INNOVATION CAPABILITY AND PERFORMANCE OF DEPOSIT TAKING SACCOs IN NAIROBI COUNTY.

BY:

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DECLARATION

This research project report is my original work and has not been submitted for the award of a degree in any other university.

Signed: ……..…….. Date: ……

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This research project report has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate this project to my son Kay for his patience and innovative activities.

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ABBREVIATIONS AND ACRONYMS

SACCO : Savings and Credit Cooperative

ICMM : Innovation Capability Maturity Model

OECD : Organization for Cooperation Development

SASRA : Sacco Supervision and Regulatory Authority

DT- SACCO : Deposit Taking Savings and Credit Cooperative

SMEs : Small and Medium Enterprises

KUSCCO : Kenya Union of Savings and Credit Cooperatives

ATM : Automated Teller Machines

ROCA : Rotating Savings and Credit Associations

SPSS : Statistical Package for the Social Sciences.

KNBS : Kenya National Bureau of Statistics

ABSTRACT

The organizations that invest in innovation capabilities have innovative products and processes enabling superior performance. The aim of this study was to establish the influence of innovation capabilities on performance. The target population comprised of all the 38 deposit taking SACCOs in Nairobi County. The study targeted a senior manager as respondent in each of the SACCOs under review. Hence a survey of 38 deposit taking SACCOs was conducted using structured and non-structured questionnaires in collecting primary data. The secondary data on the same respondents was sourced from their respective websites and that of the regulating Authority of SACCOS. The data was analyzed using descriptive and inferential statistics through SPSS Statistical package program. The analyzed results indicated that innovation capability (Innovation process, knowledge and Competence, and organization support) had a significant influence on performance. The innovation process capability had a strongest positive influence on performance. Currently, the financial business environment is experiencing radical innovations that are consequently disrupting financial operations. Thus, there is a need for deposit taking SACCOs to cushion themselves from disruptive innovations for them to remain relevant in the market. Therefore, a further research should be conducted to investigate the effect of innovation capability maturity level on performance of various enterprises.

Keywords: Innovation Capability, Performance, deposit taking SACCOs, innovation process, knowledge and competence, organizational support

CHAPTER ONE

INTRODUCTION

1.1. Introduction

This chapter introduces the project. It's organized into four sections, namely: background of the study, the research problem, objective as well as value of the study. Hence, this sections establishes the foundation of the next four chapters. Moreover, the chapter highlights the innovation capabilities and performance indicators of organizations in general and narrows down to deposit taking SACCOs in Nairobi County.

1.2. Background of the Study

The capability to innovate is one of the top priorities of an enterprise' management in enhancing sustainability and promoting superior performance (Lawson & Samson, 2001). The innovation capabilities of a given company acquired over a given period influences significantly its performance. Majority of the organization measures their performance in terms of financial and non-financial indicators (Robinson, *et al*. 2011). According to Essmann& du Preez (2009) an organization develops innovation capabilities in organizational support, knowledge and competence, and innovation process respectively. This implies that innovation capability maturity in any given organization is a process commencing with management's support in creating a conducive environment for innovative activities, then recruitment of the right people with the required knowledge and competence to finally carry out the innovation process.

The theories supporting this study includes Dynamic Capabilities theory and Innovation capability maturity model (ICMM). Dynamic Capabilities theory emphasizes on a firm's capacity to integrate, put together or configure resources with the aim of achieving competitive advantage (Teece,*et al*., 1997). Development of this theory was due to shortcomings of resource-based view (RBV), which ignored the factors surrounding resources by assuming that they only exist. ICMM by Essmannand du Preez, (2009), incorporates the core requirements of innovation capability including organizational support, knowledge and competence, and innovation process.

The study proposes to highlight how innovation capabilities influences the performance of enterprises particularly those within Nairobi County, Kenya. The problem that necessitated to this study is the slow uptake of technological innovations especially the process and marketing innovations by enterprises. The Kenya National Bureau of Statistics (KNBS) survey report (2016) on Micro, Small and Medium Enterprises (MSME) highlights that a majority of MSMEs are unable to capture a business market share as their goods and services do not reach or satisfy the untapped changing customer needs.

This study proposed to research on innovation capabilities that deposit-taking SACCOs (DT-SACCOs) have developed to enhance their performance. In Sacco Supervision Annual report (2015), the chairman of the Sacco and Supervision Regulatory Authority (SASRA), reported that DT-SACCOs have partially achieved the status of being known as alternative financial service providers in Kenya. If innovative arrangements are adopted, the DT-SACCOs might become attractive investment vehicles while maintaining their socio-economic mission in the society.

1.2.1. Concept of Innovation

Joseph Schumpeter was the first person to introduce innovation concept in 1934, and later different scholars reviewed the idea further. According to Trott (2005). Innovation involves three steps, namely: theoretical conception; technical invention and commercial exploitation. Innovation was defined by Baregheh, et al., (2009) to be a course of action the is multi-stage used by organizations to convert ideas into products that are new or improved or processes which provide avenues for advancement, compete and also distinguish themselves effectively in the business environment.

Freeman and Perez (1988), were of the opinion that innovation process might occur in a firm either through incremental or radical processes. The incremental innovations arise continuously as a consequence of learning-by-doing or learning-by-using, rather than due to specific research and development (R&D) action. Whereas, innovations that are essential arise from the external environment, as a consequence of R&D actions in a firm or university and government laboratories, or from small sized companies. These radical innovation processes could be breakthroughs, discontinuous or disruptive.

The diffusion process spreads innovations through a market or non-market channels thereby increasing the impact on the economy (OECD, 1992). The market conditions provide the context that facilitates or constrains the extent of a substantial innovation activity (Slater & Narver, 1994; Porter, 1985). The impact depends on the ability of a firm to recognize opportunities in the marketplace. A company diffuses innovations through non-market channels including resources, capabilities, and skills, which are important, uncommon and not effectively duplicated (Barney, 1991).

1.2.2. Innovation Capability

Innovation ability relates to capacity of a firm to constantly convert knowledge as well as ideas into original processes, products, or systems for the sake of the firm and also stakeholders (Lawson & Samson, 2001). Therefore, they are a unique integrated tangible and intangible resources that a firm develops to attain better performance. Thus, this study intends to test the Innovation Capability Maturity Model which was developed by Essmann and du Preez (2009) that highlights a firm's capability in the process of innovation; information along with competence; and also organizational support.

The capability in the innovation process is a complete innovation lifestyle which includes the practices, actions, as well as activities which take either ideas or opportunities through to concepts, growth, and execution and ultimately to a point of commercialization and action. Hence, it includes constant improvement and optimization (Essmann & du Preez, 2009). The process is composed of elements such as exploration capability; portfolio management; exploitation capability; and, risk management.

Knowledge and competency pertains to specific or broad-based skills, abilities, and behaviors that are fundamental to the innovation process. An organization builds or acquires expertise and competence capabilities by adopting development capacity, Absorptive capabilities, and external knowledge (Mahroum,*et al.,* 2008). Organizational Support implies necessary features put in place to reinforce innovation requirements. They include strategic planning and leadership, structures and Infrastructures, Environment and climate, and, resource and measurement (Essmann& du Preez, 2009).

1.2.3. Organizational Performance

Organizational performance is a subject of interest to both CEOs and researchers all over the world. Need to achieve superior performance is the top goal for every organization (Bhatti, *et al*. 2011). Organizational measurement and analysis are essential in realizing the organizational goals in financial, marketing, employment, and production. The organization that generates outputs measured in financial and non-financial terms achieves superior performance (Robinson, *et al*. 2011).

The indicators of financial performance include profitability ratios (return on capital employed or investment), market share and sales. The non-financial performance is reflected by innovative products or processes, the impact of the business on the society and customer satisfaction. Gunday, *et al.* (2011), classified performance as market performance, innovative performance, production performance and financial performance.

The previous empirical studies on innovation capability and performance employed different performance measures. For instance, Lawson and Samson (2001), noted that the development of innovation ability in organizations yields to innovative performance. Sriboonlue *et al*. (2015) used measures such as new products, business excellence, and stakeholder exaltation as a measure of performance. Similarly, Yam *et al*. (2010) measured performance based on sales, innovation, and products in manufacturing industries. Kenyan studies, Pilisi *et al*. (2016), employed profitability, customer and employee satisfaction, and sales growth as performance indicators in retail, medium, and Supermarkets. Moreover, Lily and Juma (2014) used return on asset, return on equity and market as performance measures in Kenya Commercial banks. This study measured both

financial (turnover of assets) and non-financial (branch network) performance in DT-SACCOs.

1.2.4. Deposit-Taking SACCOs in Kenya

In Kenya, there are 424 deposit-taking SACCOs network across the country with 164 head offices that are licensed to carry out deposit-taking business in the year 2017 (SASRA Website). DT-SACCOs is a segment of the Cooperative subsector in Kenya composed of Societies undertaking both withdrawable and non-withdrawable deposits (SASRA, 2010). Besides, savings and credit products, DT-SACCOs operates like banks, though regulated by Sacco Societies Act (SASRA) and regulations 2010.

The financial and operational activities are measures of the DT-SACCOs performance. The financial measures include assets, deposits, turnover and membership (SASRA, 2015). Whereas, operational measures are: County distribution by head office locations; Cross-County branch networks; ATM linkages; agency banking activities; employment of professionals; job creation; and educational qualification of senior staffs (SASRA, 2015).

According to Sacco Act (2010), major assets of a SACCO are cash and cash equivalents; prepayments and accounts receivable; financial investments; net loan portfolio; and property and equipment. Loan portfolio represents a huge portion of the DT-SACCO assets, hence it's vital in assessing financial performance. Deposits constitutes money belonging to members, they are used to gauge the liquidity of a given SACCO. Liquidity is the ability of DT-SACCOs to meet their short-term obligations to members, particularly the disbursement of loans. DT-SACCOs are required to maintain a minimum

of fifteen percent (15%) of their saving deposits together with short-term liabilities as liquid assets (Sacco Societies Act, 2010).

Membership of a DT-SACCO indicates whether the SACCO experience growth as measured by the number of branch network across the country. Turnover is another critical measure of a SACCO performance as it indicates the improvement in capitalizations enabled by increase in retained surplus and members' injection of capital. The DT-SACCO is able to yield superior performance as measured by deposits, assets, membership and turnover due to better governance and risk management systems accelerated by compliance to prudential regulatory framework.

