

**EFFECT OF PRODUCT INNOVATION ON PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

PETER KAMAKIA

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF
NAIROBI**

NOVEMBER, 2014

DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

Name: **Peter Kamakia**

REG NO: **D61/61127/2013**

Signature

Date.....

SUPERVISOR

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

Signature

Date.....

Supervisor: JEREMIAH KAGWE

Lecturer, Department of Business Administration

University of Nairobi

ACKNOWLEDGEMENTS

To the Almighty God for the precious gift of life, good health; knowledge, faithfulness and energy that have enabled me complete this project.

I sincerely acknowledge the valuable guidance, patience and encouragement of my supervisor Jeremiah Kagwe of the University of Nairobi, School of Business. Without your able guidance and patience, I would not have successfully completed this research project.

I would also like to appreciate the respondents who took part in this study by providing me with vital information in my area of study. Special appreciation goes to my family for their support, concern and encouragement not only during the Masters Programme but throughout my academic life. Your invaluable support, encouragement and prayers have seen me this far.

I also remain grateful to all the authorities whose books and publications I have used for reference. Also, to all who have contributed directly or indirectly to my success, it is my sincere thanks.

DEDICATION

This work is dedicated to the Almighty God for his guidance and enabling me to complete this task. I dedicate this project to my wife Rachael Ruggu for her encouragement and support both morally and materially which has been able to see me through the programme. I also dedicate this work to my child, Jasmine Nyawira. I love you both and may God Almighty continue to shower you with everlasting blessings.

ABSTRACT

For most firms, successful new product innovations are engines of growth. Product innovation is the result of bringing to life a new way to solve customer's problem. To remain relevant, financial institutions have gone through continuous re-modification, re-invention and re-introduction of product propositions to meet customers changing needs. The objective of the study was to determine the effect of product innovation on performance of commercial banks in Kenya. The study adopted a cross-sectional survey design approach. The population of the study comprised of (43) forty-three commercial banks licensed by the Central Bank of Kenya as at 31st July 2014. All the commercial banks were included in the study with the respondents being the general managers. The study used both primary and secondary data. Primary data was collected with the aid of a self-administered semi-structured questionnaire. Secondary data was collected by use of desk search techniques from published reports and other relevant documents. Descriptive statistics such as mean, standard deviation and frequency distribution were used to analyse the data. Data presentation was done by the use of percentages and frequency tables. The results indicated communication of product innovation to staff was to a great extent with majority agreeing that product innovation affected organization performance. It was found out that to command a higher market share; a commercial bank needed innovative ideas. Majority of the respondents strongly agreed that organisation strategy and goals impacts innovation and to sustain performance, banks need to be innovative. From the study findings, it can be concluded that product innovation impacts on customer satisfaction and that the reputation in the market makes the bank stand out. A competitive bank is one that undertakes rapid innovations and to command a higher market share, commercial banks need innovative ideas. The study depict that aspects relating to product innovation and competitiveness include: location and wide network, branch networks, range of products, cost (charges), reputation, product range, customer service, bank reputation, innovation and customer service, processes and systems, and discipline. From the findings the study recommends that the services offered by commercial banks should be enhanced by their level of innovations. Commercial banks' range of products should be of first class innovation. The banks should aim at enabling customer's access their bank accounts online. As concerns the level of satisfaction, it is determined by a banks range of products, and therefore the bank should maintain a wide range of products. Therefore, commercial banks should aim at product innovation to enhance customer satisfaction. The organisation strategy and goals should always be tailored to promoting innovation. People should be considered and encouraged to innovate so that the organisation may remain competitive and be a market leader. There is need to replicate the study using many other sectors and find out the effect of innovation on organization performance. There is also a need to conduct a similar study which will attempt to find out the effect of effective processes on product innovation and the distinction between user resistance to change and change management which arises as a result of product innovation and technology evolution. This research study included only a relatively small number of financial institutions, but there are many more others operating in Kenya. Future research studies should therefore be undertaken to incorporate a larger number of firms in the study.

TABLE OF CONTENTS

DECLARATION	I
ACKNOWLEDGEMENTS.....	II
DEDICATION	III
ABSTRACT	IV
LIST OF TABLES.....	VII
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Product Innovation.....	2
1.1.2 Organizational Performance.....	3
1.1.3 The Banking Industry in Kenya	5
1.1.4 The Commercial Banks in Kenya.....	6
1.2 Research Problem.....	8
1.3 Research Objective.....	10
1.4 Value of Study	11
CHAPTER TWO: LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 The Theories of Product Innovation.....	12
2.3 Measures of Organizational Performance	14
2.4 Types of Product Innovation.....	16
2.5 Effect of Product Innovation on Organizational Performance	19
CHAPTER THREE: RESEARCH METHODOLOGY	21
3.1 Introduction.....	21
3.2 Research Design.....	21
3.3 Population of the Study	22
3.4 Data Collection	22
3.5 Data Analysis	22
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....	23
4.1 Introduction.....	23
4.2 Response Rate.....	23
4.3 Respondents Background	23
4.4 Bank's Performance	27
4.5 Communication of Product Innovation to Staff.....	27

4.6 Product Innovation and Performance of Commercial Banks in Kenya	28
4.7 Factors Affecting Product Innovation Initiatives.....	39
4.8 Discussion.....	41
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	44
5.1 Introduction.....	44
5.2 Summary of Findings	44
5.3 Conclusions.....	45
5.4 Recommendations for Policy and Practice.....	46
5.5 Limitations of the Study	47
5.6 Suggestions for Further Research	47
REFERENCES	49
APPENDICES	56
APPENDIX I: QUESTIONNAIRE.....	56
APPENDIX II: COMMERCIAL BANKS IN KENYA.....	61

LIST OF TABLES

Table 4.1: Gender of the Respondents	23
Table 4.2: Period of working at the bank	24
Table 4.3: Age of the Respondent	25
Table 4.4: Respondent's Department	25
Table 4.5: Respondent's Educational Qualifications	26
Table 4.6: Bank's Performance	27
Table 4.7: Communication of Product Innovation to Staff	28
Table 4.8: Influence of Product Innovation on Organization Performance	29
Table 4.9: Product Innovation on Organization Profitability	29
Table 4.10: Product Innovation and Customer Satisfaction	30
Table 4.11: Product Innovation and Sales Volume	31
Table 4.12: Product Innovation and Market Share	32
Table 4.13: Product Innovation and Product Quality.....	32
Table 4.14: Effects of Product Innovation on Organizational Competitiveness	34
Table 4.15: Effect of Product Innovation and Bank Operations	35
Table 4.16: The Richter Scale	36
Table 4.17: Level of Product Innovation and Commercial Bank Performance	38
Table 4.18: Factors Affecting Product Innovation Initiatives	40

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

For most firms, successful new product innovations are engines of growth (Cohen, Elashberg & Ho, 1997). A product is an item that ideally satisfies a market's want or need. It's a deliverable that contributes to a business solution. According to Kotler (2000) a product is anything offered to the market for attention, acquisition, use or consumption that might satisfy a need or want. The basis for any marketing activity begins with a product offering. This makes the product element in the 5Ps model a significant factor in marketing. Any business begins with an idea whose fulfilment requires a product which may be a physical good, retail store, person, organisation or place. How the product performs in the market determines significantly the overall performance of that organisation (Kotler, 2000). While other factors of production like for example people, place, price and promotion are key performance drivers, it's important to note the role of product in the organisational bottom line. The kind of product will determine how the other marketing activities will be applied (Consumer Behaviour, 2001). The product is what attracts a customer. The product is what makes a market.

Product innovation is the result of bringing to life a new way to solve customer's problem. It can be defined as the general and or acceptance of ideas, process, products or services that the relevant adopting unit perceives as new (Garcia & Catantone, 2002) Understanding of innovation is vital to organisations competing in an environment characterised by high uncertainty and a high rate of change. Companies that disregard the importance of innovation will not survive or will become

marginalised (Han, Kim & Srivastava, 1998). In the study of 100 leading incumbent firms in the United States at the turn of the century, all but 16 have either perished or become marginalised as a result of having compromised their technological orientation towards innovation (Han, Kim & Srivastava, 1998)

Like any other industry, the financial sector has experienced massive transformation over the years. This has been necessitated by the need to meet customer's real and ever changing needs. To remain relevant, financial institutions have gone through continuous re-modification, re-invention and re-introduction of product propositions to meet customers changing needs. While the banks may offer similar products, what differentiates one bank performance from another is the product proposition, product features, target market and service delivery. It is important to recognise the importance of product and product innovations as a measure of performance in the banking sector (Susan, 2007).

1.1.1 Product Innovation

Product innovation is the introduction of a good or service that is new or significantly improved regarding its characteristics or intended uses; including significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (OECD Oslo Manual, 2005). Product innovation is inevitable if businesses are to remain relevant and sustainable. There are various theories that have been developed that tend to bring out the relationship between product innovation and organisations performance.

