# EFFECTS OF INNOVATION STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

**KARANJA DAVID KIIYURU**

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## DECLARATION

I David Kiiyuru Karanja, hereby declare that this is my original work. It is submitted in partial fulfillment of the requirement for the award of the degree of Master of Business Administration, School of Business University of Nairobi. It has not been submitted before any degree or examination in any other university.

Sign:_____________________________________ Date_______________________

**KARANJA DAVID KIIYURU**
**Reg. No. D61/79357/2012**

## SUPERVISOR'S APPROVAL

This research project has been submitted by David Kiiyuru for examination with my approval as the University Supervisor.

Sign:________________________ Date_________________________

**DR. JAMES GATHUNGU**
**DEPARTMENT OF BUSINESS ADMINISTRATION**
**SCHOOL OF BUSINESS**
**UNIVERSITY OF NAIROBI.**

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This research study is dedicated to my wife Esther for the tireless sacrifices of her precious family time throughout the entire MBA program and especially during this research project. To my loving dad and Mum who instilled in me the virtue of hard work from a tender age.

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# ABBREVIATION /ACROMNYS

**CBK –** Central Bank of Kenya

**TPB** -Theory of Planned Behaviour

**UBA –** United Bank of Africa

**CEO –** Chief Executive Officer

**ATM –** Automated Teller Machines

# ABSTRACT

To achieve growth and sustain performance it is critical for any organization to foster and encourage creativity and innovative practices internally. Innovation strategy gives a clear direction and concentrates the effort of the whole organization on a common innovation end. An innovation strategy, then, becomes a source of competitive advantage for firms that strive to achieve a high level of innovation. Therefore the need for innovation is obvious and crucial for commercial banks operating in a continuous uncertain and competitive environment. This research was determining the effects of innovation strategies on performance of commercial banks. The study was done in the commercial banks operating in Kenya. The study adopted descriptive research design for it portrays an accurate profile of situations. The study carried out a census. The study used a questionnaire to collect the required data because it is efficient, cheap and easy to be administered. The collected data was well examined and checked for completeness and comprehensibility, then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. The qualitative data was analyzed using content analysis and finding presented in prose form. The study revealed that the commercial banks in Kenya had employed creating of value through pricing, availability of resources and capabilities, customer satisfaction and retention and entry into new markets form of market innovation strategies. Banks also had employed environmental analysis and response to changes and aggressive anti-competitors marketing campaigns form of market innovation strategies.

The study found that adoption of innovation strategies influenced the profitability of commercial banks in Kenya to a very great extent. The study concludes that innovation strategies are indispensable to bank’s future growth and sustainability. Commercial banks with serious innovation strategies, improved their profitability. The study recommended that for all the commercial banks to earn more profit, they should embrace the adoption of innovative strategies, strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable them to be more productive, to grow faster, to invest more and also to earn more profit in the shortrun and also in the longrun

**Key Words**: Innovation strategies, Competitive Advantage, Environmental Analysis and Customer satisfaction

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage (Tidd, 2001). It is no longer adequate to do things better; it's about "doing new and better things .Much emphasis has been placed on building innovative organizations and the management of the innovation process, as essential elements of organizational survival (Brown, 1997). Bessant and Francis (1999) suggest that effective innovation must involve all areas of an organization with the potential to affect every discipline and process (McAdam, 2000). Innovation can be transformational, radical or incremental depending on the effect and nature of the change. Afuah (1998) suggests that innovations do not have to be breakthroughs or paradigm shifting; however Kim and Mauborgne (1999) maintain that organizations should strive for the larger innovations.

One way to achieve growth and sustain performance is to foster and encourage creativity and innovative practices internally within the organization Naturally, there must be a commitment from senior management to facilitate this kind of innovative working environment Drucker (1985) defined innovation as the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service. It is capable of being presented as a discipline, capable of being learned, and capable of being practiced. Betz (1997) assumed that innovation is to introduce a new or improved product, process, or service into the marketplace. Tidd, Bessan & Pavitt (1997) defined innovation as a process of turning opportunity into new ideas and putting these into widely used practice. Afuah (1998) proposed that innovation is the use of new technical and administrative knowledge to offer a new product or service to customers. Therefore, we can conclude that innovation is any practices that are new to organizations, including equipment, products, services, processes, policies and projects (Kimberly & Evanisko, 1981). As financial marketplaces become more dynamic, interest in innovation, its processes and management has escalated. Banking institutions need to innovate in response to changing customer demands and lifestyles and in order to capitalize on opportunities offered by technology and changing marketplaces, structures and dynamics to achieve competitive advantage. Organizational innovation can be performed in relation to products, services, operations, processes, and people.

As long ago as Schumpeter, 1950 argued that organization should innovate in order to renew the value of their asset endowment. Even before this, whilst the term innovation may not have been used extensively, processes that are associated with innovation and economic and technological change were perceived as being important (Schumpeter, 1934). Zahra and Covin (1994) suggest that Innovation is widely considered as the life blood of corporate survival and growth. Innovation is recognized to play a central role in achieving organizational performance. Bessant *et al*. (2005) on the role of innovation in renewal and growth emphasize Innovation represents the core renewal process in any organization. Unless it changes what it offers the world and the way in which it creates and delivers those offerings it risks its survival and growth prospects.

### 1.1.1 Concept of innovation Strategy

Innovation strategy directing the innovation process was documented by Griffin (1997) and Cooper, Scott, and Kleinschmidt (2002). Innovation strategy gives a clear direction and concentrates the effort of the whole organization on a common innovation end. Currently, most of the firms are adopting products innovations, process innovations, market innovations and stimulus innovations and these innovation strategies should specify how the significance of innovation will be communicated to all the employees to attain their buy-in and must openly reflect the significance that management places on innovation. The management of high performing institutions was tangibly and visibly committed to new product development and overtly formulated and communicated the institution’s new product development strategy (Bessant and Francis, 1999).

In today's dynamic and global competitive environment, product & service) innovation is becoming more pertinent, mainly due to three major trends: concentrated international competition, disjointed and challenging markets, and assorted and swiftly changing technologies (Wheelwright and Clark, 1992). Companies that offer services and products that are adapted to the needs and wants of focus customers and that sell them faster and more professionally than their competitors are in a better situation to create a sustainable competitive advantage

Globalization, technological developments, volatility of consumer demands, and shorter product life cycles have precipitated continuing radical environmental shifts, and demanded a more strategic perspective from those who manage and lead organizations. There is now a greater focus on understanding the ways in which the human resource drives business, with a strong emphasis on developing entrepreneurial individuals and management teams as key elements of organizational success (Atkinson and Meagher, 1986). Storey *et al.* (2003) assert the both in terms of practice and theorizing, the field of innovation in the UK has been stunted by a conventional view on what constitutes its proper realm of concern". It is argued that a number of underlying issues must be addressed if organizations and their managers are to be made more effective including, job definition, selection, training and development, the identification of development needs, culture and context, and the link between development and organizational systems and structures. While this article acknowledges these concerns, it primarily aims to consider some of the contemporary debate within the field of innovation. In doing so, it gives consideration to a range of definitional issues, current debates about the purposes or intentions of these organizations which invest in innovation and a number of alternative but complementary innovation strategies.

### 1.1.2 Organizational performance

The concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Carton, 2004). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard, Devinney, Yip & Johnson (2009) organizational performance encompasses three specific areas of firm outcomes, financial performance such as profits, return on assets and return on investment, product market performance such as sales, market share and shareholder return measure through total shareholder return and economic value added. Firm’s performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively; of performing; using knowledge as notable from just possessing it. It is the result of all of the organisation's operations and strategies (Venkatraman and Ramanujam, 2001). It is also the level to which an individual fulfils the expectations concerning how he should behave or function in a certain situation, context, circumstance or job. Oakland (1999) posited that performance is what individuals do relating to institutional roles.

