INFLUENCE OF INNOVATION STRATEGY ON COMPETITIVENESS OF COMMERCIAL BANKS IN KENYA

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DECLARATION

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

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

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DEDICATION

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TABLE OF CONTENTS

DECLARATION .... **ii**
ACKNOWLEDGEMENTS .... **iii**
DEDICATION .... **iv**
LIST OF TABLES .... **viii**
ABBREVIATION AND ACRONYMS .... **ix**
ABSTRACT .... **x**
CHAPTER ONE: INTRODUCTION **1**
1.1 Background of the Study **1**
1.1.1 Innovation Strategy 3
1.1.2 Firm Competitiveness 5
1.1.3 Commercial Banks in Kenya 7
1.2 Research Problem **8**
1.3 Research Objectives **11**
1.4 Value of the Study **11**
CHAPTER TWO: LITERATURE REVIEW **13**
2.1 Introduction **13**
2.2 Theoretical Framework **13**
2.2.1 Resource Based Theory **13**
2.2.2 Diffusion of Innovation Theory 14
2.2.3 Dynamic Capability Theory 16
2.3 Innovation Strategy and Firm Competitiveness **18**
2.3.1 Aggressive Strategy and Firm competitiveness 18
2.3.2 Analyzer Strategy and Firm Competitiveness 19
2.3.3 Futuristic Strategy and Firm Competitiveness 20
2.3.4 Risk Taking and Firm Competitiveness 21
2.3.5 Defensive Strategy and Firm Competitiveness 22
2.4 Empirical Studies and Research gaps **23**

CHAPTER THREE: RESEARCH METHODOLOGY..........................26
3.1 Introduction**..26**
3.2 Research Design**..26**
3.3 Study Population**..27**
3.4 Data Collection**..27**
3.5 Data Analysis**..28**
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION29
4.1 Introduction**..29**
4.2 Response Rate**..29**
4.3 Demographic profile**..29**
4.4 Background Information**..30**
4.5 Innovation Strategies**..32**
4.5.1 Aggressive strategy 33
4.5.2 Analyzer Strategy.. 35
4.5.3 Futuristic strategy.. 36
4.5.4 Risk Taking 37
4.5.5 Defensive strategy 38
4.5 Organization Competitiveness**..39**
4.6 Regression analysis**..41**
4.6.1 Model Summary.. 41
4.6.2 ANOVA 42
4.6.3 Coefficients of regression.. 43
4.7 Discussion of the findings**..44**

CHAPTER FIVE:SUMMARY, CONCLUSION AND RECOMMENDATIONS 45
5.1 Introduction**..45**
5.2 Summary of the Findings **...45**
5.3 Conclusions**..48**
5.4 Limitation of the Study**...48**
5.5 Recommendation and Policy Implications**...49**
5.6 Suggestion for Further Research **..50**
REFERENCES 51
APPENDICES..54
APPENDIX I: Questionnaire**...54**
APPENDIX II: List of Commercial Banks in Kenya**.....................................59**

LIST OF TABLES

Table 4.1: Respondents Profile 30

Table 4.2: Aggressive strategy 34

Table 4.3 : Analyzer strategy 35

Table 4.4: Futuristic Strategy 36

Table 4.5: Risk taking 37

Table 4.6: Defensive strategy 39

Table 4.7: Bank's competitiveness..40

Table 4.8: Model Summary..41

Table 4.9: ANOVA[a] 42

Table 4.10: Coefficients[a] 43

ABBREVIATION AND ACRONYMS

CBK	**-**	Central Bank of Kenya
CMA	**-**	Capital Market Authority
DCT	-	Dynamic Capability Theory
DOI	**-**	Diffusion of Innovation
EPS	-	Earnings per Share
IT	-	Information Technology
NSE	**-**	Nairobi Security Exchange
RBT	-	Resource-Based Theory
RBV	-	Resource Based View

ABSTRACT

The banking sector all over the world is going through a period characterized by radical and rapid changes as a result of opportunities arising from the adoption of information technology and electronic processing of data. Advancement in technology as well as increased level of competition from both local and foreign banks has shifted the existing sources of competitiveness to the banks as recent as ten years. Hence for banks to remain competitive, they need among others to be innovative in the operations and product offerings. The objective of the study was to determine the influence of innovation strategy on competitiveness of commercial banks in Kenya. The five themes of innovation strategy that were investigated include aggressive, analyzer, futuristic, risk taking and defensive strategy. Towards the realization of the research objective, the research adopted a descriptive cross-sectional research design. The target population were the 41 commercial banks operating in Kenya. The findings suggest that the banks undertake products innovation with a long term perspective in mind with the ability match market demands in future as well as encouraging coordination of the various departments and also tailoring their innovations to the possible changes to the direction that technological advancement might take in future. From the regression findings, the results show that there exist a strong positive correlation between the innovations adopted by the banks and their level of competitiveness. The aggressive strategy was found to significantly affect the bank level of competitiveness in comparison with the other innovation strategies implying that the Kenyan banks should consider directing their effort to adopting aggressive innovation strategy.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the last two decades, innovation strategies among industries have become instruments of competition and determiner of what level of competitive positions a firm in an industry holds. Laperche, Lefebvre and Langlet (2014) assert that in the present day competitive business environment, innovation has become a key element of determining the sustainability of a business and also it is very rare to find an organization that has not implanted or have a potential to adopt technological innovative either periodically or continuously. However, despite the critical role that innovation strategy plays in determining a firm competitive advantage, Sharif and Huang (2012) opine that innovation has remained elusive to many companies.

The failure for firms to innovate or sustain its competitive product has been cited to be due to a lack of an effective innovation strategy. Lendel and Varmus (2012) argue that innovative approach of any firm facilitates decision making process regarding resource allocation towards specific organizational projects aimed at achievement of objective and establishment of sustainable competitive advantage. Additionally, innovation techniques have enhanced creation of more strategies giving companies more alternatives to select the best strategy that will gear organizational activities in achieving its objectives in an economical and efficient manner (Dodgson, Gann, & Salter, 2016). Hence, it can be claimed that a firm's ability to establish a coherent innovation strategy will influence its ability to competitive in an ever changing business environment.

The study was anchored on the Resource Based View, Diffusion of Innovation Theory and the Dynamic Capability Theory. Resource Base View (RBV) was advanced by Barney (1991) and argues that organizations gain a competitive advantage by ensuring that their internal resources are, valuable, non-substitutional, and difficult to imitate. Hence in order to establish competitive advantage, a firm needs resources and capabilities that is superior to that of competitors.

Diffusion of Innovation Theory (DIT) was advanced by Rogers (1983) and attempts to explain how and why the rate at which new innovation is accepted. The theory further posits that innovation is transferred through particular systems using certain channels that consists awareness, persuasion, deciding, implementing and confirming the result of the innovation phases. However, the RBV theory has been viewed to lack the capacity to effectively explain the capacity of a firm to operate in a competitive business environment (Eisenhardt & Martin, 2000), since overstressing vital capabilities and resources may deter appropriate adaption of these components of organizational success into new dynamic technological environment. Conversely, Teece et al (1997) opine that the concept of dynamic capability elaborates organizational capacity to implement, develop, and reconfigure external and internal competences to tackle increasingly changing environments. Over the last two decades, the Kenyan financial sector has witnessed tremendous changes that range from reforms that have led to proliferation of financial products, activities and organizational forms that have improved and increased the efficiency of the financial system as well as increased regulation.

Ndungu (2015) further note that advances in technology in have created impetus for this change and coupled with the changes in the international financial system, the local players in Kenyan's financial sector have embraced rapid innovation. Technological innovations has been associated with improved performance of the distribution channels of banks and cost efficiency of the banks. Hence, different local banks have introduced different products and services with an aim to improve their bank competitive level. These innovations include introduction of Mobile banking, Credit cards, SMS banking and internet banking. Therefore, it is imperative that a research is undertaken to try and establish how the banks innovation strategies has affected their competitiveness.

1.1.1 Innovation Strategy

From the scholars' perspective, there are various factors that have lead into innovation strategies, attracting different definitions. For instance, Tamayo-Torres et al., (2010) described innovation strategy as the ability of an industry to venture into activities that will result in establishment and discoveries of new concepts that can be implemented to produce new processes, services, technology or products, and consequently improving organizational performance. Varmus and Lendel (2011) characterized innovation strategy as a technological steer for companies to select suitable methods and objectives that will spearhead the achievement of desired quantity and quality of products and services. In the same line, Wei and Wang (2011) delineate innovation strategy as the degree to which a company promotes and values innovation transversely within the organization.