According to Vermon, (1966), quoted in Kulkarni, (2009) in his theory the product life cycle theory, a product goes through 5 stages in life where at some point unless modifications are done, the product becomes obsolete and irrelevant. It is important

that businesses invest highly on market research programmes in order to identify changes in consumer needs as the product advances through its productive life. He argues that like any living being, products go through various stages in their productive lives from invention, maturity to decline stage forming a unique cycle in the product life. These stages are characterised by specific features which determine the length of time a product spends in one stage depending on the marketing strategies applied (Kulkarni, 2009).

If not nurtured through continuous improvements the products decline and die naturally like any living being. With this understanding, product innovations are expected to be a continuous and deliberate strategic approach if organisations expect to sustain profitability and growth (Palmer, 2000). This theory has proven that products do not survive forever. Aggressive marketing strategies have to be applied to prolong product life in any stage of the product life cycle. These strategies may include differentiation strategies, modifications and product positioning techniques including new innovations all together (Schilling & Hill, 1998).

1.1.2 Organizational Performance

According to Richard et al., (2009), organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc); (b) product market performance (sales, market share, etc); and (c) shareholder return (total shareholder return, economic value added, etc). Organizations have an important role in our daily lives and therefore, successful organizations represent a key ingredient for developing nations. Thus, many economists consider organizations and institutions similar to an engine in determining the economic, social and political progress. Continuous performance is the focus of

any organization because only through performance organizations are able to grow and progress (Gavrea, Ilieş & Stegorean, 2011).

Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its many meanings. In the '50s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Georgopoulos & Tannenbaum, 1957). Performance evaluation during this time was focused on work, people and organizational structure. Later in the 60s and 70s, organizations had begun to explore new ways to evaluate their performance so performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Yuchtman & Seashore, 1967).

The years 80s and 90s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using minimum resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998). In this context, profit became one of the many indicators of performance. In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as financial performance (shareholder return), customer service, social responsibility (corporate citizenship, community outreach) and employee stewardship (Upadhaya, Munir, & Blount, 2014).

1.1.3 The Banking Industry in Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), govern the banking industry in Kenya. The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Currently there are there are 43 licensed commercial banks and 1 mortgage finance company. They are guided by prudential guidelines issued by the Central Bank of Kenya. Of the forty four, one is purely in mortgage finance. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK, 2014).

The Kenyan banking industry is faced with a number of challenges including the new regulations especially with the passing of the new constitution in 2010. CBK required financial institutions to build up their minimum core capital requirement to Kenya shillings one billion by December 2012. The Terrorist attacks on the twin towers in United States of America emphasised and led to the mandating Acts like Anti-money laundering which has been adopted even locally. Nations and banks worldwide are working closing to ensure that proceeds of crime do not get into the financial systems of the world. The Global crisis experienced affected banking industry in Kenya and more so the mobilization of deposits especially from abroad and trade reduction. How to cope with the increasing changes in product innovation especially through technology is also a colossal challenge. Technology is a major asset especially with concern for the increasing customer base the banks have to serve. Kenyan Banks have

realised tremendous growth in the last ten years and have expanded not only within but have spread wings to the East African region (CBK, 2014).

To address some of the issues that affect the Banking industry in Kenya, banks have come together under the Kenya Bankers Association. The banking industry in Kenya has also involved itself in investment in automation of processes, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most (CBK, 2014).

1.1.4 The Commercial Banks in Kenya

Kenya is considered one of the most developed countries in East and Sub-Saharan Africa. There are at least forty four commercial banks in the Kenyan financial market. This includes local banks domiciled in Kenya, Indian banks and international banks all spread across the country with wide branch networks. Among the local banks are Kenya Commercial Bank, National Bank, Corporative Bank and Equity bank. Indian based banks include Bank of India, Bank of Baroda, and Equatorial Bank. The largest are international Banks such as Barclays Bank, Standard Chartered Bank, CFC Stanbic Bank, and City group (Susan, 2007). The bigger the size of the bank, the wider the range of services it offers. Banking in Kenya has developed with technology and customers have a wide offering of services from the banks.

Just like the global banks, to remain competitive locally, commercial banks have continued to re-align, re-brand and re-innovate their product proposition to suit the changing market. However, the effort being put by commercial banks in re-

engineering their product propositions has not been fully exploited. According to the Kenya Women Finance Trust report, (2000) there has been a gap in product offering and service delivery which has led to the formation and intrusion of micro-finance institutions. Entrance of such players driven by differentiation and innovation of products has had an impact on performance of commercial banks both positively and negatively (Susan, 2007). Studies have shown that application of innovation on products offerings as strategy is important to the survival of a firm (Chin, 1999). However, only few companies are adopting this concept as a major strategy due to their obliviousness to its imminent contribution to the corporate goal.

In a world of change and competition, innovating is not a luxury, it is essential (Hong Kong and Shanghai Banking Corporation [HSBC], 2000). All businesses need to innovate, though it may take any number of forms, from the steady refinement of established products to the leap in the dark when an untried idea is launched. Whether introducing new technology, getting people to work in new ways or creating new products, you must innovate to survive (HSBC, 2000). While mobile banking services have been available for a while in the global commercial banking space, the picture as regards mobile payments has been incomplete. But as Marcus Treacher, Global Head, ecommerce at HSBC explains, a combination of technology, infrastructure, and shifting attitudes/behaviour is changing this (HSBC, 2000). Banks are continually becoming committed to increasing banking hours, offering helpful advice, opening on weekends and holidays, and providing convenient ATMs, online and phone access services. There is thus a need to evaluate innovation initiatives that offer customer satisfaction and competitiveness to the banks on a day to day.

1.2 Research Problem

Product innovation in the banking industry is the subject of much interest. One aspect of emphasis on product innovation is the assumption that innovation can lead to tangible business outcomes that can lead to higher margins through sustainability of customer satisfaction and organisation competitiveness (Collerton, 2012). It is also assumed that if challenges arising from product innovation are known and mitigated, organisations are going to embrace product innovation as a strategy for continuous growth. However, in developing countries and in Kenya specifically, there is limited evidence that suggest that product innovation can lead to good organisation performance. Most scholarly research has placed much emphasis on the relationship between innovation and profitability in manufacturing industries and little on the banking sector (Youtie & Roper, 2008).

The banking industry in Kenya has in the recent past, been faced with increasing competition and tremendous challenges due to industry globalization, privatization of government-owned banks, adversely changing econ-political patterns and narrowing profit margins. This has prompted the industry players to take competition to a higher level thus competing on the basis of corporate values. It provides support to the economy and this role is now more critical in order to jump start economic growth, the industry is now very competitive and customers are now more discerning. Owing to these challenges banks have had to re-engineer their processes via restructuring, engaging in cost reduction initiatives, and adoption of customer oriented marketing philosophy, employee empowerment, and community involvement. The government and customers alike in the value chain are constantly evaluating the role of commercial banks in the country. The challenge is for commercial banks to meet these pressures by product innovation. Commercial banks are at the forefront of

developing buyer-seller information technologies and have higher requirements for products and services from customers (CBK, 2014).

The importance of innovation and the impact it has on organizational performance was highlighted by the study conducted by Deshpande et al. (1997) who considered several companies from five countries. According to this study, firm's innovative capacity was the critical factor in explaining performance differences between firms from five countries: Japan, United States, France, Germany and England. Kotler (2003) studied the relationship between innovation and performance, offering the example of Sony, a leader in innovation that has significantly increased market share by means of numerous new products to clients. According to Tushman and Nadler (2006), strategic management in the banking sector demand that the institutions should have effective systems in place to offset unpredictable events that can maintain their operations and reduce the risks implicated through innovations. According to Davila, Epstein and Shelton (2006) innovation is a necessary ingredient for sustained success and is an integral part of the banking business. Gitonga (2003) did a study on innovation processes and the perceived role of the CEO in the banking industry. Odhiambo, (2008), carried out a research on the innovation strategies at the Standard Chartered Bank.

Bwaley, (2013), did a study on the relationship between innovation strategies and competitive advantage among banks listed in the Nairobi Stock Exchange and concludes that innovation strategies impacted positively on competitive advantage among banks. Wairi, (2013), in a study on the factors influencing the adoption of agent banking innovation among commercial banks in Kenya concluded that technology and resources were major factors influencing the adoption of agent

banking innovation. Muiruri, (2013), found that there was a positive relationship between financial innovation and financial performance of commercial banks in Kenya. There was a positive relationship between financial innovation and profitability of commercial banks in Kenya (Wairagu, 2012). Jepkorir, (2012), did a study on the challenges of implementing financial innovations by commercial banks in Kenya. Nyawira, (2012), did a study on the relationship between the level of technological innovations and financial performance of commercial banks in Kenya and found a positive relationship.

Ngugi and Karina, (2013), did a study on the effect of innovation strategy on performance of commercial banks in Kenya. The study concludes that adoption of innovation strategies affected profitability of the bank. The paper concludes that adoption of innovation strategies affected performance of the bank to a great extent.

