

**STRATEGIC INNOVATION PRACTICES AND COMPETITIVE
ADVANTAGE OF LISTED COMMERCIAL BANKS IN KENYA**

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

2017

DECLARATION

I hereby declare that this is my original work and has not been submitted to any other academic body.

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This Research project has been submitted for examination with my approval as the Supervisor.

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ACKNOWLEDGEMENT

To the Almighty God, thank you for the gift of life and good health, knowledge, faithfulness, energy and seeing me through the course work and the project.

I would also like to express my deepest heartfelt appreciation to all those whom, in one way or the other, may have contributed to the realization of this project. The completion of this project relied on the cooperation and assistance of many unseen hands.

My sincere thanks goes to my lecturer and Supervisor, Professor Martin Ogotu. Without your intellectual guidance and criticism, I would not have successfully completed the stormy path to the success of the project. Special thanks go to the other lecturers in the School of Business, University of Nairobi, who have been a source of motivation and inspiration during the entire MBA course. May God bless the work of their hands!

Special gratitude goes to my family for their unending support throughout the course. You have been a great source of strength and encouragement during this entire course and project. Many thanks and may God bless you all.

DEDICATION

This research is dedicated to my loving family for always believing in me. Most importantly to the Almighty God for his guidance and enabling me to complete this task, he has been my divine source of guidance.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENT.....	iii
DEDICATION.....	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABSTRACT.....	x
ABBREVIATION AND ACRONYMS.....	xi
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 The Concept of Strategy.....	3
1.1.2 Strategic Innovative Practices	4
1.1.3 Competitive Advantage	5
1.1.4 Commercial Banks in Kenya.....	6
1.1.5 Listed Commercial Banks in Nairobi Securities Exchange.....	8
1.2 Research Problem.....	9
1.3 Research Objectives	12
1.4 Value of the Study.....	13
CHAPTER TWO: LITERATURE REVIEW.....	15
2.1 Introduction.....	15
2.2 Theoretical Foundation of the Study.....	15
2.2.1 Resource Based View.....	15
2.2.2 Diffusion of Innovation Theory.....	16
2.3 Strategic Innovation Practices and Competitive Advantage.....	17
2.4 Competitive Advantage Typology	18
2.5 Empirical Studies and Knowledge Gaps.....	19
2.6 Conceptual Framework.....	21

CHAPTER THREE: RESEARCH METHODOLOGY	22
3.1 Introduction	22
3.2 Research Design	22
3.3 Population of the Study	23
3.4 Data Collection.....	24
3.5 Data Analysis	25
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION	27
4.1 Introduction	27
4.2 Response Rate	27
4.3 Reliability Analysis	27
4.4 Background Information	28
4.5 Strategic Innovation Practices	28
4.6 Competitive Advantage.....	33
4.7 Innovation Practices and Competitive Advantage	35
4.8 Discussion of the Findings	37
4.8.1 Innovation Practices Embraced	37
4.8.2 Competitive Advantage of Listed Commercial Banks	38
4.8.3 Strategic Innovation Practices and Competitive Advantage	39
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ...	41
5.1 Introduction	41
5.2 Summary of Findings	41
5.3 Conclusions	42
5.4 Recommendations	43
5.4.1 Specification	43
5.4.2 Management Policies.....	43
5.4.3 Management Practices	45
5.4.4 Academician	46
5.5 Limitations of the Study	47
5.6 Recommendations for Future Research	48

REFERENCES.....	49
APPENDICES	53
Appendix I: Research Questionnaire.....	53
Appendix II: Banks Listed in Nairobi Securities Exchange	57

LIST OF TABLES

Table 4. 1: Response Rate Analysis.....	27
Table 4. 2: Reliability of Measurement Scales	28
Table 4. 3: Extent of Product Innovation Communication to the Staff	29
Table 4. 4: Extent of Product Innovation Effect.....	29
Table 4. 5: Innovation Strategies used by the Firm	30
Table 4. 6: Extent of Various Aspects Increase	31
Table 4. 7: Agreement with Various Statements	32
Table 4. 8: Extent to which Strategic Innovation created a Competitive Edge	33
Table 4. 9: Rating various Aspects in Comparison with other Banks	33
Table 4. 10: Level of Agreement	34
Table 4.11: Summary of Regression Model Output	35
Table 4. 12: Summary of One-Way ANOVA Results.....	36
Table 4. 13: Regression Coefficients	36

LIST OF FIGURES

Figure 2. 1: Strategic Innovation and Competitive Advantage.....	21
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ABSTRACT

Strategic innovation practices can generate competitive advantage; improve organization performance and its effectiveness. Strategic innovation strategies have been used as aspects in the direction of realizing competitive advantage for firms over economies of scale and other interactions from using the firm's possessions and competences through different innovative lines. The objectives of the study were: To establish the innovation practices embraced by listed commercial banks in Kenya and to establish the influence of strategic innovation practices on competitive advantage of listed commercial banks in Kenya. The study was built on two different theories specifically resource based theory and Innovation Diffusion Theory. This study adopted cross sectional survey as the research design which is descriptive in nature. Population under study comprises listed commercial banks in Nairobi Stock Exchange. There were 42 banks and 7 representative offices of foreign banks. The respondents thus consisted of staff from the three segregations in commercial banks; senior level managers, middle managers and the supervisors. Primary data was collected and used in this study. Data that was collected included the strategic innovation state, products and networks, competitive advantage and production performance. Three respondents were chosen from each organization upon which the questionnaire was administered through interactive personal interviews. Informed consent forms were obtained before data is collected. Descriptive statistics analysis was carried out to provide summarised organizational demographics. Content analysis was used to analyse the respondents view about the relationship between the strategic innovation practices and competitive advantage of the listed commercial banks in Kenya. Data was analysed using the regression analysis since the study involves one dependent variable and many independent variables. Multiple regression analysis was used to analyse if there is a relationship that exist between one dependent variable and three independent variables. The study found that the product innovation have been communicated to the staff greatly. Further the study revealed that product range and that profitability have increased greatly since the commercial banks started innovation. It was finally indicated that customer loyalty have moderately increased while products development and market Share had increased in a little extent since commercial banks started innovation. The study concluded that technology innovation had the greatest effect on the competitive advantage, followed by product innovation while service innovation had the least effect to the competitive advantage of commercial banks. The study management of the listed commercial banks should adopt innovation strategies to improve on their general competitive advantage, that management of listed commercial banks should investigate ways of reducing challenges facing the implementation of innovation strategies such as lack of top management's commitment to the innovation strategies and lack of mutual coordination and inadequate planning and that listed commercial banks must take immediate steps to improve innovation by critically assessing current innovation capabilities and performance, should create an enable environment that will enhance innovations in the bank so that full benefits of innovation strategies may be realized

ABBREVIATION AND ACRONYMS

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
DOI	Diffusion of Innovation
NSE	Nairobi Security Exchange
SME	Small-To-Medium Enterprise

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategic innovation practices can generate competitive advantage; improve organization performance and its effectiveness. Drucker (1985) well-defined innovation as the precise means of entrepreneurs exploiting change as an opportunity intended for different business or service. Innovation process in commercial banks includes continual changes. Strategic innovation will help the company gain competitiveness, determine quality and how the product will fit customers need. In Kenya, the banking sector is fairly competitive due to products homogeneity and interest rates capping. Thus, banks are enforced to adopt and apply strategic innovation practices towards enhancing delivery.

Strategic innovation strategies have been used as aspects in the direction of realizing competitive advantage for firms over economies of scale and other interactions from using the firm's possessions and competences through different innovative lines. Such interactions from innovation practices are more likely to be realized when firms expand into related lines of business or industries and therefore related to firm's profitability. Drucker (1985) maintains that innovation stands as part of strategy implementation in addition to is straight prerequisite for detailed strategies.

