EFFECTS OF INNOVATION STRATEGY IN ENHANCING COMPETITIVE ADVANTAGE AMONG COMMERCIAL BANKS IN KENYA

BY

ANTHONY N. KARIUKI

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SPRING 2017
EFFECTS OF INNOVATION STRATEGY IN ENHANCING COMPETITIVE ADVANTAGE AMONG COMMERCIAL BANKS IN KENYA

BY

ANTHONY N. KARIUKI

A Research Project Report Submitted to Chandaria School of Business in Partial Fulfilment of Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2017
STUDENT DECLARATION

I the undersigned declared that this research project is my original work and has not been submitted to any other institution of higher learning for academic credit other than United States International University-Africa

Signed: -------------------------- Date: --------------------------
Anthony Kariuki (Student ID)

This research paper has been presented for examination with my approval as the appointed supervisor

Signed: -------------------------- Date: --------------------------
Prof. Paul Katuse

Signed: -------------------------- Date: --------------------------
Dean, Chandaria School of Business
ABSTRACT

The purpose of this study was to determine the effects of innovation strategy on competitive advantage in commercial banks. The following research questions were adopted for the study: What is the effect of product innovation on competitive advantage? What is the effect of process innovation on competitive advantage? How does market innovation affect competitive advantage of commercial banks in Kenya?

The study employed a descriptive survey research design. The population of the study was 330 composed of managers from 44 commercial banks in Kenya. Stratified sampling was used to select a sample size of 118. The study used a structured questionnaire to collect primary data, which was analyzed using Statistical Package for Social Sciences (SPSS) version 22 for descriptive and inferential statistics.

The findings on the effect of product innovation on competitive advantage revealed the existence of a positive significant relationship between product innovation and competitive advantage of commercial banks in Kenya.

The findings on the effect of process innovation on competitive advantage revealed the existence of a positive significant relationship between process innovation and competitive advantage. All the components of process innovation including process idea phase, development phase and implementation phase were all significant.

The findings on the effect of market innovation on competitive advantage revealed the existence of a positive significant relationship between market innovation and competitive advantage. All components of market innovation including impact on employee performance, organizational performance, employee motivation, and increase in sales were all significant.

This study concludes that product innovation has significant impact on employee performance, satisfaction, and organizational performance. Product innovation directly and positively contributes to how employees find value, morale and significance in their work, which at the end of the day, enhances their productivity, and competitiveness in the market place. The study also concludes that process innovation including planning, design and implementation effect on customer satisfaction, employee performance and organization profitability was significant. Product innovation provided commercial banks under this study with the opportunity and ability to design products that competed effectively at the market place and thus enhancing organizations competitive advantage.
This study also concludes that all components of market innovation including customer satisfaction, employee performance and overall organization performance were significant. Market innovations provide banks the opportunity to enhance their performance through increase in market share, and product differentiation to the market.

This study recommends that management in commercial banks should put mechanisms in place to enhance more internal innovations. This should include giving employees enough space to innovate new products and services. In addition, there is need to have banks to set aside a budget that will be used exclusively for product innovation. This will not only enhance the banks’ ability to compete with other banks, but also the ability to remain sustainable in the long term. This study also recommends that management at commercial banks should ensure that process innovations are conducted in a manner that enhances competitive advantage. This should include ensuring that organizational processes are designed in a manner that enhances organizations strategic goals and objectives. There is need to ensure that employees are customers are involved in all aspects process innovation. Lack employee involvement can be detrimental to the success of the innovation process and thus hinder competitiveness. On market innovativeness, this study recommends the use of agency banking to enhance outreach to those in areas that does not have physical branches. There is also need for commercial banks to ensure that online banking platforms in addition to mobile money platforms should be enhanced.
ACKNOWLEDGEMENT

My deep appreciation goes out to the following people who made this research project a success. First, I would like to thank the Almighty God for giving me life and strength throughout my course work and my research project period. Secondly, I wish to convey my sincere gratitude to my supervisor Prof. Paul Katuse for his intellectual contribution and tremendous support in this research paper. Special gratitude also goes to my family, my sister Cpt. Anne Mokua who was kind enough to track my progress, my Mum who has been my support from day one, my love –Diana, my reason for doing this Shanelle and Samantha and my friends especially Lazima A team for giving me tremendous support while undertaking this project. May God bless them abundantly.

There are many more people I could thank, but time, space, and modesty compel me to stop here.
DEDICATION

I would like to dedicate this project to my brother Apollo Kamau Kariuki and my dad Douglas Kariuki Mundia. I hope I turned out just fine and you are proud of me.
TABLE OF CONTENTS

STUDENT DECLARATION ........................................................................................................ii
ABSTRACT ........................................................................................................................... iii
ACKNOWLEDGEMENT .......................................................................................................... v
DEDICATION ........................................................................................................................ vi
TABLE OF CONTENTS ........................................................................................................ vii
LIST OF TABLES .................................................................................................................. x
LIST OF FIGURES ................................................................................................................. xii
CHAPTER ONE ..................................................................................................................... 1
1.0 INTRODUCTION ............................................................................................................. 1
1.1 Background of the Problem ......................................................................................... 1
1.2 Statement of the Problem ......................................................................................... 5
1.3 Purpose of the Study ............................................................................................... 6
1.4 Research Questions ................................................................................................. 6
1.5 Importance of the Study ......................................................................................... 6
1.6 Scope of the study ................................................................................................. 7
1.7 Definition of Terms ............................................................................................... 7
1.8 Chapter Summary ................................................................................................. 8
CHAPTER TWO .................................................................................................................... 9
2.0 LITERATURE REVIEW ................................................................................................. 9
2.1 Introduction ............................................................................................................. 9
2.2 Effect of Product Innovation on Competitive Advantage ........................................ 9
2.3 Effects of Process Innovation on Competitive Advantage ................................... 13
2.4 The Effect of Market Innovation on Firms Competitive Advantage .................. 18
2.5 Chapter Summary ................................................................................................. 23
LIST OF TABLES

Table 3.1: Sample Size Distribution Table ................................................................. 26
Table 4.2: Reliability Analysis ......................................................................................... 28
Table 4.3: Product Innovation and Organizational Goals .................................................. 32
Table 4.4: Product Innovation and The Market ................................................................. 32
Table 4.5: Product Innovation and Firms Growth ............................................................ 33
Table 4.6: Product Innovation and Employee Morale ....................................................... 33
Table 4.7: Product Innovation and Employee Productivity .............................................. 33
Table 4.8: Product Innovation and Rewards .................................................................. 34
Table 4.9: Product Innovation and Overall Employee Performance ............................... 34
Table 4.10: Product Innovation and Organizational Profitability ................................... 35
Table 4.11: Product Innovation and Annual Sales Revenue ............................................ 35
Table 4.12: Product Innovation and market Share ......................................................... 35
Table 4.13: Process Innovation and Customer Satisfaction ........................................... 36
Table 4.14: Process Innovation and Organization Profitability ...................................... 36
Table 4.15: Process Innovation and Growth Rate of Annual Sales Revenue ................... 37
Table 4.16: Process Innovation and Banks Market Share .............................................. 37
Table 4.17: Process Innovation and Return on Sales ...................................................... 38
Table 4.18: Process Innovation and Organizations Cash Flow .................................... 38
Table 4.19: Process Innovation and Employee Morale .................................................. 38
Table 4.20: Process Innovation and Productivity of Employees .................................... 39
Table 4.21: Process Innovation and Organization Rewards and Recognition ............... 39
Table 4.22: Process Innovation and Overall Organizational Performance .................... 40
Table 4.23: Market Innovation and Service/Product Quality ....................................... 40
Table 4.24: Market Innovation and Customer Satisfaction ........................................... 41
Table 4.25: Market Innovation and Organization Strategic Goals .................................. 41
<table>
<thead>
<tr>
<th>Table No.</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.26</td>
<td>Market Innovation and Organization Admin</td>
<td>41</td>
</tr>
<tr>
<td>4.27</td>
<td>Market Innovation and Internal Cooperation</td>
<td>42</td>
</tr>
<tr>
<td>4.28</td>
<td>Market Innovation and Employee Knowledge</td>
<td>42</td>
</tr>
<tr>
<td>4.29</td>
<td>Market Innovation and Market Aggressiveness</td>
<td>43</td>
</tr>
<tr>
<td>4.30</td>
<td>Market Innovation and Customer Operations</td>
<td>43</td>
</tr>
<tr>
<td>4.31</td>
<td>Market Innovation and Organizational Performance</td>
<td>43</td>
</tr>
<tr>
<td>4.32</td>
<td>Market Innovation and Organization Competitiveness</td>
<td>44</td>
</tr>
<tr>
<td>4.33</td>
<td>Correlations</td>
<td>45</td>
</tr>
<tr>
<td>4.34</td>
<td>Regression Summary</td>
<td>45</td>
</tr>
<tr>
<td>4.35</td>
<td>ANOVA</td>
<td>46</td>
</tr>
<tr>
<td>4.36</td>
<td>Regression Coefficients</td>
<td>46</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

Figure 4.1: Respondents Work Department .............................................................. 29
Figure 4.2: Banks Years of Operations ................................................................. 29
Figure 4.3: Number of Years with the Organization .................................................. 30
Figure 4.4: Respondents Level of Education ......................................................... 30
Figure 4.5: Respondents Age .................................................................................. 31
Figure 4.6: Benefits of Innovation Strategies .......................................................... 31
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Banking Institutions can achieve competitive advantage through acts of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things (Porter, 1990). Drucker (1985) defined innovation as the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service. It is capable of being presented as a discipline, capable of being learned, and capable of being practiced. As financial marketplaces become more dynamic, interest in innovation, its processes and management has escalated. Banking institutions need to innovate in response to changing customer demands and lifestyles and in order to capitalize on opportunities offered by technology and changing marketplaces, structures and dynamics to achieve competitive advantage. Organizational innovation can be performed in relation to products, services, operations, processes, and people.

Depending on the economic regions of the world, how innovation is implemented in the banking sector is varied. Pokharel (2011) observed that innovation in the banking sector ranges from payments, channels, products, processes, customer relationship management and customer experiences and have been implemented in different forms: online forums and blogs for customers, relationships, state of the art ATM design, augmented reality services including branch location and real estate, online banking, Card and mobile payment, prepaid card, eWallet mobile payments among others.

