PRODUCT INNOVATION STRATEGY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA. CASE STUDY OF ABSA BANK KENYA.

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A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES - UNIVERSITY OF NAIROBI

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DECLARATION

This research project is my original work and has not been presented in any other university.

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This research project has been submitted for presentation with my approval as the university supervisor.

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DEDICATION

I dedicate this research project to my late Dad for having inspired me to be the person i am today.

ACKNOWLEDGEMENT

I acknowledge the support of my supervisor in guiding me through the research project

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ABBREVIATIONS/ACRONYMS

TOC	Theory of Constraints
RBV	Research Based View
R&D	Research and Development
BPM	Business Process Management

ABSTRACT

The modern banking environment is characterized by high rate of product innovation which has led to a wide variety of banking services and product options. The services are regularly reviewed and the less effective ones are often scraped in favor of new innovative ones. The product review processes is largely supported by market data and financial performance metrics directly attributed to the new product. The objective of this study was to establish the effects of product innovation on financial performance of commercial banks in Kenya. The findings indicate that business process management, market research, automation/digitization and globalization all have an influence on financial performance of commercial banks in Kenya. Each of the themes was ranked using the weighted average method based on the prominence of responses provided. Business Process Management (100%) was more prominent followed by Market Research (80%), then Automation/Digitization (60%) and finally Globalization (40). ROA, Net Asset, Gross and Net Profit were used as indicator units of measurement of financial performance. The results further showed that there was a significant improvement in financial performance attributed to specific new innovative banking services released in the market. Due to unique challenges for each commercial bank operating in Kenya, this study recommends a quantitative study on the effect of technology and all the above variables on the financial performance of a census of all the commercial banks in Kenya so as to enable generalization of the findings.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The modern banking environment is characterized by high rate of product innovation which has led to a wide variety of banking services and product options (Meihami & Meihami, 2021). The services are regularly reviewed and the less effective ones are often scraped in favor of new innovative ones. The product review processes is largely supported by market data and financial performance metrics directly attributed to the new product (Mutuva, E. K. (2020). Consequently, the rate of scrapping of banking services and options has become so rampant that in some cases products are scrapped almost immediately after launch. For instance Absa Bank has a variety of current account options that carter for different needs of its customers and market segments (Goksoy, Vayvay & Ergeneli, 2019).

This study is guided by three theories: Resource Based Theory, Theory of Constraints and Diffusion of innovation theory. Resource Based theory is based on the tenets that firms compete on the basis of the resources and competencies within the company. A firm's resources have a significant role in determining its effectiveness and long-term competitive advantage. The theory further holds that the resources of a firm enable it to accomplish its goal and objectives. The primary idea behind theory of Constraints is that every system, no matter how complex, has a constraint that limits its ability to achieve its goals. The theory emphasizes improvement of performance through effective identification and management of constraints. Key principles of the theory include: Identifying, exploiting, elevating the constraints, subordinating other processes, breaking inertia, measuring performance.

Diffusion of innovation theory describes how innovation spreads over time among people in a collective system through certain channels.

The banking practice exists under a very turbulent environment with stiff competition that calls for continuous improvement and innovations. It can best be described by the phrase “Survival for the fittest” (Grant, 2016). The competition has been complicated further by the emergence of Fintechs that have tapped into the market and significantly reduced the need for conventional banking services in Kenya. Consequently some banks have either gone into receivership or collapsed. Absa bank presents itself as a regional leader in consumer banking and has even acquired other straggling smaller banks in the region.

1.1.1 Product Innovation Strategy

According to Kilmann (2015) product innovation strategy is a development master-plan intended to propel an organization from one level of product performance to the next one. Product innovation is technology driven and customer centric. It is a critical aspect of a company's strategy for staying competitive and meeting the evolving needs of customers. Kimenyi and Ndung'u, (2019) states that developing a product innovation strategy involves a systematic approach to creating and introducing new products or enhancing existing ones. Here are key elements and considerations for a product innovation strategy: Market research, cross-functional collaboration, customer centric approach, agile development, technology adoption, risk management, intellectual property protection, product life-cycle management, open innovation, sustainable innovation, go-to market strategy, continuous learning, competitive analysis, financial planning and scalability (Khammongkol, Ussahawanitchakit, & Janjarasjit, 2018).

According to Muzaffer (2020) before embarking on product innovation, there is need to carry out market research. Market Research requires that one understands customer needs and preferences through product development and innovation process. It involves identification of trends, pain points and emerging opportunities in the market. Cross-Functional Collaboration involves formation of strategic alliances between different departments such as R&D, marketing, sales and customer support. Alushula (2020) observed that Cross-functional teams can bring diverse perspectives to the innovation process. Customer-Centric Approach to product development focuses on understanding and addressing customer needs. The approach implies soliciting feedback and involvement of customers in the ideation and testing phases to ensure that the final product meets their expectations (Kiragu, Carolyne, 2021).

Agile Development methodologies would enable the bank to facilitate quick iterations and process adjustments based on feedback. This approach allows for flexibility in responding to changing market dynamics. Technology Adoption implies staying abreast of technological advancements that could impact the banking industry. It is therefore important to consider adopting new technologies to enhance product features, efficiency, or user experience (Kibor & Jeniffer, 2017). Risk Management practices helps the bank to acknowledge that not all innovations will succeed. It is therefore important to manage risks by conducting thorough risk assessments, testing prototypes and having contingency plans in place before, during and after the product innovation process (Kiseli & Senaji, 2016).

According to Mohd and Syamsuriana (2019) Intellectual Property Protection implies protecting intellectual property through patents, trademarks, or other legal mechanisms.

This would safeguard the bank's innovative ideas from being copied by competitors. Product Life Cycle Management means understanding the life cycle of the innovative products. There is need to continuously evaluate and update products to extend their life cycle through improvements, updates or complementary offerings. Megha (2016) described Open Innovation as the need to explore open innovation models, which involve collaborating with external partners, startups, or research institutions. This can bring fresh ideas and expertise into your innovation process. Sustainable Innovation implies an assessment of the environmental and social impact of the innovation. Sustainable innovation involves creating products that are environmentally friendly, resource-efficient, and socially responsible.

