



Competitive strategy and financial performance of banks in Lagos: The mediating role of service innovation

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Abstract

Purpose: The study examines the mediating role of service innovation in the relationship between competitive strategy and financial performance of banks in Lagos, Nigeria. Drawing on Competitive Advantage Theory and the Resource-Based View, the study seeks to explain how strategic positioning translates into financial outcomes through innovation capabilities.

Methodology/Design: A cross-sectional survey design was employed, with data collected from 312 middle and senior-level management staff across deposit money banks in Lagos using a structured questionnaire. Competitive strategy, service innovation, and financial performance were measured using validated scales. Data were analyzed using partial least squares structural equation modeling (PLS-SEM) with SmartPLS 4, following a two-step approach for measurement model assessment and structural model testing.

Findings: The results indicate that competitive strategy has a positive and significant effect on both service innovation ($\beta = 0.532$, $p < 0.001$) and financial performance ($\beta = 0.412$, $p < 0.001$). Service innovation also positively affects financial performance ($\beta = 0.384$, $p < 0.001$). Furthermore, service innovation partially mediates the relationship between competitive strategy and financial performance ($\beta = 0.204$, $p < 0.001$). The model explains 46.7% of the variance in financial performance.

Implications: The findings suggest that bank managers should align innovation investments with strategic priorities to maximize financial returns. Competitive strategy alone is insufficient; banks must develop service innovation capabilities to fully realize performance gains. Policymakers may consider frameworks that encourage innovation while maintaining sector stability.

Originality/Value: This study contributes to the strategic management literature by integrating Competitive Advantage Theory and the Resource-Based View within the Nigerian banking context. It provides empirical evidence that service innovation serves as a mechanism through which competitive strategy enhances financial performance, offering insights for banks operating in emerging market environments.

Keywords: Competitive strategy, service innovation, financial performance, banking, PLS-SEM, lagos, Nigeria

Introduction

The banking industry plays a central role in economic growth by supporting financial intermediation, investment, and business expansion. In emerging economies such as Lagos, the banking sector has become highly competitive due to market liberalization, technological advancement, and the entry of fintech firms. This growing competition has pushed banks to adopt effective competitive strategies in order to sustain their market position and improve financial outcomes. Competitive strategy, rooted in the work of Michael Porter, emphasizes how firms achieve superior performance through cost leadership, differentiation, or focus strategies. In the context of banking, these strategies influence how institutions design their products, price their services, and respond to customer needs in a dynamic environment (Amin *et al.*, 2020; Osei-Assibey, 2021; Li & Liu, 2022) [4, 25, 29].

In recent years, service innovation has emerged as a critical mechanism through which banks translate competitive strategies into tangible performance outcomes. Service innovation in banking includes the introduction of digital banking platforms, mobile applications, automated customer service systems, and personalized financial solutions. These innovations not only improve operational efficiency but also enhance customer satisfaction and loyalty, which are essential for financial performance. Studies have shown that banks that actively invest in innovative service delivery tend to achieve higher profitability and market share compared to

those that rely on traditional methods (Karjaluoto *et al.*, 2021; Agyapong & Boamah, 2022; Chen *et al.*, 2023) [3, 12, 23]. In addition, recent evidence indicates that digital service innovation strengthens the link between strategic positioning and firm performance in highly competitive financial markets (Nguyen & Pham, 2024) [27].

Notwithstanding these developments, many banks in Lagos continue to struggle with achieving consistent financial performance. While some banks have successfully implemented competitive strategies and innovative services, others face challenges such as high operational costs, limited technological capabilities, and resistance to organizational change. Furthermore, the rapid pace of digital transformation and changing customer expectations have created a gap between strategy formulation and effective implementation. Existing studies have largely examined the direct relationship between competitive strategy and financial performance, with limited attention given to the underlying mechanisms that explain how this relationship occurs, particularly in the Nigerian banking context (Ezeh & Nkamnebe, 2020; Adegbite *et al.*, 2023) [1, 17].

More importantly, there is a lack of empirical studies that integrate competitive strategy, service innovation, and financial performance within a single analytical framework using advanced techniques such as Structural Equation Modeling (SEM). This gap limits a deeper understanding of whether service innovation plays a mediating role in enhancing the effectiveness of competitive strategies.

Without such insight, banks may continue to invest in strategies that do not yield optimal results, thereby affecting their long-term sustainability and competitiveness.

Based on this gap, the problem this study seeks to address is the insufficient understanding of how competitive strategies adopted by banks in Lagos translate into improved financial performance, and whether service innovation serves as a critical mechanism in this relationship. Addressing this problem is important for both theory and practice, as it will provide evidence-based insights to guide strategic decision-making and innovation investment in the banking sector.

Literature Review

Competitive Strategy

Competitive strategy explains how firms position themselves to achieve superior performance within their industry. It is commonly linked to the ideas of Michael Porter, who identified cost leadership, differentiation, and focus as key strategic approaches. In the banking sector, competitive strategy shapes how institutions respond to market pressures, manage costs, and deliver value to customers. Recent studies show that banks that adopt clear and well-structured strategies are more likely to improve efficiency and sustain profitability in highly competitive environments (Li & Liu, 2022; Adegbite *et al.*, 2023) [1, 25].

In emerging markets, competitive strategy has become more dynamic due to technological disruption and increased customer expectations. Banks are no longer competing only on price but also on service quality, speed, and innovation. Research indicates that strategic positioning influences not just market share but also long-term financial outcomes, especially when firms align their internal capabilities with external market demands (Osei-Assibey, 2021; Ezeh & Nkamnebe, 2020) [17, 29]. This suggests that competitive strategy remains a fundamental driver of organizational performance in the banking industry.

