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**PRODUCT INNOVATION STRATEGIES AMONG BANKS IN ELDORET  
MUNICIPALITY, KENYA**

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**ABSTRACT:** *The study aimed at assessing the product innovation strategies adopted by banking industry in Eldoret, Kenya. The study was guided by the following two objectives; to assess product innovation strategies employed by banks in Eldoret, to establish the relationship between product innovation and growth of banks and to find out the challenges of product innovation strategies implementation and improvement. The study employed a survey research design of 25 banks within Eldoret municipality and targeted the branch managers and the employees in the banks who are 578. A total sample size of 191 respondents was therefore employed in the study. The study employed purposive sampling in selecting the branch managers and stratified sampling in selecting the employees. A questionnaire was used as the main data collection instrument. Descriptive and inferential statistics were both used to analyse and interpret the data. The study found out that market surveys and customers' feedbacks had effect on product innovation strategies. The study concluded that to a large extent banks innovate new products leading to new customers (new markets). The study recommended that apart from continuous improvement of existing products, it is the responsibility of the banks to come up with new products and services to suit their target market rather than being an adopter of innovation.*

**KEYWORDS:** Product Innovation, Bank, Strategy, Eldoret Municipality

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## **INTRODUCTION**

Many companies have employed different strategies for decades; this could be attributed to good managements, innovative strategy, good businesses strategy and quality of services offered (Kamien, 2010). Adam (2007) defines product innovation as the process by which an idea or invention is translated into a good or service for which people will pay, or something that results from this process. To be called a product innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Product innovation involves deliberate application of information, imagination, and initiative in deriving greater or different value from resources, and encompasses all processes by which new ideas are generated and converted into useful products. In business, product innovation often results from the application of a scientific or technical idea in decreasing the gap between the needs or expectations of the customers and the performance of a company's products. Companies with good innovative strategies always thrive and grow faster than those companies with poor product innovation strategy or those with no innovative strategy at all.

From a global perspective, multinational companies have kept pace with their competitors by striving to re-engineer their processes and striving to provide quality. This has been achieved through innovative strategies where these companies have recognized the power of

empowering their employees and providing an environment where employees can be innovative. Other strategies that have been employed to enhance product innovation have been the development of teams and adoption of new technologies to enhance organizational learning. Companies such as the Toyota company have as a result seen their sales grow with the company's presence being felt in various parts of the world as a result of its ability to compete favourably even with the local manufacturers (Oden, 2011).

Regionally, effects of product innovation are felt by the companies in Africa, they are introducing new models along with novel approaches to business process, all aimed at increasing company's services penetration and production, expanding market share, driving profits and cutting costs. Some companies have been going through a period of growth as result of product innovations. As opposed to importation of new technologies from the western world in the past, Africa now has tried to be more innovative by motivating employees to be more innovative as well as provide an enabling environment for product innovation. As a result of these, some companies in Africa have grown to global level. However, those companies in Africa which continue to depend on imports continue to face challenges in the market and eventually shrink (Moodley, 2012). Diageo Africa operates 10 breweries in six African countries: Nigeria, Ghana, Cameroon, Kenya, Uganda, and Seychelles. They place their importance on human resource. The company has since been providing room for career growth for its employees; this in turn resulted in more and more product innovations for the company. For this reason Diageo Africa has continuously expanded its market (Lewis, 2011).

In Kenya, companies have also recognized great potential afforded by product innovation to move the country forward. Previously, companies in Kenya experienced relatively slow growth; this could be attributed to lack of innovativeness and government policies that were not supportive to product innovation. For these reasons, companies largely depended on the imported technologies to solve local problems and this was not viable at all because many companies and government cooperation eventually closed down. Kenya has been identified in recent times as one of the countries to watch in Africa as far as product innovation is concern. Companies in Kenya have been innovative of late which has seen them grow to multinational companies. Safaricom for instance, with its famous mobile money transfer services has managed to be the most profitable firm in Kenya despite stiff competition from the other mobile operators.

In the banking industry in Kenya, product innovation strategies of some specific banks have facilitated increased profitability since the onset of the new millennium for example the introduction of M-KESHO services by Equity Bank and Agency banking services by Cooperative bank and KCB bank. This can be attributed to paradigm shift from the past strategies of improved technologies to the current local product innovation in the industry. In Kenya, bank expansion has since crossed borders to Tanzania, Rwanda, Southern Sudan and Uganda. Local banks such as Equity, KCB and Cooperative are present in the region. Application of the new technologies and product innovations facilitated the banking industry in Kenya to expand by 4.6% in 2011 compared to 2.7 % in 2010 (Adams, 2007). Other banks within Eldoret that have expanded their operations in the last few years include the National Bank, Family Bank and the Barclays Bank of Kenya.

