THE ROLE OF PRODUCT INNOVATIONS IN CREATING COMPETITIVE ADVANTAGE; A CASE OF MICROFINANCE INSTITUTIONS IN NAKURU TOWN.

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SEPT, 2012

DECLARATION AND RECOMMENDATION.

DECLARATION

This research project report is my original work and has not been presented for a degree in any other university.

Signature…………………………………… Date…………………………………

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RECOMMENDATION

This research project has been submitted for examination with our approval as university supervisors.

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LIST OF ABREVIATIONS

1. ATM-Automatic Teller Machine
2. ANOVA-Analysis of Variance
3. CB- Commercial bank
4. CBK-Central Bank of Kenya
5. INNOVAT. Innovations
6. GDP-Gross Domestic Product
7. K-ECLOF-Kenya Ecumenical Church Loan Fund
8. MFI-Micro-Finance Institutions
9. MICR-Magnetic Ink Character Recognition System
10. NGO- Non Governmental Organization
11. SMEP-Small and Micro Enterprise Program me
12. SPSS-Scientific Package for Social Science
13. TOTLOAN- Total loan

ABSTRACT

The financial market in Kenya has been growing over the past decade and it is increasingly becoming more competitive.Since new entrants appear in the market every now and then, banks must find ways to maintain a competitive advantage.The increasing competitive environment for most banks makes enterprises to innovate the products and services they provide. The extent to which innovations by microfinance institutions on products and services contribute to profit, number of depositors and revenue in Nakuru town is not known.

The purpose of the study was to evaluate the role of strategic innovation in creating competitive advantage in microfinance institutions within Nakuru town. The objectives of the study was to determine theextent to which product innovation contribute to the increase in profit, number of depositors and increase in revenues. The study used descriptive design, the population under study was microfinance institutions in Nakuru and the entire population was studied with branch managers as the respondents. Data was collected using structured questionnaires and then analyzed using descriptive statistics and multiple regression analysis. The research findings were that product innovations do not contribute to profit, number of clientele and revenue however individual innovations such as new product development, management approaches, efficiency in serving customers and training was found to contribute to profit,number of clientele and revenue.Factors such as capital, amount of loan and revenue are therefore the major variables that determine the firms, competitiveness.The recommendation therefore is that the managers of the various microfinance institutions should be more creative and innovative in order to adopt unique practices to enhance competitiveness in the industry.

Key Words: Product innovation, Competitive Advantage, Microfinance Institution, Financial Sector and Nakuru town..

CHAPTER ONE:

INTRODUCTION

1.1 Background of the study

The role of innovativeness, or innovative capability, in attaining competitive advantage has emerged in recent years as one of the most important topics both to the academia, and to regional, national, and even global arena in the context of the common marketplace. Innovation is considered a fundamental component of entrepreneurship and a key element of business success. Strategic Innovation is the creation of growth strategies, new product categories, services or business models that change the game and generate significant new value for consumers, customers and the corporation.

Strategic innovation takes the road less travelled, it challenges an organization to look beyond its defined business boundaries, it enables the firm participate in a creative exploration of the world of possibilities. Strategies need almost constant rejuvenation, either because old assumptions are no longer valid, or because the previous strategy has been imitated and neutralized by competitors. "In such a scenario the firm needs to rewire its organizational operations," Vijay, (2009).

There is an emphasis on generating 'big ideas' in the corporate and business fraternity "However, the emphasis in terms of turning these ideas into actual breakthrough products, services and process improvements is clearly not adequate, Vijay, (2011).

Strategic Innovations calls for a holistic approach that operates on multiple levels. First, it blends non-traditional and traditional approaches to business strategy, deploying the practices of ñIndustry Foresightò, ñConsumer/Customer Insightò and ñStrategic Alignmentò as a foundation, and supplementing them with more conventional approaches and models. Secondly, it combines two seemingly paradoxical mindsets: expansive, visionary thinking that imaginatively explores long term possibilities; and pragmatic, down-to-earth implementation activities that lead to short-term, measurable business impact (Palmer & Kaplan, 2007).

The origin of Kenya's financial institutions is rooted in the country's historical past of colonial economy while growth has mainly taken place in the organizational framework of a mixed economy during independence period. The control over money supply and the volume of credit is through the central bank, commercial bank and non-bank financial institutions. Thus Kenya established central bank in 1963 to add to the already existing financial institutions around the time of independence comprising of six commercial banks, three hire purchase houses, insurance Companies, building societies, saving foreign exchange bureaus, micro-finance and loan associations.

Rainey, (2009) discussed that Improvements and enhancements are realized through creative thinking, engagement and investment of time, money, and effort.He further suggested that inventing the future is about creating new solutions that are superior to the old ones using a platform for continuous improvement. In today's complex and turbulent world, setting the pace of change and influencing the standards of the future are prime avenues for achieving competitive advantages and sustainable success.

Robinson and Pearce, (2009) claimed that the market has become more competitive and as new entrants appear in the market, banks must find ways to maintain a competitive advantage. In the Banking industry this can be done by developing expertise and resource strengths that give the Company competitive capability that rivals cannot easily imitate, focus on a narrow market, differentiation of products and fair pricing. The commercial bank innovates mainly on their customer business and in terms of financial structures, credit inventory and marketing policies. Financial innovations has spanned new institutions, new products and new markets thereby transforming a conservative banking into a new and highly sophisticated financial service industry. Commercial banks play an important role in development by facilitating both the accumulation and mobilization of capital for investment and the supply and access for working capital. As developments take place, credits provides resources to poor entrepreneurs.

Anders, (2006) Explains that the strategic innovation is seen as a benefit that is attributed to its growth; it causes increase in real income, demand for specific products and services. Strategic innovation brings complex interaction between many individuals, organizations and environmental factors. Innovation is able to match technological developments with complementary expertise in other areas of business such as human resource, marketing, processing of transaction and customer relationship.

Drucker,(1985) noted that innovation is considered a fundamental component of entrepreneurship and a key element of business success. This is becoming even more into post-capitalist, knowledge based society, continuous changes in state of knowledge produce new disequilibrium situation and therefore, new profit opportunities. The rate of change to innovate is also increasing due to exponential advancement in technology, frequent shifts and global competition. This has been categorized as ñhyper-competitionò and as we move more into a more knowledge based society, an increasing stream of knowledge that keeps market place in perpetual motion will require banks to focus even harder on being innovative in order to create and sustain competitive advantage.

The microfinance sector plays a critical role in economic growth and poverty reductions. Furman and Stieglitz, (2007)) mentioned that the financial sector is contribution to development and poverty reductions is realized in several ways. First, it provides the facilities and instruments from mobilizing savings and allocating them for consumption and investment purposes, secondly a well-developed financial systems enhances theeffectiveness of microeconomic policies that promote price stability which itself is conducive to development and superior economic performance, Lastly the financial sector has the ability to contribute directly to poverty reduction through such channels as microfinance institutions and the informal sector, which provide savings and loan facilities to micro-small and medium- scale enterprises

1.2. Statement of the Problem.

Strategic innovations are expected to make microfinance institutions efficient and competitive in the market. The increasing competitive environment for most organizations is making enterprises to improve their products and services. Strategic innovation is expected to improve infrastructure, increase functionality of the organization and range of strategic options that can be pursued (Eisner, 2008). Many microfinance institutions are forced to innovate to be competitive and stay ahead of competitors.Because of the stiff competition and changing market environment. It is not known whether innovations by microfinance institutions on products and services contribute to competitiveness of the institutions in terms of, profit, number of depositors and revenue in Nakuru town. Adoption and adaptation of these innovations though having expected returns has cost implication to an institution due to the process of market research, policy change and implementation. The innovations by microfinance institutions are adopted from large banking institutions which have different capital structures, management structures, clientele, policies and regulations that have been established over long decades.

There is no empirical work that has established the extent to which microfinance institutions have used strategic innovations and the extent to which it contributes to their competitive advantage. This is a knowledge gap that this study seeks to address. The aim of the research is therefore to evaluate the role of strategic innovation by microfinance institutions in creating competitive advantage in Nakuru town.

1.3. General objective of the study.

To evaluate the role of strategic innovations in microfinance institutions on the measurements of competitive advantage: (profits, number of depositors and revenues).

1.4. Specific objectives of the study.

1. To determine the extent to which product innovation contributes to profit in microfinance institutions.

2. To determine the extent to which product innovation contributes to number of depositor in microfinance institutions.

3. To determine the extent to which product innovation contributes to revenue in microfinance institutions.

1.5.Hypothesis

1. There is no relationship between product innovations and profit in microfinance institutions.

2. There is no relationship between product innovations and number of depositors for microfinance institutions.

3. There is no relationship between product innovations and revenue for microfinance institutions.

1.6. Scope of the study

The study focuses on the role of product innovation in Nakuru town. It was realized that microfinance institutions are few in number and in that regard the researcher has focused on all microfinance institution in Nakuru town and took a pilot test on five microfinance institution in Naivasha for validity and reliability of the study instruments.

1.7. Justification of the study.

In as much as strategic innovationis an important factor for creating competitive advantage of microfinance institutions, it has not been given much attention by scholars. Scoones and Adwera, (2009) did a research on pastoralism Innovation systems, this research concentrated on pastoralism and livestock production which took two forms ï one a celebration of the ópastoral way of life' and the importance of indigenous systems of production management and another focusing on the market potentials of a ólivestock revolution'.

Simiyu and Chemwile, (2006) of Moi University carried out a research on strategic innovations on educational settings which focused on the efforts to changing educational process aimed at improving its effectiveness. None of these was on strategic innovations practices and creating competitive advantage in microfinance Institutions. It is therefore in this regard that i opted to study in this gap of establishing the effects of product innovations for competitive advantage in microfinance institution.

1.8 Significance of the study

Microfinance institutions will use the findings of the research to improve their competitive advantage in the market and improve performance. The government will use the information in making policies benefiting Microfinance institutions. The customers will benefit by getting quality services. Researchers and scholars will benefit from the study as they will use the finding as source of information.

1.9. Limitation of the study

The time and resources scheduled for this study was limited; hence even though every effort was made to cover crucial aspects associated with the research problem, it was not possible to cover each and every aspect of issues in the field and also the potential effect of non-response error which affected the accuracy of the results. The problems of both sampling and non-sampling errors, affected not only the accuracy and precision of results, but also the scope of the interpretation.