Go-to-Market Strategy means planning on how to launch and promote the new products in the market. A well-defined go-to-market strategy considers pricing, distribution, promotion, and sales channels (Kiveu, 2020). Lisangari Lavenda Shejero (2015) states that Continuous Learning fosters a culture of continuous improvement. This enables a firm to regularly review the performance of products in the market, gather feedback, and use these insights for future innovations. Competitive Analysis enables a firm to monitor and analyze the activities of competitors. Identification of gaps in the market that the innovation can address, or find ways to differentiate the products from competitors (Antony, 2017).

Financial Planning means preparing a budget for the entire process of product innovation. Depending on the duration of the project, the budget can be annual, semi-annual, quarterly monthly, weekly or daily. It is important to allocate resources effectively to support innovation initiatives. Develop a budget that accounts for research and development, marketing and other costs associated with bringing new products to market (Beattie, 2019). Scalability allows a firm to expand exponentially and reach new markets. It is important to assess the scalability of the innovation. The bank may consider how well the product can be scaled to meet growing demand without compromising quality or performance. A well-crafted product innovation strategy is dynamic and adaptable, allowing a company to respond effectively to market changes and deliver value to customers through innovative products (Bernard, 2016).

1.1.2 Financial Performance

Financial performance is a subjective measure of a company's ability to earn money by employing assets from its principal method of operation and generate income (Reguia, 2019). The phrase is frequently used to describe the general state of a company's finances throughout a specific time frame. Financial performance evaluations are accounting-based, focusing on a few key financial measures like return on investment. Return on investment, market share, competitive position versus direct competitors, and value to the customer were used by Neely, Filippini, Forza, Vinelli, and Hii (2015) to measure financial performance, whereas Rujirawanich, Addison, and Smallman (2017) used a measure of success that included financial profits and return on investment.

A number of different KPIs are used to measure financial performance, but the balance sheet, income statement, and cash flow statement are the primary measures of financial performance in the banking sector (Rujirawanich, Addison, & Smallman, 2017). A thorough assessment of the entire state of a business in relation to factors including income, costs, equity, liabilities, and total value of assets constitute the elements of financial performance in the banking sector. This study proposes the use of ROA to measure financial performance (Shejero, 2018).

1.1.3 Absa Bank Kenya Plc

Established in 1916 and formerly known as Barclays bank, Absa is one of the leading multinational banks in Kenya with over 85 branches and 208 ATMs across Kenya. The bank has over seven personal account types namely: Absa One, Ultimate, Prestige, Premier, Ignite, Savings Account and Foreign Currency Accounts. The level of technology allows customers to open any of the accounts online without having to physically visit a banking hall. In addition, the bank has several personal loan options that suit the financial credit requirements of individuals. As part of its rebranding strategy in the year 2020, Absa either scrapped, replaced, renamed or changed all its current account types. The trend continues in a bid to evolve and meet the ever-changing preferences of banking customers. However, whether these product innovation efforts have any significant correlation with financial performance of Absa bank remains to be investigated.

1.2 Research Problem

Product innovation strategy involves systematic product evaluation and improvement measures. The general assumption is that product innovation leads to improved financial performance. However, a few studies have shown contradictory findings. Abraham (2021) conducted a research study on the influence of new product development strategies on the financial performance of manufacturing firms in Monaco. He established that indeed new product development strategies have a significant positive impact on financial health of the firms under investigation. Similarly, Nauwankas, (2018) found that the use of new technology was the only variable with causal effect on financial performance of Micro-Finance institutions in Singapore. Business Process Management (BPM) and feedback management had no effect. Secondary data provided by each of the 32 selected micro-finance institutions was used.

Several studies on bank innovation have been conducted previously, mostly in developed nations. Nguyen et al. (2014) assessed customer satisfaction in China with the quality of bank card payment services. Hilal (2015) examined how banks have changed technologically as well as how Information and Communication Technologies (ICT) have affected Lebanon's banking sector. Uzkurt et al. (2013) conducted research in Turkey to examine how innovation functions in modulating the relationship between organizational culture and business success. In Turkey, Gunday et al. (2011) looked at the relationship between various types of innovation and business performance.

Locally, Juma (2014) looked at the effects of strategic innovation on commercial bank performance, while Ngumi (2014) studied the effects of banking innovations on the case study Kenyan commercial bank and effects of the strategies on financial performance. In Ghana, Angko (2013) looked into the impact of innovation in bank payment systems; Domeher et al. (2015) looked into financial innovations in the banking industry; Wireko (2016) looked into the impact of technological innovations on customer satisfaction in the banking industry; Obeng and Boachie (2018) looked into the impact of service innovation on customer satisfaction and loyalty in the banking industry.

Gaya (2022) conducted a survey on the effects of product innovation on financial performance of firms in the hospitality industry in Mombasa Kenya. A sample of eight established five star hotels in Mombasa were selected and used for the study. His findings revealed that product preferences were not affected by the level of innovation. Clients often have preferred services and are afraid to try innovative products. In Contrast, Roy (2022) conducted a research study on the influence of new product development strategies on the financial performance of oil and petroleum marketers in Kenya. A total of 10 major oil companies were selected and used for the study. Three specific strategies were tested: market research, product innovation and customer needs assessment. The findings showed that none of the variables had any statistical significance with financial performance.

The main gap is whether the increased adoption of product innovation (specifically the different current account types for different customer segments/groups) by commercial banks has a correlation with financial performance. For example, Absa has several types of current accounts such as Flexi Current Account, Student Account, Gold Value Premium Banking Account, Silver, etc. New categories come up every day. The studies presented are all on various aspects of innovation in relation to financial performance of multiple banks and none on a case basis. This research attempts to close the gap indicated as well as add to the literature on product innovation capabilities and financial performance of Absa Bank Plc. This study therefore seeks to address the research question, does these innovative products and services launched by Absa Bank have any significant correlation with financial performance?

1.3 Research Objective

The objective of this study is to establish the effects of product innovation on financial performance of commercial banks in Kenya.