### **Statement of the Problem**

The lack of product innovation strategies is caused by among others lack of sufficient funds and lack of expertise which are important ingredients to successful product innovation. Another challenge to this is the changing customer needs and the existing regulations which hinder development of certain products. Some banks also lack research and development departments in their branches.

The case with banks in Eldoret is different, though they enter the market with high expectation; the result is not always what they expect. Some do not survive to see the growth stage, while others do not really grow as per their expectations as is evidenced by the mergers by the equatorial bank and the Southern Credit Bank in 2011 to form the Equatorial Commercial Bank in an effort to remain afloat. Other banks that have been seen to struggle in the market include the ABC Bank, Fina Bank and the Guardian Bank all which have been reported to be downsizing in an effort to remain afloat Noonan, (2012). These banks in most cases end up scaling down their employees, being unable to sustain themselves and therefore depend on mother branches to sustain or closedown.

For this reason, this study aims at establishing the effects of product innovation on growth of the banking industry, with an aim of establishing the best product innovation strategies that the banks should employ in order to grow and lastly establish the ability of good product innovation strategies to facilitate growth of banks to their potentials.

### **Objectives of the Study**

- To study the innovation strategies employed by banks in Eldoret
- To establish the relationship between product innovation and growth of banks
- To understand the challenges of product innovation strategy implementation

### **LITERATURE REVIEW**

A significant amount of literature has discussed new organizational models and concepts designed to support organizational growth and product innovation. Some reflect the growth of flexible and adaptive forms of organization with a strategic focus on radical product innovation. These studies highlight the different ways in which firms seek to create innovative organizations capable of continuous problem solving to facilitate faster growth, (Nonaka, 2005).

A closer examination of the literature on new forms suggests that the various models of innovative organizations can be broadly classified into two polar ideal types, namely, the J-form and adhocracy. The former refers to an organization which is good at cumulative learning and derives its innovative capabilities from the development of organization specific collective competences and problem solving routines. The term J-form is used because its archetypal features are best illustrated by the Japanese type of organizations, such as (Aoki's, 2008) model of the J-firm, and knowledge creating companies. Adhocracy (Mintzberg, 2009), by contrast, tends to rely more upon individual specialist expertise organized in flexible market-based project teams capable of speedy responses to changes in knowledge and skills, and integrating new kinds of expertise to generate radical new products and processes.

Management literature is biased towards the size and does not address growth aspects of ventures not necessarily growing in size. Such literatures do not relate the strategic growth

management capabilities of the growing ventures. There is a gap in associating the critical factors for success of organisations such as ownership, management styles, etc with growth. Although we have access to some literature based on the research work done in USA and Europe but the factors affecting growth or success of organisations vary from country to country (Wijewardena, 2005).

The effects of founding team grow with time and over the years the organisational growth become self-fulfilling prophecies for many (Eisenhardt, 2002). Although the organisations have the advantage of economies of scale, lower overheads and the capability to strike the markets fast (Noonan,2012); entrepreneurial motivation to growth strategy planning have strong influence on the general business strategy (Matthews,2005). Unless the entrepreneurs possess some strong positive belief towards growth they would not consider strategy planning worth attempting.

Nooteboom (2002) proposed three core characteristics of the organisations - independence, personality, and the scale. The contingency perspective explains the decisions and actions under a given opportunity depending on the circumstance. The core characteristic of scale is the characteristic of the firm and does not only deal with economy of scale in production or operation but also involve marketing. The core characteristic of personality is about the entrepreneur and includes the intertwining of private and business affairs. Informality of authority, communication and procedure are the other aspects of this characteristic. The characteristic of freedom is also about the entrepreneur. As discussed this indicates the relative freedom from discipline of the capital markets, allowing some idiosyncratic goals and conducts.

A given characteristic may have different effect in different circumstance. As the organisation grows the entrepreneur need to delegate more, build additional layers of hierarchy, establish formal systems and procedures for planning, coordination and control, create a structure communication system and make knowledge more explicit and less tacit. Product innovation exploits the strength of motivated management and labour to survive in harsh times. Organisations are relatively strong in inventions aimed at application of basic technologies to serve the niche or residual markets. This exploits the potential flexibility and closeness to the customers. They possess skills to translate technology in a variety of new technology-product-market combination (Nooteboom, 2002).