In the year 2013/2015, the priority focus of innovation in Asian countries was mainly bank office infrastructure, product, payments and channel management, while the second wave focused on customer relationships. Drivers such as demographics, technology and integration of systems and services were viewed key to the transformation of financial services in the future (Autant-Bernard, Massard, & Muriel, 2013). In Kenya, search for competitive advantage is overarching in the banking sector with some banks specializing on particular service innovations. For instance, Equity bank in Kenya identify itself with money transfer services, mobile banking, ATM services, card services, equity cash back, FAQS, Visa personal payments, online banking and agent banking. Many bank in Kenya are concentrating
on internet banking, mobile banking, agent banking, Forex rates, ATM locations, Branches and debit cards. Chase bank in Kenya is focusing on bank teller, electronic banking, money transfer, safe deposit lockers, and night safe and executive management offices. HFC bank in Kenya is currently capitalizing on investing in technology and system capabilities so as to offer more affordable and convenient products such as the internet banking, smart phone and tablet banking services to enhance service delivery to all customers wherever they are (Ndirangu & Nyamongo, 2015).

In search of competitive advantage in the banking sector in Kenya, banks are aggressively leveraging information technologies, human resources, branch network, product offerings, relationship marketing, transactional processes, diversifications, among others. However, High competitor imitation is speedily watering down these innovations subsequently eroding competitive advantages in the sector (Beck, Senbet, & Simbanegavi, 2015). This coupled with recent developments in the banking industry such as high costs of operations, narrowing profit margins, high competition for market share, high regulatory changes, technology evolution and changing consumer demographics and behavior are impacting on the way banks in Kenya are innovating so as to be competitive. These banks have to look for creative methods of innovating into superior services so as to achieve competitive advantage (Kungu, Desta, & Ngui, 2014). To this end, banks are rethinking how to innovate by focusing on services in a bid to win competitive advantage.

A firm has a competitive advantage over its rivals when it offers its customers greater value, either through lower prices or by providing additional benefits and service that justify similar or possibly higher prices. In addition, real competitive advantage implies that companies are able to satisfy customer needs more efficiently than their competitors (Papulova & Papula, 2015).

In Kenya, the banking sector is very lucrative but offers homogeneous products and services. Marketing initiatives to differentiate and create a competitive advantage has increased over the years especially with improvement in modern technology. Given that the overall goal of every bank is to achieve and sustain a competitive advantage, this however, has been a challenge in Kenya where products and services are homogeneous among players in the industry and competitor imitation is rapid (Chege & Winter, 2013). Competing in the banking industry, especially in the banking financial innovations and the technology driven products
and services, where new products and services are easily replicated by rivals, competitive advantage are very temporary and competitive parities are the order of the day. As a result, banks end up becoming vulnerable to thinning margins and capital requirements. In Kenya, these have combined to compel the industry to consider it competitive strength (Njenga, 2012). In order to cope, banks in Kenya have continually reinvented their service offerings in order to stay relevant to their clients ‘dynamic needs’.

In addition, in order to reach and expand the customer segment base, banks have leveraged a number of innovations such as: mobile services, internet services, agent banking, branchless banking which have been crucial in reaching the unbanked customer segments. Additionally, due to high competition pressures, the urge to migrate from traditional banking has been on the rise. Innovations such as those available in the ATMs, phone banking, internet banking, debit card banking, credit card banking, agency banking, smart phone applications are taking place at an overwhelmingly fast phase (Muiruri & Ngari, 2014).

There are numerous reasons underlying improvement in services in a bid to generate competitive advantage in firms. Mbigurua (2012) noted that the only way for banks to differentiate themselves from competition was by innovating into superior services quality, since this is the only area which competition did not easily erode. Additionally, service is critical component in providing competitive advantage since it allowed new customers and retained the existing ones. Precisely, the how banks can engender competitive advantage using service innovation is founded on particular reasons.

The increasingly rising importance of services in the banking sector is attracting streams of ideas and research interest in this field, especially the one on service innovation is rapidly enrooting. It is also acknowledged that service innovation is an old field of academic. However, limited research focus has been done in this field. Therefore, much about the role of service innovation and competitive advantage is not well known especially in the banking sector (Komalamadewi, Nanere, Suryan, & Rufaida, 2012).

Additionally, although service innovation is not a new concept, innovation research in general tends to focus on technological innovation by manufacturing firms. With this view, innovation studies focus on product (e.g., goods) and process (e.g., production systems) innovation largely ignoring service innovation and its inherent opportunities (Sánchez, Lago, Ferras, &
Jaume Ribera, 2011). This narrowed focus likely stems from a traditional view of services as activities with low innovative frequency, and the product-centric orientation of innovation literature that reflects a setting in which manufacturing was the primary economic driver (Papulova & Papula, 2015). However, in developed economies, the service sector now dominates their gross domestic products, and its share continues to grow.

Further research demonstrated peculiar traits that differentiate services from goods: Intangibility, perishability, heterogeneity, simultaneity, transferability and cultural specificity (Carlborg, Kindström, & Kowalkowski, 2014). This uniqueness of services from products poses great challenges to both marketers and strategist since they have nothing to show to customers. Its regretted that although service innovation is currently being acknowledged as a source of competitive advantage in the service firms (Carlborg, Kindström, & Kowalkowski, 2014), little importance has been attached on service innovation, keenly because of its characteristics. However, according to these characteristics makes them a strategic opportunity and a source of sustained competitive advantage for companies.

With the rise of internet, more opportunities are provided to make service more tangible than intangible (Hussien & Aziz, 2014). The internet makes it possible for service providers to show more additional evidence of services like frequently updated information, well designed web page, accurate information providing highly speed response, ease of navigation and resample of services. Concerning inseparability, the internet makes services more easily customized since customers become more active participants in the process to point what themselves really wont by providing more individual information.

Additionally, despite the low internet use and reliability in Kenya as a medium of banking, the banks were partnering with mobile service companies in order to provide access to clients some form of payments and banking services. While some banks continued to use their branching network advantages, others resorted to branchless banking and more personalized customer banking and direct marketing (Arungai K., 2015). More sophisticated innovations like agent banking, extended business hours, religious-based accounts opening, PC banking, internet banking, mobile payments and deposit services were some of the few innovations anchored on technology to widen customer base (Arungai K., 2015).

There are forty-two banks in Kenya which form the focus of this study. These banks are
classified on several basis; capital deposits, size and nature of banking activities. Out of the forty-two banks, ten are assumed to be the largest banks and are listed in the Nairobi Stock Exchange (NSE). The rest are a total of thirty-two small banks which are not enlisted with NSE. Generally, these banks can widely be classified banking institution, non-banking institution, microfinance institution and foreign exchange bureaus.

1.2 Statement of the Problem

The Kenyan banking industry has experienced considerable growth in the past few years. The banking sector was robust and stable and registered enhanced performance in 2015 as demonstrated by a growth of 15.9 per cent in the total net assets of the banking industry and an increase in Customer deposits of 13.5 per cent in that year. In addition, there has been an expansion of banks across Kenya, through the establishment of branches and other places of business, an increase in the availability of mobile financial services and greater usage of the agency banking model to allow commercial banks to engage third parties to offer specified banking services on their behalf.

As at 31 December 2015, the Kenyan banking sector comprised 46 banking institutions, seven (7) representative offices of foreign banks and several financial institutions, including building societies and mortgage finance companies. The banking industry is dominated by five major banks: KCB Limited, Equity Bank, Co-operative Bank Limited, Standard Chartered Bank Kenya Limited and Barclays Bank of Kenya Limited.

Banks in Kenya are rethinking how to innovate by focusing on services so as to gain competitive advantage (Kungu, Desta, & Ngui, 2014). Studies on evaluation of strategies for achieving competitive advantage in the banking industry underscore that in a homogeneous industry like the banking sector, service is the only available option which such firms can apply to win competitive advantage over rivals, because this is the only area where competitors do not easily erode. However, according to (Nyambura, 2013), who investigated on the effects of social responsibility on competitive advantage of commercial banks in Kenya, in a homogeneous industry like the banking sector in Kenya, where products and services are similar among players and highly replicated by rivals, achieving competitive advantage tends to be a challenge.
It’s regretted that managers are misguided to concentrate on costs and leveraging information technologies, yet service errors are the reasons companies are losing customers (Arungai, 2015). However, there is another argument that, firms that leverage services can build strong relationships with customers that will generate barriers to competition, increasing customer loyalty and switching costs (Ruth Bolton, Grewal, & Levy, 2011). Other studies done on this subject, for instance Mulusa (2015), focused on the effects of innovation strategy on performance of commercial banks. Further studies on the relationship between innovation strategies and competitive advantage in the banking sector in Kenya (Hana, 2013). None of these studies focused on the effects of innovation strategy on the competitive advantage of commercial banks in Kenya. Despite the limited available studies in the sector, these banks have to look for creative methods to compete. There is need to put into focus how innovation strategies can lead to competitive advantage among the commercial banks in the midst of heightened competition.

1.3 Purpose of the Study

The purpose of this study was to investigate the effects of innovation strategy on competitive advantage of commercial banks.

1.4 Research Questions

The study will be guided by the following research questions

1.4.1 What is the effect of process innovation on competitive advantage in the banking sector in Kenya?
1.4.2 What is the effect of product innovation on competitive advantage in the banking sector in Kenya?
1.4.3 How does market innovation affect competitive advantage of commercial banks?

1.5 Importance of the Study

1.5.1 Commercial Banks

The findings of this study will be useful to the top management of commercial banks in Kenya as they will be in a better position to understand appropriate innovative strategies that need to be used by their banks in managing service quality to customers thus attracting and retaining customers.
1.5.3 Policy makers and Government

Policy makers can use the research data to establish the best policies to use in order to enhance innovative strategies used by firms. Another beneficiary of the findings will be the government for they can use the data to know the extent of innovative strategies use and adoption by commercial banks in Kenya and how to bridge the gap.

1.5.4 Academicians and Researchers

The academicians will also get the basic information for further studies along the same line to bridge any gap. It will provide the input to the academicians in developing appropriate syllabus for the strategic management students and entrepreneurs in the digital economy, and literature for further research.

1.6 Scope of the study

The scope of the study defines the terms of reference within which the problem statement would be analyzed and recommendations made. It also defines what, where and how the relevant data will be collected and the variables to be studied and also the length of the study. This study will be carried out in Nairobi and will target all the registered banks operating under the Banking Act of Kenya. This means that those institutions offering non-bank services will be excluded from this study. The period of study will be 3 months starting May 2016 ending August 2016. Data will be collected among all the target respondents using primary data. Product innovation, market innovation and process innovation have been adopted as the independent variables of this study. The respondents in this study will be the CEO’s, directors and branch managers of all banks incorporated in Kenya.

1.7 Definition of Terms

1.7.1 Innovation

Innovation is defined as the production of products and services by significantly improving functionality through use of technology (McKinley, Latham, & Braun, 2014).

1.7.2 Competitive Advantage

Competitive advantage involves communicating a greater perceived value to a target market than its competitors can provide.

(Beaudreau, 2016)
1.7.3 Commercial Banks
Any type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products (Nyambura, 2013).