1.4 Value of the Study

This study will enable the national government to provide a conducive regulatory framework to enable commercial banks to grow their earnings by developing products to satisfy customer needs.

Commercial banks will also be able to establish product innovation committees to strengthen product development efforts. Bankers themselves will appreciate the product innovation culture and inculcate it in their daily routine work.

Scholars and academicians interested in product innovation strategies will use this as a foundation for advanced research in that area. It can also be replicated in other contexts other than the banking sector.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This Chapter presents the secondary literature sources that are used in the study. It begins with the theoretical foundation, which gives a discussion of each of the theories. The theoretical foundation is followed by the product Innovation strategies, Research gaps and finally the conceptual framework.

2.2 Theoretical Foundation

This study is guided by three theories: Resource Based Theory, Theory of Constraints and Diffusion of Innovation Theory.

2.2.1 Resource Based Theory

Resource Based View (RBV) theory has evolved over time, the first iteration date back to 1959, when Penrose argued that a corporation is composed of resources, the management of which by various users and their disposal within a specific time frame are determined by important decisions made by management and administration as a whole. By making this argument, Penrose suggested that the firm's resources dictate its size. The fundamental tenet of the RBV is that firms compete on the basis of the resources and competencies within the company. In order to find potential sources of sustainable competitive advantage, most RBV researchers, according to Howard (2010), choose to examine within the company and down to the factor market scenarios that the firm must be happy with.

According to the resource-based theory, a firm's resources have a significant role in determining the effectiveness and long-term competitive advantage of institutions. Large firms with bigger financial strength are considered more competitive than smaller ones. The resource-based view states that the resources of a firm enable it to accomplish its goal and objectives. Firm resources are scarce and must be used conservatively. All organizations are environment dependent and environment serving. The theory is relevant to this study because it outlines the characteristic scarcity of resources and the need for prudent utilization of available resources by Absa bank plc.

2.2.2 Theory of Constraints

The Theory of Constraints (TOC) is a management philosophy introduced by Dr. Eliyahu Goldratt in his 1984 book "The Goal." The primary idea behind TOC is that every system, no matter how complex, has a constraint that limits its ability to achieve its goals. The theory emphasizes identifying and managing these constraints to improve the overall performance of the system. Key principles of the Theory of Constraints include: Identifying constraints, exploiting the constraints identified, subordinating other processes, elevating the constraints, breaking inertia, measuring performance. According to Lemanowicz (2015) the first step in applying TOC is to identify the constraints or bottlenecks in the system. A constraint is any factor that limits the system from achieving higher performance or throughput. Once the constraint is identified, the focus is on maximizing the utilization of the constraint. This involves ensuring that the constraint is working as efficiently as possible to prevent wasted capacity. Other processes in the system are subordinated to the constraint. This means that their activities are synchronized with the constraint to avoid overloading it and to ensure a smooth flow of work (Kyengo, Ombui & Iravo, 2016).

According to Peteraf (2016) if the constraint cannot be fully exploited with the existing resources, consideration is given to increasing its capacity. This may involve investing in additional resources or optimizing the existing ones. Once the constraint is resolved or its capacity is increased, the focus shifts to identifying and addressing the next constraint in the system (Paul, 2017). According to Kuany (2016) the process of continuous improvement is iterative. TOC introduces key performance measures such as Throughput (the rate at which the system generates money), Inventory (the money invested in the system's resources), and Operating Expense (the money the system spends to convert inventory into throughput). The relevance of the theory to the study is that it provides a systematic and logical approach to improving the performance of systems by focusing efforts on the critical constraints that limit overall effectiveness. Critics of TOC argue that it does not provide a comprehensive management model and is therefore not complete. Trade-offs must occasionally be made and in these circumstances, the TOC is rarely able to offer much support (Spearman, 2018).

2.2.3 Diffusion of Innovation Theory

The Diffusion of invention (DOI) theory was proposed by Rogers in 1962 and explains how, through certain channels, invention diffuses over time among members of a collective system. Five inventive attributes that either increase or decrease the adoption of innovations include compatibility, trialability, relative benefit, complexity, and observability, according to the DOI recommendations. The innovation continuum is composed of five types of adapters, as defined by Rogers: innovators, early adopters, innovators, early majority, late majority, and laggards. According to MacVaugh and Schiavone (2010), the idea explains how innovation diffuses over time within a single market as potential customers use communication channels to exchange information and viewpoints on new technologies.

The theory states that there are three ways to accept new technologies. New technologies are launched in the (macro) industrial market sector. The social system in which adoptive innovators are positioned is composed of a network of relationships, which is the second component. The third level of analysis that contributes to understanding the innovation process is the individual (micro) element (Rambocas & Arjoon, 2012).

This theory is applicable to the modern banking environment of product innovation as Absa is likely to obtain a competitive advantage via the creation and application of new, creative concepts and models. The concept has drawn criticism, nevertheless, for having a limited understanding of how businesses function. Like other theories of business cycles, this one also overlooks other factors that affect fluctuations in the business environment. Innovation is one of the factors that affect how well a firm performs; it is not the only one (Megha, 2016).

2.3 Review of Empirical Literature and Research Gaps

Product innovation strategies have been developed and used over time. Due to changing business needs and environment dynamics, new strategies are documented and reported in new studies each year. According to Roy (2022), the success of each proposed innovation strategy is largely dependent on business process management, firm operating environment, market research, degree of automation/digitization and globalization. Abraham (2021) conducted a research study on the influence of new product development strategies on the financial performance of manufacturing firms in Monaco. He used Regression analysis. He established that indeed new product development strategies have a significant positive impact on financial health of the firms under investigation. He concluded that Product innovation improves financial performance.

Nauwankas, (2018) studied the influence of product innovation strategies on the financial performance of micro-finance institutions in Singapore. He used secondary data provided by each of the 32 selected micro-finance institutions. He found that the use of new technology was the only variable with causal effect on financial performance of Micro-Finance institutions in Singapore. BPM and feedback management had no effect. He concluded that there is no relationship between product innovation and financial performance. However, technology adoption does.