Service Innovation

Service innovation refers to the introduction of new or improved services, processes, or delivery methods that create value for customers and organizations. In the banking sector, service innovation includes digital banking platforms, mobile applications, automated services, and personalized financial solutions. These innovations are important as they enhance customer experience and improve operational efficiency. Studies have shown that service innovation plays a key role in helping banks remain competitive and relevant in a rapidly changing environment (Karjaluo *et al.*, 2021; Chen *et al.*, 2023) [12, 23].

Recent literature also highlights that service innovation is not limited to technology but includes new ways of interacting with customers and delivering financial services. For example, the integration of fintech solutions and artificial intelligence has transformed how banks operate and engage with clients. Evidence suggests that banks that continuously innovate their services tend to achieve higher customer satisfaction, loyalty, and overall performance (Agyapong & Boamah, 2022; Nguyen & Pham, 2024) [3, 27]. This makes service innovation a critical link between strategic actions and performance outcomes.

Financial Performance

Financial performance reflects the ability of a firm to generate profits, increase revenue, and achieve sustainable

growth. In the banking sector, financial performance is often measured using indicators such as profitability, return on investment, and market share. It serves as a key measure of how well a bank is implementing its strategies and utilizing its resources. Empirical studies show that strong financial performance is often associated with effective strategic management and innovation practices (Amin *et al.*, 2020; Li & Liu, 2022) [4, 26].

In recent years, the determinants of financial performance have expanded beyond traditional financial metrics to include intangible factors such as innovation, customer satisfaction, and digital capability. This shift reflects the changing nature of the banking industry, where competitive advantage is increasingly driven by value creation rather than just cost efficiency. Research indicates that banks that invest in innovation and align their strategies with market trends tend to achieve better financial outcomes and long-term sustainability (Adegbite *et al.*, 2023; Chen *et al.*, 2023) [1, 12].

Theoretical Foundation and Hypothesis Development

This study is anchored on Competitive Advantage Theory (Porter, 1985) [30] and the Resource-Based View (RBV) (Barney, 1991) [7]. Competitive Advantage Theory explains that firms gain superior performance by implementing effective strategies such as cost leadership, differentiation, and focus. In banking, these strategies shape market positioning, customer targeting, and operational efficiency. RBV complements this by emphasizing that internal resources and capabilities, such as service innovation, are critical for converting strategic plans into sustainable performance outcomes (Agyapong & Boamah, 2022; Chen *et al.*, 2023) [3, 12].

Integrating these theories, this study proposes that competitive strategy (external positioning) enhances financial performance, but the effect is stronger when supported by internal capabilities like service innovation.

Effect of Competitive Strategy on Financial Performance

Competitive strategy, grounded in Porter's Competitive Advantage Theory, provides banks with a structured approach to outperform rivals through cost leadership, differentiation, or focus strategies (Porter, 1985; Li & Liu, 2022) [25, 30]. In the banking sector, such strategies influence how institutions position themselves in the market, optimize operational efficiency, and offer unique services that attract and retain customers. Empirical evidence indicates that banks that effectively implement competitive strategies are more likely to achieve superior financial outcomes, including higher profitability, market share, and return on investment (Adegbite *et al.*, 2023; Osei-Assibey, 2021) [1, 29]. Competitive strategies serve as external mechanisms that guide decision-making, resource allocation, and customer engagement. In highly competitive environments like Lagos, where fintech innovation and regulatory pressures are high, banks that clearly define and execute their strategic orientation tend to perform better financially. Therefore, this hypothesis posits that:

H1: Competitive strategy has a significant effect on financial performance of banks in Lagos.

Effect of Competitive Strategy on Service Innovation

Competitive strategy also plays a critical role in driving service innovation, a concept supported by Competitive Advantage Theory. Firms that pursue differentiation or focus strategies are more likely to invest in new products, technological solutions, and improved service delivery methods to gain a competitive edge (Ezeh & Nkamnebe, 2020; Nguyen & Pham, 2024) [17, 27]. In the banking sector, this translates into innovations such as mobile banking apps, automated teller services, online loan processing, and personalized financial products. Such innovations enable banks to respond proactively to changing customer demands and technological advancements. By linking strategy to innovation, banks can convert external positioning into practical capabilities that enhance service delivery. Literature indicates that strategic orientation directly influences an organization's capacity for innovation, implying that without a clear strategy, service innovation may be inconsistent or misaligned with market needs (Agyapong & Boamah, 2022) [3]. Hence

H2: Competitive strategy has a significant effect on service innovation in banks in Lagos.

Effect of Service Innovation on Financial Performance

Service innovation represents a key internal capability in line with the Resource-Based View (RBV), which emphasizes that firm-specific resources and capabilities drive sustainable competitive advantage (Barney, 1991; Chen *et al.*, 2023) [7, 12]. In banking, service innovation includes digital platforms, automated systems, and enhanced customer experience mechanisms that improve operational efficiency and client satisfaction. Literature suggests that banks that adopt innovative services achieve higher financial performance, as innovation leads to cost reduction, customer loyalty, and increased revenue streams (Amin *et al.*, 2020; Karjaluoto *et al.*, 2021) [4, 23]. The RBV perspective underscores that these innovations are valuable resources rare, non-substitutable, and difficult to imitate allowing banks to leverage internal capabilities to enhance financial outcomes. Therefore, service innovation is expected to directly contribute to financial performance, independent of strategy, by enabling banks to differentiate themselves and deliver superior value to customers. Consequently

H3: Service innovation has a significant effect on financial performance of banks in Lagos.