2.0 Delimitation of the study

The study focused on microfinance institutionmanagers and few other employees were selected at random in Nakuru town. The town, which was established by the British during the colonial era, is Kenyaôs 3rd largest town. It has witnessed tremendous growth over the years as a result of being a transit town, a tourist destination and has favourable climatic conditions. The banking industry has particularly grown in a significant way raising the number of banks to thirty`five(35) with over five banks opening new branches in Nakuru in the last three months; The microfinance institution in Nakuru has a good number of employees; however, the study delimit itself to a sample of three respondents from all the banks in Nakuru town.

2.1 Definition of terms.

Strategic innovation: The generation of a new idea and its implementation into a new product and service leading to national economic growth, increased employment and creation of profit, (Researcher 2012)

Strategy: According to Pearce and Robinson, (2005) a strategy is a company`s Game plan, it reflects a companyôs awareness of where they are, where they are going and how to get there. In relation to this definition therefore Strategies are programs, goals and objectives set by microfinance institutions to achieve success within their operations.

Microfinance- is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services.(MasterCard foundations).

Microfinance institutions-Also called MFI. An institution that provides financial services to the worldós poor. A financial institution can be a nonprofit organization, regulated financial institution or commercial bank that provides microfinance products and services to low-income clients.(MasterCard foundations). Dictionary also defines it as regulated financial institutions that provide financial products and services to low income clients.

Competitive advantage: is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher, (Researcher 2012)

Financial sector: The sector of the economy within a country that comprises financial institutions and financial market. That acts as a source of funds for daily operations,(researcher 2012).

Innovation: The dictionary meaning of Innovation is the development of new customerós value through solutions that meet new needs, in new way. A spigit journal in Washington further defined an innovation as*A*change in a product offering, service, business model or operations which meaningfullyimproves the experience of a *l*arg*e* number of stakeholders.

Product innovation: The Wikipedia defines product innovations asthe creation and subsequent introduction of a good or a service that is either new or improved on previous goods or services of its kind.

Revenue: Investopedia defines it as the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income.

Profit:

Investopedia defines profit as that financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. It is calculated as:

Profit = Total Revenue - Total Expenses

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

The literature of the study was based on primary sources, secondary sources and the authorôs research and experience. Strategic Innovations, product innovation, competitive advantage performance indicators and empirical studies are the major factors explored in this chapter. The importance of the literature review is to critique the existing works so as to make a case for the study. The structure of this chapter is presented as follows: discussing on strategic innovation, product innovation, and measures of competitive advantageand performance indicators of microfinance institution, empirical studies and conceptual framework.

2.2The Theoretical Review

This theory composed of four basic theoretical approaches, each focusing on a different element of the innovation process. These are combined to create meta-theory of diffusion consisting of four components:

2.2.1 The innovation decision process,

This is the perceived attributes of the technology and the rate of adoption and individual innovativeness (Rogers, 1995). The innovation decision process is characterized by five stages: knowledge, persuasion, decision, implementation and confirmation.

2.2.2 Knowledge stage

This is where an individual or household is exposed to the innovationôs existence and gains understanding of how it functions. However even after knowing about an innovation, individuals may need to be persuaded to use it because they do not regard it as relevant to their situation. The outcome of the persuasion stage is either adoption or rejection of the innovation.

2.2.3 Implementation stage

Here is when an individual puts an innovation into use .its at this stage whereby an individual or organisation mustbe very cautious in that some control should be put in place so as to achieve the desired result.

2.2.4Confirmation stage

During this stage an individual seeks reinforcement for the decision made. Rogers (1995), identifies five attributes upon which an innovation is judged. These are relative advantage, compatibility, complexity, Triability and observability. Relative advantage refers to the degree to which an innovation is perceived as better than the practice it replaces. Relative advantage is often expressed in terms of economic, social or other benefits. Compatibility refers to the degree to which an innovation is perceived by potential adopters to be consistent with their existing values and practices. Compatibility with what is already in place makes the new practice seem less uncertain, more familiar and easier to adopt. Complexity refers to the degree to which an innovation is considered as a difficulty to understand and use. If potential adopters perceive an innovation as complex, its adoption rate is low. Taxability refers to the extent to an innovation may be subjected to limited experimentation. Finally, observability refers to the degree to which the results of an innovation are visible to others. This theory posits that innovation spread gradually over time and among people resulting in various adopter categories. The result is an adoption process that forms a normal S-shaped curve when plotted over time (Rogers, 1995).

Roger, (1995) attributes this distribution of adoption to the role of information, which reduces uncertainty in the diffusion process. Based on this arguments Rogers has classified adopters into five categories: innovators, early adopters, early majority, late majority and laggards. Innovators are described as individuals who are venturesome, eager to try new ideas and take risk. Early adopters are described as the local opinion leaders in the system that function as the role models and are quick to see the value of innovations. Early majority is form the largest category. These people only make a decision when they are convinced of the benefits. Late majority are cautious and sceptical persons who do not adopt until the late majority has done so. They are usually the relative poor and are averse to risk. The last group of adopters is the laggards. They are suspicious of innovations and change agents. They are usually poor and seldom take risks. The microfinance management could also be seen in this perspective in an attempt to explain adoption and usage of product innovations in Nakuru town,

2.3 Strategic Innovation

Innovations have significant impact on achieving profits, number of depositors and revenue.Mazzucato, (2002) explained thatInnovations have significant impact on achieving profits, number of depositors and revenue.quoted that it is the characteristics of the firm like its size and its internal organization that determines its ability to innovate and thus its ability to achieve profits, number of depositors and revenue in a turbulent environment, which implies that capabilities of the firm in terms of resources enables it to come with sustainable innovations that yield high profits , increase the number of depositors and revenue. In order to achieve sustainable competitive advantage, a firm needs to become better than its competitors, where profits, number of depositors and revenue can be sustained. This can be achieved through doing new things or doing existing things differently in a way that make it difficult for other competitors to imitate.

Nathanael, (2008) submits that RCTs (Randomized controlled trials) are one of the innovations used to evaluate door-to-door deposit collection, emergency savings accounts, health insurance, and more. The practices involved include; projects testing loan collection strategies, deposit reminders via SMS, and crop price insurance for poor farmers. This will demonstrate both the flexibility and utility of resources within financial institutions to improve their operations, profitability, and impact.

Thompson, (1999) noted that when banks are successful in introducing new ways to the market and their products, they can spark a burst of customer interest, wider industry demand, increased product and service differentiation and lower unit cost all of which can alter their competitive positions of rival firms. Innovation of products and services of business are important to all economies. Strategic innovations and new business development can be initiated by independent individuals or existing enterprises.

Berry, Shankar, parish, cadwalladar and Dotzel,(2006) asserted that many companies make incremental improvements to their service offerings, but few succeed in creating service innovations that generate new markets or reshape existing ones. It is therefore important to understand the various market-creating product innovations as well as the factors that enable these innovations.

Pearson, (2011) supports that both customers and industrial market have come to expect periodic changes and improvements in their products offered. As a result, some firms find it profitable to make innovation to their grand strategy. They seek to reap the initially high profit associated with customer acceptance of a new or greatly improved product. What is needed is an entrepreneurial society in which innovations and entrepreneurship isthe norm, steady and continuous. An organization would evolve along with its customers and its markets, such an organization would adjust its cost base, its processes, its people, policies and product offering to exploit current trends in technology. Cole, (2003) supports the idea that in the in-depth study of change in major US Companies identified two quite different ways in which companies approached innovation. One approach was integrated with problems, which were willing to try new ideas, prepared to push the organization to its limit, and generally saw change as an opportunity rather than a threat.

The other approach, by contrast, compartmental problem solving, saw the organization as a collection of segments rather than as organic whole, dealt with change within segments and were unwilling to alter the balances of the overall structure. The most important motive for innovation in a business enterprise is to improve the organization ability to meet and satisfy customer needs Cole, (2003).

The choice of financial services is influenced by the desire to investigate service firms in a highly competitive, dynamic and technology-driven industry. The rapidly changing business environment of the financial services sector has led to an upsurge in innovation-related activities (Blazevic&Lievens, 2004). However service innovation practices improve the competitive advantage of a firm. Our results may help managers to understand product innovation and resource allocation better, with a view to increasing profit, revenue and number of depositors.

A necessary condition for survival of an innovation is that, after a trial, it is considered as important by the organizations that directly determine whether to be used or not. If the innovation is to persist and expand in use, the firm must find a new product or service profitable to produce. In summary, to create new markets, firms must implement specific product innovation practices to develop scalar business models, manage customer experience, monitor employee performance and provide managerial innovation (Berry *et al.*, 2006).

2.4 Product innovation

Innovations in microfinance extend beyond product diversification. It includes much needed innovation in service delivery, which includes the use of new technologies and new organizational approaches. Innovations in microfinance are a necessity. In order to keep pace with the changing needs of clients, service providers must be prepared to introduce new products, test revise systems and overall better ways to reach more people. By providing underserved market access to financial services, microfinance is itself an innovation (Joe, Sharon and Jenny, 2009.As the sector evolves, however, so must the products and services that it offers. The necessary progression is toward offering a large number of diversified products and services through a variety of delivery channels. Despite rapid growth, the market is still dominated by traditional models that focus largely on credit provision. The recent economic crisis has further highlighted this weakness. The effects of high operational costs, clients over indebtedness and a general lack of customer loyalty have become more acute.

According to Yanuar& Miles, (2009), Microfinance provides financial products and services to clients that are considered ñunbankableò by the conventional financial institution. Microfinance Institutions (MFIs) also develop new techniques and methods to ensure that the services both reach the targeted clients and yield profits.

Micro Finance Institutions innovate in terms of rules and procedures to ensure clientsô repayment. which includes training policies and human resource management practices which aim at modifying financial facilities and structuring the working units to provide services.

The innovative features of microfinance are: New methods of providing credit to the borrowers such as: the usage of social collateral such as group guarantee instead of personal physical collateral, progressive lending approach. Approaches to mobilization of savings from the clients and linking credit provision to savings Emphasis on social mobilization processes, involving awareness building and formation of self-help groups, and Provision of other services, such as insurance, to cover risks and distress faced by the clients.

