INFLUENCE OF STRATEGIC INNOVATION ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA: THE CASE OF KENYA COMMERCIAL BANK IN NAIROBI COUNTY

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ABSTRACT

The current business environment is dynamic, turbulent and unpredictable. The success of business in such environment is dependent on its adaptability to respond to environmental change. Strategic innovation is a strategic tool that can be used to align the firm’s resources and capabilities with opportunities in the external environment in order to enhance survival and long term success of the organization. The cut throat competition in the banking sector coupled with the reduced government borrowing from the industry has affected the performance of the banks in Kenya. To therefore remain aboard amid tight regulation, competition and increased international surveillance, banking industry has to embrace innovation as a lever to sustainable performance .This study aimed at finding the relationship between strategic innovation and performance of Commercial banks in Kenya. The specific objectives of the study were to establish the nature of various strategic innovations such as; new product development, cost reduction, differentiation, quality improvement, increased sales and entrance into new markets in the banking sector and determine the influence of strategic innovations on the performance. This was a case study where only one organization was involved in the study, Kenya Commercial Bank. The target population was 170 managers of 59 branches in Nairobi County. The sample size was 119 respondents out of the possible 170 managers in Nairobi County branches of KCB. The sample included top level managers, middle level managers and low level managers involved in formulating and implementing strategy at the branch level. The researcher adopted descriptive research design. Data establishing the relationship was obtained from both the primary and secondary sources. Primary data was obtained with the use of structured questionnaires while the secondary data was obtained from the financial statements of the bank to determine the performance in terms of return on equity, return on assets and profitability. Regression analysis was performed to ascertain the validity of the data and to test reliability of the data, content analysis was performed based on information from the published financials information of KCB. Before processing the responses, the filled questionnaires were edited for completeness and consistency.Data was analyzed using multiple hierarchical regression model.
and explanation given in prose. The study found out that the strategic innovation measures adopted by the bank greatly affects the bank’s performance. There is a positive and significant relationship between cost management aspects of strategic innovation, continuous quality improvement innovative measures and the marketing innovative measures and the performance of commercial banks. The study therefore recommends that the banks’ management and stakeholders should embrace on cost management, marketing innovativeness, process innovation and quality improvement strategies in their organization’s operations through adoption and support of modern technology in their service delivery.

Keywords: Strategic Innovation on Performance of Commercial Banks in Kenya

Introduction

In today’s dynamic and global competitive environment, innovation is becoming more pertinent, mainly due to three major trends: concentrated international competition, disjointed and challenging markets, and assorted and swiftly changing technologies (Aghion, P, Bloom, N., Blundell, R., Griffith, R., and Howitt, P., 2005). More specifically, it has been argued that the necessity to develop innovation is driven by the type of strategy employed, with higher levels of innovation being more likely in firms following strategies such as prospectors (Miles and Snow, 2004) and product differentiation (Porter, 1985). The strategic management literature recognizes innovation as a critical enabler for firms to create value and sustain competitive advantage in the increasingly complex and rapidly changing environment (Yilmaz, C., Alpkan, L., Ergun, E., 2005).

According to Drucker (2001), innovation is part of the strategy implementation and is a direct requisite for specific strategies. Innovation therefore serves as a medium of creating new business with exceptional control mechanisms, value addition and risk reduction. Strategic innovation is essential in improved performance amongst many firms and is reflected by increased profitability and market share growth (Palmer and Kaplan, 2007). As a result, firms that desire to remain competitive by enhancing their growth capacities and capitalizing on the available opportunities can achieve all these by embracing strategic innovation.

Statement of the Problem

Strategic Innovation has been empirically linked with superior performance (Walker, 2004). Strategic innovation enhances global competitiveness, overall productivity and value maximization of the firm. Innovation is challenging and faces uncertainties that are existent in both incremental innovations, such as updated versions or extensions of current products and processes, and radical innovation that base upon the development or application of new ideas and novel technologies (Dewar and Dutton, 1986). Uncertainty is inherent in the organizational development of an innovation. Both market and technological uncertainties affect the organizational orientation towards innovation and the activities while implementing innovation.
Strategic innovation is fundamentally different way of competing in an existing business. It denotes a creative and significant departure from historical practice. Larsen, E., Markides, C.C. & Gary, S. (2002) contend that strategic innovation focuses on changing firm level strategy over time to identify unexploited position in the industry ahead of rival firms. Strategic innovation brings in market cap growth by differentiating capabilities that give coherence which enables the firm to improve revenue growth. Strategic innovation enhances global competitiveness, overall productivity and value maximization of the firm.

