STRATEGIC INNOVATION AND PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

This is my original work and has not been presented for a degree award in any other university.

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D61/61902/2010

This Thesis has been presented for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to God, my divine source of guidance and my parents for their prayers and support.

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ACRONYMS AND ABBREVIATIONS

CBK – Central Bank of Kenya

CMA – Capital Markets Authority

EBIT – Earnings Before Interest and Tax

ICT – Information Communication Technology

KIPPRA – Kenya Institute for Public Policy Research and Analysis

MBA – Master of Business Administration

MIT – Massachusetts Institute of Technology

NSE – Nairobi Securities Exchange

ROA - Return on Assets

ROE - Return on Equity

WP– Working Paper

ABSTRACT

In the contemporary unstable environment, reliance on regulatory protection and stable product paradigm does not sustain performance. Variation of the traditional industry assumptions, creation of new and significant customer value, crafting of new growth strategies and change of the existing business model is a sure means of enhancing long term success and survival. Strategic innovation enables firms to compete in an existing business in a fundamentally different way. The objective of the study was to establish the influence of strategic innovation on the performance of commercial banks that are listed in the Nairobi securities Exchange. The study adopted descriptive cross sectional survey design. To establish the influence of strategic innovation on performance of commercial listed banks, multiple hierarchical regressions were performed on strategic innovation indicators and the performance indicators. The study revealed that there was a strong positive relationship between the combined effect of the strategic innovation indicators and all performance measures. The results were statistically significance to be relied upon to formulate conclusions and for theory development. The limitations of the study included its focus on only listed commercial banks which restricted the generalization of the findings and reliance on regression analysis that left out possible curvilinear relationship among the study variables. The researcher suggests that future research should focus on other analysis tools and such studies have to include other institutions that are not necessarily listed. The implication of the findings is the need for the management to align strategic innovation strategy with the wider business strategy. They have to demonstrate their capability in understanding the customer insights and offer new and significant value if their long term success and survival is to be guaranteed. The success of strategic innovation greatly depends on the ability of the firm to protect the new business model and scale it up quickly. By scaling up quickly, it assures the practicing firm of growth and protects it from counter attacks from their key competitors.

CHAPTER ONE: INTRODUCTION

1.1Background of the Study

The current business environment is dynamic, turbulent and unpredictable. It is defined by high velocity and hyper competitive environment (Hatum and Pettigrew, 2004).The success of business in such hypercompetitive environment is dependent on its adaptability competency to respond rapidly to environmental change. Corporate innovativeness is one of the strategic tools that firms can employ to align its resources and capabilities with opportunities in the external environment.

Damanpour (1991) defines corporate innovativeness as any idea, practice or objects that are perceived to be new by individual or other units of generation in the organization. Innovative firm is willing and tends to engage in and support creativity in developing new products and services. Mintzberg et al (2003) argues that innovation implies breaking away from the established norm, standardization and trappings of bureaucracy.

The desire by firms to obtain sustainable business performance and growth is at the centre of pursuit of innovation by the firms. Drucker (1985) argues that innovation is part of strategy implementation and is direct requirement for specific strategies. Innovation serves as a means of creating new business that is capped with superior control mechanisms, value addition and risk reduction.

Firm that are keen on enhancing their growth, market entry, increasing their existing market share and craft a sustainable competitive edge have to embrace a holistic approach to innovation. Strategic innovation is one such approach that guarantees the innovating firm superior performance that is reflected in the increased profitability and market growth. Strategic innovation empowers a firm to better define, engage and pursue uncharted market place (Palmer and Kaplan, 2007).

The Kenyan banking sector comprises of commercial banks, mortgage finance companies, micro finance institutions and foreign bureaus. Out of the forty seven commercial banks that exist in Kenya, nine of them are listed in the Nairobi securities exchange. The commercial banks play an important role in the Kenyan economy. They facilitate flow and sharing of funds, mobilize savings and allocate credit across space and time. By doing so, they enable all the players in the economic growth cope with economic risks by pooling, sharing, hedging and pricing of financial resources. In spite of these fundamental roles that these commercial banks play in the Kenyan economic growth, they are operating in a highly regulated and liberalized environment. They are bombarded by the erratic technological evolution and global hyper competitiveness. To therefore thrive and survive in the dynamic and highly competitive environment, while keeping up with the ever changing customer needs and priorities, the commercial banks have to adapt. Strategic innovation is one of the strategies that the commercial banks that are listed in the NSE have embraced to survive and remain commercially relevant.

1.1.1 Strategic Innovation

Strategic innovation is the creation of growth strategies, new product categories, services or business models that change the market and generate significant new value for consumers, customers and organization (Palmer and Kaplan, 2007). It is a holistic systematic approach focused on generating beyond incremental break through or discontinuous innovation. The process challenges a firm to look beyond its established business boundaries and mental models and to participate in an open minded, creative exploration of the realm of possibilities. The process intertwines seven dimensions to produce a portfolio of results that drive growth. According to Markides, (1997), these dimensions include a managed innovation process, strategic alignment, industry alignment, consumer and customer Insight, core technologies, organizational readiness and disciplined implementation.

The strategic innovation process involves providing solutions to three basis questions that define business. These questions are; who are our customers, what value do we provide and How do we deliver that value (Abell, 1980). Strategic innovation entails dramatic redefinition of customer's base through exploring ways of expanding the size of the market. It demands dramatic reinvention of the concept of customer value. The process compels firms to identify new needs for customer and discover ways of addressing existing client's preferences. Finally; strategic innovation focuses on radical reinventions of the concept of customer value. This could be through new forms of manufacturing, distribution, sales or services delivery.

The significance of strategic innovation to a firm lies in its ability to supplant competition by generating more value in the long run. Kim and Mauborgne (2005) contend that this is achieved through creation of new differentiated business that initially by pass competition and new business marketing, offers and space that renders competition irrelevant. Strategic innovation buffers organizational growth through creation of new markets and new set of clients' needs by responding to the underserved customer segments. Berghman (2006) hypothesize that strategic innovation has the ability of increasing the average firm profitability and in so doing rejuvenating the entire industry.

1.1.2 Organizational Performance

Organizational performance refers to achievement of an enterprise with respect to some criterion (Machuki and Aosa, 2011). According to Richard et al (2009) organizational performance encompasses three specific areas of firm outcomes that include; financial, product market and share holder return performance. Machuki and Aosa (2011) observe that organizational performance gives indication of the effectiveness of an organization.

A number of scholars, (Machuki and Aosa, 2011; Richard et al, 2009; Jacobson, 1988; Waring, 1996) argue that measuring organization performance presents a challenge. This is so, as it is not a one dimensional theoretical construct and is not likely to be characterized with single operational measure. The common measures used to measure organizational performance include; financial market measures, mixed accounting/ financial market measures (share holder value analysis, cash flow per share, market value added etc) survival and subjective measures.

Kaplan and Norton (1996) advocated for the use of balance score cards as ultimate measure of organizational performance. The balance score card explicitly covers domains of financial, customer outcome, innovation and internal process. The only limitation of the BSC is its focus on specific firms making inter firm comparison almost impossible. All notwithstanding, Richard et al, (2009) observes that performance measures should not be made specific to research question but be sufficiently robust to cover the domain of organizational performance.

This study, adopted production, market and financial performance as dimensions of organizational performance. This was in line with other scholars, (Gun day et al, 2010; Narver and Slater, 1990; Barringer and Bluedorn, 1999; Hornsby et al, 2002) who argue that the above dimensions are holistic representation of organizational performance. Whereas production performance relates to combination of achievements done in all of the firms elements like cost efficiency, quality, flexibility and speed, market performance upholds customer driven market concept that is key to unlocking superior marketing competence and financial results. It includes such measures as market share and sales growth.