Additionally, Gilbert (1994) opines that organizational innovation approach is the extent in which an organization attempts to incorporate innovation to implement its business strategy and improve its performance. Innovation process in a firm is important to transfer a technology because technology knowledge has tacit, country-specific qualities; and that a successful innovator enjoys a production cost advantage over those firms who do not innovate. Poon and MacPherson (2015) assert a successful innovator can produce goods at the rate of one unit per one unit of final good as input, implying that there will be minimal waste in the production process. Fernandes et al., (2013) suggest that innovating companies tend to present better economic and financial performances than their non-innovative counterparts as well as responding effectively to diversified and constantly evolving demand whilst enabling improvements across the different domains and activities of a society. This implies that innovation is perceived as the motor driving progress of competitiveness and economic development.

Sharif and Huang (2012) highlight though that value-creating innovations by a firm, though it attracts customers, attract imitators as quickly too. However, they suggest that rarely is a firms intellectual property alone sufficient to prevent rivals from coming up with a similar product. Therefore, companies must come up with corresponding capabilities, assets, services or products, to avert consumers from moving their attention towards competitors and restore their sustainable competitiveness in the market. Tabassi, Ramli and Abu Bakar (2012) suggest that the best ways to restore customer base and attract new customers is to invest more on innovative projects that will weaken competitors.

At the same time, copying a firm's system will not improve the level of competitiveness because each firm has its own way of operation hence, systems vary from one organization to the other. Therefore, there is need for each firm to develop an explicit innovation strategy to match its own specific competitive needs.

1.1.2 Firm Competitiveness

The state of competitiveness in many valances describes a condition whereby a company, person or nation loses or wins against one another and therefore, the respective competitive entity of an individual will always struggle to establish a long term competitive advantage that will put away competitor's hence enhancing significant market share. Organization of Economic Cooperation and Development (OECD) (2012) defines firm competitiveness to represent the ability of a firm to compete strategically, enhance returns and to develop based on price and costs strategy. For a firm to realize its competitiveness, it needs to recognize the need of firms to use their technology, quality and networking capacity to increase their level of competitiveness.

Firms' technological advancement, innovation capacity, human capital, brand, efficient management of firm's activities, and quality of goods services are currently renowned as imperative factors that facilitates competitiveness for business units (Johnson & Scholes, 2002). Further, Nonaka and Teece (2001) opine that the major source of organizational competitiveness is creating and implementing strategic technological projects quicker or before competitors.

Economists and scholars in strategic management field have echoed upholding and advancing organizational existing knowledge through inter-firm relationship and external networks which will consequently boost competitiveness globally (Child & Faulkner, 2008). Organizations sustained competitive operation must always be anchored on a continuous renewal of the organization's structure; direction that informs of strategy and ability to have the capacity to satisfy both external and internal customers' needs and preference (Moran & Brightman, 2009).

Recent changes in technology and economics, as well as increased competitiveness in many industries, are leading to further growth in the number, variety, and scope of strategies that are required by a firm to remain competitive in its product offerings. Correspondingly, studies have revealed that organizational competitiveness can be achieved effectively via appropriate manipulation and development of human capital (Peters, 2009). In Kenya, the banking industry has experience increased level of competition unlike two decades ago. The number of banks has increased from 24 at the beginning of year 2000 to the present day 40 commercial banks that operate in Kenya.

In addition, financial services that were a preserve of commercial banks some years back has been encroached by mobile telecommunication firms as well as money transfer companies. With these changes, the competitive landscape in the Kenyan financial sector has increased and for a firm to remain relevant and competitive, it needs to come up with appropriate strategies to compete effectively in the Kenyan market. One of these strategies is adoption of appropriate innovation strategy.

A bank should be able to forecast future market demand trends and out of the same, it needs to develop appropriate products that will give it the necessary competitive advantage. In the study, the competitiveness of a bank will be measured by their capacity to defeat competitors in the market place, capacity to provide high quality services and products to the consumers compared to the competitors, ability to recognize market changes compared to the main competitors and also capacity to respond more promptly to market demands in comparison to the other competitors in the market place.

1.1.3 Commercial Banks in Kenya

There are 40 commercial banks operating in Kenya, with Imperial bank and Chase Bank having been put in receivership and Charterhouse bank being under statutory management and are regulated by the Central Bank of Kenya (CBK Bank supervisory annual report 2017) and for the listed banks, the Capital Market Authority (CMA). The performance of the Kenyan commercial banks has been mixed in the last five years having recorded negative earnings per share growth of 14.3% in 2017 compared to a positive growth of 15.5 in 2016.

This negative trend is attributed to the decline of the interest income following the capping of the interest rates. However, despite the decline in EPS, the banking sector recorded an improved performance in 2016 with profit before tax increasing by 10.0 percent to Kshs 147.4 billion in December 2016 from Kshs 134.0 billion in December 2015.

Commercial banks' competition in Kenya stretches past the banking sector to include market competitors for instance micro finance institutions, government financial institutions, cooperative movement and merry go rounds. Philippatos and Yildirim (2014), opine that promotion of financial innovative strategies such as technology, management techniques and modern banking skills; improvement of pricing, quality, value addition and availability of adequate products and services offered to consumers can be facilitated by intense healthy competition among commercial banks.

With regard to effectiveness of strategic firm projects, Schuler and Jackson (2007), established that the firm's innovation effectiveness is dependent upon the approach adopted by the respective firm in order to attain market competitive advantage. The value addition as a benefit of innovation is achieved if the intended purpose of the strategy has been realized and not relied on factors such as extra payment by potential customers, provision of quality services and products or reduced commodity prices. Thus, organizations should chose strategically the type and degree of a particular value that the strategy in question is expected to yield and firmly stick to it since each strategy requires varying quantity of resources and time to be implemented fully.

1.2 Research Problem

The banking sector all over the world is going through a period characterized by radical and rapid changes as a result of influential impacts of IT and overwhelming advancement in telecommunications technology and electronic processing of data (Huang, 2011).

As a result of technology transformation, banking business has changed tremendously and production of quality new products that are required by consumers as well as determining the market position that a firm occupies. Therefore, with the advent of changes in capacity of an organization to benefit from long term competitive advantage in unpredictably changing environments, innovative capacities should be strengthen and uphold (Sharif & Huang, 2012). Innovation has become a key strategic instrument in the advent of gaining a competitive advantage in the prevailing turbulent environments. Also, Akman and Yilmaz (2014) reinforce the position that innovation has become a primary prerequisite for sustainable growth, survival, progressive performance, and firms' success,. Consequently, a banks' ability to develop an appropriate innovation strategy is key to the competitiveness of the organization since it will define its ability to adapt, integrate and reconfiguring their technological capacities to achieve, uphold and develop sustainable competitiveness (Guan et al., 2009).

The ability of a firms' innovation strategy in realization a competitive advantage has attracted the interest of different scholars. Akhlagh, Mehran and Mehdizade (2013) researched on the innovation strategies, performance development and diversity of Iran Construction and Housing Industry players. The research outcomes show that innovation techniques for instance proactive, aggressive, futuristic and analyzer affect significantly development of the sector. Panagiotis, et al (2015) researched on the innovation and competitiveness culture strategic tool over the European Great Recession time. The findings were that Culture influences capacities of competitiveness and innovation, and thus growth projection, despite of existing macro-conditions.

Similarly, Vargas (2015) investigated on the factors that determine innovative success, achievement of competitiveness and high performance of small enterprises in Greece. The findings suggest that there is positive and strong proof that innovation affects competitiveness and performance of small businesses in Greece. Chege (2017) researched on the strategic innovation practices and competitive advantage of Kenyan commercial banks listed in NSE. The study reveals that the bank product range had increased upon the commercial banks adopting innovation strategy in their operations. Wanyoike (2016) investigated the connection between competitive advantage and innovation strategies in the logistics companies operating in Mombasa County, Kenya.

The findings show that innovation strategies influence competitive advantage in Logistic companies in Mombasa County, Kenya with product innovation being the most significant strategy. Further, Shejero, (2016) investigated the impact of innovation techniques on competitive advantage among SACCOs in Mombasa County, Kenya. From the findings of the study, it is evident that cost saving approaches and increase in firms' range of products are among the major factors that affect implementation of innovation strategies with the aim of achieving sustainable competitive advantage. On the basis of the above studies and literature, it is evident that research on organization innovation strategy is becoming rich. However, there majority of the studies have concentrated in determining how innovation strategies influence firm performance and competitive advantage. More so, the sectors in which the studies have been done, especially in Asia has been in the construction sector and in the local sector.