Susman, Warren and Ding, (2006) Supports the discussion that product innovation can broaden an industryôs customer base, rejuvenate industry growth and widen the degree of product differentiation among rivals. Successful introduction of new product strengthens market position of the innovating companies, usually relative to those who stick with their old products. Competition in an industry is always effected by rivals to be the first to introduce a new product. An ongoing stream of product innovations tends to offer competition in an industry by attracting first time buyers. Thompson, (2009) explains that competitive advantage results once a sufficient number of customers become strongly attached to the differentiated attribute of products or services. Differentiations enhance profitability whenever the extra price the product commands otherwise the added costs of achieving.

Innovation benefits both clients and institutions. In addition to traditional working capital loans, borrowers need financial products that respond to life events, such as healthcare emergencies, the need to pay educational fees and retirement. Graham, (2006) asserted that access to a diverse range of financial products allows poor households to better management of risks and accumulation of late needed assets. Likewise, expanding product offerings provide tangible gains to MFIs. There is an obvious relationship between improved client experiencing economic growth offers greater potential to an MFI. Likewise, diverse product offerings can help institutions manage risks, reduce operational cost and increase overall levels of profitability.

Prothman, (2006) in their perspective, the differing corporate resources bases are sources of innovation, subsequently the new products are tasted in the market place. As in the resource based view, the firm is crucial task is to exploit its existing resources and capabilities while simultaneously developing new corporate assets for future business opportunities. It takes time, resources and management to create new assets. He further discussed that the returning interest in creating future growth through bold innovation but not the return of rhetoric devaluing, continuous improvement or presenting incremental and breakthrough innovations as polar opposites.

2.5 Competitive Advantage

Porter, (1998) Defined Competitive advantage as the ñhowò of a strategy. It defines how the firm intends to achieve since the firm faces actual or potential competitors, it must have a compelling reason to expect that it will be able to compete effectively against them, competitive advantage suggests a high performing firm must achieve advantage over its competitors. Many markets have a room for several firms generally speaking however; a firm will do better if its source of competitive advantage is unique.

Michael and Robert, (2000) noted that innovations are vital to the development of competitive advantage in the service sector as it is in manufacturing sector. Data processing, health care, transportation, financial planning and telecommunication are examples of service areas that are growing in size and in which firms are able to develop competitive advantages through innovation.Innovations are intended to enhance a firmös strategic competitiveness and financial performance. Further research study(Michael et al, 2000) highlights innovationös importance. For example research results show that firms competing in global industries that invest more in innovation also achieve the highest returns. In fact, investors often react positively to the introduction of a new product, thereby creating the market price of a firmös stock. Innovation then is an essential feature of high-performance firms. The fact that firms differ in their propensity to produce value creating innovations, as well in their ability to protect innovation from imitation by competitors, is another indicator of innovationös ability to be a source of competitive advantage.

Lee, Netteshein and Liao, (2005) States that companies urgently need to boost their innovation productivity. However, many lack the discipline to systematically filter their innovative ideas, focus only on the most promising among them, and follow through effectively in developing, launching, and sustaining the resulting products.To isolate the best ideas and drive them to market, managers need to set clear, data-driven targets for innovation, install oversight mechanisms to increase success rates, establish firm priorities among projects, and allocate their resources accordingly.

The nature of competition will vary from industry to industry and from sector to sector. Most microfinance competition is likely to take the form of internal competition within the larger organization of which most microfinance units form a part of sub-sector level of competition that relates to the benchmarking services. Determining competitive advantage requires an organization to analyze and define its environments in terms of its competitors (Michael, Ireland and Hoskisson, 2007).

The essence of competition is that it forces companies to become more efficient. Managers have to make better decisions. Management always causes problems with competition they are not likely to cause the company to fail. By assessing the firmǿs competitive position, a business improves its chances of designing strategies that optimizes environmental opportunities.

Development of competitor profiles enables a firm to more accurately forecast both in short-term and long-term growth and profit potentials. Criteria used in constructing a competitor profile include breadth of product line, effectiveness of sales distribution, price competitiveness, advertising, relative service quality, research and development advantages, caliber of personnel and general image. The major elements of competitive advantage include profit, number of depositors and amount of deposit.

Competitive advantage is dynamic in two senses. First firm must continually develop and deepen current advantage if they are to meet the challenges of competition. Secondly, overtime the firm may want to alter its strategy to pursue some other form of competitive advantage. The first one is referred as ǿǿexploitingǿǿ competitive advantage and the second as ñexplosionǿǿ new competitive advantage.

Another aspect investigated in the study is the firmsô competitiveness. A universal and exact definition of competitiveness does not exist; competitiveness means different things for different organizations (Rusu, 2003). Some organizations view competitiveness as the ability to persuade customers to choose their offerings over alternatives, while others view competitiveness as the ability to improve continuously process capabilities (Rainer and Kazem, 1994). Core competencies, as well as capabilities that drive such competences are considered to form the essence of competitiveness. Therefore, in accordance to Little (2004) on *competitiveness* is that a companyǿs perspective is the ability to provide products and services more effectively and efficiently than its relevant competitors.

The five factors contributing to competitiveness that were identified from the literature and are used for this research can be categorized a follows:

1. ***Speed*** ï How quickly the organization responds to its customers and their needs. This covers not only speed of delivery, but also how quickly it can give answers to queries.
2. ***Dependability*** ï How well the company keeps its promises.
3. ***Flexibility*** ï How good the organization is at accommodating short-time notice changes ï and how good it is at controlling the overhead costs of these changes.
4. ***Quality*** ï How well the organizationøs products or services fit the customersô needs, as well as how consistently the company is able to deliver them.
5. ***Price*** ï How the organizations compares to other suppliers in the market when compared on price.

2.6 Performance indicators of Microfinance Institutions.

Microfinance `institutions performance is based on their ability to attract a large number of customers. One way of measuring microfinance institutions performance is therefore, the comparative proportion of account holders relative to other institutions. The amount of revenues also indicates the trust that people have accorded to their institutions with their finances. Another important performance indicator is the profit that is realized by the microfinance (Ylinen, 2010).

2.7 Empirical Studies of Strategic Innovation in Kenya.

Scoones and Adwera (2009) is a research done on pastoralism Innovation. This research concentrated on pastoralism and livestock production which took two forms ï one a celebration of the ópastoral way of life' and the importance of indigenous systems of production and management and another focusing on the market potentials of a ólivestock revolutionö. It was found out that, innovation is about change, but change need not to undermined senses of cultural belonging and identity .A successful innovation often occurs through collective action.Whenpeopleareorganized, they can plan, innovate and demand change .Pastoralism is a dynamic system and pastoralist must change and adopt these changes by accepting the new education that is in place otherwise will be oppressed by the learned friends.

Simiyu and Chemwile (2006) of Moi University carried out a research on strategic innovations on Educational settings which focused on the efforts to changing educational process aimed at improving its effectiveness. It majored on the process of change management in the education service in Kenya with a view to explaining the factors that have led to poor management of change. It therefore concluded that changes in education have not been effective enough because of the fact that stakeholders are neither fully informed nor involved in formulating and initiating change .

Moindi (2006) studied commercial banks in Kisii town, subjected the data to frequencies and percentages. The study revealed that there is a relationship between how serious commercial banks take competitors and performance. It also revealed that commercial banks that use strategic planning the profit margin were higher compared to competitors. In the study she found out that highly performing micro finance institutions emphasized strategic planning in the activities. Of all the above studies none has majored on strategic innovations in microfinance organization for competitive advantage.

2.8. Conceptual Framework

Product innovation increase the customer wants due to differentiation features leading to competitive advantage. The customer uses various products and services which increase profit, number of clients and credit. Government regulation is the intervening variable between product innovation and competitive advantage. This is described by figure 1 Independent variables are those factors whose performance affects the outcomes of the others but can stand on their own. This is represented by the innovations, and dependent variables are those factors which cannot stand on their own but their outcomes depend on the performance of the others. In that regard innovations determines the number of profit, number of clientele and amount of revenue which therefore represents the dependent variables. Intervening variables are those factors which affects both the independent variable and dependent variable they include: Government regulations such as taxes, interest on loans, exchange rates etc.

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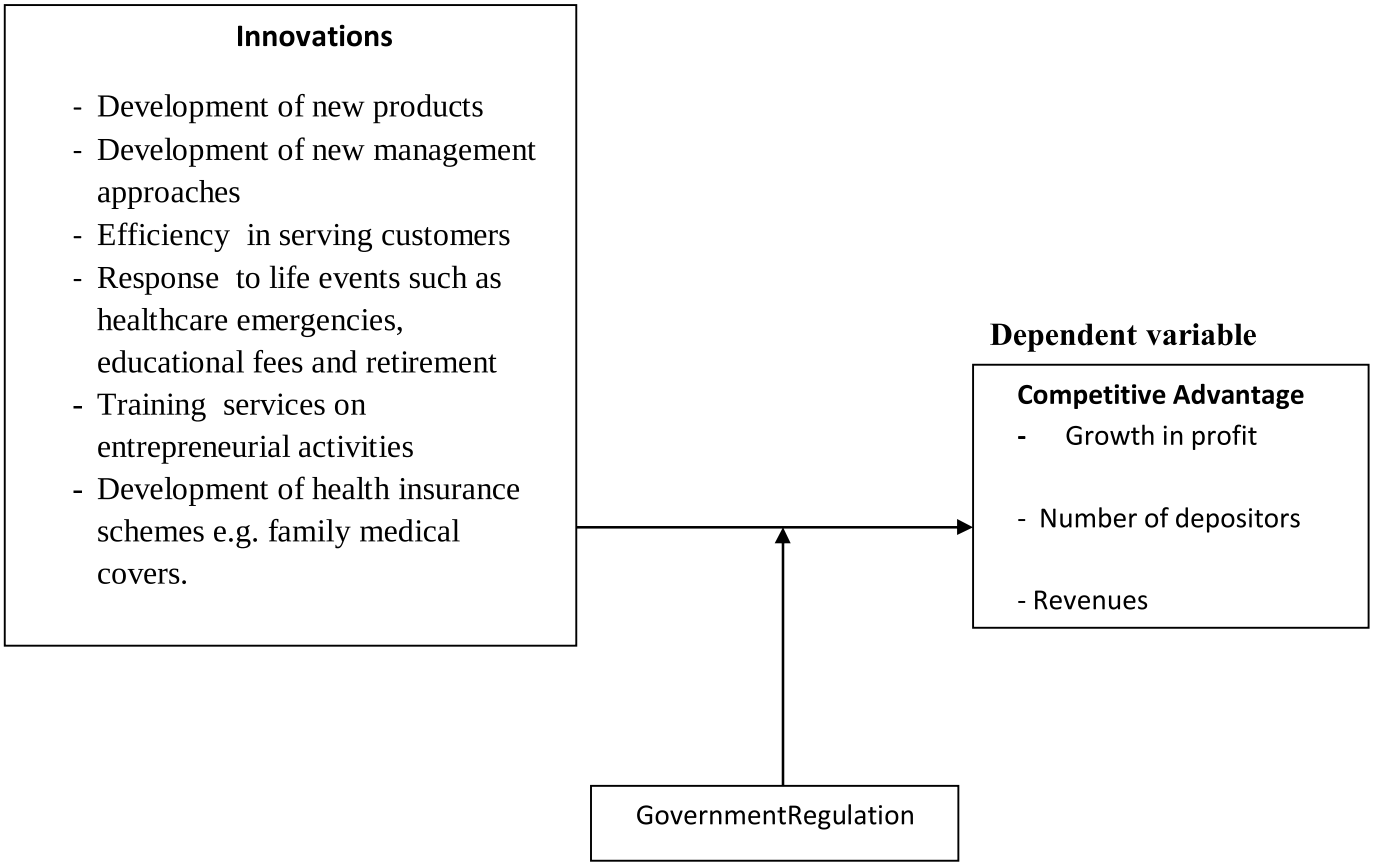
Independent variable