1.7.4 Product Innovation
Product innovation is defined as the continuous improvement in design and functionality of a product in the market place (Reguia & Cherroun, 2014)

1.7.5 Process Innovation
Process innovation is defined as the change and continuous improvement of organizational processes towards enhancing product and service delivery. This can be done in form of introduction of technology in production process, or change in style and techniques of production (Trott, 2012)

1.7.6 Market Innovation
Market innovation is defined as the process of introducing significant and continuous changes in the market place to enhance product and service awareness, or outreach (Trott, 2012)

1.8 Chapter Summary
The background of the study on effects of innovation on competitive advantage has been presented in this chapter. This was followed by statement of the problem, purpose for which the study was designed, research questions, significance, scope and definition of term used in the study. Chapter two has presented literature review; chapter three has presented study methodology; chapter four has presented results and findings, while the last chapter five has presented discussion, conclusions, and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review based on the study research questions. Literature on effects of product innovation on competitive advantage is presented first, followed by effects of process innovation, and finally effects of market innovation on competitive advantage of commercial banks. The summary of the entire chapter is provided at the end.

2.2 Effect of Product Innovation on Competitive Advantage

Different terminologies have been used to categories and describe product innovation. Companies are working within an environment characterized by the rapid changes: social, economic, political, organizational, marketing and technological changes. Under this new environment companies become obliged to adopt themselves with these changes to ensure its continuance, at the same time, these changes and variables are considered as opportunities and threats which push companies to create new methods adopted with these environment needs (Reguia & Cherroun, 2014). Product innovation embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves more innovational challenge.

For instance, the social and organizational factors influence companies through adapting innovativeness in their activities including product innovation to realize market needs, on the other hand, market forces affect strongly the current product position in the market especially with the aggressive competition, further, market situation (circumstances) may influence the current products and directly current product life cycle which has been short with the technological development. The stable political environment and the support given by authorities for innovation encourages both companies and individuals to innovate whether in production field or other fields through establishing Research and Development centers and providing the necessary financial and human resources to them (Arungai, 2015). The effects of product innovation include immerge of new products, adoption of new technology and research and development.
2.2.1 New Products

Product innovation is not only an important driver of economic growth and productivity (Gundaya, Ulusoya, Lilica, & Alpkant, 2013), but also a conduit through which new products reach the market. Product innovation challenges organization to come up with new products for the changing needs of clients in the market place. According to Beaudreau (2016) there exists a strong positive relationship between product innovation and competitive advantage. This means that an organization that is able to develop a new product and place it on the market has the higher chance of gaining competitive advantage compared to other organizations without innovative products. As such, it is important for organizations to continuously seek to develop products that enhance their value, and competitiveness in the market place (Chen, Wang, Nevo, Benitez-Amado, & Kou, 2015).

Product innovation can be either incremental or disruptive (Bharadwaj, Varadarajan, & Fahy, 2015). Incremental product innovation will seek to enhance the quality, and functionality of existing products, whereas disruptive product innovation will seek to completely change the existing product by replacing it with a new product (De Medeiros, 2014). In commercial banks, one bank can start off innovation that becomes that standard bearer for other banks. In this relationship, the innovation output of one company becomes part of the innovation input to another (Carlborg, Kindström, & Kowalkowski, 2014). Successful innovation results in new products and services, gives rise to new markets, generates growth for enterprises, and creates customer value. Innovation improves existing products and processes, thereby contributing to higher productivity, lower costs, increased profits and employment (Al-Ansari, Pervan, & Xu, 2013).

Firms that innovate have higher global market share, higher growth rates, higher profitability and higher market valuation (Arungai, 2015). On the other hand, bank customers of innovative products gain benefits in terms of more choices, better services, lower prices and improved productivity. As innovations are adopted and diffusion, the "knowledge stock" of the commercial banks accumulates, providing the foundation for productivity growth, long-term wealth creation and higher living standards (Hana, 2013). This is alluded to by Carlborg et al., (2014) who argued that in the present competitive environment, organizations have no options but to seek for ways and strategies to innovate their products and services as a way or remaining relevant and competitive.
2.2.2 Technology

Product innovation is also a conduit through which new technologies and discovered, explored, and adopted by organizations (Al-Ansari, Pervan, & Xu, 2013). Moreover, technological forces provide new methods of products innovation field as per customer’s needs. Similarly, profits and need for competitive advantage are a major push in product innovation. In order for commercial banks to increase profits, competitiveness and maintain the market share, they should take the technological innovation as a part of their global strategy. All these forces represent opportunities to companies for solving their problems through innovating new products or making modifications in the existing ones. Technological innovations do not just rise in abstraction, but rather, through concerted efforts to solve a particular problem that relates to provision of goods and services in the market place. As such, it is important for commercial banks to be vigilant to the changes in product and services in the banking sector as a way of enhancing competitive advantage.

Mulusa (2015) argues that product innovation provides organizations with channels and opportunities to enhance more revenues. This is done by enhancing organizations capability to product advanced products that cater to customer’s needs, or products that have high quality and therefore highly competitive on the market place. To this end, Hassan, Shaukat, Nawaz & Naz, (2013) argue that product innovation is essential in advancing organizations market share and competitive advantage. Thus, to remain relevant and competitive, organizations should continuously evaluate the performance of their products, and enhance both functionality and quality.

Companies are working within an environment characterized by the rapid changes: social, economic, political, organizational, marketing and technological changes (Autant-Bernard, Massard, & Muriel, 2013). Under this new environment companies become obliged to adopt themselves with these changes to ensure its continuance, at the same time, these changes and variables are considered as opportunities and threats which push companies to create new methods adopted with these environment needs (Akiike & Shumpel, 2015). For instance, the social and organizational factors influence companies through adapting innovativeness in their activities including product innovation to realize market needs. On the other hand, market forces affect strongly the current product position in the market especially with the aggressive competition, further, market situation (circumstances) may influence the current products and directly current product life cycle which has been short with the technological
development (Drucker, 1985)

The stable political environment and the support given by authorities for innovation encourages both companies and individuals to innovate whether in production field or other fields through establishing Research and Development centers and providing the necessary financial and human resources to them. Moreover, technological forces provide new methods in products innovation field according to customer’s needs, and in order to increase profits, competitiveness and maintain the market share companies should take the technological innovation as a part of their global strategy. All these forces represent opportunities to companies for solving their problems through innovating new products or making modifications in the existing ones. The figure below denotes the main elements that influence product innovation (Al-Ansari, Pervan, & Xu, 2013).

The interaction between different elements of company's environment and their influence on innovation process in general and on the product delivery system. There are other external and internal factors that affect product innovation such as: Customer needs and expectations: companies oriented to customers are responsive to their final needs, measure their satisfaction level and improve the processes in order to satisfy them. In the context of product innovation, (De Medeiros, 2014) approach based on customers’ needs emphasized that companies, in their innovative efforts, have to turn to users' needs. Existing customers can limit a company aptitude to innovate because managers are not keen on serving new users. However, focusing on existing customers is not the same as to be completely market oriented (Chen, Wang, Nevo, Benitez-Amado, & Kou, 2015). A research carried out in Holland on the role that customers have regarding radical product innovation in small companies. They proved the hypothesis that expressed needs of existing customers for radical product innovations influence positively on radical product innovation acquisition in small companies, however, in the case of expressed needs of potential customers the hypothesis has not been proved. Technological opportunities: product innovation is closely related to a scientific base and scientific knowledge growth.

2.2.3 Research and Development

One of the effects of product innovation is the expansion in research and development (Brunswicker & Vanhaverbeke, 2015). New products on the market are a result of years of research and development of different prototypes in a quest to find a product, or product
combination that can be innovative enough to address the market needs. As such, Ozkaya, et al., (2015) argues that technological opportunities coupled market need and adequate organizational funding is a recipe for product innovation.

Thus, commercial banks, just like any other organizations that are able establish competitive products and services rely heavily on research and development. However, Chen, et al., (2015) notes that in as much as research and development cause product innovation, product innovation does also cause advances in research and development. If there was no need on the market for new products, there would be no need for research and development. Therefore, competitive organizations have to know how to balance off the need for new products and their commitment to funding research and development. Organized R&D activities are more important for product innovation. A study by Prajogo (2016) found that the probability that companies with R&D departments will introduce innovations in products was 59%, compared to originations that do not have R&D departments with 37% of product innovations. This means that for commercial banks to remain active, relevant and sustainable in terms of client base, profitability and performance, they have to embrace research and development as a necessary component of product innovation.

2.3 Effects of Process Innovation on Competitive Advantage

Process innovation is defined as the introduction of mechanization, technology, or change in way work units are organized and executed to develop a product or service (Molina et al., 2015). Process innovation is used to enhance the quality and functionality of business processes engineering that is essential for organization competitive advantage. Herrera (2015) posits that there exists a significant relationship between process innovation and competitive advantage. Process innovation not only advances organizations ability to produce high quality products, but also to advance an organizations mechanism for lowering production and overhead costs. Bharadwaj, Varadarajan, and Fahy, (2015) equally argue that process innovation enhances the utilization of new technologies in the production processes making it easy and possible for commercial banks advance both and product and service provision to clients. Process innovation also ensures that quality standards are met and maintained as a way of staying competitive within the banking industry. According to Herrera (2015) process innovation is divided into three phases: the idea phase, the development phase, and the implementation phase.
2.3.1 Idea Phase

The idea phase is significantly important in organization process innovation (West, 2014). Ideas do not come from nothing, but from inspiration, sources of information or other people. Therefore, managers, employees and customers should all be involved in process ideation since they are most important idea makers (Wooten & Ulrich, 2016). Ideas often come from interaction where several of these actors are involved. It is extremely important for maintaining employees and customers’ involvement in idea phase. This phase of innovation includes such activities to recognizing a need, searching for solutions, studying existing innovations and identifying appropriate innovations for the organization.

One of the other advantage the idea phase does to process innovation is that it enables process design conduct prototyping of the process Viz a Vis the market demands and to establish the optimal process innovation point that would maximum returns to the organization (West, 2014). As such, it is important that in designing process innovations, managers should establish and draw a correlation between what the organization what to accomplish, and whether the goals are linked with organizational competitive advantage objectives (Prajogo, 2016). Without the ideation process, process innovation can be one sided and may not be able to articulate challenges in competitive advantage the new process is trying to solve, or may not be comprehensive enough in addressing competitive advantage challenges (De Medeiros, 2014)

2.3.2 The Development Phase

The development phase of process innovation is just as important as the idea phase; however, the development phase is the designing phase of how the process will look like, or function (Mueller, Rosenbusch, & Bausch, 2013). This phase consists of evaluating the proposed ideas from technical, financial and strategic aspects, making the decision to accept an idea as the desired solution, and allocating resources for its acquisition, modification and assimilation (West, 2014). After acceptance of an idea in the service organization, a development process starts to develop the idea and make it usable. This phase is typically done by establishing a project group that has the task of developing the idea. The development phase is mostly an introverted working phase where the project group obtains knowledge, solves problems and assesses market opportunities. It is essential that the project group members are motivated to learn from development process and organization has a procedure to storing the experiences.
Since innovation process in service cannot be put on a standardized form, the project groups cannot just follow a prescription. Just like the ideation phase, development phase should take cognizant of the competitive edge the process would add to the banks (Camisón & Villar-López, 2012).

