry, indicating its impact on long-term organizational success. Markedly, there was inadequate investigation of potential moderators affecting the strength of this relationship. The study used Internet banking service quality as the independent liability whereas this research utilized dynamic capabilities as the independent variable.

**Conceptual Framework**

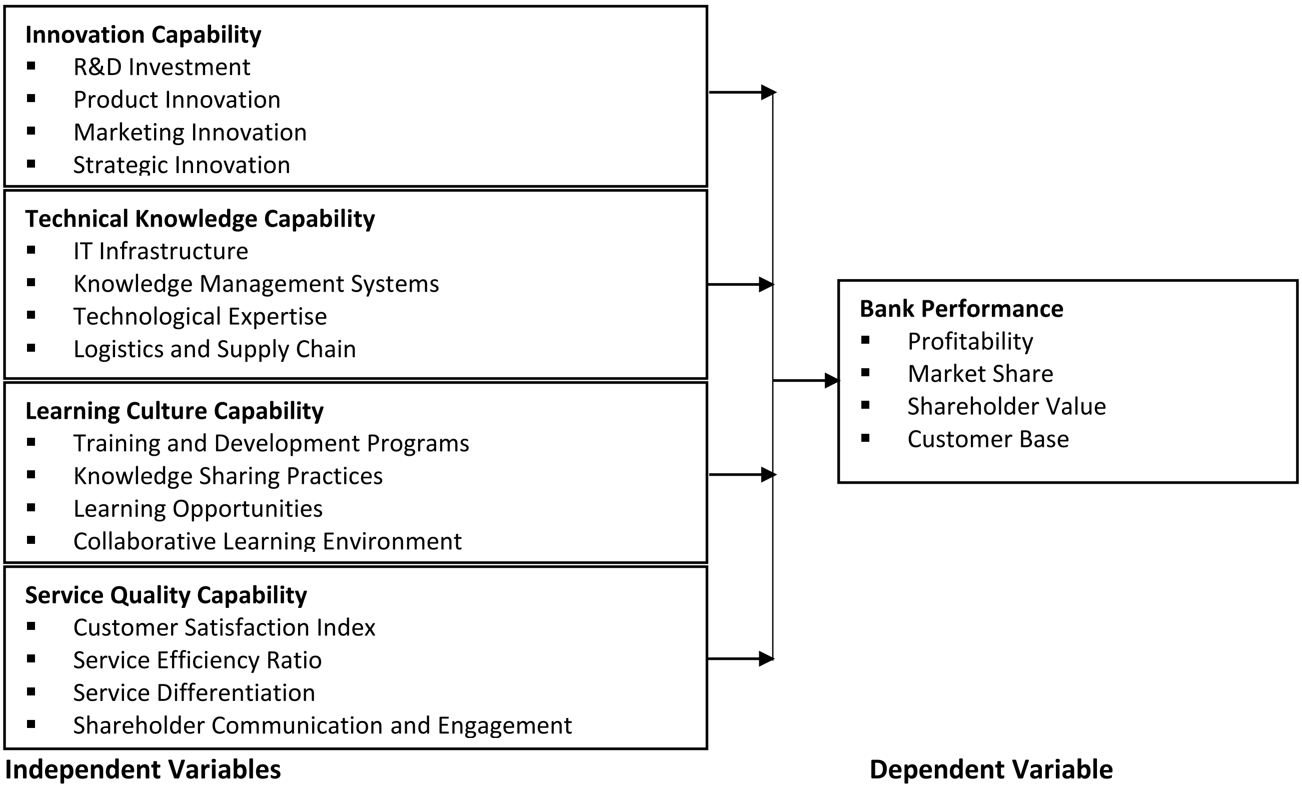


**Figure 1: Conceptual Framework**

## METHODOLOGY

This research utilized a descriptive methodology. The Directors Human Resource, Directors Customer Service, Directors Information Technology, Directors Operations, Directors Business Development, and Chief Finance Officers of the thirty-nine (38) commercial banks headquarters situated in Nairobi City County, Kenya were the focus of the analysis. The participants included 6 individuals from each of the banks making up the target audience of 228 senior management-level employees. This study adopted purposive sampling technique. The study will use a sample of 102 respondents, or 45% of the intended demographic. Simple random sampling was employed to choose respondents.

