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EFFECTS OF IMPLEMENTATION OF STRATEGIC INNOVATION ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA; A CASE STUDY OF EQUITY BANK

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ABSTRACT

As today's business environment becomes increasingly competitive, business organizations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence. Given the limitations of previous research on strategic innovations in Kenya, the present study addresses the gap by focusing on the question: what are the effects of implementation of strategic innovation on the performance of commercial banks in Kenya, with reference to Equity bank. The study particularly sought to establish the effect of market innovation strategies on the performance of commercial banks in Kenya and to determine the effect of product innovation strategies on the performance of commercial banks in Kenya. The target population for the study was the staff at the Equity bank group headquarters, with a population of 160 employees. The determined sample size was 115 respondents out of a target population of 160. The study used primary data which was largely quantitative and descriptive in nature. After data collection, the filled-in and returned questionnaires were edited for completeness, coded and entries made into Statistical package for social sciences (SPSS version 21). Both descriptive and inferential statistics were further conducted. Descriptive analysis involved the use of frequencies in their absolute and relative forms (percentage). Mean and standard deviations were also be used as measures of central tendencies and dispersion respectively. Inferential statistics was on the other hand done to show the nature and magnitude of relationships established between the independent and dependent variables using regression analysis to make inferences from the data collected to more generalized conditions. Findings revealed that Market innovation strategies and Product innovation strategies collectively explain variations in the Performance. The study concluded that overall, strategic innovation, as indicated by Market innovation strategies and Product innovation strategies positively and significantly impacted performance among Commercial banks in Kenya.

Key Words: *Market Innovation, Product Innovation, Performance of Commercial Banks*

INTRODUCTION

As today's business environment becomes increasingly competitive, business organizations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence. Competition may be attributed to business innovations, advancement in technology and the changing demand of customers (Misati et al., 2010). Joseph and Mark (2013) are of the view that, in order to achieve and sustain competitive advantage and improve organization performance, managers should examine factors affecting the implementation of competitive strategies. They note that an organization should align its strategies with structure, provide strategic leadership, establish a corporate culture and monitor the implementation of the strategies. These measures are particularly important in the banking industry considering the market volatility marked by stiff competition for the masses by commercial banks (Hicks and Niehans, 2012).

Commercial banks play a very key role in the economic growth of any country. In Kenya, the sector holds assets worth 63% of the GDP (CBK, 2011). Other than the recent closure of three commercial banks in the country over the span of 14 months in the year 2015 (Dubai Bank and Imperial Bank) and April 2016 (Chase Bank), the banking industry in the country has generally experienced a high growth rate employing both acquisition and start-up in their regional expansion strategies. With only 20 per cent of Kenya's population banked, there is need for banks to strategize and reach more of the unbanked, which would constitute a big business growth as opposed to regional (Muthoni, 2013; Ngari and Muiruri, 2014). Therefore, competitive strategy is vital among commercial banks in the country to the adaptation of the changing business environment.

Innovativeness is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge (Li & Atuagene-Gima, 2011). Motivated by the increasing competition in global markets, companies have started to grasp the importance of innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services. Thus, innovations constitute an indispensable component of the corporate strategies for several reasons such as to apply more productive manufacturing processes, to perform better in the market, to seek positive reputation in customers' perception and as a result to gain sustainable competitive advantage (Hitt et al., 2011).

Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Kuratko et al., 2015). Innovation as a term is not only related to products and processes, but is also related to marketing and organization. Johnson et al. (2015) described different types of innovation: new products, new methods of production, new sources of supply, the exploitation of new markets, and new ways to organize business. Drucker (2013) defined innovation as the process of equipping in new, improved capabilities or increased utility.

In this research, OECD Oslo Manual (2005), which is the primary international basis of guidelines for defining and assessing innovation activities as well as for compilation and use of related data, has been taken as the fundamental reference source to describe, identify and classify innovations at firm level. In the OECD Oslo Manual (2005), four different innovation types are introduced. These are product innovation, process innovation, marketing innovation and organizational innovation. Product and process innovations are closely related to the concept of technological developments.

Product innovation is the introduction of a good or service that is new or significantly improved regarding its characteristics or intended uses; including significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (OECD Oslo Manual, 2005). Product innovations can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies (Akova et al., 2013). Process innovation is the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software (OECD Oslo Manual, 2005). Fagerberg et al. (2014) stressed that while the introduction of new products is commonly assumed to have a clear, positive effect on the growth of income and employment, process innovation, due to its cost-cutting nature, can have a more hazy effect.

Marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (OECD Oslo Manual, 2005). Marketing innovations target at addressing customer needs better, opening up new markets, or newly positioning a firm's product on the market with the intention of increasing firm's sales (Kotler, 2011). Finally, an organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations have a tendency to increase firm performance by reducing administrative and transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets (such as non-codified external knowledge) or reducing costs of supplies (OECD Oslo Manual, 2005).