Strategic innovation practices has been influenced by the resource capability in a firm. Agreeing towards the resource-based view, to progress a reasonable gain the organization requirements are possessions and know-hows greater to its contestants. Short of this advantage, the contestants can purely reproduce what the firm was undertaking and every attained benefit would disappear (Betz, 1997). Thus, resource based view will be used in

this study. Diffusion of Innovation theory, established by E.M. Rogers in 1962 seeks to clarify how, why and at what frequency new concepts and technology spread. Innovation Diffusion Theory will thus will be focused on this study.

The banking industry has been through different changes and increased competition. As the environment changes, firms must change their strategies so as to survive. Betz (1997) anticipated that innovation is to make known of a different or enhanced products, process or service into the marketplace. In turbulent environment, strategic innovation practices will enable organizations to be flexible enough to adopt accordingly.

Strategic innovation practices have changed the approach financial institutions and their corporate relations are structured and diversity of inventive products available thus enhancing speed and quality of service delivery. However, there is a drift between creating customer value on existing markets or for new markets.

The Kenyan banking segment covers commercial banks, mortgage finance companies, micro finance institutions and foreign bureaus. Of the forty two commercial banks in Kenya, eleven are listed in the Nairobi securities exchange. Commercial banks play a vital part in the Kenyan economy. They simplify flow and distribution of resources, gather savings, assign credit across space and time allowing all companies in the financial progression deal with economic risks by assembling, distribution, hedging and valuing of financial resources. In spite of these essential roles that commercial banks play in the Kenyan economic progression, they are functioning in an extremely controlled and liberalized atmosphere. They are bombarded by the inconsistent technological advancement and global hyper competitiveness. To succeed and endure, although

keeping up with fluctuating customer wants and significances, commercial banks have to adapt. Strategic innovation practices are among strategies listed commercial banks in NSE have embraced.

1.1.1 The Concept of Strategy

Drucker (1954) defined strategy as analyzing the present situation and changing if necessary. It is the science of making good decisions about the future, analyzing present situations, and changing it whenever necessary. Mintzberg (1979) stated that strategy provides the direction for operations. The objective of strategy is to bring about advantageous conditions within which action will occur giving a pure route and emphases on efforts of the organization on a mutual improvement end.

Porter (1985) defines strategy as a central vehicle for achieving competitive advantage. Strategic innovation in an organization involves remodeling or restructuring its business strategy to initiate business progress, produce value for the company as well as its clienteles to create competitive advantage. It is important for the organizations to acclimatize to the swiftness of technology changes .Innovation strategies should stipulate in what way significance of the improvement will be talked to all the teams and must reproduce the meaning that management places on innovation.

The management of high performing institutions was tangibly and visibly committed to new product development and overtly formulated and communicated the institutions new product development strategy (Bessant & Francis, 1999). Companies offering adjusted services and products to current needs sell them faster than their competitors thus able to

create a sustainable advantage. Globalization, technological advances, changes in consumer demands need a more strategic view from those who run organizations.

1.1.2 Strategic Innovative Practices

Innovation Practices include the formation of expansion approaches, different product types, amenities or business representations that transform the market and produce substantial new significance for consumers, customers and organization (Palmer and Kaplan, 2007). It is a whole organized tactic dedicated on creating beyond incremental break through or discontinuous innovation. Innovation practices challenges a firm in the direction of considering outside its recognized business borders as well as intellectual simulations and to contribute in an open minded, inventive investigation of the realm of likelihoods. 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 innovation practices include providing solutions to three basis questions that outline business. These requests are; who are our clientele, what value do we deliver and How do we deliver that value (Abell, 1980). Innovation practices entail intense redefinition of customer's base through exploring techniques of increasing the size of the market. It stresses a dramatic reinvention of the idea of customer value. The development compels firms to recognize new wants for customer and realize ways of addressing current client's likings. Finally; innovation strategies concentrates on radical reinventions of the

perception of customer value. This possibly will be through innovative forms of manufacturing, distribution, sales or services delivery.

The impact of innovation practices to a firm rests in its capacity in succeeding rivalry through creating extra worth in the end. Kim and Mauborgne (2005) contend that this is realized through conception of fresh segregated business that primarily overlook rivalry and innovative business advertising, proposals and space that renders rivalry inappropriate.

Innovation practices cushions organizational evolution through formation of new markets and new set of clients' requests by answering to the underserved customer segments. Berghman (2006) hypothesize that innovation practices has the capability of growing the average firm productivity and in so doing rejuvenating the entire industry.

1.1.3 Competitive Advantage

A company has a competitive advantage whenever it outperforms its competitors or has control above its challengers in safeguarding customer and protecting alongside viable forces (Thompson & Strickland, 2002). Maintainable competitive benefit is conveyed out of main capabilities generating the elongated value to the business. Competitive advantage is also well-defined as calculated gain one business unit has above its rival units in its competitive industry. Realizing competitive advantage supports and positions a business better within the business setting.

Porter (1998) discusses that competitive advantage stands as the capability of the firm to outperform competitors on the main performance aim. Competitive advantage come about after organization gains and advances power allowing it in the direction of

overtaking its challengers. Companies can acquire a competitive advantage through employing value-creating approaches not executed by existing competitors. The strategies should be unusual, valuable and non-substitutable. Accomplishing a competitive advantage toughens in addition to placing a business better inside operating environment.

Davison, Watkins and Wright (1989) argued the immaterial form of commercial services makes it tough predicting use of definite services features as the foundation in forming a competitive advantage. Services cannot be patented as a result features mostly can be imitated easily. This leads to struggle establishing long-lasting competitive advantage using service features (Bharadwaj et al., 1993). Current statutory changes demanding expose of all fees and commission rates for specific investment services may end in some consumers being extra price-sensitive. On the other hand, it is not likely that price will turn into a main emphasis of competitive strategy for financial services but service quality. Service value has been emphasized through Lewis (1993) equally significant in financial services markets among others.

1.1.4 Commercial Banks in Kenya

Commercial banks at the most basic levels, receive deposits, make loans, provide safety and also act as payment agents. Kenya is the hub of commerce in Eastern Africa thus has a variety of commercial banks-both small and large. There are 42 banks and 7 representative offices of foreign banks. Banking industry in Kenya, remains administered through companies Act, Banking Act, Central Bank of Kenya Act and the numerous provident procedures dispensed by the Central Bank of Kenya (CBK). Bank Supervision

and Banking sector News are released yearly and quarterly basis by the Central Bank of Kenya (CBK, 2016).

In a world of change and competition banks are continually becoming committed to increasing banking hours in order to align the shopping patterns. This is in line with clever use of technology in driving up the uptake of digital channels, providing convenient access services. However, there is need to evaluate strategic innovation practices in commercial banks that offer customer satisfaction and competitiveness to the on a day to day. The Kenya, banking industry is forced to change with the times as mobile and automated technology changes. The reducing number of branch networks and changing customer interaction and experiences ties with reduced visits to the ATMS due to industries introduced mobile banking and online technology. Commercial banks are moving into digital banking as the new edge for growth with a number of challenges judging by developments in 2016; rates capping, little public assurance and a repeated economy stoppage every election year.

The banking industry has been faced with the trial of broadcast gossips on pending downfalls which has been haunting the small lenders. This is with the collapse of Chase Bank in March 2016 after Imperial Bank and Dubai bank closure. To remain competitive locally, commercial banks have continued to re-brand, align and more innovative in products and services to suit the changing market. Efforts by the commercial banks in re-engineering their product propositions has not been fully exploited in light to deliver superior service and value to customers. There is a gap in service delivery and product offering which has let to establishment and intrusion of micro-finance institutions according to the Kenya Women Finance Trust report (2000). Studies have shown that

application of innovation on products offerings as strategy is important to the survival of a firm (Chin, 1999). Only few companies are adopting this concept in contribution to their corporate goals and achieving greatness thus need to evaluate the strategic innovation practices.

1.1.5 Listed Commercial Banks in Nairobi Securities Exchange

Nairobi securities exchange is the key stock exchange of Kenya incepted in 1954. The NSE is the fourth African largest stock exchange on market capitalization as a fraction of Gross domestic product. The core indices used to measure performance at the NSE are NSE 20 share index and the NSE all-share index .However NSE 20 share index measures performance of 20 blue cheap companies with robust basics and which have constantly returned financial results. The NSE all-share index is an overall indicator of market performance.