### 2.3.3 Implementation Phase

The implementation phase in process innovation deals with the actualization of designed processes or changes in the service and product processes (Camisón & Villar-López, 2012). According to Brunswicker and Vanhaverbeke (2015), process implementation phase can be detrimental to organizational operations if the right kind of processes are not implemented. To ensure this does not happen, organizations performance and competitive advantage objectives must be linked to the implementation process and monitored throughout the implementation process. Thus, team members working on the implementation phase must be well versed with organization operations both implicitly and explicitly. Such knowledge does not only make the process flawless, but ensures the organization is on track to achieve its competitive advantage goals (Wooten & Ulrich, 2016). The Implementation Phase- Accept on the Market and in the Organization Implementation consists of events and actions that pertain to modifying the innovation, preparing the organization for its use, acceptance of the innovation by the users and continued use of the innovation until it becomes a routine feature of the organization (Johnston & Bate, 2013). This phase requires acceptance by the employees and managers, whether it is a new process or a product. Organizations often resist change and this must be overcome if implementation is to be successful. Most important is that the market accepts the innovation This is obvious when it concerns a new service product, delivery innovation or a market behavior. The organization may do market surveys throughout the implementation process to measure whether the market accepts the innovation Implementation of innovation within an organization is the process of gaining targeted employees’ appropriate and committed use of an innovation (West, 2014). The organization’s failure to achieve the intended benefits of an innovation may reflect either a failure of implementation or the failure of the innovation itself. There are several effects that are brought about by the implementation of process innovation. This includes business operation efficiency, and organizational performance.

### 2.3.4 Business Operational Efficiency

Business operational efficiency is the ability for a business entity to enhance its service and
product quality, while at the same time reduce costs associated with the process of producing goods and services (Bharadwaj et al., 2015). Process innovation is a new and desirable approach to transforming organizations and improving their performances. As such, process innovation ensures incremental improvements that are essential for enhancing efficiency in organization operations (Davenport, 1993). Since process innovation does not take place in a casual and offhand manner, organizational units are involved in the day to day design and implementation, thus ensuring that critical components have been incorporated.

According to Wang (2015), process innovation is beneficial to organizations since it provides mechanisms for reduction in costs, that makes an organizations products and services competitive on the market, and thus, enhances organizational competitive advantage over other players in the industry. The ability for an organization to design processes that enhance day to day business efficiencies, while creating an environment where employees understand how to enhance their performance is good for an organization (Bharadwaj et al., 2015). Information also is a powerful tool for enabling and implementing process innovation (Davenport, 1993). It is clear that accurate and real-time information on process performance is a prerequisite for effectiveness and therefore many processes have as their primary objective the creation of information.

Process innovation also links organization and human resources to other functional units and thus ensures successful integration of organizations strategic goals, and monitoring of the same (Brunswicker & Vanhaverbeke, 2015). How people are organized and the degree which they are motivated to do their works is critical to the success of process design. This can only be actualized through process innovation (Davenport, 1993). However, process innovation must occur within a strategic context for an organization to benefit from it. If an organization fails to align strategic intent and objectives into process innovation, then it is will be difficult for the organization to realize competitive advantage over other players that do the same (Dobni, 2010).

A vision for process innovation should be closely tied 10 to the organization’s strategy. A tight connection between corporate strategy and process vision can make process innovation initiatives a primary vehicle for implementing strategy, and with strategy implementation becoming an important source of competitive differentiation, organizations that are successful at process innovation are likely to be successful in the marketplace (Davenport, 1993). Innovation is assumed as key to the organization’s financial performance since it makes
organizations grow faster and more profitable (Van Der Pannes, 2003). According to Van Der Pannes (2003), technological capability that is incorporated in process innovation equally enhances organizational competitive advantage.

Organization-related factors in process innovation include organization culture, experience with innovation, characteristics of R&D team and organization’s strategy towards innovation (Van Der Pannes, 2003). This factors in conjunction with Project-related factors such as price and quality of the produced products, and market-related factors such as market concentration and market introduction do promote efficiency and viability of competitive advantage for an organization both in the short-term and in the long term (Gunday et al., 2011).

### 2.3.2 Enhanced Performance

Process innovation is essential in enhancing organizational performance ((Bharadwaj et al., 2015). From a resource-based view of the organization, capability of the organization has been critical to achieving strategic competitiveness (Conner, 1991). Process innovativeness is one of the primary tools of growth which increases the existing market share and provides the company with a competitive advantage (Gunday et al., 2011). It has the actual potential to enhance the organization’s performance in several aspects. Particularly, it has been mentioned in the literatures that there are three different performance dimensions which innovation has an impact on. These dimensions are financial performance, market performance, customer performance (Kaplan et al., 1996; Gunday et al., 2011), which will be discussed later in this section of the paper. Concerning the relationship between innovation and performance of the organization, literatures have described the innovation as an immediate source of competitive advantage which can lead to an improvement in performance (Camisón & Villar-López, 2012).

Organizations that perform well may have easier access to capital to finance for further innovations and investments (Koellinger, 2008). The payoffs of innovativeness in an organization are determined via a market process which involves not only the activities on the innovator, but also the reactions of customers and competitors. Among the numerous studies which investigate the innovation, very few have explored the relationship between the adoption of innovations and organizational growth or performance (Damanpour & Evan, 1984). Most of these studies usually address one category of innovation such as technical innovations and often neglect administrative innovations, which are also crucial to the growth
and effective operation of an organization. Organizations employ innovation to improve performance or to eliminate a performance gap which may be caused by changes in the external environment. Damanpour and Evan (1984), suggest that a balanced implementation of administrative and technical innovations would help the organization to maintain the equilibrium between the social and technical systems, which in turn would lead to high performance.

2.4 The Effect of Market Innovation on Firms Competitive Advantage

Market innovation is defined as the process of introducing significant and continuous changes in the market place with the view of enhancing product and service awareness to customers (Trott, 2012). Majorly, market innovation is concerned with the incremental changes that are introduced into a given market, and the positive impact such changes have on market performance and competitiveness. According to Palmer, Wright, and Powers (2015) there exists a significant relationship between market innovation and organizations competitive advantage. As markets continue to innovate, only players who can keep up with the changes in the market structure can remain relevant and competitive. There are several aspects of a market that are affected by innovation. This includes market orientation for goods and services, exploitative innovations, and competition

2.4.1 Market Orientation

Market orientation is defined as the delivering of products and services based on customers’ needs in addition to product functionality and efficiency requirement for the given market segment (Karlsson & Tavassoli, 2015). In recent years, researchers have begun to examine the impact of a firm’s market orientation on the innovation strategies adopted by firms. For example, (Kjellberg, Azimont, & Reid, 2015) finds that market orientation leads to higher levels of innovation performance through spurring higher levels of service innovativeness. (Karlsson & Tavassoli, 2015).

A growing body of research has begun to examine the impact of market orientation on innovation (Ozkaya, Droge, Hult, Calantone, & Ozkaya, 2015). However, most of these studies have failed to distinguish between customer and competitor orientation when investigating such issues, and used general measures of market innovation or focused purely on customer orientation (Boso, Cadogan, & Story, 2013). One of the major changes in the
market place is the way in which goods and services are delivered to customers (Karlsson et al., 2015). Technology has been one of the major drivers of market innovation. For instance, most organization offer online platforms through which their products and services are delivered to their clients. As such, Ozkaya et al., (2015) note that commercial banks that fail to innovate in line with market innovation may find themselves falling behind, and losing their competitive edge. How banking services are delivered to clients is no longer limited to banking halls, but rather to adoption of Automated Teller Machines, mobile banking platforms, websites and teller-banking (Newman et al., 2016). Therefore, to attain competitive advantage, banks must continuously re-orient themselves to orientations in the market place.

2.4.2 Exploitative Orientation

Exploitative innovations are incremental innovations that focus on the needs of existing customers and markets (Mueller, Rosenbusch, & Bausch, 2013). They build on current knowledge and skills through acts of refinement and gradual improvement, and involve increasing the efficiency of existing processes and expanding extant product and service offerings (Newman, Prajogo, & Atherton, 2016). In contrast, exploratory innovations are radical innovations which meet the needs of new or emerging customers or markets (Boso, Cadogan, & Story, 2013). They involve the creation of new products and services, and the development of new markets and distribution channels (Newman, Prajogo, & Atherton, 2016). Exploratory innovations depend on experimentation with new ideas and ways of doing things that generate new knowledge and skills. As a result they are associated with greater divergent or “out of the box” thinking than exploitative innovations (Wang, Chiu, & Chen, 2015), and have been shown to have stronger effects on the financial performance of firms.

Although market orientation is conceptually related to exploitation and exploration strategies, they are distinct theoretical concepts and have been shown to demonstrate divergent validity empirically (Grissemann, Plank, & Brunner-Sperdin, 2013). Whereas market orientation is a firm-level trait, exploitation and exploration strategies are developed and used by firms to innovate (Wang, 2015). In other words, market orientation creates the norms by which firms can learn from their customers and competitors, which in turn enable firms to engage in exploitative and exploratory innovation.

It is the responsibility of commercial banks to ensure that they are aware of market exploitations and how to mitigate the negative impacts of such exploitations while at the same
time enhancing positive aspects for their organization to attain competitive advantage (Kafetzopoulos, Gotzamani, & Gkana, 2015). In as much as exploitative market orientations tend to disrupt market structures, most of the time they are precipitated by customer pressing needs, and the rush among industry players to provide for this needs. Other times, exploitative behaviors are championed by one player who has the muscle to disrupt the market for their own competitive advantage making it difficult for others to compete (Wang, 2015). In such cases, commercial bank strategic units must be ready and willing to innovate from their current operational positions to meet the challenges posed in the market place. Otherwise, there is a larger probability that the main player in the sector can over-run the week places driving them out of competitiveness (Kafetzopoulos et al., 2015)

Exploitative orientation happens quite frequently in practice and intellectual capital as well as the capabilities of their firms; firms’ objectives are also impacted by the market environment including demand patterns, technological change and competitive pressures (Hanaysha & Hilman, 2015). For innovations to be competitive, firms need to be concerned about advantages in design, quickness to market, shortened product development times, constant upgrading that includes flexibility in R&D processes and technological leapfrogging. Six design innovation strategies were identified in Taiwanese computer and electronic enterprises (Chuang & Lin, 2015) – reducing production costs, simplifying manufacturing and maintenance, adding product value, uplifting product quality, improving product design and development, and enriching marketing information gathering and responsiveness. Market orientation has been shown to be positively related to product innovation and proactive market orientation is needed for innovations to succeed (Donate & de Pablo, 2015) and firms need to devote time to non-customers as well as customers to be able to bring out innovation successes (Drucker, 1999).