With the deepening of the reform process, Chinese commercial banks' traditional businesses operations mode 'the wholesale credit operations' have been changing and the ratio of commercial banks' retail businesses have been increasing. For example the Bank of China as an example, during 2006-2007, the growth rate of retail business was 250%, which was 2.5 times of the growth rate of wholesale business at the same period. One of the important reasons for this change is innovation which includes innovation in business philosophy, management, procedure, product, promotion and scientific and technology (Yin and Zhengzheng, 2010).

In a study on the banking sectors of 11 Latin American countries, Yildirim and Philippatos (2007) stipulate that rivalry between banks pushes the banks to engage in a differentiation processes of the products they supply, and can stimulate financial innovation. Yildrim and Philippatos (2007) find that a high degree of foreign investment in banks' capital is associated with a high level of competitiveness. This improves the quality and differentiation of their products and stimulates financial innovation by introducing more modern skills, management techniques and technologies.

In Ghana over time, technology has increased in importance in Ghanaian banks and has transformed the way banks would serve their clients more conveniently and in the process increase profits and competitiveness. The most revolutionary electronic innovation in Ghana and the world over has been the ATM (Joshua, 2010).

In Nigeria, internet banking has resulted to improved e-Commerce and e-Payment services with overall reduction in the amount of currency in circulation (Chiemeke, Evwiekpaefe and Chete, 2006; Ayo, Adebiyi, Fatudimu and Ekong, 2008; Aderonke and Charles, 2010).

Locally, the cut throat competition in the banking sector coupled with the current closure of three commercial banks (Dubai Bank, Imperial Bank and Chase Bank) and the question of stability of the financial institutions has affected the performance of the banks in Kenya especially with the customer sentiments of preferring to bank with multinational brands like Standard chartered, Barclays bank. To therefore remain aboard amid tight regulation, competition and increased international surveillance, banking industry has to embrace innovation as a lever to sustainable performance (Okiro, 2013).

The present Kenyan Banking industry is one of the most dynamic and competitive industries (Ngari and Muiruri, 2014). It is characterized by hyper competition where emerging technologies, complex international and well informed customers and a shrinking market space are the main challenges. This market has seen rapid changes in technology and technological platforms that the players use to attain and retain customers and a relative ease of entry following deregulation in 1995 (but extreme difficulty in exit due to the stringent rules enshrined in the Banking Act) International competition has further caused the industry to be oversupplied and increased market share does not always lead to increased profits. Under these circumstances, a fast follower strategy for instance is hardly effective and a new growth engine is seldom found (Okiro, 2013; Patrick, 2011).

According to the Central Bank of Kenya, there are currently 41 licensed commercial banks in Kenya. Three of the banks are public financial institutions with majority shareholding being the Government and state corporations. The rest are private financial institutions. Of the private banks, 25 are local commercial banks while 13 are foreign commercial banks (CBK, 2013). Bank financial performance in the recent past has significantly improved since 2011. Data from the Central Bank of Kenya shows a significant growth in the industry in all areas including financial performance (CBK, 2013). The banking industry in Kenya has grown over the years since the Central Bank of Kenya put up measures to regulate the banks in order to streamline the activities and more so to prevent the collapse of the banking industry as had been before and also recently with closure of two commercial banks.

Equity Bank Limited is incorporated, registered under the Kenyan Companies Act Cap 486 and domiciled in Kenya. The Bank is licensed under the Kenya Banking Act (Chapter 488), and continues to offer retail banking, microfinance and related services. The Bank has subsidiaries in Kenya, Uganda, South Sudan, Rwanda, DRC and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. The society's logo, a modest house with a brown roof, resonates with its target market and their determination to make small but steady gains toward a better life, seeking security and advancement of their dreams. The vast majority of Africans have historically been excluded from access to financial resources.

Statement of the Problem

The significance of strategic innovation is described by Roberts and Amit (2013) as a means leading to a competitive advantage and superior financial performance. Innovation would appear in product, process, market, technology and organization, but the first three dimensions are more familiar in the innovation literature (Gardachew, 2010; Jushua, 2010). Pooja and Balwinder (2011) argues that innovation is one of the most important competitive weapons and generally seen as a firm's core value capability.

The Kenyan banking industry is experiencing very stiff competition with banks outdoing each other from the front end of products, service delivery, and employees' retention amongst other fronts. There are currently a total of 41 licensed commercial banks offering similar products in the same target market hence leading to increased level of competition. They keep adjusting their tariffs downwards to an extent where some services like internet banking application is now free (Barney and Hesterly, 2013). The banking industry in Kenya has achieved tremendous growth over the past years, with heightened competition, commercial banks are forced to compete on innovation and this is where the application of strategic innovation can be useful (Oloo, 2013).

Commercial banks operate in heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper competition, changing demographics and customer needs require these banks to build adaptability competency for survival and fostering of organizational performance (CBK, 2013). It is against this background that these banks have realized that conformity to convectional strategies produce convectional results. Strategic innovation is practiced both for survival, sustenance and competitive advantage (Hynes, 2011).