The research collected quantitative data through a semi-structured questionnaire to gather primary information. The Cronbach's alpha test was utilized for evaluating reliability. To verify the effectiveness of the data collection method, 10 participants were chosen for the pilot study held at Kenya Commercial Bank in Kiambu County, Kenya. Using SPSS, Cronbach's alpha was calculated to evaluate reliability. Thus, a higher value of Cronbach's alpha indicates increased dependability, with a reliability alpha value of 0.7 considered acceptable, as noted in Adeniran's (2019) research.

The research gathered quantitative data. Descriptive statistical methods, including mean and standard deviation, were employed to evaluate this data. The results were presented in tables and figures generated using SPSS version 20.0. Furthermore, the study conducted inferential analysis, which included correlation and regression analyses to determine the extent of the impact among the variables.

## RESEARCH FINDINGS AND DISCUSSION

### Response Rate

Out of 102 participants, 95 gave responses, leading to a response rate of 93.1%. As a result, 7 participants did not respond, which translates to a non-response rate of 8.4%. According to Baruch and Holtom (2014), a response rate of 80% or higher is deemed sufficient for data analysis. Therefore, the 93.1% response rate in this study is regarded as suitable for analysis. This elevated response rate boosts the acceptance and reliability of the research outcomes.

### Results of Descriptive Statistics

**Table 1: Innovative Capability**

| Statements | M | SD |
|---|---|---|
| Our bank allocates a substantial amount of resources towards research and development (R&D) initiatives | 4.00 | 1.188 |
| Investments in research and development have a beneficial effect on the overall performance of our bank | 4.06 | 0.837 |
| Our bank actively pursues product innovation to meet changing customer needs. | 4.49 | 0.596 |
| Product innovation initiatives positively impact the competitiveness and performance of our bank. | 4.15 | 0.830 |
| Our bank utilizes innovative marketing strategies to reach and engage with customers. | 4.59 | 0.634 |
| Marketing innovation efforts contribute to enhancing our bank's brand and customer loyalty. | 3.24 | 1.713 |
| Our bank places a strong emphasis on strategic innovation in its operations and decision-making. | 3.77 | 1.201 |
| Strategic innovation initiatives positively affect our bank's long-term sustainability and profitability. | 4.56 | 1.200 |
| **Overall score** | **4.11** | **1.024** |

The study findings in Table 1 reveal a strong consensus among participants regarding key aspects of their bank's operations. Participants agreed on the effectiveness of the bank's innovative marketing strategies (M=4.59, SD=0634), indicating these efforts significantly enhance customer engagement. Additionally, they recognized the positive impact of strategic innovation on long-term sustainability and profitability (M=4.56, SD=1.200), suggesting that innovation is crucial for enduring success despite a wider range of opinions. Lastly, participants expressed confidence in the bank's proactive approach to product innovation (M=4.49, SD=0.596), highlighting its responsiveness to changing customer needs. The finding agrees with Edeh et al. (2020) results that highlight the vital significance of innovation in the banking sector, suggesting that institutions that prioritize innovative marketing strategies, strategic initiatives, and product development are more likely to achieve sustainable success in an increasingly competitive environment.

Study participants acknowledged that initiatives focused on product innovation have a positive effect on the bank's competitiveness and performance, with a mean score of 4.15 and a standard deviation of 0.830. This reflects a strong consensus on the importance of innovation for sustaining a competitive advantage in the financial industry. Furthermore, they highlighted the significance of investments in research and development (R&D), which received a mean score of 4.06 and a std. dev. of 0.837, inferring that R&D plays a crucial role in improving overall performance. The bank's considerable investment in R&D, scoring an average of 4.00 with a standard deviation of 1.188, underscores its dedication to fostering innovation in a swiftly changing market. The study also found that the bank prioritizes strategic innovation in its operations (M=3.77, SD=1.201). This shows that innovation is integrated into core strategies and daily operations. These findings align with Agyei-Mensah (2016) research which observes that reinforcing the notion that a strong focus on product innovation, R&D investment, and strategic innovation is vital for improving financial institutions' performance and competitiveness.

A mean score of 3.24 and a std. dev. of 1.713 show that participants had a neutral opinion about how marketing innovation activities will enhance our bank's reputation and encourage client loyalty. This result stands in contrast to previous findings by Li and Chen (2010), which indicated a more favorable view of the connection between marketing innovations and brand growth.

The average score and standard deviation were noted as 4.11 and 1.024, respectively, indicating that the participants agreed on the influence of innovative capability on the performance of commercial banks. The alignment of these results with earlier findings by Zhang (2004) who underscores the importance of fostering an innovative culture within commercial banks, particularly in dynamic markets like Nairobi City County, where competition is fierce and customer expectations are continually evolving.