Mediating Role of Service Innovation

Integrating Competitive Advantage Theory and RBV, service innovation is hypothesized to mediate the relationship between competitive strategy and financial performance. While competitive strategy provides the framework for positioning and differentiation, service innovation represents the internal capability through which strategy is actualized (Agyapong & Boamah, 2022; Nguyen & Pham, 2024) [3, 27]. Without innovation, strategic initiatives may fail to translate into measurable financial outcomes. Empirical studies suggest that banks with high strategic orientation but low innovation capability often struggle to achieve consistent performance, whereas those that couple strategy with innovation experience significant gains in profitability and market share (Chen *et al.*, 2023;

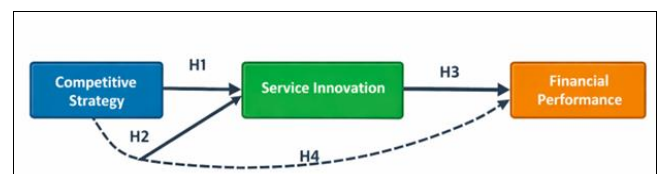
Amin *et al.*, 2020) [4, 12]. In essence, service innovation acts as a conduit, enabling banks to convert strategic plans into tangible results. Hence the study herefore, it is hypothesizes that:

H4: Service innovation mediates the relationship between competitive strategy and financial performance of banks in Lagos.

Conceptual Framework

The conceptual framework illustrates the relationships between Competitive Strategy, Service Innovation, and Financial Performance in banks in Lagos. H1 represents the direct effect of Competitive Strategy on Financial Performance, showing that strategic decisions can directly improve bank outcomes. H2 captures the impact of Competitive Strategy on Service Innovation, suggesting that effective strategies encourage innovation in services. H3 reflects the effect of Service Innovation on Financial Performance, indicating that innovative services contribute to better financial results. H4 represents the mediating role of Service Innovation, showing that part of the influence of Competitive Strategy on Financial Performance operates through the enhancement of Service Innovation. The diagram visually connects these constructs with arrows labeled H1 through H4 to clearly display the hypothesized pathways.

Figure 1 presents the construct



Source: Author's Construct, 2026

Fig 1: Conceptual Framework Showing the Relationship Between Competitive Strategy, Service Innovation, and Financial Performance in Banks in Lagos.

Methodology

Research Philosophy

The study adopted a positivist research philosophy, which assumes that social reality is objective, observable, and measurable (Saunders *et al.*, 2019) [33]. Positivism is appropriate for this study as it seeks to test hypotheses derived from established theories Competitive Advantage Theory and the Resource-Based View using quantitative data and statistical analysis (Creswell & Creswell, 2018) [15]. This philosophical stance aligns with the study's objective of examining causal relationships among competitive strategy, service innovation, and financial performance in Lagos banks.

Research Design

A cross-sectional survey research design was employed. This design was selected because it allows for the collection of quantitative data from a large sample at a single point in time, enabling the testing of hypothesized relationships using Structural Equation Modeling (SEM) (Hair *et al.*, 2019) [20]. The cross-sectional approach is widely used in strategic management research and is suitable for studies aiming to establish associations between latent constructs (Babbie, 2020) [6].

Population and Sample

The target population comprised all deposit money banks operating in Lagos State, Nigeria. Lagos was selected as the research context because it serves as the commercial nerve center of Nigeria, hosting the headquarters of all major banks and a significant concentration of banking activities (Central Bank of Nigeria, 2024).

The sample consisted of middle and senior-level management staff involved in strategic decision-making, including branch managers, operations managers, marketing managers, and strategy officers. A stratified random sampling technique was applied, with stratification by bank tier (Tier 1 and Tier 2) to ensure representativeness (Taherdoost, 2016) [35].

Construct	Number of Items	Source
Competitive Strategy	5	Porter (1985); Li and Liu (2022) [25, 30]
Service Innovation	4	Karjaluoto <i>et al.</i> (2021); Chen <i>et al.</i> (2023) [12, 23]
Financial Performance	4	Amin <i>et al.</i> (2020); Adegbite <i>et al.</i> (2023) [1, 4]

Responses were captured using a 7-point Likert scale, ranging from 1 (Strongly Disagree) to 7 (Strongly Agree) (Joshi *et al.*, 2015) [22]. The questionnaire was pre-tested with 30 banking professionals to ensure clarity, relevance, and face validity. Minor modifications were made based on feedback received (DeVellis, 2017).

Data Collection

Data were collected over a four-month period from January to April 2025. A total of 450 questionnaires were distributed physically and electronically to banking professionals across Lagos. Of these, 312 valid responses were retained for analysis, representing a response rate of 69.3%. Incomplete questionnaires and those with patterned responses were excluded from the final dataset (Hair *et al.*, 2019) [20].

Data Analysis

Data analysis was conducted using SPSS version 26 for descriptive statistics and SmartPLS 4 for Structural Equation Modeling (PLS-SEM) (Ringle *et al.*, 2022) [32]. PLS-SEM was selected because it is suitable for exploratory research with complex models and does not require normality assumptions (Hair *et al.*, 2019; Henseler *et al.*, 2015) [20, 21]. The analysis followed a two-step approach:

Measurement Model Assessment: Evaluated for convergent validity (factor loadings > 0.70, Average Variance Extracted (AVE) > 0.50), composite reliability (CR > 0.70), and discriminant validity (HTMT ratio < 0.85) (Hair *et al.*, 2019; Henseler *et al.*, 2015) [20, 21].