None of the previous studies has dealt with the effect of product innovation on performance of commercial banks in Kenya. Given the critical role that commercial banks play in the market; they need product innovations that will keep them competitive. It is however not known how product innovation affects performance. Based on this evaluation, there exists a gap in literature to warrant a research to be conducted in this industry. This study intends to provide an insight into the effects of product innovation on performance of commercial banks in Kenya. This study sought to answer the research question; what is the effect of product innovation on performance of commercial banks in Kenya?

1.3 Research Objective

The objective of the study was to determine the effect of product innovation on performance of commercial banks in Kenya.

1.4 Value of Study

This study will shed light on the nature and importance of product innovation. It will, thus, assist in focusing research attention to the key issues which determine the performance of organizations. The study is important as a catalyst to explore the area further. It would also facilitate the conduct of other studies that require the results of their study on their information. Students and academicians who wish to carry out further research in product innovation and performance in organizations.

This study will provide pertinent information for policymaking and planning in the industry. Policymakers will hence, be able to make informed strategic decisions in the light of increased competition, environmental pressures and awareness. Management is responsible for the day to day running of the company. The innovation issues may affect the action of managing either positively or negatively. The management of the commercial banks in existence in Kenya will use this information when making strategic decisions towards the customers in their companies.

The study will be of benefit to commercial banks, as they will understand how product innovations or lack of it affect organisations performance. This will help in strategy formulation decisions and resource allocation towards product research and development. The research will highlight challenges arising from product innovation as a business strategy and ways of overcoming them. The findings that will be gathered from the study will help Commercial Banks re-engineer their strategies on product innovation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the research topic. It also identifies the theories of product innovation, measures of organizational performance, types of product innovation, and effect of product innovation on organization performance.

2.2 The Theories of Product Innovation

The notion that innovation is essentially about the commercialization of ideas and inventions suggests that it is relatively straightforward and simple. Far from it, not only is the step from invention to commercially successful innovation often a large one that takes much effort and time, innovations can and do vary enormously. In addition the term 'innovation' is widely used, probably because it frequently has very positive associations, and is often applied to things that really have little to do with innovation, certainly in the sense of technological innovation (Gong, Law, Chang, & Xin, 2009). Organizational renewal involves the building and expansion of organizational competences over time, often involving a change in the organization's product market domain (Floyd & Lane, 2000). According to Floyd and Lane (2000), a theory of strategic renewal must recognize that maintaining adaptiveness requires both exploiting existing competencies and exploring new ones.

2.2.1 Disruptive Innovation Theory

Disruptive innovation, a term of art coined by Clayton Christensen, describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors. As companies tend to innovate faster than their customers'

needs evolve, most organizations eventually end up producing products or services that are actually too sophisticated, too expensive, and too complicated for many customers in their market. Characteristics of disruptive businesses, at least in their initial stages, can include: lower gross margins, smaller target markets, and simpler products and services that may not appear as attractive as existing solutions when compared against traditional performance metrics. Because these lower tiers of the market offer lower gross margins, they are unattractive to other firms moving upward in the market, creating space at the bottom of the market for new disruptive competitors to emerge (Christensen, 1997).

2.2.2 Diffusion of Innovation Theory

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962, is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. The end result of this diffusion is that people, as part of a social system, adopt a new idea, behaviour, or product. Adoption means that a person does something differently than what they had previously (purchase or use a new product, acquire and perform a new behaviour, etc.). The key to adoption is that the person must perceive the idea, behaviour, or product as new or innovative. It is through this that diffusion is possible. Adoption of a new idea, behaviour, or product (innovation) does not happen simultaneously in a social system; rather it is a process whereby some people are more apt to adopt the innovation than others. Researchers have found that people who adopt an innovation early have different characteristics than people who adopt an innovation later (Hager, 2006).

2.3 Measures of Organizational Performance

Firm's performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively (Ngugi & Karina, 2013). Many researchers maintain that various initiatives and programs improve the performance of organizations. Nevertheless, many of these assertions have not been assessed. Indeed, even the optimal definitions or measures of performance remain controversial. Practices that improve the commitment and attitudes of employees do indeed enhance many financial indicators of workplace performance (Gong, Law, Chang, & Xin, 2009).

Many researchers utilize traditional accounting measures of profit. One the most common indices, for example, is return on assets (Staw & Epstein, 2000; Wan & Hoskisson, 2003). Roughly, return on assets is the annual profit or net income divided by the average assets over the year. More precisely, to compute the numerator, researchers usually subtract the interest expense and the interest tax savings from the annual profit. As Van Dyck, Frese, Baer, and Sonnentag (2005) highlight, return on assets is a measure of operating efficiency, reflecting the long term financial strength of organizations. Although a ubiquitous measure, return on assets is not always an optimal measure. For example, return on assets should not be used to compare organizations in different industries. The peculiarities of any industry will bias this index. Because of the massive reserves in the insurance and banking industries, for example, return on assets will tend to underestimate the profitability of these organizations.

Return on assets differs from return on investment, which is also called the rate of return. The return on investment is usually calculated to examine the efficiency of a specific investment or initiative or to compare the efficiency of several investments of initiatives. Return on investment is merely the return of an investment that is, the gain minus the costs divided by the costs of this investment. Although related to profit, some researchers instead compute the productivity of employees. Roughly, productivity is the revenue divided by the total number of employees. Many researchers, however, prefer to compute the natural log of revenue divided by the total number of employees (Huselid, 1995; Subramony, Krause, Norton, & Burns, 2008).

Subramony, Krause, Norton, and Burns (2008), for example, showed that perceptions of pay affected productivity. That is, productivity, as measured by the natural log of revenue divided by the total number of employees increased, if employees one year earlier had reported they felt their pay was competitive. Sales are often used to gauge the performance of organizations. Nevertheless, several variants of sales have been utilized. In one study, for example, conducted by Salamon and Robinson (2008), sales relative to targets were calculated. That is, senior management had estimated the sales target of each site, depending on the product lines, characteristics of the clientele, and other factors. To compute sales performance, actual sales was divided by target sales, and then multiplied by a hundred. This study showed that sites in which employees felt trusted by management experienced a sense of responsibility and accountability, which translated into improvements in this sales index (Salamon & Robinson, 2008).

Many related measures of sales are also used. Typical examples are total sales growth, rather than merely sales, as well as market share (Gong et al., 2009). Studies indicate that human resource systems that relate to productivity have been shown to enhance

performance, as measured by similar measures. These systems include extensive training, competitive pay that is contingent upon performance, career planning, performance appraisal, and participation in decision making (Gong et al., 2009).

In lieu of more objective measures of workplace performance, some researchers also assess subjective indices. One of the most common subjective indices is customer service. In the study undertaken by Salamon and Robinson (2008), customer surveys were conducted. This particular survey comprised 10 questions, such as, whether customers were assisted or greeted appropriately. Customer service was rated more favourably if employees felt trusted by management.

2.4 Types of Product Innovation

It has long been noted that one can differentiate the types of innovation in terms of the degree of novelty associated with them. Some innovations employ a high degree of novelty, while others involve little more than 'cosmetic' changes to an existing design. This distinction between big change and small changes innovations has led some to group innovations as either radical or incremental (Freeman, 1982). However differentiating innovations using just two classes in this way is rather limited and does not bring out the subtle but important differences between innovations. In particular it fails to show where the novelty often lies. To cater for this Henderson and Clark, (1990), use a more sophisticated analysis. Their analysis incorporates both radical and incremental innovation but within a more wide-ranging analysis that is both robust and meaningful.

Henderson and Clark's, (1990), analytical framework provides a typology that allows us to analyze more modest innovations and at the same time predict their impact in terms of both competition and the marketplace. Although this typology focuses

primarily on product innovations it can be equally applied to service and process innovations. At the heart of Henderson and Clark's analytical framework is the recognition that products are actually systems. As systems they are made up of components that fit together in a particular way in order to carry out a given function.

Henderson and Clark, (1990) point out that, to make a product normally requires two distinct types of knowledge, namely, component and system knowledge. Component knowledge which is knowledge of each of the components that performs a well - defined function within a broader system that makes up the product. This knowledge forms part of the 'core design concepts' (Henderson & Clark, 1990) embedded in the components. System knowledge which is knowledge about the way the components are integrated and linked together. This is knowledge about how the system works and how the various components are configured and work together. Henderson and Clark, (1990), refer to this as architectural knowledge.

2.4.1 Incremental Innovation

Incremental innovation refines and improves an existing design, through improvements in the components. However it is important to stress these are improvements not changes, the components are not radically altered. Christensen (1997) defines incremental innovation as a change that builds on a firm's expertise in component technology within an established architecture. Incremental innovations are the commonest. Gradual improvements in knowledge and materials lead to most products and services being enhanced over time. However these enhancements typically take the form of refinements in components rather than changes in the system. Thus a new model of an existing and established product is likely to leave the

architecture of the system unchanged and instead involve refinements to particular components (Howells, 2005).