**Technical Knowledge Capability**

**Table 2: Technical Knowledge Capability**

| Statements | M | SD |
|---|---|---|
| Our bank maintains a robust and up-to-date IT infrastructure. | 4.43 | 1.219 |
| Effective IT infrastructure positively impacts our bank's operational efficiency. | 3.87 | 1.683 |
| Bank employs advanced knowledge management systems to organize and share information. | 3.43 | 1.245 |
| Knowledge management systems enhance our bank's decision-making capabilities. | 4.46 | 1.107 |
| Our bank has a skilled workforce with expertise in cutting-edge technologies. | 4.71 | 0.737 |
| Technological expertise contributes to our bank's ability to adapt to industry changes. | 4.02 | 1.636 |
| Our bank maintains efficient logistics and supply chain processes. | 4.55 | 0.738 |
| Effective logistics and supply chain management positively affect our bank's cost-effectiveness and customer service. | 4.10 | 0.848 |
| **Overall score** | **4.19** | **1.152** |

Table 2 shows that participants strongly agree on several aspects of their banking experience. They believe their bank has a skilled workforce in advanced technologies (M=4.71, SD=0.737), indicating confidence in employees' technical capabilities, essential in today's digital financial landscape. Participants also feel their bank maintains effective logistics and supply chain operations (M=4.55, SD=0.738). This highlights the importance of operational efficiency in banking, as it can enhance service quality and customer experiences, with a consensus among participants on this effectiveness. Additionally, participants believe that knowledge management systems improve decision-making (M=4.46, SD=1.107). This suggests recognition of the value of knowledge sharing, although the higher standard deviation indicates some varied opinions. The finding aligns with Lam et al. (2021) research which emphasize the critical role of skilled personnel, efficient operations, and effective knowledge management in enhancing the banking industry's organizational performance.

Participants in the study showed strong agreement on their financial institution's IT infrastructure, with an average rating of 4.43 (SD = 1.219), indicating confidence in its modern capabilities essential for competitiveness. They also recognized the importance of effective IT in enhancing operational efficiency, reflected in an average rating of 3.87 (SD = 1.683), linking robust systems to streamlined processes and cost reduction. Additionally, the significance of technological expertise was highlighted, with an average rating of 4.02 (SD = 1.636), emphasizing the need for skilled personnel to adapt to industry changes. Participants also acknowledged the contribution of excellent supply chain management and logistics to cost-effectiveness and customer service, rating it 4.10 (SD = 0.848), indicating strong agreement on its positive impact. The alignment of these results with Siqueira & Bruton (2010) research, which reinforces the notion that investment in technology and skilled personnel is crucial for banks seeking to succeed in a competitive landscape.

Participants showed a neutral stance on their bank's use of advanced knowledge management systems (M=3.43, SD=1.245), indicating neither strong agreement nor disagreement about their effectiveness. This neutrality may stem from factors like unfamiliarity with the systems, varying perceptions of their effectiveness, or differing experiences with their implementation.

The finding agrees with Keelson (2014) research which highlighted the potential advantages of these systems, such as improved information sharing, enhanced decision-making capabilities, and increased operational efficiency. However, Gosh et al. (2022) research has pointed out challenges such as resistance to change, inadequate training, and concerns about data security, which may contribute to a more cautious or neutral viewpoint among employees.

The analysis indicates that participants expressed strong agreement, demonstrated by a mean score of 4.19 and a std. dev. of 1.024 that technical knowledge had a major influence on commercial banks' performance. The high mean score indicates that most people feel that technical expertise is crucial in the banking industry. The finding is consistent with Kitenga, Muchemi, & Kilika (2020) studies that highlight the favorable relationship between technical skills and organizational success in the banking sector, supporting the notion that banks prioritizing continuous development in this area tend to perform better.