1.1.3 The Banking Industry In Kenya

The banking sector in Kenya is comprised of 47 commercial banks, two mortgage finance companies, 130 foreign exchange bureaus and fifteen micro finance institutions (CBK, 2012). The companies Act, the Central Bank of Kenya Act Cap 491, the banking Act Cap 488 and the micro finance Act 2006 are the main regulators and governors of the banking industry in Kenya. The Acts are used along with prudential guidelines that are issued by the central bank of Kenya. In 1995 the exchange controls were lifted after liberization of the banking in Kenya.

The banking industry has in the recent past continued to record significant growth in assets, deposits, profitability and product offering. The growth has been punctuated by industry wide branch network expansion both in Kenya and regionally, automation of banking services and development of a wide array of customer centric products and increased competition following introduction of innovative products, services and new market entrants.

The main challenges facing the banking industry in Kenya include; global financial crisis that led to reduction in deposits, trade volumes and performance of assets, declining interest margins brought about by CBK's monetary policy interventions and new regulation especially with the passing of 2010 constitution. For instance smaller banks would face the challenges of increasing their minimum core capital to Ksh. 1 Billion by end of 2012 as regulated by the finance Act 2008.

The cut throat competition in the banking sector coupled with the reduced government borrowing from the industry has affected the performance of the banks in Kenya. The operating environment for the industry keeps on evolving due to both local and global trends. To therefore remain aboard amid tight regulation, competition and increased international surveillance, banking industry has embraced innovation as a lever to sustainable performance. The motivation for innovation within the industry is also enhanced with the view of circumventing the tight regulation that has been imposed by the regulator.

1.1.4 Commercial Banks Listed in Nairobi Securities Exchange

The Nairobi securities exchange is the principal stock exchange of Kenya. It was incepted in 1954. The NSE is the fourth African largest stock exchange in terms of market capitalization as a percentage of Gross domestic product. The NSE 20 share index and the NSE all share index are the main indices used to measure performance at the NSE. Whereas NSE 20 share index measures performance of 20 blue cheap companies with strong fundamentals and which have consistently returned financial results, the NSE all share index is an overall indicator of market performance.

The main investments market listings include agricultural sector, commercial and services, industrial and allied and finance and investment. There were nine commercial banks that were listed under financial and investment category in NSE. Of these nine commercial banks; four of them were included in the NSE 20 share index. These commercial banks varied from one another in terms of asset book, customer base and geographic coverage.

Ngugi and Njiru (2005), posit that the primary reason for going public is the desire by firms to raise equity capital and create a public market in which the founders and other shareholders can convert some of their wealth into cash at a future date. The authors observe that by going public, firms relax their financial constraints, especially those that have large current and future investments, high leverage, and high growth. Commercial banks list for the sole purposes of enhancing their capital base to support future expansion strategies and services to meet the needs of the expanding Kenyan economy. The banks that list stand to benefit from increased profitability and growth opportunities.

The performance of the commercial banks listed in the NSE is under scrutiny of several stakeholders and the public. Their performance is used by the stakeholders and the public to make key decisions and give an indication of the state of the economy. In view of increasing the stakeholders investment confidence, firm reputation and value to investor, the commercial banks had embraced strategic innovation as a means of driving their performance.

1.2 The Research Problem

Strategic innovation is fundamentally different way of competing in an existing business. It denotes a creative and significant departure from historical practice. Larsen et al (2002) contend that strategic innovation focuses on changing firm level strategy over time to identify unexploited position in the industry ahead of rival firms. Strategic innovation brings in market cap growth by differentiating capabilities that give coherence which enables the firm to improve revenue growth. Strategic innovation enhances global competitiveness, overall productivity and value maximization of the firm.

Commercial banks listed in NSE operate in heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper competition, changing demographics and customer needs require these banks to build adaptability competency for survival and fostering of organizational performance. It is against this background that these banks have realized that conformity to convectional strategies produce convectional results. In order to produce strategic competitiveness in new competitive landscape, these banks have embraced new ways of doing business that not only add value to customers but earn them premium. Strategic innovation is practiced both for survival and sustenance.

Several scholars and researchers have studied relationship between innovation and firm performance (Jaruzelski and Dehoff, 2010; Little, 2004; Charitou and Markides, 2003; Christensen., 2002; Mabrouk and Mamoghli, 2010; Roberts, 1999; Makini, 2010; Kinuthia 2010; Weru, 2010). Charitou and Markides focused on responses to disruptive innovation while Christensen studied disruptive innovation.

Even though all the above researches and studies revealed existence of relationship between innovation and performance, all were contextually varied and none inquired on the influence of strategic innovation on performance of commercial banks listed in the Nairobi securities exchange. Furthermore, the researches and studies only focused on one traditional aspect of innovation and/or performance rather than an all-inclusive perspective towards innovation. None of the studies had focused on the influence of strategic innovation, an all inclusive perspective towards innovation, on performance. Thus the research question, what is the influence of strategic innovation on the performance of Commercial Banks listed in Nairobi Securities Exchange?

1.3 Research Objectives

The objective of the study was to establish the influence of strategic innovation on the performance of commercial banks listed in NSE.

1.4 The Value of the Study

This research makes contribution to the enhancement of strategic innovation theory. The study's results on the influence of strategic innovation on performance of listed commercial banks in NSE provide strong empirical evidence on the ongoing debates on the sustainability of the firms' performance in face of stiff competition and high regulation. By demonstrating that the market, production and financial performance have strong positive relationship with strategic innovation, the results provide point of reference to support the argument that strategic innovation buffers performance. By confirming existing theories and reconciling prior knowledge in the wider field of innovation, this study's results have contributed to enhancement of knowledge in the both fields of strategy and corporate innovativeness. This contribution forms the basis of the understanding the fundamentals that are inherent in the field of strategic innovation.

The study's findings are of great significance to the government, policy makers and industry players. By demonstrating that strategic innovation accounts for a high proportion of the organizational performance the results will compel the policy makers to realign their strategies. The study's findings will be a point of reference for the government policy makers in formulating solid, broad and balanced policies that lay foundation for strategic innovation. The policies will enhance global competitiveness of the country, resilient economy and attainment of essential national goals. To the industry players policies formulated will enhance stability, growth and performance in the banking sector.

The research findings are of significance to the management practice. The findings have demonstrated that strategic innovation is a major driver of organizational performance. The findings indicate that strategic innovation enables an organization to achieve a comprehensive growth along all the organizational performance dimensions. By therefore relying on these findings, the management can craft a strategic innovation strategy and execute it as a core part of its business strategy. Clearly crafted business strategy that fosters and supports strategic innovation will thus equip their firms with the required capability for survival and growth.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section discussed in details the views and the results of other studies that were related to the influence of strategic innovation on performance. Through these studies, the section endeavoured to relate the study to the larger, ongoing dialogue in strategic management, filling in the gaps and extending prior studies.

2.2 Theoretical Underpinning of Strategic Innovation

Najmaei (2010) posits that strategic innovation is relatively new discipline within the field of strategic management. According to the scholar, strategic innovation goes beyond the limitation of the traditional approaches and tools to enable new growth and competitive advantages by creating new markets, new value and new business models. The scholar observes that strategic innovation embodies a new way of thinking about strategy and generates alternative approaches to development of strategies that equips a company to attain such differentiation requisite for competitive advantage. The Scholar's views are premised on the notion that the traditional approach of strategic management is inadequate in enabling firms craft a sustainable competitive advantage that guarantees the indispensable success and streams of revenues for firm survival and sustenance. The scholar opines that the traditional approaches to strategic management are to centric to operational effectiveness, analytical and are incremental in nature focusing on beating the competition by fronting outdated tools.