Despite the significance of innovation in demystifying performance in banks, the impact of innovation on organizational performance, is still misunderstood for two main reasons, first, there is inadequate understanding about the drivers of innovation and secondly innovations’ impact on bank’s performance remains lowly untested (Mabrouk and Mamoghli, 2010). The outcome of the previous studies on impact of innovation on performance has been empirically inconclusive (Bonn, 2000). Previous studies have produced mixed results regarding the impact of innovations on bank’s performance. Scholars (Pooja and Singh, 2009: Franscesa and Claeys, 2010), in their studies concluded that innovations had least impact on performance, while others (Batiz-Lazo and Woldesenbet, 2006: Mwania and Muganda, 2011) concluded that innovation had significant contribution to performance. It is at the center of such mixed conclusions that created and necessitated the need to carry out a study from a Kenyan context to establish the influence of strategic innovation on commercial banks’ performance.

Commercial banks operate in heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper competition, changing demographics and customer needs require these banks to build adaptability competency for survival and fostering of organizational performance (CBK, 2013). It is against this background that these banks have realized that conformity to convectional strategies produce convectional results. In order to produce strategic competitiveness in new competitive landscape, these banks have embraced new ways of doing business that not only add value to customers but earn them premium. Strategic innovation is practiced both for survival and sustenance.

Locally, various studies on the topic of innovation have been reviewed by various scholars. Kemoli (2010) carried out a study on strategic innovations and performance of commercial banks listed in NSE. The study concluded that listed commercial banks had deviated from the existing industry rules and engaged in creation of new and significant customer value and that strategic innovation was embedded in their corporate strategy. Karanja (2009) carried out a study on innovation strategies adopted by insurance companies in Kenya. The study concluded that companies with strong technology-enabled innovation strategies are more likely to secure competitive advantage and create superior shareholder value. Lusweti (2009) reviewed innovation strategies adopted by radio stations in Kenya. This study concluded that innovation strategies are very essential in any business and hence they should be put in place at any cost since it helps the organization to realize their objectives. Similarly, several other foreign scholars and researchers have studied relationship between innovation and firm performance (Jaruzelski
and Dehoff, 2010; Little, 2004; Charitou and Markides, 2003; Christensen, 2002; Mabrouk and Mamoghli, 2010; Roberts, 1999. Even though all the above researches and studies revealed existence of relationship between innovation and performance, all were contextually varied and none inquired on the influence of strategic innovation on performance of commercial banks in Kenya. None of the studies had focused on the influence of strategic innovation, an all-inclusive perspective towards innovation on performance. Thus the research question, what is the influence of strategic innovation on the performance of Commercial Banks in Kenya and specifically KCB?

**Objectives of the Study**

**General Objective**

The general objective of the study was to establish the influence of strategic innovation on performance of commercial banks in Kenya: A case of Kenya Commercial Bank.

**Specific Objectives**

The study was based on the following research objectives:

(i) To establish the relationship between new product development and performance of commercial banks.

(ii) To determine the influence of cost management on the performance of commercial banks.

(iii) To establish the relationship between continuous quality improvement and performance of commercial banks.

(iv) To establish the effect on new market for products on performance of commercial banks.

**LITERATURE REVIEW**

**Blue Ocean Theory**

The cornerstone of Blue Ocean Strategy/theory is 'Value Innovation', a concept originally outlined in Kim & Mauborgne (1997). Value innovation is the simultaneous pursuit of differentiation and low cost, creating value for both the buyer, the company, and its employees, thereby opening up new and uncontested market space. The aim of value innovation is not to compete, but to make the competition irrelevant by changing the playing field of strategy. The strategic move must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. The Four Actions Framework is used to help create value innovation and break the value-cost trade-off. Value innovation challenges Michael Porter's (1985) idea that successful businesses are either
low-cost providers or niche-players. Instead, blue ocean strategy proposes finding value that crosses conventional market segmentation and offering value and lower cost.