Under exploitative orientation, there exists a high probability for innovator’s dilemma (Akiike & Shumpei, 2015). Innovators dilemma is a situation where successful commercial banks can put too much emphasis on customers' current needs, and fail to adopt new technology or business models that will meet customers' unstated or future needs. As such, this failure to introduce radical changes eventually do make commercial banks fall behind other players in the market (Dobni, 2010). Innovation dilemma in commercial banks occurs mostly when disruptive technologies emerge. Customer co-creation could help in generating break-through innovations. Further budgeting for R&D is an important area that needs top management
attention, both in terms of the number of projects that can be pursued by R&D simultaneously as well as the budget per R&D project. R&D investments should be tuned to cater to optimal base cost of the product from the design stage to the production stage and optimal transfer cost from the production stage to marketing of the product (Wang, 2015).

To effectively deal with exploitative orientation, commercial banks business’s product development efforts should include a successful product innovation strategy coupled with a technology strategy for the company with an effective business leadership (Dobni, 2010). A product innovation strategy should be part of an overall firm’s marketing strategy with goals and objectives emanating from the mission and vision of the organization; optimal resource allocation and explicit project selection, a deliberate selection of competitive advantages or strategic thrusts to be pursued, a clear product strategy with detailed examination of end user functionality requirements, an implementation team for the product strategy and feedback and incentive mechanisms put in place. Marketing strategists can also consider and examine other types of innovation in the marketing offer (Hanaysha & Hilman, 2015). Avon demonstrated distribution innovation with its door to door selling operations for its cosmetics to challenge leaders such as Revlon, Estee Lauder who were well established in retail space; it also distributed its products through the multi-level marketing system thereby creating sales and distribution system and not just a sales system and thus out-maneuvering disruption in their market and remaining relevant and competitive (Dobni, 2010). Commercial banks should emulate this kind of approach in dealing with disruptive orientations in the market.

2.4.3 Competition

Market orientation does bring stiff competition to the market place (Trott, 2012). Players who are able to match market changes with their own innovation do enhance levels of competition, making it difficult for other players to thrive. In any given market, innovation affects suppliers, customers, and competitors. In commercial banking sector, those mostly affected with competition are the banks themselves (Chuang & Lin, 2015). When other commercial banks are able to use market fundamentals, their strength in capitalization, client base, or regulatory advantage, they can build a formidable competition that other players can find difficult to beat. As such, devising strategic ways to out-maneuver competition means remaining relevant and competitive. However, this is not always the case since other market fundamentals do also play a role in establishing how a market functions (Wang, 2015).
For instance, the growth of an economy is governed by the level of technology in different markets. The level of technology is a function of the rate of industrial innovation, which depends on the share of GDP invested in R&D (Trott, 2012). Therefore, if commercial banks can tap into developing technology and use it to their advantage during economic growth seasons, they can benefit immensely and remain competitive. Conversely, if commercial banks fail to take advantage of changes in the technological world, they will slump even in economic growth times (Hanaysha & Hilman, 2015). In other instances, the incentives for commercial banks to innovate is a function of the institutional framework of the economy and the degree of competition in the economy. This determines the extent to which commercial banks can acquire rents from their innovation, and thus help their organizations remain competitive (McKinley, Latham, & Braun, 2014).

All firms including rival firms benefit from knowledge flows and technology spillovers across economic agents (Griliches, 1992). These different theoretical perspectives inspired (Papulova & Papula, 2015) to create a multistage model of firm behavior. In this model, the quality, the price of its own, and its competitors’ products determine the growth of a firm whereas the quality of its own products can be improved through innovation. However, the intensity of innovation is assumed independent of the size of the firm but related to the profit margin of the firm, which is a function of the degree to which the firm can differentiate its products from the products of its innovation strategies can be simple one, where firms focus to introduce only one type of Schumpeterian innovations (i.e. product, process, market or organization) at a time, or the strategy can be a complex one, where firms combine various types of simple strategies at a time.

Earlier studies of the effect of innovation on firm performance typically reported a positive relationship (Hashi & Stojčić, 2013). In these studies, R&D expenditures were mostly used as the main measure of innovation. Unfortunately, R&D expenditures suffer from many shortcomings when used as a measure of innovation activity, since they are an input measure and do not include other critical elements in innovation such as learning-by-doing and investments in physical and human capital. Studies based on R&D expenditures also give very little information about the innovation process per se as well as firms’ choices of innovation strategies (Ferreira, Fernandes, Alves, & Raposo, 2015). Later studies building upon a new generation of models analyzing the effect of innovation on firm performance have shifted the research focus to the complexities of innovation processes and to the channels through which the innovation inputs stimulate a better firm performance (Camisón & Villar-López, 2014).
2.5 Chapter Summary

Literature review on effect of innovation strategies on competitive advantage have been presented in this chapter. Effects of product innovation, process innovation, and market innovation have been presented. The next chapter presents the research methodology adopted for the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is presented in this chapter. Specifically, this chapter focuses on the research designs, scope, target, sampling frame, sampling techniques and sample selection, research instruments, pilot study procedures, data collection techniques and data analysis and presentation techniques adopted by the study.

3.2 Research Design

A research design is a roadmap or blue print a researcher uses to guide or direct his study. This study adopted a descriptive survey research design. According to Kothari, (2008) this is a design used to describe the characteristics of a particular phenomenon in a situation. A descriptive survey design was adopted for this study. According to Cooper (1999 a descriptive research design is preferred in research because it accurately describes and profiles the study elements. This was designed to describe the characteristics of a phenomenon in a situation. It was used to obtain information concerning the status of the industry, to survey what exits with respect to the conditions in a situation. The design helps the researcher to obtain information concerning the status of the strategies being used by the sector and thus relate it to the objective of the research and therefore make it relevant to the research question. The design will help the study in obtaining information concerning the status of the effects of strategic innovation strategies on performance in commercial banks in Kenya. (Elahi & Dehdashti, 2011).

3.3 Population and Sampling Design

3.3.1 Population

The study targets all the forty-two banks in Kenya with special reference to Nairobi County where majority of them are located and centered. The study targets banking sector where majority of innovations are taking place so as to enhance banks to survive and gain competitive advantage. Additionally, the study targets the banking sector because it is where competition is highly anchored on services and imitation is very high. The respondents in this study will be managers whose role anchor around innovations in the banking sector i.e.
Operations, Branch Business and Marketing and product development. The respondents who will be targeted in this study will comprise of 330 members. They are believed to be endowed with knowledge and information regarding innovations which take place in the banking sector. In order to further enrich the study and fortify results of inferential analysis, the views of some of the customers will be included whereby; the study will interview a few selected customers drawn from some banks in Nairobi County.

3.3.2 Sampling Design
3.3.2.1 Sampling Frame

A sampling frame is a list or set of units or elements from which a researcher draws a study sample (Turner, 2003). In this study, the sampling frame consisted of the managers of the 44 banks in Kenya located in Nairobi County. The list will be drawn from Kenya banker’s banks guide 2015 where a total of 330 members will be drawn.

3.3.2.2 Sampling Technique

A sampling technique is defined as the method used by a researcher to select a sample from a main population to be used in a study (Turner, 2003). A sample allows for generalization about the populations (Cooper & Shindler, 2014). The study will use a sample of the population of the banking industry since the individual who take the survey should be a representative of the population. Random sampling technique will be used to select the subset of population because the population is large. Random Sampling is also economic and allows application of statistical methods to the data, including identifying the degree of error due to the sampling.

3.3.2.3 Sample Size

A sample size is defined as the smallest set that represents the entire population (Cooper & Schindler, 2006). For this study, the sample size was determined using Yamane (1967) formula

\[ n = \frac{N}{1 + N(e)} \]

Where:

N-Desired Sample Size
N-Target Population
E-The degree of accuracy/acceptable sampling error expressed as a proportion at 0.05

\[
n = \frac{330}{1 + 330(0.05)^2}
\]

\[
n = 180.82 \approx 181
\]

According to the above calculation, a sample size of 181 managers was selected from a total population of 330 respondents which was sufficient and representative of the whole population.

Table 3.1: Sample Size Distribution Table

<table>
<thead>
<tr>
<th>Banks</th>
<th>Category</th>
<th>Total Population</th>
<th>% Sample Size</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>42 Commercial Banks</td>
<td>Operations</td>
<td>115</td>
<td>35%</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>Marketing &amp; Product Development</td>
<td>132</td>
<td>40%</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Branch Business</td>
<td>82</td>
<td>25%</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>330</td>
<td>100%</td>
<td>181</td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

This study used closed-ended structured questionnaire to collect primary data. Data collected was quantitative in nature. The questionnaire tool was divided in five sections. Section I had demographic data; section II had questions on product innovation; section III had questions on process innovation; question IV had questions on market innovation, while section V had questions on benefits on innovation strategy. The questionnaire tool used a Likert scale of 5 levels (strongly disagree, disagree, neutral, agree, and strongly agree)

To ensure high response rate, questionnaires were sent to respondents via email, with a reminder being sent morning and evening to have respondents to complete answering the questionnaire.
3.5 Research Procedures

Once the research questionnaire was approved by the supervisor, an introductory letter from Unites States International University was sent to Kenya bankers association (KBA) seeking approvals to carry out the study. Once the approval was granted, the questionnaire was piloted using 12 questionnaires with respondents not taking part in the actual study. The findings from the pre-testing was used to correct areas that needed clarifications, while simplify other questions so they could be understood by respondents. The questionnaires were sent to respondents via email, with a cover letter explaining the purpose of the study, and confidentiality of the respondent’s views, and the findings. Respondents were given three days to fill in the questionnaire and submit it back to the researcher via email. During the three days, a constant reminder was sent to the respondents to have them finalize the questionnaire. This was done to ensure a higher response rate. Returned questionnaires were checked for completeness, and those found missing data were returned to respective respondents are asked to provide the missing data. Questionnaires were coded and entered into SPSS software for analysis.

3.6 Data Analysis Methods

The data the was analyzed for descriptive data (frequencies and percentages) and inferential statistics (correlation and regression). A two-way ANOVA was also used to determine whether significant differences existed between the means of the variables. SPSS version 22 was used to analyze data. Analyzed data had been presented using figure and tables.