Gaya (2022) studied the effects of product innovation on financial performance of firms in the hospitality industry in Mombasa Kenya. A sample of eight established five star hotels in Mombasa were selected and used for the study. His findings revealed that product preferences were not affected by the level of innovation. Clients often have preferred services and are afraid to try innovative products. The study concluded that product innovation does not improve financial performance of the hospitality sector in any way.

Roy (2022) conducted a research study on the influence of new product development strategies on the financial performance of oil and petroleum marketers in Kenya. A total of 10 major oil companies were selected and used for the study. Three specific strategies were tested: market research, product innovation and customer needs assessment. The findings showed that none of the variables had any statistical significance with financial performance. Roy (2022) concluded that there is relationship between product innovation and financial performance.

Table 2.1: Summary of Research Gaps

Author	Study	Methodology	Findings	Conclusions
Abraham (2021)	A research study on the influence of new product development strategies on the financial performance of manufacturing firms in Monaco.	Regression analysis	He established that indeed new product development strategies have a significant positive impact on financial health of the firms under investigation.	Product innovation improves financial performance
Nauwankas, (2018)	Influence of Product Innovation Strategies on the financial performance of micro-finance	Secondary data provided by each of the 32 selected micro-finance institutions was used.	Found that the use of new technology was the only variable with causal effect on financial	No relationship between product innovation and financial performance. However,

	institutions in Singapore		performance of Micro-Finance institutions in Singapore. BPM and feedback management had no effect.	technology adoption does
Gaya (2022)	The effects of product innovation on financial performance of firms in the hospitality industry Mombasa Kenya.	A sample of eight established five star hotels in Mombasa were selected and used for the study.	His findings revealed that product preferences were not affected by the level of innovation. Clients often have preferred services and are afraid to try innovative products.	Product innovation does not improve financial performance
Roy (2022)	A research study on the influence of new product development strategies on the financial	A total of 10 major oil companies were selected and used for the study. Three specific	The findings showed that none of the variables had any statistical significance	No relationship between product innovation and financial performance.

	performance of oil and petroleum marketers in Kenya.	strategies were tested: market research, product innovation and customer needs assessment.	with financial performance.	

Source: Researcher (2023

2.4 Product Innovation Strategies

There are four main product innovation strategies at Absa Bank: Business Process Management, Automation/Digitization, Market Research and Globalization.

2.4.1 Business Process Management

Business Process Management (BPM) is a systematic approach to improving business processes. It involves the design, execution, monitoring, and optimization of business processes to achieve organizational goals more efficiently. BPM aims to enhance efficiency, effectiveness, and flexibility within an organization by aligning processes with business strategies (Wachiuri, 2017).

There are five main business process management phases that apply to banks; design, model, execute, monitor and optimize. They are collectively referred to as BPM life-cycle. Designing the model implies coming up with a prototype of the intended structures and roles. Business process determine the likelihood of success of the product innovation.

While some process promotes growth and creativity, others, especially the ones with too much bureaucracies discourage creative thinking. Good business process management practices opens up the product development space paving way for free and independent innovative approach to problem solving

2.4.2 Automation/Digitization

Digitization has become an essential part of product innovation at the banks. Most banking process have been digitized including management of queues at the banking hall. Consequently there is very little paper work involved. Most banks today have digital machines for counting money therefore saving time and increasing output (Wagner, 2020). According to Kimenyi and Ndung'u (2019) automation has greatly revolutionized modern banking process. Disruptive technology has introduced a paradigm shift virtually in all product innovation process. Mobile and online banking are essential part of the automation that has now been adopted by all commercial banks across the globe. Alushula (2020) observed that over 70% of banking services in Kenya are automated, making it easy and convenient to transact.

The elimination of paperwork and manual work process has in the recent past been very instrumental in cost reduction. Modern banking systems are computerized such that they include digital queuing, digital signature input system, digital feedback response interface and digital data capture systems (Wagner, 2020). According to Abraham (2021) automation improves financial performance by up to 40%. Modern product innovation in most corporates is technology oriented.

2.4.3 Market Research

According to Onyango (2018) market research is the process of evaluating the viability of a new service or product through research conducted directly with potential customers. Organizations carry out market research in two ways , in-house research departments or by outsourcing research agencies (Holt, Geschka & Peterlongo, 2014). Many firms use market research as a market intelligence tool to gather useful information on consumer habits. This leads to improved decision making in the organization due to the provision of relevant, reliable and timely data (Tasic & Feruh, 2021). The role of marketing research has undergone substantial changes in the recent past and is now a main performance indicator in information management and marketing strategy (Tasic & Feruh, 2021). This has led researchers to adapt to the highly volatile business environment and to be ready to deal with decisions that did not previously exist. It has also emphasized on the need for innovation and creativity as a way of investigating and explaining these new types of problems (Zikmund & Babin, 2018).

Market research is mainly carried out for two reasons that is, problem identification and problem solving (Shapiro & Bonoma, 2017). Problem identification research can be further grouped into market share research, sales forecasting, sales analysis research and trends research. Innovation research on the other hand can be split into; market segmentation and research focusing on the 4P's; product, pricing, promotion and place (Malhotra, 2018). Data obtained from market research is used to identify marketing opportunities and challenges (Richard, Devinne, Yip & Johnson, 2017). Effective product innovation uses data planning, information on current trends and market commentary in a structured and proactive way to create products that are relevant to the consumers (Njagi, 2019).

2.4.4 Globalization

According to Kilman (2015) globalization refers to strategic application of modern technology to create products and services that have a global reach. Globalization entails the use of online channels to provide services digitally to all interested customers without physical interaction. It is largely enabled by digital communication such as the use of emails, social media and e-commerce sites for seamless exchange transactions. Despite the push towards a global approach in development of banking services, it is also important to note that global banking trends change (Tasic & Feruh, 2021)

The virtual nature of services provided by commercial banks requires that they not only comply with regional standard but also by global ones. Globalization allows banks to have a wide range of customers from diverse backgrounds without disruptions or discrimination. Kilman (2015) stated that globalization led to survival of major banks during the 2008/2009 financial crisis. Kilman further noted that smaller banks that had no global appeal collapsed during or shortly after the financial crisis mainly because they were not innovative enough to build resilient services that address the changing needs of the bank clients.