Structural Model Assessment: Evaluated for path coefficients (β), significance levels (p-values), coefficient of determination (R^2), and effect sizes (f^2) (Cohen, 1988) [14]. The significance of direct and indirect effects was tested using bootstrapping with 5,000 resamples (Hair *et al.*, 2019) [20].

Ethical Considerations

provided informed consent before completing the questionnaire (Resnik, 2020) [31]. Anonymity and confidentiality were guaranteed, and data were used solely for academic research purposes (British Educational Research Association, 2018) [9].

Results

Demographic Characteristics of Respondents

A total of 312 valid responses were retained for analysis. The demographic characteristics of the respondents are

The sample size was determined based on recommendations for SEM analysis. Hair *et al.* (2019) [20] recommend a minimum sample size of 10 cases per indicator variable. With 24 measured indicators across constructs, a minimum of 240 responses was required. To account for incomplete responses and improve statistical power, 312 valid responses were targeted and achieved, exceeding the minimum requirement.

Measurement Instrument

A structured questionnaire was developed as the primary data collection instrument. All constructs were measured using validated scales adapted from prior literature

presented in this section, covering gender, age, educational qualification, years of experience, job position, and bank tier. These characteristics provide context for understanding the profile of participants involved in the study.

Gender: Regarding gender distribution, 186 respondents (59.6%) were male, while 126 respondents (40.4%) were female. This indicates a moderate male dominance among banking professionals in Lagos, which reflects the broader gender composition of the Nigerian banking sector, particularly in middle and senior management roles.

Age: The age distribution of respondents showed that the largest group was aged 31 to 40 years, comprising 142 respondents (45.5%). This was followed by those aged 41 to 50 years, with 98 respondents (31.4%). Respondents aged 30 years and below accounted for 52 individuals (16.7%), while those above 50 years represented 20 respondents (6.4%). The predominance of respondents in the 31 to 50 age bracket suggests that the sample consisted largely of experienced professionals in their prime career years.

Educational Qualification: In terms of educational attainment, the majority of respondents held a master's degree, with 168 respondents (53.8%). Those with a bachelor's degree or Higher National Diploma (HND) numbered 112 respondents (35.9%). A smaller proportion held professional certifications such as Chartered Accountant (ACA), Chartered Institute of Bankers (CIB), or other relevant qualifications, accounting for 26 respondents (8.3%). Only 6 respondents (1.9%) held doctoral degrees. The high level of educational qualification among respondents is consistent with the professional requirements of middle and senior management positions in the banking industry.

Years of Experience: The distribution of work experience revealed that the majority of respondents had accumulated significant industry experience. Specifically, 134 respondents (42.9%) had between 6 and 10 years of experience, while 98 respondents (31.4%) had between 11 and 15 years of experience. Those with 5 years or less of experience numbered 52 respondents (16.7%), and respondents with over 15 years of experience accounted for 28 individuals (9.0%). The concentration of respondents with six or more years of experience indicates that the

sample possessed substantial industry knowledge and were well-positioned to provide informed responses regarding competitive strategy, service innovation, and financial performance.

Job Position: With respect to job position, the largest category was branch managers, comprising 84 respondents (26.9%). This was followed by marketing managers, who numbered 72 respondents (23.1%). Operations managers accounted for 68 respondents (21.8%), while strategy officers represented 56 respondents (17.9%). The remaining 32 respondents (10.3%) held other managerial positions such as product managers, relationship managers, or regional coordinators. The diversity of job positions represented in the sample ensured that perspectives from different functional areas were captured.

Bank Tier: Regarding the classification of banks, 168 respondents (53.8%) were employed in Tier 1 banks, which include major institutions such as Zenith Bank, GTCO,

UBA, Access Bank, and First Bank. The remaining 144 respondents (46.2%) were employed in Tier 2 banks, which comprise smaller but significant players in the Nigerian banking landscape. This distribution ensured balanced representation across both tiers, allowing for meaningful analysis of strategic management practices across different categories of banks.

Measurement Model Results

Following the assessment of respondent demographic characteristics, the measurement model was evaluated to determine the reliability and validity of the constructs used in this study. The measurement model was assessed for convergent validity, internal consistency reliability, and discriminant validity following established guidelines by Hair *et al.* (2019) and Henseler *et al.* (2015) [20, 21]. Table 2 presents the factor loadings, composite reliability (CR), Cronbach's alpha (α), and average variance extracted (AVE) for all constructs.

Table 2: Convergent Validity and Reliability Assessment

Construct	Item	Factor Loading	Cronbach's α	Composite Reliability (CR)	Average Variance Extracted (AVE)
Competitive Strategy			0.884	0.915	0.684
	CS1	0.834			
	CS2	0.821			
	CS3	0.847			
	CS4	0.809			
Service Innovation	SI1	0.852	0.862	0.906	0.708
	SI2	0.839			
	SI3	0.844			
	SI4	0.827			
Financial Performance	FP1	0.846	0.858	0.903	0.701
	FP2	0.831			
	FP3	0.855			
	FP4	0.823			

* **Source:** Feld Data, 2026

***Note:** All factor loadings are significant at $p < 0.001$. CS = Competitive Strategy; SI = Service Innovation; FP = Financial Performance.