Intervening variable

Figure 1: conceptual framework

Source: Authorôs 2011

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the research process issues are mentioned. The methods to be used and why they are selected will be discussed. The structure of this chapter includes the research design; target population; sampling procedure; data collection methods; operational definition of variables and data presentation analysis

3.2. Research Design

According to Henon, (1998) A research design refers to a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision. This study will adopt a descriptive survey design, since it is capable of presenting detailed information about a given social system. This design is appropriate for studies that use questionnaires and interview schedules.

3.3 Study Population

Mugenda, (2003) defines population as entire group of individuals, events or objects having common observable characteristics. Similarly, Shao, (1999) define a population as an aggregate of all the elements.

The study population comprises ten microfinance institutions in Nakuru town. This is as per the provincial registration license register of microfinance institutions who have been in existence for the last five years.

3.4 Sampling procedure and sample size

The research will use census for study because population is small and all the microfinance institutions are located within Nakuru town.There are 30 microfinance institutions in Nakuru town. According to Glenn,(2001) 30 microfinance institutions is a small population hence the study includes all the microfinance in Nakuru town.

3.5 Data collection methods and instruments

The research usedclose and open ended questionnaire which was administered to branch managers and other employees of microfinance institutions.

Data was derived from both a close and open ended questionnaires administered to branch managers of microfinance institutions. Drop and pick method was used to collect the questionnaires.

3.5.1 Reliability and Validity of the instrument

A pilot study was carried out outside the study area to ascertain the reliability and validity of the proposed research instruments. This was done on a smaller sample of 5 respondents selected at random from different microfinance institutions in Naivasha town. According to Mugenda and Mugenda, (1999)Internal validity is concerned with the extent to which a study establishes that a factor or variable has actually caused the effect that is found. It is the extent to which extraneous variables have been controlled for. External validity of the instrument indicated the appropriateness, meaningfulness and applicability of inferences to the target population (Mugenda and Mugenda, 1999).

3.6 Data Analysis

Data was recorded, edited, coded and then entered in SPSS. The data collected was analyzed and interpreted by the use of descriptive statistics such as frequencies, percentages and tables. Multiple Regression and ANOVA will be used to establish whether there is a relationship between strategic innovation practices and competitive advantages of the microfinance institutions.

3.6.1 Regression model

A major objective of any statistical investigation is to establish relationship which make it possible to predict one or more variables in terms of others(freund, 2001).Therefore this study is made to predict the potential profit, number of clientele and revenue as a result of innovations exercised within the microfinance institution. Regression formula is therefore as under:

$$Y \approx f(\mathbf{X}, \boldsymbol{\beta})$$

Where Y= Profits, Revenue and number of clientele (Dependent variables)

f= The function of the X variable

X= The strategic innovations (independent variable)

β= Unknown parameters which could be a vector

in this regard :

Y= f(X1 ,X2 ,X3………Xn)

Where X1 represents the number of innovations in a year

X2 represents Developments of new management approaches

X3 represents the efficiency in serving customers

X4 represent Response to life events

X5 represents Training services

X6 Represent development of health insurance schemes

Y1 represents profit

Y2 represent Revenue

Y3 represent Number of clientele

Y4 represents the competitiveness

Therefore:Y1=*f1((X1,X2,X3,X4,X5,X6),Y2=f2(X1,X2,X3,X4,X5,X6), Y3=f3(X1,X2,X3,X4,X5,X6)*.

CHAPTER FOUR:

DATA FINDINGS, ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents findings of the study through data analysis, presentation, interpretation and discussion. The study sought to investigate the role of product innovations for competitive advantage; a case of microfinance institutions in Nakuru Town, Kenya.

4.2 Background information of the respondent

This include the gender, on confirmation from the manager that the education of the respondents is of college level , this is to ensure that they have ability to understand the various innovations used to win more clientele hence increase the organizations competitiveness.

The respondents were asked to indicate their gender in order for the researcher to understand how different people adopt innovation based on their gender. This was analyzed and the findings shown in **Table 4.1.**

Table 4.1: Distribution of respondents by gender

Gender	Frequency	Percentage
Male	18	60
Female	12	40
Total	30	100

Source: Research 2012

Out of the 30 successful respondents (60%) were male while (40%) were female therefore most respondents were male as opposed to male. This implies that the number of male employed and who were willing to contribute their ideas towards the research were higher than that of their female counterparts. This can also be presented in a pie chart as below.

Male respondents were 60% whereas female respondents were 40%.

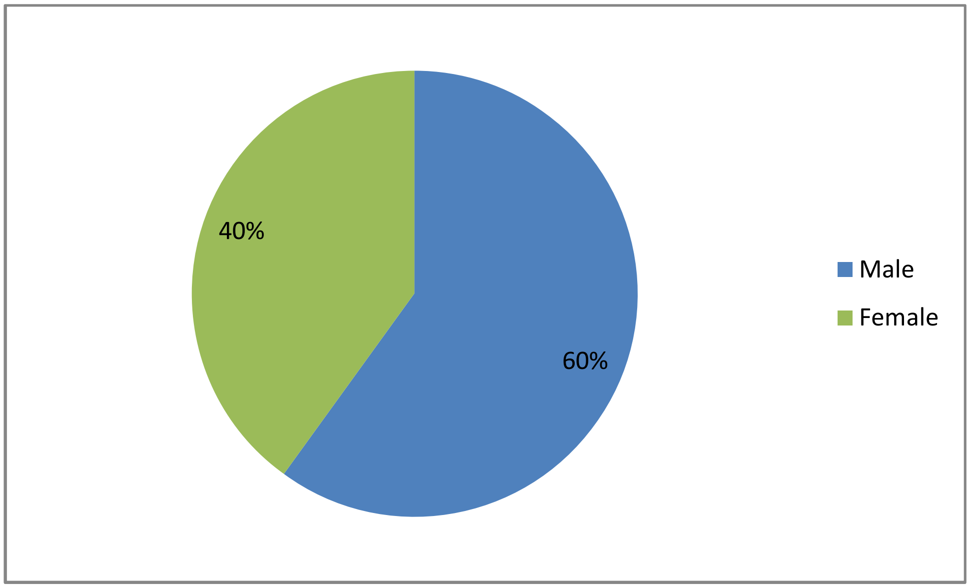


Figure 4.1 *Gender of the respondents*

4.2 Form of ownership of the microfinance institution

The institutions was classified according to their ownership this is to identify the investors and those interested in uplifting the living standard of Nakuru residents .This was analyzed and results shown in **Table 4.2.**

Table 4.2: Classification of Micro financial institutions

Ownership	Frequency	Percentage
Government owned	3	10
Owned by NGOs	6	20
Owned by locals	16	53.3
Jointly Owned	5	16.7
Total	30	100

Source: Research 2012

From the findings, It was realized that majority of the micro financial institutions were owned by locals. This category was represented by(53.3%) of the respondents. (20%) were owned by

NGOs, (16.7%) were jointly owned while only (10%) were government owned. This implied that the innovations used is tailor made and are the most suitable to the target customers as a result increase the competitiveness of the firm. This is further demonstrated by the bar graph below.

X axis represents form of ownership, Y axis represents the percentage number of investors.

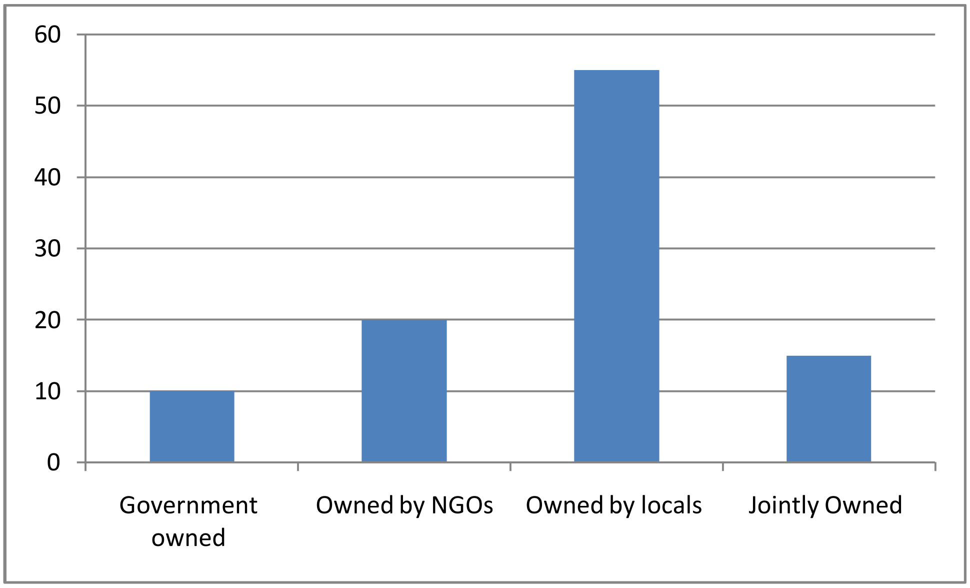


Figure 4.2: *Classification of Micro financial institutions*

Table 4.3: Geographical Scope

Scope	Frequency	Percentage
Nationally	16	55
Regionally	-	-
Internationally	14	45
Total	30	100

Source: Research 2012

(55%) of the micro financial institutions operated nationally (only in Kenya).(45%) operated internationally and there was none that operated regionally. This is due to the fact that micro finance services is meant for local and low income earners and every effort is tailor made to suit the low class individuals whose level of education is also low. Also those internationally operating institutions are nonprofit making organization that is there to assist locals with financial support to uplift their living standards.