Kim and Mauborgne (1997) place strategic innovation in the realm of blue Ocean strategy. Blue Ocean strategy derives its significance in the emphasis of disregarding traditional rules and using competition as bench mark. Contrasted with the Red ocean strategy, blue Ocean strategy creates jump start in value for buyers and for the company. Firms inclined towards blue ocean strategy reject fundamental principle of convectional strategy; the need to choose between value and cost. Instead, the firm pursues value innovation that enables it to embrace differentiation and low cost simultaneously. Blue Ocean strategy equips a firm with powers of creating uncontested market space, making competition irrelevant, breaking the value- cost tradeoffs while aligning whole system of the firm's activities in pursuit of differentiation and low cost. The scholars opine that a strategic blue ocean movement may create a brand capital that lasts decades.

Tushman and O'Reilly (1997) relate strategic innovation to capability of a firm to be ambidextrous in carrying out both incremental and discontinuous change. The scholars define ambidextrous organization as that having internally consistent structures and an internally operating culture that provides for excelling today while also planning for the future. The underlying theme in Tushman and O'Reilly argument is the contention that strategic innovation identifies long term opportunities and then bridges back to the present. This creates a unified whole that generates long term sustainable value to the customers and the corporation. Buzzavo, (2012) enhances the argument by contending that strategic innovation enables firms to pursue profit model that is discrete from universal practice.

2.3 Strategic Innovation

Strategic innovation is conceptually defined as a radical innovation in underlying strategic factors of a business by re-conceptualizing business plans and creating new sources of customer value and breaking the rules of the industry and market (Markides 1998). Charitou and Markides (2003) state that by breaking the rules of the game and thinking of the new ways to compete, a company can strategically redefine its business and catch its big competitors off guard. However, in order to sustain the wealth that is accrued from the value generated from the customer; new source of customer value must be consistent with the wealth of all stakeholders in order to lead the firm to a sustainable profitability of its strategic innovation.

The need to innovate strategic innovation is grounded in the recognition that convectional strategy projects produce convectional results hence the need to explore new ways of combating existing business challenges and crafting new rules for future growth (Moeller et al, 2006). Schlegelmilch et al (2003), posits that strategic innovation changes the nature of competition. This argument is consistent with views of Kim and Mauborgne (2004) that hold that strategic innovation makes competition irrelevant as it catches the rivals off guard. Berghman (2006) hypothesizes that strategic innovation is an effective tool to counter the competitive threats that intensify strategy convergence among the different firms in an industry. He urges firms to deviate from the existing industry rules of playing the game, in order to create fundamentally new and superior customer value. Strategic innovation is driver of firm’s long term profitability and survival of the enterprise.

Strategic innovation emanates from unexpected occurrences, incongruities, process needs, industry and market changes (Drucker, 1985). Moeller et al (2006) maintain that strategic innovation occurs in response to demographic changes around the globe which create new combination of who, what and How for the strategic innovators. Markides(1999) holds that the new needs that arise due to shifts in consumer preferences and existing customer preferences, manifested by mapping the neglected segments by competitors, presents insightful source for strategic innovation.

2.4 Dimensions of Strategic Innovation

The strategic innovation knit together seven dimensions to produce a bundle of outcomes that drive growth. The dimensions are; a managed innovation process, strategic alignment, industry foresight, consumer or customer insight, core technologies and competencies, organizational readiness and disciplined implementation (Palmer and Kaplan, 2007)

Palmer and Kaplan (2007) argue that managed innovation process combines both the traditional and non traditional approaches to business strategy. The scholars observe that the process is the creative core of the strategic innovation process embracing both the divergent and convergent thinking models. The process facilitates the interplay of external perspective and the internal firm's capabilities and in so doing enables the firm to look beyond the obvious. This culminates into the firm exploring diverse array of unexploited opportunities.

The Strategic alignment dimension consolidates support from all the stakeholders, creates ownership, enthusiasm and commitment that enhances faster decision making while initiating strong foundation for successful implementation of the strategic innovation process. This dimension is versatile in the strategic innovation process for it enhances ensures that all initiatives are in harmony with the wider strategy by providing a sense of direction.

Industry foresight is a top down approach that explores the drivers, trends, enablers and dislocation within one or more industries. The dimension enables the firm to monitor complex interplay of key trends that may potentially impact their business. Christensen (1997) observes that by monitoring the key trends within the industry, the organization is enabled to proactively avert the threat to the existing business and identify potential market opportunities that may arise when industry trends converge.

Consumer and customer foresight is the third dimension for strategic innovation. Anderson and Markides (2006) argue that this dimension is a qualitative bottom up approach that leverages insights into the behaviours, perceptions and the needs of the current and potential customers or consumers by involving them as key stakeholders in the innovation process. The process endeavours to unearth the needs and drivers of the behaviour at a degree well beyond where customers are able to articulate themselves.

Core technologies and competencies provide an insight into the organizational strength and competence in undertaking the strategic innovation process. Moeller et al (2008) note that this dimension indicates whether the firm has the necessary internal capabilities, organizational ability and assets that can be harnessed to deliver value to all stakeholders.

Organization readiness dimension is versatile indication of the firm's ability to execute the strategic innovation process. The dimension extends to the firm's preparedness in the realm of cultural, process and structural preparedness. Palmer and Kaplan (2008) indicate that the dimension is critical as it forms the basis of forming decisions that relates to project scope, time frames and the expected intensity of advancements along with outlining the performance measure of the core team implementing the strategic innovation process.

Disciplined Implementation is the final dimension of the strategic innovation process. The dimension entails broad set of activities that need support and involvement across the organization with view of creating meaningful results. The dimension demands pragmatic operational skills that will enable the firm overcome the challenges that characterise the institutionalization and operationalization of the strategic innovation process (Palmer and Kaplan, 2007).

2.5 The process of Strategic Innovation

Berghman (2006) asserts that value creation is the starting point for strategic innovation. The scholar argues that to create strategic innovation, the entire value relating system should be redesigned and the corresponding roles and relationships reconfigured. According to Him, the strength of strategic innovation is in its potential to produce dramatic value improvement for customers. Consequently deeper understanding of the customers' needs and priorities will not only ensure success of the strategic innovation but also enhanced performance of the firm. The Scholar holds that the performance generated from Strategic innovation can only be sustainable when the new business model is scaled up quickly.

Anderson and Markides (2006) hold that strategic innovation takes place when a company identifies the gaps in the industry positioning map, decides to fill them and the gaps grow to become the new mass market. Gaps appear due to changing demographics, tastes and preference as well as due to external changes. Contributing to this, Buzzavo (2012), declares that strategic innovation basically results from the ability of a firm to identify a new combination of tangible and intangible resources that encompasses two or more key elements of its strategy that existing players either were not capable of seeing, or were not capable of implementing.

Rosenblum et al (2003) affirm that discovering the new customer that other competitors are not currently serving gives credence to the process of strategic innovation. The authors argue that this segment of customers is always considered too insignificant to chase or profitably less appealing. Christensen (1997) observes that once the new customers have been discovered, new value proposition is offered which endears them to the firm that ultimately results into creation of market around them.

Gilbert (2003) states that markets created around the new competitors riding on strategic innovation are composed of different customers and have different Key success factors than established markets. As result, he argues, such emerging markets require different combination of tailored activities as part of the firm. Hence to be effective strategic innovators, new different value chain have to be implemented.

2.6 Organizational Performance

Firms set strategic directions, establish goals, execute decision and monitor their state and behavior as they move towards their goal so as to be guaranteed of their survival and success. In order to know their state of progress, the firms use the performance measurement and other control tools that gauge the level of achievement. Performance in this context means the achievement of an enterprise with respect to some criteria (Machuki and Aosa, 2011). Firm performance is provides useful information for monitoring and control, improvement, maximization of effectiveness of the improvement effort, reward and discipline and as lever towards alignment of organizational goals and objectives (Britci et al , 2002).