Despite the significance of innovation in demystifying performance in banks, the impact of innovation on organizational performance, is still misunderstood for two main reasons, first, there is inadequate understanding about the drivers of innovation and secondly innovations' impact on bank's performance remains lowly untested (Mabrouk and Mamoghli, 2010). The outcome of the previous studies on impact of innovation on performance have been empirically inconclusive (Bonn, 2010). Previous studies have produced mixed results regarding the impact of innovations on bank's performance. Scholars (Pooja and Balwinder, 2009: Franscesa and Claeys, 2010), in their studies concluded that innovations had least impact on performance, while others (Batiz-Lazo and Woldesenbet, 2012: Mwania and Muganda, 2011) concluded that innovation had significant contribution to performance.

It is at the center of such mixed conclusions that created and necessitated the need to carry out a study from a Kenyan context to establish the influence of strategic innovation on commercial banks' performance. Even though the above researches and studies revealed existence of relationship between innovation and performance, all were contextually varied. None of the studies had focused on the effects of strategic innovation, an all-inclusive perspective towards innovation on performance. This study thus sought to fill this lacuna in knowledge by investigating a deep insight on the effects of strategic innovation on performance of commercial banks in Kenya with a focus on Equity Bank.

Objectives of the Study

The general objective of the study was to establish the effect of strategic innovation on performance of commercial banks in Kenya: A case of Equity Bank. The study specific objectives were:-

- To establish the effect of market innovation strategies on the performance of commercial banks in Kenya
- To determine the effect of product innovation strategies on the performance of commercial banks in Kenya

LITERATURE REVIEW

Theoretical Review

Porter's 5 Forces Model

According to Porter (1991), the essence of formulating competitive strategy is relating a company to its environment. Industry structure has a strong influence in determining the competitive rules of the game as well as strategies potentially available to a firm. The state of competition in an industry depends on five basic competitive forces: (1) Threat of new entrants, that is, possibility of new companies entering the market and barriers entry; (2) Power of suppliers which concerns how much bargaining power suppliers have; (3) Power of buyers – how much bargaining power buyers have; (4) Threat of substitutes – how easily product and service can be substituted; and (5) Rivalry among existing competitors – consequences of all forces above define this point, as shown in the picture below.

According to the Tidd et al. (2011), understanding industry structure is equally important for investors as for managers. The five competitive forces reveal whether an industry is truly attractive, and they help investors to anticipate positive or negative shifts in industry structure before they are obvious. The five forces distinguish short-term blips from structural changes and allow investors to take advantage of undue pessimism or optimism.

In the present study, Porter's 5 Forces Model underpin both market and product innovation. The banking sector is under threat of upcoming financial institutions including Savings and Credit Cooperative (SACCO) organizations and Microfinance Institutions (MFIs). These instituions have developed products and services that mostly appeal to the masses, proving a segnificant threat to the commercial banks, which are forced to continually carry out market and product innovations.

Schumpeter Theory of Innovation

Schumpeter (1928) argued that entrepreneurs, who could be independent inventors or R&D engineers in large corporations, created the opportunity for new profits with their innovations. In turn, groups of imitators attracted by super-profits would start a wave of investment that would erode the profit margin for the innovation. However, before the economy could equilibrate a new innovation or set of innovations, conceptualized by Schumpeter as Kondratiev cycles, would emerge to begin the business cycle over again.

Schumpeter (1934) emphasized the role of entrepreneurship and the seeking out of opportunities for novel value generating activities which would expand and transform the circular flow of income, but it did so with reference to a distinction between invention or discovery on the one hand and innovation, commercialization and entrepreneurship on the other. This separation of invention and innovation marked out the typical nineteenth century institutional model of innovation, in which independent inventors typically fed discoveries as potential inputs to entrepreneurial firms.

The author further saw innovations as perpetual gales of creative destruction that were essential forces driving growth rates in a capitalist system. Schumpeter's thinking evolved over his lifetime to the extent that some scholars have differentiated his early thinking where innovation was largely dependent on exceptional individuals/entrepreneurs willing to take on exceptional hazards as an act of will. His later thinking recognized the role of large corporations in organizing and supporting innovation. This resulted in his emphasis on the role of oligopolies in innovation and which later was falsely viewed as the main contribution of his work (Freeman, 2012).

Schumpeter drew a clear distinction between the entrepreneurs whose innovations create the conditions for profitable new enterprises and the bankers who create credit to finance the construction of the new ventures (Schumpeter, 1939). He emphasized heavily that the special role of credit-creation by bankers was 'the monetary complement of innovations' (Schumpeter, 1939). As independent agents who have no proprietary interest in the new enterprises they finance, bankers are the capitalists who bear all the risks (none is borne by the entrepreneurs). That requires having the special ability to judge the potential for success in financing entrepreneurial activities. Schumpeter emphasized that it is just as important to deny credit to those lacking that potential as it is to supply credit to those having it (Schumpeter, 1939).

Schumpeter's brief discussions of historical episodes of innovations in the field of banking might appear to suggest a positive role for financial innovations in financing the entrepreneurial ventures that produce the primary wave growth spurts. The spread of joint stock banking was cited as one of the most important innovations that occurred in the early 1800s (Schumpeter, 1939). Schumpeter (1939) propositions particularly interesting allusion to innovations in the banking sector is found in Schumpeter's discussion of the banking acts of the 1930s. He stated that the 1933 act introduced important reforms which included the strengthening the Federal Reserve's power to regulate member banks' extension of credit for speculative purposes and the separation of commercial banks and their security affiliates.