The foremost investments market listings comprise agricultural sector, commercial and services, industrial and allied and finance and investment. There are eleven commercial banks listed under financial and investment category in NSE. They consist of Kenya Commercial Bank Ltd, Barclays Bank of Kenya Ltd, Standard Chartered Bank Ltd, Equity Bank limited, Cooperative Bank of Kenya, Diamond Trust Bank, National Bank of Kenya, National Industrial Corporation and Stanbic Bank Holdings, I&M Holdings and HF Group Ltd. Of these eleven commercial banks; six are included in the NSE 20 share index. These are Kenya Commercial Bank, The Cooperative Bank, Diamond Trust Bank Ltd, Barclays Bank Ltd, Equity Bank Ltd, and Stanbic Ltd .These commercial banks vary from one another in terms of asset book, customer base and geographic coverage.

Ngugi and Njiru (2014), advocate the main intention meant for going public remains the want by firms to raise equity capital in addition to creating a public market in which the initiators and other shareholders can convert part of their wealth into cash at a future time. By way of going public, organizations relax their financial constraints, especially those with bulky current and yet to come investments, high influence and growth. Commercial banks list for the sole drive to improve capital base in the direction of supporting future growth strategies and services to meet the wants of the escalating Kenyan economy. Banks that list stand to benefit from enlarged profitability and growth opportunities.

The performance of the commercial banks listed in the NSE is underneath inquiry of a number of stakeholders and the public. Their presentation is used by the stakeholders and the public to create crucial choices and provide a sign of the state of the economy. In view of growing the stakeholder's investment assurance, firm status and worth to investor, commercial banks embraced strategic innovation as a means of driving their performance.

1.2 Research Problem

Strategic innovation practices are primarily a diverse methodology of competing in a prevailing business. It signifies an original as well as substantial leave-taking from historic repetition. Larsen et al (2002) contend that strategic innovation practices concentrates shifting firm level strategy over time towards recognizing untapped position in the business ahead of opposing firms. Strategic innovation practices conveys in market cap progression by means of distinguishing competences giving consistency which allows the firm to progress revenue advancement. Strategic innovation practices improve

comprehensive effectiveness, total output and value enlargement of the firm. This is aimed at satisfying customer needs and retaining the market share. There is need for strategic innovation practices as this is critical for commercial banks operating in dynamic environment. There is increased competition from financial technology companies based on using various software to provide similar financial services. Commercial banks need to create the best experiences and the most value for their customers in this digital age. This talks to delivery of several products and services which are universal to the leading financial services or organizations by delivering exceptional client experiences and superior value. Drucker (1998) states that innovation is work rather than genius. It requires knowledge, creativity and focus. Commercial banks can combine incremental and radical change to produce continual changes overtime.

In Kenya; banking sector is fairly competitive due to product homogeneousness and interest rate capping. Banks are faced with narrowing profit margins despite all the headlines about profitability. Consumer expectations are also a great challenge. Banks is faced with pressure to deliver superior value to customers thus competing with the basis of customer focus, creativity and innovation, learning and development, and risk. Commercial banks listed in NSE maneuver in comprehensively structured atmosphere that necessitates definite mark of consistency happening on their share in revealing critical facts. Uninterrupted transformation, hyper rivalry, varying demographics and client wants necessitate these banks to construct flexibility ability aimed at endurance and promotion of structural performance.

It is in contradiction of this background that these banks have recognized that toeing the line to convectional approaches yield convectional marks. To yield tactical effectiveness

in new reasonable setting, these banks have incorporated different ways of undertaking business that not only enhance worth to clients on the other hand earn them quality. Strategic innovation practices are accomplished mutually for endurance and sustenance.

A number of researchers have considered relationship amongst innovation and competitive advantage (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 concentrated on reactions to disruptive innovation whereas Christensen studied disruptive innovation. Among studies on innovative strategies include Illovi (2008) who explored strategic innovative strategies adopted in the courier industry in Kenya. The researcher instituted out that firms applied cost leadership strategy by way of making certain that tariffs were as competitive as possible. Thathi (2008) concentrated on competitive strategies by advertising firms in Kenya and established that concessions, competitive valuing and superiority service were the key strategies applied. Nyatich (2008) discovered the challenges encountered by commercial banks in Kenya in implementation of various competitive strategy and acknowledged deep competition, government rule and varying tariffs in responsiveness amongst clientele.

Murimiri (2009) found out that commercial banks in Kenya chase price reduction, exceptional client service and operating effectiveness strategies with respect to performance pointers of revenue growth, asset growth, customer base and market share. The conclusions of this study may possibly not be comprehensive as well to this study as the parameters of performance were financially measured by return on assets, return on equity, return on capital employed and profitability. Wheeler et al. (2008) study

established that performance variances occurred across seven out of nine diversification strategies. Some succeeding strategic writings braced his discovery that firms which diversified into associated product areas executed better than those that spread into unrelated areas (Matsusaka, 2011). Research studies have been completed on innovation strategies. According to Odhiambo (2008) he supported out a study on innovation strategies at the Standard Chartered Bank (Kenya) Limited. Karanja (2014) focused on researching innovation strategies adopted by commercial banks.

Despite the fact that all the above researches and studies exposed existence of relationship between innovation and competitive advantage, all were contextually different and none investigated on extent to which strategic innovation practices influence competitive advantage of listed commercial banks in Kenya. Additionally, the researches and studies simply concentrated on unique traditional aspect of innovation and/or competitive advantage rather than a comprehensive view in the direction of innovation. This study drives towards sealing this knowledge gap by studying strategic innovation practices and competitive advantage of listed commercial banks in Kenya. This study sought to answer two questions; what innovation practices are adopted by commercial banks in Kenya? And what is the influence of strategic innovation practices on competitive advantage of Commercial banks in Kenya?

1.3 Research Objectives

The objectives of the study were:

- i) To establish the innovation practices embraced by listed commercial banks in Kenya
- ii) To establish the influence of strategic innovation practices on competitive advantage of listed commercial banks in Kenya.

1.4 Value of the Study

This study would be useful towards administration in banks and other institutions which have adopted or are adopting the strategic innovation charter as it would help in gaining insight on how strategic innovation adoption influence achieving competitive advantage. Thus, the study would be useful in helping managers in improvements of their innovative capabilities and activities, formulate strategies towards enhancing the application of strategic innovation practices to achieve competitive advantage. The findings that would be collected from the study would be useful to the commercial banks in re-engineering their product and service innovation and establish that strategic innovation practices is a major driver of organizational performance and competitive advantage. The findings would point out that strategic innovation practices empowers an organization to realize inclusive advantage beside all the structural performance extents

The study's findings would be useful by policy and decision makers at all levels. There would be value addition as policy makers establish that strategic innovation practices accounts for a competitive advantage hence results compelling them to realign their strategies. The study's outcomes would be a point of orientation for the government strategy makers in framing solid, comprehensive and stable policies that lay groundwork for strategic innovation practices. The guidelines would improve universal effectiveness of the country, tough economy and realization of crucial national objectives. Managers responsible with strategy would use the findings when making informed strategic decisions .To the industry performer's, guidelines articulated would heighten constancy, progression and performance in the banking segment.

The study would be helpful to researchers forming a foundation for additional exploration. Scholars and academics would use this as a foundation for their discussion regarding strategic innovation practices and competitive advantage adopted by banking industry in Kenya. This research would make contribution to the improvement of strategic innovation theory. The study's results on the strategic innovation practices and competitive advantage on listed commercial banks in NSE would provide resilient empirical confirmation on the continuing discussions on sustainability of the firms' performance in aspect of rigid competition and high directives.