1.2.5. Deposit-taking SACCOs in Nairobi County

Nairobi County formed part of 47 counties in Kenya situated in the capital city of the country. The county has the highest number of deposit-taking SACCOs totaling to 41 head offices with 23 different branches spread across the nation (SASRA Website). The majority of these SACCOs derive its membership from the service industry that is the most significant sector in the County.

The location of these SACCOs exposes them to stiff competition from diverse financial institutions such as banks, insurance, capital markets, pension schemes, microfinance institutions, Development Finance Institutions, and financial services that are informal for instance Rotating Savings and Credit Associations (ROCA). Therefore, the survival of the deposit-taking SACCOs in the County depends on their innovation capabilities developed with the aim of gaining the competitive advantage. The introduction of interest capping affected the membership of the deposit-taking SACCOs in the County as the

majority of the members fled to banks to evade guaranteeing fellow members who sometimes default in loan repayment and force guarantors to carry their monthly installment burden.

This study examined how innovation capabilities influences the performance of 41 DT-SACCOs in Nairobi County. Therefore, the research concentrated on how innovation capabilities such as innovation process, knowledge and competence, and organizational support influence performance of deposit-taking SACCOs. The study chose Nairobi County as the area of research for having the highest number of deposit-taking SACCOs. Also, the results of the study can be generalized to cover other counties in Kenya.

1.3. Research Problem

The organizations that invest in the concept of strategic innovation capabilities have efficient innovation processes, which improves its overall performance (Katz, 2006). However, the literature review reveals uneven distribution of innovation capability concept across Sub-Saharan Africa. The inequitable distribution presents a significant gap in enterprises; they are very slow in adopting the technological innovations in processes and marketing (KNBS, 2016). The majority of organizations are unable to enhance their innovation processes, competency and knowledge, and support creativity and innovation activities. Consequently, non-innovative agencies have continued to perform poorly with time forcing some of them to exit the market.

The development of DT-SACCOs offering banking services was a significant innovation breakthrough in the Kenyan SACCO sector (Owen, 2007). Though deposit-taking SACCOs provide similar services as banks, there is a gap in the process of delivering products to customers. For instance, most of the commercial banks and micro finances reject loan application of clients with no collateral (KNBS, 2016). Also, they charge higher interest rates to 14% plus other credit appraisal fees compared to SACCOs that charge only interest at 12%. Although DT-SACCOs stand a chance to gain a broader market share, the gap has widened due to reduced uptake of innovations in processes and products.

Studies on how strategic innovation capabilities influence the performance of deposit-taking SACCOs are missing both globally and locally. For instance, Lawson and Samson (2001) limited his scope of study of developing innovation capability in organizations by employing different literature review and a single case study of Cisco System. Sriboonlue *et al*., (2015) strategic innovation capability and firm sustainability study collected data by mailing questionnaires; this reduced the sample size considerably since only 126 out of 582 sent responded. Yam *et al*. (2011) research of technological innovation capabilities and performance through an empirical survey of 200 manufacturing firms in Hong Kong ignored the skills required in innovation processes. Kafetzopoulous and Psomas (2015) study of innovation capability on a performance of 233 manufacturing

firms in Greece, failed to examine innovation process capability and knowledge and competence constituting core requirements for innovation.

In Kenya, Lily and Juma (2014) study how strategic innovation influences the performance of commercial banks operating in Nairobi County, used structured questionnaires only in collecting data. Structured questionnaires have a high degree of bias that reduces reliability. Similarly, Pilisi *et al*., (2016) utilized structured questionnaires to collect data on the impact of vital innovation capabilities on performance of supermarkets, medium and merchant managed retail in Nairobi County. Gor *et al*., (2015) studied the evidencing enablers of innovation capabilities and their effects on organizational performance and analyzed data through standardized questionnaires. Tatoi and Senaji (2017) study of the relationship that exists between innovation capability and corporate performance of commercial banks in Kenya, operational capability expressed a low Cronbach alpha value of 0.58 than the required of 7.0 and above.

In spite of the fact the researchers showed the existence of a relationship between innovations capabilities on performance, all differed contextually. The researchers did not probe how innovation capabilities influence the performance of DT-SACCOs in Kenya, specifically in Nairobi County. Along these lines, this survey proposes to answer the query, 'does innovation capability influence the performance of DT-SACCOs in Nairobi County?'

1.4. Research Objective

The objective that guided this survey was grounded on finding out whether there is a connection between innovation capabilities and performance of DT-SACCOs in Nairobi County, Kenya.

1.5. Value of the Study

The results of this research aimed at testing the applicability of dynamic capability theory and Innovation Capability Maturity Model in African enterprises, specifically in Kenya. Positive outcome of the research will compel the majority of management staffs in various organizations to develop dynamic capabilities or use ICMM as a benchmark of identifying innovation capabilities. Consequently, enterprises that utilize dynamic capability theory and ICMM will be able to increase their innovations thereby reporting superior performance.

Moreover, the results of this study will enable the government and policymakers to set in place the necessary conditions for innovation to flourish. Consequently, the study anticipates generating new knowledge that deposit-taking SACCOs may use to become innovative and remain competitive in both Kenya and global market. Furthermore, entrepreneurs or members looking for best financial institutions, the results of this study will assist them in finding the most innovative and high performing DT-SACCOs to join within Nairobi County.

Besides, the results of this study may provide a future reference to academic institutions and researchers in identifying more research gaps prevalent in the same area of study. Therefore, it is essential to document the research findings for future reference. Scholars

will be keen to understand the components of innovation capability relative to the performance of DT-SACCOs.

Taking everything into account, the section set out the establishment of the survey. It presented the foundation of the topic of innovation capability and performance, introduced the issues under review, objective and benefit of the survey. On this basis, the survey progresses to detailed illustration of literature review in Chapter two.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

Development of innovation capability is a critical research area in innovation management. Various studies have looked into how innovation capability impacts performance of firms in view of the dynamic capacities hypothesis (Teece et al., 1997). The hypothesis of dynamic abilities formed the basis for Innovation capabilities maturity model that proposed a standard conceptual framework for incorporating innovative capabilities in an organization (Essmann& du Preez, 2009).

This chapter reviews the literature explaining the relationship between innovation capability and performance. The chapter is categorized into four sections. The first section discusses the theoretical foundations upon which conceptualization of innovation capability and performance in the literature. The second section presents previous studies on innovation capability and performance.

Finally, the chapter highlights the conceptual framework for the proposed study and summary of the gaps prevalent in the existing literature. The past studies miss reviews of the capabilities such innovation process, competence and knowledge and organizational

support. Moreover, the studies concentrated on manufacturing, retail, wholesale and banking industries, and none discussed the organizations in the cooperative sector. Also, data collection tools in the previous studies like structured or standardized questionnaires reduced reliability due to biases.

2.2 Theoretical Foundation

Different scholars have designed various theories explaining the connection between innovation capabilities and performance. The theories and model forming the basis of this study include resource-based view, Dynamic Capabilities theory, open Innovation theory and, Innovation Capability Maturity Model. The review reveals the adequacy of the theories in explaining the significance of vital innovation capability on the performance of deposit-taking SACCOs.

2.2.1. Dynamic Capabilities Theory

Dynamic capabilities theory is a concept postulated by Teece *et al*. (1997) as amalgamation, building, and modification of interior and outer abilities in addressing rapid changes in the surroundings. Development of the theory was due to shortcomings of resource-based view (RBV), which ignored the factors surrounding resources by assuming that they only exist. Hence, dynamic capabilities were expanded RBV by combining a company's resources to acquire a sustainable competitive advantage.

The dynamic capabilities theory was further expanded by Wang and Ahmed (2007) to include three factors reflecting standard features diagonally across firms, namely: adaptive capability, absorptive capability, and innovative capability. The adaptive capability refers to the capacity to take lead and grab opportunities in the market, while

absorptive capability relates to the capacity to spot and apply external information for profit-making means. A firm with a high quantity of this capability can learn from partners and transform learned knowledge into competence. Whereas, the innovation capability refers to an organization's capacity to build products and/or markets for purposes of commercial gain.

Ambrosini and Bowman, (2009), asserted that dynamic capabilities play a significant role in impacting and transforming a firm's resource base into a new bundle that enhances the competitive advantage. Therefore, dynamic capabilities derive its value from the creation of new sets or resources. Dynamic capabilities plays multiple roles in organizations by changing resource allocation, knowledge development and transfer, organizational processes, and decision making (Easterby-Smith & Prieto, 2008)

2.2.2. Innovation Capability Maturity Model

The model was developed by Essmann and du Preez (2009) to incorporate organizational ingredients for innovation capability. The model consists of 3 dimensions, namely: Innovation capability, organizational roles and maturity levels. Innovation capability addresses the core requirements for innovations while organization roles highlight the fundamental aspects of the organization. Then, the maturity capability indicates the three levels of scanning and exploring potential opportunities in the environment.

Furthermore, Essmann and du Preez (2009) classified innovation capability into two that is areas and their components. The innovation capabilities areas include organizational support, knowledge and competency, and, innovation process. The elements for innovation process are exploration, portfolio management, exploitation, and risk

management. The aspects of knowledge and competence consists of development, absorption and external knowledge. Whereas organizational support encompass items such as strategic planning, leadership, structure and infrastructures, and resources and measurement.

Mann, (2012), was in agreement with Essmann and du Preez (2009) on areas and components of innovation capability maturity model but differed on maturity levels. He classified maturity into five levels, namely: seeding level, championing level, managing level, strategizing level as well as and venturing level. Tse, (2012) contributed to the model by highlighting maturity levels as discrete, established, strategic, optimized and adaptive. Knoke, (2013), introduced an element of collaborations in the ICMM to determine the applicability of the model for networks.