3.7 Chapter Summary

This study has presented the methodology adopted for the study. The research design was presented first, followed by population and sampling design, then data collection methods, research procedures, and data analysis methods. Chapter four presents the study results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter highlights the study findings and results. Demographic data is presented first, followed by findings on the effect of product innovation on competitive advantage of commercial banks in Kenya; process innovation is presented next, and finally market innovation. Out of 181 questionnaires distributed, 98 were returned making a response rate on 58%. Cooper and Schindler notes that a response rate above 50% is ideal in research. The study had a Cronbach reliability of 0.790, which is above the 0.7 threshold required to establish reliability of a study (Saunders et al., 2012). The reliability of the study is summarized in table 4.2

Table 4.2: Reliability Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. Items</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Innovation</td>
<td>10</td>
<td>0.772</td>
</tr>
<tr>
<td>Process Innovation</td>
<td>10</td>
<td>0.810</td>
</tr>
<tr>
<td>Market Innovation</td>
<td>10</td>
<td>0.786</td>
</tr>
</tbody>
</table>

4.2 General Information

The general information included work departments, respondents number of years at the bank, age, and education level as presented in the next section:

4.2.1 Work Department

When asked to indicate work departments, (35%) indicated they from operations department, and marketing and product development respectively, while 30% were from branch business departments as summarized in figure 4.1
4.2.2 Banks Years of Operations

Respondents were asked to indicated the number of years their respective banks have been in operation; (37%) indicated that their respective bank had been in operations between 7 - 10 years, while the remaining (63%) of banks has been in operations for more than 10 years as indicated in figure 4.2

4.2.3 Number of Years with the Organization

Respondents of the study were asked to indicate the number of years they had worked with their respective banks. The findings show that (40%) of respondents had been with the organization for more than 10 years, (31%) had been with their respective bank for 7-10 years, (17%) had been with their banks for 4-6 years, while the remaining (12%) between
1-3 years as indicated in figure

Figure 4.3: Number of Years with the Organization

4.2.4 Level of Education

When respondents were asked to indicate the level of education, (59%) indicated they had bachelor’s degree; (19%) had PhDs, (12%) had masters’ degrees; (6%) had higher diploma, while the remaining (4%) had diplomas as illustrated in figure 4.4

Figure 4.4: Respondents Level of Education

4.2.5 Respondents Age

The findings of the study show that (34%) of respondents were aged 31-40 years; (24%) were aged 51-60 years; (21%) were aged 41-50 years; (12%) were aged above 60 years old, while the remaining (9%) were aged 20-30 years as indicated in figure 4.5
4.2.6 Benefits of Innovation Strategies

Respondents were asked to indicate what they thought were benefits of innovation strategies in commercial banks. The findings show that (24%) of respondents noted that innovation improves profits, (13%) noted that improvement in quality of products; (12%) indicated sales of new products, and creation of brand awareness respectively; (11%) indicated reduce environmental damage and lowering products costs respectively; finally, (8.2%) indicated new customers and business opportunities respectively as summarized in figure 4.6.

![Figure 4.6: Benefits of Innovation Strategies](image-url)
4.3 Effects of Product Innovation on Competitive Advantage

This study sought to determine whether product innovation had any effect on competitive advantage in commercial banks. This section presents the study findings on the same.

4.3.1 Product Innovation and Organizational Goals

Respondents were asked to indicate whether product innovation was essential for organizational goals. The findings show that (47%) of respondents agreed that product innovation was essential for organizational goals, (27%) strongly agreed, (14%) disagreed, while (12%) remained neutral as indicated in table 4.2.

Table 4.3: Product Innovation and Organizational Goals

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Neutral</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.2 Product Innovation and the Market

When respondents were asked whether product innovation could enable their organization take lead in the market, (42%) agree, (33%) strongly agreed, (13%) remained neutral, (8%) disagreed, while (4%) strongly disagreed as indicated in table 4.3.

Table 4.4: Product Innovation and The Market

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Neutral</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Agree</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.3 Product Innovation and Firms’ Growth

On the question on whether product innovation enhance a firms’ growth prospects, (48%) agreed, (36%) strongly agreed, (9%) disagreed, while (7%) remained neutral as highlighted...
in table 4.4 below

**Table 4.5: Product Innovation and Firms Growth**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Agree</td>
<td>47</td>
<td>48</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.4 Product Innovation and Employee Morale

On the question on whether product innovation enhances employee morale, (52%) strongly agreed, (33%) agreed, (11%) disagreed, while (4%) remained neutral as indicated in table 4.5

**Table 4.6: Product Innovation and Employee Morale**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Agree</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.5 Product Innovation and Employee Productivity

On the question on whether product innovation had enhanced employee productivity, (47%) agreed this to be the case, (42%) strongly agreed, (6%) remained neutral, while (5%) disagreed as indicated in table 4.6

**Table 4.7: Product Innovation and Employee Productivity**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Neutral</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
4.3.6 Product Innovation and Rewards

When respondents were asked whether product innovation had enhanced employee rewards and recognition, (47%) strongly agreed, (38%) agreed, (11%) remained neutral, while (4%) disagreed that product innovation had enhanced employee rewards and recognition as highlighted in table 4.7

Table 4.8: Product Innovation and Rewards

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Agree</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.7 Product Innovation and Overall Employee Performance

Respondents were asked to indicate whether product innovation enhanced overall employee performance, (47%) strongly agreed, (44%) agreed, while (9%) remained neutral as indicated in table 4.8

Table 4.9: Product Innovation and Overall Employee Performance

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Agree</td>
<td>43</td>
<td>44</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3.8 Product Innovation and Organizational Profitability

Respondents of the study were also asked to indicate product innovation enhanced overall organizational profitability. The findings show that (51%) of respondents strongly agreed that product innovation enhanced overall organizational performance; (34%) agreed, (10%) remained neutral, while the remaining (5%) disagreed as indicated in table 4.9
Table 4.10: Product Innovation and Organizational Profitability

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Agree</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.9 Product Innovation and Annual Sales Revenue

On the question on whether product innovation increases the annual sales and revenue, majority of respondents (55%) strongly agreed, (38%) agreed, (4%) disagreed, while (3%) neutral as indicated in table 4.10

Table 4.11: Product Innovation and Annual Sales Revenue

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Agree</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>54</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.10 Product Innovation and Market Share

On the question on whether product innovation had increased the banks market share, majority of respondents (54%) agreed this to be the case, (41%) strongly agreed, while the remaining (6%) remained neutral as highlighted in table 4.11

Table 4.12: Product Innovation and market Share

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Agree</td>
<td>52</td>
<td>54</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4 Effect of Process Innovation on Competitive Advantage

This study also sought to determine the effect of process innovation on competitive advantage. The findings of the study on the same are presented in this section.

4.4.1 Process Innovation and Customer Satisfaction

When respondents were asked whether process innovation had increased customer satisfaction, (52%) strongly agreed, (36%) agreed, (9%) remained neutral, while the remaining (3%) of respondents disagreed as indicated in table 4.12

Table 4.13: Process Innovation and Customer Satisfaction

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Agree</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 Process Innovation and Organization Profitability

When respondents were asked whether process innovation enhances organizations overall profitability, (47%) strongly agree, (41%) agreed, while the remaining (12%) remained neutral as indicated in table 4.13

Table 4.14: Process Innovation and Organization Profitability

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Agree</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4.3 Process Innovation and Growth Rate of Annual Sales Revenue

Respondents of the study were asked whether process innovation enhanced growth rate of annual sales revenue. The findings show that (51%) of respondents strongly agreed that process innovation enhanced sales revenue growth rate; (25%) agreed, (19%) disagreed, while the remaining (5%) were neutral as indicated in table

Table 4.15: Process Innovation and Growth Rate of Annual Sales Revenue

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Neutral</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4.4 Process Innovation and Banks Market Share

On the question on whether process innovation increases market share for their respective banks, (51%) strongly agreed that process innovation enhances banks market share, (28%) agreed, (14%) were neutral, while (8%) disagreed as summarized in table 4.15

Table 4.16: Process Innovation and Banks Market Share

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Neutral</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Agree</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4.5 Process Innovation and Return on Sales

When respondents were asked whether process innovation increased return on sales, (47%) strongly agreed, (39%) agreed, (8%) were neutral, while (6%) disagreed as indicated in table 4.16
Table 4.17: Process Innovation and Return on Sales

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Neutral</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.6 Process Innovation and Organizations Cash Flow

Respondents of the study were asked to determine whether process innovation increases cash flows for investments. The findings show that (49%) strongly agree this to be the case, (32%) agreed, (10%) disagreed, while (9%) were neutral as highlighted in table 4.17

Table 4.18: Process Innovation and Organizations Cash Flow

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Agree</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.7 Process Innovation and Employee Morale

On the question on whether process innovation has enhanced employee morale, (46%) strongly agreed, (42%) agreed, (7%) disagreed, while the remaining (5%) were neutral as summarized in table 4.18

Table 4.19: Process Innovation and Employee Morale

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Neutral</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>45</td>
<td>46</td>
</tr>
</tbody>
</table>
4.4.8 Process Innovation and Productivity of Employees

Respondents of the study were asked to indicate whether process innovation influenced employee productivity. Majority (60%) strongly agreed, (29%) agreed, with (9%) remaining neutral while (2%) disagreed as summarized in table 4.19.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Agree</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4.9 Process Innovation and Organization Rewards and Recognition

Respondents of the study were asked whether process innovation had influenced their organization rewards and recognition. Forty-nine percent agreed, (46%) strongly agreed this to be the case, (4%) were neutral, and the remaining (1%) disagreed as summarized in table 4.20.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Agree</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.4.10 Process Innovation and Overall Organization Performance

When respondents of the study were asked whether process innovation enhanced overall employee performance, majority (52%) agreed this to be the case, (38%) strongly agreed,
(8%) were neutral while (2%) of respondents disagreed that process innovation had enhanced overall organizational performance as summarized in table 4.21

Table 4.22: Process Innovation and Overall Organizational Performance

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Neutral</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5 Effect of Market Innovation on Competitive Advantage

This study sought to determine whether market innovation had any effect on competitive advantage of commercial banks in Kenya. The findings are presented as follows:

4.5.1 Market Innovation and Service/Product Quality

On the question on whether market innovation was key in enhancing service and product quality, (49%) of respondents agreed, (46%) strongly agreed, while (5%) were neutral as indicated in table 4.22

Table 4.23: Market Innovation and Service/Product Quality

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.2 Market Innovation and Customer Satisfaction

Respondents of the study were asked to indicate whether market innovation had enhanced customer satisfaction. Forty-eight percent of respondents strongly agree, (38%) of respondents agreed that customer satisfaction is enhanced by market innovation, while the remaining (4%) disagreed as highlighted in table 4.23
Table 4.24: Market Innovation and Customer Satisfaction

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Agree</td>
<td>37</td>
<td>38</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>47</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.3 Market Innovation and Organization Strategic Goals