Profits, growth, balance scorecards, Economic value added, activity based analysis, customer value analysis and customer satisfaction are some of the frameworks that several scholars have proposed as effective in undertaking firm performance (Santos and Brito, 2002;, Kaplan and Norton, 1996; ,and Hitt, 1988). Nonetheless, Richard et al (2009) conceive that performance is a multidimensional concept and it makes sense to a measure that is relevant to the area of study.

2.7 Strategic Innovation and Performance

Companies nowadays are preoccupied with satisfying the shareholders. Splits, share buy-backs and efficiency programmes that are pursued releases wealth but do not create new wealth. These strategies do not generate new wealth because they do not build novel markets, new customers or new flows of revenue. Sinha (2004) asserts that under current terrain, success has become a transient achievement that can be taken away by competitors anytime and hence the need to insulate it, probably through strategic innovation. Dobni (2006) contests that enhancing the innovative ability of an organization is one of the most critical levers to increasing profitability and growth. According to him, Strategic innovation creates long term value in business model by leveraging both new businesses model and improving on technologies.

Talke et al (2011) observe that strategic innovation is crucial in driving firm performance. According to the scholars, strategic innovation orientation provides a collective guidance and direction that drives a firm to achieve sustainable competitive advantage. Firms with a proactive market orientation are suggested to strive more for discovering and satisfying unarticulated, emerging needs of customers than customer-led firms that only listen and respond to expressed needs of current customers. The authors however contest that the influence of the strategic innovation on the performance of the firm is greatly dependent on the top management team that is responsible for decision making.

Schlegelmilch et al. (2003) argue that strategic innovation changes the nature of competition and makes the competition irrelevant. The view is further enhanced by Kim and Mauborgne (2005) who contend that strategic innovation makes competition irrelevant by creating a leap in the value that is offered to the customers and company thereby creating new and uncontested market space. Strategic innovation enables a firm redefine ways of conducting its business while delivering more non financial value to customers with high degree of operational effectiveness. In this way, the strategic innovators are positioned to change the competitive dynamics and can influence the industry evolution process.

Buzzavo (2012) elucidates that strategic innovation is at the heart of the competitive game among business firms. He argues that firms that are strategic innovators pursue strategies that blend efforts aimed at improving what is being practiced at present with attempts to achieve performance improvements through leaps and breakthrough. The consequential effect of such efforts is a competitive edge that the firm can use to leapfrog rivals. The competitive advantage created by the strategic innovation brings value to the customers. This value can only be enhanced if it is perceived to be non-imitable, substitutable and rare that eventually differentiates the firm from the rest of the competitors (Barney, 2007).

Anderson and Markides (2006) argue that when strategic innovation is integrated with ICT it buffers the firm to reach consumers that nobody else can serve profitably; offers radically new value propositions to consumers that other firms cannot deliver in a cost-efficient way; and put in place value chains that no other firm could do efficiently. ICT also allows strategic innovators to scale up their business models quickly and so protect themselves from competitive attacks. The Scholars enhance their argument by stating that successful strategic innovators are those that invade their competitors with new offerings that have focus on radically different value that is exhibited in the radically varied value chain configurations to those prevailing in the industry.

Little (2004) suggests that there is a huge untapped potential to improve profit growth through innovation. His study of over 800 firms concluded that innovation excellence can boost EBIT by 4%and top innovators have 2.5 times higher sales of new products, and get more than 10 times higher returns from their innovation investments.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the blue print that was employed in carrying out the study. The section covers the methodology, data collection techniques and data analysis methods that were engaged in carrying out census survey on the influence of strategic innovation on the performance of the commercial Banks listed in the Nairobi securities Exchange.

3.2 Research Design

The design adopted by the study was cross sectional survey. Cross sectional survey is descriptive in nature and it involves studying a sample of a population at a single point in time. The purpose of the study, scope, type of data to be collected, the data analysis types and the duration that the required data was to be collected favoured this design over other research designs.

The objective of the study was to establish the influence of strategic innovation on performance of commercial banks that are listed in NSE. To facilitate this, cross sectional design enabled the researcher to collect data about the general characteristic of the study population before subjecting it to analysis. The design's choice was enhanced by its ability to enable the researcher collect data that was unique easily from all the respondents using a standardized questionnaire. In this way, the design made the data collection inexpensive which was contributed by the fact that all the listed commercial banks' head offices are situated in Nairobi.

3.3 Population of Study

The population of this study consisted of all the Commercial banks listed in the Nairobi Securities Exchange. The total number of commercial banks listed at the NSE as at 30th June 2012 was 9. They included; Kenya Commercial Bank, Barclays Bank of Kenya, Standard Chartered Bank, Equity Bank limited, Cooperative Bank of Kenya, Diamond Trust Bank, National Bank of Kenya, National Industrial Corporation and CFC stanbic Holdings.

The focus of the study on all the listed commercial banks in the NSE qualified the research to be a census survey. The accessibility of the study population due to their location in Nairobi made it possible to collect data very quickly and in inexpensive way. Census study was too favoured due to the ability to collect data that was unique and standard measure as the same information was collected from the nine respondents in the study.

3.4 Data Collection

The study relied on primary and secondary data. The primary data collected by this study included the organizational demographics, state of the strategic innovation, market performance and the production performance. The secondary data covered by the study covered the financial performance of the listed commercial banks. The data included the return on asset and return on equity which were taken as average performance for the three years (2009 -2011).

The primary data were gathered through a semi-structured questionnaire. The questionnaire contained closed ended questions. The questionnaire comprised of various sub headings that addressed specific aspect. Section A of the questionnaire captured the demographic information about respondents and their organizations, section B captured questions on strategic innovation, section C captured questions on market performance and section D captured questions on production performance. Section E made provision for other comments for the respondent. The questions addressed the respective objectives of the study. The questionnaires were administered to the head of innovation or in their absence the head of the marketing department in the listed commercial banks using 'drop and pick' design.

Secondary data were mainly financial results of the listed commercial banks. The financial information was collected from the reviews of commercial banks' financial reports for the period of three years and the website of the respective commercial banks that are listed in NSE.

3.5 Data Analysis

Descriptive statistics were used to provide summaries on the organizational demographics. The descriptive statistics formed the preliminary basis of the quantitative data analysis. The statistical measures that were used were means and standard deviation.

Multiple hierarchical regression analysis were undertaken to analyze the relationship between the various strategic innovations indicators and organizational performance indicators. The multiple regressions were used to determine the proportions of variance in each dependent variable (market, production and financial performance) at a significant level and too to establish the relative predictive importance of the independent variables (strategic innovations). The regression analysis generated an empirical model which the study sought to verify. The general form of the empirical model developed is shown below.

Performance = *f* (Strategic Innovation)

$$\mathbf{y_{1\text{-}4} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + e}$$

Where $y_{1\text{-}4}$ =indicators of organizational performance

y_1=Market performance

$y_{2=}$production performance

$y_{3=}$return on assets

$y_{4=}$return on equities

β0, β1, β2, β3, β4, β5 and β6 are coefficients

X1 = Creation of new and better customer value

X2 = Customer consideration in decision making

X3 = Changing bank business model

X_4 = New means of distributing products and services

X_5 = Creation of new markets

X_6 = Targeting specific markets

e = error term

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The main objective of the study was to establish the influence of strategic innovation on the performance of the commercial banks that are listed in NSE. This chapter presents the analysis and findings of the data that was collected from all the listed commercial banks in NSE. All the nine respondents in the listed commercial banks in NSE managed to respond in time and thus generated response rate of 100% which was deemed valid for the purpose of analysis.

The chapter is covers various sections that handles a distinct theme. The sections covered include organizational demographics, state of strategic innovation in commercial banks listed in NSE, strategic innovation and performance of commercial listed in NSE and discussion.