### Learning Culture Capability

**Table 3: Learning Culture Capability**

| Statements | M | SD |
|---|---|---|
| Our bank offers comprehensive training and development programs for employees. | 3.42 | 1.629 |
| Employee participation in training programs contributes to their professional growth. | 4.53 | 1.036 |
| Knowledge sharing is actively encouraged and practiced within our bank. | 4.43 | 1.023 |
| Knowledge sharing practices enhance collaboration and problem-solving among employees. | 4.72 | 0.724 |
| Employees have access to diverse learning opportunities within our bank. | 3.78 | 1.207 |
| Learning opportunities foster a culture of continuous improvement in our bank. | 3.28 | 1.708 |
| Our bank promotes a collaborative learning environment where knowledge is freely exchanged. | 3.79 | 1.200 |
| A collaborative learning environment positively impacts our bank's innovation and problem-solving capabilities. | 4.54 | 1.231 |
| **Overall score** | **4.06** | **1.219** |

It is observed that participants strongly agree on the importance of collaborative practices in the organization. Knowledge sharing significantly enhances collaboration and problem-solving (M=4.72, SD=0.724), indicating its critical role in fostering teamwork. Additionally, a collaborative learning environment positively impacts innovation and problem-solving (M=4.54, SD=1.234). This suggests that a supportive learning atmosphere encourages employees to contribute innovative ideas, driving organizational success. Moreover, employee involvement in training programs is seen as essential for professional development (M=4.53, SD=1.036). Participants think that skill development and job advancement are supported by training. These results are consistent with studies by Hussain et al. (2023), which showed how crucial training, collaborative learning and the exchange of information play a vital role in improving organizational efficiency and boosting employee satisfaction.

With a mean score of 4.43 (SD = 1.023), research participants felt that the bank has a culture of learning and sharing information, suggesting that this practice is both encouraged and practiced. This demonstrates how it promotes a creative and cooperative workplace. Furthermore, the bank fosters a cooperative learning environment (M=3.79, SD= 1.200), which reflects positive perceptions of teamwork and shared learning. This environment enhances individual development and overall organizational effectiveness. Employees also reported a variety of learning opportunities (M=3.78, SD = 1.207), suggesting the bank's commitment to professional growth through training programs, workshops, and mentorship. These findings align with Ahmed (2017) research which observes the significance of sharing knowledge and engaging in collaborative learning to enhance organizational effectiveness and employee satisfaction, reinforcing the bank's dedication to a supportive knowledge exchange environment.

Participants expressed a neutral view on their bank's training and development programs (M=3.42, SD=1.639) and the promotion of a culture of continuous improvement (M=3.28, SD=1.708). These scores, close to the midpoint, suggest ambivalence about the effectiveness and availability of such initiatives. The wide standard deviations indicate varied perceptions among employees, with some feeling positively and others less so, possibly due to limited experience with the programs. This aligns with Stevens (2010) research showing mixed perceptions of training adequacy in financial institutions and also highlights the need for organizations to not only offer training but also ensure employees are aware and engaged with these opportunities. The neutral stand also could suggest a potential area for improvement, indicating that management should assess and enhance their training offerings to better meet employee needs and expectations.

Respondents universally acknowledged the impact of learning culture on the performance of commercial banks, as shown by a mean score of 4.06 and a standard deviation of 1.219. The mean score of 4.06 reflects a generally positive perspective, while the standard deviation of 1.219 points to a degree of variability in responses. This outcome underscores the importance of fostering a strong learning culture in the banking sector, where adaptability and ongoing improvement are crucial for maintaining a competitive edge. This result aligns with Yuesti & Sumantra (2017) research that showed that strong learning cultures tend to improve an organization's performance. their peers by being more responsive to market changes and improving service delivery.

**Service Quality Capability**

**Table 4: Service Quality Capability**

| Statements | M | SD |
|---|---|---|
| Our bank places a high priority on achieving a high customer satisfaction index. | 3.22 | 1.719 |
| High customer satisfaction positively correlates with our bank's overall performance. | 3.77 | 1.201 |
| Our bank continuously seeks to improve its service efficiency ratio. | 4.48 | 1.240 |
| A favorable service efficiency ratio contributes to our bank's cost-effectiveness. | 4.36 | 1.245 |
| Our bank differentiates its services to meet diverse customer needs. | 3.79 | 1.734 |
| Service differentiation strategies enhance our bank's competitiveness in the market. | 3.53 | 1.181 |
| Our bank actively engages with shareholders to ensure transparency and communication. | 4.46 | 1.107 |
| Effective shareholder communication positively influences our bank's reputation and performance. | 4.60 | 0.926 |
| **Overall mean** | **4.03** | **1.294** |

The respondents strongly agree on key points: The high mean score for effective communication (M=4.60, SD=0.926) suggests respondents see it as essential for success, supported by studies showing that transparency mitigates misinformation risks and boosts stakeholder confidence, especially in the financial sector. The commitment to improving service efficiency (M=4.48, SD=1.240) reflects the bank's focus on operational excellence, aiming to reduce costs and enhance customer satisfaction, which is crucial in a competitive market. This aligns with industry reports linking operational efficiency to customer retention. Finally, the emphasis on shareholder interaction (M=4.46, SD=1.107) highlights a trend in corporate governance recognizing stakeholder engagement as vital for transparency, particularly in today's environment. These findings align with Fernandes (2018) which observe the importance of stakeholder engagement for positive organizational image and performance. Research indicates that banks prioritizing open communication with shareholders build trust and loyalty, leading to better financial outcomes.