Though the financial sector studies have been done locally, it still fails to arrive on a common conclusion. In reality, large number of prevailing studies has focused on simplistic approach in determining the nature of relationship between performance and innovation without paying attention to the past history concerning evolution of banking systems, a concept that may significantly affect this relationship. Therefore, the present study is devoted to fulfil this gap and also to propose some suggestions for further development of innovation strategies in Kenya's banking industry. The study sought to answer, what is the influence of innovation strategy on competitiveness of commercial banks in Kenya?

1.3 Research Objectives

The study objectives were;

i. To determine the innovation strategies adapted by commercial banks in Kenya;
ii. To establish the effect of innovation strategies on the competitiveness of commercial banks in Kenya

1.4 Value of the Study

This study examined the relationship innovation strategy and competitiveness of commercial banks. To the commercial banks and during these turbulent times that are marked with increased government regulations in terms of interest capping, non-performing loans disclosure and capital requirements, an understanding of the role of innovations strategies in the performance of these banks may be able to enable the banks critically observe the improve their operation through product offering and thus create the necessary competitive advantage.

The study may also add value to the practitioners as they are aware of the competitive strategies but they do not know the reasons some organizations fail to achieve their desired goals especially when combined with the observance of innovation. This study could forge ahead an institutional theorising of good innovation strategies, by paying attention to the context, efficiency/instrumentality and legitimacy of good practices in a growing economy as Kenya. Empirically, this study further may add to the budding literature on corporate innovation in African countries that mostly have weak institutional practices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the literature that is relevant to the study. The areas of concern that are key to the study that has been discussed is the theories underpinning the study, innovation strategies and will also discuss how innovation strategies influence firm competitiveness. The section will finally have summary of the literature and the research gap.

2.2 Theoretical Framework

The theoretical perspective in a research reflects the researcher's theoretical orientation, Kilbourn (2006) which is very crucial.This section covers the theories that underlie the study. The relevant theories are the Resource based theory, Diffusion of innovation theory and Dynamic capability theory.

2.2.1 Resource Based Theory

Resource-Based Theory (RBT) as advanced by Barney (1991) appreciates that a firm's competitive advantage is influenced by internal drivers to a firm and capabilities which reside in the organization and are valuable and costly-to-copy. The RBV suggests that firms are particularly a puddle of capabilities and resources which decides the performance and strategy implementation of the firm; implying that similarity in resource sourcing and possession will lead into production and provision of similar products and services respectively hence lack of greater performance in the industry.

According to Peteraf and Bergen (2003) for a resource residing in a firm to be a source of competitiveness, then it needs to be unique and the ability of a firm to come up with an effective strategy for example, will act as a source of competitive advantage because such a firm will be able to come up with products and services that will be well received in the market. Therefore, to achieve a high performance relative to other players in the industry, firms might need varied resources that are unique to the business entity. Talke, Salomo and Rost (2010) found out that if an organization has qualified and resourceful top management team, that is able to develop an effective innovation strategy, they will more likely be able to realise improved performance. Similarly, Wei and Wang, (2011) highlight that the ability of a firm to select a proper strategy for innovation may facilitate organizational performance or minimize performance gap by implementing modern techniques that suites the dynamic market environment. Precisely, innovative strategies enhances establishment of new opportunities in firms and industries for their growth and development (Lendel & Varmus, 2012).

2.2.2 Diffusion of Innovation Theory

Diffusion of Innovation (DOI) theory was advanced by Rogers (2003) and articulates that a product or an idea gains momentum through a prescribed sequence and is distributed over a particular social system or population. Therefore, DOI theory highlights that a new behaviour, product, or idea does not occur concurrently in a social framework nevertheless through a procedural manner in which specific persons are more pertinent to implement a particular innovation strategy as compared with others (Hager, 2006).

The final outcome of the said diffusion is therefore clear that people, as social system players, implement a new concept, product or behaviour. However, it is very important that customer’s perception towards the new concept, product or behaviour should be positive to ensure success of this diffusion. In addition, the major concern of the theory is on the perception of potential customers towards innovation strategies with regard to associated benefits or implication; therefore some DOI approach factors facilitates formation of a framework, relative advantage, complexity, innovativeness and compatibility. Moreover, companies that strongly apply a specific technology are frequently principal contenders for timely implementation of potential technology. Lu, Quan and Cao (2009) highlight that, though DOI theory is applicable explaining the dissemination of any new concept, object or practice; the theory is used frequently in describing diffusion of technology in the society. The authors point out that there are key features of an innovation that will influence the acceptability of an innovation.

These key features of an innovation comprise of perceived relative benefits, compatibility, ability to observe, trial ability and complexity (Rogers, 2003). However, it is important to note that these features of an innovation are not mutually exclusive but act together. Similarly, the diffusion process will be influenced by the characteristics of an innovation, social system that it flows and the communication channels through which it passes. Thus, the theory suggests that an organization innovation that has an apparent, definite advantage over the existing technology will be efficiently implemented (Greenhalgh, 2014). Lundblad and Jennifer (2012) however posit that though innovation diffusion theory is able to explain the process involved in decision making regarding innovation within organizations.

The same theory is not clearly explaining how innovation's characteristics relate to influence its implementation within an organization, or whether characteristics of an organization for instance industry or size influence its adoption. This theory is relevant to the present research because as a bank comes up with new innovation the success of the innovation to be a source of competitiveness will be determined by the capacity of the innovation to be accepted by the market and also be shared by the first users of the innovation.

2.2.3 Dynamic Capability Theory

The dynamic capability theory (DCT) was advanced by Teece and Pisano (1994) and further refined by Teece, Pisano, and Shuen (1997), and Eisenhardt and Martin (2000). Firm dynamic capabilities are resources both internal and external that enable an organization to integrate, learn and reconfigure its assets and process to achieve improved performance. The theory predisposes that firm level differences in capabilities are rooted on their asset positions such that a firm's future position to change its operating condition is determined by their current stock of capabilities. In addition, firm's processes such as governance structures, resource allocation processes and innovation systems will shape the organizational flexibility and adoptability. Similarly, a firm's capability will be determined by a path taken such that the power of a firm to identify and commit to the path for capability enhancement that lead to competitiveness is an important resource.

Eisenhardt and Martin (2000) established that dynamic capability view explains the important role internal capabilities are used to reconfigure resources that a firm has at present to cope with the highly changing environment. Therefore in business environments that are fast-changing DCV explains the critical place of dynamic capabilities in explaining an organizations level of competitiveness (Barreto, 2010). This is because, organizational capabilities are considered as a transformer for translating resources into better performance. According to Laursen and Salter (2014) the ability of a firm to incorporate past practices from a previous markets experiencing, is capable to leverage a firm in a fresh market and to integrate industry technology during product or service development. This capability is therefore important in a technology driven industry.

Argote and Greve (2007) argue that transforming an organization through processes such as innovation processes, strategic discussions and decision-making, and may benefit a firm to cope in a changing business environment. Therefore innovation strategy that a firm has established can be linked to the basic dynamic capabilities sensing, seizing, and recombination and reconfiguration for monitoring business environment and technology developments. Similarly, Zhou and Wu (2010) suggest that a firm innovation process is able to make a firm operation flexible to reconfigure of its resources to adapt to market changes which finally is expected to enhance organizational performance. Therefore, in dealing with dynamic business environments, organizations ought to swiftly react to the market by innovating, a capability that is possible if the firm has in place an innovation strategy.

2.3 Innovation Strategy and Firm Competitiveness

Industries with innovation strategy have been found to be successful in responding to the environmental changes and establishing innovation strategies that facilitates achievement of competitive advantage and high performance (Guan et al., 2009). Having an innovation strategy allow a firm to easily change or acclimatize its operating environment. The popular innovation strategies in the financial sector include analyzer, aggressive, self-protective innovation strategy, futuristic, and risk taking.

2.3.1 Aggressive Strategy and Firm competitiveness

Aggressiveness innovation strategy enables an organization to effectively distribute its resources to activities aimed at improving its market share and competitiveness through actions such as timely delivery, improvement of quality and cost reduction, of services and products at a moderately quicker rate in contrast with its competitors (Venkatraman, 1989). However, it is important that firms implement aggressive strategies in order to make radical technological changes after sufficiently studying their environment bearing in mind the existing opportunities and threats in relation to the available organizational capacity. In enhancing their competitiveness, firms should consider capabilities, services or products, complementary assets that should be available to deliver quality services and produce valuable goods hence satisfying the needs and preference of customers making them to stick to the company and not move to the rival firms.