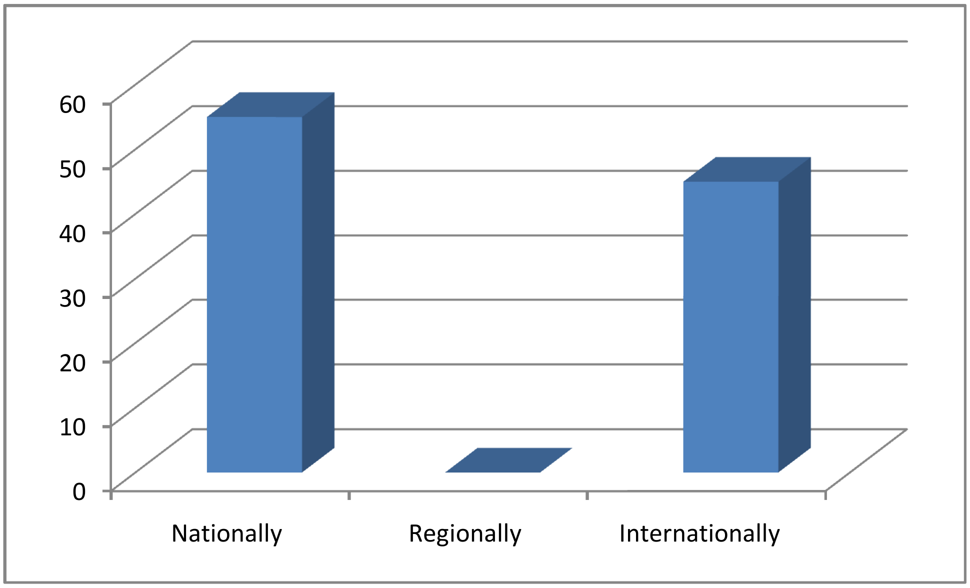


Figure 4.3: *Geographical Scope*

Table 4.4: Techniques of innovation used

Techniques	Frequency	Percentage
Development of new products	12	40
Development of management approaches	2	6.7
Efficiency in serving customers	10	33.3
Training services on entrepreneurial activities	4	13.3
Development of health schemes	2	6.7
Total	30	100

Source: Research Questions

From the findings, the main techniques of innovation used in the organizations included development of new products which was represented by(40 %,) development of management approaches had (6.7%), efficiency in serving customers had (33.3%), training services on entrepreneurial activities was represented with (13.3%) and development of health schemes had (6.7%).Its due to high competition and globalization that has made new products to be introduced every now and then due to dynamism in the society.

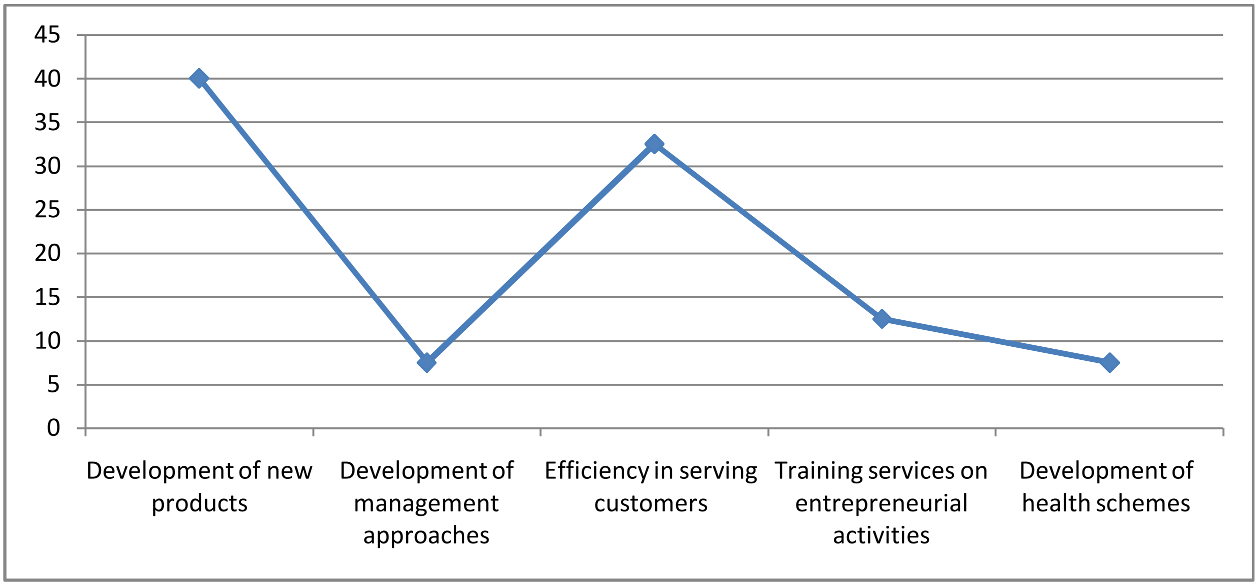


Figure 4.4: Techniques of innovation used

From the research we realize that all the organizations came up with new products frequently30(100%). This implies that there is a lot of competition in the industry in that regard firms are very dynamic on innovations in order to stay competitive in the industry.

With regard to the findings all the respondents frequently change the management approaches this implies that different management approaches are used most often to suit the different issues and challenges that come across.

Table 4.5: Efficiency in customer services

Efficiency	Frequency	Percentage
Very efficient	8	26.7
Efficient	22	73.3
Neutral	-	-
Not efficient	-	-
Total	30	100

Source: Research 2012

(73.3%) of the organizations were efficient in their customer service, and (26.7%) were efficient. In this regard we realize that majority of the microfinance institution take the highest attention to serving their customers i.e. take the shortest time to process their loans, have a lot of attention in addressing their grievance and other issues that relates them together.

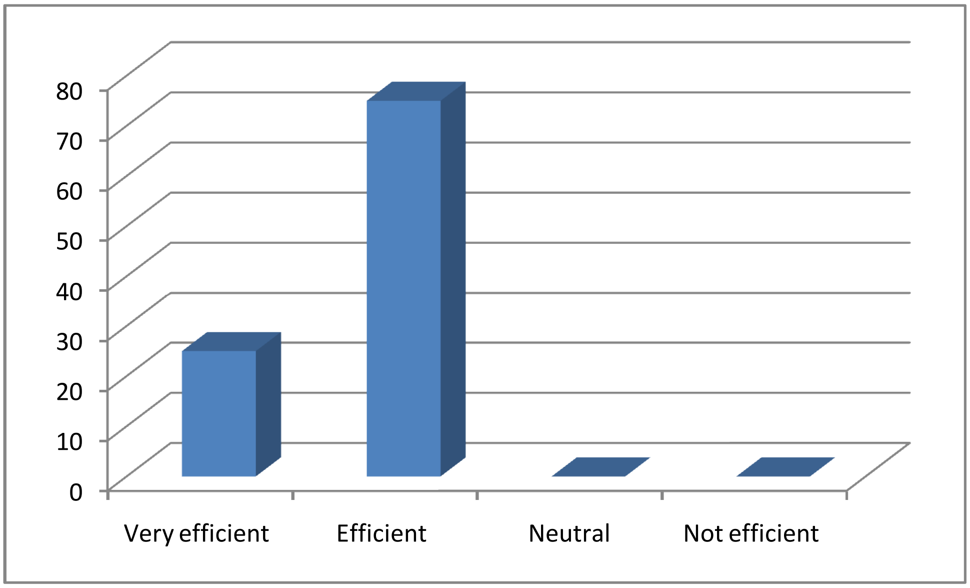


Figure 4.5: Efficiency in customer services

Table 4.6 Frequency of training services offered to clients

Response	Frequency	Percentage
Annually	-	-
Half yearly	4	13.3
Quarterly	26	86.7
Not at all	-	-
Total	30	100

Source: Research 2012

86.7% of the organizations conducted training quarterly where as 13.3% conducted training half yearly.From the research it is evident that majority of the institutions do their training quarterly this implies that the rate of recruiting new groups and introduction of new products is also high this because training take place majorly on new things or issues.

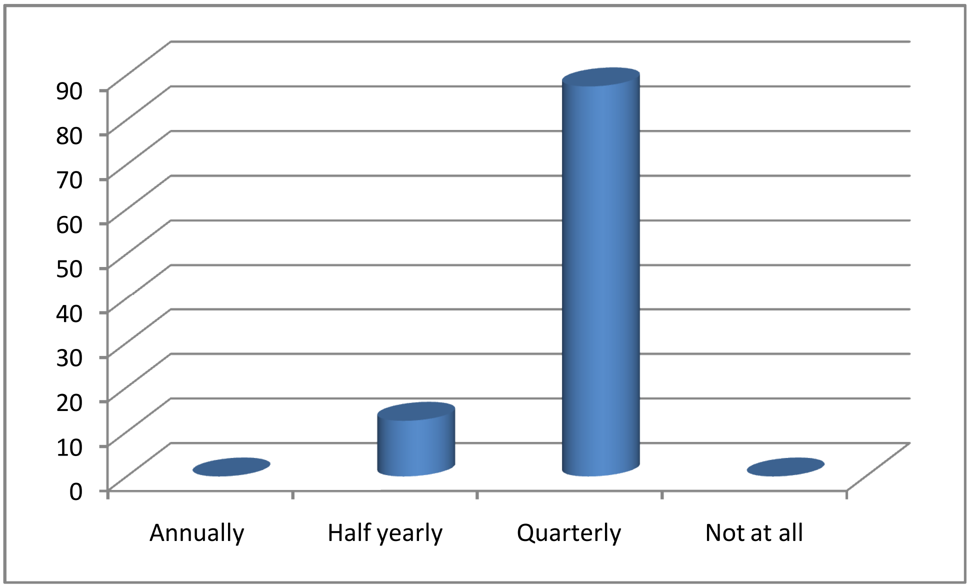


Figure 4.6 Frequency of training services offered to clients

Table 4.7 Period of adopting health insurance

Period	Frequency	Percentage
5-10 years	12	40
1-4 years	11	36.7
2-11 years	5	16.7
Do not exist	2	6.6
Total	30	100

Source: Research 2012

(40%) of the organizations adopted their health insurance between 5-10 years, (36.7%) between 1-4 years, (16.7%) between 2-11 years and (6.6%) had no health insurance. This implies that it is within this period that the institution will have broken even and is able to provide an accompanying product which will provide little or no positive effect to the institution but of great benefit to the clients.