2.3. Innovation Capability and Performances

Lawson and Samson, (2001), in their paper on: 'Developing Innovation Capability in Organizations: a Dynamic Capabilities approach,' proposed that high-performing innovators attain superior performance. The study took a gander at seven fundamentals of innovation capability, to be specific: Vision and Strategy; outfitting the capability base; authoritative insight; innovativeness and thought administration; hierarchical structure and frameworks; culture and atmosphere; and, control of innovation. The data was collected through an empirical review of literature on innovation management and a case study of Cisco Systems to demonstrate how innovation capability synthesizes the new-stream and conventional to attain efficient innovation performance. The research

integrated dynamic capability approach, disparate literature and applied a single case study to progress development of innovation capability construct. The result of the survey were that associations that deliberately and unequivocally create and put resources into innovation capability, independently and together, have a higher shot of achieving economic development results as the specialist of their superior business performance.

Yam et al., (2011), in their study of technological innovation capabilities and firm performance, found out that different Technological Innovation Capabilities (TICs) have different impacts on various performance measures. A review of seven TICs that trigger improvement on the firm performance included: Learning; manufacturing; R&D; strategic planning; resource allocation; organization; and marketing capabilities. Gathered empirical data through a study of 200 assembling firms in Hong Kong/Pearl River Delta locale. Analyzed data utilizing auxiliary condition displaying in assessing the relationship between TICs and various performance indicators in the form of sales, innovations, products, and sales growth. The findings revealed that organizational capability has the powerful effect on the performance of a firm.

Sriboonlue et al., (2015) surveyed the influence of strategic innovation capability and firm sustainability in Thailand. Collected data using mailed questionnaires to managing directors and partners of 582 auto parts business, eventually received 126 responses from complete surveys. A regression analysis revealed that strategic innovation capability dimensions consisting of idea generation, proactive activity support, market driving encouragement, risk-taking circumstance acceptance, and dynamic adaptation commitment have a positive effect on firm sustainability. The study suggested that future

research should identify the impact of mandatory factors such as organizational creativity, business learning competency, organizational resource availability, technology, and leadership.

Kafetzopoulous and Psomas (2015), researched the impact of innovation capability on the performance of manufacturing companies in Greece. The study aimed at giving extra proof of the effect of innovation on three dimensions of a company's performance that included: product quality; operational performance and financial performance. Collected data from 233 manufacturing companies using questionnaires, then administered initial exploratory factor analysis followed by confirmatory factor analysis and structural equation modeling. The study found out that innovation capability directly contributes to product quality and operational performance.

In Kenya, Lily and Juma (2014) completed a survey on how key innovation capability influences performance of Kenya Commercial banks in Nairobi County. Their research aimed at examining the impact of decisive measures such as cost management, continuous quality improvement, and marketing on performance measured regarding profitability, the return on equity as well as return on assets. They used a sample size of 119 respondents including all levels of managers. Also, obtained primary data through the issue of structured questionnaires, and acquired secondary data from financial statements of banks. A multiple hierarchical regression analysis models used to analyze

data found that the vital innovation capabilities that were endorsed by the bank had an effect on its performance.

Gor et al., (2015) carried out a study on the evidencing enablers of innovation capabilities and their effects on organizational performance. The study emphasized on resource-based and capability based view and collected information from a sampling frame of 89 employees of Nakumatt holding limited using a standardized questionnaire. A descriptive analysis done using SPSS software revealed that innovation capabilities such as clear strategies, learning environment, innovative culture and exploitation of internal resource base influence performance at Nakumatt Holdings limited.

Moreover, Pilisi et al., (2016) did a study to ascertain strategic innovation capability's influence on the performance of Nakumatt supermarkets in Nairobi City County. They adopted a descriptive survey on a sample size of 116 respondents. The primary data were collected using structured questionnaires while they obtained secondary data from firm records, reports, publications, and documents. A multiple linear regression analysis used found out that strategic innovations capability positively affects the performance of retail, medium, and supermarkets managed by vendors. The study suggested that future studies should enlarge scope to look into the adoption of strategic capabilities in different sectors with diverse firm sizes.

Tatoi and Senaji (2017) studied 42 Kenyan Commercial banks' innovation capability using variables such as structural, operational and personnel (Staff) to establish their influence on the performance. Collected data using structured questionnaires. Descriptive data analysis and inferential statistics performed through SPSS software found out that there is a definite and significant association between innovation capability and performance.

2.4. Conceptual Framework

The conceptual structure of the survey depends on the components of dynamic ability hypothesis (Teece et al., 1997) as well as ICMM (Essmann & du Preez, 2009). Consequently, the survey went for testing the applicability of the innovation capability construct of the model in the Cooperative sector, specifically deposit-taking SACCOs. The innovation capability consists of the critical attributes enabling organizations to innovate; they are innovation process, Knowledge and Competency, and Organization Support. The study adopts the innovation capability construct as its independent variable.

The innovation process is composed of capabilities such as exploration; portfolio management; exploitation; and risk management. Knowledge and competency consist of development capacity, absorption capacity, and external knowledge. Whereas, the organizational support includes: strategic planning and leadership; structure and infrastructure; and, resources and measurements.

Innovations Capability:
Innovation Process
Exploration Capability

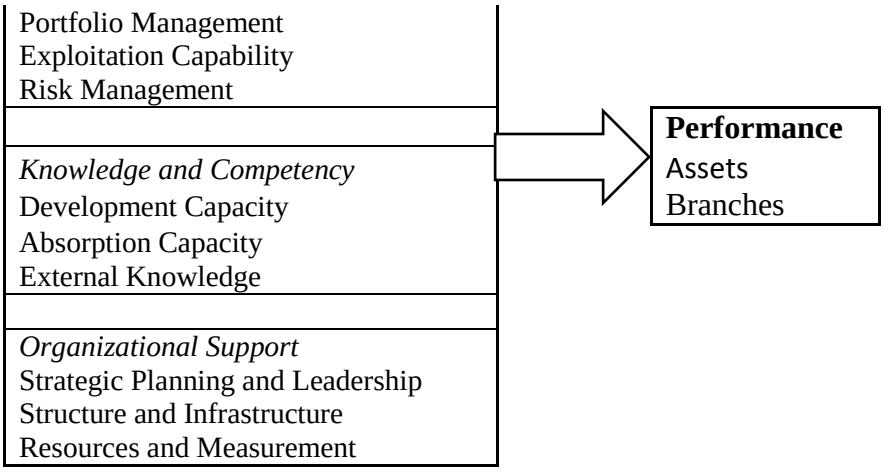


Figure 2.1: Conceptual Framework on Innovation Capability and performance

The study measured the performance of DT-SACCOs in terms of assets (financial) and branches (non-financial) representing the dependent variable. Assets is a measure of financial performance representing innovative products in form of loan portfolio. Branches denotes a measure of non-financial performance signifying membership growth, ATM linkages, agency banking, and job creation.

2.5. Summary of Empirical Studies and Research Gaps

The empirical studies on the performance of organizations have reviewed innovation capabilities widely as one of the essential concepts causing a stream of innovation activities. Nevertheless, the studies partially applied the core requirements of innovation capability, used limited methodologies or differed contextually. For instance, Lawson and Samson, (2001), employed disparate literature and a single case study in establishing the impact of innovation capabilities on firm performance, thereby reducing the reliability of the results of the study.

Yam et al., (2011) in their review of technological innovation capabilities and performance of manufacturing firms, assessed the impact of strategic planning, learning,

resource and measurement, external knowledge (R&D), manufacturing, and organization, ignoring the innovation process capability that is one of the core requirement. Sriboonlue et al., (2015), surveyed strategic innovation capability and firm sustainability by mailing questionnaires to 582 managing directors and partners. The sample reduced considerably as only 126 responses were received. Similarly, Kafetzopoulos and Psomas, (2015) study on innovation capability on the performance of manufacturing firms, failed to examine innovation process capability, and knowledge and competence.

Kenyan researchers have neither assessed the influence of innovation capability on the performance of deposit-taking SACCOs nor examined all of the elements of ICMM. The studies available are only based on banking, retail, medium, and supermarkets (Lily and Juma, 2014; Gor et al., 2015; Pilisi et al., 2016; and, Tatoi and Senaji, 2017). Innovation capability core requirements like knowledge and competence and innovation process have not been explored adequately in local industries.

In summary, from the empirical studies above, examination of extensive variables in innovation process, knowledge and competence and organizational knowledge has not been stated. Also, the context of testing variables does not depict the cooperative sector, specifically deposit-taking SACCOs. Even, the majority of the instruments used in the studies did not consider a combination of structured and non-structured questionnaires that are heterogeneous. In conclusion, the study seeks to bridge the significant gaps discussed above. Therefore, the next chapter highlights the methodologies anticipated in the research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This section focuses on the methodology to use in the survey. A report enlisting SACCOs granted the license to operate a deposit-taking business in the financial year 2017 at SASRA website provided the data of 38 deposit-taking Saccos used in this study (see appendix 2). The chapter is organized into four sections. Section 3.1 introduces the research design adopted in the study. Section 3.2 describes the population of interest and reasons for using census method in this study. Section 3.3 explains the instruments of data collection, pilot study, reliability, and validity test. Section 3.4 elaborates on the data analysis methods. Also, it highlights the classification of variables into dependent and independent. Finally, the chapter concludes by summarizing how the chapter forms the foundation for chapter four.

3.2. Research Design

This study applied a cross-sectional descriptive design. The design answers the research question of, 'how does strategic innovation capabilities influence the performance of deposit-taking Sacco in Nairobi County? The answers to the question are going to form the blueprint for collecting data, measuring and analyzing data. Hence, these design gives the solution to techniques expected in gathering data.

The section portrays variables by answering who, what, and how questions (Cooper & Schindler, 2001). In this study, information on the Deposit-taking SACCOs' innovation capabilities forms the basis for descriptive and causal-comparative analysis. Moreover, to analyze performance variables via descriptive analysis as a preparation for inferential statistical analysis.

The design is anticipated to bring out the causal connection linking strategic innovation capabilities and performance variables. The previous empirical studies inadequately assessed the impact of the ICMM in the cooperative sector. The subsections below give a further description on how to gather data, describe events and organize, and tabulate data.

3.3. Population of the Study

The population of the study under review is composed of deposit-taking SACCOs in Nairobi County. The operation of these SACCOSs is related to one another since they are under regulation of SASRA, implying they have similar observable characteristics that this survey consider plans to base on the aftereffects of the research. The 38 SACCO

Societies operating in Nairobi County were licensed by the regulating Authority of SACCOs to carry out deposit-taking business in the year 2017 (SASRA Website).