By indicating that the market, production and financial presentation have tough positive connection with strategic innovation practices, the outcomes would deliver point of reference backing the argument that strategic innovation practices cushions competitive advantage. By endorsing present theories and reconciling preceding knowledge in the wider ground of innovation, this study's outcomes would contribute to enrichment of facts in both fields of strategy and corporate innovativeness. This involvement would form the foundation of understanding essentials inherent in the field of strategic innovation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the available literature on strategic innovation practices and competitive advantage of commercial banks in Kenya. It also identifies the resource based theory and Innovation diffusion theory. The chapter also presents overview on strategic innovation and competitive advantage.

2.2 Theoretical Foundation of the Study

Kothari (2003) defines a theory as a set of interrelated concepts and propositions that specify relations among variables used to predict phenomena. The study was built on two different theories specifically resource based theory and Innovation Diffusion Theory (Hernando & Nieto, 2007).

2.2.1 Resource Based View

Firms requirement are resources and capabilities greater to those of its competitors to cultivate a competitive advantage (Avlonitis et al., 2001). To progress a reasonable gain, organization requirements are possessions and know-hows greater to its contestants. Short of this advantage, the contestants can reproduce what the firm was undertaking and every attained benefit would disappear (Betz, 1997).

Organizations responsibility is to distinguish main resources that can produce competitive advantage. Resources significance varies based on industry, time and space and possibly be determined by external environment (Keeton, 2001). Competitive advantage in any organization is linked to key general strategy; either low-cost or product differentiation. An organization capable in the direction of realising advantage in cost or differentiation

offers products at lesser charges or with advanced unit of differentiation and most notably, is able to race with its rivals.

A competitive advantage resource-based looks at the company resources and their impact on competitiveness (Barney, 1991). Cost efficiency remains a basic requirement aimed at making revenue; yet, elusive factors stand at adding greatest of the value to a product. Porter (1985) clarifies that competitive advantage develops primarily on view of the cost a firm is capable making for its buyers exceeding firms charge of making it. Thus, value is what buyers are agreeable to pay, and superior value is generated from posing lower prices than competitive price with corresponding aids or providing exceptional aids that extra than balance a greater fee (Breznik, 2012).

2.2.2 Diffusion of Innovation Theory

Diffusion of Innovation (DOI) Theory, established by Rogers in 1962, is one of the oldest social science theories. It seeks to clarify how, why and at what frequency new concepts and technology spread. The theory initiated in communication towards describing in what manner, overtime, notion or else product increases motion then disseminates over a particular population or social system. End result of this dispersion is that people, as part of a social system, accept a new idea, behaviour, or product. Innovation Diffusion Theory explains individual's objective to embrace technology as a modality to perform a traditional activity.

Embracing new ideas, culture, or else product does not occur concurrently in social system; however, it is a practice where certain persons stay more appropriate to embrace the innovation than others. Innovation Diffusion Theory has been incorporated by some

researchers. Wang(2003) studied embracing Internet banking by means of TAM model and presented a new concept 'perceived credibility' that mirrors the consumer's security and confidentiality concerns in the approval of Internet banking (Casolaro & Gobbi, 2007). They bring into being the major influence of supposed ease of use, supposed usefulness and supposed credibility on the purpose to use Internet banking.

Critical elements defining the embracing of an innovation at broad level are: relative advantage, compatibility, complexity, triability and observability (Rodger, 1995).The normalized factors are complexity, triability and observability. The key to implementation is that the individual need to identify idea, behaviour, or product. Internet banking can simply be positioned as a satisfying technology comparative to the business model of retail banks (Christensen & Raynor, 2003).

2.3 Strategic Innovation Practices and Competitive Advantage

Ansoff (1967) specified that strategic innovation remains as a firm mutual strand, giving its way and opportunity in the long run whereas Ansoff (1980) described strategy resolution creating guidelines intended for managing structural conduct. Strategic innovation practices offers significant help for surviving on business instability and trials faced by organizations. Agreeing to Gerry, Kevan and Whittington (2006), strategic innovation practices are all organization stages specifically corporate, business, functional and operating strategies.

Strategic innovation remains the means through which intentions are followed then gotten over time. Porter (1980) specified that strategic innovation essentially is around competition in addition to means through which firm's attempts to gain economic benefit.

The drive of strategic preparation is to authorize a firm to competently advance in appropriate competitive superiority over its competitors suggesting that strategic innovation remains as efforts to transformation, in the most capable means, firm strength in relation to that of its competitors.

Porter (1985), advised that a competitive advantage survives once the firm brings similar benefits as competitors on the other hand at a lesser cost (cost advantage), or brings benefits surpassing opposing products (differentiation advantage). Cost and differentiation advantages are identified as positional advantages from the time when they define the firm's place in the industry as a frontrunner in both cost and differentiation. Managers are obliged to pay exceptional consideration to exactly how improvements and appropriate procedures can facilitate entire features innovations at a lesser cost and differentiation thus gaining a greater competitive advantage

2.4 Competitive Advantage Typology

A firm is believed to have a competitive advantage above its opponents if proceeds sustained go above the normal in its industry. Porter (1985) acknowledged two straightforward categories of competitive advantage; cost advantage, differentiation advantage. Competitive advantage is once a firm is capable to supply comparable aids as challengers or the same but then at lower cost (cost advantage). Differentiation advantage on the other hand is when a firm is able to deliver benefits that exceed the competitors' products. Thus, a competitive advantage promotes organization in creation of greater significance aimed at its consumers and larger proceeds meant for itself (Anderson, 1996).

Price and disparity advantages are recognised as positional benefits as they define the organisation's place in environment as a forerunner on price or disparity. Resource-based attitude stresses that a firm exploits her possessions in addition to competences towards generating competitive advantage eventually resulting in more worth establishment. Agreeing to the resource based view, a firm must have resources and capabilities that are superior to its competitors to develop a competitive advantage.

Without this dominance, competitors would photocopy what the firm was undertaking thus any improvement would swiftly dissolve. Possessions remain organizations specific assets intended for making cost or differentiation advantage in addition to few competitors can obtain easily. Case in point of such resources include patents and trademarks, proprietary know-how, installed customer base, reputation of the firm and brand equity (Canals, 1993).

2.5 Empirical Studies and Knowledge Gaps

Literature proposes that Strategic innovation practices are critical in determining the firm performance in several aspects as it has a large impact on the performance .Few empirical studies have been conducted to examine the relationship between organizational innovation and competitive advantage. The results of the few studies conducted to examine the relationships are clearly inconsistent. (Ansoff, 1988) eluded that demands are key constituents of competitive strategy for many banking firms. Commercial banks face competitive challenges due to the rapid pace and technology change unpredictability. Otieno (2010) considered the Kenya banking zone's presentation of approach in increasing competitive advantage. The study disclosed that ICT remained the standard

motivating power of competition in the segment in addition to having partaken extensively accepted as an approach to reinforce competitive advantage. In her close on her study on the policies adopted by Kenyan commercial banks to shape up competitive advantage. Ongori (2010) intimated that competitive advantage prospered acceptance of exclusive non mirrored approaches, or improved implementation of policies at present accepted by competitors.

Ouma & Munyoki, (2010) begun a study interested in the Kenyan banks' marketing strategy towards talking to the service failure amid SME customers. Their marks harmonised with Ongori (2010) that competitive advantage remained attainable where the firms' capabilities remained valuable, intermittent and non-substitutable.

Several studies have been completed on strategies and competitive advantage, and the impact of innovation in refining performance and achieving competitive advantage in banking sector. None have been carried out on strategic innovation practices and competitive advantage of listed commercial banks in Kenya, thus creating the research gap. What innovation practices do commercial banks in Kenya adopt? And what is the influence of strategic innovation practices on competitive advantage of Commercial banks in Kenya?