Entrepreneurial growth strategy in business environment is a complex body of knowledge which is not completely explored. Entrepreneurial vision is important for growth. New knowledge is generated through the fusion, synthesis and combination of the existing knowledge base. The J-form tends to develop a strong orientation towards pursuing an incremental product innovation strategy and do well in relatively mature technological fields characterised by rich possibilities of combinations and incremental improvements of existing components and products (e.g. machine based industries, electronics components and automobiles). But the J-form's focus on nurturing organizationally embedded, tacit knowledge and its emphasis on continuous improvement in such knowledge can inhibit learning radically new knowledge from external sources. The disappointing performance of Japanese firms in such fields as software and biotechnology during the 2000s may constitute evidence of the difficulties faced by 'J-form firms' in entering and innovating in rapidly developing new technological fields (Lam, 2003).

Logic dictates that innovation is a powerful factor behind differences in firms' performance, with companies that innovate successfully prospering at the expense of their less able competitors. Different endowments of innovation capabilities - i.e., different stocks of technological knowledge and different degrees of efficiency in the search for innovations - will eventually lead to persistent differences in the economic performance of competing firms (Dosi, 1988). Thereafter, it can be convincingly argued that there is a stable association between the stock of innovative capabilities owned by the firm, its output and its economic outcomes. However, whilst the stock of knowledge and the underlying learning process through which it is accumulated are unobservable, the appearance of product and process innovations can be regarded as a signal that valuable learning has occurred. Hence, they can be expected to account for performance differences across firms (Geroski and Mazzucato, 2002). From an empirical standpoint, there is a great deal of evidence supporting the idea that estimates of the relationship between innovation and performance is sensitive (among other factors) to the way that corporate performance and innovation are measured (Loof and Heshmatt, 2006). The former is usually based on market share, accounting profits, market value, sales growth, number of employees, and productivity growth. The latter is proxied either by traditional indicators, such as R&D expenditures and patent counts, or by the application of direct measures of innovation outputs, such as product announcements in specialist trade journals or share of new products in the firm's total revenue.

If one is comfortable with believing that companies behave as profit maximizing agents, then accounting profitability becomes a natural summary statistic of corporate performance. Unfortunately, this indicator displays unusual patterns of variation when compared with other measures of economic performance and also tends to understate performance differences among firms. Rates of growth of sales, employment and productivity, on the other hand, exhibit similar behaviour and appear to be more reliable indicators for evaluation of inter-firm differences (Geroski, 1998).

The measurement of innovation activities is also problematic. Traditional indicators, such as R&D expenditures and patent counts, although extensively used in the literature, suffer from drawbacks that make their application questionable, in several contexts (Kleinknecht, 1993). The 'object' approach to innovation measurement (Archibugi and Pianta, 1996) or, more precisely, a literature-based innovation output indicator, has become a valuable alternative for coping with such drawbacks. The metric, broadly applied in previous empirical analyses (Coombs et al., 1996; Santarelli and Piergiovanni, 1996; Tether, 1998; Flor and Oltra, 2004), is a suitable indicator of innovative performance is by measuring corporate results in terms of the degree to which companies actually introduce inventions into the market (Hagedoorn and Cloudt, 2003). It also offers remarkable advantages over extant indicators (Kleinknecht et al., 2002): it provides a direct measure of how many new products or services are introduced to the market; the data are relatively cheap to collect and (since they are taken from published sources) their subsequent use is not hampered by privacy problems; it is possible to split the data by type of innovation, degree of complexity or other criteria; and finally, 'the fact that an innovation is recognized by an expert or a trade journal makes the counting of an innovation somewhat independent of personal judgements about what is or is not an innovation' (Smith, 2005).

Empirical research on company growth and innovation activity points to some regularities across industries. On the one hand, corporate growth rates appear almost random and can be reasonably approximated by Gibrat's Law (Geroski, 1998), according to which the 'probability of a given proportionate change in size during a specified period is the same for all firms in a given industry - regardless of their size at the beginning of the period (Mansfield, 1962, p. 1030). However, there are some exceptions; there are several studies that suggest that there is a mean reversion process at work in some contexts, with initial size and age exercising a transitory effect on growth dynamics (Hall, 1987; Hart and Oulton, 1996; Goddard et al., 2002). Similarly, recent studies that draw upon the tradition of stochastic growth models (Ijiri and Simon, 1977) suggest that the observed distribution of growth rates departs from the expected Gaussian shape implied by Gibrat's Law, and instead displays a 'tent-shaped' form (Stanley et al., 1996; Bottazzi et al., 2001).