Since the target populace is little, the survey will receive a census. A census survey collects the entire information from all players in the population. Hence, for this study all the 38 licensed SACCO Societies in Nairobi County were included in data collection, one responded from each SACCO and specifically from the Department involved in innovative processes, business development or marketing.

The Central Business District hosts many deposit-taking SACCOs in the County. The location of these SACCOs exposes them to stiff competition from diverse financial institutions such as banks, insurance, capital markets, pension schemes, microfinance institutions, Improvement Finance Institutions, and casual money related administrations, for example, Rotating Savings and Credit Associations (ROCAs). Therefore, they are automatically qualified as the target population as for them to survive; they need to innovate or exit the market.

3.4. Data Collection

The study collected both primary and secondary data. Primary data was collected using structured and non-structured questionnaires having both closed and open-ended questions. The questionnaires were structured into three sections. Section A obtained general information about the DT-SACCO comprising the area of operation, age, size and profitability trends. Section B, gathered information on innovation capabilities (independent variables) like innovation process, knowledge and competency, and

organization support. Then, section C was composed of the information on the non-financial performance (dependent variable) of the DT-SACCO.

A pilot trial of the survey was completed to identify particular issues and refine the clarity, apprehension, validity and reliability of the questionnaire. A selection of pilot test sample requires 1% to 10% of the population (Mugenda and Mugenda 1999). Hence, the study conducted a pilot survey on 5%, which is 2 of 40 licensed DT-SACCOs in Nairobi County as per SASRA register (2017) and those not selected as respondents. They were tasked to pinpoint errors in the question structure and concepts.

The final questionnaire was amended as per results of the pilot test, then send to senior managers in charge of innovation activities of the organization. The selected respondents were considered to be the most knowledgeable about the innovative and strategic issues of the Sacco. A one week time was allowed for filling questionnaires, after which a follow up commenced.

The study sourced secondary data on Sacco's performance from published annual financial reports available on their websites. The secondary data mostly included performance on assets and membership growth as indicated in the financial statements. Also, the study obtained performance information from the financial statements submitted at Sacco's regulator (SASRA) office.

3.4.1. Reliability Test

Reliability alludes the degree to which result are tried and true over time and correctly represents total populace under research (Joppe, 2000). The study achieved reliability in three ways. Firstly, adopted in the study those items that were tested in the previous

literature for reliability by other researchers. Secondly, tested the questionnaire through the pilot test. The test revealed and amended the specific areas that increased the response rate.

In addition, Cronbach coefficient alpha (a) of 0.7 and above was intended to determine the internal consistency of the study. The results of the innovation process, knowledge and competency, and organizational support capabilities formed the basis of Cronbach alphas. Though the internal consistency and inter-observer was proven, a need arose to test validity.

3.4.2. Validity Test

Validity test determines regardless of whether the study genuinely measures what it was planned to quantify or how precise the outcomes are (Golafshani, 2003). Del Greco et al., (1987) featured four sorts of validity, in particular: criterion, content, face and construct validity. A research instrument is capable of exhibiting all or a portion of these types of validity.

The study improved the face validity by constructing questionnaires in a way that attracts respondent to fill in a short time. The questionnaire achieved criterion validity by highlighting questions specific to innovation capability and performance measures only. Also, the questionnaire conformed to innovation concept construct validity.

Furthermore, the study enhanced content and criterion validity by consulting supervisors and fellow students at the University of Nairobi. The defense process of this proposal added value by ensuring that research is conducted on the right concepts. Moreover,

secondary data from Sacco's website and SASRA publications enhanced the reliability and validity of the results.

3.5. Data Analysis

The study used a multivariate data analysis all throughout the study. Firstly, prepared and examined data for possible errors of omission and commission. Secondly, coded the data using SPSS software and inspected it with descriptive statistics. Thirdly, used multiple regression models with variables of innovation capabilities and performance in determining and validating whether they fit well with the dynamic capabilities theory and ICMM of the study.

The reliability assessment of the internal consistency of the items was performed using Cronbach alpha coefficient of 0.7 and above. The correlation matrix and factors of variables were intended to establish the stabilization of significant components of analysis. The results of the study was summarized in tables and charts for further review and facilitation of comparison.

The independent variable was innovation capability since it’s unique to SACCOs while the dependent variable was financial performance. The relationship between the variables was stated using a multiple regression analysis as mentioned below by using X as Innovation capability and Y as performance: $Y=\alpha+\beta1X1+\beta2X2+\beta3X3+\mu$.

Where: X1= Innovation Process; X2= Knowledge and Competency; X3= Organization Support; Y= performance; α = A constant; β =Regression coefficient for X1, X2 or X3; and μ =Margin of error.

In conclusion, this chapter discussed the methodological issues related to examining matters concerning innovation capability and performance. The topics discussed included the population, cross-sectional descriptive design for collecting data, pilot study, test of reliability and validity and the multivariate data analysis methods. Therefore, the methodology laid down in this chapter forms the foundation for the analysis and presentation discussed in the next chapter.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1. Introduction

This survey hoped to set up how innovation capabilities affect performance of deposit taking SACCOs in Nairobi County. Data was gathered from questionnaires issued to 38 respondents, their websites, and SASRA's performance publications of deposit taking SACCOs in Nairobi County. The result of the study have been presented in six parts. They include: reliability test; general information of the SACCOs under review; innovation capability analysis; performance analysis; regression analysis; and finally summary of the discussion. The following sections presents the result of the data analysis together with their relevant interpretations.

4.2. Response Rate

The study attracted a 100% response rate from the thirty-eight (38) questionnaires issued to all deposit taking SACCOs within Nairobi County. According to Cooper and Schindler (2011), a response rate of 60% and more qualify for a social scientific study to proceed. Also, Mugenda (2013) confirmed that a study of 60% is considered to be good but a rate of response of 70% and above is excellent. Based on the above assumptions, the rate of response of 100% in this research is excellent. This implies that innovation capability is an attractive area that every organization strives to develop or acquire. Furthermore, majority of organizations are motivated to participate in any research carried out on performance since it defines how long they could survive in the competitive environment.

Moreover, owing to the fact that innovation capability is one of the top priorities of deposit taking SACCOs in enhancing sustainability as a consequence of superior performance, all of the respondents were more than delighted to participate in the study. In addition, a follow-up plan initiated by the researcher as well as the strategy of issuing only one questionnaire to the respondent contributed to the high response rate. The issue of one questionnaire per SACCOs under review was intended to elicit a quick response by not overburdening the respondents.

4.3. Reliability Test

In order to determine the consistency and reliability of the data collected, a pretest of validity and reliability was done. The study measured reliability by using Cronbach's alpha, which goes in an incentive from 0 to 1. An acceptable value of alpha ranges from 0.70 to 0.95 (Nunnaly, 1978; and, Tavakol, 2011). The Table 4.1 on reliability test shows the results of the reliability level as derived by XLSTAT.

Table 4.1: Reliability Test

Variable	No of items	Cronbach's alpha	Comment
Innovation Process	4	0.957	Reliable
Knowledge and competence	3	0.905	Reliable
Organization Support	4	0.802	Reliable
Total assets	5	0.985	Reliable
Average		**0.912**	Reliable

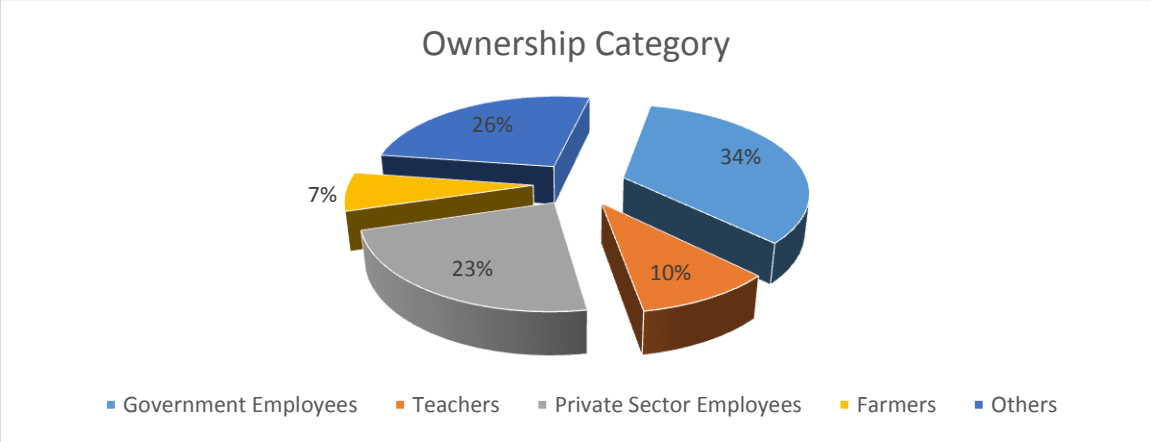
Source: Author (2017)

The result in Table 4.1 on the reliability test indicated that DT-SACCOs performance had an average Cronbach's Alpha coefficient in view of consistent items of 0.912. This is acceptable value considering that 0.70 is the benchmark value. Hence there is notable internal consistency of the data collected as there is a clear indication of a good ability of the items of the questionnaire to evaluate the same latent factor in subjects reviewed. The overall excellent acceptable value in Cronbach alpha was supported by having innovation capability with a coefficient of 0.957, knowledge and competence 0.905, then organizational capability with 0.802. Furthermore, the results indicates that an inclusion of a large number of items in the test under each individual variable produces an excellent value of Cronbach's Alpha.

4.4. General Information on Deposit Taking SACCOs.

The general information on deposit taking SACCOs under review was assessed with respect to ownership category, period of operation, and number of branches across the country. The study established that the ownership category of the deposit taking SACCOs in Nairobi County is composed of: 34% of government employees; 10% teachers; 23%

private sector employees; 7% farmers; and 26% of others. The category of others includes those SACCOs sourcing members from religious groups, trading organizations and any other institutions, also, their membership is open to members of public. The results indicates that all sectors of economy are well represented by the SACCOs under review as indicated in the Figure 4.1.