Wei and Wang (2011) note that companies such as Apple Ltd structures alternatives between the device itself and the services offered so that the owner of an iPhone will be satisfied with its services rather than going for another gadget from different company. Through such strategies, the company establishes a strong competitive advantage in the digital market environment. Similarly, a strategy that spearheads customer-partnering approach promotes protection the company's innovations from imitators because the moment core components are installed in customer's system, the customer will be reluctant to switch to another product because of the attendant switching cost.

2.3.2 Analyzer Strategy and Firm Competitiveness

In order to make a better strategic decision, it is however very important to assemble relevant data in relation to the market environment and analyze them effectively to identify potential challenges and implication which is important for the management team so that when making decisions, they will consider ways to avoid or tackle the problems strategically as way of enhancing their future managerial practices. Analysis of market environment is very important to organization since it helps in monitoring and evaluation of ongoing projects and identifies possible threats as well as reducing cost, enhancing project break through and saves time (Love & Irani, 2003). In addition, strategic innovation decisions are effectively made through analysis of various situations. However, Guan et al., (2009) cautions that process, technology and product breakthrough cannot be achieved if a firm emphasizes solely on internal and existing platforms as the main sources of information.

As the Resource Based View (Barney, 1991) suggest, a firms competitiveness rests in an organization ability to manage internal resources. This is because since organizational resources are unique and cannot be imitated easily, resources bring disparities among firms. This distinctiveness is fundamentally the leading factor of competitive advantage. However, the major concern is that firms are perceived as a pool of resources that are concurrently rare, non-substitutable, imperfectly imitable and valuable; as a result, superior organizational performance can be achieved if these factors are enhanced (Bowman & Ambrosini 2003). Hence the ability of the management to analyze the prevailing business environment and innovate products that meet market demands will enhance its competitive advantage.

2.3.3 Futuristic Strategy and Firm Competitiveness

The firms operations should have a long-term perspective with regard to their customers, competitors and environments (Agan, Acar & Borodin, 2013). Futurity is a concept that enables organizations to react to potential demands and manage tentative customer demands appropriately. Additionally, futurity gives the capacity of transforming creativity into opportunities that facilitates technological innovations. Futurity innovation is appropriate to make firms remain supple to face current environmental discrepancy and timely tackling irregular and hasty changes of construction industries. This will help the firm competitive advantage (Kazaz, Ulubeyli & Ozdemir, 2015). Futuristic strategy looks for new opportunities in accordance with customers' future needs with an aim to stay ahead of competition.

Thus, firms anticipate future customer needs and introduce new products or services to keep ahead of their competitors. A proactive firm also seeks changes in operations. Thus, in order for firms to be more proactive in the market, variety of valuable knowledge and information should be combined that surpasses the earlier expectation. Consequently, firms will have the capacity to reinforce their innovation strategies using the existing ones and bring impact into the environment in a profitable way to the organization. Nonetheless, studies have indicated that firms be experience unpredictable risk if they forego the existing market and focus on exploring the new market.

2.3.4 Risk Taking and Firm Competitiveness

Jaworski and Kohli (2013) argue that for firms to be competitive, they need to tolerate risks and accept occasional failures. This is because in order to be successful, it is almost impossible that a firm achieves performance development without taking risk. Innovation process include coming up with new products, methods and programs that in most cases or not lead to failures, which a firm should be able to take positively (Akman & Yilmaz, 2008). Risk-taking is that management behaviour of manager's investing organization resources in an unfamiliar industry. According to Wagener et al., (2010), risk taking will sometimes generate more creative ideas and therefore generate more profit in the long term. However, engaging in high-risk activities implies that a created environment will be negatively associated with business success.

As the traditional financial management opinion just, the higher the risk the high the return, it implies that firms that will wish to remain competitive in future should continually invest in innovation strategy and coming up with new products. Rajagopalan (2007) find that prospectors emphasize long-term, stock-based compensation incentives to encourage risk-taking behaviour in managers. The organization should come up with a good reward system to attract and retain such group of managers and make the compensation package rely on the firm's market performance. Such a compensation policy will provide less strong incentives for management to misreport financial results because their compensation will be market based and not financial reporting outcome (Efendi et al. 2007).

2.3.5 Defensive Strategy and Firm Competitiveness

Defensiveness is noticeable in reference with highlighting cost reduction, efficiency seeking and product quality methods. A defensive-oriented innovative strategy in conjunction with a proactive innovation strategy influences organizational performance, although its impact is not sturdy to the degree that proactive strategy causes (Akman & Yilmaz, 2008). The defender innovative strategy comprise of establishment of a narrow market/product position and the formation of hurdles to guard it. This innovation approach is therefore appropriate for an investor who has a tendency of identifying new business opportunities.

Rajagopalan (2007) opine that defenders' will focus on efficiency and by going for options that facilitates achievement of unrealistic performance as well as reducing the time taken towards completion of projects. Similarly, Agrawal and Singh (2012) opine that defenders focuses on performance targets aimed to be achieved within the shortest time possible in that on regular basis, these targets are based on financial achievements that lead to growth and development of an organization in general. Consequently, defender strategy will however prompt the management team to forge financial information to meet their short-term goals by manipulating the actual figures.

2.4 Empirical Studies and Research gaps

The importance of innovation strategies on the firm performance and competitive advantage has fascinated the interest of many scholars. Zhao and Sun (2016) researched on the impact of environmental management on corporate competitiveness and innovation in China. The research findings show that environmental management has a significant positive impact on organizational innovation strategy, however, the weakness established from its impacts does not explain fully the reason behind existence of negative impacts despite of effective environmental management. Petrakis, Kostis and Valsamis (2015) researched on innovation and competitiveness with specifically determining the effect of culture on the on the long-term strategic variable over the period of the European Great Recession. The empirical studies suggest that the culture of an organization influence competitiveness ability and innovation capacity, and therefore enhances growth of organization despite of the macro conditions.

Further, the study findings reveal that organizational structure and social learning influence strategic innovation strategies and therefore, pro-innovation culture has the capacity to perform better, despite adverse macro conditions. Taranenko (2013) investigated the role of analysis strategic innovation-oriented competitiveness in international economy of the Ukranian firms.

The study found that strategic analysis of innovative capacity of the firms show gaps for the primary determining components of their competitiveness. Thus the study points out that the strengthening of competitive position of the firms may be achieved through systemic overcoming the threats and lags to create a competitive edge. Ngugi and Karina (2013) researched on the effects of innovation strategy on the performance of commercial banks in Kenya. The findings are that product replacement repositioning had significant contribution to the bank's profitability.

Further, process innovation strategies that include cost reductions and conformance to regulations contributed to the bank’s profitability. However, the research contradicted that of Singh and Agrawal (2012 to show that technological innovations did not significantly affect the performance of commercial banks. The literature covered and the empirical studies reveal the importance of innovation strategy to a firm that operates in a competitive business environment. The need for innovation strategy is not restricted to a particular industry but across all industries, in both developed and developing world.

Majority of the studies have showed a positive relationship between a firm innovation strategy and competitive advantage (Rajagopalan2007; Vazquez, Santoz, & Alvarez, 2011; Petrakis, Kostis and Valsamis, 2015; Malek et al., 2013). However, from the studies on innovation strategies reviewed, majority of the studies; both local and international have used the four innovation strategies, namely, process, product, technological and market innovation. With an exception to Malek et al (2013), the other studies have not used the Miles and Snow (1978) typology which the present study wishes to majorly use.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the core subject of discussion was the methodology that was adopted in the study with the aim of achieving the objective of the study. Therefore the section focused on research design, target population, procedures for data collection and analysis of data.

3.2 Research Design

A study design is a tactical plan intended to provide a go away mechanism used in collection, estimation and statistical analysis of data whose preference is reliant on the phase to which information about the topic of study has highly developed (Kothari, 2008). For this study, the descriptive cross-sectional survey was adopted. Descriptive research design is largely apprehensive with describing the specific attributes of a particular aggregate of elements which allows the researcher to analyze and interpret results and characteristic of a population (Orodho, 2003). In accordance with Mugenda and Mugenda (2008), the aim of descriptive research is to identify and present things the way they are and it facilitates the establishment of current nature of population being investigated. Therefore this design will attempt to explain the effect of innovation strategy on the competitiveness of commercial banks in Kenya.