4.2 Organizational Demographics

In attempt to have a clear and deeper understanding of the population of study, information such as duration of operation, size in terms of customer base, asset base and ownership structure was taken into consideration. This section was of significance in understanding the nature of the population of study and how the general characteristics impacted on the study variables; namely the strategic innovation and organizational performance. The presentation and discussion for this section is below.

4.2.1 Duration of the Bank's operation in Kenya

In order to ascertain how long the listed banks had operated in Kenyan Banking industry, the respondents were asked to indicate the period within which their institution had been in operation. All the respondents indicated that the banks they were working for had been in operation for over 21 years. This implied that the commercial banks that were listed in the NSE had been in operation for long enough to come up with viable strategic innovation.

4.2.2 Bank Rating in Terms of Customer Base

In order to understand the size of the listed commercial banks, the respondents were asked to rate their banks in terms of customer base along the scales of; large, medium and small. 55.6% of the respondents were of the opinion that their banks were large in terms of customer base while the remaining 44.4% of them indicated that their banks were medium based on the same aspect. The size of the banks in terms of customer base was significant as it would indicate the market share of the banks under the study and how this influenced the state of strategic innovation and performance. The findings are as presented (Table 4.1).

Table 4.1 Bank Rating in Terms of Customer Base

Customer Base	Frequency	Percentage
Large	5	55.6
Medium	4	44.4
Total	9	100.0

4.2.3 Bank Rating in Terms of Asset Base

The study's findings revealed that 88.9% were large in terms of asset base with only 11.1% being rated as being medium in terms of asset base. The findings are shown (Table 4.2).

Table 4.2 Bank Rating in Terms of Asset Base

Asset Base	Frequency	Percentage
Large	8	88.9
Medium	1	11.1
Total	9	100.0

Source: Research Data 2012

4.2.4 Ownership Structure

With the view of establishing the ownership structure of the listed commercial banks, the respondents were asked to categorize their banks within the banking industry in Kenya. The findings were central in understanding if the ownership structure had an effect on the state of strategic innovation and the impact on performance. The results for the findings are shown (Table 4.3).

Table 4.3 ownership structure

Bank Category	Frequency	Percentage
Wholly publicly owned	1	11.1
Publicly owned with government shareholding	2	22.2
Privately owned	1	11.1
Private owned with foreign shareholding	5	55.6
Total	9	100.0

Source: Research Data 2012

The results show that majority of the respondents, representing 55.6% indicated that their banks were privately owned with foreign shareholding. 22.2% revealed that their banks were publicly owned with government shareholding. Wholly publicly owned and fully privately owned banks accounted for 11.1% each.

4.3 State of strategic Innovation in the commercial Banks Listed in NSE

The key objective of the study was to establish the influence of the strategic innovation on the performance of the commercial banks that are listed in NSE. Before examining the influence, the study sought first to establish the extent to which the listed commercial banks had embraced various dimensions of strategic innovations.

The respondents were required to indicate the extent to which state of strategic innovations applied to their respective banks on a Likert scale of 1-5; where 1- Less extent, 2- moderate extent, 3- Large extent, 4 – very large extent and 5- None. Six dimensions of strategic innovation were considered. These included new customer value creation, customer needs' and priorities consideration; change of business model, creation of new markets and entry and target Market. The findings are below (Table 4.4)

Table 4.4 State of Strategic Innovation in Commercial Banks

Strategic Innovation	Response	Frequency	Per cent	Mean	Std Deviation
Continuous creation of new and significant better customer value	Large extent	3	33.3	3.67	0.50
	Very large extent	6	66.7		
	Total	**9**	**100**		
Consideration of customer needs and priorities in coming up with new ways of doing	Large extent	1	11.1	3.89	0.33
	Very large extent	8	88.9		
	Total	**9**	**100**		
Many initiatives have been undertaken to change bank business model	Large extent	1	11.1	4.11	0.33
	Very large extent	8	88.9		
	Total	**9**	**100**		
Bank embraced new means of distribution of products and services	Large extent	2	22.2	3.78	
	Very large extent	7	77.8		
	Total	**9**	**100**		
Bank has introduced strategic innovation to enter and create new markets	Large extent	5	55.6	3.44	0.53
	Very large extent	4	44.4		
	Total	**9**	**100**		
Bank embraced strategic innovation to target specific markets	Less extent	1	11.1	3.44	0.73
	Large extent	3	33.3		
	Very large extent	5	55.6		
	Total	**9**	**100**		

Source: Research Data 2012

The results show that the majority of the respondents were of the opinion that their respective commercial banks had embraced strategic innovation to a large and very large extent. Mean scores of between 3.44 to 4.11 were registered. The extent to which the independent strategic innovation indicator had been implemented by the commercial banks differed considerably. Majority of the banks had implemented strategic innovations indicators such as change of their business models, considered customer needs and priorities in coming up with new ways of doing business, embraced new means of distributing goods and services and continuously engaged in creating new and significantly better customer value respectively to very great extent. The banks had implemented the remaining strategic innovation dimensions of entry and creation of new markets and targeting specific markets to a large extent.

4.4 Strategic Innovations and Performance of Commercial Banks

The objective of the study was to investigate the influence of strategic innovation on performance of commercial banks listed in NSE. This section presents the findings of the study on the influence of strategic innovation on the performance of listed commercial banks.

Through hierarchical multiple regression at 95% confidence the nature of the strategic innovation effect (positive or negative) on each of the organizational performance indicators was determined. The outputs for the analysis were multiple R, $R^{2,}$ F test, among other outputs for the multiple effect of the strategic innovation on each of the performance indicators. The regression outputs for the independent effect of the strategic innovation on the organizational performance indicators are the standardized coefficients, beta weights and t test among others. The t test assesses the significance of the independent variable on the dependent variable. The multiple R shows the strength of the relationship between each of the performance indicators and the strategic innovation indicator. R^2 is the percentage of variance in the dependent variable explained independently or jointly by the independents variables. The F test is used to evaluate the significance of the regression model as a whole.

The regression analysis results for each of the strategic innovation indicators and the organizational performance indicators are presented and discussed below. The analysis assess the effect of the joint strategic innovation indicators as well as the independent effect of the strategic innovation indicators on market performance, production performance, return on assets and return on equity.

4.4.1 Strategic Innovation and Market Performance

To establish the influence of the strategic innovation on the market performance of the commercial banks listed, a multiple regression analysis was undertaken. The indices for the market performance were calculated from the various responses from the four market performance indicators from the Likert scale questionnaire. The four indicators of market performance measures were sales, market share, competitive advantage and customer satisfaction. The joint effect of the strategic innovation indicators on the market performance is presented below (Table 4.5).

Table 4. 5 Joint effect of strategic Innovations indicators on Market performance

N	R	R^2	F	Sig.
9	0.94	0.88	45.72	0.017

Source: Research Data 2012

The results show that there is strong positive relationship between combined strategic innovation indicators and market performance of the listed commercial banks (R=0.94). The analysis reveals that 88% of the market performance can be accounted for by the strategic innovation (R^2 =0.88). The results further shows that the test of confidence (p value) is less that the test level of 0.05 ($p<0.05$). This means that the study results are statistically significant hence can be relied on to explain the market performance of the commercial banks that are listed in NSE.