Source: Author (2017)

Figure 4.1: SACCO Ownership Category

On surveying the number of branches that each deposit taking SACCO operates, the study found that: 47.4% have a branchless head office; 31.6% have at least 1-4 branches; 13.2% operates 5-10 branches while only 7.8% have more than 10 branches across the country. A few of the SACCOs having 7.8% includes only three SACCOs owned by teachers with 15 branches, Government employees, 10; and others in business with 19. The following Figure 4.2 shows the distribution of deposit taking SACCOs with head office in Nairobi having branches across the country.

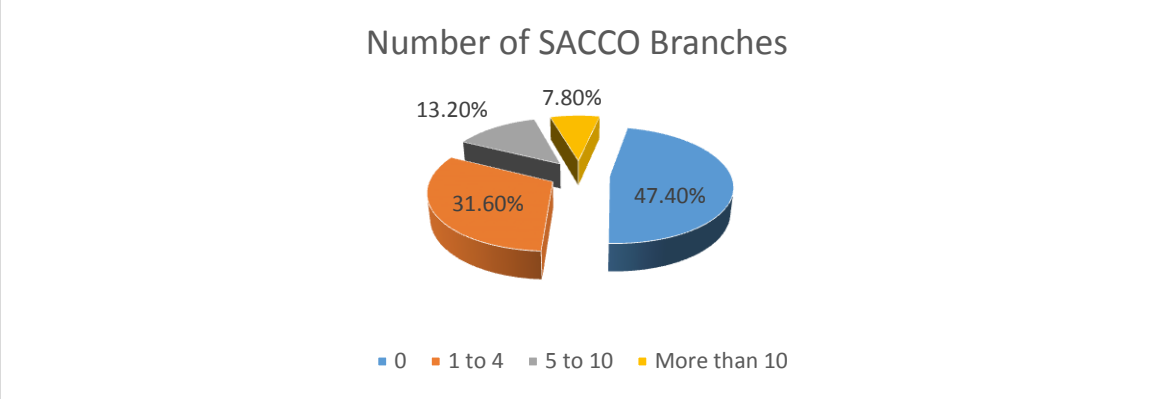


Figure 4.2: Number of SACCO Branches

On analyzing the data collected on the number of years the deposit taking SACCO have been in operation, the results indicates that most of the SACCOs in the County have been in operation for more than 30 years as shown in Figure 4.3. They includes: 73.6% between 31-45 years; and 15.6% over 45 years whereas 10.5% between 16-30 years and 0.3%, that is only one SACCO below 15 years. The result implies that majority of the SACCOs under review have a solid experience in development of innovative capabilities.

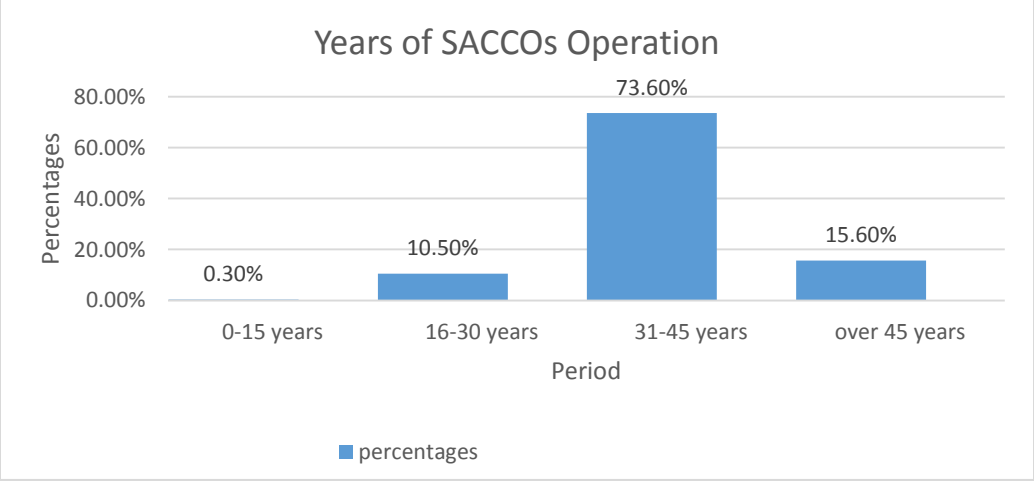


Figure 4.3: SACCO Years of Operation

4.4. Innovation Capability Analysis

The study established the indicators of innovation capabilities of deposit taking SACCOs using a five –point Likert type scale. The scale obtained respondents' agreement with the statements proposed as a measure of innovation capability in the questionnaire. The Likert type scale ranked the statements with a mean statistic range of 1 to 5; 1 represented 'Not at all' and 5 was the maximum represented by 'Very great extent'. The following interprets the ratings used to rank the extent of agreement: 0-2, not at all; 2-3, Moderate; 3-4 Great extent; 4-5, Very great extent.

The study analyzed the responses received from each measure in the questionnaire using mean scores. The description of the variations in the dispersal of responses was done using standard deviation. According to Saunder, (2009), if a standard deviation and differences of each respondent is more than 1, it implies that they had a unique viewpoint, but if they are each under 1, it suggests that the respondent had similar sentiments on the issues reviewed.

4.4.1. Innovation Process Capability

The respondents were required in the questionnaire to rank the extent at which their SACCO approach the innovation process. Table 4.2shows the ranking of the four innovation process statements based on capabilities in exploration, portfolio management, exploitation, and risk management. The results of the ranking were presented in percentages, mean scores and standard deviation as shown in Table 4.2. The data revealed that all of the respondents, explore relevant information, identify opportunity areas and generate new ideas that solve the problems they face at a great extent of 39.5%.

Similarly, deposit taking SACCOs exploit different marketing strategies that create awareness of SACCO products at a great extent of 39.5%. In contrary, portfolio management is acquired by the SACCOs under review through an investment mix and policy, matching investments to objectives, allocating assets to innovative projects and balancing risk against performance at a great extent of 42.1%. Exploitation of different marketing strategies that creates awareness of SACCO products to their members is done at a great extent of 39.5%. Moreover, the findings established that the SACCOs under review, define and manage approach to risk across all innovation activities by recognizing an acceptable level of failure at a moderate extent of 36.8%.

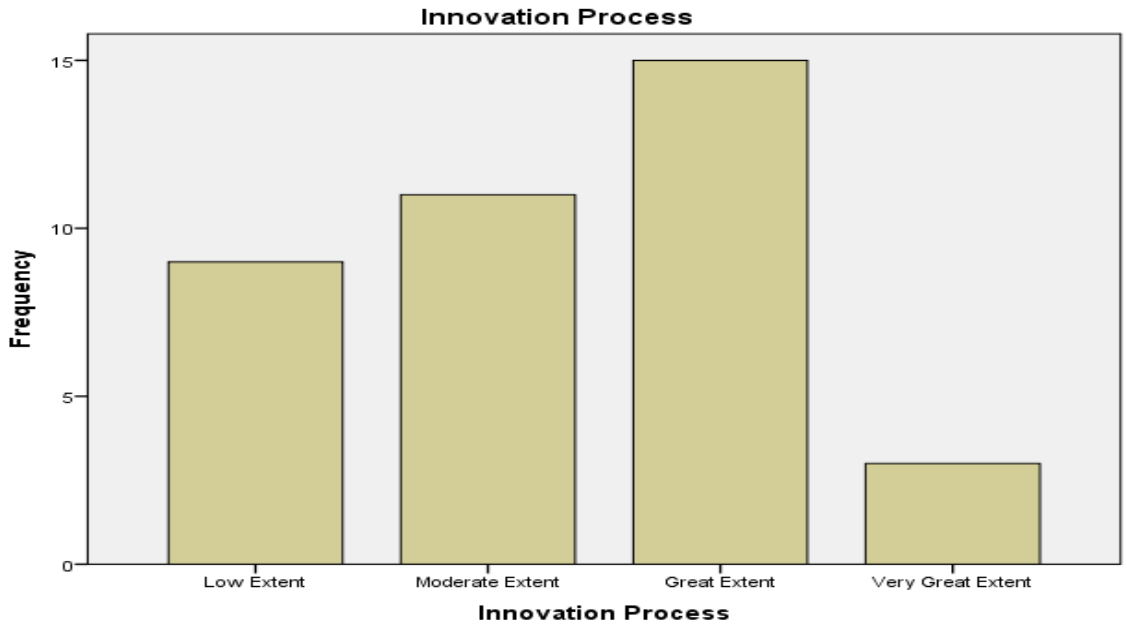
Table 4.2: Innovation Process Capability

Statement	Not at All	Low extent	Moderate Extent	Great extent	Very Great Extent	Mean	Std. Dev.
	%	%	%	%	%		
Exploration We explore relevant information, identify opportunity areas, and generate new ideas that aids in solving problems facing our SACCO.	0	21.1	31.6	39.5	7.9	3.34	0.909
Portfolio Management We have an investment mix and policy, match investments to objectives, allocate assets to innovative projects and balance risk against performance.	0	23.7	28.9	42.1	5.3	3.29	0.898
Exploitation We exploit different marketing strategies that creates awareness of	0	23.7	26.3	39.5	10.5	3.37	0.97

SACCO products to our members							
Risk Management We have defined and managed approach to risk across all our innovation activities that recognizes an acceptable level of failure.	0	26.3	36.8	34.2	2.6	3.13	0.844
Average	0	94.8	123.6	155.3	26.3	3.28	0.905

Source: Author (2017)

In summary Figure 4.4on innovation process shows that majority of the deposit taking SACCOs in Nairobi County practice exploration, portfolio management, and exploitation at a great extent while risk management at a moderate extent. For instance, exploration, 39.5%; portfolio management, 42.1%; exploitation, 39.5%; and, risk management 34.2%. The average mean score of 3.28denotes that the SACCOs in Nairobi County developed innovation process to a great extent over the last five years. The average standard deviation of 0.905 indicates that the respondents had similar approach to innovation hence no significant variations in the responses as this is less than 1.



Source: Author (2017)

Figure 4.4: Innovation Process Capability

4.4.2. Knowledge and Competence Capability

The study aimed at determining the extent to which deposit taking SACCOs in Nairobi County developed or acquired knowledge and competence required in enhancing generation of innovative assets. The respondents were tasked to rate three statements centered on development capability, absorption capability and acquisition of external knowledge. Table 4.3indicateshow they rated their responses, the ratings have been represented in terms of percentages, mean scores and standard deviations.