As presented in Table 2, all factor loadings exceeded the recommended threshold of 0.70, ranging from 0.809 to 0.855, indicating that each indicator adequately represented its respective latent construct (Hair *et al.*, 2019) [20]. Cronbach's alpha values ranged from 0.858 to 0.884, exceeding the minimum acceptable threshold of 0.70, demonstrating satisfactory internal consistency reliability (Nunnally & Bernstein, 1994) [28]. Composite reliability

(CR) values ranged from 0.903 to 0.915, all above the recommended threshold of 0.70, further confirming the reliability of the measurement model (Fornell & Larcker, 1981) [18]. The average variance extracted (AVE) values ranged from 0.684 to 0.708, exceeding the minimum threshold of 0.50, thereby establishing convergent validity for all constructs (Hair *et al.*, 2019) [20].

Table 3: Discriminant Validity Assessment (Fornell-Larcker Criterion)

Construct	Competitive Strategy	Service Innovation	Financial Performance
Competitive Strategy	0.827		
Service Innovation	0.541	0.841	
Financial Performance	0.598	0.579	0.837

Note: Square root of AVE is presented in bold along the diagonal; off-diagonal values represent inter-construct correlations.

Table 4: Discriminant Validity Assessment (HTMT Ratio)

Construct Pair	HTMT Ratio	90% Confidence Interval	Interpretation
Competitive Strategy ↔ Service Innovation	0.596	[0.487, 0.705]	Discriminant validity established
Competitive Strategy ↔ Financial Performance	0.651	[0.542, 0.760]	Discriminant validity established
Service Innovation ↔ Financial Performance	0.621	[0.519, 0.737]	Discriminant validity established

Note: All HTMT ratios are below the conservative threshold of 0.85, confirming discriminant validity (Henseler *et al.*, 2015) [21].

Discriminant validity was assessed using both the Fornell-Larcker criterion and the heterotrait-monotrait (HTMT)

ratio. As shown in Table 3, the square root of AVE for each construct (values on the diagonal) was greater than the inter-

construct correlations (off-diagonal values), satisfying the Fornell-Larcker criterion (Fornell & Larcker, 1981) [18]. Furthermore, Table 4 presents the HTMT ratios, which ranged from 0.596 to 0.651, all below the conservative threshold of 0.85, providing strong evidence of discriminant validity (Henseler *et al.*, 2015) [21]. Collectively, these results confirm that the measurement model demonstrated adequate convergent validity, internal consistency reliability, and discriminant validity, thereby supporting the suitability of the constructs for structural model testing.

Structural Model Results

Having established the reliability and validity of the measurement model, the structural model was assessed to test the hypothesized relationships among competitive strategy, service innovation, and financial performance. The structural model was evaluated using path coefficients (β), coefficients of determination (R^2), effect sizes (f^2), and predictive relevance (Q^2). The significance of all path coefficients was tested using bootstrapping with 5,000 resamples (Hair *et al.*, 2019) [20]. Table 5 presents the direct effects among the constructs.

Table 5: Direct Effects (Hypotheses Testing)

Hypothesis	Path	β	Standard Error	t-value	p-value	Decision
H1	Competitive Strategy \rightarrow Financial Performance	0.412	0.058	7.103	< 0.001	Supported
H2	Competitive Strategy \rightarrow Service Innovation	0.532	0.051	10.431	< 0.001	Supported
H3	Service Innovation \rightarrow Financial Performance	0.384	0.062	6.194	< 0.001	Supported

*Source: Feld Data, 2026

*Note: β = standardized path coefficient; significance level at $p < 0.05$ (two-tailed).

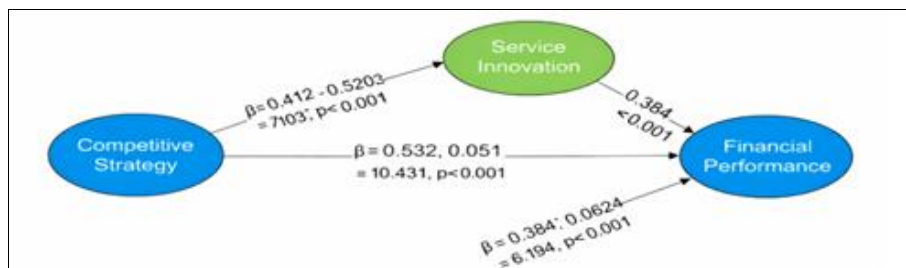


Fig 2: Structural Equation Model Showing the Relationships among Competitive Strategy, Service Innovation, and Financial Performance

As presented in Table 5 and Figure 2, all direct paths were statistically significant. Competitive strategy had a positive and significant effect on financial performance ($\beta = 0.412$, $t = 7.103$, $p < 0.001$), supporting H1. Competitive strategy also demonstrated a positive and significant effect on service innovation ($\beta = 0.532$, $t = 10.431$, $p < 0.001$), supporting H2. Furthermore, service innovation exerted a

positive and significant effect on financial performance ($\beta = 0.384$, $t = 6.194$, $p < 0.001$), supporting H3. These findings indicate that competitive strategy directly enhances both service innovation and financial performance, while service innovation independently contributes to financial performance.