Independent indicators of strategic innovation were regressed to establish their effect on market performance. The results for the hierarchical multiple regressions for the independent effect of strategic innovation on market performance are shown below (Table 4.6)

Table 4.6 Independent Effect of Strategic Innovations on Market Performance

Model	**Unstandardized coefficients**		**standardized coefficients**		
	B	Std. Error	Beta	t	Sig.
(Constant)	4.498	1.100		4.091	.055
Creation of new and better customer value	-.366	.102	-1.015	-3.599	.069
Customer consideration in decision making	-.074	.133	-.205	-.557	.633
Changing bank business model	.093	.102	.303	.914	.457
New means of distribution products and services	-.206	.106	-.636	-1.942	.192
Creation of new markets	.049	.110	.120	.449	.698
Targeting specific markets	.180	.097	.650	1.863	.203

Source: Research Data 2012

The results shows that there is positive effect between the strategic innovation indicators of changing the banks business model (β = 0.303), creation of new markets Positive effect was reported for changing bank business model, creation of new markets (β = 0.120) and targeting specific markets(β = 0.650). Negative effect is recorded for the remaining strategic innovation indicators. Creation of new and better customer value (β= -1.015), customer consideration in decision making (β= -0.205) and new means of distributing products and services at β= -0.636) registered negative effect. The study reports statistically not significant results for all the independent strategic innovation indicators ($p>0.05$).The analysis further reveals that market performance increases by 4.498 variance when strategic innovation increases by one (1) point when other variables are kept constant.

The independent effect of the strategic innovation indicators on market performance of the listed commercial banks generates a regression model below. The variables in the model are given in chapter three under the data analysis sub section.

$$Y_1 = a_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

$$Y_1 = 4.498 - .366X_1 - 0.074X_2 + 0.093X_3 - 0.206X_4 + 0.049X_5 + 0.180X_6$$

The regression analysis results for the strategic innovation and market performance indicate that the multiple indicators of the strategic innovation have a significant effect on the market performance but independently the effect is not statistically significant. This implies that strategic innovation can only be relied upon to buffer market performance when it is pursued as a whole as opposed to individual implementation of the single indicator.

4.4.2 Strategic Innovation and Production Performance

The production performance indices were computed from the various responses from the three production performance indicators from the Likert scale questionnaire. The three production performance indicators were quality of products and services, flexibility, labour cost per unit of product or service delivery and speed. Both joint and independent effect of strategic innovation on production performance was regressed. The joint effect of strategic innovation on production performance is presented below (Table 4.7).

Table 4. 7 Joint effect of strategic Innovations indicators on Production performance

N	R	R^2	F	Sig.
9	0.79	0.63	39.72	.05

Source: Research Data 2012

The results reveal that there is strong positive relationship between multiple strategic innovation indicators and production performance (R=0.79). 63% of the production performance can be explained by the combined strategic innovation indicators (R^2 =0.63). The analysis further indicates that the results are statistically significant and can be relied upon to predict the production performance at 95% confidence level ($p \leq 0.05$).

The individual strategic innovation indicators were regressed to establish their independent effect on production performance. The results for the joint analysis are demonstrated below (Table 4.8).

Table 4.8 Independent effect of strategic Innovations on production performance

Model	**Unstandardized coefficients**		**Standardized coefficients**		
	B	Std. Error	Beta	t	Sig.
(Constant)	6.252	3.003		2.082	.173
Creation of new and better customer value	-.009	.277	-.017	-.034	.976
Customer consideration in decision making	-.301	.362	-.547	-.832	.493
Changing bank business model	-.218	.277	-.466	-.785	.514
New means of distribution products and services	-.294	.290	-.592	-1.011	.418

Creation of new markets	-.112	.300	-.178	-.373	.745
Targeting specific markets	.383	.264	.904	1.451	.284

Source: Research Data 2012

The results reveal that the entire strategic innovation indicator with exception of targeting specific market had a negative effect on the production performance. Targeting specific market had a weak positive effect on production performance (β = 0.38). Creation of new Creation of new and better customer value, customer consideration in decision making, changing bank business model, new means of distribution products and services and creation of new markets recorded a negative effect on production performance (β = -0.009, β =-0. 301, β =-0. 218, β =-0. 294 and β =-0. 112) respectively. The analysis for the independent effect of strategic innovation on production performance reported statistically not significant results (low t values and $p>0.05$).

Generally the analysis for the independent effect of strategic innovation on the production performance shows that the production performances of commercial banks vary by 6.252 point at a one point increase in the strategic innovation effort when all factors are kept constant(B=6.252) even though this is not supported by statistically significant results.

The regression model for production performance and independent strategic innovation is expressed below. (The variables in the expression are explained in chapter 3 under data analysis)

$Y_2 = a_2 + \beta_7 X_1 + \beta_7 X_2 + \beta_7 X_3 + \beta_8 X_4 + \beta_9 X_5 + \beta_{10} X_6$

$Y_2 = 6.252 - .009X_1 - 0.301X_2 - 218X_3 - 0.294X_4 - 0.112X_5 + 0.383X_6$

4.4.3 Strategic Innovation and Financial Performance

To establish the relationship between financial performance and strategic innovation, the key financial performance indicators namely the Return on Asset (ROA) and Return on equity (ROE) were computed from the financial statements for the listed commercial banks in the NSE. The choice of the ROA and ROE was based on understanding that these indicators provide a clearer representation of a company's performance. Whereas ROA indicates how profitable a company is relative to its assets, ROE indicates the magnitude of profitability that a firm derives from each dollar of its assets effectively.

The Multiple and individual effect of strategic innovation indictors were regressed with the ROA. The results for the multiple effects of strategic innovation indicators regression is presented below (Table 4.9)

Table 4. 9 Joint effect of strategic Innovations indicators on ROA

N	R	R^2	F	Sig.
9	0.96	0.92	2.851	0.039

Source: Research Data 2012

The analysis indicates that there is a strong positive relationship between joint strategic innovation indicators and ROA (0.96). It was revealed that 92% of the ROA of listed commercial banks could be explained by the combined effect of strategic innovation on the ROA of the listed commercial banks (R^2 =0.92). The multiple regression analysis for the combined effect reported statistically significant results ($p<0.05$).This demonstrate that at 95% confidence level, the variables produce statistically significant values for this study hence can be relied on to explain performance of commercial banks listed at the NSE along the dimension of ROA.

Regression analysis was also performed to test the independent effect of strategic innovation indicators on the financial performance of the listed commercial banks along the dimension of ROA. The results for the analysis are indicated below (Table 4.10).

Table 4.10 Independent effect of strategic Innovations on ROA

Model	**Unstandardized coefficients**		**Standardized coefficients**		
	B	Std. Error	Beta	t	Sig.
(Constant)	.087	.062		-1.402	.296
Creation of new and better customer value	-.009	.006	-.346	-1.486	.276
Customer consideration in decision making	.022	.008	.877	2.886	.102
Changing bank business model	.012	.006	.551	2.013	.182
New means of distributing products and services	.004	.006	.198	.733	.540
Creation of new markets	-.006	.006	-.197	-.892	.466
Targeting specific markets	.007	.005	.360	1.249	.338

Source: Research Data 2012.

Strong positive relationship was recorded for Positive relationship was reported for customer consideration in decision making (β= 0.551) and changing the business models for the listed commercial banks (β= 0.551) respectively. Weak positive relationship was noted for new means of distributing products and services (β= 0.198) and targeting of specific markets (β= 0.360). However, creation of significant better customer value and creation of new markets registered negative relationship at β= -0.346 and β= -0.197 respectively.

The values for the test of confidence level for the independent strategic innovation indicators were above the acceptable significance level (p>0.05) hence the findings were statistically not significant. This implies that regardless of existence of positive relationship between some strategic innovation indicators and ROA, the independent strategic innovation indicators do not appear to have significant effect on the ROA when assessed individually.

The above analysis generates the model below which summarizes the effect of independent strategic innovation on ROA of the listed commercial banks.

$Y_3 = a_1 + \beta_{11}X_1 + \beta_{12}X_2 + \beta_{13}X_3 + \beta_{14}X_4 + \beta_{15}X_5 + \beta_{16}X_6$

$Y_3 = 0.087 - 0.009X_1 + 0.022X_2 + 0.012X_3 + 0.004X_4 - 0.006X_5 + 0.007X_6$

The model reveals that a one unit increase in any of the strategic innovation indicators will be accompanied by increase of 0.87 units in ROA of the listed commercial bank. However this will only result when all other variables are kept at constant.