The study intended to establish whether deposit taking SACCOs enhanced their development capability by having a well-structured and adequately resourced training

programme of innovation with the right skill mix. The result from the table 4.3 shows that most of them have development capability at both great and low extent of 39.5%, then others at a moderate extent of 21%. The mean score of 2.82 of the result signify that at least all of the deposit taking SACCOs in Nairobi County have acquired development capability, which aids in creation of innovative assets.

In addition, the study proposed to find out whether there is absorption capability in terms of a better reputation of the deposit taking SACCO in attracting, motivating and retaining creative people. The results in Table 4.3 indicates that a great number of SACCOs have a moderate absorption capability at a level of 44.7%, others at a low extent of 28.9%, great extent 18.4%, and very great extent of 7.9%. Moreover, assessing the extent at which external knowledge is acquired, the result in the Table 4.3 exhibits a larger number of SACCOs at 44.7% acquires external knowledge at a low extent while the rest at 36.8%, 15.8%, and 2.6% at moderate extent, great extent, and very great extent respectively.

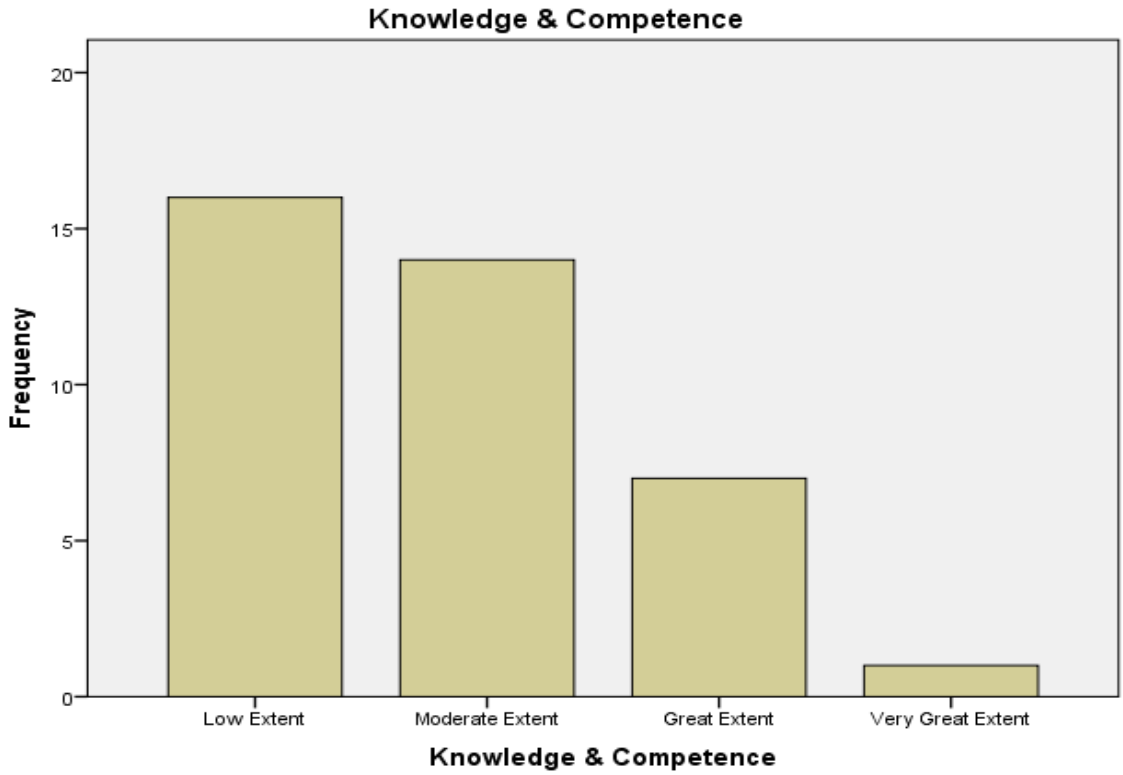
Table 4.3: Knowledge and Competence Capability

Statement	**Not at All**	**Low extent**	**Moderate Extent**	**Great extent**	**Very Great Extent**	**Mean**	**Std. Dev.**
	%	**%**	**%**	**%**	**%**		
Development Capability We have a well-structured and adequately resourced training programme of innovation with the right skill mix.	0	39.5	21.0	39.5	0	2.82	0.766

Absorption Capability The SACCO has a reputation that attracts, motivates and retains creative people.	0	28.9	44.7	18.4	7.9	3.05	0.899
External Knowledge We have invested in research and development (R&D) activities that creates specific innovations for our Sacco.	0	44.7	. 36.8	15.8	2.6	2.76	0.82
Average	0	37.7	34.2	24.6	6.1	2.87	0.828

Source: Author (2017)

In short, all deposit taking SACCOs acquires knowledge and competence at some extent though most of them at an average low extent of 37.7% as shown in Figure 4.6. Although the deposit taking SACCOs have moderately enhanced their absorption capability through a good reputation, they are yet to enhance their development capability and invest in external knowledge. Figure 4.6 indicates that development capability was acquired at a low extent of 39.5% and external knowledge at 44.7%.



Source: Author (2017)

Figure 4.5: Knowledge and Competence

4.4.3. Organization Support Capability

Furthermore, the respondents were asked to rate the extent to which the statements in the questionnaire accurately reflected their SACCO's support of innovation process, and acquisition of knowledge and competence geared towards generation of innovative assets. They were asked to rate four statements based on strategic planning, leadership, structures and infrastructures, and resource and measurements. Table 4.4 indicates how

they rated, the responses are presented in terms of percentages, mean score and standard deviation.

Firstly, the study intended to determine whether deposit taking SACCOs in Nairobi County have included innovation as a deliberate goal in their long-range strategic plan**.** The result in Table 4.4 shows that 44.7% of deposit taking SACCOs in Nairobi County employ strategic planning at a moderate extent, 23.7% at great extent, 21.1% very great extent, and only 10.5% at a low extent. Secondly, the study sought to determine whether the SACCOs under review have innovative leaders who supports the nature and success of creative efforts of employees. The results in Table 4.4 shows that leadership is practiced at a moderate extent of 39.5%, and others at a great extent of 26.3% , very great extent of 18.4%, then low extent of 15.8%.

Table 4.4: Organizational Support Capability

Statement	**Not at All**	**Low extent**	**Moderate Extent**	**Great extent**	**Very Great Extent**	**Mean**	**Std. Dev.**
	%	**%**	**%**	**%**	**%**		
Strategic Planning We have included innovation as a deliberate goal in our	0	10.5	44.7	23.7	21.1	3.55	0.95

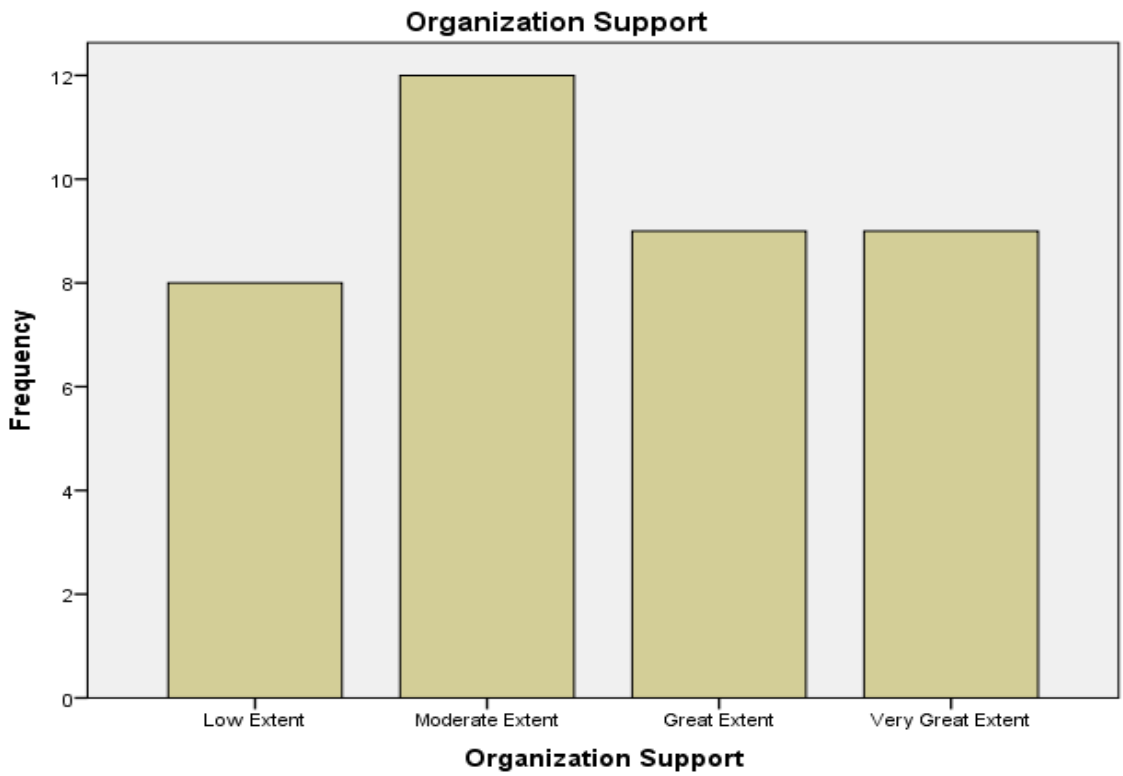
long-range strategic plan.							
Leadership We have innovative leaders who supports the nature and success of creative efforts of employees.	0	15.8	39.5	26.3	18.4	3.47	0.979
Structure and Infrastructures Our workplace, workspaces and communication structures supports all collaboration activities for innovation.	0	23.7	26.3	21.1	28.9	3.55	1.155
Resources and Measurement We have resources in place to assist in initiating, recognizing, rewarding and carrying out key innovation activities.	0	15.8	34.2	34.2	15.8	3.5	0.952
Average	0	16.45	36.175	26.325	21.05	3.5175	1.00

Source: Author (2017)

Moreover, the study purposed to establish the structures and infrastructures that deposit taking SACCOs in Nairobi County have implemented to enhance their innovation capabilities. The respondents were required to indicate the extent that their workplace, workspaces and communication structures supports all collaboration activities for innovation. The findings in Table 4.4 indicates that 28.9% have the innovative structures

and infrastructures at a very great extent, followed by 26.3% at a moderate extent, 23.7% low extent, then 21.1% at great extent. Finally, on the area of organization support capability, the point of the examination was to survey the degree to which the SACCOs under assessment have resources in place to assist in initiating, recognizing, rewarding and carrying out key innovative activities. The result in Table 4.4 stipulates that majority of the SACCOs at 34.2% have innovative resources at both great and moderate extent, while the rest at the same measure of 15.8% very great and low extent.