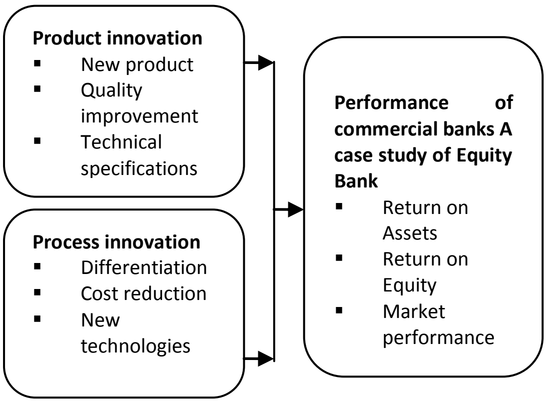
For all his insight on the role of innovation, Schumpeter still did not really explain the source of innovation. He was able to point to its importance and its role in timing economic cycles but did not address its source. This rather interestingly allowed Keynesian economics to argue that levels of investment were the cause of innovation. It was not until the 1960s that economists would begin again to search for the source of innovation. The importance of innovation was highlighted by researchers like Abramovitz (1956) and Solow (1957) who were able to demonstrate how little neo-classical economics was able to explain. Based on data on the United States economy from 1909-49, Solow showed that only 12.5 percent of the increase of per capita output could be traced to increased use of capital. This left a surprisingly large 87.5 percent residual that Solow attributed to technical change.

Schumpeter's assertions have been supported by Porter (2010) that innovation is vital for a country's long-run economic growth and competitive advantage. Porter (2010) argues that to compete effectively in international markets, a nation's businesses must continuously innovate and upgrade their competitive advantages. Innovation and upgrading come from sustained investment in physical as well as intangible assets. Financial markets play critical roles in mobilizing savings, evaluating projects, managing risk, monitoring managers, and facilitating transactions.

In the present study, Schumpeter's Theory of Innovation underpins the process innovation variable, in that, commercial banks have over the years, and to date continue to innovate the banking process with a view to increase the profit margin. Innovations such as the Real Time Gross Settlement (RTGS) system and Asset securitization are among the innovations with significant transaction fees and other charges that contribute to the banks' profits and the current pesa link innovation which is set to compete with mobile money.

Conceptual Framework

The aforementioned aspects forming the study objectives interrelate conceptually as depicted in figure 2.1 below. The figure presents a diagrammatic conceptualization of the independent and dependent variables. The conceptual framework below illustrates the relationship between the independent variables on one hand and the dependent variables on the other. Independent variables include; product innovation, process innovation, market innovation and technological innovation while dependent variables include; ROA, ROE and market performance.



Independent variables **Dependent variable**

Figure 1: Conceptual framework

Product innovation

Product innovation consists of firms developing new products or new production processes to better perform their operations, in which case the new products could be based on the new processes (Solans, 2011). In the financial services industry, product innovation is viewed as the act of creating and popularizing new financial instruments, technologies, institutions and markets, which facilitate access to information, trading and means of payment (Tao, 2012). A prominent product innovation in the banking industry is mortgage loans. In 1980, long-term fully amortizing fixed-rate mortgages were the norm and this product was offered primarily by thrift institutions (Pasha, 2010). Moreover, these loans required substantial down payments and a good credit history and the accumulated equity was relatively illiquid.

These characteristics have markedly evolved. The first big change occurred in the early 1980s with the widespread introduction of various types of adjustable-rate mortgages (ARMs), which had previously been banned by federal regulators. One mortgage innovation more directly tied to technological change is subprime lending, which was originally predicated on the use of statistics for better risk measurement and risk-based pricing to compensate for these higher risks. However, the subprime mortgage crisis has uncovered significant shortcomings in the underlying statistical models (Purnanandam, 2010).Electronic Funds Transfer at Point of Sale (EFTPoS) is another key product innovation in the banking industry. An Electronic Funds Transfer at the Point of Sale is an on-line system that allows customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (at purchase points). A POS uses a debit card to activate an Electronic Fund Transfer Process (Chorafas, 2013). Increased banking productivity results from the use of EFTPoS to service customers shopping payment requirements instead of clerical duties in handling cheques and cash withdrawals for shopping. Furthermore, the system continues after banking hours, hence continual productivity for the bank even after banking hours. It also saves customers time and energy in getting to bank branches or ATMs for cash withdrawals which can be harnessed into other productive activities.

Other examples of product innovations are; Airtel and Safaricom mobile phone money transfer services M-pesa and Zap to tap the potential for small scale transactions at reasonable costs. Equity Bank partnering with Safaricom to introduce the M-kesho service, Products tailored to suit specific status groups such as Excel, Priority, Premier and Executive Banking services Bank accounts tailored for specific age groups such as Barclay’s Bank‘s Junior eagle account for children, premier and premier life banking for the affluent.