2.5 Conceptual Framework

The purpose of this study is to establish the influence of product innovation strategies on the financial performance of commercial banks in Kenya, case study of Absa Plc. The dependent variable is financial performance which will be measured using Return on

Financial Assets. The independent variable of the study is Product Innovation Strategies, whose indicators are Business Process Management, Market Research, Automation/Digitization and Globalization.

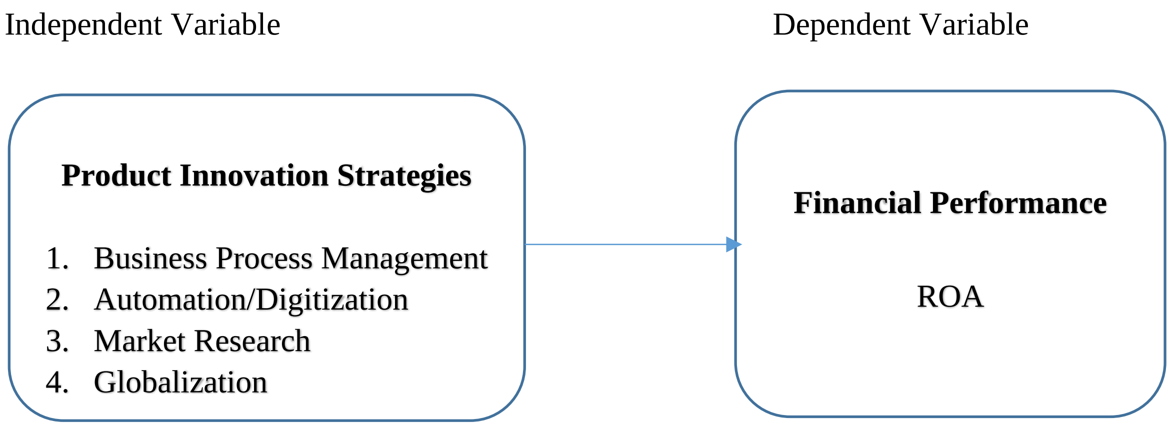

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology best suited for the study. It begins with the research design, population, data collection and finally data analysis procedure.

3.2 Research Design

According to Cooper and Schindler (2014) a research design is the systematic approach adopted by a researcher in carrying out a study. It describes how the research is structured in order to meet the objectives through empirical evidence (Cooper & Schindler, 2014). The study adopted a case study design. Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of a social unit. He further describes a social unit as a person, family or institution. A case study makes immense contribution to the knowledge of individual, group, organizational, social and political phenomena. A Case study has been a common research strategy in business and community planning (Ghauri & Gronhaug, 2012). The distinct need for case studies arises out of the desire to understand the complex phenomena. Case study method allowed the researcher to retain the holistic and meaningful characteristics of the corporate events such as product innovation strategies, organizational and managerial processes (Robert, 2016).

3.3. Population of Study

A population refers to all the elements in a given context under the set of items with similar observable characteristics (Kumar, 2005). There are four senior managers under the strategy related leadership levels at the Absa headquarters. This is a case study, therefore all the senior level managers formed the population of study. The choice of managers is because they are the relevant officers responsible for product innovation, a responsibility domiciled exclusively at the headquarters.

3.4 Data Collection

Data was collected using an interview guide. The guide was divided into three sections. Section A comprised of general questions related to identity and experience with product innovation. Section B comprised questions specifically on product innovation strategies. Section C comprised questions on financial performance in relation to the product innovation strategies. Interview guides are more reliable because they provide standard responses much faster than other data collection tools (Kothari, 2004)

3.5 Data Analysis

The data collected was qualitative data. Content analysis was used to analyze the data. Nachmias and Nachmias (2006) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2008) defined content analysis as the analysis of the contents of documentary and verbal material and describes it as a qualitative analysis concerning the general importance of message of the existing documents and measure pervasiveness.

Before embarking on content analysis, an assessment of the written material's quality was done to ensure that the available material accurately represents what is written or said. The data was then listed and summarized into the major issues contained in the interview guide responses. This enabled structuring of the data in a way that made it possible to analyze and interpret it. Before embarking on content analysis the responses were organized into themes which used description of innovation phenomenon in the context in which it occurred. Results are presented using qualitative presentation techniques for ease of understanding and analysis.

CHAPTER FOUR

DATA ANALYSYS PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter outlines the data analysis process, techniques, tools , presentation and discussion of the research findings as obtained from the data collected. An interview guide was used to collect qualitative data for analysis.

4.2 Response Rate

The data collection process targeted a total of four senior managers. However, due to unavoidable circumstance one was not available to respond. For that reason three (3) managers were interviewed and their responses recorded for analysis. The table below shows the response rate.

Table 4.1: Response Rate

Target	Response Received	Non-Response	% Response
4	3	1	75%

Source: Research Data (2023

A total of three managers were requested in writing to consent to the data collection process. They all confirmed that they would be available for the interview and provided their preferred time for the interview. All interviews were conducted physically at the head office in Westlands.

The results in table 4.1 above shows that the data was adequate for analysis. Cooper and Schindler (2014) state that for a case study, 80% response rate is enough to represent the entire population.

4.3 Level of Education

The study sought to establish the levels of education of each of the managers. A question was posed to each during their interview. The following responses were obtained.

Table 4.2 Level of Education

Level	Respondents	% Per cent
Masters	2	67
Bachelors Degree	1	33
Diploma	0	0
PhD	0	0
Certificate	0	0
Other	0	0
Total	3	100

Source: Research Data (2023

The results in table 4.1 above shows that majority of the managers had a master’s degree (67%) followed by Bachelor’s Degree (33%). There were no Diplomas and PhDS. This shows that majority (67% and 33%) had attained the minimum managerial academic requirement of basic university degree (Bachelors Degree). This indicates the quality of decision made at the management level in regards to product innovation.