In conclusion, all of the deposit taking SACCOs in Nairobi County supports innovative activities at some extent, but majority supports moderately at an average rate of 36.185% as shown in Figure 4.6.This implies that none of the deposit taking SACCOs in Nairobi County does not support innovation process, and knowledge and competence requirements. The SACCOs under review supported strategic planning at 23.7%; leadership 18.4%; structure and infrastructure 28.9%; and, resources and measurements 15.8%. The mean score of 3.52 implies that the SACCOs in Nairobi County supports positively the innovation process, and knowledge and competence requirements over the last five years as shown in figure 4.6.



Source: Author (2017)

Figure 4.6: Organizational Support Capability

4.5. Regression Analysis- Performance and Innovation Capability

The study used a regression equation model in the form of (Y1) = α + Bx1 + Bx2 + βx3 +μ to determine the influence of innovation capability on performance of deposit taking SACCOs in Nairobi County. The variable that was dependent (Y) was Performance measured in terms of assets. The independent variable (X) represents innovation capability indicated by: innovation process, knowledge and competence, and, organization support. The analysis of dependent and independent variable are shown in Model Summary Table 4.5

Table 4.5: Model Summary of innovation Capability and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620[a]	.384	.330	58.97286

a. Predictors: (Constant), Organization Support, Knowledge & Competence, Innovation Process

Source: Author (2017)

Table 4.5of model summary of innovation capability shows that the coefficient of correlation (R) is positive 0.620. This infers a positive connection amidst innovation capabilities and performance of deposit taking SACCOs in Nairobi County. The determination coefficient (R Square) indicates 38.4% of performance of SACCOs in Nairobi County is influenced by innovation capabilities. Nevertheless, the adjusted R squared, indicates that 33% of the performance of SACCOs in Nairobi County is influenced by innovation capabilities and the rest by other factors.

Table 4.6: ANOVA- Innovation Capability and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	73703.378	3	24567.793	7.064	.001[b]
	Residual	118245.120	34	3477.798		
	Total	191948.498	37			

a. Dependent Variable: Assets (100 Million)
b. Predictors: (Constant), Organization Support, Knowledge & Competence, Innovation Process
Source: Author (2017)

Table 4.6of Analysis of Variance (ANOVA) indicates the influence of innovation capabilities on performance of thirty eight (38) deposit taking SACCOs. The statistical significance of the model is revealed in the results in terms of explaining the influence of innovation capabilities on performance of deposit taking SACCOs. This implies that with a significance level of 0.001 (less than 0.05), the ANOVA results are sufficient in explaining the combined effect in Innovation capability and performance of DT-SACCOs in Nairobi County.

Table 4.7: Regression Coefficients- Performance and Innovation Capability

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-134.891	42.306		-3.188	.003
	Innovation Process	26.521	13.026	.344	2.036	.050
	Knowledge & Competence	25.771	13.287	.298	1.940	.061
	Organization Support	7.787	10.736	.117	.725	.473

a. Dependent Variable: Assets(Million)

Source: Author (2017)

The Table 4.7 represents the coefficients of the free factors impacting the reliant variable. The Beta coefficients in the table indicate the degree to which deposit taking SACCO performance changes resulting from a unit change in the independent variable. The positive Beta coefficients show that a unit change in Innovation process led to 26.521 unit of positive change in performance of deposit taking SACCOs implying existence of a positive connection between the two factors. In this way, from the coefficient Table 4.7, the regression model can be determined as: Y=-134.891+ 26.521(Innovation Process) + 25.771(Knowledge and Competence) + 7.787(Organization Support)

$$Y= -134.891 + 26.521X1 + 25.771X2 + 7.787X3 + \mu$$

Moreover, Table 4.7 represents the level of significance that is also known as p value, used to test theory and the signification of the independent variable. The significance level of this study is 0.05. Hence, a p value less than 0.05 implies that the variable are significant, whereas, a p value more than 0.05, means that the variables are insignificant. From the table 6, the result shows that the t and p values for innovation capabilities: innovation process, t=2.036, $p \leq 0.05$; knowledge and competence, t=1.940, $p \geq 0.05$; and, organization support, t=0.725, $p \geq 0.05$. The findings showed that innovation process has a positive and significant influence on the performance of DT-SACCOs. Alternatively, organization support, and knowledge and competence have a positive but insignificant influence on performance of DT-SACCOs in Nairobi County.

4.6. Discussion

The study aimed at establishing the influence of innovation capability on performance of DT-SACCOs in Nairobi County. The findings indicates presence of positive and significant influence of innovation capability on performance of deposit taking SACCOs. Although no previous studies exists on the innovation and performance of deposit taking SACCOs, the data from previous researchers on similar subject matter but in different fields are consistent with the results of this study. For instance a study by Lawson and Samson, (2001) concluded that organizations that develop and invest in innovation capabilities have a higher chance of attaining sustainable business performance. Sriboonlue et al (2015), had the same opinion when they conducted a study on influence of strategic innovation capability and firm sustainability in Thailand and concluded that innovation capabilities incorporates beneficial outcomes on firm sustainability. Similarly, Kafetzopoulos and Psomas (2015) found out that innovation capability directly contributes to performance of an entity. Moreover, the findings of this study relates with local studies carried out by Lily and Juma (2014); Gor et al., (2015); Pilisi et al., (2016); and, Tatoi and Senaji (2017).

However, Yam et al (2011) finding's on technological innovations capabilities on firm performance are contradictory to this study. They analyzed the effects of seven technological innovation capabilities, namely: strategic planning, learning, organizational, Research & Development, allocation of resources; manufacturing, and marketing capabilities on performance. They found out that organizational capability has the most influential impact on performance of a firm. This is inconsistent with the results of this study as the organizational support capability was found to have a positive influence but an insignificant impact on the performance.

Furthermore, SASRA's annual supervisory report (2016), indicates that the total assets of deposit taking SACCOs grew by 14.8% to a cumulative total of kshs 393.49 billion in 2016 from kshs 342.84 billion reported in 2015. This increase in assets is associated with the development of innovation capabilities that influenced the influx of innovative products and processes. The total assets have been used in this study to indicate the performance of the SACCOs. Therefore, the findings of this study are consistent with the SASRA's report in terms of level of significance of innovation capabilities on performance of deposit taking SACCOs in Nairobi County.

4.7. Summary

In summary, this chapter has presented in figures, tables, mean, standard deviation, ANOVA, and regression analysis of both primary and secondary data collected from the deposit taking SACCOs in Nairobi County. A regression model derived disclosed existence of a positive relationship between innovation capability and performance. The result of the study was further compared with the findings of other studies done on similar variables. The comparison exhibited a similar findings of a positive relationship between innovation capability and performance.

Moreover, this study revealed that all of the deposit taking SACCOs have at least developed innovation capabilities at some extent in the quest of improving performance. The result of the study indicated that innovation process capability has been acquired at a great extent while knowledge and competence, and organizational support capability were advanced at a moderate extent. Consequently, majority of the SACCOs under review do not have branches across the country, this is a clear indication of stagnated growth brought by not developing innovation capabilities profoundly.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

The chapter shows a synopsis, conclusion and suggestions on how innovation capabilities influence performance of DT-SACCOs in Nairobi County. It's organized into five areas. The primary segment condenses the study findings with reference to the objective of the study. The second section makes a conclusion of the study on how it contributes to the provision of knowledge about the performance of deposit taking SACCOs. The final section highlights the limitation to the study and further study suggestions.

5.2. Summary of the Study

The objective of this examination was to set up the effect of the innovation capabilities on the performance of DT-SACCOs in Nairobi County. A cross-sectional descriptive design fulfilled the objective by collecting data on a target population of 38 deposit taking SACCOs licensed to carry out business in the year 2017 in Nairobi County. Primary data on innovation capabilities was gathered using structured and unstructured questionnaire while secondary data on performance was retrieved from SASRA and specific Sacco's websites. Also, personally visited SASRA offices to collect data from financial statements submitted by respective SACCOs as required by law.

Data was analyzed by SPSS software. The result revealed that deposit taking SACCOs in Nairobi County have developed innovation process at a great extent over the last five years. Moreover, the study established that the deposit taking SACCOs acquires knowledge and competence at a moderate extent while organizational support at a great extent.

The regression analysis exhibited that all of the innovation capabilities under review incorporates beneficial effects on performance of DT-SACCOs. Innovation process has the greatest, followed by knowledge and competence, then organizational support with the least influence on the performance of deposit taking SACCOs. The coefficient of determination (R square) indicated that 38.4% of performance of SACCOs in Nairobi County is influenced by innovation capabilities.

5.3. Conclusion

This survey pursued the relationship between innovation capabilities and performance of deposit taking SACCOs in Nairobi County. Due to offering similar services as banks, deposit taking SACCOs face a stiff competition in the financial business environment. The implementation of interest capping law in banks, led to reduction of SACCO membership as they flee to banks to evade co- guarantorship, this has an impact on the asset base of SACCOs. Consequently, the DT-SACCOs have been obliged to retain their market share in spite of developing innovation capabilities to some extent.

The result of the study revealed a beneficial relationship between innovation capabilities and performance of DT-SACCOs in Nairobi County. The correlation of coefficient (R) of 0.620 between innovation capabilities and performance supports these findings. Also, the relationship between innovation capabilities and performance of deposit taking SACCOs is statistically significant as the p value of the regression is 0.001, which is less than 0.05 (5%). The result infers that deposit taking SACCOs in the County of Nairobi have developed innovation capabilities with the intent of gaining sustainable competitive advantage through enhanced asset base performance.