Organizational performance is therefore the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Parasuraman (2002) proposed that firms delivering services must broaden their examination of productivity from the conventional company-oriented perspective to a dual company-customer perspective. This broadened approach can help reconcile conflicts or leverage synergies between improving service quality and boosting service productivity (Parasuraman, 2002). This research considers organization performance relative to the competition from multiple organizational perspectives including quality, productivity, market share, profitability, return on equity, and overall firm performance.

An innovation strategy, then, becomes a source of competitive advantage for firms that strive to achieve a high level of innovation. Richard and Johnson (1999) conducted one of the few studies that investigate organizational advantages of formal diversity practices. They found that the adoption of formal diversity practices reduced turnover. While there was not a main effect of these practices on return on earnings, a strategic contingency relationship was supported: diversity practices correlated with improved productivity and market performance for firms following innovation strategies.

### 1.1.3 Banking Sector in Kenya

Banking in Kenya is estimated to have started around1896 with the National Bank of India opening its first branch. This was followed by Standard Bank of South Africa, now Standard Chartered Bank opening its first branches in Mombasa and Nairobi in 1911. According to Ojung'a (2005) the Kenya Commercial Bank was established in 1958 after a merger between Grindlays Bank of Britain and the National Bank of India.

Central Bank of Kenya Act and prudential guidelines issued by the Central Bank of Kenya. The Prudential oversight is exercised by the Central Bank of Kenya, the Nairobi Stock Exchange and the Capital Markets Authority. Liberalization of the banking sector started in 1995 where exchange controls were subsequently lifted. There are 43 commercial banks in Kenya. The largest in terms of market share by deposits as at 2011 are Kenya Commercial Bank, Barclays Bank, Co-operative Bank, Standard Chartered Bank, CFC Stanbic Bank, and Equity Bank in that order (CBK, 2012)

### 1.1.4 Commercial Banking in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines (CBK, 2011)

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. There are 44 commercial banks in Kenya. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade (GOK, 2007).

Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates. Loans are based on the credit policy of the bank that is tightly coupled with the central bank interest rate policy. These in effect determine the level of financial risk in a particular bank (CBK, 2010). Commercial bank in Kenya comprises 90% of the outstanding loan assets portfolio. While Kenya's mortgage market is growing, the industry is dominated by the commercial banks indicating barriers to entry or high risk for medium and smaller banks. However, the growth rates indicate that the small sized banks have the fastest growth rate of 38% on average, followed by medium banks which are growing at 25% on average with large banks closely following at 24% on average (CBK, 2010).

## 1.2 Research Problem

Current and future challenges and opportunities facing business organizations are in the fields of sustainable development; e-Commerce; and new product development. According to Porter and Stern (1999) has shown the three identified domains above to be of critically important interest to today's governments and many organizations. The power of the innovation capability construct is that it is gen realizable to all these domains, as it relates to the organizational potential to convert new ideas into commercial and community value. Drucker (1998) is very explicit in stating that innovation is work rather than genius; successful innovation requires hard, focused, and purposeful work. The process of innovation in banks can incorporate both incremental and radical change. Incremental innovation produces small continual changes and is often visible in organizations in the form of continuous improvement (Bessant and Caffyn, 1997).

The need for innovation is obvious and crucial for commercial banks operating in a continuous uncertain and competitive environment. Most importantly, to survive and succeed in the current competitive global financial environment, commercial banks need to be innovative by producing a regular stream of innovations so as to gain competitive advantage (Robbins and Coulter, 1999). Many banks have at some point undertaken some form of incremental innovative initiatives.

Some of these banks consider that the cumulative gains in efficiency are much greater overtime than those, which come from occasional radical changes (Raymond, 1998). However, many of these short-and medium term gains are quickly eroded and absorbed into the industry standard and therefore cannot be depended upon as a prerequisite for survival and growth. Banks innovation pioneer (Lewis and Lytton, 1997) suggests that his company, practice both incremental and radical innovation. In this bank periods of incremental innovation are interspersed when necessary with radical and transformational change.

Some of these banks consider adoption of innovation strategies to access to advance technology, inexpensive power, access to highly trained and skilled personnel human resources to improve on financial service delivery and gain competitive advantage over it rival (Raymond, 1998). Beddowes (1994) indicated that the clarity of commercial banks objectives in terms of innovation has led to an increased emphasis on the evaluation of return on investment; Doyle (1994) observes that systematic evaluation rarely occurs within organizations. It is only those bank that are able to adapt to the changing environment and adopt new ideas and ways of doing business that can be guaranteed hope of survival and gaining of competitive advantage. Some of the forces of change that have greatly influenced the financial institutions to be more innovative include intense competition, regulation, and technological advancement. According to Mavondo and Farrell (2003) argued that an innovative commercial banks is characterized by its ability to channel creativity to survive in highly competitive market and achieving high performance.

Previous research studies has concentrated on the adoption of innovation strategies adopted by various institutions like banks. Gitonga (2003) carried out the research on innovation processes and the perceived role of the CEO in the banking industry while Odhiambo (2008) studied innovation strategies at the standard Chartered Bank (Kenya) Limited. Gathuyia (2012) determined how innovation strategies influence achieving competitive advantage in UBA bank group. There is no known study that has focus on extent determining effects of innovation strategies on performance of commercial bank in Kenya. This study therefore sought to fill this knowledge gap by answering the question what are the effects of innovation strategies on performance of commercial banks?

## 1.3 Objectives of the Study

The objectives of this study were:

i. To determine the innovation strategies adopted by commercial banks in Kenya

ii. To determine effects of innovation strategies on influence performance of commercial banks

## 1.4 Value of the Study

This study will be important to the management of commercial banks as they will be able to know for certain what environmental factors play a bigger role in shaping their operations and how they affect performance and what innovation strategies to be adopted in order to achieve high performance. Knowing and understanding the adoption of innovative strategy practices may provide insight into the reasons why firms are able to be innovative. The study would be useful in helping managers of firms improving their innovative capabilities and activities.

The policy makers will also find the results of this study very invaluable, as it will be able to significant of adoption of innovation strategies in order to achieve high returns and improve on productivity in the banking industry. The banking regulator in Kenya will also find the results of this study very invaluable, as it will be able to ascertain the extent of competition in the industry and the innovation strategies that mitigate the effect of such competition and influence achievement of better performance in commercial banks.

The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on the innovative strategies adopted by banking industry in Kenya.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the literature review on study done on the same study. The specific areas covered in this chapter includes concept of strategy, innovation strategies, competitive advantage, innovation strategies adopted by banking institutions, use of innovation strategies to achieve organizational performance

## 2.2 Theoretical Foundation

Rogers` Diffusion theory of innovation (Rogers, 1995) seeks to explain how new ideas or innovations were adopted, and this theory proposes that there are five attributes of an innovation that affect adoption; relative advantage, compatibility, complexity, trial ability and observe ability. Relative advantage is the degree to which an innovation is perceived as being better than the idea it supersedes. Rogers's theory suggests that innovations that have a clear, unambiguous advantage over the previous approach will be more easily adopted and implemented. Compatibility was the degree to which an innovation fit with the existing values, past experiences and needs of potential adopters. There is strong direct research evidence suggesting that the more compatible the innovation is, the greater the likelihood of adoption (Greenhalgh *et al*, 2004). Complexity is the degree to which an innovation is perceived as difficult to understand and use.