The respondents agreed that; they highlighted the importance of a positive service efficiency ratio (M=4.36, SD=1.245), showing efficient service delivery is crucial for cost-effectiveness and overall financial performance. The participants also emphasized the bank's commitment to customizing services for diverse client needs (M=3.79, SD=1.734). Long-term success depends on the contentment and loyalty of customers, which is improved by this flexibility. Customer satisfaction and total bank performance were also shown to be significantly positively correlated (M=3.77, SD=1.201). Customer satisfaction increases the bank's chances of repeat business and referrals, which boosts expansion and profitability. Lastly, it was mentioned that improving the bank's competitive edge required initiatives for service differentiation (M=3.53, SD=1.181). Offering unique services helps the bank stand out in the market. The findings align with Ismail & Yunan (2016) research, which supports the notion that service efficiency, customer satisfaction, and strategic differentiation are critical components of a successful banking operation.

The respondents expressed a neutral stand regarding the assertion that their bank prioritizes attaining a high customer satisfaction index (M=3.22, SD=1.719). The neutral response suggests that customers neither strongly agree nor disagree with the idea that their bank places a significant emphasis on achieving high levels of customer satisfaction. This finding contradicts Sibonde and Dassah (2021) research which observe that customers would demonstrate a more positive perception of their bank's commitment to customer satisfaction.

The respondents largely agreed on the impact of service quality on the performance of financial institutions, as indicated by a mean score of 4.03 and a standard deviation of 1.294. This suggests a shared belief that service quality plays a crucial role in the banks' effectiveness. Although the standard deviation of 1.294 shows some variation in responses, it is relatively low, implying that most views were centered around the average. This result aligns with the findings of Raza et al. (2020), which emphasized that high service quality enhances customer loyalty, financial performance, consumer satisfaction, and competitive advantage.

**Performance**

**Table 5: Performance**

| **Statements** | **M** | **SD** |
|---|---|---|
| Our bank consistently maintains a high level of profitability, generating substantial returns for shareholders. | 3.54 | 1.825 |
| Our bank has successfully expanded its market share, positioning itself as a prominent player in the industry | 3.17 | 1.461 |
| Shareholder value has steadily increased over the years, reflecting our bank's strong financial performance and strategic initiatives. | 3.39 | 1.759 |
| Our bank has experienced significant growth in its customer base, indicating a strong appeal to a broad and diverse range of clients. | 3.46 | 1.758 |
| **Overall score** | **3.39** | **1.701** |

The participants believe their bank consistently achieves high profitability, (M=3.54, SD=1.825), indicating a generally positive view of its financial performance, though some variability exists in confidence levels. Additionally, respondents noted significant growth in the bank's clientele (M=3.46, SD=1.758), suggesting effective customer acquisition strategies. These findings align with Pinto et al. (2020) research highlighting profitability and customer expansion as key indicators of a bank's health and market position, contributing to stability and long-term viability.

The participants expressed a neutral stance regarding the following assertions: the value for shareholders has consistently risen over the years, demonstrating our bank's robust financial performance and strategic efforts (M=3.46, SD=1.759), and the bank has effectively broadened its market share, establishing itself as a significant entity within the industry (M=3.17, SD=1.461). These results are in agreement with Soewarno and Tjahjadi (2020) research which suggest stakeholders often hold a balanced view when assessing the financial stability and market stance of financial institutions.

Regarding the performance of commercial banks, the respondents' neutral attitude (M=3.39, SD=1.701) indicates that they were neither firmly in agreement nor disagreement with the assertions made about the banks' performance.. This neutrality may reflect a variety of factors, including a lack of significant positive or negative experiences with the banks, or a general ambivalence towards their services. The finding is not consistent with Karkowska (2019) research which highlighted a trend of neutrality or ambivalence among customers, particularly in environments where competition among banks is high, and where customers may feel that their needs are not being fully met.