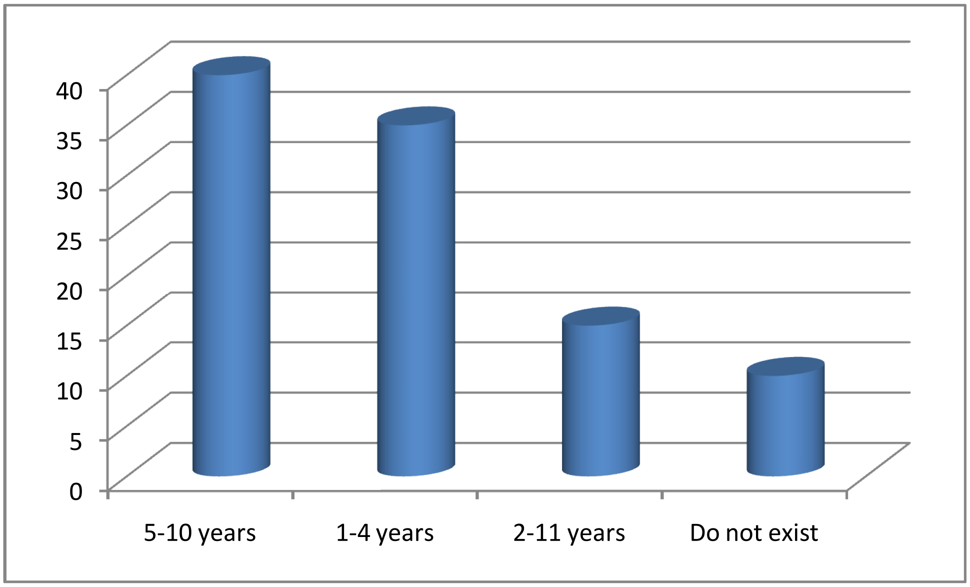


Figure 4.7 *Period of adopting health insurance*

Table 4.8 Effects of product innovations on the number of clientele.

Factors	Frequency	Percentage
Development of new products	8	26.7
Development of new management approaches	4	13.3
Efficiency in serving customers	8	26.7
Response to life events	1	3.3
Training services on entrepreneurial activities	6	20
Development health insurance schemes	3	10
Total	30	100

Source: Research 2012

Development of new products and efficiency in serving customers had each(26.7%),development of new management approaches had (13.3%) Response to life events had (3.3%), development health insurance schemes had (10%) and training services on entrepreneurial activities had (20%).This implies that microfinance institutions should come up with new products and be very efficient in serving their customers in order to be very competitive in the market, After new products have been introduced training should be done to oriented the clients on the new products considering all other innovations.

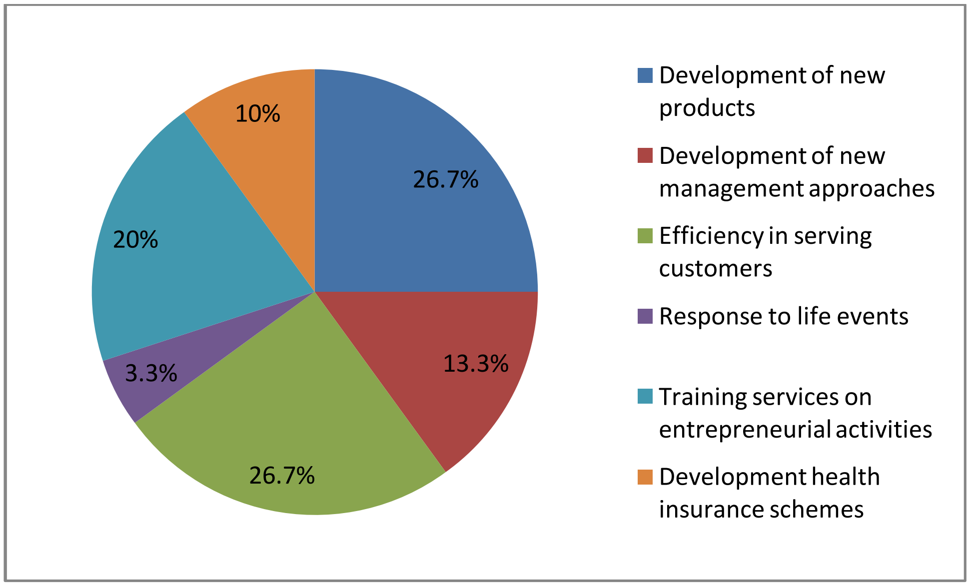


Table 4.8: Factors that contribute to number of clients in the micro financial institutions

Table 4.9 Effects of product innovations on revenue in the organization

Factors	Frequency	Percentage
Development of new products	14	46.7
Development of new management approaches	2	6.7
Efficiency in serving customers	12	40
Response to life events	-	-
Training services on entrepreneurial activities	2	6.6
Development health insurance schemes	-	-
Total	30	100

Source: Research 2012

From the findings, development of new products was the major factor that contributed to the amount of revenue in the organization. This had 46.7%, development of new management approaches had 6.7%, efficiency in serving customers had 40% and training services on entrepreneurial activities had 6.6%.

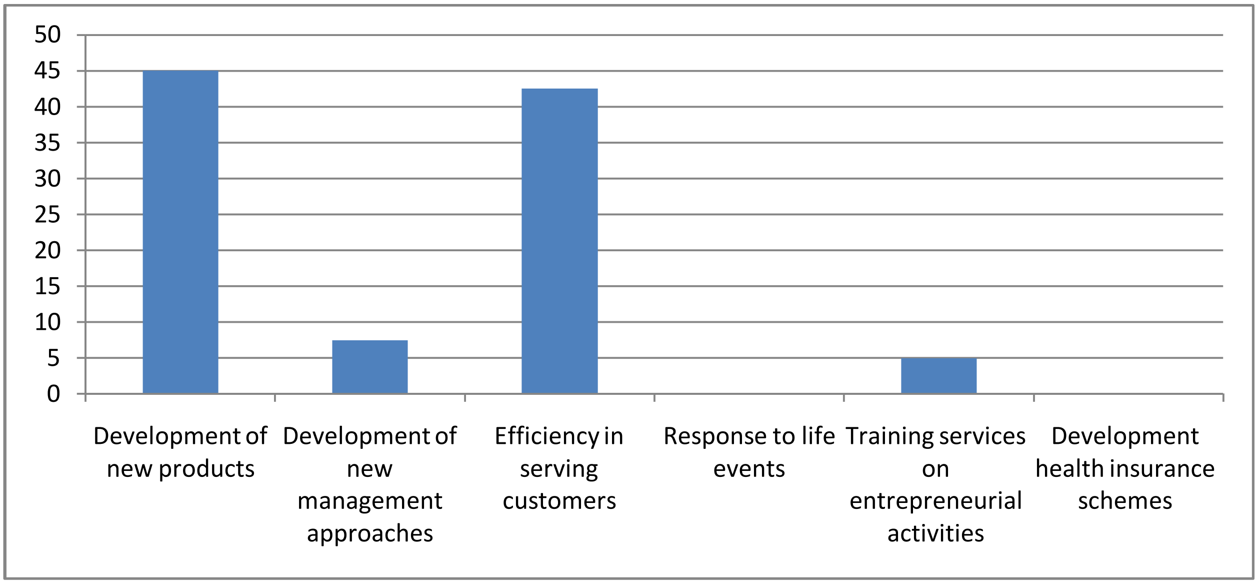


Figure 4.9 Factors that contribute to the amount of revenue in the organization

Table 4.10 Effects of product innovations on the amount of profits in the organization

Factors	Frequency	Percentage
Development of new products	11	36.7
Development of new management approaches	4	13.3
Efficiency in serving customers	6	20
Response to life events	3	10
Training services on entrepreneurial activities	5	16.7
Development health insurance schemes	1	3.3
Total	30	100

Source: Research 2012

From the results it was observed that the major factors contributing to the amount of profits in the organization included development of new products which had 36.7%, development of new management approaches had 13.3%, efficiency in serving customers had 20%, response to life events had 10%, training services on entrepreneurial activities 16.7% and development health insurance schemes had 3.3%.

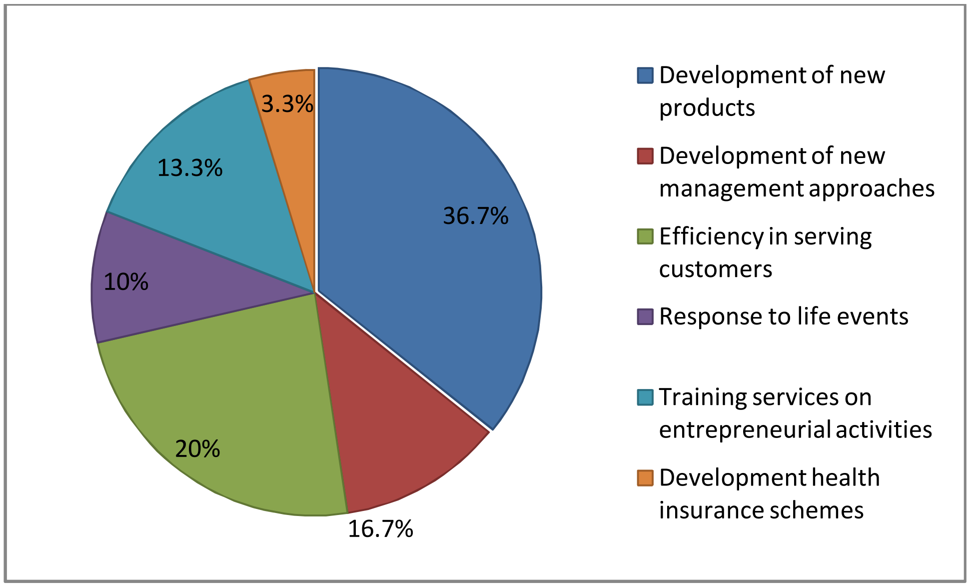


Figure 4.10: Factors that contribute to amount of profits in the organization

Table 4.11 Management approaches adopted over the past one year

Management approaches	Frequency	Percentage
Weekly meetings	6	20
Penalties on poor time managers	2	6.7
Management By Objectives	7	23.3
Management Training	4	13.3
Management By working around (MBWA)	4	13.3
Election Of new Board members	4	13.3
Employing highly qualified managers	3	10
Total	30	100

Source: Research 2012

From the table it is evident that there are many approaches that micro financial institutions can use to win their clients, all institutions have objectives that pull the efforts of the organization as represented by(23.3%)weekly review is also done to monitor the progress of the performance (20%) , then training and general supervision(13.3%) is exercised to ensure clients have proper knowledge and skills on the various products, it was also important to hire qualified staff as represented by 10%.