On the question on whether market innovation had helped organizations achieve their strategic goals, (51%) of respondents strongly agreed, while (49%) agreed as indicated in table 4.24

Table 4.25: Market Innovation and Organization Strategic Goals

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.4 Market Innovation and Organization Administration

Respondents were asked to indicate whether market innovation had improved organization administration routines. The findings show that (49%) strongly agreed, (47%) agreed, (3%) were neutral, while (1%) disagreed as indicated in table

Table 4.26: Market Innovation and Organization Administration

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Agree</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.5.5 Market Innovation and Organization Internal Cooperation

Respondents were asked whether market innovation enhanced organization internal cooperation. The findings show that (48%) strongly agreed, (41%) agreed, while (11%) remained neutral as indicated in table 4.26

Table 4.27: Market Innovation and Organization Internal Cooperation

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Agree</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>47</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.6 Market Innovation and Employee Knowledge

On the question on whether market innovation enhances employee knowledge, majority (53%) strongly agreed, (42%) agreed, while the remaining (5%) were neutral as highlighted in table 4.27

Table 4.28: Market Innovation and Employee Knowledge

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.7 Market Innovation and Market Aggressiveness

When asked whether market innovation increased market aggressiveness, majority (52%) strongly agreed, (34%) agreed, (13%) remained neutral while the remaining (1%) disagreed as indicated in table
Table 4.29: Market Innovation and Market Aggressiveness

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Neutral</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Agree</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>51</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.8 Market Innovation and Customer Operations

On the question on whether organizations market operations are suitable for delighting customers, (51%) of respondents strongly agreed, (33%) agreed, while the remaining (16%) were neutral as indicated in table 4.2

Table 4.30: Market Innovation and Customer Operations

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Agree</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>50</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.9 Market Innovation and Organizational Performance

On the question on whether market innovation had enhanced organizational performance, (53%) strongly agreed, (33%) agreed, (11%) were neutral while (3%) disagreed as indicated in table 4.30

Table 4.31: Market Innovation and Organizational Performance

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Neutral</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Agree</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>52</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.5.10 Market Innovation and Organizational Competitiveness

On the question on whether market innovation had enhanced organizational competitiveness, (60%) strongly agreed this to be the case, (32%) agreed, while (8%) were neutral as summarized in table 4.31

Table 4.32: Market Innovation and Organization Competitiveness

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neutral</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>59</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.6 Correlation Analysis

This study conducted a correlation analysis to determine whether there existed significant relationships between the variables. The findings show that the relationship between product innovation and competitive advantage, $r (0.579); p < 0.000$. This was followed by the relationship between process innovation and competitive advantage, $r (0.502); p < 0.000$; and finally, the relationship between market innovation and competitive advantage, $r (0.476); p < 0.000$ as summarized in table 4.32
Table 4.33: Correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Advantage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>98</td>
<td>98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Market Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

### 4.7 Regression Analysis

Since there was a significant relationship between product innovation, process innovation, market innovation and competitive advantage, a regression analysis was conducted to determine the level of significance. The findings show an adjusted R square of (0.328), meaning that about 33% of variability on competitive advantage at the commercial banks was attributable to product innovation, process innovation, and market innovation. However, 67% of factors that contribute to competitive advantage have not been covered within this study as summarized in table

Table 4.34: Regression 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></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

45
The study ANOVA show the existence of a positive significant relationship between market innovation, process innovation, product innovation and competitive advantage; F(3, 94) = 7.074; p value = (0.000) which was less than 0.05, making the study statistically significant as summarized in table 4.34

Table 4.35: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.452</td>
<td>3</td>
<td>3.484</td>
<td>7.074</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>33.008</td>
<td>94</td>
<td>.351</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40.459</td>
<td>97</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Competitive Advantage
b. Predictors: (Constant), Market Innovation, Product Innovation, Process Innovation

Market innovation had a beta coefficient β (0.521); p value = (0.000); followed by process innovation beta coefficient β (0.369); p value = (0.002); product innovation beta coefficient β (0.351); p value = (0.000) as summarized in table 4.35

Table 4.36: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.870</td>
<td>1.706</td>
<td></td>
<td>.10</td>
</tr>
<tr>
<td>Product Innovation</td>
<td>.351</td>
<td>.214</td>
<td>.375</td>
<td>3.196</td>
</tr>
<tr>
<td>Process Innovation</td>
<td>.369</td>
<td>.256</td>
<td>.300</td>
<td>3.053</td>
</tr>
<tr>
<td>Market Innovation</td>
<td>.521</td>
<td>.230</td>
<td>.415</td>
<td>4.434</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Competitive Advantage

4.8 Chapter Summary

Results of the study have been presented in this chapter covering findings for each research question. Findings on product innovation, process innovation and process innovation have been presented. Chapter five presents discussion, conclusions and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the study discussion, conclusion and recommendations. Discussions on product innovation and competitive advantage in commercial banks in Kenya, followed by discussion on process innovation, and market innovation. Conclusions and recommendations are presented in the same order.

5.2 Summary of Findings

The purpose of this study was to determine the effects of innovation strategy on competitive advantage in commercial banks. The following research questions were adopted for the study: What is the effect of product innovation on competitive advantage? What is the effect of process innovation on competitive advantage? How does market innovation affect competitive advantage of commercial banks in Kenya?

The study employed a descriptive survey research design. The population of the study was 330 composed of managers from 44 commercial banks in Kenya. Stratified sampling was used to select a sample size of 118. The study used a structured questionnaire to collect primary data, which was analyzed using Statistical Package for Social Sciences (SPSS) version 22 for descriptive and inferential statistics.

The findings on the effect of product innovation on competitive advantage revealed the existence of a positive significant relationship between product innovation and competitive advantage of commercial banks in Kenya, $r (0.579); p < 0.000$. The relationship was strong and positive.

The findings on the effect of process innovation on competitive advantage revealed the existence of a positive significant relationship between process innovation and competitive advantage, $r (0.502); p < 0.000$. All the components of process innovation including process idea phase, development phase and implementation phase were all significant.

The findings on the effect of market innovation on competitive advantage revealed the existence of a positive significant relationship between market innovation and competitive advantage.
advantage, $r (0.476); p < 0.000$. The relationship was positive but not strong. All components of market innovation including impact on employee performance, organizational performance, employee motivation, and increase in sales were all significant.

5.3 Discussion

5.3.1 Effect of Product Innovation on Competitive Advantage

This found that there exists a significant relationship between product innovation and competitive advantage. All the components of product innovation impact on employee performance, satisfaction, and organizational performance were significant. These findings are in line with Gundaya et al., (2013) who argued that product innovation is an important driver of economic growth and productivity. In this relationship, the innovation output of one company becomes part of the innovation input to another. Successful innovation results in new products and services, gives rise to new markets, generates growth for enterprises, and creates customer value. Innovation improves existing products and processes, thereby contributing to higher productivity, lower costs, increased profits and employment. Similarly, Al-Ansari et al., (2013) argue that firms that develop and innovate their products and services have a higher chance of enhancing competitive advantage than those that do not. As such, customers of innovative products gain benefits in terms of more choices, better services, lower prices and improved productivity. As innovations are adopted and diffusion, the "knowledge stock" of the nation accumulates, providing the foundation for productivity growth, long-term wealth creation and higher living standards.

This study found that majority (91\%) of bank respondents under this study agreed that product innovation enhances competitive advantage through enhanced sales revenue. The findings of this study found that majority (75\%) of banks respondents agreed that product innovation had enabled their banks to take lead in the market competitiveness, and (95\%) who noted that product innovation had led to increase in market for their respective banks. This finding was highlighted by De Medeiros (2014) who argued that innovation, forces organizations to provide new methods in products or ways of doing things, and thus, increase profits, competitiveness and maintain or increase their market share. companies should take the technological innovation as a part of their global strategy. Therefore, it could be argued that companies that engage innovation in their operations have a higher
probability of enhancing their presence at the market and profitability.

Similarly, Mulusa (2015) argued that product innovation influence companies through adapting innovativeness in their activities including product innovation to realize market needs. On the other hand, market forces affect current product position in the market especially with the aggressive competition from other competing products from other firms. Therefore, to remain competitive, commercial banks have to constantly think on how they are going to innovate their products to suit the changing market needs. As such De Medeiros (2014) argued that product innovation is one of the critical components in enhancing organization competitive advantage. Products introduce changes to the market that other players might not be ready to counter, and thus, during this period commercial banks that are taking lead in product innovation can consolidate the product gains into competitive advantage. This is not only essential for incremental innovations, but also for disruptive or explosive product innovations.

5.3.2 Effect of Process Innovation on Competitive Advantage

This study found that there exists a positive significant relationship between process innovation and competitive advantage. All components of process innovation including planning, design and implementation effect on customer satisfaction, employee performance and organization profitability was significant. This finding is in line with Herrera (2015) who argued for the existence of a significant relationship between process innovation and competitive advantage in commercial banks. In the case of services, Herrera argued that their very nature relies on personal interactions to achieve results, as such, the management of process innovation activities must be streamlined to organizations’ strategic purposes and goals for them to achieve desired results.

The findings of this study show that (88%) of banks respondents noted that process innovation was essential for organizational productivity, that was critical for formulating and enhancing organizational competitive advantage. Davenport (1993) had noted that process innovation enhances the day to day business of an organization, helping to create viable organizational vision; examining and reviewing the existing process and designing new process that have impact on organizational competitive advantage. Similarly, Al-Ansari et al., (2013) noted that process innovation is a powerful tool that organizations...
can use to enhance their competitiveness in the market place. Accurate and real-time information on process performance is a prerequisite for effectiveness in organizational performance, therefore, one of the primary objective of organizations is to ensure that process innovation generates enough information that enhances organizations competitive advantage.

The finding of the study also show that (89%) or banks respondents noted that process innovation enhances employee performance, and (90%) who noted that process performance enhances organizational productivity and performance. This finding is in line with Gunday et al., (2011) who argued that process innovativeness was one of the primary tools of growth which increases the existing market share and provides the company with a competitive advantage (Gunday et al., 2011). It has the actual potential to enhance the organization’s performance in several aspects. In this regard, organizations that employ process innovation to improve performance do eliminate a performance gap which may be caused by changes in the external environment. This means that process innovation is essential in helping organizations adapt to changes in their external environment. Damanpour and Evan (1984), had suggested a balanced implementation of administrative and technical innovations would help the organization to maintain the equilibrium between the social and technical systems in process innovation, which are critical components that define performance units. One of the other major aspects in process innovation that makes it significant in enhancing organizational competitive advantage is the fact that processes are organizational specific. They are designed to suit and to enhance organizational operational and production processes. Therefore, efficiency in the production processes does enhance organizations ability to compete favorably with other players in the market (Autant-Bernard, Massard, & Muriel, 2013).