3.3 Study Population

A population of study is a complete group of persons or corporate bodies that the researcher has shown interest to examine some characteristics (Yin, 2008). The target population of a research study should be visibly defined and the unit of analysis be identified, which is not easy sometimes. The population of the study comprised of all the commercial banks operating in Nairobi. According to the Central Bank of Kenya report, as at 30th June, there were 41 commercial banks operating in Nairobi (Appendix II) and all of them will participate in the study. Therefore, the study will be a census survey.

3.4 Data Collection

This study utilized primary data that was collected using semi-structured questionnaire. However, the method of distributing questionnaires to the respective respondents was a drop and pick later. Furthermore, the researcher sought to identify whether the research instrument are valid to provide appropriate results by consulting expert scholars particularly the supervisor. The respondents gave their responses in a five point Likert scale. The target respondents were the Business Development, Marketing and Finance managers in the respective commercial banks. These respondents are presumed to be knowledgeable on the research subject matter. The questionnaire consisted of three sections. Section covered organizational information while section B sought to establish the various innovation strategies adopted by the commercial banks. Section C covered questions on firm competitiveness. Mugenda (2003) notes that the use of questionnaire ensures that confidentiality is upheld, saves on time and is easy to administer.

3.5 Data Analysis

Data collected was both quantitative and qualitative in nature. The data was checked and edited for accuracy, completeness and consistency, then analyzed through examination, categorizing, coding, tabulating and testing to identify the patterns and enhance the validity of the study. The data was then analyzed using descriptive statistics measures such as frequencies, percentages, mean and standard deviation.

Linear regression analysis was done to establish the effect of growth strategies on the banks performance.

The multiple regression equation took the following form:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_{2+} \beta_3 X_{3\,+} \beta_4 X_4 + \beta_4 X_4 + \beta_5 X_5 + έ$

Y = Firm competitiveness

α = Constant (Co-efficient of intercept)

X_1- X_5 = Innovation strategies

β_1- β_4 = Regression co- efficients

έ. = Error Term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The main objective this study was to examine the influence of innovation strategy on competitiveness of commercial banks in Kenya. The study outcomes are presented in standard deviations and mean while the findings are presented in tables and frequency distributions.

4.2 Response Rate

In the present study, the researcher distributed 40 questionnaires. From the 40 questionnaires distributed, 31 questionnaires were duly filled and collected back which represented 77.5% of the population. Majority of the respondents held the middle level management position and the top management position. This response rate is regarded suitable to draw inferences and make conclusions on the study topic. According Mugenda and Mugenda (2008), a 50% of rate response is sufficient, 60% is regarded as good and whereas 70% is rated very well. In conjunction, Bailey (2000) ascertains that a response rate of 50% is deemed sufficient, whilst greater than 70% response rate is very good. With regard to the recommendations above, the response rate of 77.5% is very good.

4.3 Demographic profile

According to the Central Bank supervisory annual report 2017, there were 40 commercial banks; hence, due to the small size of the population, the research was census.

The respondents' demographic information considered in this study included the highest level of education, years worked in the company and the management level that the respondent is whereas organizations demographic include organizational ownership structure and the number of employees in the organization. In this section, demographic characteristics of the respondents are discussed. The length of service, experience level and ownership structure provides an oversight on the extent at which a respondent is conversant with the company activities regarding innovation strategies adopted by the firm. In addition, results are presented in conjunction with objectives of the study. The findings on the demographic information of the respondents and company are presented in Table 4.1.

4.4 Background Information

Table 4.1: Respondents Profile

Level of education		**Frequency**	**Percent**	**Cumulative Percent**
	Secondary	0	0	0
	Tertiary college	0	0	0
	undergraduate	21	67.7	67.7
	post graduate	10	32.3	100.0
	Total	**31**	**100.0**	
Length of service		**Frequency**	**Percent**	**Cumulative Percent**
	less than 5 years	5	16.1	16.1
	5-10 years	16	51.6	67.7
Valid	10-15 years	8	25.8	93.5
	over 15 years	2	6.5	100.0
	Total	**31**	**100.0**	
Management level		**Frequency**	**Percent**	**Cumulative Percent**
	lower level	12	38.7	38.7
	Middle level	18	58.1	96.8
Valid	Top level	1	3.2	100.0
	Others	0	0	
	Total	**31**	**100.0**	

Number of employees		Frequency	Percent	Cumulative Percent
Valid	Less than 300	6	19.4	19.4
	300-600	12	38.7	58.1
	600-1000	6	19.4	77.4
	over 1000	7	22.6	100.0
	Total	**31**	**100.0**	

Ownership structure		Frequency	Percent	Cumulative Percent
	Privately owned	28	90.3	90.3
	Government owned	0	0	90.3
	Both government and privately owned	3	9.7	100.0
	Total	**31**	**100.0**	

Role play		Frequency	Percent	Cumulative Percent
Valid	yes	31	100.0	100.0
	No	0	0	100.0
	Total	**31**	**100.0**	

From the results in Table 4.1, majority (67.7%) of the respondents had an undergraduate degree while 32.3% had attained post-graduate level of education. From the findings, it is clear that all employees have attained at least undergraduate level and therefore they can be assumed to be knowledgeable on the research subject area and generally innovation strategies. In relation to the length of time that the respondents had worked in the bank, the results reveal that majority (51.6%) of them had worked in the bank for between 5-10 years while 25.8% indicated that they had worked in the financial firm for between 10-15 years. Generally over 83% of the respondent had worked in their respective firms for over five years and characteristics that make them, ceteris paribus, knowledgeable on matters relating to organizational innovative strategies and competitiveness.

The researcher also sought to determine the management level that the respondents held. The findings show that 58.1% of them held middle level while 38.7% were in the lower management level. This implies that majority of the respondents have been involved either directly or indirectly in implementation of organizational strategy. In regard to the size of bank as measured by number of employees, the results reveal that most (38.7%) of the firms had over between 300-600 employees while 22.6% had between over 1000 employees. Similarly, the findings indicate that there was equal number of firms with 600-1000 and less than 300 employees making up 6% of the total population.

In addition, the organization’s ownership structure, the study found that majority of the banks, (90.3%) are privately owned while 9.7% are owned by both private investors and government. In order to assess the level of participation of the respondents in organization decision making process precisely with regard to innovation strategies, the researcher sought to determine whether the respondents play a role in developing organizational strategy. From the results, all the respondents actively participate in developing organizational strategies from the first phase, implementation until conclusion.

4.5 Innovation Strategies

Innovation process in a firm is important to transfer a technology because technology knowledge has tacit, country-specific qualities; and that a successful innovator enjoys a production cost advantage over those firms who do not innovate. A successful innovator can produce goods at the rate of one unit per one unit of final good as input, implying that there will be minimal waste in the production process.

The present study adopted five innovation strategies to measure the extent at which innovation strategies have been implemented in commercial banks in Kenya. These innovation dimensions include; aggressive strategies, analyser strategies, futuristic strategies, risk taking and defensive strategy. The findings are discussed in the following sections.

The range employed was ‘Not at all (1) to ‘Very great extent’ (5). The tallies of disagreement have been assumed to be represented by a variable with the mean score of between 0 and 2.5 on the Likert scale; (0≤ S.D <2.4) while the ‘Neutral’ position took the variable with a mean point of 2.5 to 3.4 on the Likert scale: (2.5≤M.E. <3.4). The score of both strongly agree and agree represented the variables whose mean score were between 3.5 and 5.0 on a continuous Likert scale; (3.5≤ S.A. <5.0). A standard deviation that is > 1.0 indicate a significant difference among the respondents on the statement asked by the respondent.

4.5.1 Aggressive strategy

Aggressiveness innovation strategy enables an organization to effectively distribute its resources to activities aimed at improving its market share and competitiveness through actions such as timely delivery, improvement of quality and cost reduction, of services and products at a moderately quicker rate in contrast with its competitors. The findings on the organization aggressive strategy are provided in Table 4.2.

Table 4.2: Aggressive strategy

Statement	Mean	Std. Deviation
The bank innovates products that in the short–term might not be profitable but in the long-term beneficial to the organization	4.011	0.925
The pricing of the bank for services is low in comparison to other banks in Kenya in order to attract more clients	3.994	0.968
The bank innovates new products and services to the market at a higher rate in comparison to other competitors	3.854	1.016
The bank decreases its bank charges periodically with a view to increase its market share	3.621	0.721
The bank strives to introduce complementary products to the main product to tie clients to the bank	3.435	0.768
Overall Mean	**3.783**	

From the study findings, it is found that the bank innovates products that in the short–term might not be profitable but in the long-term beneficial to the organization (Mean=4.011, SD=.925) with the said banks having prices of bank services being low in comparison to other banks in Kenya in order to attract more clients (mean=3.994, SD=.968). The results also indicate that the bank innovates new products and services to the market at a higher rate in comparison to other competitors (M=3.854, SD=1.016) though the higher standard deviation shows that the respondents' answers were varied.