Table 6: Indirect Effect and Mediation Testing

Hypothesis	Path	β	Standard Error	t-value	p-value	Decision
H4	Competitive Strategy \rightarrow Service Innovation \rightarrow Financial Performance	0.204	0.041	4.978	< 0.001	Supported

*Note: β = standardized indirect effect; bootstrapping with 5,000 resamples; significance level at $p < 0.05$ (two-tailed)

Table 6 presents the indirect effect of competitive strategy on financial performance through service innovation. The indirect effect was positive and significant ($\beta = 0.204$, $t = 4.976$, $p < 0.001$), supporting H4. This finding confirms that service innovation partially mediates the relationship

between competitive strategy and financial performance, indicating that competitive strategy enhances financial performance both directly and indirectly through the mechanism of service innovation.

Table 7: Coefficient of Determination (R^2) and Effect Sizes (f^2)

Endogenous Construct	R^2	R^2 Adjusted	Predictive Relevance (Q^2)
Service Innovation	0.283	0.279	0.192
Financial Performance	0.467	0.462	0.318
Path		f^2	Effect Size Interpretation
Competitive Strategy \rightarrow Financial Performance		0.214	Small to medium
Competitive Strategy \rightarrow Service Innovation		0.395	Medium
Service Innovation \rightarrow Financial Performance		0.186	Small

*Note: f^2 effect size interpretation: 0.02 = small, 0.15 = medium, 0.35 = large (Cohen, 1988) [14].

As shown in Table 7, the coefficient of determination (R^2) for service innovation was 0.283, indicating that competitive strategy explained 28.3% of the variance in service innovation. The R^2 for financial performance was 0.467, indicating that competitive strategy and service innovation

jointly explained 46.7% of the variance in financial performance. These values suggest moderate explanatory power of the model (Hair *et al.*, 2019) [20]. The predictive relevance (Q^2) values for service innovation (0.192) and financial performance (0.318) were both above zero,

confirming the model's predictive relevance (Geisser, 1974; Stone, 1974)^[19, 34].

Regarding effect sizes, competitive strategy had a medium effect on service innovation ($f^2 = 0.395$) and a small to medium effect on financial performance ($f^2 = 0.214$). Service innovation exhibited a small effect on financial

performance ($f^2 = 0.186$). These findings indicate that while competitive strategy is a meaningful predictor of both service innovation and financial performance, service innovation contributes modestly to financial performance beyond the effect of competitive strategy.

Table 8: Model Fit Indices

Fit Index	Value	Recommended Threshold
SRMR	0.058	< 0.08 (Hair <i>et al.</i> , 2019) ^[20]
NFI	0.912	> 0.90 (Bentler & Bonett, 1980) ^[8]
Chi-Square (χ^2)	342.567	-
Degrees of Freedom (df)	124	-
χ^2/df	2.763	< 3.00 (Carmines & McIver, 1981) ^[10]

The model fit was assessed using the standardized root mean square residual (SRMR), normed fit index (NFI), and chi-square to degrees of freedom ratio (χ^2/df). As presented in Table 8, the SRMR value of 0.058 fell below the recommended threshold of 0.08, indicating acceptable model fit (Hair *et al.*, 2019)^[20]. The NFI value of 0.912 exceeded the recommended threshold of 0.90, suggesting good model fit (Bentler & Bonett, 1980)^[8]. Additionally, the χ^2/df ratio of 2.763 was below the recommended threshold of 3.00, further confirming acceptable model fit (Carmines & McIver, 1981)^[10]. These fit indices collectively indicate that the structural model adequately represented the relationships among the constructs.

Discussion of Findings

This study examined the relationships among competitive strategy, service innovation, and financial performance of banks in Lagos, with service innovation as a mediator. The findings provide empirical support for all four hypotheses, offering valuable insights into how banks can leverage strategic positioning and innovation capabilities to enhance financial outcomes. The results are discussed in light of the theoretical foundations Competitive Advantage Theory and the Resource-Based View and compared with prior empirical studies.

Effect of Competitive Strategy on Financial Performance

The finding that competitive strategy has a positive and significant effect on financial performance ($\beta = 0.412$, $p < 0.001$) supports H1 and aligns with the tenets of Competitive Advantage Theory (Porter, 1985)^[30]. According to Porter, firms that adopt clear strategic positions whether cost leadership, differentiation, or focus are better positioned to achieve superior performance relative to competitors. In the context of Lagos banks, this finding suggests that banks that deliberately define and execute their competitive strategies are more likely to achieve higher profitability, market share, and overall financial success.

This result is consistent with prior empirical studies. Adegbite *et al.* (2023)^[1] found that Nigerian deposit money banks with well-articulated competitive strategies demonstrated stronger financial performance, particularly those pursuing differentiation strategies through enhanced customer service and digital offerings. Similarly, Li and Liu (2022)^[25] reported that competitive strategy significantly influences firm performance in the banking industry, with strategic clarity enabling better resource allocation and

market responsiveness. The present study extends these findings by providing empirical evidence specifically within the Lagos banking context, where competition is intensified by the presence of fintech disruptors and evolving customer expectations.

From a theoretical perspective, this finding reinforces Competitive Advantage Theory's relevance in emerging market contexts. The theory posits that strategic positioning enables firms to create value that competitors cannot easily replicate. In Lagos's highly competitive banking environment, where customers have access to multiple banking options, a clear competitive strategy allows banks to differentiate themselves and build customer loyalty, ultimately translating into superior financial outcomes.

Effect of Competitive Strategy on Service Innovation

The positive and significant effect of competitive strategy on service innovation ($\beta = 0.532$, $p < 0.001$) supports H2 and reflects the strategic imperative for innovation in the banking sector. This finding suggests that banks with well-defined competitive strategies are more likely to invest in service innovation, including digital platforms, automated processes, and enhanced customer solutions.