4.4 Product Innovation Strategies

This study sought to investigate the product innovation strategy and finacial performance of commercial banks in Kenya. Three thematic areas were investigated: Business Process Management, Market research, Automation/Digitization, Globalization. Each of the data points was tabulated and the respective themes arranged in order of prominence. Weighted average method was used to rank each of the themes and a pie chart generated. The table below shows a summary of the thematic areas as provided by the interview responses.

Table 4.3: Thematic Weights and Prominence

No	Theme	Weight	Prominence (%)
1	Business Process Management	3	100%
2	Market Research	3	100%
3	Automation/Digitization	2	67%
4	Globalization	1	33%

Source: Research Data (2023)

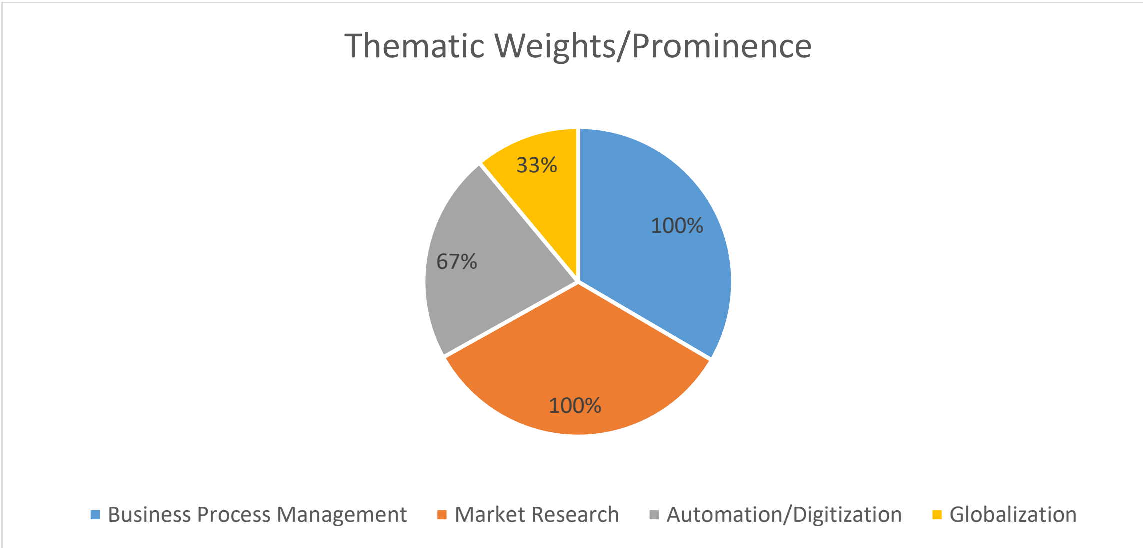

Figure 4.1: Thematic Weights/Prominence

Table 4.3 above show that Business Process Management was more prominent followed by Market Research, then Automation/Digitization and finally Globalization. The weights shown are cumulative which implies that there are respondents that favored more than one theme in their response. Each of the thematic areas is discussed below:

4.4.1 Business Process Management

The respondents were requested to provide their opinion on Business process Management at the bank. A set of interview questions were asked. There were consistent responses for a number of questions related to Business Process Management at the Bank. The most prominent response was that banking services were regularly adjusted to suit the changing needs, tastes and preferences. The other prominent response was that the bank's research and development efforts generate new information that addresses scientific and technological issues that lead to product innovation. The third common response was that the bank acquires existing technology, know-how and ideas for product innovation that eventually leads to copyrights and patents. The fourth common response was that the bank promotes cooperation across various departments so as to speed up the invention process and get more feedback about the banking service released. One of the respondents was quoted saying.

"We have streamlined all banking processes and services to ensure smooth and seamless delivery of services. We have invested heavily on modern technology and automation to reduce waiting time at the banking halls. Our research and development team is working round the clock to develop innovative banking services that meet the preferences of customers"

The fifth common response was that the bank introduces new or significantly improved products. There were varied responses with regards to the other remaining questions which include: Does the bank develop products/services that may not be lucrative in the near term but will benefit the company in the long run? Does the bank renew general business management activities regularly? How does the bank use analytical techniques to assist decision-making processes? Does the bank often introduce new ways of producing services? The least common response was on whether the bank engage in acquisition of advanced equipment that result into better improvement process?

In response to value addition and product innovation the respondents were asked to state how often the bank identify procedures in order to remove non value adding activities? Only three managers provided a comment on the process improment measures put in place by the bank. All three stated that the bank has created a product innovation unit under the business development department. The unit is tasked with the responsibility to promote and nurture innovative ideas. This unit is supported by the ICT department for technology related ideas. Business process management had the greatest impact on financial performance of the bank. The finding concurred to the findings of Rowlings (2018), who found that continuous evaluation and improvement of business processes influence achievement of return on the asset and return on equity for commercial banks operating in Manila.

4.4.2 Automation/Digitization

The respondents were requested to provide their opinion on automation and digitization processes at the bank. A set of interview questions were posed to the managers. There were consistent responses for a number of questions related to automation at the Bank. The most prominent response was that all critical bank processes are computer based. The second most prominent response was that the level of paper work has significantly reduced due to automation. The third most prominent response was that the bank has adopted new innovative technologies to aid in service automation. A probe revealed that some of the innovative technologies include: the queue management system at the banking halls, the digital signature equipment at the counters/cashier stations and the online banking services provided through the portal. One of the respondents said,

"We have user-friendly ATM machines that allow 24hour withdrawals and deposits to reduce congestion at the banking halls. We recently acquired digital biometric devices that capture signatures of customers during transactions"

With regards to product placement strategies, the respondents said that the bank has put in place a number of deliberate strategies. There was a unanimous response on the rate at which the bank increase investment in innovative technology. This was informed by an annual report on the Report of Post Covid 19 Progress in the Banking Sector in Kenya. Some of the digital service design properties that have been changed by the bank to promote automation and improve product/service innovation include: Digital reporting system by all staff, Absa Self-Service Portal, Absa Mobile Banking system and the Absa Trade management system for investments banking.