Market Innovation

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served (Mitchell, 2013). Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. Skilful market champions appreciate the specific ways in which different customers buy. They know that some customers will have a preference for certain types of offers, while other customers will have quite different preferences (Narver and Slater, 2013). This means that the same core product can - and indeed, should - be offered quite differently to different market segments, if the aim is to meet buyers' preferences as closely as possible. There is nothing startlingly new in this. In many markets profitability turns on the ability to sell the same core product - such as airline or train seats - at different prices to different buyers. What skilful market champions appreciate is that the same core product can be differentiated by varying the support (Hurley and Hult, 2014).

Among commercial banks, there is a healthy tension between its key competences (Grant, 2015), on the one hand, and market opportunities on the other hand. High performing commercial banks address the market side of the business equation to assess alternative courses of action against the opportunities open to a business. This approach is quite different from one which assesses alternatives from the point of view of core competences or capabilities. Consideration of the strength of internal capabilities is too limiting a perspective when, as is increasingly the case, external competitive parameters are changing fast (Hamel and Prahalad, 2012).

Market-focused competencies among high performing commercial banks are essentially derived from the much-researched construct market orientation, which is composed of attitudes and behaviors that create ''superior value for buyers and, thus, continuous superior performance for the business'' (Narver and Slater, 2013). Two conceptualizations of market orientation among commercial banks dominate the literature: one defined in terms of the three behavioral components— customer orientation, competitor orientation, and inter functional coordination (Narver and Slater, 2013)—and the other in terms of three firm activities—information generation, information dissemination, and responsiveness (Kohli and Jaworski, 2013), marketing outcomes (i.e., responsiveness defined by Kohli and Jaworski (2013) as the design of plans based on market intelligence and the execution of such plans) and operational competencies (i.e., inter functional coordination) as marketing competencies. In this way, the responsiveness dimension of market orientation as conceptualized by Jaworski and Kohli (2012) is a form of innovative behavior.

Hurley, and Hult (2014) agree that responsiveness should be separated from the information components of market orientation; specifically, they argue ''that translating market intelligence into action is part of a larger planning and decision-making process that affects even internally oriented changes'' and that innovations (i.e., the response) will follow from the understanding of market intelligence. Similarly, inter functional coordination is defined as the ''coordinated utilization of company resources'' (Narver and Slater, 2013) and is an operational competency rather than a marketing competency. Moreover, prior research has advocated uncoupling the market orientation components because an aggregate construct may ''limit its strategic value for management practice'' (Lukas and Ferrell, 2011). Adopting these recommendations in the present study, responsiveness and inter functional coordination are detached from market orientation to define market competency as the gathering and dissemination of information about customer- and competitor oriented needs, behaviors, and intent.

Although Narver and Slater's (2013) components of market orientation have been found to relate significantly to innovation (Han, Kim, and Kim, 2011), the literature concerning the exact relationship between innovation culture among commercial banks and market orientation has been equivocal. Hurley and Hult (2014) and Hult et al. (2014) model market orientation as an antecedent of an innovative culture while Menon and Varadarajan (2010) suggest that an innovation culture encourages information dissemination (one of Kohli and Jaworski's (2013) market orientation components), which implies that innovation orientation is an antecedent of market orientation.

Empirical Review

Zewdie (2013) carried out a study on effect of financial innovation on the financial performance of commercial banks in Kenya. In his study, the population of the study consisted of all 43 commercial banks in Kenya. The primary data for the study was collected from majority of the banks i.e. 32 banks responded to the questionnaire well and secondary data was collected using publication, annual financial statement reports of commercial banks on the website and the bank supervision annual report from 2012- 2012 which was organized by the Central Bank of Kenya.

Multiple regression models with SPS-20 were used and descriptive statistics such as means, standard deviation and regression analysis were applied to analyze the data. The actual effect of financial innovation on financial performance was measured by regressing ROA and ROE against 12 financial innovations. The main findings of the study were financial innovations such as number of ATM cards, number of credit cards issued to customers, number of debit cards issued to customers, number of minor/children account, number of special deposit account, number of youth oriented accounts, number of customers registered for e- banking, number of customers registered for mobile banking and number of agency banking had imposed ROA of the bank studied. The study recommends that however, financial innovation is yet to show significant positive effect on the performance of banks, there is need for future investigations beyond financial measures used in the study as technology continues to penetrate market.

Corolyne (2012) assessing the effects of financial innovation on commercial bank's financial performance in Kenya at 30th June 2012. Corolyne studied all 43 registered commercial banks at that time for a period of 4 years. She used secondary data from published central banks' annual reports whereby the independent variable was financial innovations unique to commercial banks while dependent variable was consolidated financial performance of all banks. She found out that financial innovation indeed contributes to and is positively correlated to profitability in the banking sector particularly that of commercial banks.

Ngari et al (2014), in assessing, the relationships between credit cards, mobile banking, influence of internet banking and agency banking on the performance of commercial banks in Kenya. They studied 40 commercial banks registered in Kenya by the central bank for the period 2008-2012. They used secondary data from published financial statements whereby the independent variables were credit cards, internet banking, mobile banking, and agency banking and the dependent variable was financial performance. They found out that some banks in Kenya had adopted some financial innovations such as credit cards, mobile, internet and agency banking and indeed financial innovations had great impact on the financial performance of the banks.