When key players perceive innovation as being simple to use, the innovations will be more easily adopted (Greenhalgh et al, 2004). Trial-ability is the degree to which an innovation may be experimented with on limited basis. Because new innovations require investing time, energy and resources, innovations that can be tried before being fully implemented are more readily adopted. And finally, observe-ability is the degree to which the results of an innovation are visible to the adopters. If there are observable positive outcomes from the implementation of the innovation then the innovation is more adoptable.

Theory of planned behaviour (TPB) proposes that a person's intention to perform a behaviour was the central determinant of that behaviour because it reflects the level of motivation a person is willing to exert to perform the behaviour (Ajzen, 1991). The TPB has been largely used by researchers to understand a variety of health-related behaviours in various population groups. Eccles and colleagues (Forman, 2005) suggests that there is a predictable link between health care professional's intention to engage in behaviour and their subsequent behaviour.

A fundamental tenet of social technical systems thinking is that a technology on its own had little meaning for purposes of organizational analysis, being truly comprehensible only in terms of the context in which it was embedded and by extension, the organization goals or transformations that it serves or enables (Pasmore, 2004). Moving beyond a concern with one user and an interface, social technical systems theory argues that a network of social relationships surround all working practices. The gainful employment of any technology hinges on the ability and the willingness of users to employ it for worthwhile tasks (those deemed central to the organizations goals). Accordingly any technology cannot be analyzed or understood in isolation of the goal oriented organization it is intended to support. In order to jointly optimize both the social and technical attributes of any organization, allowance must be taken at the engineering level of the social dynamics of any organization or sub-unit within it (Chern, 1994).

Social technical systems theory has given birth to a framework for technology design that emphasizes holistic job satisfaction and on participation throughout the development process. Thus, social-technical theory recommends the analysis of all stakeholders, not just the direct users of an innovation, formation of planning groups to oversee the design, the performance of prototyping exercises, and the analysis of likely impact the technology will have on the organization (Swanson, 1994). The intention of such a design process was to avoid unpleasant side effects in working practices and to ensure as much a social solution as a technical solution to the computing needs of an organization.

Enhancement factors included sense of masterly, growth of knowledge, discretion, ability to act informally, requirements for certain skills, and enabling worker cooperation. These factors should all be maximized as appropriate for the context .A technology that was designed to support such factors is likely to increase user acceptance in an organization.

## 2.3 Innovation Strategies adopted by commercial Banks

Corporate and retail banks are facing competition from new entrants and existing firms and also innovation business models. In addition shrinking margins and tighter regulatory requirements are adding to the pressure. Going forward, innovation is perceived as the key to growth and competitive differentiation. Only those banks that can successfully develop new products, services and channels in response to the changed market environment will survive.

### 2.3.1 Product innovation

Different terminologies have been used to categorise and describe product development. Crawford (1983), for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge. Meyer (1996) similarly categorised product development into primary and secondary innovations. Primary innovations were broadly concerned with the development of new markets and relate to instances where there is a high degree of technical originality and a commensurate change in consumer behaviour. Secondary innovations, on the other hand, are basically business or company focused and typically involve improvements to an existing market (Gaynor, 2002).

According to Storey and Easingwood, (1998), product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long-term business growth (Hart, 1996). The power of product innovation in helping companies retain and grow competitive position is indisputable. Products have to be updated and completely renewed for retaining strong market presence.

### 2.3.2 Process innovation

According to Cumming, (1998), process innovation embraces quality function deployment and business process reengineering. It is a type of innovation, which is not easy, but its purpose is now well understood. An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices (Constableand McCormick, 1987).

Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained. In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (Johne and Storey, 1998).

### 2.3.3 Market innovation

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served. Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to develop the profitability of a business to the full. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues, which might have been earned, are misread (Kimberly and Evanisko, 1981).

It is the prime responsibility of marketing specialists to provide such insights. Sometimes this responsibility is seen to cover solely the identification of present and likely future geographical market opportunities. Geography is, however, only one simple way for segmenting markets. A very wide range of possible criteria exists for segmenting, stretching from objective criteria based on demographic data through to subjective criteria based on life style interpretations of consumer and business buying behaviour (Anderson, 1996). In recent years, “benefit segmentation” has become more widely used (Hooley et al., 1998).

### 2.3.4 Stimulus Innovation

According to Lieberman and Montgomery, (1988), inventions are, by definition, only introduced by one firm, or at most by a small handful of firms that bring a new product or service to market simultaneously (Oakey and Rothwell, 1998). They add that companies that attempt to introduce an invention should logically stand to gain some substantial advantage, because there is a real risk of coming late to the finish line and gaining no prize. Companies that succeed in commercializing an invention are sometimes known as first movers. There are three basic types of advantages that can go to first movers.If an invention involves proprietary technology then the first firm to obtain the patent or copyright wins the exclusive right to market the product. The lack of competition can be a definite strategic advantage (Gilbert, 1993).

Chandler, (1990) states that preemption of scarce assets can sometimes provide an advantage to one or a few first movers that will not be available to those that adopt the innovation later. According to O'Reilly and Tushman, (1997), the creation of buyer switching costs can also provide an advantage to one or a few first movers that are denied to followers. Firms seeking to gain one or another of these advantages are sometimes referred to as first movers. Those that do not aim for invention, but innovate by adopting an invention that appears to be a winner, can be said to be late movers. Even if an innovation is clearly incremental rather than radical, the first mover is introducing or seeking change to a greater degree than the late mover, who waits until an invention no longer seems new to the market or the industry before adopting it (Shaw and de Mattos, 2001).

Technologically imitative innovations can sometimes have truly inventive effects; conversely, innovations that require highly inventive technology can sometimes bring about very little perceived change. The technology required to design and mass-produce each new generation of computer chips is complex and very expensive. To the average user, the new chip makes computers operate a little faster, but if the user limits his or her work to word processing and relatively simple spreadsheets, the difference may not even be noticed (Tidd., Bessant  and Pavitt, 2001).

In determining whether a given innovation fits better with one kind of innovation strategy than another, both the technological and the customer perception aspects must be taken into account. Innovations that are technologically inventive generally require more time and effort to develop than those that are technologically imitative. Innovations that are perceived as imitative by the customer lend themselves to perceptions of stability, whereas those seen by the customer as inventive foster a perception of change (Nadler, Nadler, 1992).

## 2.4 Effects of Innovation strategies on Organizational performance

Innovation, technology advances, and competitive advantage are connected by complex and multidimensional relationships. Demands for organizational innovation and technological advantage are increasingly crucial components of competitive strategy for many banking firms (Miller 1989). Most commercial banks face serious competitive challenges due to the rapid pace and unpredictability of technology change (Ansoff, 1988). Banking Industry dependent on highly sophisticated technologies and banking firms engaged in multinational competition are particularly vulnerable to the need for continuous and rapid modification of their product features and the ways in which they conduct business and argued that global strategies are dependent in large part on accelerating the speed at which innovations are translated into profitable commercial ventures (Feldman, 1996).

The business benefits of using information and communication technology include efficiency and attainment of increased returns. The vast opportunities brought by the Internet to the telecommunication industry have therefore attracted much attention from researchers whose efforts apparently group on certain areas of interest. With the use of Information Technology (IT), the firms can use the cross-selling strategies to sell new innovations to their existing customer base. It can be seen that firm's adoption of technology changes from improving efficiency and also improving the service quality in servicing the customers. Such changing strategy demonstrates the situation where firms compete to own the potential customers.