4.4.3 Market Research

The respondents were requested to provide their opinion on market research activities at the bank. A set of interview questions were posed to the managers regarding market research activity. There were consistent responses for a number of questions related to market research at the Bank. The most prominent response was that the management at the bank determines what kind of market research to be carried out during the product innovation process. The second most prominent response was that the bank carries out market research to screen new ideas and test innovative concepts for product innovation. The third most common statement was that the bank has invested heavily on R&D and has even created a fully funded R&D department to ensure continuity of research projects.

"As part of our learning and growth, we borrow a lot from our international counterparts to be able to roll out new projects in line with modern banking trends" said one of the respondents.

The fourth most common statement was that the bank makes use of automated data analytics to support its decision making process. It was reported that the bank has an automated ERP system (SAP) which integrates all functional departments and presents collated reports in a dashboard interface to the top management for decision-making. Financial reports and data from QuickBooks are automatically analyzed and presented in graphical interface for interpretation. It was also reported that the bank spends resources on ideas for market leadership in new product innovation?

The respondents also reported that product/service innovation at the bank is driven by opinion from the general public. The public opinion and suggestions are obtained through feedback stations and digital survey forms which are regularly distributed through the Absa website and various social media platforms such as the Absa Facebook Page. There were respondents who listed measures and efforts made by the bank to reduce uncertainty associated with marketing of new innovations. Some of the efforts mentioned include: research oriented preparation for crises and pandemics, data driven investment options, Technology driven innovation strategy and management training to encourage systemic product innovation and development.

4.4.4 Globalization

The respondents were requested to provide their opinion on globalization efforts and progress at the bank. A set of interview questions were posed to the managers regarding market research activity. There were consistent responses for a number of questions related to market research at the Bank. The most prominent response was that there is a significant increase in investment in innovative technology by the bank. This they say is done to transform the bank from manual inventory of staff and customer transaction records to seamless digital storage option with globalized access for verification when need be. The second most prominent response by the managers is that the bank identify non-value adding tasks in delivery processes to be eliminated.

"We serve a wide range of customers from different geographical locations including the diaspora where have special banking services supported by digital communication networks. We have a strong global support and international compliance with foreign policies, laws and regulation. We also make use of email and social media communication to reach customers in remote locations around the world."

The respondents further provided that the bank has embraced global communication methods such as virtual meeting on Zoom to cut down on operations, increase number of deliberation and improve product innovation practices. On whether the bank buys existing knowhow, copyright, patented and unpatented innovations to support its growth and expansion strategy, the respondents confirmed that indeed the bank a fund was established to support the incubation of tech-solutions aimed at improvement of banking services through product innovation.

The respondents were requested to comment on routine tasks and integrated digital services that the bank carries out to support product innovation. The respondent stated that some of the most common routine tasks include: Daily evaluation of new services growth and progress, Weekly review of financial performance for individual services under implementation and Monthly reporting of competitiveness of products/services

4.5 Financial Performance

Financial performance measures were evaluated to establish the product innovation strategies and financial performance of commercial banks in Kenya. Four different metrics were analyzed from the financial reports obtained from the Absa Headquarters in Nairobi. The indicators are ROA, Net Asset, Gross Profit and Net Profit. As of December 2022 financial reports and records from Absa Plc show that the bank has a strong liquidity asset base in excess amounting to KSh: 474.109 billion (US$3.861 billion). Absa Bank Plc is the large financial services institution in Kenya, shareholders' equity of KSh: 44.079 billion (US$419.654 million).

Since the changes from Barclays to Absa, new financial services have been consistently launched each year indicating a trend that can be linked to the performance. The financial statements reviewed show an upward trend in financial performance for each new banking services released to the market. The reports obtained are strongly supported by all the respondents who stated the there is organic growth in revenue for each new financial service released in the market. The most mentioned financial services are the increased adoption of new banking channels and platforms such as the revolutionary mobile banking. The other new service is the variation in current account types for each market segment. One of the respondents said,

"Our Asset base has grown from 211.850 billion two years ago to 474.109 billion last year a strong indication that we continue to attract and retain customers leading to growth in market share. There has been an upward trend in net profit to 14.6 billion in the year 2022, up from 10.8 billion the previous year. This is 34% growth in net profit."

4.6 Discussion of Findings

From the results presented above, there is a clear indication that Absa Bank Plc has evolved over time and continues to develop new products and services that meet the changing needs and requirements of its customers.

Business Process Management has the strongest analysis points as shown in the responses provided by the managers. This is because the bank has internal control for each of the business process to ensure reliable high quality banking services during the product innovation process. The finding concurred with Miller (2015) who indicated that firm alignment and evaluation of business process creates competitive advantage and is increasingly becoming a crucial components of competitive strategy for many financial institutions.

The second most supported practice is markets research. This is attributed to the fact that all product development decisions must always be backed by research data. Market research has been a common practice in modern corporates because numbers never lie. The finding concurred with Richards (2016) who indicated that technology driven market research promotes sustainable product innovation leading to improved financial performance.

In conclusion all the four product innovation strategies have had an influence on financial performance at Absa. This supported the findings by Davila et al (2017) who argued that Product 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 utilization of available researches which impacts their profitability.

CHAPTER FIVE

SUMMARY, CONCLUSSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary, conclusions and recommendation of findings as deduced from the analysis of data.

5.2 Summary

This study investigated the product innovation strategies and financial performance of commercial banks in Kenya. Absa Bank Plc was used as a case study. Four thematic areas were investigated: Business Process Management, Market research, Automation/ Digitization, Globalization. In summary, the product innovation practices of Business process management, market research, automation/digitization and globalization have a significant influence of financial performance at Absa Plc. Business Process Management was more prominent followed by Market Research, then Automation/ Digitization and finally Globalization. The findings reveal that all the respondents favored more than one theme hence the different variations in weights and prominence. The findings of this study agree with the finding of Beattie (2017) who concluded that financial performance is a function of many different determinants including Investment in R&D, Automation and Control of Business Processes.