Multiple regressions were performed to test both combined and independent effect of strategic innovation indicators on the ROE of listed commercial banks. The results for the combined effect of the strategic innovation indicators are presented below (Table 4.11).

Table 4.11 Joint effect of strategic Innovations indicators on ROE

N	R	R^2	F	Sig.
9	0.99	0.99	40.72	0.024

Source: Research Data 2012.

The study reports a strong positive effect on the influence of combined strategic innovation indicators on the ROE of the listed commercial banks (R=0.99). The findings indicate that 99% of the ROE of the listed commercial banks can be accounted for by the combined effect of the strategic innovation indicators (R^2 =0.99).The results generated by the analysis were statistically significant as confirmed by the significance level ($p<0.05$). This means that the regression analysis results indicating the combined effect of the strategic innovation indicators on ROE could be validly relied on to arrive at plausible conclusion.

Regression analysis was undertaken on the individual effect of strategic innovation indicator to determine the nature of relationship, the significance of the effect and how each accounted for the change in the ROE of the listed commercial banks. The findings are presented below ((Table 4.12).

Table 4.12 Independent effect of strategic Innovations on ROE

Model	Unstandardized coefficients		Standardized coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	-.962	.141		-6.814	.021
Creation of new and better customer value	.008	.013	.045	.600	.609
Customer consideration in decision making	.237	.017	1.352	13.903	.005
Changing bank business model	.028	.013	.191	2.181	.161
New means of distribution products and services	.027	.014	.172	1.982	.186
Creation of new markets	.094	.014	.471	6.671	.022
Targeting specific markets	-.095	.012	-.703	-7.627	.017

Source: Research Data 2012

The analysis indicated that majority of the strategic innovation showed a strong positive relationship independently with the ROE. Creation of new and better customer value, customer consideration in decision making, changing bank business model, new means of distributing products and services and creation of new markets recorded a positive influence on the ROE (β=0.045, β= 1.352, β= 0.191, β= 0.172 and β= 0.471 respectively).It is targeting specific markets only that recorded a negative relationship with the ROE (β=-0.703). The results for customer consideration in decision making, creation of new markets and targeting specific markets generated significance levels that were within the acceptable range ($p<0.05$) hence their results were statistically significant. However the remaining strategic innovation indicators produced statistically not significant results as indicated by the significance level ($p>0.05$).

The multiple regression analysis resulted into the equation shown below.

$Y_4 = a_2 + \beta_{17}X_1 + \beta_{18}X_2 + \beta_9X_3 + \beta_{19}X_4 + \beta_{20}X_5 + \beta_{21}X_6$

$Y_4 = -0.962 + 0.008X_1 + 0.237X_2 + 0.028X_3 + 0.027X_4 + 0.094X_5 - 0.095X_6$

The model reveals that for every one unit increase in the strategic innovation dimension it would be matched by a decrease of 0.962 points in the ROE. This is the case when all factors are kept constant. The results for this are statistically significant as revealed by low levels of t test and significance level ($p<0.05$).

4.6 Discussion

The study sought to investigate the influence of strategic innovation on performance of commercial banks listed in NSE. The findings of the study indicated that all the listed commercial banks had been in operation for over 21 years and majority of them were large. The study found out that all the listed commercial banks were practicing strategic innovation. The size of the bank and the revelation that all of them practised strategic innovation links well with the views of Schumpeter (1934) who argued that the ability of the firm to innovate was essentially connected to the size. The findings further underscores the fact that the listed commercial banks in the NSE have economies of scale and scope hence able to diffuse the influence of strategic innovation across their wide spectrum of services and products. The link between size and state of strategic innovation in listed commercial banks demonstrate that these banks have better resources and more market power to foster strategic innovation.

The study indicated that all the listed banks had embraced various forms of strategic innovation with view of redefining their business landscape. Among these forms included embracing new means of distribution of products and services, changing of their business models, targeting specific markets, creation of new and significant customer value among other initiatives. These findings confirm the views of the leading strategic innovation scholars, (Palmer and Kaplan, 2007; Charitou and Markides, 2003; and Berghman, 2006) who contended that strategic innovation is about creation of growth strategies, new products, services or business models that change the game and generate significant new value for all the state holders. The findings indicated that the listed banks demonstrated a deeper understanding of customer needs and priorities and thus customer value, which is a central concept of strategic innovation.

The study disclosed that there was a strong positive relationship between combined strategic innovation and all the organizational performance indicators. The findings further revealed that high percentage of the organizational performance is accounted for by combined strategic innovation indicators and that the results were statistically significant to be relied upon to make conclusions and recommendation. The disclosure that combined strategic innovation influences positively organizational performance confirms the view of Palmer and Kaplan (2007). The scholars argued that strategic innovation was an all-encompassing systematic approach focused on generating beyond incremental break through or discontinuous innovation. The implication therefore is that a fully implemented strategic innovation in an organization will guarantee an all round performance in all dimensions of the performance as indicated by the regression results.

The revelation by the study that 88% of market performance can be accounted for by the combined effect of strategic innovation is consistent with the views of Berghman (2006). The researcher argued that the purpose of strategic innovation is to capture an asymmetrical share of the industry wealth creation. His views are shared by Kim and Mauborgne (1997) who urge the firms to go where profits and growth are and where the competition isn't. These views are corroborated by the study's findings that indicate that all the performance indicators have strong positive relationship with the combined strategic innovation indicators.

Kim and Mauborgne (1997) declared that real opportunities for profits and growth lie distinctively in strategic innovation. The scholars pointed out that strategic innovation redefined the industry and invented new order of profitability by challenging the old approach to business prosperity. The results on the influence of strategic innovation were in tandem with the proposition of these scholars. The research results indicated that there was a strong relationship between strategic innovation and ROA, which gives a clearer representation of the firms' profitability. The results enhance further the view of Roberts (1999) who stated that sustained high profitability may result when a firm repeatedly introduces valuable innovations that serves previously unmet demands.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study findings, conclusions, recommendations for the policy and practice, limitations of the study and the practice in the field of strategic innovation. The chapter concludes by focussing on the suggestions for further studies in the field of strategic innovation.

5.2 Summary of Findings

The findings of the study revealed that all the listed commercial banks in the Nairobi Securities Exchange were practicing strategic innovation and had embedded it in their corporate strategy. The listed commercial banks had deviated from the existing industry rules and engaged in creation of new and significant customer value .The practice of the strategic innovation by the listed commercial banks was indicative of the realization that convectional strategy undertakings would results into convectional outcomes hence the need to craft new rules for continued growth(Moeller;2008).

The study results reveal that there is a strong positive relationship between combined strategic innovation indicators and the organizational performance indicators for the listed commercial banks in NSE. The results further demonstrate that a large proportion of the organizational performance can be accounted for by combined effect of strategic innovation. Whereas 88% of the market performance can be accounted for by combined strategic innovation indicators, 63% of the production performance is accounted for by the combined effect of strategic innovation indicators. 92% of ROA and 99% of ROE are accounted for by the same combined effect of strategic innovation. The combined effect of strategic innovation indicators on the organizational performance produces statistically significant results. This clearly point out that strategic innovation is a reliable strategic tool that organizations can rely upon to boost their performance.

The findings presented in this chapter disclose that with exception of ROE all the organizational performance indicators have less or no positive relationship with individual strategic innovation dimension. With exception of ROE the regression results for the individual effect of strategic innovation indicators are statistically not significant. We therefore deduce from the findings that for organizations to buffer their performance there is need for the management to implement strategic innovations simultaneously. Simultaneous implementation of strategic innovations will lead to improved holistic performance as demonstrated by the multiple hierarchical regression analysis. The regression analysis on strategic innovation and organizational performance clearly indicate that strategic innovation reflects the future state of the organization, corporate renewal and has the potent of driving the performance of the firm as well as rejuvenating the entire industry.