Table 4.12 Effects of product innovations on profit

Product innovation	Frequency	Percentage
Development of new products	11	36.7
Development of new management approaches	4	13.3
Efficiency in serving customers	11	36.7
Response to life events	2	6.7
Training services on entrepreneurial activities	2	6.7
Development health insurance schemes	-	-
Total	30	100

Source: Research 2012

The table presents the development of new products and efficiency in serving customers to have the highest effect on profit with (36.7%),Development of new management approaches was also presented to have a major effect on profit with (13.3%), and other innovations including response to life events, training and health insurance have minimal effect on profit.

Table 4.13 Effects of product innovations on increase in the number of depositors

Product innovation	Frequency	Percentage
Development of new products	8	26.7
Development of new management approaches	7	23.3
Efficiency in serving customers	9	30
Response to life events	-	-
Training services on entrepreneurial activities	6	20
Development health insurance schemes	-	-
Total	30	100

Source: Research 2012

The table presents that only four innovations have some effect on the number of depositors, Efficiency in serving customers has a significant effect with (30%) Development of new products(26.7%) also pulls and increases the number of clients into the firm and finally training is essential to help the clientele be equipped with the knowledge on the products they are interested in within the fir of 20%.development of new management approaches was also having a significant effect of 23% .

Table 4.14 Effects of product innovations on revenue

Product innovation	Frequency	Percentage
Development of new products	10	33.3
Development of new management approaches	9	30
Efficiency in serving customers	7	23.3
Response to life events	-	-
Training services on entrepreneurial activities	4	13.3
Development health insurance schemes	-	--
Total	30	100

Source: Research 2012

The table presents development of new products (33.3%), new management approaches (30%), Efficiency in serving customers (23.3%) and Training (13.3%) to have significant effects on revenue within the microfinance institution.

Table 4.15Correlation Analysis

The Table 4.20 below indicates the correlation analysis of product innovation on revenue performance of micro financial institutions.

Table 4.15: Correlation Analysis for Cost of Operations

Product innovations	frequency	Correlation coefficient	Sig
Development of new products	25	.431	.015
Development of management approaches	21	.0885	.0535
Efficiency in serving customers	18	.046	.099
Response to life events	0	0	0
Training services on entrepreneurial activities	6	-.0038	.0041
Development of health schemes	0	0	0

Source: Research Data (2012)

Table 4.15 indicates that there is a significant positive correlation between the development of new products and revenue increment with a return of 1.5% significant level. The respondents indicated that the development of new products effectively increases revenue and is among the key variable that enhances the performance of micro financial institutions within Nakuru. There are other innovation techniques whose effect on revenue is a negative one. Among these techniques is training services on entrepreneurial activities which has a correlation of -0.0038 with a return of 0.4%. This is a very small effect that cannot be felt in the normal operations of the micro financial institutions but the effects are there. Response to life events and Development of health schemes have no relation on the revenue for micro financial institutions and thus both have a correlation of 0 and significance level of 0.

4.3 Analysis of Profit, Clientele and Revenue

Independent regression analysis was carried out on revenue, profits and clientele functions to determine the influence of innovation on the three. The independent/ explanatory variables of each dependent variable were different and hence identified allowing for their treatment as different and independent variables.

4.3.1Performance Results for Profit Function

Table 4.3.1 shows the regression results of the Profit function. On regressing profits on innovation, revenue, labor and capital, the ANOVA test showed the regression results through Enter method to be significant at 5% level (R-squared= 0.906, F= 60.335, significant at 0.000%). The variables explain 90.6% of the variation in profit of the MFIs. This confirms the hypothesis that there is no relationship between product innovations and profit.

Analysis of Profit function

Table 4.3.1A,B& C:Analysis of profit function using Enter Method

A)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952	.906	.891	.9033

Predictors: (Constant), INNOVAT, REVENUE, LABOR, CAPITAL

However the ANOVA test of the results of the model estimated through the stepwise method showed the regression results to be significant at 5% level (R-squared= 0.899, F= 119.794, significant at 0.000%).This implies that with revenue being significant and not innovations ,then this confirms the hypothesis 1 that there is no relations between innovations and profit.

4.3.1A1B1 C1: Analysis of profit function using stepwise method

Model Summary
A1)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.939	.881	.877	.9604
2	.948	.899	.891	.9029

a Predictors: (Constant), REVENUE

b Predictors: (Constant), REVENUE, CAPITAL.

B1) ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	191.511	1	191.511	207.633	.000
	Residual	25.826	28	.922		
	Total	217.337	29			
2	Regression	195.325	2	97.663	119.794	.000
	Residual	22.012	27	.815		
	Total	217.337	29			

a Predictors: (Constant), REVENUE

b Predictors: (Constant), REVENUE, CAPITAL

c Dependent Variable: PROFIT

C1)

		Unstandardized Coefficients		t	Sig.
Model		B	Std. Error		
1	(Constant)	.139	.215	.645	.524
	REVENUE	1.568E-02***	.001	14.409	.000
2	(Constant)	.420	.241	1.746	.092
	REVENUE	2.119E-02***	.003	7.719	.000
	CAPITAL	-6.727E-03**	.003	-2.163	.040

a Dependent Variable: PROFIT, **Significant at 5% level, ***Significant at 1% level

This means that revenue and capital are both significant in explaining profits of a firm. While the other factors are not significant. Since the coefficient for the revenue is positive, it implies that increased revenue will lead to increased profits and vice versa. The negative coefficient for capital is interpreted to mean that increased capital will lead to reduced profits. This is as expected in theory since with increased revenue other factors remaining constant profit also increases. Increase in capital revenue reduces due to increased capital tied up in assets or in reserve which means higher costs inform of interest paid for the capital and therefore less profits.

Innovations does not explain any effect on profit since the microfinance institutions use similar innovation practices, The innovations used are identical.

4.3.2 Regression Results for ClienteleFunction

Table 4.32 shows the regression results of the Clientele function. On regressing clientele on innovation, labor and total loan, the ANOVA test showed the regression results through Enter method to be significant at 5% level (R-squared= 0.725, F= 22.892, significant at 0.000%).

72% of the variation in the number of clientele is explained by those variables.

Table 4.3.2 A,B&C:Analysis results for clientele function usingEnter Method

A) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852	.725	.694	596.8550

Predictors: (Constant), Innovation, Labor, Total Loan

B) ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24464532.641	3	8154844.214	22.892	.000
	Residual	9262134.026	26	356235.924		
	Total	33726666.667	29			

a Predictors: (Constant), Innovation, Labor, Total Loan

b Dependent Variable: CLIENTS

C) Coefficients

		Unstandardized Coefficients		t	Sig.
Model		B	Std. Error		
1	(Constant)	1398.612	862.864	1.621	.117
	Total Loan	8.019***	1.301	6.164	.000
	Labor	5.505	12.277	.448	.658
	Innovation	-27.515	34.584	-.796	.433

Dependent Variable: CLIENTS, ***Significant at 1% level.

The amount of total loan given by the MFI was found to be significant and is therefore a determinant of the size of clientele. Its coefficient is positive implying that an increase in the amount of loan given leads to an increase in the number of clients of the MFI. This is explained by the fact that among the three variables: Total loan, labor and innovation, only total loan is seen to contribute much on the number of clientele. This means that the ability of microfinance to give out more loans to clients increases the number of depositors since the most benefit that clientós get from microfinance is the loans for running their daily operations.

4.3.3 Regression Results for Revenue Function

Table 4.3.3 shows the regression results of the revenue function. On regressing revenue on innovation, labor and capital, the ANOVA test showed the regression results to be significant at 5% level (R=0.869 F= 57.306, significant at 0.000%). The 89.9% of the variation in revenue is explained by labor, capital and innovation.

Table 4.3.3 Statistical results for revenue function

Coefficients

		Unstandardized Coefficients		t	Sig.
Model		B	Std. Error		
	(Constant)	-134.442	89.550	-1.501	.145
	Labor	4.548E-02	1.238	.037	.971
	Capital	1.064***	.096	11.130	.000
	Innovation	4.375	3.586	1.220	.233

a Dependent Variable: REVENUE *** Significant at 1%.

Capital was however the only factor that explained the revenues of the MFIs. Capital is expected to contribute to revenues of a microfinance institution due to the regression results. It explains that with increase in 1 unit of capital revenue too increases by 0.096 .Capital is therefore a major determinant on revenue since it can be given out asloans which generateinterest.

This implies that innovation and labor did not contribute to the revenues. The results of the regression through a stepwise method did not yield different results.Due to firms using identical innovation practices.

Kuisma et al., (2007); Littler and Melanthiou, (2006) noted that in this era of intense competition and rising customer expectations banks are more compelled to re-engineer their products, services, process and systems in order to accommodate their customers and attract new ones thus keep growing. In this light they cannot afford to ignore the need for flexibility as a core value to allow for easier, faster and user friendly means of carrying out their financial transactions

To sum up the study findings on the basis of the hypothesis is that, the research reveals clearly that there is no significant relationship between product innovation to profit , Number of clientele and revenue.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes, concludes, gives recommendations and suggestions for further studies based on the research findings as carried out by the researcher. It is therefore devoted to the summary of findings, conclusion, recommendations, suggestions and contribution to the body of knowledge emanating from the study carried out by the researcher in order to offer solutions to the problem under study, based on the research findings.

5.2 Summary of research findings

This section presents a summary of the research findings arising from the study based on how each objective was addressed. The study established the role of product innovations on profit, revenue and the number of clientele, a case of banks in Nakuru town, Kenya.