Patrick (2011) studied the relationship between the adoption of financial innovation and the profit levels of commercial banks in Kenya; he studied 44 registered commercial banks by the central bank of Kenya in the period 2005 to 2010. He used linear regression whereby Innovation was an independent variable and profitability as the dependent variable; he also used primary data in the form of questionnaire and review of secondary data. He found out that there is a significant relationship between the adoption of various financial innovations and the profit levels of the commercial banks in Kenya.

Duade et al (2011) in assessing the relationship between financial innovation and commercial banks performance in Nigeria used fifteen (15) major banks in the Country. Two null hypotheses based on two different sets of questionnaires were distributed to selected banks employees and customers were formulated to test whether there is no significant relationship between technology innovation and banks performance; and between technological innovation and Nigerian banks employee's performance. Pearson correlation co-efficient was used to analyze the hypotheses. Findings revealed that technological innovation influenced banks employee's performance, customer's satisfaction and improvement in banks profitability.

Muthoni (2013) undertook the study determining the causal effect of financial innovation on financial performance of insurance companies in Kenya. For this study 45 insurance companies and Re- insurance companies operating in Kenya as at 31st December 2012 were used. Data was drawn from a period of five years that is 2008- 2012. The primary data was collected through questionnaire and where appropriate the secondary data was obtained from published information. The data was analyzed using descriptive and inferential statistics to generate descriptive regression of co-efficient as well as to determine the fitness of the model. Results indicate the relationship between new product and financial performance is insignificant. Results reveal that operations process and system innovation is statistically significant in explaining return on assets of insurance companies.

RESEARCH METHODOLOGY

This study took the descriptive research design. Descriptive research portrays an accurate profile of persons, events, or situations (Connaway and Powell (2010). The target population for the study was the staff at the Equity bank group headquarters, with a population of 160 employees. These 160 employees at the organization were distributed across the top, senior management (13), middle management (24) and operational staff (123) levels. The researcher used stratified random sampling to select the respondents. The three cadres (senior management, middle management and lower management) formed the strata from which the samples were randomly drawn. The study used primary data which was largely quantitative and descriptive in nature. The questionnaire was designed to solicit data on competitive forces that shape competition in an industry. After data collection, the filled-in and returned questionnaires were edited for completeness, coded and entries made into Statistical package for social sciences (SPSS version 21).

DATA ANALYSIS AND PRESENTATION

The study achieved a response rate of 83.5% with 96 respondents reached, out of the 115 targeted. According to Mugenda and Mugenda (2008), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The study sought to establish the different managerial levels respondents fell under, in order to ascertain diversity in perspectives based on the diversity in experience across the cadres. A majority of respondents, 41.1% were found to belong to the lower management cadre, followed by 35.6% belonging to the middle management level while only 23.3% belonged to the senior management level. This ascertained the diverse perspectives in the responses, as informed by activities in the respective management levels. Respondents were asked to indicate their highest levels of education. This would serve to show the academic qualification among respondents in their respective positions, as well as a general overview of education levels among respondents in the study area. From the findings, a majority of respondents, 63.4% of respondents indicated having attained an Undergraduate degree education level, followed by 27.5% having attained a Post-graduate Degree while 9.1% had a Diploma. Overall, the study area can be said to comprise staff from relatively high levels of education. With some level of working experience necessary in establishing the study objectives, the study found it necessary to establish the length of service of the respondents, in years, serving at their respective institutions. It was established that a majority of respondents, 35.5% had worked in the study area for between 7 and 10 years followed by 28.4% having worked for between 3 and 6 years. This was followed by 24.4% with over 10 years' experience in their respective institutions while only 11.7% have worked in their respective stations for below 3 years. The results present a rather fairly skewed distribution across the years representing the length of experience. With a majority of respondents having worked for at least 7 years, responses can be deemed as being informed by adequate experience in the study area.

Firm Performance

The study sought to determine the performance of commercial banks in Kenya with reference to Equity Bank, attributed to the adoption of the market innovation strategies, product innovation strategies, process innovation strategies and or technology innovation strategies.

Findings reveal improved financial performance across the 5 year period running from the year 2011 to 2015. In general, a positive growth was seen across the 5 year period for all the four measures of firm performance. Deposits grew from 6.0% in the year 2011 through 11.6% in 2013 to 17.1% in the year 2015. A 3.3% growth in loans was realized in the 2011 to grow by 3.8 in 2013 peaking at 7.9% growth in the year 2015. A similar trend was observed in profits, growing exponentially from 7.3% in the year 2011 to 15.2% in the year 2015. A normally distributed growth was observed in assets growing from 13.2% in 2011 to drop, albeit growth to by 13.1% in 2013 then by 17.4% in 2014 to drop again in the year 2015 growing by 14.3%. An inclining trend was further observed in customer base, growing from 8.8% in 2011 through 13.7% in 2013 to peak at a growth of 16.2% in the year 2015.