5.3 Conclusion

The main objective of the study was to determine the influence of strategic innovation on performance of commercial banks that are listed in NSE. To achieve this, strategic innovation indicators were regressed with the performance indicators. The performance indicators that were considered for the study were market, production and the financial performance.

The findings disclosed that large proportion of performance of the listed commercial banks would be explained by the combined effect of strategic innovation indicators. The study revealed that there was a strong positive relationship between market performance (R=0.94), production performance (R=0.79), ROA (R=0.96) and ROE (R=0.99) and the combined strategic innovation indicators. The influence of the combined strategic innovation indicators was found to be statistically significant. This therefore implies that strategic innovation can be reliably accounted for influence in the performance of the commercial banks.

Independent strategic innovation indicators have less or no positive influence on the performance of the commercial banks listed in NSE. The study revealed that the individual strategic innovation indicators influence on the performance of commercial banks was not statistically significant. This means that for the strategic innovation to have a remarkable influence on the performance of any organization the management have to implement it in totality.

The study provides empirical evidence that there is a strong relationship between strategic innovation and organizational performance. Even though the findings have confirmed the existing theories on the topic of study, its findings are unique since it statistically proves that the performance of commercial banks and to a larger extent other business enterprises can be largely accounted for by strategic innovation. The results demonstrate that strategic innovation is the driver of organizational performance. There is therefore a need to incorporate the strategic innovation concept in the business strategy of any given firm which is keen on maximizing and consolidating the gains that accrue from its investments.

5.4 Recommendations for Policy and Practice

The study was guided by the existing literature and empirical data. The findings has thus to a greater extend confirmed or validated the existing body of knowledge by revealing that strategic innovation has a combined influence on the organizational performance. The researcher therefore observes that strategic innovation plays a central role in enhancing the performance of commercial banks listed in NSE. The study's results have contributed to the emerging field of strategic innovation and provide the foundation for further enhancement of the theory and research in the topic. The study offers an alternative way of understanding how organizational performance can be enhanced by using other tools other than convectional strategic management tools.

The study reveals that the Kenyan banking industry has the ability to sustain and renew its growth and performance by embracing strategic innovation. Strong positive influence was recorded for the influence of combined strategic innovation and all the organizational performance indicators. The strong positive relationship implies that the management of any firm has to craft strategic innovation strategy and execute it as a vital part of business strategy. A clearly crafted business strategy that fosters and supports strategic innovation will not only equip the firm with requisite capability for survival but will too enhance the growth in market share, improved financial performance and brand capital that will be sustainable.

Finally there is need for management to protect and scale up quickly the new business model that is derived from strategic innovation. Scaling the new business model ensures business growth and protects it from competitive counter attacks. Protected business model emanating from strategic innovation gives the organisation differentiation capabilities that bestow coherence upon it enabling the firm to improve revenue growth and general organizational performance.

5.5 Limitation of the Study

The study was restricted to the influence of strategic innovation on the performance of commercial banks listed in the NSE. The listed commercial banks represent a mere 19.1% of all commercial banks that are within the Kenyan banking industry. This presented a limitation to the research because the extent to which the findings can be generalized across the entire commercial banks and the banking industry in Kenya is constrained.

The research methodology used was cross sectional survey. In as much the design would have yielded uniformity in data, a deeper understanding of the individual population of study might not have adequately been covered. Furthermore semi structured questionnaire that were used did not provide an opportunity for the respondents to give opportunity to be express adequately what they felt about the study topic. As a result, more qualitative information relating to the study might have been left out. This would have enhanced the understanding of the quantitative data that was collected.

The study relied on the multiple hierarchical regression analysis as a tool of establishing the influence of strategic influence on performance of commercial banks that are listed in NSE. The reasoning behind the choice of this diagnostic tool was that the relationship between the key study variables was linear. However there could be possibility that there were other curvilinear relationship that were left out and which would have enriched the content of the study.

5.6 Suggestions for Further Research

The suggestions for further research arise from the limitations discussed above. There is need for future research to include other commercial banks that are not listed and other players in the banking industry of Kenya. The other players could include insurance companies, micro finance institution and mortgage companies.

The study used the cross sectional survey design. Future research can adopt different designs like longitudinal survey that would trace the influence of strategic innovation on the organizational performance over a period of time. The researcher can adopt case study in order to get deeper information on the influence of strategic innovation on organizational performance.

Even though the multiple hierarchical regression analysis was suitable for this study future research may employ other analysis tools. Different analysis tools could reveal other relationship that is not necessarily linear among the study variables.

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Appendices

QUESTIONNAIRE

Instructions

This questionnaire is designed to collect data that will help in better understanding the Influence of Strategic innovation on Performance of Commercial Banks listed in NSE.

The data provided by this questionnaire will be treated in strict confidence.

SECTION A: DEMOGRAPHICS

1. Name of your Bank ……………………………………………………………………. (Optional)

2. How long has your bank been in operation in Kenya?

a) 1 – 5 years ( )
b) 6- 10 years ( )
c) 11 – 15 years ( )
d) 16 - 20 years ( )
e) Over 21 years ( )

3. Kindly indicate below how you would rate your bank in terms of customer base.

a) Large ( )
b) Medium ( )
c) Small ( )

4. Please indicate how you would rate your bank in terms of asset base

a) Large ( )
b) Medium ( )
c) Small ( )

5. How would you categorize your bank within the banking industry in Kenya?

i. Wholly Publicly owned ( )
ii. Publicly owned with Government shareholding ( )
iii. Privately owned ( )

iv. Privately owned with foreign shareholding ( )

SECTION B: Strategic Innovation

To what extent do the following statements on the state of strategic innovation apply to your bank on the scale of 1- 5? (1 –Less extent, 2-Moderate extent, 3- Large extent 4 – Very large extent, 5 - none)

		1	**2**	**3**	**4**	**5**
1	My bank is continuously engaged in creating new and significantly better customer value					
2	In coming up with new ways of doing business, customer needs and priorities are considered					
3	There are many initiatives that have been undertaken to change our business model					
4	The bank has embraced new means of distribution of its products and services					
5	The bank has introduced strategic innovation to enter and create new markets					
6	The bank has embraced strategic innovation to target specific markets (for example, youth, women, Small and medium Enterprises)					

SECTION C: Market Performance

Kindly indicate the degree of the influence of strategic innovation on Market performance of your Bank. (1- Very Unsuccessful 2 - unsuccessful 3 – Successful 4 – very successful, 5 - none)

		1	**2**	**3**	**4**	**5**
1	By engaging in non traditional way of doing business the bank has increased its market share					
2	Strategic innovation has the enabled bank to increase the sale of its products and services					

3	Through the practice of non traditional ways of conducting the business the bank has gained competitive edge over its competitors					
4	The strategic innovation has increased customer satisfaction					

SECTION F: Production Performance

How has strategic innovation influenced the production performance dimensions listed below of your bank on the scale of 1 – 5? (1 – None 2 –very negative 3 – Negative 4- positive 5- very positive).

		1	**2**	**3**	**4**	**5**
1	Quality of products and services					
2	Flexibility in production or service provision					
3	Labour cost per unit of production/service provision					
4	Production and delivery speed					

SECTION D: Comments

Kindly indicate any other relevant information on the above topic in the space provided below.

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

Appendix 2

BANKS LISTED IN NAIROBI SECURITIES EXCHANGE

1. Kenya Commercial Bank
2. Equity Bank Limited
3. Diamond Trust Bank
4. Barclays Bank of Kenya
5. Standard Chartered bank
6. CFC Stanbic Holdings
7. National Bank of Kenya
8. Cooperative Bank of Kenya
9. National Industrial Corporation