The background of the research was looked at in four areas as under: firstly was the general information, secondly utilization of product innovation, thirdly effects of product innovation on profit, Revenue and number of clientele and lastly effects of government policies on profit, number of depositors and Revenue.

From the research study product innovations such as: development of new products, development of new management approaches, efficiency in serving customers and training services on entrepreneurship, contribute to increase in profit.it was further realized that development of new products and efficiency in serving customers have a greater contribution with 37.5% and 25%repectively than the other innovations this implies that customers value this two factors among other innovations.

From the research we realise that clientele value Development of new products andefficiency in serving customersas an innovation as compared to other innovationwith 25.7%contribution. Training also have a significant contribution to increase in the number of depositors with 20%. This implies that apart from getting interested with new products and good service one further needs some knowledge on how to work well with them, Development of new management approaches was also essential in that itôs the avenue effective relations between the clientele and the microfinance institution.

From the research it was evident that increase in revenue was majorly as a result of development of new products and efficiency in serving customers with 45.7% and 41.4% respectively. This implied that it is due to these factors that microfinance organisations are able to get a lot of revenue and should put a lot of effort on the same to realise more profit as a result to increase their competitiveness in the market. Development of new management approaches and training services on entrepreneurship activities have also contributed to revenue but on a minimal portion.However this contribution was similar in all firms and as aresult could not be used as a measure of any competitiveness.

The final statistical results shows that innovations does not contribute to profit number of clientele, and revenue,this is because when innovations are considered individually some contribute to the variables as above, however when lumped up together they are not found to be statistically significant, it might therefore be important to find them statistically individually .

5.3 CONCLUSION

The major factors that contributed to an increase in the profit , number of clientele and amount of revenue were not product innovations due to firms copying each other in terms of the practices, but rather capital and amount of loans given out to clients. The more capital a firm has the more power it has to dispense loans, Product innovation involves coming up with new ways of doing things but if all firms switch to new things same time and do them similarly then the effect becomes the same. On the other hand when moreloans is given out more profits is realized through interest ploughed back,and any additional amount to the firm increases the revenue.No competition will be realized among microfinance institution if they offer similar products the same way.

5.4 RECOMMENDATIONS

The study gave out the following recommendations;

Micro financial institutions should be creative and innovative and focus on developing new products which are unique and differentiated that meet the needs and demands of clients within their area of operation. This will help increase their profit, number of clients and revenue and also to survive in the highly competitive markets.

5.4.1 Suggestions for further research

The researcher noted some areas where gaps existed in terms of need for further studies in order to gain deeper understanding on the role of product innovations for competitive advantage. This included:

i. Why innovations may not contribute to competitiveness of a microfinance institution.

ii. consideration of other forms of innovation that is not considered in the research such as technology, E-banking and others.

iii. Reasons why micro finance institutionǿs up take and usage of other innovations like online banking was still low despite all the advantages of the innovation.

iv. Challenges faced by the micro finance institutions in the implementation of new innovations to the market.

v. Challenges encountered by the customers/ clientele in using new innovations.

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APENDIX 1:

INTRODUCTORY LETTER TO RESPONDENT

LEAH JERUTO CHEMITEI

P.O BOX

NAKURU.

Dear Sir/Madam,

RE: REQUEST FOR PARTICIPATION IN MY RESEARCH WORK.

I am a postgraduate student in the faculty of commerce, Kabarak University pursuing a Master of Business Administration (MBA) degree program. In order to fulfill the degree requirements I am currently undertaking a research Proposal on ñThe Role of strategic Innovation in creating Competitive Advantageò A case of Microfinance Institutions in Nakuru town.

Your Institution has been selected to participate in this study. I would highly appreciate if you spare some time for me to fill this questionnaire.

This exercise is strictly for academic purposes and any information obtained will be treated with confidentiality. A copy of the financial research report will be available to you once the study is complete upon request.

Thank you in advance for your co-operation.

Yours faithfully,

Leah JerutoChemitei

APENDIX II:

QUESTIONNAIRE

SECTION A.: GENERAL

1. Bank Name____________________
2. Gender

   a. Male [ ]

   b. Female [ ]

3. How would you classify your microfinance institutions in regard to ownership? Tick that which applies to you.

a) Government owned ☐
b) Owned NGOs ☐
c) Owned by locals ☐
d) Jointly owned ☐
e) Others (specifyé .

4. Which of the following best describe the geographical scope of your operation?

a) Nationally (only in Kenya)

b) Regionally in two countries in Africa

c) International operating in two or more which might be outside Africa.

5. What innovations do you use among the following?

a. Development of new products

b. Development of new management approaches

c. Efficiency in serving customers

d. Training services on entrepreneurial activities

e. Development of health insurance schemes e.g. family medical covers.

f. All of the above

6. How often do you develop/come up with new products?

a. Very frequent

b. Frequent

c. Rarely

d. Not at all

7. How often do you change /use new management approaches

a. Very frequent

b. Frequent

c. Rarely

d. Not at all

8. How efficient is your institution in serving customers?

a. Very efficient

b. Efficient

c. Neutral

d. Not efficient

9. How often do you offer training services to your clients or clientele?

a. Annually

b. Half yearly

c. Quarterly

d. Not at all

10. Health insurance schemes e.g family medical covers are used by financial institutions to motivate their clients , what is the length of time/period does your institution have in adopting this? .

a. Between 5-10 years

b. Between 1-4 years

c. Between 2-11 months

d. Do not exist

11. How do the following factors contribute to the number of clients in your institution?

	Very high	High	Low 3	Very Low	None

	5	4		2	1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, education fees and retirement.					
Training services on entrepreneurial activities					
Development of health insurance schemes e.g. family medical covers.					

12. How do the following factors contribute to the amount of revenue in your institution?

	Very high 5	High 4	Low 3	Very Low 2	Not at all 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare					

emergencies, education fees and retirement.					
Training services on entrepreneurial activities					
Development of health insurance schemes e.g. family medical covers.					

13. How do the following factors contribute to the amount of profits in your institution?

	Very high 5	High 4	Low 3`	Very Low 2	Not at all 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, education fees and retirement.					
Training services on entrepreneurial activities					
Development of health insurance schemes e.g. family medical covers.					

14. What is the popularity of each of the products you offer in terms of?

	Product	Very good 5	Good 4	Average 3	Below average 2	Poor 1
Clientele						
Profit						
Revenue						

15. Which management approaches have you adopted over the past one year?

ié é

iié iiié .

\

16. What is the average time it takes for a customer to be served?............................

17. Which of the products above accommodate life events

ié é

iié ..

iiié é

ivé é

18. What is the effect of training as an innovation to the following measures of competitive advantage in your instition?.

	Very good 5	Good 4	Average 3	Below average 2	Poor 1
Clientele					
Profit					
Revenue					

SECTION B

EXTENT OF UTILIZATION OF PRODUCT INNOVATION

1. To what extent do you utilize the following product innovation?

	Very high 5	High 4	Low 3	Very Low 2	neutral 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, education fees and retirement.					
Development of health insurance schemes e.g .family medical covers					
Training services on entrepreneurial activities					

2. Which financial institution do you compete with is

Ranked better than you	
Ranked equal to you	
Ranked below you	

3. Match the range of performance of the following variables as were realized within the past three(3) years in your organization.

	1	2	3	4	
Profit	1M and below	1-3M	3-10M	10-15M	15 and above
Revenue	50m and below	50-100m	100-2-150m	150-200m	200M and above
Number of Clients	500 and below	500-1000	1000-2000	2000-3000	3000 and above

4. Give the estimate number of the following in your organization within the last one year.

Number of employees	
Amount of capital	
Amount of loan given out	

SECTION C

EFFECTS OF PRODUCT INNOVATIONS ON PROFIT, NUMBER OF DEPOSITORS AND REVENUE.

1. How do the following product innovations influence profit? (Tick appropriately)

	Very high 5	High 4	Neutral 3	Low 2	Very low 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, educational fees and retirement					
Training services on entrepreneurial activities					

Development of health insurance schemes e.g. family medical covers.					

2. How do the following product innovation influence number of depositors? (Tick appropriately).

	Very high 5	High 4	Neutral 3	Low 2	Very low 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, educational fees and retirement					
Response to life events such as healthcare emergencies, educational fees and retirement					
Development of health insurance schemes e.g. family medical					

covers.					

3. How do the following product, innovation influence revenues (Tick appropriately).

	Very high 5	High 4	Neutral 3	Low 2	Very low 1
Development of new products					
Development of new management approaches					
Efficiency in serving customers					
Response to life events such as healthcare emergencies, educational fees and retirement					
Response to life events such as healthcare emergencies, educational fees and retirement					

Development of health insurance schemes e.g. family medical covers.					

SECTION D

EFFECTS OF GOVERNMENT POLICIES ON PROFIT, NUMBER OF DEPOSITORS AND REVENUE

1.Which government policies affect

a) Profitsé .é é é .

b) Number of clienteleé ..

c) Revenue of the financial Institutionsé é é é é é é é é é é é é é é é é .

2. To what extend do these government policies affect the performance of the following

(Tick appropriately)

		Very adverse 5	adverse 4	Neutral 3	Slightly positive 2	Highly positive 1

Profit	Policy1					
	Policy2					
Number of depositors	Policy1					
	Policy2					
Revenues	Policy1					
	Policy2					

APENDIX III:

MICROFINANCE INSTITUTIONS IN NAKURU TOWN

1. Jamii Bora Kenya Ltd.
2. Umoja entrepreneursô capital.
3. Cash kilo Limited
4. Tatua Investment
5. Africa Provident Ltd
6. Faulu Kenya
7. Real people Business Finance
8. Kenya agency for development and technology
9. Ebony Foundation
10. Small and Micro-Enterprises programs (SMEP)
11. Blue Limited
12. Micro Africa Ltd
13. Kazana Kenya
14. Kenya Ecumenical Church Loan Fund
15. Sisdo
16. Pamoja We men Development

17. Business initiatives and management 18 Jitegemee Credit scheme

19. Jitegemee credit scheme 20.Community Anti-poverty Empowerment program me

23. Pamoja women Development 24.Molyne Credit ltd

25. Restoration Credit Africa Ltd 26.Platinum Credit Ltd

27. Hope and Vision Youth savings ltd 28. Kenya wemen finance Trust (KWFT)

29. Vision Africa Savings and credit 30 Pamoja Women Development