This result aligns with the Resource-Based View (Barney, 1991)^[7], which posits that firms develop unique capabilities such as service innovation as a means of executing strategy and achieving competitive advantage. When banks pursue differentiation or focus strategies, they are compelled to innovate in order to distinguish themselves from competitors. In the Nigerian context, this is evident in the proliferation of mobile banking applications, artificial intelligence-powered chatbots, and agent banking networks that have emerged as banks seek to differentiate their service offerings (Chen *et al.*, 2023)^[13].

Empirical support for this relationship is found in prior literature. Karjaluoto *et al.* (2021)^[23] demonstrated that banks with strong strategic orientation toward customer centricity are more likely to introduce innovative services that enhance customer experience. Similarly, a study of Nepalese commercial banks revealed that product differentiation strategy significantly boosts service innovation ($\beta = 0.622$, $p < 0.001$), confirming that strategic direction drives innovation efforts (Agyapong & Boamah, 2022)^[3]. The present study corroborates these findings, demonstrating that competitive strategy serves as a critical antecedent to service innovation in Lagos banks.

Theoretically, this finding bridges Competitive Advantage Theory and the Resource-Based View. While Porter's framework explains the external positioning that motivates

innovation, RBV explains how innovation becomes an internal capability that differentiates the firm. In the Lagos banking context, the pursuit of competitive advantage through strategic positioning necessitates the development of innovation capabilities, reinforcing the complementary nature of these theoretical perspectives.

Effect of Service Innovation on Financial Performance

The finding that service innovation has a positive and significant effect on financial performance ($\beta = 0.384$, $p < 0.001$) supports H3 and underscores the value of innovation as a driver of financial outcomes. This result indicates that banks that invest in service innovation—whether through digital transformation, process improvements, or novel service offerings—are better positioned to achieve superior financial performance.

This finding is strongly grounded in the Resource-Based View (Barney, 1991) [7], which posits that valuable, rare, inimitable, and non-substitutable (VRIN) resources generate sustainable competitive advantage. Service innovation, when effectively implemented, represents such a resource. In the banking sector, innovative services such as seamless mobile payments, instant loan approvals, and personalized financial advice create value for customers that competitors find difficult to replicate, leading to increased customer loyalty and profitability.

Empirical evidence supports this relationship. Amin *et al.* (2020) [4] found that service innovation positively influences financial performance in the banking sector, with innovative banks achieving higher return on assets and return on equity. Similarly, Chen *et al.* (2023) [12] reported that digital banking innovations enhance operational efficiency and customer satisfaction, which in turn improve financial outcomes. In the Nigerian context, the neobank revolution has demonstrated that service innovation can drive significant financial gains, with digital-first banks capturing market share from traditional institutions through superior service delivery (Karjalainen *et al.*, 2021) [23].

The magnitude of this effect ($\beta = 0.384$) suggests that while service innovation is an important driver of financial performance, its impact is slightly lower than that of competitive strategy ($\beta = 0.412$). This nuanced finding indicates that while innovation is valuable, it is most effective when aligned with a clear strategic direction a point further explored through the mediation analysis.

Mediating Role of Service Innovation

The finding that service innovation mediates the relationship between competitive strategy and financial performance ($\beta = 0.204$, $p < 0.001$) supports H4 and provides important insights into the mechanisms through which strategy translates into performance. The significant indirect effect, combined with the significant direct effect of competitive strategy on financial performance, indicates partial mediation—meaning that competitive strategy influences financial performance both directly and indirectly through service innovation.

This mediation finding integrates Competitive Advantage Theory and the Resource-Based View into a coherent framework. According to this integrated perspective, competitive strategy provides the external positioning framework that guides resource allocation and investment decisions. Service innovation, as an internal capability developed in response to strategic imperatives, serves as the

mechanism through which strategy is actualized. Without innovation capabilities, strategic plans may remain unrealized; conversely, innovation without strategic direction may lack focus and fail to generate sustainable performance gains (Agyapong & Boamah, 2022) [3].

This finding aligns with prior empirical research. In a study of Nepalese commercial banks, service innovation was found to fully mediate the relationship between product differentiation strategy and firm performance, indicating that differentiation strategy alone did not directly enhance performance its effect was transmitted entirely through service innovation (Agyapong & Boamah, 2022) [3]. The present study extends this finding by demonstrating partial mediation in the Nigerian context, suggesting that competitive strategy retains a direct effect on financial performance even after accounting for the mediating role of service innovation.

The partial mediation observed in this study may reflect the unique characteristics of the Lagos banking environment. In this context, competitive strategy may influence financial performance through multiple channels beyond service innovation, such as cost optimization, strategic partnerships, or geographic expansion. This finding suggests that while service innovation is an important mechanism, banks should not rely solely on innovation to achieve financial success; a comprehensive strategic approach is necessary.

From a theoretical standpoint, the mediation finding validates the integration of Competitive Advantage Theory and the Resource-Based View. The two theories are not mutually exclusive but rather complementary: Porter's framework explains the strategic choices that drive innovation, while RBV explains how innovation capabilities become sources of sustainable advantage.

Conclusion and Recommendations

Conclusion

This study examined the relationships among competitive strategy, service innovation, and financial performance of banks in Lagos, with service innovation as a mediator. Drawing on Competitive Advantage Theory (Porter, 1985) [30] and the Resource-Based View (Barney, 1991) [7], the study developed and tested four hypotheses using PLS-SEM on a sample of 312 banking professionals in Lagos. The findings provide strong empirical support for all four hypotheses, confirming that competitive strategy directly enhances service innovation and financial performance, while service innovation directly enhances financial performance and partially mediates the strategy-performance relationship.