2.6 Conceptual Framework

Independent variables

Dependent variable

Strategic innovation practices

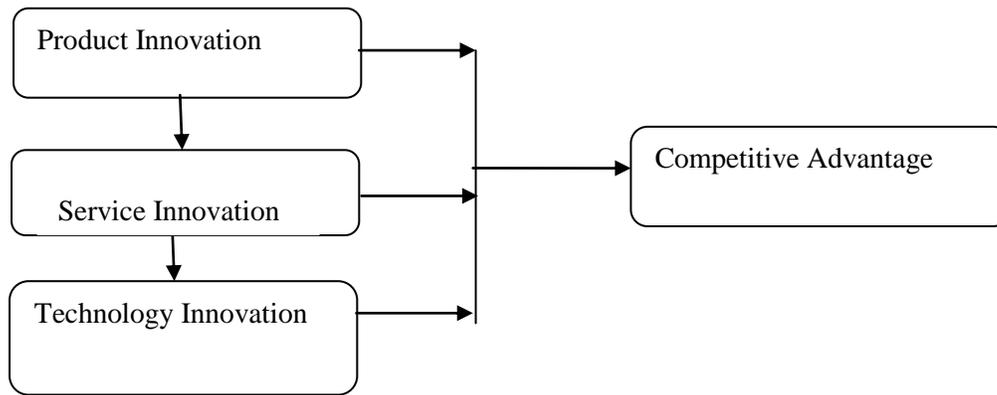


Figure 2. 1: Strategic Innovation and Competitive Advantage

Source: Author, 2017

Above is a postulated prototype grouping variables in the study and their relationships expressing the conceptual relationship between the research variables. According to the conceptual framework, competitive advantage is the dependent variable while strategic innovation practices are the independent variables. The conceptual framework is an adjustment of Michael Poter's generic strategies (product differentiation, focus strategy and cost leadership). Only those banks that can effectively progress new products, services and networks in reaction to changing market environment will endure.

Improvements in service businesses stand to touch client/supplier connection as they are to change the service. Technologically initiative improvements from time to time have fertile effects. Equally, innovations that require extremely imaginative technology can at times equate to slight supposed change. This means the source of organisations competitive advantage lies in the inner possessions as opposed to external environment.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter was to deliver the summary of the research methodology to be employed in the study. The chapter involved the research design, data collection methods and was completed with the data representation and data analysis methods used in the study. The chapter starts with giving the philosophical direction and the research design. Philosophical orientation is estimated to give the direction of the study in terms of the beliefs in the processes. This was supported by research design which explained the relationship that might exist among the variables necessary in the study.

The chapter then went on outlining the target population in a clear way on how it was determined and engaged fully to achieve the study objectives. This was administered through the interview guides that enabled administration of questions. This chapter further discusses how data was collected, procedures to be followed, the people to respond to the questions and the type of instruments to be employed justifying each step.

Validation of the instruments to be used and the reliability ratio was also discussed in this chapter. The reliability ration was established to determine the content and consistency of instrument in measuring the intended objectives and also explains the operationalization of key variables. The chapter further explains the key analytical models to be used during analysis stage and summarise it according to objective of the study

3.2 Research Design

This study adopted cross sectional survey as the research design which is descriptive in nature. Additionally, information essential for examination was collected from a big

population, whose structures would not be broadly observed at individual level. Orotho (2003) described the descriptive research as a way of gathering information through interviews or directing questionnaire to a sample of individuals.

Descriptive design has been identified in this study as it facilitated gathering statistical and descriptive data to weigh relationship between the variables. This facilitated in collecting data on general characteristics of the study population before exposing it to analysis. This is in line with the objective of the study to establish influence of strategic innovation practices and competitive advantage of listed commercial banks. The usage of the survey measures facilitated identifying the interrelationships among variables being studied.

Additionally, this has been imposed by the fact that cross sectional survey research involves studying a sample of a population. This design is suitable as it gave conclusive results between two variables. For this case, strategic innovation practices are the independent variable whereas the dependent variables are the competitive advantage on the organization.

3.3 Population of the Study

Population under study comprises listed commercial banks in Nairobi Stock Exchange. There were 42 banks and 7 representative offices of foreign banks. The total number of commercial banks listed at the Nairobi securities Exchange as at 30th June 2017 are 11. They include; Kenya Commercial Bank Ltd, Barclays Bank of Kenya Ltd, Standard Chartered Bank Ltd, Equity Bank limited, Cooperative Bank of Kenya, Diamond Trust

Bank, National Bank of Kenya, National Industrial Corporation and Stanbic Bank Holdings, I&M Holdings and HF Group Ltd.

Agreeing to Kombo and Tromp (2006), population remains cluster of entities, objects or substances where sections was in use aimed at dimension or it is a full collection of persons, or elements that have at least one thing in common. Given diversity and nature of data that is required to answer the research questions, the use of several target groups was adopted. The respondents thus consisted of staff from the three segregations in commercial banks; senior level managers, middle managers and the supervisors.

3.4 Data Collection

Primary data was collected and used in this study. This study was mainly concerned with strategic innovation practices and competitive advantage of listed commercial banks. Data that was collected included the strategic innovation state, products and networks, competitive advantage and production performance. Such information was best collected through a semi-structured questionnaire containing open ended questions.

The targeted respondents in this study were senior level managers, middle managers and the supervisors of the listed companies. This is because they are involved in the organizations management and have a broad understating of the affairs of the organization. Three respondents were chosen from each organization upon which the questionnaire was administered through interactive personal interviews. Informed consent forms were obtained before data is collected.

Questionnaire guide was made of three sections. The first section addressed the background and general information on the banks, their products and networks. The

second section was on the innovation practices and addresses the extent to which strategic innovation practices influence competitive advantage of commercial banks. The third section focused on the competitive advantage. Bonus information not captured using closed-ended questions was captured by means of open ended questions to gain better understanding of strategic innovation practices and competitive advantage.

3.5 Data Analysis

Descriptive statistics analysis was carried out to provide summarised organizational demographics. This contained proportions and occurrences. Tables in addition to other graphical demonstrations were suitable to present the data collected for easiness of understanding and analysis. Content analysis was used to analyse the respondents view about the relationship between the strategic innovation practices and competitive advantage of the listed commercial banks in Kenya. Data was analysed using the regression analysis since the study involves one dependent variable and many independent variables.

Multiple regression analysis was used to analyse if there is a relationship that exist between one dependent variable and three independent variables. Competitive advantage shall be dependent variable while the independent variables were strategic innovation practices including product innovation, service innovation and technology innovation.

The regression model to be used as represented below:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where:

Y = Dependent variable (Competitive advantage).

β_0 = Y-intercept (or constant) and measures the value at which the regression line crosses the y axis.

β_1, β_2 and B_3 , = Beta coefficients (represents the slope of the straight line as described by the equation)

X_1 = Product Innovation

X_2 = Service Innovation

X_3 = Technology Innovation

ε = Error term

Following data exploration, findings were then linked by way of the theoretical approach then the themes in the literature review. The findings were interpreted with respect to research objectives and theory. Summary of findings, conclusions and recommendations were then documented and presented in chapter five.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of the data collected on subject under study and discussion of the findings. The researcher used frequency tables and percentages to present data.

4.2 Response Rate

The study directed at collecting primary data from the respondents. To attain this, questionnaires were issued to 33 respondents whereby 30 questionnaires were concluded as well as submitted back. This characterizes a comeback rate of 90.9% which point toward the response rate attained as good in addition to allowed broad view of the findings as it is in line with Sproul (2011) who holds that a response rate above 50% is good.

Table 4. 1: Response Rate Analysis

		Response Rate
Respondent	30	90.9
Non Respondent	3	9.1
Total	33	100

4.3 Reliability Analysis

The construct reliability was determined using Cronbach alpha coefficients that test internal consistency of items on a scale. The results of the reliability analysis are presented in the table 4.2.

Table 4. 2: Reliability of Measurement Scales

	Cronbach's Alpha	Decision
Product Innovation	0.811	Reliable
Service Innovation	0.742	Reliable
Technology Innovation	0.834	Reliable

From the findings, technology Innovation was more reliable with a coefficient of 0.834 followed by product Innovation with a coefficient of 0.811 while service innovation had the least with a coefficient of 0.742. All the variables were considered reliable since the results showed that their Cronbach Alpha associated were above 0.7000.