5.4. Limitation of the Study

The survey was limited to the aspects of SACCOs operating in Nairobi County. Hence, the result may be limited in terms of generalizability and external validity. Spreading the result to cover other counties may not be realistic as SACCOs operating in other Counties may be subject to contextual factors hampering their existence. However, the study's viability is enhanced for conducting a research in a cosmopolitan environment.

Moreover, most of the questions in the questionnaire limited the study since they required a response from knowledgeable people in the SACCO who are conversant with strategic objectives of the organization. Therefore it was not possible to restrict questionnaires to senior managers as they claimed to be too busy to engage in such exercise. As a result majority of the questionnaires were filled by assistant personnel. Also, on the collection of secondary data, some SACCO websites are not well up dated with current information, hence lacked adequate information on innovation capabilities and performance.

The study had intended to test the applicability of Innovation Capability Maturity Model on deposit taking SACCOs. The study only assessed the innovation capability construct of the model while organizational construct and maturity levels of the SACCOs under review were not examined. This was due to limited time frame that disallowed collection of data on all of the requirements of the model; respondents could have been overwhelmed to provide such data within a short time notice.

5.5. Recommendations for Further Research

Deposit taking SACCOs should intensify development of innovation capabilities especially in innovation process, knowledge and competence, and organizational support seeing that they have a considerable positive influence on performance. When a SACCO's leadership with a shared vision commits to creating a culture of innovation by having right skills mix of employees, a sustainable competitive advantage accrues to the SACCO. Thus, deposit taking SACCOs should explore and exploit different strategies of maximizing returns from innovation processes, knowledge and competence, and organizational support.

Besides, the financial business environment is currently experiencing radical innovations that are consequently disrupting financial operations. There is a need for deposit taking SACCOs to cushion themselves from disruptive innovations by allocating more resources for research and development (R&D). Since establishing R&D department may prove to be expensive to some small SACCOs, a collaboration with universities or research institutions may be advantageous to such SACCOs as the researchers will invest their skills and time in discovering specific innovations intended for the SACCO.

Basing on the gaps pinpointed in the limitations above and literature review of this study, some research opportunities arise that when explored have a probability to impact on innovation capabilities and performance of organizations. The literature review disclosed that few empirical studies have been led on the relationship between innovation capability and performance of SACCOs in Kenya specifically, Nairobi County. Since innovation is a major factor affecting the performance of enterprises the government should create policies that enables conducive environment for diffusion of innovations whereas academic institutions should intensify and encourage more research on innovation capabilities and performance of enterprises in different sectors in Kenya. Therefore, a further research should be conducted to survey the effect of innovation capability maturity level on performance of various enterprises.

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APPENDIX I: INTRODUCTORY LETTER

UNIVERSITY OF NAIROBI
COLLEGE OF HUMANITIES & SOCIAL SCIENCES
SCHOOL OF BUSINESS

Telephone: 4184160-5 Ext 215
Telegrams: "Varsity" Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, KENYA

31 October 2017

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

INTRODUCTORY LETTER FOR RESEARCH
RUTH MAKOKHA OKWACH – REGISTRATION NO. D66/81183/2015

This is to confirm that the above named is a bona fide student in the Master of Science in Entrepreneurship and Innovations Management (Msc. Entrepreneurship & Innovations Management) option degree program in this University. She is conducting research on ***"Innovation Capability and Performance of Deposit Taking SACCOs in Nairobi County".***

The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data which forms an integral part of the research project. The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

Thank you.

Graduate Studies Office
P.O. Box 30197
NAIROBI

Jane Muturi
For: Msc. Entrepreneurship and Innovations Management Co-Ordinator,
School of Business

JK/nwk

APPENDIX II: RESEARCH QUESTIONNAIRE

Declaration: This is an academic research project aimed at establishing the relationship between strategic innovation capability and financial performance. Any information given will be held in confidence for academic use only.

PART A: GENERAL INFORMATION

1. Name of SACCO: .....

2. Position held by respondent: .....

3. Please tick the ownership category that best describes your SACCO

   Government employees [ ]
   Teachers [ ]
   Private Sector employees [ ]
   Farmers [ ]
   Others (Please specify).....

4. For how long has your SACCO operated in Kenya?

   Less than 5 years [ ]
   6-10 years [ ]
   11-15 years [ ]
   16-20 years [ ]
   Over 20 years [ ]

5. How many branches does your Sacco has?
   Less than 5 [ ]
   5-10 [ ]
   More than 10 [ ]

PART B: INNOVATION CAPABILITIES

1. Innovation Process

The innovation process is a complete innovation lifestyle including practices, procedures, and activities that take ideas and/or opportunities through to concepts, development, and implementation and eventually to a stage of commercialization and operation, which may include continuous refinement and optimization.

To what extent does the following statement accurately reflect your Sacco's current approach to innovation process? Please add a comment if your rating is less than 1.

5 – Very great extent 4 – Great extent 3- Moderate extent 2 – Low extent 1- Not at all

Statement		**Rating**				
		5	4	3	2	1
1.1	**Exploration Capability** We explore relevant information, identify opportunity areas, and generate new ideas that aids in solving problems facing our SACCO.					
1.2	**Portfolio Management** We have an investment mix and policy, match investments to objectives, allocate assets to innovative projects and balance risk against performance.					
1.3	**Exploitation Capability** We exploit different marketing strategies that creates awareness of SACCO products to our members.					
1.4	**Risk Management** We have defined and managed approach to risk across all our innovation activities that recognizes an acceptable level of failure.					

2. Knowledge and Competence

Knowledge and Competency pertains to specific or broad-based skills, abilities, and behaviors that are fundamental to the innovation process.

To what extent does the following statement accurately indicate your Sacco's development or acquisition of knowledge and competence capabilities? Please add a comment if your rating is less than 2.

5 – Very great extent 4 – Great extent 3- Moderate extent 2 – Low extent 1- Not at all

Statement		**Rating**				
		5	4	3	2	1
2.1	**Development Capability** We have a well-structured and adequately resourced training programme of innovation with the right skill mix.					
2.2	**Absorption Capability** The SACCO has a reputation that attracts, motivates and retains creative people.					
2.3	**External Knowledge** We have invested in research and development (R&D) activities that creates specific innovations for our Sacco.					

3. Organizational Support

Organizational Support implies necessary features put in place to support the innovation process, and knowledge and competency requirements for innovation.

To what extent does the following statement accurately reflect your Sacco's support of innovation process, knowledge and competence? Please add a comment if your rating is less than 1.

5 – Very great extent 4 – Great extent 3- Moderate extent 2 – Low extent 1- Not at all

Statement		**Rating**				
		1	2	3	4	5
3.1	**Strategic Planning** We have included innovation as a deliberate goal in our long-range strategic plan.					
3.2	**Leadership** We have innovative leaders who supports the nature and success of creative efforts of employees.					
3.3	**Structure and Infrastructures** Our workplace, workspaces and communication structures supports all collaboration activities for innovation.					
3.4	**Resources and Measurement** We have resources in place to assist in initiating, recognizing, rewarding and carrying out key innovation activities.					

PART C: PERFORMANCE

4. Non-Financial Performance

Non-financial performance of a SACCO is made up of branches, membership growth, ATM linkages, agency banking, and job creation.

4.1. Please indicate the number of branches and the County in which your Sacco operates in Kenya

County	Number

4.2. Please indicate whether your Sacco is linked to ATM services of its own, Cooperative bank or not any.

ATM Services	**Linked (Yes / No)**
Cooperative Bank	
Own	
Not Connected	

4.3. Please indicate whether your Sacco renders Agency banking Services to the following Institutions.

Institutions	**Agency banking Services (Yes/No)**
Cooperative Bank	
Equity	
Kenya Commercial Bank (KCB)	
Post Bank	
Safaricom	

END OF THE QUESTIONNAIRE

THANK YOU

APPENDIX III: LIST OF DEPOSIT-TAKING SACCOs IN NAIROBI COUNTY

NO.	NAME OF SOCIETY
1	AFYA SACCO SOCIETY LTD
2	AIRPORTS SACCO SOCIETY LTD
3	ARDHI SACCO SOCIETY LTD
4	ASILI SACCO SOCIETY LTD
5	CHAI SACCO SOCIETY LTD
6	CHUNA SACCO SOCIETY LTD
7	ELIMU SACCO SOCIETY LTD
8	HARAMBEE SACCO SOCIETY LTD
9	HAZINA SACCO SOCIETY LTD
10	JAMII SACCO SOCIETY LTD
11	KENPIPE SACCO SOCIETY LTD
12	KENVERSITY SACCO SOCIETY LTD
13	KENYA BANKERS SACCO SOCIETY LTD
14	KENYA POLICE SACCO SOCIETY LTD
15	MAGEREZA SACCO SOCIETY LTD
16	MAISHA BORA SACCO SOCIETY LTD
17	METROPOLITANT NATIONAL SACCO SOCIETY LTD
18	MWALIMU NATIONAL SACCO LTD
19	MWITO SACCO SOCIETY LTD
20	NACICO SACCO SOCIETY LTD

21	NAFAKA SACCO SOCIETY LTD
22	NASSEFU SACCO SOCIETY LTD
23	NATION SACCO SOCIETY LTD
24	NYATI SACCO SOCIETY LTD
25	SAFARICOM SACCO SOCIETY LTD
26	SHERIA SACCO SOCIETY LTD
27	SHIRIKA SACCO SOCIETY LTD
28	SHOPPERS SACCO SOCIETY LTD
29	STIMA SACCO SOCIETY LTD
30	TAQWA SACCO SOCIETY LTD
31	TEMBO SACCO SOCIETY LTD
32	UFANISI SACCO SOCIETY LTD
33	UKRISTO NA UFANISI WA ANGALICANASACCO LTD
34	UKULIMA SACO SOCIETY LTD
35	UNAITAS SACCO SOCIETY LTD
36	UNITED NATIONS SACCO SOCIETY LTD
37	WANAANGA SACCO SOCIETY LTD
38	WANANDEGE SACCO SOCIETY LTD
39	WAUMINI SACCO SOCIETY LTD

Sourced from SASRA Website: https://www.sasra.go.ke (2017)