Blue ocean theory derives its significance in emphasis in disregarding traditional rules and using competition as a benchmark. According to Kim and Mauborgne (1997), blue ocean theory creates jumpstart in value for the buyers and for the company. Blue ocean theory equips the firm with powers of creating uncontested market space, making competition irrelevant, breaking the value-cost tradeoffs while aligning the whole system of firm activities in pursuit of differentiation and low cost. Firms inclined towards blue ocean theory reject fundamental principle of conventional strategy; the need to choose between value and cost (Kim and Mauborgne, 1997).

**Resource Based Theory (RBT)**
The resource based theory (RBT) emerged as a complement or dual to Porter’s theory of competitive advantage (Barney, 2002). Initially, Wernerfelt (1984) developed a theory of competitive advantage based on the resources a firm develops or acquires to implement product market strategy. Wernerfelt (1984) primary contribution to the RBT literature was recognizing that firm specific resources as well as competition among firms based on their resources can be essential in order for organizations to gain advantages in implementing product market strategies (Barney, 2002).

Resources refer to all components that an organization makes available to performers of innovative work tasks (Amabile, 1997). Employees need access to sufficient resources to be creative and to create a climate of innovation. Resources include appropriate access to funds, materials, facilities, knowledge, information, sufficient time to produce novel work in the domain, and the availability of training (Amabile, 1997). It is also important to have sufficient resources for innovative problem solving (West & Farr, 1999).

**Knowledge-Based Theory**
Strategic innovation is grounded in the knowledge-based theory of the firm (Grant, 1996). It is widely accepted that a firm’s ability to innovate is tied to the pool of knowledge available within an organization (Subramaniam and Youndt, 2005). The generation of new knowledge has traditionally been connected to a firm’s in-house research and development (R&D) activities. Recent literature, however, points to the advantages of combining internal investments with external resources (Cassiman and Veugelers, 2006) to benefit from complementarities. In other words, firms have begun to open up their innovation processes for external knowledge. This trend of so-called “Open Innovation” allows firms to access and exploit external knowledge while internal resources are focused on core activities (Chesbrough, 2003).

Many authors show the relationship between innovation and knowledge management (Galunic and Rodan, 1998; Kim and Mauborgne, 1997; Leonard-Barton, 1995 and Metcalfe and De Liso, 1998). Knowledge-based strategy determines innovation efforts and may have a strong influence
on their cost and performance. In addition, newly created knowledge guides the succeeding innovation efforts (Guadamillas and Forcadell, 2002). This relationship also occurs in the other sense. That is, the results of the innovation management of the firm create new explicit knowledge on products and technologies and also lead to the accumulation of tacit knowledge (Kim and Mauborgne, 1997). As a consequence, increased knowledge base lead to a firm’s innovation efforts. Various innovations in the banking sector can be attributed to increased knowledge base.

Conceptual Framework
The conceptual framework below illustrates the relationship between the independent variables on one hand and the dependent variables on the other. Independent variables include; product innovation, process innovation, marketing innovation and organizational Innovation while dependent variables include; ROA, ROE, market performance and production performance.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Innovation</strong></td>
<td>Performance of commercial banks</td>
</tr>
<tr>
<td>New Product, Quality Improvement, Technical Specifications</td>
<td>Return on Assets, Return on equity, market performance</td>
</tr>
<tr>
<td><strong>Process Innovation</strong></td>
<td></td>
</tr>
<tr>
<td>Differentiation, Cost Reduction, New Technologies</td>
<td></td>
</tr>
<tr>
<td><strong>Marketing Innovation</strong></td>
<td></td>
</tr>
<tr>
<td>Increased Sales, Entrance to new markets, Product Promotion and pricing</td>
<td></td>
</tr>
<tr>
<td><strong>Organizational innovation</strong></td>
<td></td>
</tr>
<tr>
<td>Organization Structure, Routines/procedures/Mechanisms, External Relations</td>
<td></td>
</tr>
</tbody>
</table>
Empirical Review

Empirical Review of Literature

Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Drucker, 2001; Kuratko et al., 2005). Innovation as a term is not only related to products and processes, but is also related to marketing and organization. Schumpeter (1994) described different types of innovation: new products, new methods of production, new sources of supply, the exploitation of new markets, and new ways to organize business. Drucker (2001) defined innovation as the process of equipping in new, improved capabilities or increased utility.