4.4 Background Information

In this study, data was collected from different commercial banks to obtain their background information. From the responses, most of the respondents indicated that their banks have operated in Kenya over a period of 50 years. Further majority of respondents specified that the total sum of employees in their banks is more than 800. The respondents also indicated that the number of networks that are present/branches in Kenya were in excess of 14 branches. Finally the respondents indicated that the number of strategies the most of the banks are pursuing was more than 2.

4.5 Strategic Innovation Practices

The respondents were asked to indicate the extent to which product innovation have been communicated to the staff. Their feedback is as shown in table 4.3.

Table 4. 3: Extent of Product Innovation Communication to the Staff

	Frequency	Percent
Little extent	4	13.0
Moderate extent	6	19.6
Great extent	15	50.0
Very great extent	5	17.4
Total	30	100.0

From the findings, the respondents indicated that product innovation have been communicated to the staff greatly as shown by 50%, moderately as shown by 19.6%, very greatly as shown by 17.4% and in a little extent as shown by 13%. This implies that product innovation have been communicated to the staff greatly.

The respondents were further required to identify the extent to which product innovation affect the performance of Commercial banks. Their opinion was as shown in table 4.4.

Table 4. 4: Extent of Product Innovation Effect

	Frequency	Percent
Little extent	7	21.7
Moderate extent	5	19.6
Great extent	14	45.7
Very great extent	4	13.0
Total	30	100.0

Majority of the respondents indicated that product innovation affect the performance of commercial banks in a great extent as shown by 45.7%, in a little extent as shown by 21.7%, in a moderate extent as shown by 19.6% and in a very great extent as shown by 13%. This reveals that product innovation affect the performance of commercial banks in a great extent.

Further the respondents were required to specify which of the various innovation strategies their firm uses. Their reaction was as summarised in table 4.5.

Table 4. 5: Innovation Strategies used by the Firm

Strategy	Yes (%)	No (%)
Product improvement	76.1	23.9
Product costs revision/improvement	69.6	30.4
Product replacement	69.6	30.4
New product introduction	17.4	82.6
Product repositioning	63.0	37.0
Market innovation	65.2	34.8
Products reprising	56.5	43.5

The respondents directed that the innovation strategies used in their firm were product improvement (76.1%), product costs revision/improvement and product replacement (69.6%) each, product repositioning (63.0%), market innovation (65.2%) and products reprising (56.5%). This implies that products reprising, product replacement, product costs revision/improvement and product improvement are some of the strategies used by most of the banks.

The respondents were further requested to specify the extent to which each of the various aspects has increased since they started innovation. Their responses were as shown in table 4.6.

Table 4. 6: Extent of Various Aspects Increase

	Mean	Std. Dev.
Products Development	2.2045	.76492
Products quality	4.3478	.56637
Product Range	3.8913	.64043
Customer Satisfaction	4.3043	.86589
Profitability	3.7609	.60313
Customer Loyalty	2.5435	.86169
Market Share	2.1522	.41991

From the findings the respondents indicated that products quality as per by mean score expression of 4.3478, customer Satisfaction as illustrated by a mean of 4.3043, product range displayed by a mean of 3.8913 in addition to profitability which reflected a mean score of 3.7609 have increased greatly since they started innovation.

However the respondents indicated that customer loyalty as depicted by a mean score of 2.5435 have moderately increased while products development as shown by mean of 2.2045 and market Share as illustrated by a mean score of 2.1522 had increased in a little extent since they started innovation.

The researcher further asked the respondents to indicate their level of agreement with various statements. Their feedback was as shown in table 4.7.

Table 4. 7: Agreement with Various Statements

	Mean	Std. Dev.
Your bank has created new and better customer value thus new and more customers have chosen your bank	4.4348	.93457
Customers would change a bank to a bank to where needs and innovative products are considered	3.7174	.68841
It is all about the target market and not the product innovation	3.8261	.43738
Initiatives are taken to change business models as there is a relationship between product innovation practices and Competitive advantage	2.4130	1.14651
Product innovation creates new markets and a competitive edge for Banks	4.0217	.68278
Your bank has involved new distribution ways of products and services	3.3913	1.02151

With the given study outcomes, the respondents established the fact that their banks has created new and better customer value thus new and more customers have chosen their banks as shown by a mean of 4.4348, that product innovation creates new markets and a competitive edge for banks as expressed through a mean score of 4.0217, that it is all about the target market and not the product innovation as demonstrated by means of a mean score of 3.8261 as well as customers would change a banks to a bank to where needs and innovative products are considered as shown by a mean score of 3.7174.

However the respondents were neutral that their banks has involved new distribution ways of products and services as shown by a mean of 3.3913 and disagreed that initiatives are taken to change business models as there is a relationship between product innovation practices and services as shown by a mean of 2.4130.

4.6 Competitive Advantage

The respondents were requested in the direction of what is the extent to which strategic innovation created a competitive edge and communicated to the staff. Their reactions were as shown in table 4.8.

Table 4. 8: Extent to which Strategic Innovation created a Competitive Edge

	Frequency	Percent
Little extent	7	21.7
Moderate extent	8	28.3
Great extent	10	34.8
Very great extent	5	15.2
Total	30	100.0

As per the results, the respondents revealed that strategic innovation have created a competitive edge and communicated to the staff in a great extent as shown by 34.8%, in a moderate extent as shown by 28.3%, in a little extent as shown by 21.7% and in a very great extent as shown by 15.2%. This shows that strategic innovation have created a competitive edge and communicated to the staff in a great extent.

The respondents were further asked in comparison with other banks to rate various aspects. Their feedback was as indicated in table 4.9.

Table 4. 9: Rating various Aspects in Comparison with other Banks

	Mean	Std. Dev.
Customer choice	3.6522	.52567
Customers perception on quality of your products against the other banks	2.3696	1.06163
profitability	3.7391	.71289
Market share	4.3913	.61385
Loyalty	4.1087	.56679

The respondents indicated that market share as illustrated by an average of 4.3913, loyalty in the same way displayed by a mean of 4.1087, profitability equally expressed by a mean score of 3.7391 and customer choice as indicated by a mean of 3.6522 in comparison with other banks have been moderately high. The respondents further indicated that customers' perception on quality of the products against the other banks as shown by a mean score of 2.3696 have been a little.

The respondents were further requested to gauge their level of agreement and share the degree to which effects of process innovation strategies on customer satisfaction and the effect on profitability of the banks. Table 4.10 shows their responses.

Table 4. 10: Level of Agreement

	Mean	Std. Dev.
Usage of technology innovation at all levels help connect to larger purpose of serving customers promoting satisfaction	3.4130	.80488
Above positively impacts business performance today	4.0435	1.01009
Process innovation enable me to take ownership of my work and helps in removing obstacles that arise	2.3043	.72632
Employees at all levels work with other areas to create a common goal ensuring services given to customers are of high quality	3.8478	.36316

From the study outcomes, the respondents agreed that above positively impacts business performance today as shown by a mean score of 4.0435 and that employees at all levels work with other areas to create a common goal ensuring services specified to clients remain of high value as directed through a mean of 3.8478.

However the respondents neutral that usage of technology innovation at all levels help connect to larger purpose of serving customers promoting satisfaction as shown by a mean of 3.4130 and disagreed that process innovation enable them to take ownership of their work and helps in removing obstacles that arise as indicated by a mean score of 2.3043.

4.7 Innovation Practices and Competitive Advantage

In this study, a multiple regression analysis was carried out to assess the effect innovational practices on competitive advantage. The summary of regression model output is shown in Table 4.11.

Table 4.11: Summary of Regression Model Output

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.855	0.730	0.699	1.283

The study found that independent variables selected for the study (product innovation, service innovation and technology innovation) accounted for 69.9% of the variations in competitive advantage. According to the test model, 30.1% percent of the variation in competitive advantage could not be explained by the model.

The analysis of variance results for the relationship between the four independent variables and competitive advantage is shown in table 4. 12.