The finding agrees with Corolyne (2012) assessing the effects of financial innovation on commercial bank's financial performance in Kenya as at 30th June 2012. She found out that financial innovation indeed contributed to and was positively correlated to profitability in the banking sector particularly that of commercial banks. The finding was also in tandem with Patrick (2011) who studied the relationship between the adoption of financial innovation and the profit levels of commercial banks in Kenya; he studied 44 registered commercial banks by the central bank of Kenya in the period 2005 to 2010. He found out that there was a significant relationship between the adoption of various financial innovations and the profit levels of the commercial banks in Kenya. Accordingly, Githakwa (2011) carried out a study on the relationship between financial innovation and profitability of commercial banks in Kenya. The findings concluded that banks conceptualize financial innovation as a means to create impact in the profit performance. In addition, the study revealed that implementation of financial innovation requires more banks to have a great deal of resources and reduce costs of operations, reduce cost per transaction and equally enable banks to satisfy the customer needs.

It can be deduced from the findings that key firm performance areas had considerably and positively grown, attributed to a considerable extent to the adoption of the strategic innovation including market innovation strategies and product innovation strategies. The study thus sought to find out the individual contribution of the foregoing innovation strategies to the observed firm performance.

Effect of market innovation strategies on the performance of commercial banks in Kenya

The study sought to establish the effect of market innovation strategies on the performance of commercial banks in Kenya. To this end, respondents were asked to respond to pertinent statements posed with a view to establish the objective. This was also on a five-point Likert scale, where, 1= No extent; 2 = Small extent; 3 = Moderate extent; 4 = Great extent; 5 = Very great extent. The scales of 'No extent' and 'Small extent' equal a mean score of 0≤2.4. The scale of 'Moderate extent' equals a mean score of 2.5≤3.4; while the scale of 'Great extent' and 'Very great extent' is equivalent to a mean score of 3.5≤5.4. Table 1 presents the findings.

Table 1: Effect of market innovation strategies on the performance of commercial banks in Kenya

Statement	Mean	Standard Deviation
Equity mashinani	3.701	0.943
Women banking	3.913	0.542
Youth banking	3.976	0.861
Club and kids banking	3.613	1.061
Customer surveys	3.963	1.261
Research and development	4.132	0.471
Composite mean		**3.883**

As presented in table 1, a majority of respondents affirm that Research and development (4.132); Youth banking (3.976); Customer surveys (3.963); Women banking (3.913); Equity mashinani (3.701) and that Club and kids banking (3.613) have contributed to a great extent to firm performance in the study area.

Respondents were further asked to rate the extent to which market innovation strategies impacts the financial performance of the bank.

Majority of respondents, 36.7%, rate the extent to which market innovation strategies impacts the financial performance of the bank as very great, closely followed by 30.4% who rate the extent as great and 23.4 rating it as moderate. Only 1.4% of respondents assert that market innovation strategies have not influenced the financial performance of the bank to any extent. Going by responses by a majority, it can be deduced that market innovation strategies have greatly influenced the financial performance of the bank.

The finding was in agreement with Hurley and Hult (2014) who asserts that in many markets profitability turns on the ability to sell the same core product - such as airline or train seats - at different prices to different buyers. What skilful market champions appreciate is that the same core product can be differentiated by varying the support. The finding also agrees with Grant (2015) who offers that among commercial banks, there was a healthy tension between its key competences, on the one hand, and market opportunities on the other hand. High performing commercial banks address the market side of the business equation to assess alternative courses of action against the opportunities open to a business. The finding further agrees with Narver and Slater (2013) who argue that market-focused competencies among high performing commercial banks are essentially derived from the much-researched construct market orientation, which is composed of attitudes and behaviors that create ''superior value for buyers and, thus, continuous superior performance for the business''.

As such, it can be concluded that overall, among factors, market innovation strategies have contributed to a great extent to the observed improved firm performance as indicated by deposits, loans, customers, assets and profits over the last 5 years. Most notable market innovation strategies in this regard include research and development, youth banking, customer surveys, women banking, equity mashinani and that club and kids banking.

Effect of product innovation strategies on the performance of commercial banks in Kenya

The study also sought to assess the effect of product innovation strategies on the performance of commercial banks in Kenya. To this end, respondents were required to respond to pertinent statements posed. This was also on a five-point likert scale, where, 1= No extent; 2 = Small extent; 3 = Moderate extent; 4 = Great extent; 5 = Very great extent. Table 2 presented the findings.

Table 2: Effect of product innovation strategies on the performance of commercial banks in Kenya

Statement	Mean	Standard Deviation
Eazzy loans	3.883	0.9442
Temporary Overdraft Facilities (T ODS)	3.219	0.0429
Uncleared cheques	3.429	0.8592
Agency networks	3.903	0.3056
Swipe and Shop	3.401	1.3078
Composite mean		**3.567**

A majority of respondents affirmed that Agency networks (3.903) and Eazzy loans (3.883) have contributed to a great extent to the observed firm performance. A majority indicated that Swipe and Shop (3.401); Uncleared cheques (3.429); and TODS (3.219) only contributed to the growth to a moderate extent.