Strategic innovation is considered as developments and new applications, with the purpose of launching newness into the economic area. It can be conceived as the transformation of knowledge to commercial value. Innovation has great commercial importance due to its potential for increasing the efficiency and the profitability of companies. According to Fagerberg et al. (2004), the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge. Companies procure additional competitive advantage and market share according to the level of importance they give to innovations, which are vital factors for companies to build a reputation in the marketplace and therefore to increase their market share.

Locally, various studies on the topic of innovation have been carried out by a number of researchers. Aswani (2010) carried out a study on strategic innovations and performance of public universities. The study concluded that there exist a positive relationship between strategic innovation and performance of public universities. Kemoli (2010) carried out a study on strategic innovations and performance of commercial banks listed in NSE. The study concluded that listed commercial banks had deviated from the existing industry rules and engaged in creation of new and significant customer value and that strategic innovation was embedded in their corporate strategy. Karanja (2009) carried out a study on innovation strategies adopted by insurance companies in Kenya. The study concluded that companies with strong technology-enabled innovation strategies are more likely to secure competitive advantage and create superior shareholder value.

Lusweti (2009) reviewed innovation strategies adopted by radio stations in Kenya. This study concluded that innovation strategies are very essential in any business and hence they should be put in place at any cost since it helps the organization to realize their objectives. As far as analysis of strategy is concerned, the adoption of strategies (whether collaborative or competitive strategies) is thus important in managing innovation and in making the innovation happen. Odhiambo (2008) carried out a study on innovation strategies at Standard Chartered Bank and concluded that with the advent of globalization, financial institutions have been forced to improve their ways of doing business in order to attract and maintain existing customers. Such
innovative strategies focus on all aspects of the business operations ranging from customer care, technological advancement to better products in the market.

**Strategic Innovation**

Strategic innovation emanates from unexpected occurrences, incongruities, process needs, industry and market changes (Drucker, 2001). Moeller et al (2006) maintain that the strategic innovation occurs in response to demographic changes around the globe which create new combination of who, what and how of strategic innovators. Markides (1999) argues that new needs that arise due to shifts in consumer preferences, manifested by mapping the neglected segments by competitors, presents insightful source for strategic innovation.

Li and Atuahene-Gima (2001) assume that the evidence for an embedded innovation strategy is subjective. Further, the literature provides two distinct types of strategic orientation measures. One identifies whether the organization has an innovation strategy (Cooper, 2006). The other assumes that strategy exists and explores its effectiveness by further measures of strategic fit (Bessant et al, 2003). It has been found that more innovative firms adopt different operational strategies to accommodate flexibility and quality capabilities and have a range of different financial means to facilitate slack resources.

**Strategic Innovations and Organizational Performance**

Innovations can actually enhance the firm performance in several aspects. Particularly, four different performance dimensions are employed in the literature to represent firm performance (Yılmaz et al., 2005). These dimensions are innovative performance, production performance, market performance and financial performance. Innovation has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance (Walker, 2004). A large number of studies focusing on the innovation-performance relationship provide a positive appraisal of higher innovativeness resulting in increased corporate performance (Damanpour et al., 1991; Wu et al., 2003). But these researches are generally conceptual in nature and/or focus only on a single type of innovation rather than considering all four innovation types already defined, and then explore its impact on performance.

Process and product innovations are the most common innovation types examined. The studies by Whittington et al., (1999), and Baer and Frese (2003) focus merely on process innovations while studies of Atuahene-Gima (1996), Subramanian and Nilakanta (1996), and Li and Atuahene-Gima (2001) report on product innovations. Many of these research embrace more or less a positive association between innovations and firm performance, but there are also some studies indicating a negative link or no link at all (Capon et al., 1990; Chandler and Hanks, 1994, Subramanian and Nilakanta, 1996).
RESEARCH METHODOLOGY
This study adopted a descriptive research design that aims at investigating the strategic innovations and performance of Kenya Commercial Bank. According to Denvir and Millet (2003), research design provides the glue that holds the research project together. The research design used show how all the major parts of the project, which include samples or groups, measures, treatments or programs and methods of assignment that work together to address the central research questions. This is because the study sought to establish a relationship between different variables. Descriptive designs result in a description of the data, either in words, pictures, charts, or tables, and indicate whether the data analysis shows statistical relationships or is merely descriptive. A case study of Kenya Commercial bank was used in this study. Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of a social unit. He further describes a social unit as a person, family or institution. The distinct need for case studies arises out of the desire of the researcher to understand the complex social phenomena. Case study method also allowed the researcher to retain the holistic and meaningful characteristics of the real life events such as individual life cycles, organizational and managerial processes (Robert, 2002). The research was both qualitative and quantitative in nature and relied on both primary data and secondary data obtained from commercial banks in Kenya.