Product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long-term business growth. Product innovations enable the firms to increase their brands or products in the market hence create competitive advantage for the organizations, market innovation enables the firms create new markets hence increasing the competitive advantage; process innovation enables the running of the firms' operations thus increasing effectiveness and efficiency while technology innovation will encourage ease of flow of information and fast delivery to the intended person (Higgins, 1995).

Timing an ability to respond to a wide and shifting range of customer interests, however, is linked with generating a steady stream of innovation activities (Kanter, 1983). Waterman (1987) argues that informed opportunism is the key to competitive innovation over the long term. Feldman (1996) indicated that a steady investment in research and innovation activities generate a powerful source of information that supports product-oriented opportunistic action. Such activities keep a bank informed about relevant technology and give managers a feel for what might be useful in the marketplace. He reasons that if innovation activities are so carefully managed that they only react to demonstrated customer interests, this situation can contribute more to driving out invention than creating it.

Damanpouret al. (2009) study examined the outcomes of adoption of innovation types and found the positive impact of innovativeness on firm performance. Hence, concluded that cumulative adoption of innovation types over time has a positive relation with firm performance. Once again, the relationship between innovativeness and future performance has been examined by Bowenet al. (2010). Researchers concluded direct and significant relationship between innovation and future performance of the firm. In the same way, Subramanian & Nikalanta's (1996) study put some additional evidence in the support of positive effect of innovation on firm performance. They analyzed the relationship between firm innovativeness, their organizational characteristics and organizational performance. The conclusion drawn is the direct association of formalization and centralization with administrative innovation which in turn relates positively with organizational efficiency.

Naidoo's (2010) study sheds light on the relationship between market orientation, marketing innovation, competitive advantage and organizational performance. The study states market orientation as an accelerator for initiation stage of marketing innovation which is positively linked with competitive advantage. Competitive advantage (achieved as differentiation, cost leadership & focus strategies) in turn positively relates with the performance of the company. Graweet al. (2009) study focused on the relationship between customer orientation, competitor orientation, service innovation and market performance. Customer orientation and competitor orientation works as a catalyst for service innovation which in turn is positively related to market performance of the firm. Wang, Yeung & Zhang's (2011) recent study underscores the positive relationship between trust and innovation. Trust brings transparency in manufacturer supplier relationship for collaborative innovation. This relationship is strengthened with high environmental uncertainty. Linet al.(2013) recently explored a different aspect of innovation strategies which found that green product innovation that reduces the outcomes having negative impact on environment and prevents waste has a substantial positive relation with bank performance (McAdam and McClelland, 2002).

Innovation can trigger a reshaping of the market environment. Schroeder (1990) explains that the effects of innovation are dynamic and have different effects on industry segments at different times. Impact on competition is asymmetric, variably affecting firms in distinct strategic groups. The consequences of innovation are driven by on-going innovation development, the emergence of complementary technologies, and the widening use of a new idea (Mckeown and Max ,2008). According to Madura (2001), innovation strategies influence achievement of bank return on the asset and return on equity in commercial bank in Jordan. Product innovation decisions has influence bank's deposit rate, loan rate, reduce loan losses, bank services offered, overhead requirements, efficiency, advertising and the risk level of loans provided.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents the research methodology employed in the study. The methodology included the research design, population of the study, data collection and data analysis techniques.

## 3.2 Research design

The study adopted descriptive research design for it portrays an accurate profile of situations. According to Kothari, (2008) this is a design used to describe the characteristics of a particular phenomenon in a situation. The study employed descriptive research design because it portrays an accurate profile of situations (Cooper, 1999). This was designed to describe the characteristics of a particular phenomenon in a situation. It was used to obtain information concerning the current status of the industry, to survey what exits with respect to the conditions in a situation.

The design helps the researcher to obtain information concerning the current status of the strategies being used by the sector and thus relate it to the objective of the research and therefore make it relevant to the research question. The design will help the study in obtaining information concerning the current status of the effects of strategic innovation strategies on performance in commercial banks in Kenya.

## 3.3 Population of the study

The population of the study was all the 43 commercial banks operating in Kenya as at December 2013 (CBK, 2013). The study carried out a census. Census refers to the study of the total population where all the items under study are investigated and this applicable where the population was so small that selecting a sample was meaningless.

## 3.4 Data Collection

The study used a questionnaire to collect the required data. A questionnaire consist of a list of structured questions, un-structured questions and Likert rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Close ended questions has the advantage of collecting viable quantitative data while open-ended questions allows the respondents freedom of answering questions and the chance to provide in-depth responses. Questionnaire method is preferred because it is efficient, cheap and easy to be administered. The questionnaires were administered through drop and pick to identify respondents with a brief explanation on their purpose and importance. The respondents for this study were senior bank managers from each of commercial banks making a total of 43 respondents. Mugenda and Mugenda (2003) indicated that a population of more than 30 is sufficient for the studies.

## 3.5 Data Analysis.

The collected data was well examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information is clearly understood by describing the situation. The qualitative data was analyzed using content analysis and finding presented in prose form.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents the interpretation and presentation of the findings based on the general objective of the study which was to determine the effects of innovation strategies on influence performance of commercial banks. Data was analyzed using, frequencies and percentages and then presented in form of tables, pie charts and graphs. The population of the study was 43 where 40 of the respondents responded and returned the questionnaires. This represented 93% response rate which was considered sufficient for analysis and reporting as recommended by Mugenda and Mugenda (2003) who advocates a response rate of 50% as sufficient for research purposes.

## 4.2 Demographic Information

### 4.2.1 Level of education

**Figure 4. 1 Level of Education Attained**

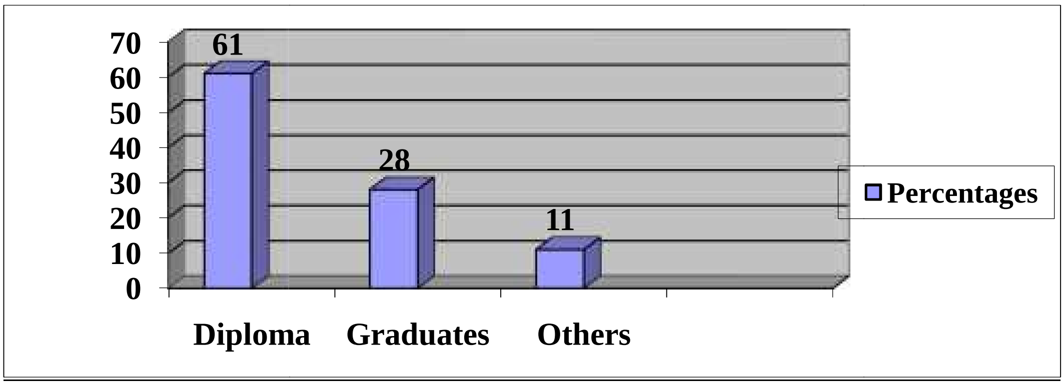


Figure 4.3 indicated the level of education respondents had completed. From the findings, majority 61% of the respondents indicated that they had completed diploma

level of education, 28% of the respondents had completed degree level of education while 11% of the respondents had other levels such as primary and post graduate. This implies that the study collected the information from literate and competent personnel who had experiences on the effects of innovation strategies on influence performance of commercial banks.