2.4.2 Radical Innovation

Radical innovation is about much more than improvements to existing designs. A radical innovation calls for a whole new design, ideally using new components configured and integrated into the design in a new way. Henderson and Clark (1990) state that radical innovation establishes a new dominant design, and hence a new set of core design concepts embodied in components that are linked together in a new architecture. Radical innovations are comparatively rare. Rothwell and Gardner (1989) estimated that at the most about 10 per cent of innovations are radical. Radical innovation is often associated with the introduction of a new technology. In some cases this will be a transforming technology; perhaps even one associated with the transforming effect of a Kondratiev long wave. Radical innovation involves both new components and a new design with a new architecture that links the components together in a different way (Howells, 2005).

2.4.3 Modular Innovation

Modular innovation uses the architecture and configuration associated with the existing system of an established product, but employs new components with different design concepts. As with incremental innovation, modular innovation does not involve a whole new design. However modular innovation does involve new or at least significantly different components. New technology can transform the way in which one or more components within the overall system operate, but the system and its configuration/architecture remains unchanged. Clearly the impact of modular

innovation is usually less dramatic than is the case with radical innovation. The clockwork radio illustrates this well.

People still listen to the radio in the way they always have. But the fact that it doesn't need an external power source means that new groups often living in relatively poor countries without access to a stable and reliable supply of electricity living can get the benefit of radio. Clockwork radio has also opened up new markets in affluent countries, for example hikers who want a radio to keep in touch with the outside world. Clockwork radio has also provided an important 'demonstration' effect as it has led to other products, such as torches, being fitted with this ingenious and environmentally friendly source of power (Howells, 2005).

2.4.4 Architectural Innovation

With architectural innovation, the components and associated design concepts remain unchanged but the configuration of the system changes as new linkages are instituted. Henderson and Clark, (1990), argue that the essence of an architectural innovation is the reconfiguration of an established system to link together existing components in a new way. This is not to say that there won't be some changes to components. Manufacturers may well take the opportunity to refine and improve some components, but essentially the changes will be minor leaving the components to function as they have in the past but within a new re-designed and re-configured system.

2.5 Effect of Product Innovation on Organizational Performance

Innovations can actually enhance the firm performance in several aspects. Innovation has a considerable impact on corporate performance by producing an improved

market position that conveys competitive advantage and superior performance (Walker, 2004). A large number of studies focusing on the innovation-performance relationship provides a positive appraisal of higher innovativeness resulting in increased corporate performance (Damanpour & Evan 1984; Damanpour et al. 1989; Deshpande et al. 1993; Dos Santos & Peffers 1995; McGrath et al, 1996; Gao & Fu, 1996; Han et al., 1998; Olson & Schwab, 2000; Hult & Ketchen, 2001; Du & Farley, 2001; Calantone et al., 2002; Garg et al., 2003; Wu et al., 2003). But these researches are generally conceptual in nature and/or focus only on a single type of innovation rather than considering all four innovation types already defined, and then explore its impact on performance. Process and product innovations are the most common innovation types examined. The studies by Atuahene-Gima (1996), Subramanian and Nilakanta (1996), Han et al.(1998) and Li and Atuahene-Gima (2001) report a more or less positive association between product innovations and firm performance, but there are also some studies indicating a negative link or no link at all (Capon et al. 1990; Chandler & Hanks 1994, Subramanian & Nilakanta 1996).

Wolff and Pett (2004) and Walker (2008), conducted comparative research for the effects of product and process innovations on firm performance. They indicated that particular product improvements are positively associated with firm growth. Product innovations will thus enable the banks to increase their brands or products in the market hence create competitive advantage for the organizations; market innovation enables the banks create new markets hence increasing the competitive advantage; process innovation enables the running of the banks' operations thus increasing effectiveness and efficiency while technology innovation will encourage ease of flow of information and fast delivery to the intended persons (Ngugi & Karina 2013).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the various steps that were used to facilitate execution of the study to satisfy the study objectives. These steps are the research design, study population/ location of the study, data collection, and data analysis.

3.2 Research Design

In this study, cross-sectoral survey design approach was used. According to Kothari, (2003) descriptive studies are structured with clearly stated investigative questions. According to Mugenda and Mugenda (2003), descriptive survey is used to obtain information concerning the current status of the phenomena to describe what exists with respect to variables in a situation, by asking individuals about their perceptions, attitudes, behaviour or values. The research adopted the survey design to enable achieve the objective of the study. This was considered the most suitable method since it involves getting views on product innovation on organisation performance of commercial banks in Kenya.

The use of survey procedures helped to identify interrelationships among variables being studied. Furthermore, this was necessitated by the fact that survey research is used to obtain a considerable amount of information, which can be generalized, to an entire population. This design was appropriate because it gave conclusive results between two variables. For this case, product innovation was the independent variable whereas the dependent variable is the effect on the organization performance.

3.3 Population of the Study

The population of the study comprised of all the commercial banks licensed by the Central Bank of Kenya as at 31st July 2014. There are (43) forty-three licensed commercial banks and one finance institution. All the commercial banks were included in the study with the respondents being the general managers.

3.4 Data Collection

The study used both primary and secondary data. Primary data was collected with the aid of a semi-structured questionnaire. The use of self-administered questionnaires affords privacy of response and therefore records high response rate. The method of data collection involved the use of semi-structured questionnaire. The questionnaire was administered through drop and pick method to general managers in the banks. Secondary data was collected by use of desk search techniques from published reports and other relevant documents. It also included the bank's publications and annual reports.

3.5 Data Analysis

Descriptive statistics such as means, standard deviations and frequency distribution were used to analyse the data. Data presentation was done by the use of percentages and frequency tables. Inferential statistics were used in drawing conclusions. Data in part A of the questionnaire was analysed using frequency distributions and percentages to determine the profile of respondents. Data in part B was analysed using mean scores and standard deviations to determine the effect of product innovation on organisation performance of commercial banks in Kenya. Pearson's product moment correlation (r^2) statistic was used to establish the significance of the correlation between the product innovation and organisation performance of commercial banks in Kenya.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a detailed discussion of the research findings in an attempt to achieve the research objective. The objective of the study was to determine the effect of product innovation on performance of commercial banks in Kenya. Data analysis is carried out based on the objective of the study.

4.2 Response Rate

The population of the study comprised of (43) forty-three commercial banks licensed by the Central Bank of Kenya as at 31st July 2014. 43 questionnaires were distributed to general managers of the respondent commercial banks. However, only 30 were completed and returned, representing a 69.77% response rate which was good enough considering the difficulties involved in making a follow up of questionnaires.

4.3 Respondents Background

4.3.1 Gender of the Respondents

The study sought to find out the gender of the respondents. Table 4.1 shows their response.

Table 4.1: Gender of the Respondents

	Frequency	Percent
Male	20	66.67
Female	10	33.33
Total	30	100.0

Source: Research data

Table 4.1 shows that 66.67% of the respondents interviewed were male with 33.33% of the respondents being female. These findings indicate that there were more male respondents as compared to the females.

4.3.2 Position in the Organisation

The respondents targeted by the study were the general managers. The study therefore sought to affirm the designation of the respondents. All the respondents in the study were managers and were therefore knowledgeable in the bank’s operations as regards product innovation and performance.

4.3.3 Period of Working at the Bank

The study sought to find out how long the respondent had worked with the bank which is captured in Table 4.2.

Table 4.2: Period of working at the bank

	Frequency	Percent
Over 10 years	12	40.00
8-10 years	10	33.33
4-7 years	8	26.67
Total	30	100.0

Source: Research data

From the Table 4.2 it is evident that most of the respondents (40.00%), had worked for the bank for over 10 years. 33.33% of the respondents had worked for the bank for 8-10 years, while 26.67% are had worked for the bank for between 4-7 years.

4.3.4 Age of the Respondent

The study sought to find out the age of the respondents at the commercial banks which is captured in table 4.3.

Table 4.3: Age of the Respondent

	Frequency	Percent
31-40 years	18	60.00
41-50 years	8	26.67
51-60 years	4	13.33
Total	30	100.0

Source: Research data

From the Table 4.3 it is evident that most of the respondents (60.00%) were aged between 31 and 40 years. 26.67% of the respondents were aged between 41 and 50 years, while 13.33% were aged between 51 and 60 years.

4.3.5 Respondent's Department

The study sought to find out the department in which the respondent worked in at the bank which is captured in Table 4.4.

Table 4.4: Respondent's Department

	Frequency	Percent
Corporate Banking	14	46.67
Consumer Banking	10	33.33
Support Function	4	13.33
Treasury	2	6.67
Total	30	100.0

Source: Research data

From the Table 4.4 it is evident that most of the respondents were managers in the bank's corporate banking division. 46.67% of the respondents were in corporate banking, 33.33% worked in consumer banking, 13.33% were in support functions, while the rest, 6.67% were in the bank's treasury. The findings indicate that the study included and collected responses from all the bank's departments as it was important to get responses across the departments. This is because product innovation was a holistic activity.