On the lower side of the continuum of innovation strategies, the findings suggest that the bank decreases its bank charges periodically with a view to increase its market share (Mean=3.621, SD=0.721). This implies that in various commercial banks in the country, innovation strategies have different perspectives. The low standard deviation in the responses indicates that there was concurrence among the respondents on the questions with regard to the top management diversity in response to bank's competitiveness.

4.5.2 Analyzer Strategy

Analysis of market environment is very important to organization since it helps in monitoring and evaluation of ongoing projects and identifies possible threats as well as reducing cost, enhancing project break through and saves time (Love & Irani, 2003). The findings are presented in Table 4.3.

Table 4.3 : Analyzer strategy

Statement	**Mean**	**Std. deviation**
The bank encourages coordination between different departments in order to hasten innovation process as well as get more feedback of the launched product	3.967	0.935
The bank has put in place effective information system to facilitate innovation process in the bank	3.875	0.984
The bank employs analytical methods in its innovation process to help in decision making process	3.742	0.794
In coming up with products to meet future strategies of the bank, it employs different planning techniques which facilitate effective innovation development	3.632	1.112
The bank innovation outcomes are generated from the environmental scanning to match the competitor moves	3.412	0.846
Overall mean	**3.726**	

The study findings indicates that the bank encourages coordination between different departments in order to hasten innovation process as well as get more feedback of the launched product (Mean =3.967, SD =.935) and has put in place effective information system to facilitate innovation process in the bank (Mean=3.875, SD=0.984). In addition, the study show that the bank employs analytical methods in its innovation process to help in decision making process (Mean=3.742, SD=.794) while in coming up with products to meet future strategies of the bank, it employs different planning techniques which facilitate effective innovation development (Mean=3.632, SD=1.112) though the higher standard deviation that is greater one indicates a variation on responses.

In addition, the bank innovation outcomes are generated from the environmental scanning to match the competitor moves (mean=3.412 SD=0.846). This therefore can be concluded that among the commercial banks in the country, analyser strategy plays a key role in innovation strategy. The findings also show that the banks had different analyser strategies that are fashioned to specific line of innovation.

4.5.3 Futuristic strategy

Futurity is a concept that enables organizations to react to potential demands and manage tentative customer demands appropriately. Additionally, futurity gives the capacity of transforming creativity into opportunities that facilitates technological innovations. The findings are presented in Table 4.4.

Table 4.4: Futuristic Strategy

Statement	Mean	Std. Deviation
The banks' innovation decisions are guided by its future strategies and forecasted market demands in order to be ahead of rivals	3.964	0.816
The bank innovation process is changed continually in conformity with anticipated future changes	3.843	1.134
We look for opportunities based on customer future needs and develop products to meet this need	3.713	1.021
The bank tries to forecast future market trends in order to come up with appropriate strategies	3.412	0.792
My organization continually seek for products that will provide the bank competitive advantage	3.215	0.814
Overall Mean	**3.629**	

Based on the concept of futuristic strategy, the study findings indicates that the banks' innovation decisions are guided by its future strategies and forecasted market demands in order to be ahead of rivals (Mean =3.964, SD =.816).

The innovation process is changed continually in conformity with anticipated future changes (Mean=3.843, SD=1.134) though the higher standard deviation that is greater one indicates a variation on responses. In addition, the study show that the banks look for opportunities based on customer future needs and develop products to meet this need and that it tries to forecast future market trends in order to come up with appropriate strategies (Mean=3.412, SD=0.792). In addition, the bank continually seeks for products that will provide the bank competitive advantage. The findings show that the banks had different futuristic strategies that are aimed at improving the innovation status of the financial firm.

4.5.4 Risk Taking

For firms to be competitive, they need to tolerate risks and accept occasional failures. This is because in order to be successful, it is almost impossible that a firm achieves performance development without taking risk.

Table 4.5: Risk taking

Statement	Mean	Std. Deviation
The bank managers do not shy away in developing products that have not been tested in the market before	4.013	0.734
The bank have in the past come up with products that have become popular in the market because of the managers proactiveness	3.931	0.914
In order to limit the level of risk exposure, the bank has formed alliances with other organizations to innovate and come up with products that are expected to meet future demands from customers	3.841	1.114
The bank does not shy away from entering into unexploited market in foreign countries or locations in the country that are considered to be risky	3.531	0.921
The bank managers deliberate together through evaluation of innovated product before implementing a new decision	3.324	0.841
Overall Mean	**3.728**	

The study adopted risk taking as a dimension for innovation strategy. In conjunction, the study findings indicates that the bank managers do not shy away in developing products that have not been tested in the market before (Mean =4.013, SD =.734) and that it have in the past come up with products that have become popular in the market because of the managers proactiveness.

In addition, the study show that in order to limit the level of risk exposure, the bank has formed alliances with other organizations to innovate and come up with products that are expected to meet future demands from customers (Mean=3.841, SD=1.114) though the higher standard deviation that is greater one indicates a variation on responses and that it does not shy away from entering into unexploited market in foreign countries or locations in the country that are considered to be risky. Furthermore, the bank managers deliberate together through evaluation of innovated product before implementing a new decision.

4.5.5 Defensive strategy

Defensiveness is noticeable in reference with highlighting cost reduction, efficiency seeking and product quality methods. A defensive-oriented innovative strategy in conjunction with a proactive innovation strategy influences organizational performance, although its impact is not sturdy to the degree that proactive strategy causes.

Table 4.6: Defensive strategy

Statement	Mean	Std. Deviation
The bank makes changes to a product and ways of delivery to protect its market and meet customer demand	3.941	0.657
The bank specialize in a narrow market segment in which it has competitive advantage over rivals in the market	3.834	1.106
The organization tries to erect barriers to competitors entering its market	3.524	0.864
The bank uses modern management techniques in making innovation changes to its products	3.443	0.794
The bank continually improve the quality of our its product to match competitor changes and customer demands	3.214	1.100
Overall Mean	**3.591**	

From the study findings, it is found that the bank makes changes to a product and ways of delivery to protect its market and meet customer demand (Mean=3.941, SD=.657) with the said banks specializing in a narrow market segment in which it has competitive advantage over rivals in the market, despite higher standard deviation implying that the respondents' answers were varied. The results also indicate that the organization tries to erect barriers to competitors entering its market (M=3.524, SD=0.864). On the other hand, the findings suggest that the bank uses modern management techniques in making innovation changes to its products. This implies that in various commercial banks in the country, defensive strategies have different perspectives.

4.5 Organization Competitiveness

For a firm to realize its competitiveness, it needs to recognize the need of firms to use their technology, quality and networking capacity to increase their level of competitiveness. The researcher sought to find out the influence of innovation strategies on the bank competitiveness. The findings are presented in Table 4.7.

Table 4.7: Bank's competitiveness

Statement	Mean	Std. Deviation
The bank service quality of products has improved in comparison with the earlier period when Superior service delivery to customers	4.015	0.991
The bank quality of service delivery has increased in the last Improved quality of service delivery	3.934	1.001
The bank has been able to access low cost labour through automation in comparison the traditional service mode	3.833	0.857
The bank has been able to reduce the risk of investment	3.812	0.879
The customer satisfaction level has improved due to the innovative products offered by the bank	3.613	0.994
The bank market share has been increasing in the last five years	3.457	1.112
The bank quality control process results in better decision making	3.331	0.784
The bank product range has increased in the last five years as a result of innovation strategy initiated by the bank	3.215	0.961
The bank cost of service delivery has reduced as a result of innovation compared to previous period	3.121	1.113
The bank revenues has been increasing in the last five years	2.953	0.998
Overall Mean	**3.529**	

With regard to banks' competitiveness, the study findings indicates that the bank's service quality of products has improved in comparison with the earlier period when Superior service delivery to customers (Mean =4.015, SD =.991) and that its quality of service delivery has increased in the last Improved quality of service delivery.