Respondents were further asked to rate the extent to which product innovation strategies impacts the financial performance of the bank. Majority of respondents, 28.9%, rate the extent to which product innovation strategies impacts the financial performance of the bank as moderate, closely followed by 27.7% who rate the extent as great and 20.9 rating it as very great. Only 4.1% of respondents assert that product innovation strategies have not influenced the financial performance of the bank to any extent. Going by responses by a majority, it can be deduced that product innovation strategies have moderately to highly influence the financial performance of the bank.

It followed then, from the foregoing finding that overall, among factors, product innovation strategies had contributed moderately to great extent to the observed improved firm performance as indicated by deposits, loans, customers, assets and profits over the last 5 years. Most notable product innovation strategies in this regard include Agency networks and Eazzy loans.

The finding was in agreement with Ngari and Muiruri (2014) who assessed the relationships between credit cards, mobile banking, influence of internet banking and agency banking on the performance of commercial banks in Kenya. The study found out that some banks in Kenya had adopted some financial innovations such as credit cards, mobile, internet and agency banking and indeed financial innovations had great impact on the financial performance of the banks. Similarly, Loof (2000) tested the existence of a positive relationship between the innovation output measured by sales of new products per employee and five different measures of firm performance (employment growth, value added per employee, sales per employee, operating profit per employee and return on assets). A positive relationship was confirmed for all five indicators. The finding is however in contrast with Muthoni (2013) who undertook the study determining the causal effect of financial innovation on financial performance of insurance companies in Kenya. Results indicate the relationship between new product and financial performance is insignificant.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study established that there is a significant relationship between the adoption of various strategic innovations and the profit levels of the commercial banks in Kenya with reference to Equity Bank. In general, a positive growth was seen across the 5 year period for all the four measures of firm performance i.e. deposits, loans, profits, customer base as well as assets which showed a normal distribution albeit drop in 2013.

The study established that market innovation strategies and product innovation strategies contributed to a great extent to firm performance. Market strategies used by Equity Bank being; youth banking, customer surveys, women banking, Equity mashinani and clubs and kids banking. Product innovation strategies moderately contribute to performance. The products used by Equity Bank being; agency network, swipe and shop, eazzy loans, TODs and un-cleared effects.

Conclusion

It can be deduced from the findings that key firm performance areas had considerably and positively grown improved, attributed to a considerable extent to the adoption of the strategic innovation strategies including market innovation strategies and product innovation strategies. The study thus sought to find out the individual contribution of the foregoing innovation strategies to the observed firm performance.

It can be concluded that overall, among factors, market innovation strategies had contributed to a great extent to the observed improved firm performance as indicated by deposits, loans, customers, assets and profits over the last 5 years. Most notable market innovation strategies in this regard include research and development, youth banking, customer surveys, women banking, equity mashinani and that club and kids banking.

It follows then, from the foregoing finding that overall, among factors, product innovation strategies had contributed to a moderate to great extent to the observed improved firm performance as indicated by deposits, loans, customers, assets and profits over the last 5 years. Most notable product innovation strategies in this regard include Agency networks and Eazzy loans.

Market innovation strategies and Product innovation strategies collectively explained of the variations in the Performance. Overall, it can be deduced that Strategic innovation, as indicated by Market innovation strategies and Product innovation strategies positively and significantly impact performance among Commercial banks in Kenya.

Recommendations

The following are the recommendations emanating from the findings of this study: Since technological innovation is aggressively and continuously adopted in Kenya, the government should provide incentives for research and development to researchers who would continue to invest their time and skills in discovering more bank innovations. It is recommended that the government also pursues a strategy to provide incentives for technology transfer from more developed economies in order to promote the adoption of world class innovations - this will boost prosperity in the banking industry in Kenya.

Professionals in the banking industry should invest their time, effort and resources towards innovations that are relevant and compatible to their products and services. This will mean more income for the professionals if the innovations become successful. In Kenya there are some citizens who are still unbanked due to poor access to financial services. Bank managers should explore ways of providing innovative solutions for reaching the unbanked. This can result to more financial deepening and better financial development for the country and hence better profitability for the banks.

Innovation has its set of challenges especially related to security threat which can lead to reputation risk among banks and loss of confidence by the customers. The main users of bank innovations are depositors. Without deposits and depositors the sustainability of banks would be at risk. This therefore calls for better management of innovations in a manner that boosts depositors‟ confidence. The initiators therefore need to create enhanced and effective security systems which can detect, control, prevent and manage fraud incidents on the various innovation channels. This recommendation is derived from the growing cybercrimes, threat of system intrusion by hackers which can erode the desired gains of bank innovations.

Suggestions for Future Studies

The present study has established the effect of strategic innovation on performance of commercial banks in Kenya with reference to Equity Bank Lastly. The same has revealed areas of potential research interest going forward. The study hereby recommends that a comparative study can be carried out on impact of innovation on financial performance of both banks and other financial institutions like SACCOs. This will provide a comprehensive conclusion and recommendation on policies that need to be put in place to ensure that financial institutions benefit from innovative ideas in their businesses.

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