### 4.2.2 Respondent's department

**Table 4. 1 Respondent's department**

| | Frequency | Percentages |
|---|---|---|
| Operations | 17 | 43 |
| Credit | 13 | 32 |
| Marketing and Product Development | 5 | 12 |
| Risk management | 3 | 8 |
| Finance | 2 | 5 |
| Total | 40 | 100 |

The study sought to know the respondent's department. From the findings, majority of the respondents indicated that they were in operations, credit, marketing and product development, risk management and finance department as indicated by 43%, 32%, 12%, 8% and 5% of the respondents.

## 4.3 Innovative strategies

### 4.3.1 Adoption of innovation strategies affects profitability of bank

**Table 4. 2 Adoption of innovation strategies affects profitability of bank**

| | Frequency | Percentages |
|---|---|---|
| Very great extent | 23 | 57 |
| Great extent | 13 | 32 |
| Moderate extent | 4 | 11 |

| | | |
|---|---|---|
| Total | 40 | 100 |

The study sought to know the extent to which adoption of innovation strategies affect profitability of bank of Kenya. From the findings, majority 57% of the respondents indicated that adoption of innovation strategies affect profitability of commercial banks in Kenya to a very great extent.

Most 32% of the respondents indicate that adoption of innovation strategies affect profitability a great extent while 11% of the respondents indicated that adoption of innovation strategies affect profitability of commercial banks in Kenya to a moderate extent. Respondents stated that innovation strategies have enabled the company to offer services and products that are adapted to the needs and wants of focus customers, able to sell them faster and more professionally than their competitors making them be in a better situation to create a sustainable competitive advantage. This implies that innovation strategies gives a clear direction and concentrates on the effort of the whole organization on a common innovation end.

These findings are consistent with those of Davila et al (2006) who argued that innovation strategies provide a clear direction and focuses the effort of the entire organization on a common innovation goal and thus organizations tend to make full of utilization to impact on their profitability.

## 4.4 Market innovation strategies

### 4.4.1 Form of market innovation strategies

**Table 4. 3 Form of market innovation strategies**

| | Frequency | | Percentages of yes |
|---|---|---|---|
| | Yes | No | Yes |
| Creating value through pricing | 35 | 5 | 88 |
| Availability of resources and capabilities | 33 | 7 | 82 |
| Customer satisfaction and retention | 30 | 10 | 74 |
| Entry into new markets | 28 | 12 | 70 |
| Environmental analysis and response to changes | 27 | 13 | 68 |
| Aggressive anti-competitors marketing campaigns | 24 | 16 | 61 |

The study sought to know the form of market innovation strategies the firm had employed. From the findings, majority 88%, 82%, 74% and 70% of the respondents indicated that the firm had employed creating of value through pricing, availability of resources and capabilities, customer satisfaction and retention and entry into new markets form of market innovation strategies. Most of the respondents indicated that the firm had employed environmental analysis and response to changes and aggressive anti-competitors marketing campaigns form of market innovation strategies. Respondents explained that there was market orientation, exploratory market innovations and exploitative market innovations in the firm.

This implies that market innovation strategies is expected to produce a significant positive impact on firm's performance through use of a combination of the customer satisfaction and retention, aggressive anti-competitors marketing campaigns, entry into new markets, consideration of availability of resources and capabilities, considering environmental analysis and response to changes and creating value through pricing. This is in line with Kimberly and Evanisko, (1981) who stated that market innovation strategies is critically important if the aim of the company is to develop the profitability of a business to the full.

## 4.5 Market innovation strategies contribute to the bank's performance

**Table 4. 4 Market innovation strategies contribute to the bank's performance**

| | Profitable | Most profitable | Mean | Standard deviation |
|---|---|---|---|---|
| Creating value through pricing | 11 | 29 | 4.61 | 0.57 |
| Availability of resources and capabilities | 17 | 23 | 4.79 | 0.66 |
| Customer satisfaction and retention | 14 | 26 | 4.44 | 0.52 |
| Products entry into new markets | 9 | 31 | 4.39 | 0.41 |
| Environmental analysis and response to changes | 16 | 24 | 4.74 | 0.65 |
| Aggressive anti competitors marketing campaigns | 18 | 22 | 4.66 | 0.54 |

The study sought to investigate the extent to which the various market innovation strategies contributed to the company performance. Majority of the respondents indicated that availability of resources and capabilities, environmental analysis and response to changes, aggressive anti competitors marketing campaigns and creating value through pricing were the most profitable market innovation strategies that contributed to the company performance as indicated by a mean of 4.79, 4.74, 4.66 and 4.61 supported by standard deviation of 0.66, 0.65, 0.54 and 0.57 respectively. Most of the respondents indicated that customer satisfaction and retention and products entry into new markets were profitable market innovation strategies that contributed to the company performance as indicated by a mean of 4.44 and 4.39 with standard deviation of 0.52 and 0.41. This implies that among all the market innovation strategies adopted, all contribute to the bank's profitability to a very great extent. The finding concurred with According to Madura (2001), who found that market innovation strategies influence achievement of bank return on the asset and return on equity in commercial banks Jordan .

### 4.5.1 Market innovation strategies influence market orientation factors

**Table 4. 5 Market innovation strategies influence market orientation factors**

| Factors affecting market performance | Moderate extent | Great extent | Very great extent | Mean | Standard deviation |
|---|---|---|---|---|---|
| Helps in market segmentation | 8 | 2 | 30 | 4.91 | 0.72 |
| Improving the mix of target markets | 10 | 5 | 25 | 4.88 | 0.64 |
| Offering the best service to the markets | 5 | 10 | 25 | 4.83 | 0.74 |
| Identifying better potential markets | 7 | 12 | 21 | 4.54 | 0.51 |
| Generating better ways to serve target markets | 10 | 10 | 20 | 4.64 | 0.61 |

The study sought to rate the extent to which market innovation strategies influence market orientation factors that affects the performance of the commercial bank. From the findings, majority of the respondents indicated that innovation strategies help in market segmentation and improving the mix of target markets to a very great extent as indicated by a mean of 4.91 and 4.88 and a standard deviation of 0.72 and 0.64. Most of the respondents indicated that market innovation strategies helps the commercial bank to offer the best service to the markets, generate better ways to serve target markets and identify new potential markets to a great extent as indicated by a mean of 4.83, 4.64 and 4.54 with a standard deviation of 0.74, 0.61 and 0.54 respectively. This implies that market innovation strategies influence performance. This is in line with Naidoo’s (2010) whose study sheds light on the relationship between market orientation, marketing innovation, competitive advantage and organizational performance. Naidoo’s (2010) viewed market orientation as an accelerator for initiation stage of marketing innovation which is positively linked with competitive advantage and in turn positively relates with the performance of the company.

## 4.6 Product innovation strategies

### 4.6.1 Product innovation strategies firm use

**Table 4. 6 Product innovation strategies firm use**

| | Frequency | | Percentages of yes |
|---|---|---|---|
| | Yes | No | Yes |
| Product improvement | 34 | 6 | 86 |
| Product range extension | 29 | 11 | 72 |
| Product costs revision/improvement | 26 | 14 | 64 |
| Product replacement | 32 | 8 | 79 |
| New product introduction | 35 | 5 | 88 |
| Product repositioning | 28 | 12 | 69 |

The research sought to find out the product innovation strategies the firm use. According to the findings, the firm use new product introduction, product improvement, product replacement, product range extension, product repositioning and product costs revision/improvement innovation strategies as indicated by 88%, 86%, 79%, 72%, 69% and 64% of the respondents. The findings supports findings by

Mckeown and Max (2008) who revealed that product innovation strategies had influence on bank's deposit rate, loan rate, reduce loan losses, bank services offered, overhead requirements, efficiency, advertising and the risk level of loans provided.