Table 4. 12: Summary of One-Way ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	124.83	3	41.610	23.458	0.000
	Residual	46.12	26	1.774		
Total		170.95	29			

The probability value of 0.000 indicated that the regression relationship was significant in predicting the effects of product innovation, service innovation and technology innovation on competitive advantage. The calculated F (23.458) was significantly larger than the critical value of F= 2.9752. This again demonstrates that the overall test model was significant.

The Regression coefficients for the relationship between the four independent variables and Competitive advantage are shown in table 4.13.

Table 4. 13: Regression Coefficients

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.883	0.126		7.008	.000
Product innovation	0.761	0.339	0.676	2.245	.030
Service innovation	0.582	0.188	0.443	3.096	.004
Technology innovation	0.866	0.166	0.792	5.217	.000

The established multiple regression equation for predicting factors influencing Competitive advantage from the three independent variables was:

$$Y = 0.883 + 0.761X_1 + 0.582X_2 + 0.866X_3$$

Where, Y= Competitive advantage

X_1 = Product Innovation

X_2 = Service Innovation

X_3 = Technology Innovation

The above regression equation has established that taking all factors into account (product innovation, service innovation and technology innovation) constant at zero, competitive advantage was 0.883. The conclusions offered similarly display that taking all other independent variables at zero, a unit increase in the product Innovation would lead to a 0.761 increase in the scores of competitive advantage.

Further, the findings showed that a unit increases in the scores of service innovation would lead to a 0.582 increase in the scores of competitive advantage. The study also found that a unit increase in the scores of technology innovation would lead to a 0.866 increase in the scores of competitive advantage.

Overall, technology innovation had the greatest effect on the competitive advantage, followed by product innovation while service innovation had the least effect to the competitive advantage of commercial banks. All the variables were significant (p-values < 0.05).

4.8 Discussion of the Findings

4.8.1 Innovation Practices Embraced

The study sought to establish the innovation practices embraced by listed commercial banks in Kenya. The study found that the product innovation have been communicated to

the staff greatly. These practices were indicated to affect the performance of commercial banks in a great extent. It was revealed that products reprising, product replacement, product costs revision/improvement and product improvement are some of the strategies used by most of the commercial banks. These findings are in line with Ansoff (1980) who described strategy resolution creating guidelines intended for managing structural conduct where strategic innovation practices offers significant help for surviving on business instability and trials faced by organizations.

4.8.2 Competitive Advantage of Listed Commercial Banks

Strategic innovation was revealed to have greatly created a competitive edge and communicated to the staff. In this case, in comparison among the banks, market share, loyalty, profitability as well as customer choice were indicated to have been moderately high. Further customers' perception on quality of the products against the other banks had been a little. These findings correspond to Anderson (1996) who notes that competitive advantage promotes organization in creation of greater significance aimed at its consumers and larger proceeds meant for it.

It was found that above positively impacts business performance today and that employees at all levels work with other areas to create a common goal ensuring services given to customers are of high quality. Further the study implied that usage of technology innovation at all levels help link to larger purpose of serving customers promoting satisfaction and that process innovation enable banks employees to take ownership of their work and helps in removing obstacles that arise. These are similar to findings by Canals (1993) who found that possessions remain organizations specific assets projected

for making cost or differentiation advantage in addition to few competitors can obtain easily.

4.8.3 Strategic Innovation Practices and Competitive Advantage

The study further tracked to establish the influence of strategic innovation practices on competitive advantage of listed commercial banks in Kenya. It was clear that that products quality and customer satisfaction have increased greatly since commercial banks started innovation. This is similar to Porter (1980) who specified that strategic innovation essentially is around competition in addition to means through which firm's attempts to gain economic benefit.

Further the study revealed that product range and that profitability have increased greatly since the commercial banks started innovation. It was finally indicated that customer loyalty have moderately increased while products development and market Share had increased in a little extent since commercial banks started innovation. This conforms to Porter (1985)who advised that a competitive advantage survives once the firm brings similar benefits as competitors on the other hand at a lesser cost (cost advantage), or brings benefits surpassing opposing products (differentiation advantage).

The study established that most of commercial banks have created new and better customer value thus new and more customers have chosen them and the product innovation creates new markets and a competitive edge for them. It was found that it is all about the target market and not the product innovation and the customers would change a bank to a bank to where needs and innovative products are considered. These study findings are in line with Gerry, Kevan and Whittington (2006) who noted that

strategic innovation practices are all organization stages specifically corporate, business, functional and operating strategies.

The study made it clear that commercial banks have involved new distribution ways of products and services and those initiatives aren't taken to change business models as there is a relationship between product innovation practices and services. These findings agree with Porter (1980) who argued that the drive of strategic preparation is to authorize a firm to competently advance in appropriate competitive superiority over its competitors suggesting that strategic innovation remains as efforts to transformation, in the most capable means, firm strength in relation to that of its competitors.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations based on the findings and interpretations of the research. Further, the researcher provides suggestions for further research on the area.

5.2 Summary of Findings

The first objective for this study sought to establish the innovation practices embraced by listed commercial banks in Kenya. There has been a great communication to the staff about product innovation which were found to greatly affect the performance of a commercial banks. Strategies used by most of the commercial banks include products reprising, product replacement, and product costs revision/improvement and product improvement.

The second objective of the study was to establish the influence of strategic innovation practices on competitive advantage of listed commercial banks in Kenya. It was revealed that since innovation started in most of the banks, there has been a great increase in products quality, product range, and customer satisfaction and in profitability. There has been a moderate increase in customer loyalty and a little increase in products development and market share since commercial banks started innovation.

It was clear that commercial banks have created new and better customer value thus new and more customers have chosen them and the product innovation creates new markets and a competitive edge for them. Further it was revealed that customers would change a

bank to a bank to where needs and innovative products are considered. In line with this, Commercial banks have involved new distribution ways of products and services.

5.3 Conclusions

The study concludes that the innovation practices that have been embraced by listed commercial banks in Kenya were products reprising, product replacement, and product costs revision or improvement and product improvement. These have always been greatly communicated to the staff since they greatly affect the organization performance of commercial banks.

The study also concludes that strategic innovation practices (product innovation, service innovation and technology innovation) positively and significantly influence competitive advantage of listed commercial banks in Kenya. This can be recognised to an increase trend on customer satisfaction and loyalty, profitability and products quality since innovation started in most of the banks. It can also be attributed to the fact that commercial banks have created new and better customer value thus new and more customers have chosen them and that customers change from a bank to a bank to where needs and innovative products are considered.

Finally the study concludes that technology innovation had the greatest effect on the competitive advantage of commercial banks, followed by product innovation while service innovation had the least effect to the competitive advantage of commercial banks.

5.4 Recommendations

5.4.1 Specification

This section gives the recommendations based on the findings. The recommendations will be given based on management policies, management practices as well for academicians.

The study was guided by the existing literature and empirical data. The findings has thus to a greater extent confirmed or validated the existing body of knowledge by revealing that strategic innovation practices has a combined influence on the organizational competitive advantage.

The researcher therefore observes that strategic innovation practices plays a central role in enhancing the competitive advantage of commercial banks listed in NSE. The study's results have contributed to the emerging field of strategic innovation practices and provide the foundation for further enhancement of the theory and research in the topic.

The study offers an alternative way of understanding how competitive advantage can be enhanced by using other tools other than convectional strategic management practices.

5.4.2 Management Policies

The study recommends that management of the listed commercial banks should come up with policies to ensure full adoption of innovation strategies so as improve on their general competitive advantage. This can be done by the Banks putting in place flexible organizational structures, supporting a 360 degrees open communication model and providing incentives to staff that come up with innovative ideas.

The study recommends that management of listed commercial banks should formulate policies for investigating ways of reducing challenges facing the implementation of innovation strategies such as lack of top management's commitment to the innovation strategies and lack of mutual coordination and inadequate planning.