However, the higher standard deviation that is greater one designates a disparity in the opinions of the respondents. In addition, the study show that as a result of organization's competitiveness, banks have been able to access low cost labor through automation in comparison the traditional service mode (Mean=3.833, SD=.857) and that bank product range has increased in the last five years as a result of innovation strategy initiated by the bank (Mean=3.215, SD=0.961). In addition, the bank market share has been increasing in the last five years. The findings show that the banks have experienced a diverse range of benefits as a result of organizational performance.

4.6 Regression analysis

The relationship between bank's competitiveness and innovation strategies was established by use of multiple regression analysis. The researcher utilized statistical package for social sciences (SPSS V 20.0) to input and run the study measurements. Coefficient of determination evaluates the degree at which variations in independent variables explain deviations in the outcome variable or the variation proportion in the outcome variable (bank's competitiveness) that is described by all the five explanatory variables.

4.6.1 Model Summary

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.873[a]	.763	.715	.254

a. Predictors: (Constant), Defensive strategy, Risk taking, Aggressive strategy, Analyzer strategy, Futuristic strategy.

b.

Table 4.8 shows model summary of regressed study variables. The correlation coefficient (R) value represents the degree and strength of association between predictor variable and the outcome variable. In this model therefore the coefficient of correlation is 0.873 which indicates a positive correlation between top management diversity and organization competitiveness.

The R Squared is the coefficient of determination which indicates the extent of the total variation in the dependent variable. From the above the R squared statistic gives the goodness of fit of the model which shows how good the regression model predicts the real data points. The R squared of this model is 0.763 implies that the model is a good fit of the actual data. The coefficient of determination of 0.873 implies that 87.3% of the variance in outcome variable (bank's competitiveness) is described by changes in the explanatory variables.

4.6.2 ANOVA

Table 4.9: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.166	5	1.033	16.057	.000[b]
	Residual	1.609	25	.064		
	Total	**6.774**	**30**			

a. Dependent Variable: Bank's competitiveness
b. Predictors: (Constant), Defensive strategy, Risk taking, Aggressive strategy, Analyzer strategy, Futuristic strategy.

The model summary also indicates that the dependent variable (bank's competitiveness) is significantly predicted by the regression model. The statistical importance of the model of regression analysis that was computed is shown by the F test.

The P=0.000, which is less than 0.05 imply that, generally the regression model significantly and statistically predicts the dependent variable that is good fit for the data.

4.6.3 Coefficients of regression

Table 4.10: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.224	.219		10.172	.000
	Aggressive strategy	.244	.141	.413	1.731	.096
	Analyzer strategy	.046	.120	.047	.388	.702
	Futuristic strategy	.218	.111	.485	1.961	.061
	Risk taking	.052	.065	.087	.796	.433
	Defensive strategy	-.087	.075	-.128	-1.162	.256

a. Dependent Variable: Bank's competitiveness

The overall equation model for predictor and outcome variables will take the following format.

$Y = 2.224 + 0.244\ X_1 + 0.046X_2 + 0.218\ X_3 + 0.052\ X_{4.} - 0.087X_5$. This implies that from the model, at any given point, Bank's competitiveness will be 2.224 units when all the predictor values are zero. The model demonstrates that when aggressive strategy is advanced by one unit Bank's competitiveness will increase by .244. In addition, when analyser strategy changes by one unit, Bank's competitiveness will increase by 0.046 units. Similarly, when futuristic strategy changes by one unit Bank's competitiveness will increase by 0.218 units. Furthermore, Bank's competitiveness will improve by .052 units if risk taking is changed by one unit. Finally, the findings indicate that defensive strategy will have an impact of -0.087 of it is altered by one unit.

From the findings the five independent variables; Defensive strategy, Risk taking strategy, Aggressive strategy,Analyzer strategy and Futurist strategy show that the significant level is greater than 0.05 (statistically significant),implying that the variables do not significantly affect competitiveness of commercial banks in Kenya.

4.7 Discussion of the findings

The study found that commercial banks have invested heavily on innovation strategies leading to innovation of products that in the short–term might not be profitable but in the long-term beneficial to the organization. However, the study affirms that innovation has a positive impact on organizational performance. Industries with innovation strategy have been found to be successful in responding to the environmental changes and establishing innovation strategies that facilitates achievement of competitive advantage and high performance (Guan et al., 2009).

The research contradicted that of Chege (2017) to show that innovation practices increased the product and performance of commercial banks but agrees with that of Singh and Agrawal (2012 to show that technological innovations did not significantly affect the performance of commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

This chapter bring about the summary of findings, conclusion, limitations and recommendations corresponding to the study objective which was to establish the influence of innovation strategy on the competitiveness of commercial banks in Kenya.

5.2 Summary of the Findings

The findings reveal that majority of the commercial banks have educated and knowledgeable employees basing on highest levels of education attained. The study found that the banks' employees have a minimum of undergraduate level of education with 67.7% having the same level as their highest education level attained. In addition, the study established that majority (38.7%) of banks have 300-600 employees.

This implies that majority of the banks are medium sized. Further the respondent's demographics reveal that the respondents were knowledgeable on matters relating to innovation strategies and organization performance by virtue of having worked in the commercial banks for more than 5 years. Similarly all respondents participate in developing organizational innovation strategies implying that they are aware of the level and extent at which their respective firms have achieved innovation.

On aggressive innovation strategy, the study established that commercial banks innovates products that in the short–term might not be profitable but in the long-term beneficial to the organization. This implies that the main goal of commercial banks is to remain vibrant in the banking sector. Similarly, the study also found that banks innovate products and services to the market at a higher rate in comparison to other competitors. It is the desire of any firm to always control the market and have an outstanding competitive advantage. Thus firms will always strive for a lion's share in the market by providing satisfying services to the customers. As a result, banks strive to introduce complementary products to the main product to tie clients to the bank.

Analyser strategy was found to significantly affect the innovation strategy of an organization and generally the performance. Therefore the study findings highlights that in achieving analyser strategy, banks encourages coordination between different departments in order to hasten innovation process as well as get more feedback of the launched product. Coordination of activities ensures proper flow of communication from different channels of production which results to positive organizational performance. Additionally, the study also points that banks employ analytical methods in its innovation process to help in decision making process and that in coming up with products to meet future strategies of the bank, it employs different planning techniques which facilitate effective innovation development.

Furthermore, the study established various futuristic dimensions that commercial banks have employed in trying to mitigate and read properly the trend or technological evolution and set up an effective innovation process that will help predict the future organizational performance. In the same context, the study asserts that banks' innovation decisions are guided by its future strategies and forecasted market demands in order to be ahead of competitors. In addition, commercial banks look for opportunities based on customer future needs and develop products to meet this need which will ensure customer loyalty is upheld. The other innovative strategy employed in the present study is risk taking strategy. According to Wagener et al., (2010), risk taking will sometimes generate more creative ideas and therefore generate more profit in the long term. However, the study found that commercial banks' managers do not shy away in developing products that have not been tested in the market before. They are ready to take risk on newly established bank product and services in which in the long run, it will be beneficial to the firm's financial performance. In order to limit the level of risk exposure, the bank has formed alliances with other organizations to innovate and come up with products that are expected to meet future demands from customers.

On defensive innovation strategy, the study established that banks make changes to a product and ways of delivery to protect its market and meet customer demand. Moreover, commercial bank specializes in a narrow market segment in which it has competitive advantage over rivals in the market. A defensive-oriented innovative strategy in conjunction with a proactive innovation strategy influences organizational performance, although its impact is not sturdy to the degree that proactive strategy causes.

5.3 Conclusions

In view of the study findings, the following conclusions can be made based on the study topic. Innovation is statistically significant with organizational performance and that firms that have incorporated a diverse innovation dimensions have high chances of controlling the market since innovation ensures continuous production of goods and services that are in line with the current market demands. The study findings reveal that commercial banks with diverse innovation strategies have a huge impact on the strategic decision making. This implies that the strategic innovation is useful for the successful competitiveness strategies in the banking industry. Commercial banks ought to dependably guarantee that they have innovation policies which has differed proficient and instructive foundation with a plan to provide the best services to the loyal customers.

Similarly, the study found that innovation strategies such as aggressive strategy, analyser strategy, futuristic strategy, risk taking strategy and defensive strategy all have positive impact on organizational performance. This therefore calls for organizations to consider implementing appropriate strategies with the aim of enhancing organizational performance and attain strong competitive advantage.

5.4 Limitation of the Study

The present study was carried out on commercial banks in Kenya. However, the findings of the study can be ascertained to be of equivalent conclusion to different firms in diverse sector of production. Nonetheless, this can only be proved by future studies that will be done on different economic sectors.