### 4.6.2 How product innovation strategies contribute to the bank's performance

**Table 4.7 How product innovation strategies contribute to the bank's performance**

| | Most profitable | Most profitable | Mean | Standard deviation |
|---|---|---|---|---|
| Product improvement | 19 | 21 | 4.90 | 0.81 |
| Product range extension | 10 | 30 | 4.61 | 0.55 |
| Product costs revision/improvement | 15 | 25 | 4.74 | 0.68 |
| Product replacement | 15 | 25 | 4.51 | 0.41 |
| New product introduction | 17 | 23 | 4.85 | 0.79 |
| Product repositioning | 14 | 26 | 4.93 | 0.87 |

The research required the respondents how product innovation strategies contribute to the profitability of the bank. From the findings, majority of the respondents indicated that product repositioning, product improvement, new product introduction, product costs revision/improvement, product range extension and product replacement contribute most to the profitability of the bank as indicated by a mean of 4.93, 4.90, 4.85, 4.74, 4.61 and 4.51 with standard deviation of 0.87, 0.81, 0.79, 0.68, 0.55 and 0.41. This implied that product innovation strategies impact of bank profitability, product development and product quality in commercial banks. This concurred with

Feldman (1996) who indicated that a steady investment in research and innovation activities generate a powerful source of information that supports product-oriented opportunistic action.

### 4.6.3 Effect of product development on the performance of the bank

**Table 4. 8 Effect of product development on the performance of the bank**

| **Effects of product development on profitability** | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|
| Product development is important in both the supply of the core product as well as in the support part of any offer. | 1 | 15 | 24 | 4.52 | 0.36 |
| Product development that are radical, inventive and early offer greater rewards and performance improvement | 2 | 17 | 21 | 4.71 | 0.59 |
| The bank's product development strategy aims to hit many singles. | 0 | 14 | 26 | 4.65 | 0.48 |

Table 4.8 indicated the findings on the extent to which respondents agreed with the given statements that relate to the effect of product development on the performance of the bank. From the findings, majority of the respondents strongly agreed those product developments that are radical, inventive and early offer greater rewards and performance improvement as indicated by a mean of 4.71 with standard deviation of 0.59. Most of the respondents agreed that bank's product development strategy aims to hit many singles and that Product development is important in both the supply of the core product as well as in the support part of any offer as indicated by a mean of 4.65 and 4.52 with standard deviation of 0.48 and 0.36.

This implies that product development that are radical, inventive and early offer greater rewards and performance improvement, product development is important in both the supply of the core product as well as in the support part of any offer and bank's product development strategy aims to hit many singles. The findings concurred with Higgins, (1995) who established that product innovation provides the most obvious means for generating revenues, provides the means for safeguarding and improving quality and also for saving costs

## 4.7 Process innovation strategies

### 4.7.1 Process innovation strategies used by bank

**Table 4. 9 Process innovation strategies used by bank**

| | Frequency | | Percentages of yes |
|---|---|---|---|
| | Yes | No | Yes |
| Reduction of costs | 33 | 7 | 83 |
| Improved innovation process | 36 | 4 | 90 |
| Conformance to regulations | 31 | 9 | 77 |
| New products introduction | 35 | 5 | 87 |

The study sought to know the process innovation strategies the commercial banks in Kenya use. From the findings, majority 90%, 87%, 83% and 77% respondents indicated that improved innovation process, new products introduction, reduction of costs and conformance to regulations innovation strategies enables the firm to be most profitable.

### 4.7.2 Effects of process innovation strategies on customer satisfaction

**Table 4. 10 Effects of process innovation strategies on customer satisfaction**

| **Effects of innovation strategies on customer satisfaction** | Moderate profitable | Profitable | Most profitable | Mean | Std Dev |
|---|---|---|---|---|---|
| Use of technology innovation promotes a friendly and helpful staff hence customer satisfaction | 7 | 16 | 17 | 4.69 | 0.65 |
| Less time is required at the service point due to innovations in the bank | 3 | 10 | 27 | 4.51 | 0.70 |
| The bank remains open in good time to serve the customers efficiently | 3 | 12 | 25 | 4.78 | 0.74 |
| The innovations ensure that the services given to customers are of high quality | 1 | 15 | 24 | 4.50 | 0.44 |

The respondents were requested to indicate the extent they agreed on the statements about effects of process innovation strategies on customer satisfaction and the effect on profitability of the bank. From the findings, majority of the respondents strongly agreed that the bank remains open in good time to serve the customers efficiently, Use of technology innovation promotes a friendly and helpful staff hence customer satisfaction and that less time is required at the service point due to innovations in the bank as indicated by a mean of 4.78, 4.69 and 4.51 with standard deviation of 0.74, 0.65 and 0.70. Most of the respondents strongly agreed that the innovations ensure that the services given to customers are of high quality as indicated by a mean of 4.50 with standard deviation of 0.44. This implies that, in its pursuit to serve customers efficiently, the bank remains open in good time, uses technology innovation promotes a friendly and helpful staff hence customer satisfaction and less time is required at the service point due to innovations.

## 4. 8 Technology innovation strategies

### 4.8.1 Technology innovation strategies firm use

**Table 4. 11 Technology innovation strategies firm use**

| | Frequency | | Percentages of yes |
|---|---|---|---|
| | Yes | No | Yes |
| ATM's Telephone | 40 | 0 | 100 |
| Banking Internet Banking | 38 | 4 | 97 |
| Electronic | 40 | 0 | 100 |
| Funds Transfer | 39 | 5 | 98 |
| New Technology development | 40 | 0 | 100 |

The study sought to know the technology innovation strategies the firms' uses. From the findings, majority all the respondents indicated that the commercial banks uses ATM's telephone, new technology development and electronic technology innovation strategies. Most 98% and 97% of the respondents indicated that commercial banks use funds transfer and banking internet banking technology innovation strategies. This implies that use of technological innovations such as ATMs, new technology development; electronic funds transfer, internet banking and telephone banking enhance profitability of the bank.

### 4.8.2 Technology innovation strategies contribute to the bank's performance

**Table 4.12 Technology innovation strategies contribute to the bank's performance**

| | Profitable | Most profitable | Mean | Standard deviation |
|---|---|---|---|---|
| ATM's | 11 | 29 | 4.61 | 0.55 |
| Telephone Banking | 12 | 28 | 4.51 | 0.49 |
| Internet Banking | 10 | 30 | 4.65 | 0.73 |
| Electronic Funds Transfer | 15 | 25 | 4.68 | 0.78 |
| New Technology development | 19 | 21 | 4.59 | 0.53 |

The respondents were requested to indicate how the given technology innovation strategies contribute to the bank's performance. Most of the respondents indicated that Electronic Funds Transfer, Internet Banking and ATM's contribute most to the bank's profitability as indicated by a mean of 4.68, 4.65 and 4.61 with standard deviation of 0.78, 0.73 and 0.55. Most of the respondents indicated the new technology development and telephone banking contribute most to the bank's profitability as indicated by a mean of 4.59 and 4.51 with standard deviation of 0.53 and 0.49. These findings confirm that technology innovations are more influential in profitability of banks. The finding concurred with Miller (1989) who indicated that firm demands for organizational technological innovation creates competitive advantage increasingly crucial components of competitive strategy for many banking firms.