On the other hand, a loose relation between research intensity (or indicators based on patent counts) and sales or productivity growth has been found (Del Monte and Papagni, 2003). Furthermore, works adopting an 'object' approach to innovation indicators (Table 1) suggest that although the tendency is for a positive link between innovation output and level measures of economic performance, no significant effect of successful innovation on sales growth rates has been identified generally.

Among several major contributions, Geroski et al. (1997) analyse a panel of 271 stock market quoted UK firms for which data on major innovations and granted patents were available. They find that neither of these sets of variables (in current and lagged values) has any impact on firm growth, and that excluding them from the model does not affect the estimated coefficients of other variables. While one might suspect that this finding is an artifact of the short period over which the effect of innovations is measured, Geroski and Mazzucato (2002) show that this is not so. These authors examined the link between product and process innovations introduced by US car manufacturers and their growth rates over a long period, from 1910 to 1998. Despite the evidence that lagged output is correlated with corporate growth to some extent, no significant effect of different measures of innovation is evident. Bottazzi et al. (2001) provide further evidence on this point. Using detailed information for the world's large pharmaceutical companies over an 11 year period, they find that the introduction of neither new chemical entities nor patented products affects firms' growth performance.

## **RESEARCH METHODOLOGY**

The study adopted a descriptive survey design. The study targeted 578 employees from 25 Banks within Eldoret Municipality. The study employed purposive sampling technique for the managers and stratified sampling technique in selecting the employees. A sample size of 191 employees was selected for the study. A questionnaire was used as the major data collection instrument. Descriptive statistics used in the study include; tables, charts, and graphs used to describe, organize, summarize, and present the raw data. The study employed the use of frequency tables, and percentage in analyzing and presentation of data.

## **FINDINGS OF THE STUDY**

It was evident from the study that market surveys and customers feedbacks had effect on product innovation strategies. This could be because most of the organizations build their product innovations through customer feedback so as to produce a product that is acceptable in the market thus most customer feedbacks affect the product innovation.

The findings evidently revealed that new products lead to new customers (new markets). This could be because most banks model different products to suit different target markets. Some are meant to suit the business class, some are meant to suit the SMEs while others are meant to suit the poor. It is therefore evident that majority of the respondents agreed to the fact that the bank has considerably grown a number of customer. This could be because the bank has of late added a number of its branches regionally because of growing number of customers. It could also be because the bank's market share has grown due to growing number of customers. The growing number of customers could be because of their product innovation that are customer friendly and can accommodate different people from different social classes.

The study shows that lack of sufficient funds, lack of expertise, challenging customer needs and lack of research and development departments at the branch level are the major challenges of product innovation strategy implementation.

### **CONCLUSIONS**

The study concluded that market surveys and customers feedbacks had effect on product innovation strategies this could be because most of the organizations build their product innovations through customer feedback so as to produce a product that is acceptable in the market thus most customer feedbacks affect the product innovation. It is also concluded that to a large extent the bank is an innovator. This could be because of the recent times the banking has embarked on a market strategy to achieve product innovation that has seen it innovating many products that has been accepted in the market. Similarly the bank has also modelled its product to suit its current market demand. New products lead to new customers (new markets) for the bank. This could be because most banks model different products to suit different target markets. By doing so, the bank has always conducted market survey in order to produce products that will satisfy the customers' wants and needs. In the process of innovating different products, different target market is achieved hence new customers.

### **RECOMMENDATIONS**

The study recommends that apart from continuous improvement of exiting products, the banks should come up with new products in order to ensure there is continuous product innovation. This can be achieved though conducting new market surveys and extensive market research to meet the customers' ever changing needs. The banks should enhance their human resource department to suit the growing number of customers and ensure there are enough employees to satisfy the customers' wants in every branch. We wish to acknowledge the library staff of the Catholic University of Eastern Africa for the ample support they offered us during our writing of the paper. We also want to thank the Computer department of the University for availing us the facilities at the right time. We acknowledge also all the people who participated in our study including bank managers as well as the bank employees who provided us with the much needed information to make our work a success. Finally, we wish to extend our gratitude to the staff members in the faculty of commerce who helped us with the proof reading of the entire paper before it was ready for publication.

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