5.3.3 Effects of Market Innovation on Competitive Advantage

The findings of this study have revealed the existence of a significant relationship between market innovation and commercial banks competitive advantage. All the components of market innovation including customer satisfaction, employee performance and overall organization performance were significant. This finding confirms studies conducted by Kjellberg et al., (2015) and Karlsson and Tavassoli (2015) hat revealed the existence of a significant relationship between market innovation and competitive advantage. Kjellberg
et al., (2015) had indicated that market orientation leads to higher levels of innovation performance through spurring higher levels of service innovativeness. However, studies by Ozkaya et al., (2015) had disputed these findings by arguing that the former failed to distinguish between customer and competitor orientation within markets, and therefore, the level of significance in their study was extremely general.

The findings of this study revealed that (95%) of banks respondents agreed that market innovations were key in enhancing service and product quality in the market, and thus enhancing organizations position within a given market. Thus, when investigating the impact of market orientation on competitiveness, it is important that one examines both the product and the customer orientation within that market (Boso, Cadogan, & Story, 2013). One of the areas this study did not look at included whether market innovations that are being pushed by commercial banks and exploitative innovations or transformative innovations. Mueller et al., (2013) had argued that exploitative innovations are usually incremental and focuses purely on existing customers within a given market by building their knowledge, refining their skills, and hoping that through this actions, they will enhance customer satisfaction and resultant market share competitiveness.

This study also found that (96%) of banks utilized market innovations as a way of improving their internal administration efficiencies. Thus, market innovation helps organizations to build on current knowledge and skills through acts of refinement and gradual improvement, and thus, increase the efficiency of existing processes, while at the same time, expanding product and service offerings within the given market (Newman, Prajogo, & Atherton, 2016).

The findings of this study also revealed that market innovation increased market aggressiveness, (92%); while at the same time enhanced organizational competitiveness, (92%). However, Akiike and Shumpei, (2015) argued that organizations dilemma lie in distinguishing the extent to which successful companies are affected by changes in market innovation, or whether the success this companies possess are the major cause of innovation in the market place. For market leaders, the later hold true, since big companies, particularly those that enjoy monopolistic markets, do shape the nature and kind of innovation that is eventually introduced in the market. However, it is also possible that in
market innovation dilemma, successful companies can put too much emphasis on customers’ current needs, and fail to adopt new technology or business models that will meet customers’ unstated or future needs and such companies will eventually fall behind (Beaudreau, 2016). Therefore, it is important that as commercial banks’ balance their market innovations, they need to consider internal transformations that are at par with the changes within their respective markets.

5.4 Conclusion

5.4.1 Effect of Product innovation on Competitive Advantage

This found that there exists a significant relationship between product innovation and competitive advantage. Therefore, the study concludes that product innovation has significant impact on employee performance, satisfaction, and organizational performance. Product innovation directly and positively contributes to how employees find value, morale and significance in their work, which at the end of the day, enhances their productivity, and competitiveness in the market place.

5.4.2 Effect of Product Innovation on Competitive Advantage

This study found that there exists a positive significant relationship between process innovation and competitive advantage. Therefore, the study concludes that all components of process innovation including planning, design and implementation effect on customer satisfaction, employee performance and organization profitability was significant. Product innovation provided commercial banks under this study with the opportunity and ability to design products that competed effectively at the market place and thus enhancing organizations competitive advantage.

5.4.3 Effect of Market Innovation on Competitive Advantage

The findings of this study have revealed the existence of a significant relationship between market innovation and commercial banks competitive advantage. Therefore, the study concludes that all components of market innovation including customer satisfaction, employee performance and overall organization performance were significant. Market innovations provide banks the opportunity to enhance their performance through increase in market share, and product differentiation to the market.
5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Effect of Product Innovation on Competitive Advantage

Since the findings of this study revealed a significant relationship between product innovation and competitive advantage, the study recommends that management in commercial banks should put mechanisms in place to enhance more internal innovations. This should include giving employees enough space to innovate new products and services. In addition, there is need to have banks to set aside a budget that will be used exclusively for product innovation. This will not only enhance the banks’ ability to compete with other banks, but also the ability to remain sustainable in the long term. There is also need for innovation to carry product differentiation as a way of the banks setting themselves apart from the rest.

5.5.1.2 Effect of Process Innovation on Competitive Advantage

Since this study revealed a significant relationship between process innovation and competitive advantage, this study recommends that management at commercial banks should ensure that process innovations are conducted in a manner that enhances competitive advantage. This should include ensuring that organizational processes are designed in a manner that enhances organizations strategic goals and objectives. There is need to ensure that employees are customers are involved in all aspects process innovation. Lack employee involvement can be detrimental to the success of the innovation process and thus hinder competitiveness. There is also need to ensure that process innovation is pegged to organizations vision for future competitiveness of the banks.

5.5.1.3 Effect of Market Innovation on Competitive Advantage

The ability of a bank to remain relevant in the highly competitive and rapidly changing environment mean that commercial banks should develop market innovations strategies for enhancing competitive advantage. Some of these strategies should include influencing policy on formulation for the banking sector. Other strategies should include use of agency
banking to enhance outreach to those in areas that do not have physical branches. There is also need for commercial banks to ensure that online banking platforms in addition to mobile money platforms should be enhanced. This will ensure a wider reach of clients, and thus enlarge their market share. In situations where the bank does not have mobile banking platforms, there is need for banks to partner with mobile telephony companies that offer the facility. This will ensure that customers access to deposits and withdrawals are made simpler and easier to access, and thus, enhance customer royalty that is essential for competitive advantage.

5.5.2 Recommendation for Future Research

This study considered the effect of innovation strategy on commercial banks competitive advantage. This study focused on process innovation, product innovation, and market innovation. These innovations are not comprehensive in determining innovation strategies that banks can employ to enhance competitive advantage. Therefore, this study recommends that scholars and academicians wishing to conduct research in this area should consider other strategies like reward systems, talent, and conducive operational policy as a way of enhancing competitive advantage.
REFERENCES


Johnston, R. E., & Bate, J. D. (2013). The power of strategy innovation: a new way of linking creativity and strategic planning to discover great business opportunities. *TAMACOM Div American Mgmt Assn.*


Karanja, G. (2011). *COMPETITIVE ADVANTAGE THROUGH INNOVATION STRATEGIES IN UNITED BANK OF AFRICA LIMITED.*


Dear Respondent,

**RE: RESEARCH QUESTIONNAIRE**

I am a graduate student at United States International University pursuing a Masters of Business Administration (MBA). I am currently conducting a research on the effect of innovation strategy on the competitive advantage of commercial banks in Kenya. This is a requirement in partial fulfillment of the Masters of Business Administration (MBA) degree program at United States International University (USIU).

The study will be based on the commercial banks in Kenya and you have been selected as one of the respondents to participate in the survey. The results of the survey will be instrumental for the banking industry in focusing on innovation and the best strategies to manage them.

This is an academic research and confidentiality will strictly be adhered to. Your name will not appear anywhere in the report. Kindly spare 10 minutes to complete the questionnaire attached. The questionnaire has five sections.

Yours faithfully

Anthony N. Kariuki
APPENDIX II: QUESTIONNAIRE

Kindly note this survey is an academic exercise and all information given by the respondent will be treated with utter most confidentiality. Kindly answer all the questions either by ticking ( ) boxes or writing in the spaces provided. Your unbiased response is highly appreciated.

SECTION 1: DEMOGRAPHIC INFORMATION

Kindly answer all the questions by ticking in the boxes or writing on the spaces provided.

1. Which is your department?
   • Operations ( )
   • Branch ( )
   • Marketing and Product Development ( )

Others please specify

2. How long has your company been in operation?
   1-10 ( ) 11-20 ( ) 21 -30 ( ) 31 and above ( )

3. What is the duration worked in the organization in Years?
   1-3 ( ) 4- 6 ( ) 7-10 ( ) 10 and above ( )

4. Indicate your educational level
   Diploma ( ) Higher Diploma ( ) Degree ( ) Masters ( ) PhD ( )

5. Kindly indicate your age bracket
   20-30 ( ) 31-40 ( ) 41-50 ( ) 42-49 ( ) 50 and above ( )

SECTION 2: EFFECTS OF PRODUCT INNOVATION ON THE COMPETITIVE
ADVANTAGE

How would you rate the performance of innovation strategies in your organization? (1= Strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree).

<table>
<thead>
<tr>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Product innovation is an essential part of your organization goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Your organization does Product innovation to drive or lead the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Product Innovation plays an important role in the firm’s growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Product innovation increases the morale of employees in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Product Innovation increases the productivity of the employees in an organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Product innovation enhances rewards and recognition in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Product Innovation boosts the overall performance of employees in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Product Innovation increases the general profitability the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Product innovation increases the growth rate of annual sales revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Product innovation increases the market share of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. What other factors influence product innovation strategies on the firm’s performance?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION 3: EFFECTS OF PROCESS INNOVATION ON THE COMPETITIVE ADVANTAGE

How would you rate product innovation strategies on the following aspects? (1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree).
<table>
<thead>
<tr>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation increases the customer satisfaction of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Innovation increases the general profitability the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Innovation increases the growth rate of annual sales revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Innovation increases the market share of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Innovation increases the return on sales of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Innovation increases the cash flows excluding investment of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Innovation increases the morale of employees in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Innovation increases the productivity of the employees in an organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Innovation enhances rewards and recognition in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Innovation boosts the overall performance of employees in the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. What other factors has Process innovation strategies improved?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION 4: EFFECTS OF MARKET INNOVATION ON THE COMPETITIVE ADVANTAGE**

How would you rate market innovation strategies on the following aspects? (1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree).
<table>
<thead>
<tr>
<th>Questions</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improving product and service quality is one of our key objectives of our market innovation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Customer satisfaction is part of our market innovation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Market innovation strategy has helped the organization to achieve its strategic goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Improving administration routines is seen as part of our market innovation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Internal cooperation is an important part of market innovation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Formulating market innovation increases employee knowledge and skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Increasing marketing aggressiveness is an important part of market innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Our market innovation and way of operation is the most suitable for delighting our customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Market innovation has enhanced organizational performance greatly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. The company competitiveness has increased greatly since the introduction of market innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. What other factors influence market innovation strategies on the firm’s performance?

...............................................................................................................................

...............................................................................................................................

SECTION 5: BENEFITS OF HAVING AN INNOVATION STRATEGY

What are some of the benefits of innovation in your business?

- Sales of new products [ ]
- Business opportunities [ ]
- Improve quality of products [ ]
- Creation of new markets [ ]
• Improve profits [ ]
• Create brand awareness [ ]
• Reduce environment damage [ ]
• Lowering production costs [ ]
• New customers [ ]

Others specify
............................................................................................................................
............................................................................................................................

THANK YOU FOR YOUR TIME