Data Analysis/Findings

Regression Analysis
The objective of this study was to establish the effect of strategic innovations on performance of commercial banks in Kenya. To accomplish this, the study conducted a regression analysis which gives the relationship between the measures of performance (independent variables) used in the study and the performance of the commercial banks (measured by ROA, ROE, Market performance and Product performance). The data used was collected for 5 years thus giving a 5 year period data which facilitated linear regression analysis.

Strategic Innovation and ROA
Table 4.8 gives the regression model summary results for the relationship between strategic innovation and the bank’s ROA. It presents the R value which is the measure of association between the dependent and the independent variables, the R Square which is the coefficient of determination measuring the extent at which the independent variables influence the dependent variable as well as the Adjusted R Square which measures the reliability of the regression results.

Table 4.8 Regression Model Summary
According to the table results, there is a strong and positive association between the dependent variable (ROA) and the independent variables (Product innovation, process innovation, marketing innovation, organizational innovation). This is as given by the R value of 0.889 revealing the strength of the association. The coefficient of determination (R Square) in the table is 0.878. This value explains that, holding other factors which are not studied constant, the value of the predictor variables in the study contributes to 87.8% of the variance in the performance of the commercial banks (ROA) while the other factors accounting for 12.2% of the variability (1-0.878). From the table also, the adjusted R square is 0.863 which explains that the study results are 86.3% reliable as in a case where the study would have employed the entire population for the study, the results would have been 13.7% different from the current results.

### Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.889&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.878</td>
<td>.863</td>
<td>.2696</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product innovation, process innovation, marketing innovation, organizational innovation

The regression test results presented in the table indicate that, all the coefficients are positive and are also significant as given by their p-values (sig. values) which are all less than 0.025 testing at 5% level with a 2-tailed test. Thus, with these values being less than the critical value at 5% level, the coefficients are statistically significant and explain significant influence of the independent variables to the performance of the banks.
These coefficients therefore are used to answer the following regression model which relates the predictor variables (independent variables) and the dependent variables;

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Where \( Y \) = Performance (Measured by ROA) which is the dependent variable
\( \beta_0 \) = Constant which defines long term performance value without inclusion of independent variables
\( X_1 \) = product Innovation
\( X_2 \) = Process innovation
\( X_3 \) = Marketing innovation
\( X_4 \) = Organizational innovation
\( e \) = Error Term

Based on these coefficients, the regression model therefore becomes;

\[ Y = .227 + 2.945X_1 + 2.301X_2 + 2.882X_3 + 7.210X_4 \]

From the model, it is clear that, holding the predictor variables constant, the performance of the bank would be 0.227. This explains that, without the influence of the predictor variables, the performance would be 0.227. Also, the model shows that, a unit increase in product innovation would result to 2.945 times increase in the bank’s performance (ROA). Also, a unit change (increase/ decrease) in the innovativeness of the operational process will lead to a 2.301 times direct changes in the bank’s performance (ROA).

The model also indicates that, the coefficient of the market innovation and performance of the bank is 2.882. This reveals that, given a unit increase in the market innovativeness, the performance of the bank will be affected by 2.882 times increase consequently. The model as well reveals that a unit change in the organizational innovation would lead to a 7.210 times direct changes in the bank’s performance. The findings in general indicate that the bank’s strategic innovative measures employed have a positive relationship with its performance (ROA).

**Strategic Innovation and ROE**
The relationship between strategic innovation and the returns on equity was also tested through regression analysis. This gave significant results which are as presented in tables 4.10 and 4.11 below;
Table 4.10 Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.911a</td>
<td>.902</td>
<td>.883</td>
<td>.0571</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product innovation, process innovation, marketing innovation, organizational innovation

The table illustrates that there is a strong and positive correlation between the bank’s performance (ROE) and the independent variables (Product innovation, process innovation, marketing innovation, organizational innovation). The R value in support of this was obtained as 0.911 which is above 0.7 for strong correlation revealing. The value of the coefficient of determination which explains the extent to which the predictor variables affect the dependent variable is 0.902. This value explains that, holding other factors which are not studied constant, the Product innovation, process innovation, marketing innovation and organizational innovation contributes to 90.2% of the variability in the performance of the bank (ROE) while the other factors accounting for 9.8% of the variability. From the table also, the adjusted R square is 0.883 explaining that the study sample population used gave reliable results which cannot be much different if the entire population was used for the study as this would result to 11.7% less variance results. This therefore reveals that the model developed is statistically reliable in explaining the relationship between the variables.