Therefore, it will be indispensable to test the study findings on different industries such as agriculture, mining, construction among others. The other limitation to the study is that limited variables were considered and it is possible that there are other factors that define innovation strategies and organization performance among commercial banks. Other variables that incorporate innovation constructs which have been validated in previous research works should be considered in future research.

5.5 Recommendation and Policy Implications

The study reinforces the existence of varied findings on the relationship innovation and organization performance. It likewise gives a conflicting impact of visible physiognomies, specifically risk taking strategy and defensive strategies on organizational performance. It affirms prior researchers that innovation strategies on effectively recognizable characteristics may, regardless of situations, be contributing emphatically to organizational performance. On theoretical perspective, the study finds that futuristic strategy has a critical impact on the competitiveness of commercial banks. The study additionally affirms some prior discoveries that innovative strategies have a huge impact on the performance of organizations. The study findings of the present study establishes a significant impact of innovation strategies on organization performance by affirming that aggressive, analyser, futuristic, risk taking and defensive strategies have a huge impact on the competitiveness of an organization. In particular, the study distinguishes futuristic strategy and analyser strategy as effectively affecting the performance of an organization.

5.6 Suggestion for Further Research

Innovation is a process that is always on the move. This therefore means that innovative strategy will always depend on the prevailing market condition which changes with time, yet the present findings are based on a cross-sectional study, a situation that provides only a snap shot of innovation impact on organization performance.

Therefore, a time series analysis research design can be the next step for further research to fully understand how strategic innovation affects the performance of a firm. Also based on the findings, innovation strategies were not found to affect firm's competitiveness. Consequently the researcher recommends a future study to establish empirically on the existence or non-existence of this phenomenon.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

This questionnaire is designed to gather information on the influence of innovation strategy on the competitiveness of commercial banks in Kenya and is purely for academic purposes only. Kindly provide information to all items in the questionnaire by putting a tick (√) on one of the options. For questions that require your own opinion, fill in the blanks. (………………………….)

Section A: Background Information and Bio Data

1. Name of the bank (Optional)…………………………………….

2. What is your highest level of education qualification?

a) Secondary	( )	b) Tertiary College	( )
c) Post Graduate	( )	d) Secondary	( )

3. For how long have you worked with the bank?

a) Less than five years	( )	b) 5-10 years	( )
c) 10 – 15 years	( )	d) Over 15 years	( )

4. At what level of management are you?

a) Lower Level	( )	b) Middle level	( )
c) Top Level	( )	d)Others (Specify)	( )

5. How many employees are there in your organization?

a) Less than 300	( )	b) 300 – 600	( )
c) 600 - 1000	( )	d) Over 1000 employees	( )

6. Ownership structure of the organization?

a) Privately owned ( )

b) Government Owned ( )

c) Both Government and privately owned ( )

7. Do you play a role in developing organizations strategy?

a)Yes ( ) b) No ( )

SECTION B: Innovation Strategies

8. Below are innovation strategies on the banking industry. Please indicate the extent to which the following strategies are applied in your organization. Key:

5 - Very great extent 4 - Great extent 3 - Moderate extent 2 - Little extent

1 - No extent

	Aggressive Strategy	**5**	**4**	**3**	**2**	**1**
1	The bank decreases its bank charges periodically with a view to increase its market share					
2	The pricing of the bank for services is low in comparison to other banks in Kenya in order to attract more clients					
3	The bank innovates products that in the short–term might not be profitable but in the long-term beneficial to the organization					
4	The bank innovates new products and services to the market at a higher rate in comparison to other competitors					
5	The bank strives to introduce complementary products to the main product to tie clients to the bank					
	Analyzer Strategy					
1	The bank encourages coordination between different departments in order to hasten innovation process as well as get more feedback of the launched product					

2	The bank has put in place effective information system to facilitate innovation process in the bank					
3	The bank employs analytical methods in its innovation process to help in decision making process					
4	In coming up with products to meet future strategies of the bank, it employs different planning techniques which facilitate effective innovation development					
5	The bank innovation outcomes are generated from the environmental scanning to match the competitor moves					
	Futuristic Strategy					
1	The banks' innovation decisions are guided by its future strategies and forecasted market demands in order to be ahead of rivals					
2	My organization continually seek for products that will provide the bank competitive advantage					
3	The bank tries to forecast future market trends in order to come up with appropriate strategies					
4	We look for opportunities based on customer future needs and develop products to meet this need					
5	The bank innovation process is changed continually in conformity with anticipated future changes					
	Risk Taking					
1	The bank managers do not shy away in developing products that have not been tested in the market before					
2	The bank managers deliberate together through evaluation of innovated product before implementing a new decision					
3	The bank have in the past come up with products that have become popular in the market because of the managers proactiveness					
4	In order to limit the level of risk exposure, the bank has formed alliances with other organizations to innovate and come up with products that are expected to meet future demands from customers					

5	The bank does not shy away from entering into unexploited market in foreign countries or locations in the country that are considered to be risky					
	Defensive Strategy					
1	The bank makes changes to a product and ways of delivery to protect its market and meet customer demand					
2	The bank continually improve the quality of our its product to match competitor changes and customer demands					
3	The bank uses modern management techniques in making innovation changes to its products					
4	The bank specialize in a narrow market segment in which it has competitive advantage over rivals in the market					
5	The organization tries to erect barriers to competitors entering its market					

What other innovation strategy does the bank undertake in maintaining its competitive advantage

....

....

Section C: Firm Competitiveness

9. In your opinion, has the innovation strategy by the bank improved its competitiveness? Explain

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

10. Below are some of the banks' competitive positions. Please indicate how the bank innovation strategy has affected the competitiveness.

Using the following rating; 5 = to a very large extent, 4 = Large extent, 3 = Moderate extent, 2 = Small extent, 1 = Very small extent

Statement	**5**	**4**	**3**	**2**	**1**
The bank service quality of products has improved in comparison with the earlier period when Superior service delivery to customers					
The bank product range has increased in the last five years as a result of innovation strategy initiated by the bank					
The bank quality of service delivery has increased in the last Improved quality of service delivery					
The bank cost of service delivery has reduced as a result of innovation compared to previous period					
The bank has been able to access low cost labour through automation in comparison the traditional service mode					
The bank quality control process results in better decision making l					
The bank has been able to reduce the risk of investment					
The bank market share has been increasing in the last five years					
The bank revenues has been increasing in the last five years					
The customer satisfaction level has improved due to the innovative products offered by the bank					

What other aspect of competitiveness (not covered above) has your bank realized due to innovation strategy ……………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

THANK YOU SO MUCH FOR YOUR TIME

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

Classification	Description	Commercial Banks
Tier I	Comprises of banks with a balance sheet of more than Kenya Shillings 40 billion	1. KCB Bank Kenya Ltd 2. Co-operative Bank of Kenya 3. Equity Holdings Ltd 4. Standard Chartered Bank (K)Ltd 5. Diamond Trust Bank (K) Ltd 6. Barclays Bank of Kenya Ltd 7. Commercial Bank of Africa Ltd. 8. Stanbic Bank Kenya Ltd
Tier II	Comprises of banks with a balance sheet of less than Kenya Shillings 40 billion but more than Kenya Shillings 10 billion	1. I&M Bank Ltd 2. NIC Bank Kenya PLC 3. Bank of Baroda 4. Citibank N.A Kenya 5. National Bank of Kenya Ltd 6. Prime Bank Ltd 7. Family Bank Ltd 8. Bank of India 9. HFC Ltd 10. Eco Bank Kenya Ltd 11. Bank of Africa (K) Ltd
Tier III	Comprises of banks with a balance sheet of less than Kenya Shillings 10 billion	1. Guaranty Trust Bank (Kenya) Ltd 2. Gulf African Bank Ltd 3. Victoria Commercial Bank 4. African Banking Corporation 5. Sidian Bank 6. Habib Bank (K) Ltd 7. Guardian Bank

	8. First Community Bank
	9. Credit Bank
	10. Development Bank of Kenya
	11. Jamii Bora Bank Ltd
	12. M-Oriental Commercial Bank Ltd
	13. Trans-National Bank
	14. Consolidated Bank of Kenya
	15. SBM Bank (Kenya) Ltd
	16. Paramount Universal Bank
	17. Spire Bank Ltd
	18. UBA Bank Kenya Ltd
	19. Middle East Bank (K) Ltd
	20. Mayfair Bank Ltd
	21. DIB Bank Kenya Ltd

Source: Central Bank of Kenya Bank supervision annual report 2017, pp. 56.