The findings make several important contributions. First, they extend the application of Competitive Advantage Theory to the Nigerian banking context, demonstrating that strategic positioning remains a critical determinant of financial performance even in emerging markets characterized by technological disruption and regulatory complexity. Second, they validate the Resource-Based View by showing that service innovation functions as a valuable internal capability that enables banks to translate strategic intent into performance outcomes. Third, the mediation finding integrates these two theoretical perspectives, revealing that the full benefits of competitive strategy materialize when accompanied by robust innovation capabilities.

From a contextual perspective, the study provides empirical evidence from Lagos the commercial nerve center of Nigeria where banks face intense competition from both traditional institutions and fintech disruptors. The findings suggest that banks operating in this dynamic environment must not only define clear competitive strategies but also invest in service innovation to execute those strategies effectively.

Theoretical Implications

This study contributes to the strategic management literature in several ways. First, it extends the application of Competitive Advantage Theory to the banking sector in an emerging market context. While Porter's framework has been widely applied in developed economies, its relevance in emerging markets where institutional voids, regulatory volatility, and technological leapfrogging are common remains an important area of inquiry. The findings confirm that competitive strategy is equally relevant in the Nigerian context, providing evidence that strategic positioning influences performance outcomes even in challenging environments.

Second, the study contributes to the Resource-Based View by empirically demonstrating that service innovation functions as a VRIN resource in the banking sector. In Lagos, where digital banking services are rapidly proliferating, innovation capabilities that are difficult to imitate such as proprietary algorithms, seamless user interfaces, and integrated service ecosystems can generate sustainable competitive advantage. The findings suggest that banks that develop such capabilities are better positioned to achieve superior financial performance.

Third, the study contributes to the integration of Competitive Advantage Theory and the Resource-Based View. In testing service innovation as a mediator, the study demonstrates that the two theories are complementary rather than competing. Competitive strategy provides the external orientation and strategic direction, while service innovation provides the internal mechanism for strategy execution. This integrated perspective offers a more complete understanding of how firms achieve competitive advantage than either theory alone.

Practical Implications

The findings of this study offer several practical implications for bank managers, strategic planners, and policymakers in Lagos and the broader Nigerian banking sector.

For Bank Managers and Strategic Planners: The finding that competitive strategy directly influences financial performance underscores the importance of strategic clarity. Bank managers should ensure that their institutions have clearly defined competitive strategies whether cost leadership, differentiation, or focus that guide resource allocation and decision-making. In Lagos's competitive banking environment, differentiation strategies that emphasize superior customer service, digital convenience, or specialized product offerings may be particularly effective.

For Innovation Management: The finding that service innovation mediates the relationship between competitive strategy and financial performance highlights the importance of aligning innovation investments with strategic priorities. Bank managers should ensure that

innovation initiatives whether digital transformation, process automation, or new product development are directly linked to the bank's strategic objectives. Innovation pursued without strategic alignment may fail to generate meaningful performance gains.

For Investment Decisions: The positive effect of service innovation on financial performance suggests that investments in innovation capabilities yield measurable financial returns. Banks in Lagos should allocate resources to develop and enhance service innovation capabilities, including digital platforms, customer analytics, and agile service delivery processes. Such investments are not merely operational expenses but strategic assets that contribute to long-term profitability.

For Human Resource Development: The findings suggest that banks should invest in developing innovation competencies among their workforce. Training programs focused on digital skills, customer-centric design, and agile methodologies can enhance the bank's capacity for service innovation. Additionally, recruitment strategies should prioritize candidates with innovation experience and strategic thinking capabilities.

For Policymakers and Regulators: The Central Bank of Nigeria and other regulatory bodies may consider policies that encourage innovation while maintaining stability. Regulatory sandboxes, innovation hubs, and supportive frameworks for digital banking can facilitate the development of service innovation capabilities across the banking sector. Such policies can contribute to a more competitive and innovative banking landscape in Lagos and beyond.

Limitations and Avenues for Future Research

Despite its contributions, this study has several limitations that present opportunities for future research.

Cross-Sectional Design: The cross-sectional design captures relationships at a single point in time, limiting causal inference. Future research could employ longitudinal designs to examine how the relationships among competitive strategy, service innovation, and financial performance evolve over time.

Single Context: The study focused exclusively on banks in Lagos, Nigeria, which may limit generalizability. Future research could extend the model to other service sectors such as telecommunications, hospitality, or insurance, or replicate the study in other Nigerian cities and West African countries to enhance external validity.

Self-Reported Data: The use of self-reported data introduces potential for common method bias, although statistical tests indicated this was not a significant concern. Future research could incorporate objective financial performance data from audited financial statements to complement self-reported measures.

Limited Mediators: This study examined service innovation as a single mediator. Future research could explore other mechanisms such as organizational culture, leadership capabilities, or customer experience to develop a more comprehensive understanding of how strategy translates into performance.

Moderating Variables: The study did not examine potential moderators. Future research could explore whether factors such as market turbulence, regulatory intensity, or organizational size moderate the hypothesized relationships, providing more nuanced insights into boundary conditions.

Qualitative Insights: While the quantitative approach provided robust statistical evidence, qualitative insights could enrich understanding of how banks develop and implement strategies and innovation initiatives. Future research could employ case studies or in-depth interviews to explore underlying processes and practices.

Conflict Of Interest Statement

The author declare that he has no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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