

# **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*

## 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

1. To study the innovation strategies employed by banks in Eldoret
2. To establish the relationship between product innovation and growth of banks
3. 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.

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).

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; these 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. 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;

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).

## 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 techniques 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 played an important role in the presentation and interpretation of analyzed data.

## FINDINGS AND RECOMMENDATIONS

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.

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.

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