**Results of Inferential Statistics**

**Correlation Analysis**

**Table 6: Correlation Analysis**

| | | Innovation capability | Technical knowledge capability | Learning culture capability | Service quality capability | Performance |
|---|---|---|---|---|---|---|
| Innovation capability | Pearson Corr. | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 95 | | | | |
| Technical knowledge capability | Pearson Corr. | .043 | 1 | | | |
| | Sig. (2-tailed) | .498 | | | | |
| | N | 95 | 95 | | | |
| Learning culture capability | Pearson Corr. | .020 | -.090 | 1 | | |
| | Sig. (2-tailed) | .755 | .156 | | | |
| | N | 95 | 95 | 95 | | |
| Service quality capability | Pearson Corr. | .231** | .088 | .120 | 1 | |
| | Sig. (2-tailed) | .000 | .162 | .058 | | |
| | N | 95 | 95 | 95 | 95 | |
| Performance | Pearson Corr. | .732* | .746** | .825* | .813 | 1 |
| | Sig. (2-tailed) | .004 | .000 | .003 | .002 | |
| | N | 95 | 95 | 95 | 95 | 95 |

The competencies assessed and the overall effectiveness of these financial institutions show a strong correlation, as indicated by the Pearson r values that measure the strength and direction of the linear relationship between two variables. Notably, the ability to innovate demonstrates a significant positive relationship with performance outcomes, supported by its Pearson r value of 0.732. This suggests that banks are likely to see better performance metrics if they emphasize and strengthen their innovation skills. Given that it is much below the traditional cutoff point of 0.05, the significance value of 0.004 further emphasizes the dependability of this association and shows that it is statistically significant.

Similarly, the technical knowledge capability shows a Pearson r value of 0.746, which also reflects a strong positive correlation with performance. The significance level of 0.000 is particularly noteworthy, as it suggests an extremely low probability that this relationship is due to chance, reinforcing the idea that technical knowledge is a critical driver of success in the banking sector. With an even higher Pearson r value of 0.825, the learning culture competence shows an unusually significant link with performance. This implies that banks are more likely to attain better performance results if they cultivate a culture of ongoing learning and improvement. This finding is further supported by the significance value of 0.003, which highlights how crucial it is to create a learning-oriented environment in these institutions. Finally, a strong positive correlation exists between performance and service quality capabilities, demonstrated by a Pearson r value of 0.813. This correlation is statistically significant, with a significance value of 0.002, highlighting the crucial role that high-quality service plays in enhancing customer satisfaction and, subsequently, boosting the overall performance of commercial banks.

**Multiple Regression Analysis Results**

**Table 7: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .802[a] | .643 | .611 | 1.754 |

An R value of 0.802 demonstrates a strong positive correlation between capabilities in innovation, technical knowledge, service quality, and learning culture with bank performance. This suggests that the study identifies significant statistical relationships among various capabilities and the performance of commercial banks in Nairobi City County, Kenya. Consequently, improvements in these areas are likely to enhance overall performance. These capabilities are vital, as indicated by the R-square value of 0.643, which shows that they explain approximately 64.3% of the variance in bank performance. The remaining 35.7% may be attributed to other external factors not addressed in the study. The relevance of the chosen skills is further supported by the adjusted R-square value of 0.611, which indicates that the model is still robust even after taking the number of predictors into consideration. Additionally, a standard error of 1.754 indicates a reasonable level of precision in the model's predictions regarding bank performance.

**Table 8: Analysis of Variance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 105.123 | 4 | 26.281 | 30.553 | 0.003 |
| | Residual | 77.415 | 90 | 0.8602 | | |
| | Total | 182.538 | 94 | | | |

Significant correlations between different capacities and the performance of commercial banks in Nairobi City County, Kenya, are shown by the ANOVA results. The independent variables have a significant impact on bank performance, as indicated by the mean square value of 26.281. The F value of 30.553, well above the typical significance threshold, suggests that performance differences among banks are meaningful and not due to chance. Additionally, the significance level of 0.003 indicates that these findings are statistically significant.