4.3.6 Respondent's Educational Qualifications

The study sought to find out the respondents education qualifications which were captured in Table 4.5.

Table 4.5: Respondent's Educational Qualifications

	Frequency	Percent
Postgraduate Degree	27	90.00
Undergraduate Degree	3	10.00
Total	30	100.0

Source: Research data

From the Table 4.5 it is evident that most of the respondents held postgraduate qualifications. 90.00% of the respondents had postgraduate qualifications while the rest, 10.00% had undergraduate qualifications. The level of qualification was important in this study. This evaluated whether the respondents had the prerequisite knowledge to understand the concept under research. The responses indicate that the respondents had the necessary education qualifications to understand the topic under study.

4.4 Bank's Performance

The respondents were then asked to rate their bank's performance. Their responses were captured in Table 4.6.

Table 4.6: Bank's Performance

	Frequency	Percent
Excellent	18	60.00
Very good	12	40.00
Total	30	100.0

Source: Research data

From the Table 4.6 it is evident that most of the respondents believed that their banks performance was excellent. 60.00% of the respondents indicated that it was excellent, while the rest, 40.00% indicated that it was very good. The responses are in line with the expectations as majority of the banks have posted positive results and increase in profitability.

4.5 Communication of Product Innovation to Staff

The study sought to find out the extent to which product innovation had been communicated to the staff. Their responses were captured in Table 4.7.

Table 4.7: Communication of Product Innovation to Staff

	Frequency	Percent
Very Great Extent	15	50.00
Great Extent	8	26.67
Moderate Extent	4	13.33
Little Extent	3	10.00
Total	30	100.00

Source: Research data

Table 4.7 shows that half of the respondents (50.00%) indicated that product innovation had been communicated to the staff to a very great extent, 26.67% indicated it was to a great extent, 13.33% to moderate extent and 10.00% indicated it was communicated to a little extent. The results indicate communication of product innovation to staff was to a great extent.

4.6 Product Innovation and Performance of Commercial Banks in Kenya

The objective of the study was to determine the effect of product innovation on performance of commercial banks in Kenya. This section deals with the factors of product innovation and organizational performance. Organizational performance has been measured by profitability, customer satisfaction, sales volume, market share and product quality/ range of products. The respondents were asked to rate on a scale of 1 to 5; (Where: 1. To a Very Great Extent 2. To a Great Extent 3. To a Moderate Extent 4. To a Little Extent 5. Not At All)

4.6.1 Product Innovation and Organizational Profitability

The respondents were asked to indicate the extent to which product innovation affected performance of a commercial bank. The results are indicated in the Table 4.8.

Table 4.8: Influence of Product Innovation on Organizational Performance

	Frequency	Percent
Very Great Extent	22	73.33
Great Extent	8	26.67
Total	30	100.00

Source: Research data

Table 4.8 shows that majority of the respondents agreed that product innovation affected organization performance. This is evident by 73.33% of the respondents indicating that product innovation affected organization performance to a very great extent and 26.67% indicated it was to a great extent.

The respondents were then asked to indicate the extent to which profitability had increased with the product innovation. Their responses are captured in Table 4.9.

Table 4.9: Product Innovation and Organizational Profitability

	Frequency	Percent
To a Very Great Extent	18	60.00
To a moderate extent	8	26.67
To a Great Extent	4	13.33
Total	30	100.00

Source: Research data

Table 4.9 shows that majority (60.00%) of the respondents indicated that profitability increased to a very great extent, with 26.67% indicating it was to a moderate extent, while 13.33% indicated it was to a great extent.

4.6.2 Product Innovation and Customer Satisfaction

The study sought to evaluate how customer satisfaction had increased with product innovation. The respondents were asked to rate the extent to which customer satisfaction and customer loyalty increased with product innovation. The results are captured in Table 4.10.

Table 4.10: Product Innovation and Customer Satisfaction

	To A Very Great Extent		To A Great Extent		To A Moderate Extent	
	n	%	n	%	n	%
Customer Loyalty	18	60.00	4	13.33	8	26.67
Customer Satisfaction	18	60.00	6	20.00	6	20.00

Source: Research data

Table 4.10 shows that majority (60.00%) of the respondents indicated that customer satisfaction increased to a very great extent, with 20.00% indicating it was to a great extent, while 20.00% indicated it was to a moderate extent. In addition, 60.00% of the respondents indicated that customer loyalty increased to a very great extent, with 13.33% indicating it was to a great extent, while 26.27% indicated it was to a moderate extent.

4.6.3 Product Innovation and Sales Volume

The study sought to find out the respondents view on the extent to which sales volume had increased with product innovation. The findings are indicated in Table 4.11.

Table 4.11: Product Innovation and Sales Volume

	Frequency	Percent
To a Very Great Extent	18	60.00
To a Great Extent	6	20.00
To a moderate extent	6	20.00
Total	30	100.00

Source: Research data

Table 4.11 shows that majority (60.00%) of the respondents indicated that sales volumes increased to a very great extent, with 20.00% indicating it was to a great extent, while 20.00% indicated it was to a moderate extent.

4.6.4 Product Innovation and Market Share

The respondents were then required to indicate the extent to which market share had increased with product innovation. The findings are indicated in Table 4.12.

Table 4.12: Product Innovation and Market Share

	Frequency	Percent
To a Very Great Extent	16	53.33
To a moderate extent	6	26.67
To a Great Extent	8	20.00
Total	30	100.00

Source: Research data

Table 4.12 shows that majority (53.33%) of the respondents indicated that market share increased to a very great extent, with 26.67% indicated it was to a moderate extent, while 20.00% indicating it was to a great extent.

4.6.5 Product Innovation and Product Quality

The study sought to evaluate how product quality had increased with product innovation. The respondents were asked to rate the extent to which product quality, product development and range of products had increased with product innovation.

The results are captured in Table 4.13.

Table 4.13: Product Innovation and Product Quality

	To A Very Great Extent		To A Great Extent		To A Moderate Extent	
	N	%	n	%	n	%
Product Quality	20	66.67	4	13.33	6	20.00
Product Development	21	70.00	5	16.67	4	13.33
Range of Products	20	66.67	4	13.33	6	20.00

Source: Research data

Table 4.13 shows that majority (66.67%) of the respondents indicated that product quality increased to a very great extent, with 13.33% indicating it was to a great extent, while 20.00% indicated it was to a moderate extent. In addition, 70.00% of the respondents indicated that product development increased to a very great extent, with 16.67% indicating it was to a great extent, while 13.33% indicated it was to a moderate extent. The range of products was rated to have increased to a very great extent by 66.67% of the respondents, with 13.33% indicating it was to a great extent, while the rest 20.00% indicated it was to a moderate extent.

4.6.6 Effects of Product Innovation on Organizational Competitiveness

The study sought to find out the extent to which product innovation improved competitiveness of a bank in the market. The respondents were then asked to rate on a scale of 1 to 5; (Where: 1. To a Very Great Extent 2. To a Great Extent 3. To a Moderate Extent 4. To a Little Extent 5. Not At All) the extent to which product innovation had improved competitiveness of the bank. The results are captured in table 4.14.

Means for the factors were established in order to provide a generalized feeling of all the responses. Means greater than 1 and less than 1.5 implied that product innovation increased the factor to a very great extent. Means greater than 1.5 and less than 2.5 implied that product innovation increased the factor to a great extent. Means greater than 2.5 and less than 3.5 implied that product innovation increased the factor to a moderate extent. Means greater than 3.5 and less than 4.5 implied that product innovation increased the factor to a little extent while means greater than 4.5 implied that product innovation did not influence the factor.

Table 4.14: Effects of Product Innovation on Organizational Competitiveness

	Very Great Extent	Great Extent	Moderate Extent	Total	Mean
	Frequency	Frequency	Frequency		
Wide range of services offered	20	5	5	30	1.50
High quality products and services at lower fee	20	5	5	30	1.50
Market driven products and services	10	18	2	30	1.73
Satisfactory quality of products and services	10	18	2	30	1.73
Frequent market research	8	20	2	30	1.80
Knowledge of customer needs	10	15	5	30	1.83
Identifying needs of prospective customers	9	16	5	30	1.87
Shortened duration of obtaining a product or service	3	23	4	30	2.03
Ability to satisfy the customer and have repeat business	5	19	6	30	2.03

Source: Research data

The respondents indicated that the banks competitiveness was improved to a very great extent by the wide range of services offered, and high quality products and services as a result of product innovation as evidenced by the means of 1.50 each.

Table 4.14 above further indicates that the banks competitiveness was improved to a great extent by market driven products and services and satisfactory quality of products and services were ranked second, with means of 1.73 each. They indicated that frequent market research, knowledge of customer needs and identifying needs of prospective customers also improved the bank’s competitiveness to a great extent as evidenced by the means of 1.80, 1.83 and 1.87 respectively. Shortened duration of obtaining a product or service and ability to satisfy the customer and have repeat business also improved the bank’s competitiveness to a great extent as indicated by the means of 2.03 each.