It is evident that customers would change a bank to a bank to where needs and innovative products are considered. This makes banks competitors to keep changing their approach in bid to win and keep the clients. In response to this, commercial banks must not only scan the environment to identify the strengths and weaknesses of the competitors but also keep improving the quality of their personnel, systems, facilities and the feature of the existing products. Product differentiation equally serves to cushion the commercial banks from competition in the industry. Products with superior features ensure that customer loyalty is guaranteed which ensures a wider customer base. When the foundation of the business is a clientele that keep growing high profits are reported hence strengthening the brand. A sizable market share enables the commercial banks to compete effectively with other financial institutions in the country.

The study recommends that management of commercial banks should aim at achieving above-average returns over competitors through monitoring the costs of activities provided and maintaining low charges on services offered. The study recommends that microfinance institutions in Kenya should incorporate new technology in the industry so as to ensure that they improve on quality and efficiency in service delivery. The study recommends that management of commercial banks in Kenya need to come up with policies that aim at delivering their services to customers who are in remote areas. By

doing this, the management of commercial banks will be able to expand the customer outreach and thus remain competitive in the industry.

5.4.3 Management Practices

The study recommends that management of listed commercial banks must consider speedy footsteps on the way to progress innovation by analytically evaluating existing innovation know-hows and presentation, must generate a capable atmosphere that will increase innovations in the bank as a result; complete benefits of innovation strategies may possibly be recognized.

The management of commercial banks ought to wisely handpick their competitive strategies in the direction of preserving an optimal stability amongst self-justifying, aggressive and circumvention strategies. Self-justifying strategies in commercial banks ought to be placed at the minimum level to guard the organizations in contradiction of competitive hostility, otherwise in excess of dependence on them would position a banks prospect at risk. Aggressive strategies should be wisely nominated to focus on those that gear in the direction of acquisition of fresh markets and different competitive advantage only. The management of commercial banks ought to take advantage of circumvention strategies to raise their markets in ranges that have not been advanced. This would enable relaxed dissemination and make it easy to gain competitive advantage over others.

The study recommends for the management in banks to gather advanced performance, grow the sum of customers, for the business to develop further and hold the acceptance of market innovation strategies. The study also recommends that the commercial banks have a duty to go all-out and certify product range extension, product replacement, product

improvement, product repositioning and new product introduction to enable the companies to be more dynamic, to develop quicker, to capitalize further and also to make additional performance.

5.4.4 Academician

The study further recommends that academicians should carry out a study to determine how the introduction of new products, cost reduction, innovation improvement process and regulations conformance impact performance of the commercial banks. This will benefit the banks to know how to vary those factors in order to tap into customers' requirements so well that original products produce their own foundation of marketing drive.

The study also recommends academicians should carry out an exploration on the outcome of new technology adoption on financial performance of commercial banks. This is because technology innovation inspires simplicity of movement of information and fast delivery to the projected individuals where for efficient embracing of technology innovation strategies, there should be dependable infrastructure and sufficient economic resources.

The study recommends that academicians should carry out a study on how commercial banks should ensure that there is sufficient resources and technology that is constantly getting enhanced. Technology not only changes and improves the way an organization operates but also provides a channel of communication within the network.

5.5 Limitations of the Study

The study anticipated to stumble upon some restrictions that might obstruct access to material that the study sought. The study used multiple regression analysis in line with the nature of the study; however it possesses expectations which may not hold often.

The study was narrowed to 11 commercial banks listed at the Nairobi securities Exchange. This made the results of the study not generalizable to the financial sector since these banks make part of a larger financial sector thus cannot be used a representation of the entire sector.

Another challenge was delayed response to the questionnaires by some staff while others lost them in the process, making me to frequently provide additional copies. In this regard, the researcher would make prior arrangements to have research instruments delivered to the respondents so as not to interrupt the working schedules of the respondents.

The management of commercial banks was not willing to disclose confidential information about influence of strategic innovation practices and competitive advantage in their banks. The researcher has to clarify to them that the study was strictly meant for academic purposes and that the information they provide was treated with utmost confidentiality.

Additionally, the outcomes of this study were restricted to the level to which the respondents were agreeable to make available exact, unbiased and dependable information. The researcher checked for uniformity and test the dependability of the data collected.

5.6 Recommendations for Future Research

The study recommends that 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 also recommends that a future study should be done on effect of blue ocean strategies on competitive advantage of commercial banks in Kenya. The researcher should determine the effect of differentiation, low cost, uncontested market space, opportunity maximization as well as value innovation strategy on the competitive advantage of commercial banks in Kenya.

The study used the cross sectional survey design. In future, researchers can embrace diverse designs like longitudinal survey that would suggest the influence of strategic innovation on the organizational performance over a period of time. The researcher can embrace case study for the purposes of getting bottomless 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

Appendix I: Research Questionnaire

SECTION A: RESPONDENT BACKGROUND

For questions in this section, please answer to the best of your knowledge as required.

1. How long has your bank operated in Kenya? _____ years.
2. What is the total number of employees in you bank? _____ employees.
3. How many networks are present/branches in Kenya? _____ branches.
4. How many strategies is your bank is pursuing? _____

SECTION B: STRATEGIC INNOVATION PRACTICES

Please tick the most appropriate.

1. To what extent has product innovation been communicated to the staff?
Very great extent [] Great extent [] Moderate extent []
Little extent [] No extent []
2. To what extent does product innovation affect the performance of a commercial banks?
Very great extent [] Great extent [] Moderate extent []
Little extent [] No extent []
3. Which of the following innovation strategies does your firm use? Stick to only those that apply.
Product improvement ()
Product costs revision/improvement ()
Product replacement ()
New product introduction ()
Product repositioning ()

Market innovation ()

Products repricing ()

4. Since you started innovation, to what extent has each of the following increased? Please tick the most appropriate option using the provided scale.

	Very great	Great extent	Moderate great extent	Little great	Not at all
Products Development					
Products quality					
Product Range					
Customer Satisfaction					
Profitability					
Customer Loyalty					
Market Share					

5. How does each of the following apply in your bank?

Where: 1= Strongly Disagree, 2=Disagree, 3= N/A, 4= Agree, 5= Strongly Agree.

	1	2	3	4	5
Your bank has created new and better customer value thus new and more customers have chosen your bank					
Customers would change a bank to a bank to where needs and innovative products are considered					
It is all about the target market and not the product innovation					

Initiatives are taken to change business models as there is a relationship between product innovation practices and Competitive advantage.					
Product innovation creates new markets and a competitive edge for Banks					
Your bank has involved new distribution ways of products and services					

SECTION C: COMPETITIVE ADVANTAGE

1. To what extent has strategic innovation created a competitive edge and communicated to the staff?

Very great extent [] Great extent [] Moderate extent []

Little extent [] No extent []

2. When you compare your bank with others, how do you rate each of the following? (Rank on a scale of 1-5, 1 being highest, moderately high, comparable, a little 5 lower, lowest).

	1	2	3	4	5
Customer choice					
Customers perception on quality of your products against the other banks					
profitability					
Market share					
Loyalty					

3. For the four questions below, please select an answer from a gauge of 1 to 5 (where 1 is strongly agreed and 5 is strongly disagree) .Share the degree to which effects of process innovation strategies on customer satisfaction and the effect on profitability of this bank.

	1	2	3	4	5
Usage of technology innovation at all levels help connect to larger purpose of serving customers promoting satisfaction					
Above positively impacts business performance today					
Process innovation enable me to take ownership of my work and helps in removing obstacles that arise					
Employees at all levels work with other areas to create a common goal ensuring services given to customers are of high quality					
Others(-----)					

4. What recommendations would you make on strategic innovative practices for greater profitability?

Appendix II: Banks Listed in Nairobi Securities Exchange

1. Barclays Bank Kenya Limited
2. Stanbic Bank Kenya Holdings Ltd
3. I&M Kenya Kenya Holdings Limited
4. Diamond Trust Bank Kenya Limited
5. HF Group Limited
6. KCB Group Limited
7. National Bank of Kenya Limited
8. NIC Bank Limited
9. Standard Chartered Bank Limited
10. Equity Group Holdings Limited
11. The Co-operative Bank of Kenya Limited

Source: <https://www.nse.co.ke/listed-companies/list.html> 24.08.2017