Each of the themes investigated contributed significantly to improved financial performance at Absa. The finding reveal that as of December 2022 financial reports and records from Absa Plc show that the bank has a strong liquidity asset base in excess amounting to KSh:474.109 billion (US$3.861 billion). Absa Bank Plc is the largest financial services institution in Kenya, shareholders' equity of KSh: 44.079 billion (US$419.654 million). The results show that banking services were regularly adjusted to suit the changing needs tastes and preference. The findings are in concurrence with the findings of Kineli and Senaji (2016) who concluded that bank customers have a tendency to change preferences after a short period of time hence the need for firms to regularly adjust.

The findings indicated the bank increase investment in innovative technology. Some of the digital service design properties that have been changed by the bank to promote automation and improve product/service innovation include: Digital reporting system by all staff, Absa Self-Service Portal, Absa Mobile Banking system and the Absa Trade management system for investments banking. The results also show that the bank carries out regular market research to screen new ideas and test innovative concepts for product innovation. Absa bank has invested heavily on R&D and has even created a fully funded R&D department to ensure continuity of research projects. The findings are in agreement with the findings of Mohd and Syamsuriana (2019) who found that R&D increases competitiveness in the services sector by up to 30%.

The findings further reveal that there is a significant increase in investment in innovative technology by the bank in efforts to transform the bank from manual inventory of staff and customer transaction records to seamless digital storage option with globalized access for verification when need be. It also came out that the bank identifies non-value adding tasks in delivery processes to be eliminated. The respondents further provided that the bank has embraced global communication methods such as virtual meeting on Microsoft Teams to cut down on operations, increase number of deliberation and improve product innovation practices. The findings concur with the findings of Muzaffer E. (2020) who found that information technology leads to cost reduction which is the greatest driver of financial performance in the hospitality and service industry.

5.3 Conclusion

From the results presented above, there is a clear indication that Absa Bank Plc has evolved over time and continues to develop new products and services that meet the changing needs and requirements of its customers. There is increased competition in the banking sector which calls for strategic changes and continuous product innovation for sustainable financial growth. There are four key aspects/themes of product innovation strategies investigated in this study: Business Process Management, Market research, Automation/ Digitization and Globalization. In conclusion all the four product innovation strategies have had an influence on financial performance at Absa. The results concur with the findings of Meihami and Meihami (2021) who found that a combination of product innovation strategies contributed to the survival and turnaround of the once ailing Apple Inc.

Results obtained from the weighted averages computed based on prominence of responses show that each of the themes have different levels of influence on financial performance. The order shows that Business process Management had a high value to the product innovation process followed by Market Research then Automation/Digitization and finally Globalization. The conclusions are in line with the research study by Paul (2017) who concluded that Process management and internal controls are the primary guide to corporate excellence in the air transport sector.

54. Recommendations

This study recommends a census study using quantitative techniques to establish the effects of technology and all the innovation practices in this study on financial performance of all the 42 registered commercial banks in Kenya. That would enable the generalization of findings to all the banks operating in Kenya. Each bank has a unique set of challenges affecting implementation of product innovation strategies. The uniqueness makes it difficult to conclusively deduce that the findings apply to all the other banks in the country.

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APPENDICES

APPENDIX I: INTRODUCTION

Greetings!

My name is Silas Aduda. I am a bonafide student of the University of Nairobi. I am carrying out a research study on “Product Innovation Strategies and Financial Performance of Commercial Banks in Kenya”. I therefore request you to fill out the research questionnaire below as truthfully as possible. The information provided will be treated with utmost confidentiality.

Thanks for your co-operation.

APPENDIX II: INTERVIEW GUIDE

SECTION A: GENERAL DETAILS

Respondent Name (Optional)……………………………………………………………

Respondent Position

Director [ ] Senior Manager [ ] Middle Level Manager [ ] Other [ ]……………………

SECTION B: PRODUCT INNOVATION STRATEGIES

Business Process Management

1. Does the bank introduce new or significantly improved products?
2. Are services of the bank adjusted accordingly to suit the changing needs tastes and preference?
3. Do the bank's research and development efforts generate new information that addresses scientific and technological issues?
4. Does the bank develop products/services that may not be lucrative in the near term but will benefit the company in the long run?
5. Does the bank renew general business management activities regularly?
6. How does the bank use analytical techniques to assist decision-making processes
7. Does the bank often introduce new ways of producing services?
8. Does the bank engage in acquisition of advanced equipment that result into better improvement process?
9. Does the bank acquires existing know-how, copyrighted works?
10. Kindly comment on the process improment measures put in place by you bank
11. How often does the bank identify procedures in order to remove non value adding activities?
12. Do you believe the bank promotes cooperation across various departments so as to speed up the invention process and get more feedback about the banking service released?

Automation

1. Are there any new product placement strategies that the bank has put in place?
2. At what rate does the bank increase investment in innovative technology?
3. Has the bank Adopted any new innovative technology to aid in service automation?
4. What are some of the digital service design properties that have been changed by the bank to promote automation and improve product/service innovation?
5. Are bank processes computer based?
6. Do you think the level of paper work has significantly reduced due to automation?

Market Research

1. Does the bank spends resources on ideas for market leadership in new product innovation?
2. Does the bank funds market research
3. Is product/service innovation driven by surveys and feedback from the general public?
4. How often does the bank carry out market research to screen new ideas and test innovative concepts for product innovation?
5. Does the management at the bank determines what kind of market research to be carried out during the product innovation process?
6. What efforts has the bank made to reduce uncertainty associated with marketing of new innovations
7. Does the bank make use of automated data analytics bank to support its decision making process?

Globalization

1. Do you think there is a significant increase in investment in innovative technology by the bank?
2. Does the bank buy existing knowhow, copyright, patented and unpatented innovations to support its growth and expansion strategy?
3. Does the bank identify non-value adding tasks in delivery processes to be eliminated?
4. Comment on automating routine tasks at the bank
5. Comment on Integrated digital services at the bank

SECTION C: FINANCIAL PERFORMANCE

1. ROA……………………?
2. Net Asset……………….?
3. Gross Profit…………….?
4. Net Profit……………….?