4.6.7 Product Innovation and Bank Operations

The study sought to find out the effect of product innovation on the bank operations. The results were captured in Table 4.15. The respondents were asked to rate on a scale of 1 to 5; where 1= Not at all, 2= To a Little extent, 3= To a moderate extent, 4= To a great extent, and 5= To a very great.

Table 4.15: Effect of Product Innovation and Bank Operations

	Mean	Standard Deviation	Rank
Reputation in the market	4.00	0.65	1.
Customer service	3.64	0.76	2.
Processes and systems	3.52	0.87	3.
Cost (charges)	3.36	0.86	4.
Location and wide network	3.32	0.86	5.

Source: Research data

The respondents indicated that product innovation affects the reputation of the bank in the market to a very great extent, which was ranked first with a mean of 4.00. This

was followed by customer service and processes and systems also being influenced by product innovation to a very great extent with means of 3.64 and 3.52 respectively. The respondents however indicated that the costs (charges); location and wide network were influenced by product innovation to a great extent as evidenced by the means of 3.36 and 3.32 respectively.

4.6.8 Level of Product Innovation and Commercial Bank Performance

The study sought to find out the relationship between the level of innovation and commercial bank performance. The results are captured in Table 4.17. Means for the factors were established in order to provide a generalized feeling of all the responses. Strongly disagree responses were coded 1, disagree responses were coded 2, neither disagree nor agree responses were coded 3, agree responses were coded 4 and strongly agree responses were coded 5.

Table 4.16: The Richter Scale

Level	Category
1 and less than 1.5	Strongly Disagree
1.5 and less than 2.5	Disagree
2.5 and less than 3.5	Neither Disagree nor Agree
3.5 and less than 4.5	Agree
Greater than 4.5	Strongly Agreed

Source: Research data

Means greater than 1 and less than 1.5 implied that the respondents strongly disagreed with the statement. Means greater than 1.5 and less than 2.5 implied that the respondents disagreed with the statement. Means greater than 2.5 and less than 3.5

implied that the respondents neither disagreed nor agreed with the statement. Means greater than 3.5 and less than 4.5 implied that the respondents agreed with the statement while means greater than 4.5 implied that the respondents strongly agreed with the statement.

The standard deviation on the other hand describes the distribution of the responses in relation to the mean. It provides an indication of how far the individual responses to each factor vary from the mean. A standard deviation of 1 indicates that the responses are further spread out, greater than 0.5 and less than 1, indicates that the responses are moderately distributed, while less than 0.5 indicates that they are concentrated around the mean. Standard deviations of greater than 1 indicate a significant variation from the mean, signifying no consensus on the responses obtained.

Table 4.17: Level of Product Innovation and Commercial Bank Performance

	Mean	Standard Deviation
To command a higher market share, you need innovative ideas	4.00	0.65
The level of innovation determines choice of Bank	3.86	0.94
How a bank communicates matters allot.	3.66	0.86
Innovation creates a competitive edge for Banks	3.64	0.76
There is a relationship between product innovation and performance.	3.52	0.87
It s all about target market not innovation	3.32	0.86
Customers would change to a Bank with more innovative products	3.20	0.76
Customer value proposition is linked to innovation	3.20	1.04(*)
Product innovation creates a competitive edge for Banks	2.72	0.98
Customer service is now about new solution offerings	1.43	0.99

Source: Research data

* Standard Deviation indicates significant variation from the mean.

The respondents indicated they agreed that to command a higher market share, you need innovative ideas to a great extent which was ranked first with a mean of 4.00. The results indicate that they agreed that the level of innovation determines the choice of Bank, how the bank communicates matters, creates a competitive edge for Banks and that there is a relationship between innovation and performance. These are evidenced by means of 3.86, 3.66, 3.64 and 3.52 respectively.

The respondents neither agreed nor disagreed with the following statement. It is all about target market not innovation with a mean of 3.32 followed by customers would change to a bank with more innovative products with a mean of 3.20 then customer value proposition is linked to innovation with a mean of 3.20, and lastly product innovation creates a competitive edge for banks with a mean of 2.72. This indicated that they were indifferent with the statements. The respondents however indicated that they strongly disagreed that customer service is now about new solution offerings as evidenced by its mean of 1.43

4.7 Factors Affecting Product Innovation Initiatives.

The study sought to find out the challenges arising from product innovation initiatives. It captured the responses of the respondents which are shown in Table 4.18.

Table 4.18: Factors Affecting Product Innovation Initiatives.

	1	2	3	4	5
	(%)	(%)	(%)	(%)	(%)
Organisation strategy and goals impact on innovation and need to be continuous	2.00	0.00	12.00	58.00	28.00
Innovation is determined by organisation culture	2.00	2.00	10.00	44.00	42.00
It is all about people when it comes to innovation	2.00	2.00	10.00	50.00	36.00
Competition among commercial banks drives product innovation	2.00	6.00	2.00	46.00	44.00
The nature of technology systems and processes affect innovation	2.00	4.00	2.00	40.00	52.00
To sustain performance, Banks need to be innovative.	2.00	12.00	14.00	22.00	50.00

Source: Research data

From the Table 4.14, we see that majority of the respondents (58.0%) agreed and 28.0% strongly agreed that organisation strategy and goals impacts innovation. Table 4.14 further shows that majority of the respondents (44.0%) agreed and 42.0% strongly agreed that innovation is determined by organisation culture while 52.0% agreed and 28.0% strongly agreed that there is a relationship between innovation and finance. From the Table 4.14, majority of the respondents (50.0%) agreed and 36.0% strongly agreed that it is all about people when it comes to innovation while 56.0% and 28.0% strongly agreed that there are industries that are more inclined to

innovation than others. Table 4.14 further depicts that majority of the respondents (46.0%) agreed and 44.0% strongly agreed that competition among commercial banks drives innovation. From the Table 4.14, we see that 52.0%, the majority agreed and 40.0% strongly agreed that the nature of technology systems and processes affect innovation. Finally, 22.0% agreed and 50.0% strongly agreed that to sustain performance, banks need to be innovative.

4.8 Discussion

The results indicate communication of product innovation to staff was to a great extent with majority agreeing that product innovation affected organization performance. There is need for product innovation to be made aware to all members of the organisation. This is in line with the literatures as it is observed that product innovation affects every part of the organization. Strategic planning, sales costumers, shareholders, finance department, purchase department and operation department all are affected by product innovation (Rakesh, Kevin, & Barry, 2006).

The results indicated that profitability increased with product innovation to a very greatly extent, and that product innovation increased product development; product quality; range of products; sales volume; customer satisfaction, customer loyalty and market share to a great extent. They also indicated that product innovation enhanced a wide range of services offered, and high quality products and services to a very great extent. The results are inconformity with previous studies as Chux, (2010), notes that product innovation and development are critical in organization for their existence and competitiveness. Product innovation can seriously derive the performance of the organization and enables the organization to better utilize the available resources to contribute towards the market share of the organization (Chux, 2010). To increase the

performance of the firms, management have to focus for achieving of product and process innovation (Ilker and Birdogan, 2011).

The respondents indicated they agreed that to command a higher market share, a commercial bank needed innovative ideas to a great extent. They also agreed that the level of innovation determines the choice of Bank, how a bank communicates matters, innovation creates a competitive edge for Banks and that there is a relationship between innovation and performance. The results also indicate that product innovation is critical for a bank to maintain competitiveness in the market. This conforms to Wooseong and Mitzi, (2008), study which notes that, to build and sustain the competitiveness in the industry, product innovation strategy must be aligned with leadership and investment strategy. First-entered product in respect of innovation has very immediate and long term effect on the yield of the company. So organization must focus on innovation, even though organization may lose temporarily but firm will enjoy long term gains (Wooseong and Mitzi, 2008).

The study also found out that the sales volume increases with product innovation. Demetris, (2011), states that product innovation will increase the sales of the firms and ultimately there is an increase in the productivity in the economy. This effect will also boost up the employment of the country. This will also trigger the development of the organizations indirectly (Demetris, 2011).

The study found out that there is a relationship between the level of innovation and commercial bank performance. They indicated that to command a higher market share, you need innovative ideas. The results also indicate that they agreed that the level of innovation determines the choice of Bank, how the bank communicates

matters, creates a competitive edge for Banks and It is all about target market not innovation.

Banks, among other organizations, have been facing a dynamic business environment that is technologically driven, globally unbounded, and customer oriented. These challenges, among many others, called for extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent marketplace (Al-Mansour, 2007). This customer-centric global business environment forced all business organizations, especially banks, to adopt strategies that pay an increasing attention to the customers. The attention has also been given to the effect of customers' satisfaction on the business of a bank and its strategic position. Since the innovation strategy is built on the fact that it is a management philosophy that seeks to satisfy customers through continuous improvements (Kumar et al., 2009), it is of a potential value for banks to increase their customers' satisfaction and loyalty (Al-Mansour, 2007).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the results gathered from the analysis of the data, as well as the conclusions reached. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

5.2 Summary

The results indicate communication of product innovation to staff was to a great extent with majority agreeing that product innovation affected organization performance. They indicated that profitability increased with product innovation to a very greatly extent, and that product innovation increased product development; product quality; range of products; sales volume; customer satisfaction, customer loyalty and market share to a great extent. They also indicated that product innovation enhanced a wide range of services offered, and high quality products and services to a very great extent. The reputation in the market makes a bank stand out very great extent while innovation and customer service; and processes and systems made banks stand out.