Table 4.11 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.652</td>
</tr>
<tr>
<td></td>
<td>Product innovation</td>
<td>2.361</td>
</tr>
<tr>
<td></td>
<td>process innovation</td>
<td>2.411</td>
</tr>
<tr>
<td></td>
<td>marketing innovation</td>
<td>2.319</td>
</tr>
<tr>
<td></td>
<td>organizational innovation</td>
<td>5.330</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE
From the table, it is clear that all the variables have positive relationship with the dependent variable as given by their coefficients which are all positive indicating a positive relationship. Testing the significance of the relationship at 5% level in a 2-tailed test, the findings revealed that the relationship between the dependent and the four independent variables is statistically significant as these had significant values which are all less that 0.025 (the critical value at 5% level with a 2-tailed test). Therefore, the coefficients answer the regression model relating the variables as follows;

\[ Y = .652 + 2.361X_1 + 2.411X_2 + 2.319X_3 + 5.330X_4 \]

The model reveals that, the value of the bank’s performance measured by ROE while holding other factor constant would be 0.652 where a unit change in the product innovation to the bank would lead to 2.361 times changes in the performance. The performance would also be affected positively by 2.411 times in an attempt to increase the process innovativeness with a unit where as a positive change in the marketing innovation measures would result to 2.31 times positive changes in the bank’s performance. Also from the model, it is clear that increasing the organizational innovativeness by a unit results to 5.33 times increase in the bank’s performance. These findings reveal that there is a significant and highly influencing effect of strategic innovations to the bank’s performance (ROE).

**Strategic Innovation and Market Performance**

The effect of strategic innovation on market performance was also studied through regression analysis. This was through running a multiple regression with the four independent variables and the market performance.

**Table 4.12 Regression Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.899a</td>
<td>.876</td>
<td>.862</td>
<td>.0254</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product innovation, process innovation, marketing innovation, organizational innovation

From the table, Product innovation, process innovation, marketing innovation and the organizational innovation determines 87.6% of the variability in the market performance. This is as given by the R square value of 0.876 revealing that the variance due to other factors which are not considered in the current study is 12.4%. The adjusted R square value is 0.862 which shows that the study results are 86.2% reliable and in a case where the researcher could have used the entire population rather than a sample the results could not have varied significantly.
Table 4.13 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.181</td>
</tr>
<tr>
<td></td>
<td>Product innovation</td>
<td>3.112</td>
</tr>
<tr>
<td></td>
<td>process innovation</td>
<td>2.912</td>
</tr>
<tr>
<td></td>
<td>marketing innovation</td>
<td>6.673</td>
</tr>
<tr>
<td></td>
<td>organizational innovation</td>
<td>3.310</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Market Performance

To answer the regression equation proposed relating the independent variables and the market performance, the value of the unstandardized coefficients in the table are used. These coefficients are all positive indicating that the relationship between these variables and the market performance is positive. They are as well statistically significant as given by their p-values which are less than the 0.025 value at 5% significance level. The coefficients are significant therefore to explain the extent of influence each independent variable have on market performance. The regression equation therefore based on the coefficients becomes;

\[ Y = 1.181 + 3.11X_1 + 2.912X_2 + 6.673X_3 + 3.310X_4 \]

This reveals that, the value of the market performance without the influence of the predictor variables would be 1.81 which would be affected positively by a unit change in any of the predictors though to a different extent. Specifically, product innovation would lead to 3.112 times changes in market performance, process innovation would result to 2.912 times changes, marketing innovation would result to 6.673 times changes while the organizational innovation would result to 3.310 times changes in the market performance. This shows that innovating marketing strategies would greatly influence the bank’s market performance.
Strategic Innovation and Product Performance

Regression analysis was further conducted to examine the relationship between the bank’s strategic innovation strategies and its product/service performance. The results are then as given in tables 4.14 and 4.15 below for the model summary and the coefficients respectively.