## 4.9 Discussion of results

From the findings, adoption of innovation strategies affects profitability of commercial banks in Kenya to a great extent as innovation strategies enabled the banks to offer services and products that are adapted to the needs and wants of focus customers, able to sell them faster and more professionally than their competitors making them be in a better situation to create a sustainable competitive advantage. This implies that innovation strategies gives a clear direction and concentrates on the effort of the whole organization on a common innovation end. This supported the findings by Davila et al (2006) who argued that innovation strategies provide a clear direction and focuses the effort of the entire organization on a common innovation goal and thus organizations tend to make full of utilization to impact on their profitability.

The market innovation strategies influence production of a significant positive impact on bank's performance through use of a combination of the customer satisfaction and retention, aggressive anti-competitors marketing campaigns, entry into new markets, consideration of availability of resources and capabilities, considering environmental analysis and response to changes and creating value through pricing. This is in line with Kimberly and Evanisko, (1981) who stated that market innovation strategies is critically important if the aim of the company is to develop the profitability of a business to the full. That innovation strategies help in market segmentation and improving the mix of target markets to a very great extent as indicated by a mean of 4.91 and 4.88 and a standard deviation of 0.72 and 0.64. Most of the respondents indicated that market innovation strategies helps the commercial bank to offer the best service to the markets, generate better ways to serve target markets and identify new potential markets to a great extentTherefore the market innovation strategies adopted, all contribute to the bank's profitability to a very great extent. The finding concurred with According to Madura (2001), who found that market innovation strategies influence achievement of bank return on the asset and return on equity in commercial banks Jordan .

The study established that product developments that are radical, inventive and early offer greater rewards and performance improvement. that bank's product development strategy aims to hit many singles and that Product development is important in both the supply of the core product as well as in the support part of any offer implying that product development that are radical, inventive and early offer greater rewards and performance improvement, product development is important in both the supply of the core product as well as in the support part of any offer and bank's product development strategy aims to hit many singles. The findings concurred with Higgins, (1995) who established that product innovation provides the most obvious means for generating revenues, provides the means for safeguarding and improving quality and also for saving costs.

From the findings, the commercial banks uses ATM's telephone, new technology development and electronic technology innovation strategies, commercial banks use funds transfer and banking internet banking technology innovation strategies implying that use of technological innovations such as ATMs, new technology development; electronic funds transfer, internet banking and telephone banking enhance profitability of the bank. . The finding concurred with Miller (1989) who indicated that firm demands for organizational technological innovation creates competitive advantage increasingly crucial components of competitive strategy for many banking firms.

The study revealed that Electronic Funds Transfer, Internet Banking and ATM's contribute most to the bank's profitability as indicated by a mean of 4.68, 4.65 and 4.61 with standard deviation of 0.78, 0.73 and 0.55. Most of the respondents indicated the new technology development and telephone banking contribute most to the bank's profitability as indicated by a mean of 4.59 and 4.51 with standard deviation of 0.53 and 0.49. These findings confirm that technology innovations are more influential in profitability of banks. The finding concurred with Miller (1989) who indicated that firm demands for organizational technological innovation creates competitive advantage increasingly crucial components of competitive strategy for many banking firms.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

## 5.1 Introduction

This chapter presents the summary of the findings of this study, conclusions arrived at or derived from the data, as well as limitations observed or experienced during the study. The chapter also provides recommendations and suggestions for further research aimed at improvement of organization performance in presence of innovation strategies

## 5.2 Summary of the study

The study established that adoption of innovation strategies affect profitability of commercial banks in Kenya to a very great extent. Innovation strategies have enabled the company to offer services and products that are adapted to the needs and wants of focus customers, able to sell them faster and more professionally than their competitors making them be in a better situation to create a sustainable competitive advantage. It was evident that the commercial banks in Kenya had employed creating of value through pricing, availability of resources and capabilities, customer satisfaction and retention and entry into new markets form of market innovation strategies. Banks also had employed environmental analysis and response to changes and aggressive anti-competitors marketing campaigns form of market innovation strategies. There was market orientation, exploratory market innovations and exploitative market innovations in the commercial banks.

The study established that availability of resources and capabilities, environmental analysis and response to changes, aggressive anti competitors marketing campaigns and creating value through pricing were the most profitable market innovation strategies that contributed to the company performance. Customer satisfaction and retention and products entry into new markets were profitable market innovation strategies that contributed to the company performance.

Market innovation strategies influence market orientation factors that affect the performance of the commercial bank. Innovation strategies help in market segmentation and improving the mix of target markets helps the commercial bank to offer the best service to the markets, generate better ways to serve target markets and identify new potential markets

The banks use new product introduction, product improvement, product replacement, product range extension, product repositioning and product costs revision/improvement innovation strategies. It was revealed that product repositioning, product improvement, new product introduction, product costs revision/improvement, product range extension and product replacement contribute most to the profitability of the bank. Product developments that are radical, inventive and early offer greater rewards and performance improvement, bank's product development strategy aims to hit many singles and product development is important in both the supply of the core product as well as in the support part of any offer.

The study established that the process innovation strategies the commercial banks in Kenya use are improved innovation process, new products introduction, reduction of costs and conformance to regulations innovation strategies enables the firm to be most profitable. It was evident that the bank remains open in good time to serve the customers efficiently, use of technology innovation promotes a friendly and helpful staff hence customer satisfaction and that less time is required at the service point due to innovations in the bank. Innovations ensure that the services given to customers are of high quality.

The commercial bank in Kenya adopted technology innovation strategies. Commercial banks use ATM’s telephone, new technology development, funds transfer and banking internet banking technology innovation strategies. The study established that technology innovation strategies contribute to the bank’s performance.

The study found that adoption of innovation strategies influenced the profitability of Banks in Kenya to a very great extent. The study further revealed that other innovation strategies that are adopted by banks include process innovation strategies, technology innovations and product innovation strategies.

## 5.3 Conclusion of study

The banking industry is facing multiple pressures and banks have to adapt to greater regulation, competition and consolidation, which are largely out of their control. Banks have to meet increasingly diverse and demanding customer expectations. The study concludes that innovation strategies are indispensable to bank’s future growth and sustainability. Commercial banks with serious innovation strategies, improved their profitability. Further, the banks employed market innovations such as environmental analysis and response to change and aggressive anti-competitors marketing campaigns that greatly affected their performance. The study concluded that innovation strategies provide a clear direction and focuses the effort of the entire organization on a common innovation goal and thus organizations tend to make full of utilization to impact on their profitability.

The study concludes that product innovations such as product replacement and product repositioning contributed to the firm’s profitability. Product development was important in both the supply of the core product as well as in the support part of any offer. product development that are radical, inventive and early offer greater rewards and performance improvement, product development is important in both the supply of the core product as well as in the support part of any offer and bank’s product development strategy aims to hit many singles.

In addition, the study concludes that process innovation strategies such reduction of costs contributed to the bank’s profitability and conformance to regulations contributed to the firm’s profitability. To prioritize innovative actions raised banks effectiveness by improving the processes. This is particularly so when it is combined with product innovation. Process innovation alone, without the introduction of new products, runs the risk of being associated with lower growth performance, alternative measures, such as productivity, productivity growth, or profitability, capture the beneficial influence of process innovation more rapidly.

Use of technology innovation promoted a friendly and helpful staff hence customer satisfaction. Innovations ensured that the services given to customers were of high quality. Use of technological innovations such as ATMs, new technology development; electronic funds transfer, internet banking and telephone banking enhance profitability of the bank. Banks chooses to set up an online portal in more specialized services which require more personalized interactions. Internet banks manage to cut labour costs but it is unclear whether these productivity gains outweigh the cost of the initial IT investment.