The respondents indicated they agreed that to command a higher market share, a commercial bank needed innovative ideas to a great extent. They also agreed that the level of innovation determines the choice of Bank, how a bank communicates matters alot, innovation creates a competitive edge for Banks and that there is a relationship between innovation and performance. Majority of the respondents (58.0%) agreed and

28.0% strongly agreed that organisation strategy and goals impacts innovation. In addition, majority of the respondents (44.0%) agreed and 42.0% strongly agreed that innovation is determined by organisation culture while 52.0% agreed and 28.0% strongly agreed that there is a relationship between innovation and finance.

From the findings, majority of the respondents (50.0%) agreed and 36.0% strongly agreed that it is all about people when it comes to innovation while 56.0% and 28.0% strongly agreed that there are industries that are more inclined to innovation than others. The findings further depict that majority of the respondents (46.0%) agreed and 44.0% strongly agreed that competition among commercial banks drives innovation. We also observe that 52.0%, agreed and 40.0% strongly agreed that the nature of technology systems and processes affect innovation. Finally, 22.0% agreed and 50.0% strongly agreed that to sustain performance, banks need to be innovative.

5.3 Conclusions

From the study findings the respondents, indicated that the strongly agreed that the service offered by commercial banks is enhanced by their level of innovations. They bank with commercial banks because of the service they offer, and the respondents agreed that commercial banks range of products were of first class innovation. The respondents indicate that they were able to access their bank account online. As concerns the level of satisfaction being determined by a banks range of products, the respondents strongly agreed. It can thus be concluded that product innovation impacts on customer satisfaction.

From the study findings, it is notable that the respondents were satisfied with commercial banks products. The product range would influence their decision on a

commercial bank. The reputation in the market makes the bank stand out, and a competitive Bank is one that undertakes rapid innovations as. To command a higher market share, commercial banks need innovative ideas. The study depict that aspects relating to product innovation and competitiveness include: location and wide network, branch networks, range of products, cost (charges), reputation, product range, customer service, bank reputation, innovation and customer service, processes and systems, and discipline.

From the findings, it is notable that organisation strategy and goals impacts innovation. Innovation is determined by organisation culture and there is a relationship that exists between innovation and finance. It is all about people when it comes to innovation while there are industries that are more inclined to innovation than others. Further, competition drives innovation that getting innovative ideas is very easy. Technology systems and processes affect innovation and organisation policies affect innovation. Innovation also comes with many challenges with the biggest problem in innovation being generation of new ideas. Finally, not all new ideas are innovations and to sustain performance, banks need to be innovative.

5.4 Recommendations for Policy and Practice

From the findings the study recommends that the services offered by commercial banks should be enhanced by their level of innovations. Commercial banks' range of products should be of 1st class innovation. The banks should aim at enabling customer's access their bank accounts online. As concerns the level of satisfaction, it is determined by a banks range of products, and therefore the bank should maintain a wide range of products. Therefore, commercial banks should aim at product innovation to enhance customer satisfaction.

From the study findings notable effects of product innovation on competitiveness are a wide range of products, low costs (charges), improved reputation, improved customer service, enhanced processes and systems, and discipline. The study recommends that commercial banks should always aim to maintain a strong reputation in the market which will make the bank stand out. To be competitive and to command a higher market share, commercial banks must undertake rapid innovations.

From the study findings, organisation strategy and goals impacts innovation and innovation is determined by organisation culture. There is a relationship between innovation and finance and it is all about people when it comes to innovation. It was observed that there are industries that are more inclined to innovation than others and that competition drives innovation. Therefore, organisation strategy and goals should always be tailored to promoting innovation. People should be considered and encouraged to innovate so that the organisation may remain competitive and be a market leader.

5.5 Limitations of the Study

The research study constituted of only 43 licensed commercial banks by the Central Bank of Kenya. This is a relatively small number since there are many more other financial institutions; Sacco's and microfinance institutions operating in Kenya though not licensed as commercial banks. This limits generalization of the findings to other sectors and companies that were not included in the study.

5.6 Suggestions for Further Research

Based on the findings and limitations of the research, the following are the recommendations for further research. This study sought to assess the effect of

product innovation on performance of commercial banks in Kenya attempting to bridge the gap in knowledge that existed. There is need to replicate the study using many other sectors and find out the effect of innovation on organization performance. There is need to conduct a similar study which will attempt to find out the effect of effective processes on product innovation and the distinction between user resistance to change and change management which arises as a result of product innovation and technology evolution. This research study included only a relatively small number of financial institutions, but there are many more others operating in Kenya. Future research studies should therefore be undertaken to incorporate a larger number of firms in the study.

REFERENCES

- Atuahene-Gima, K. (1996). Market orientation and innovation. *Journal of Business Research*, 35, 93-103.
- Bwaley, K. K. (2013). *The Relationship between Innovation strategies and Competitive Advantage among Banks Listed in the Nairobi Stock Exchange*. Unpublished MBA Project, University of Nairobi
- Calantone, R.J., Cavusgil, S. T., & Zhao, Y. (2002). Learning orientation, firm innovation capability, and firm performance. *Industrial Marketing Management*, 31:515-524.
- Capon, N., Farley, J. U., & Hoenig, S. (1990). Determinants of financial performance: a meta-analysis. *Management Science*, 36(10), 1143-1159.
- Central Bank of Kenya, (CBK), (2014). Developments in The Kenyan-Banking Sector, Retrieved on 31st July 2014, from <https://www.centralbank.go.ke/>
- Chandler, G. N., & Hanks, S. H. (1994). Market attractiveness, resource-based capabilities, venture strategies, and venture performance. *Journal of Business Venturing*, 9(4), 331-349.
- Christensen, C. M. (1997). *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Boston, Harvard Business School Press, Mass.
- Chux, G. I. (2010). Impact of product development and innovation on market share. *African Journal of Business Management*, 4(13): 2659-2667.

- Damanpour, F., & Evan, W. M. (1984). Organizational innovation and performance: the problem of “organizational lag”. *Administrative Science Quarterly*, 29(3), 392-409.
- Damanpour, F., Szabat, K. A., & Evan, W. M. (1989). The relationship between types of innovation and organizational performance. *Journal of Management Studies*, 26(6), 587–601.
- Demetris, K. (2011). *R&D, Product Innovation and Employment*. Columbia University, New York.
- Deshpande, R., Farley, J. U., & Webster, F. Jr. (1993). Corporate culture, customer orientation, and innovativeness in Japanese firms: *A quadrate analysis*. *Journal of Marketing*, 57, 23–27.
- Dos Santos, B. L., & Peffers, K. (1995). Rewards to investors in innovative information technology applications: first movers and early followers in ATMs. *Organization Science*, 6, 241-259.
- Drejer, A. (2002). Situations for innovation management: Towards a contingency model. *European Journal of Innovation Management*, 55 (1), 4-17
- Du, R., Farley, J. (2001). Research on technological innovation as seen through the Chinese looking glass. *Journal of Enterprising Culture*, 9 (1), 53-89.
- Freeman, C., & Louçã, F. (2001). *As Time Goes By: From Industrial revolutions to Information Revolution*, Oxford University press, Oxford.

- Gao, J., & Fu, J. (1996). Key issues on technological innovation in Chinese enterprises. *Science and Technology Policy and Management*, 1, 24-33.
- Garg, V. K., Walters, B.A. & Priem, R. L., (2003). Chief executive scanning emphases, environmental dynamism, and manufacturing firm performance. *Strategic Management Journal*, 24, 725-744.
- Gavrea, C., Ilieș, L. & Stegorean, R. (2011). Determinants of Organizational Performance: The Case of Romania, *Management & Marketing Challenges for the Knowledge Society*. 6(2), 285-300
- Georgopoulos, B., & Tannenbaum, A. (1957). A Study of Organizational Effectiveness, *American Sociological Review*. 22, 534-40
- Gitonga, T. (2003). *Innovation Processes and the Perceived Role of the CEO in the Banking Industry*. Unpublished MBA Project, University of Nairobi
- Gong, Y., Law, K. S., Chang, S., & Xin, K. R. (2009). Human resources management and firm performance: The differential role of managerial affective and continuance commitment. *Journal of Applied Psychology*, 94, 263-275.
- Han, J.K., Kim, N., & Srivastava, R. K. (1998). Market orientation and organizational performance: is innovation the missing link? *Journal of Marketing*, 62 (4), 30-45.
- Henderson, R. M. & Clark, K. B. (1990). Architectural Innovation: The Reconfiguration of Existing Product Technologies and the Failure of Established Firms, *Administrative Science Quarterly*, 35, 9-30.