**Table 9: Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.705 | 0.301 | | 2.342 | 0.002 |
| | Innovation capability | 0.789 | 0.119 | 0.0621 | 6.630 | 0.001 |
| | Technical knowledge capability | 0.815 | 0.224 | 0.0384 | 3.6384 | 0.000 |
| | Learning culture capability | 0.810 | 0.261 | 0.0308 | 3.1034 | 0.000 |
| | Service quality capability | 0.759 | 0.342 | 0.0337 | 2.2193 | 0.002 |

Table 9 shows that innovation capability has a beta value of 0.0621 and a significance value of 0.002, indicating a positive relationship with the performance of commercial banks. A beta greater than zero suggests that increased innovation capability correlates with improved bank performance, enhancing operational efficiency, customer satisfaction, and competitive advantage. The 0.002 significance value is much below the 0.05 cutoff confirms that this relationship is statistically significant, indicating that fostering innovation is likely to yield real benefits for stakeholders, including bank management and investors. These findings agree with Kurtmollaiev, 2020) research which observe that prioritizing innovation can help banks develop innovative financial services and products, like mobile payment systems and online banking, to meet evolving customer needs.

The research reveals that the technical knowledge capacity of financial institutions in Nairobi City County, Kenya, has a beta value of 0.0384, suggesting a positive relationship with bank performance. This association's statistical significance is validated by a significance value of 0.000, indicating that enhanced technical knowledge competence leads to better overall performance and operational efficiency. These findings align with the study conducted by Gosh et al. (2022), which highlights the importance of technical capacity in the production and operational sectors, vital components of manufacturing firm.

The study found that the learning culture capability in Nairobi City County's commercial banks has a beta value of 0.0308, indicating a positive relationship with overall performance. Although modest, this value is significant in a competitive banking environment. The significance value of 0.000 further confirms that this relationship is statistically reliable, suggesting that banks with a strong learning culture focused on continuous improvement and knowledge sharing tend to perform better. The finding concurs with Ahmed (2017) who observe that large-sized and multinational companies in Pakistan fostered a learning culture, invested in development, and enhanced their managerial capabilities, resulting in improved performance.

With a beta value of 0.0337, commercial banks' service quality capacity indicates a favorable correlation between service quality and bank performance. A beta greater than zero means that improved service quality is likely to enhance performance. The 0.002 significance value is much below the 0.05 cutoff confirms that this relationship is statistically significant, indicating that the effect is unlikely due to chance. This emphasizes how crucial service quality is to the prosperity and competitiveness of banks in the area.

**Results of Qualitative Data Analysis**

**Innovation Capability**

The participants were requested to evaluate how innovation capability affects the performance of financial institutions. The results are presented as follows;

*'Innovative technologies can help banks automate compliance processes, making it easier to adhere to regulatory requirements and reducing the risk of*

*penalties. Digital tools can streamline reporting processes, ensuring that banks can provide accurate and timely information to regulators, safeguarding the bank's assets and customer information. Banks can stay relevant and competitive by swiftly adjusting to shifting consumer tastes and market conditions thanks to their innovative capabilities.'*

**Technical Knowledge Capability**

The respondents were asked to explain how the performance of commercial banks, was impacted by their technical knowledge competency. The outcomes are displayed as follows;

*'Technical knowledge fosters a culture of innovation within banks, enabling them to develop new financial services and solutions that adapt to clients' changing needs. Technical knowledge facilitates the development of robust reporting systems that guarantee the timely and accurate delivery of necessary reports to regulatory agencies. This not only helps in maintaining compliance but also builds trust with stakeholders. Banks with strong technical knowledge are better positioned to adopt and integrate fintech solutions that can enhance their service offerings. A culture of technical proficiency fosters innovation within the organization. Banks can continuously improve their products and services, keeping pace with industry trends and customer expectations, thereby maintaining a competitive edge in the market.'*

**Learning Culture Capability**

The respondents were asked to indicate how learning culture capability influenced the performance of commercial banks. The results obtained are presented as follows;

*'A culturally diverse workforce brings a variety of perspectives, fostering innovation and creative problem-solving in product development and service delivery. Culturally competent banks are more inclined to take part in significant CSR projects that resonate with local communities, enhancing their reputation and social license to operate. In a competitive banking environment, cultural competence can serve as a unique selling proposition, distinguishing a bank from its competitors.'*

**Service Quality Capability**

The respondents were asked to indicate how service quality capability influenced the performance of commercial banks. The results obtained are presented as follows;

*'A focus on service quality often leads to the optimization of banking processes, reducing wait times and improving overall efficiency. A highly motivated workforce that is dedicated to providing exceptional service can be achieved through improved training and employee engagement brought about by high service quality standards. High service quality minimizes errors and misunderstandings, leading to fewer customer complaints and disputes, which can be costly to resolve. Engaging with customers to enhance service quality provides important information about client requirements and preferences, which enables banks to better customize their products.'*

## CONCLUSION AND RECOMMENDATION

The study concludes that innovative capabilities enable banks to automate routine tasks, reducing the time and resources required for operations. This leads to faster transaction processing and lower operational costs. New developments like mobile banking and online platforms allow banks to streamline their services, making them more accessible and user-friendly for customers. Innovations like mobile banking apps and digital wallets offer customers easy access to banking services at any time and anywhere, improving overall customer experience. Banks that adopt innovative technologies can differentiate themselves from competitors by offering unique products and services, attracting more customers in a competitive market.