## 5.4 Recommendations of the study

Innovation strategies are critically important if the aim of the company is to develop the profitability of a business to the full. The study recommended that banks must take immediate steps to improve innovation by critically assessing current innovation capabilities and performance, should create an enable environment that will enhance innovations in the bank so that full benefits of innovation strategies may be realized. The study recommends for the management in banks to realize higher performance, increase number of customers, for the business to grow further and embrace the adoption of market innovation strategies.

The study also recommends that the commercial banks should also strive to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction to enable the companies to be more productive, to grow faster, to invest more and also to earn more performance.

The study further recommends that commercial banks should ensure new products introduction, reduction of costs, improved innovation process and conformance to regulations are used to influence performance of the firms under study. This will help the tap into customers' needs so well that new products generate their own source of marketing momentum.

The study also recommends that the firms also should ensure that they adapt the new technology in order to cope with the fast changing technology. Technology innovation encourages ease of flow of information and fast delivery to the intended persons. For efficient adoption of technology innovation strategies, there should be reliable infrastructure, enough financial resources. Developing an innovation roadmap, and supporting capabilities and processes, aligning the innovation agenda with the organization's broader strategy, eliciting the support of top-level management, creating opportunities and incentives for employees to be entrepreneurial. Leading companies make innovation strategy a CEO imperative and manage it with discipline. The study finally recommends that commercial banks can use innovation strategies to streamline operations, capture new markets and set themselves apart in an increasingly competitive market hence high profitability.

## 5.5 Suggestions for further studies

The objectives of this study were to determine the innovation strategies adopted by commercial banks in Kenya and the effects of innovation strategies on performance of commercial banks. The study carried out a census of all the 43 commercial banks operating in Kenya as at December 2013. The study recommended that a similar study should be carried out in other organizations and beyond and find out whether the same results would be replicated.

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# APPENDICES

## Appendix 1: Questionnaire

### Part A: Demographic Information

1) What level of education have you completed?

   Diploma ( )

   Other College Education ( )

   Degree ( )

   Postgraduate ( )

   Any other………………………………………………………………………………

2) Which is your department?

   Operations ( )

   Credit ( )

   Risk management ( )

   Finance ( )

   Marketing and Product Development ( )

   Others please specify ___________________________________

3) To what extent does adoption of innovation strategies affect profitability of bank of Kenya

   Very great extent ( )

   Great extent ( )

   Moderate extent ( )

   Little extent ( )

   Not at all ( )

4) What form of market innovation strategies does your firm employ? (You can tick more than one)

   Creating value through pricing ( )

   Availability of resources and capabilities ( )

Customer satisfaction and retention ( )

Entry into new markets ( )

Environmental analysis and response to changes ( )

Aggressive anti-competitors marketing campaigns ( )

5) How do the above market innovation strategies contribute to the bank's performance? (Rank on a scale of 1-5, 1 being least profitable while 5 being most profitable).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Creating value through pricing | | | | | |
| Availability of resources and capabilities | | | | | |
| Customer satisfaction and retention | | | | | |
| To products entry into new markets | | | | | |
| Environmental analysis and response to changes | | | | | |
| Aggressive anti competitors marketing campaigns | | | | | |

6) Rate the extent to which market innovation strategies influence market orientation factors provided that affect the performance of this bank? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

| **Factors affecting market performance** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Helps in market segmentation | | | | | |
| Improving the mix of target markets | | | | | |
| Offering the best service to the markets | | | | | |
| Identifying better (new) potential markets | | | | | |
| Generating better (new) ways to serve target markets | | | | | |
| Other (Specify…………………………………………) | | | | | |

7) Which product innovation strategies does your firm use? (You can tick more than one).

Product improvement ( )

Product range extension ( )

Product costs revision/improvement ( )

Product replacement ( )

New product introduction ( )

Product repositioning ( )

8) How do the above product innovation strategies contribute to the bank's performance? (Rank on a scale of 1-5, 1 being least profitable while 5 being most profitable).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Product improvement | | | | | |
| Product range extension | | | | | |
| Product costs revision/improvement | | | | | |
| Product replacement | | | | | |
| New product introduction | | | | | |
| Product repositioning | | | | | |

9) To what extent do you agree with the following statements that relate to the effect of product development on the performance of the bank? Use a scale of 1-5 where 1= strongly disagree and 5 = strongly agree.

| **Effects of product development on profitability** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Product development is important in both the supply of the core product as well as in the support part of any offer. | | | | | |
| Product development that are radical, inventive and early offer greater rewards and performance improvement | | | | | |
| The bank's product development strategy aims to hit many singles. | | | | | |
| Other (Specify……………………………………..) | | | | | |

10**)** Which process innovation strategies does your bank use? (You can tick more than one)

Reduction of costs ( )

Improved innovation process ( )

Conformance to regulations ( )

New products introduction ( )

11) How do the above process innovation strategies contribute to the bank's profitability? (Rank on a scale of 1-5, 1 being least profitable while 5 being most profitable)

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Reduction of costs | | | | | |
| Improved innovation process | | | | | |
| Conformance to regulations | | | | | |
| | | | | | |
| New products introduction | | | | | |

12) To what extent do you agree with the following statements about effects of process innovation strategies on customer satisfaction and the effect on profitability of this bank? Use a scale of 1 to 5 where 1 is strongly agreed and 5 is strongly disagree.

| **Effect s of innovation strategies on customer satisfaction** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Use of technology innovation promotes a friendly and helpful staff hence customer satisfaction | | | | | |
| Less time is required at the service point due to innovations in the bank | | | | | |
| The bank remains open in good time to serve the customers efficiently | | | | | |
| The innovations ensure that the services given to customers are of high quality | | | | | |
| Other (Specify………………………………………………………..) | | | | | |

13) Which technology innovation strategies does your firm use? (You can tick more than one)

ATM's Telephone ( )

Banking Internet Banking ( )

Electronic ( )

Funds Transfer ( )

New Technology development ( )

14) How do the above technology innovation strategies contribute to the bank's performance? (Rank on a scale of 1-5, 1 being least profitable while 5 being most profitable).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| ATM's | | | | | |
| Telephone Banking | | | | | |
| Internet Banking | | | | | |
| Electronic Funds Transfer | | | | | |
| New Technology development | | | | | |

15) What recommendations would you make on innovative strategies for greater profitability?

**Appendix 2: List of Commercial Banks in Kenya+**

1. African Banking Corporation Ltd
2. Bank of Africa Kenya
3. Bank of Baroda (K) Ltd
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CFC Stanbic Bank Ltd
7. Charterhouse Bank Ltd (Under- Statutory management)
8. Chase Bank (K) Ltd
9. Citibank N.A. Kenya
10. Commercial Bank of Africa Ltd
11. Consolidated Bank of Kenya Ltd
12. Co-operative Bank of Kenya Ltd
13. Credit Bank Ltd
14. Development Bank Kenya Ltd
15. Delphis Bank
16. Diamond Trust Bank (K) Ltd
17. Dubai Bank of Kenya Ltd
18. Ecobank Kenya Ltd
19. Equitorial Commercial Bank Ltd
20. Equity Bank Ltd
21. Family Bank Ltd
22. Fidelity Commercial Bank Ltd
23. Fina Bank Ltd
24. First Community Bank Ltd
25. Giro Commercial Bank Ltd
26. Guardian Bank Ltd
27. Gulf African Bank Ltd
28. Habib Bank Ltd
29. Imperial Bank Ltd
30. I&M Bank Ltd
31. Jamii Bora Bank Ltd
32. Kenya Commercial Bank Ltd
33. K-rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans National Bank Ltd
42. United Bank of Africa Kenya Ltd.
43. Victoria Commercial Bank Ltd