- Howells, J. (2005). *The Management of Innovation and Technology*, Sage Publications, London.
- Hult, G. T., & Ketchen Jr., D. J. (2001). Does market orientation matter? A test of the relationship between positional advantage and performance. *Strategic Management Journal*, 22, 899-906.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38, 635-672.
- Ilker, M. A., & Birdogan, B. (2011). Antecedents and performance impacts of product versus process innovation: Empirical evidence from SMEs located in Turkish science and technology parks. *European Journal of Innovation Management*, 14 1(2): 172-206.
- Jepkorir, S. (2012). *Challenges of Implementing Financial Innovations by commercial Bank in Kenya*. Unpublished MBA Project, University of Nairobi
- Li, H., & Atuagene-Gima, K. (2001). Product innovation strategy and the performance of new technology ventures in China. *Academy of Management Journal*, 44(6), 1123-1134.
- Lusthaus, C. & Adrien, M. H. (1998). Organizational assessment: A review of experience, *Universalia*, 31
- McGrath, R.G., Tsai, M. H., Venkataraman, S., & MacMillan, I. C. (1996). Innovation, competitive advantage and rent: A model and test. *Management Science*, 42, 389-403.

- Muiruri, G. R. (2013). *The Relationship between Financial Innovation and Financial Performance of Commercial Banks in Kenya*. Unpublished MBA Project, University of Nairobi
- Ngugi, K. & Karina, B. (2013). Effect of Innovation Strategy on performance of Commercial Banks in Kenya, *International Journal of Social Sciences and Entrepreneurship*, 1(3), 158-170
- Nyawira, K. J. (2012). *The Relationship between the Level of Technological Innovations and Financial Performance of Commercial Banks In Kenya*. Unpublished MBA Project, University of Nairobi
- Rakesh, B., Kevin, D. & Barry, J. (2006). *Smart Spenders: The Global Innovation 1000*. The Booz Allen Hamilton Global Inc..
- Richard, P. J., Devinney, T. M. Yip, G. S. & Gerry, J. (2009). Measuring Organizational Performance: Towards Methodological Best Practice. *Journal of Management*. 35(3), 718-804
- Rothwell, R. & Gardner, D. (1989). The strategic management of re-innovation, *R & D Management*, 19(2), 147-160.
- Salamon, S. D., & Robinson, S. L. (2008). Trust that binds: The impact of collective felt trust on organizational performance. *Journal of Applied Psychology*, 93, 593-601.
- Staw, B. M., & Epstein, L. D. (2000). What bandwagons bring: Effects of popular management techniques on corporate performance, reputation, and CEO pay. *Administrative Science Quarterly*, 45, 523-556.

- Subramanian A., Nilakanta, S. (1996). Organizational innovativeness: Exploring the relationship between organizational determinants of innovation, types of innovations, and measures of organizational performance. *Omega*, 24(6), 631-647
- Subramony, M., Krause, N., Norton, J., & Burns, G. N. (2008). The relationship between human resource investments and organizational performance: A firm-level examination of equilibrium theory, *Journal of Applied Psychology*, 93, 778-788.
- Upadhaya, B., Munir, R., & Blount, Y. (2014). Association between Performance Measurement Systems and Organisational Effectiveness. *International Journal of Operations & Production Management*, 34(7), 2-2.
- vanDyck, C., Frese, M., Baer, M., & Sonnentag, S. (2005). Organizational error management culture and its impact on performance: A two-study replication. *Journal of Applied Psychology*, 90, 1228-1240.
- Wairagu, G. P. (2012). *The Relationship Between Financial Innovation and Profitability of Commercial Banks In Kenya*. Unpublished MBA Project, University of Nairobi
- Wairi, D. K. (2013). *Factors Influencing the Adoption of Agent Banking Innovation among Commercial Banks in Kenya*. Unpublished MBA Project, University of Nairobi

- Walker, R. M. (2008). An empirical evaluation of innovation types and organizational and environmental characteristics: Towards a configuration framework, *Journal of Public Administration Research and Theory*, 18 (4), 591-615.
- Wan, W. P., & Hoskisson, R. E. (2003). Home country environments, corporate diversification strategies, and firm performance. *Academy of Management Journal*, 46, 27-45.
- Wooseong, K., & Mitzi, M. (2008). The Impact of Product Portfolio and Innovation Strategy on Financial Performance, *Center of Innovation Management Studies*
- Wu, F., Mahajan, V., & Balasujbramanian, S., (2003). An analysis of e-business adoption and its impact on business performance. *Journal of the Academy of Marketing Sciences*, 31, 425-447.
- Yuchtman, E., & Seashore, S. (1967). Factorial Analysis of Organizational Performance, *Administrative Science Quarterly*. 12(3), 377-95

APPENDICES

Appendix i: Questionnaire

RESEARCH ON THE EFFECT OF PRODUCT INNOVATION ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

SECTION A: BACKGROUND INFORMATION

1. Gender: Male [] Female []

2. Position in the organization _____

3. How long have you worked with the bank?

Below 3 years [] 4-7 years []

8-10 years [] Above 10 years []

4. Please tick the age bracket in which you fall.

Below 20 years [] 21 – 30 years []

31 – 40 years [] 41 – 50 years []

51 – 60 years [] Above 60 years []

5. Which Department do you work in?

Consumer Banking [] Corporate Banking []

Treasury [] Support Function []

6. What is your highest education level?

Certificate [] Diploma []

Undergraduate [] Postgraduate []

Other _____

7. How do you rate your Bank's performance?

Excellent [] Very good []

Good [] Poor []

SECTION B: PRODUCT INNOVATION AND ORGANIZATION PERFORMANCE

8. To what extent has product innovation been communicated to the staff?

- Very great extent Great extent Moderate extent
 Little extent No extent

9. To what extent does product innovation affect the organization performance of a commercial bank?

- Very great extent Great extent Moderate extent
 Little extent No extent

10. To what extent have the following increased with the product innovation? Please tick the most appropriate option using the provided scale.

	To a very great extent	To a great extent	To a moderate extent	To a little extent	Not at all
Product Development					
Product Quality					
Range of Products					
Customer Satisfaction					
Sales Volume					
Market Share					
Customer Loyalty					
Profitability					

11. Please indicate (√) the extent to which the following have been enhanced by product innovation in commercial banks. Use the following scale. Where: **1= To a Very Great Extent, 2= To a Great Extent, 3= To a Moderate Extent, 4= To a Little Extent, 5= Not At All**

	1	2	3	4	5
Wide range of services offered					
Shortening duration of obtaining a product or service					
Satisfactory quality of products and services					
Frequent market research					
Identifying needs of prospective customers					
Market driven products and services					
High quality products and services at lower fee					
Knowledge of customer needs					
Ability to satisfy the customer and have repeat business					

12. What is the reason for a bank standing out? Please rate the reasons using the following scale. **Where: 1. Not At All; 2. Little Extent; 3. Moderate Extent; 4. Great Extent; 5. Very Great Extent**

	1	2	3	4	5
Location and wide network					
Reputation in the market					
Innovation and Customer Service					

Customer Service					
Cost (charges)					
Processes and systems					

13. Please indicate (√) the extent to which you agree with each of the following statements. **Where: 1= Strongly Disagree, 2=Disagree, 3= N/A, 4= Agree, 5= Strongly Agree.**

	1	2	3	4	5
The level of innovation determines choice of Bank					
Customers would change to a Bank with more innovative products					
It is all about target market not product innovation					
To command a higher market share, you need innovative ideas					
There is a relationship between product innovation and performance.					
Customer value proposition is linked to innovation					
Customer service is now about new solution offerings					
Product innovation creates a competitive edge for Banks					
How a bank communicates matters allot.					
Innovation creates a competitive edge for Banks					

14. Please respond to each statement on the scale provided

Where: 1= strongly disagree, 2=disagree, 3=N/A, 4= agree, 5= strongly agree.

	1	2	3	4	5

Organisation strategy and goals impact on product innovation and need to be continuous					
Product Innovation is determined by organisation culture					
It is all about people when it comes to product innovation					
Competition among commercial banks drives product innovation.					
The nature of Technology and processes influence product innovation					
To sustain performance, Banks need to be innovative.					

15. Any other comments.....

.....

.....

.....

.....

Appendix ii: Commercial Banks in Kenya

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Ltd.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank Kenya Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Limited
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd
26. Gulf African Bank Limited
27. Habib Bank A.G Zurich
28. Habib Bank Ltd.
29. Imperial Bank Ltd
30. I & M Bank Ltd
31. Jamii Bora Bank Limited.
32. Kenya Commercial Bank Ltd

33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank Kenya Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Ltd

MORTGAGE FINANCE COMPANIES

44. Housing Finance Ltd

Banks in Kenya (source: Central Bank of Kenya, 2014)