The banks can use technical expertise to utilize data analytics to comprehend the preferences and behaviors of their customers. This makes it possible to develop customized financial services and products, which raises client loyalty and satisfaction. Technical expertise gives banks the capacity to examine enormous volumes of data in order to spot any dangers and weaknesses. This proactive approach to risk management helps in mitigating financial losses and ensuring regulatory compliance. Technical expertise facilitates the development of automated reporting systems that ensure timely and accurate submission of required reports to regulatory bodies.

The study concludes that learning cultural competence enables bank staff to communicate effectively with clients from diverse backgrounds, fostering trust and rapport. By being culturally competent, banks can attract a broader range of customers, including marginalized groups who may have previously felt excluded from formal banking services. A culturally competent workplace promotes an inclusive atmosphere in which employees feel appreciated and acknowledged, resulting in increased morale and productivity. Understanding cultural dynamics can help banks identify and mitigate risks associated with misunderstandings or miscommunications that could lead to reputational damage.

Providing excellent customer service increases client satisfaction, which in turn encourages loyalty. Customers who are happy with their bank are more inclined to stick with it, which lowers churn rates. In a crowded market, banks that provide superior service can differentiate themselves from competitors. This can play a crucial role in drawing in new clients. A steady level of excellent service boosts the bank's reputation, making it a preferred choice among consumers. Quality service encourages customers to engage more frequently with the bank, resulting in higher transaction volumes and associated fees.

**Recommendations of the Study**

The research found that innovative capability significantly impacts the performance of Commercial Banks. It therefore recommends that financial institutions ought to advance and refine their mobile and online banking platforms to ensure a smooth customer experience. They should also set up specialized innovation labs to explore new concepts and technologies, while implementing ongoing training programs that emphasize innovation, creativity, and emerging technologies for staff at every level. Furthermore, banks should establish avenues for customers to share their feedback on products and services, which can guide innovation initiatives.

The research further revealed that the effectiveness of commercial banks is impacted by technical knowledge competency. Hence the recommendation that the banks should organize workshops and seminars led by industry experts to cover emerging trends, regulatory changes, and technological advancements in banking. While encouraging employees to pursue relevant certifications in areas such as risk management, financial analysis, and digital banking to enhance their expertise. Furthermore, to assist employees in making data-driven decisions and enhancing consumer insights, offer training on data analytics tools and methodologies. Finally, create channels for staff members to exchange ideas, best practices, and lessons discovered from a range of initiatives and experiences.

Furthermore, it was found that the performance of commercial banks, is statistically significantly impacted by learning culture competence. Consequently, the study suggests that bank executives should have a clear vision that highlights the significance of ongoing education and training. The bank's basic values must to incorporate this ambition. The banks should also create thorough onboarding programs for new hires and continuous training for current personnel to keep them abreast of technological advancements, market trends, and regulations. Additionally, putting in place platforms that allow staff members to exchange ideas, best practices, and lessons gained. This could include intranet forums, wikis, or collaborative tools. Lastly, the banks can create dedicated spaces for employees to try out new concepts, offerings, and services without the worry of failing.

The research ultimately concluded that the ability to foster a learning culture has a statistically significant impact on the performance of commercial banks. It recommends that the banks to implement ongoing training sessions for employees to improve their skills in customer service, product knowledge, and communication. Additionally, the banks ought to develop and enhance mobile banking applications and online channels to give consumers easy access to banking services. Encourage staff to take ownership of customer issues and empower them to make decisions that enhance customer satisfaction. Implement recognition and reward programs for employees who demonstrate exceptional customer service, fostering a culture of excellence.

**Suggestions for Further Study**

From the results in regression analysis, the study concluded that there a remaining 35.7%) that could account for other variables not studied. Therefore, this research suggests that subsequent research should focus on additional characteristics that have not been examined in order to address this gap. Furthermore, the research specifically targeted financial institutions in Nairobi City County, Kenya, indicating a necessity for further research on other types of financial institutions.

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