Table 4.14 Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.922\textsuperscript{a}</td>
<td>.918</td>
<td>.903</td>
<td>.5210</td>
</tr>
</tbody>
</table>

\textsuperscript{a. Predictors: (Constant), Product innovation, process innovation, marketing innovation, organizational innovation}

The results in the table illustrate that the influence of the Product innovation, process innovation, marketing innovation and organizational innovation to the product performance while holding other factors constant accounts for 91.8% of the product performance. This means that the variation in the market performance due to other factors which are not studied is only 8.2%. Therefore the studied variables have a great influence to the product/service performance. The table also gives the adjusted R square which explains the reliability of the findings. This has a value of 0.903 indicating that the study results are 90.3% reliable in explaining the relationship between the variables and therefore in any attempt of altering the study participants would not result to a much different findings from the current study findings.

Table 4.15 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>I</td>
<td>(Constant)</td>
<td>.971</td>
</tr>
<tr>
<td></td>
<td>Product innovation</td>
<td>8.312</td>
</tr>
<tr>
<td></td>
<td>process innovation</td>
<td>5.511</td>
</tr>
<tr>
<td></td>
<td>marketing innovation</td>
<td>2.170</td>
</tr>
<tr>
<td></td>
<td>organizational innovation</td>
<td>4.306</td>
</tr>
</tbody>
</table>

\textsuperscript{a. Dependent Variable: Product/Service Performance}

The influence of individual variable to the product/service performance is given by the regression coefficients presented in the table. According to the table, all the coefficients are positive and significant. This is based on their significance values obtained which are all below
the critical value at a 5% test of significance. The regression model relating the variables therefore is as below given;

\[ Y = 0.971 + 8.312X_1 + 5.551X_2 + 2.170X_3 + 4.306X_4 \]

The model shows that, the value of the product/service performance without the influence of the predictor variables would be 0.971. This would be affected positively by a unit increase to any of the predictor variables in the model. This therefore reveals that, given a unit increase in the product innovation the product performance would positively change by 8.312 times. Also, a unit increase in the process innovation would result to 5.551 times increases in the product performance. Increasing the marketing innovation would result to 2.17 times increases in product performance while increasing organizational innovativeness would result to 4.306 times increases in the product performance. This reveals that, product innovation has the greatest influence to the product performance followed by the process innovation and the organizational innovation which also influences the performance to a great extent.

**Conclusions**

**Relationship between new product development and performance of commercial banks**

Continuous engagement in introduction of new products and services, upgrading of the existing systems as well as introduction of new softwares for business operations greatly affect the ability of the commercial banks to perform. This facilitates its product/services quality improvements, technical specification creating new and significantly better customer value thereby influencing the bank’s performance and growth. Product innovation therefore has a greater influence to the performance of the commercial banks which are positively related also.

**Influence of cost management on the performance of commercial banks**

There is a positive and significant relationship between cost management aspects of strategic innovation and the performance of commercial banks. The reorganization of the banks’ structure towards improvements in service delivery determines the competitiveness of the bank which eventually affects its financial, assets and customer base. The ability of the banks to manage its public relations, employee motivation and retention in its operations determines its performance which dictate the position of the bank in the market and its value of assets and well as its profitability due to favorable customer and employee relations.

**Relationship between continuous quality improvement and performance of commercial banks**

The business models adopted for service delivery in the banks, the service delivery methods as well as the techniques of service delivery adopted determines the ability of the commercial banks to meet the customer demand in terms of quality services and modernized processes which give confidence to the customers. This as a result affects the profitability of the banks as more customers will be attracted to consume the services who would also remain loyal to the bank thereby influencing its performance. This therefore shows that the banks’ continuous quality improvement innovative measures affect the banks performance positively and significantly.
Effect on new market for products on performance of commercial banks

The banks’ ability to introduce new strategies to facilitate their entry and creation of new markets for their services, application of modern technologies and innovative strategies to target specific markets as well as the introduction of new product/service designs affect their performance. This is as this allows them to enter the market and acquire a significant share of the market boosting their customer base and consequently bringing about their improved profitability and competitiveness. Therefore the new market for products/services acquisition is positively related to the performance of the commercial banks due to the fact that these markets creates the room for expansion and meeting more customer demands in the market.

References


