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Effect of Product Innovations on Strategy Implementation Process of Commercial Banks Listed on Nairobi Securities Exchange

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Abstract

Purpose: The purpose of the study was to establish the effect of product innovations on the strategy implementation process of commercial banks listed on Nairobi Securities Exchange.

Methodology: The study applied descriptive research design. The study targeted 159 participants including senior managers, credit officers, accountants, human resource managers, operations managers and relationship officers from each of the 11 NSE listed Kenyan commercial banks. The size of sample size was 69 selected using stratified random sampling method. The independent vriable (product innovations) was assessed by looking at new products adopted by banks such as credit cards, insurance products, new deposit accounts and mortgages while dependent variable (strategy implementation process) was assessed through operationalization and institutionalization of strategy. The study utilized research questionnaires for collecting primary data. The distribution of the questionnaires was done by dropping them to the respondents and collecting a week later. Descriptive and" inferential statistics were utilised for data analysis.

Findings: The study established the product innovations adopted by the bank were mortgages represented by 97%, credit cards (95%), new deposit accounts (90%) and insurance products (49%). It was established that few banks had embraced insurance products probably because of many insurance agencies in the market. The study found that a unit increase in product innovations results to 0.706 increase in strategy implementation process in commercial banks listed in NSE in Kenya.

Unique contribution to theory, practice and policy: The study concluded that product innovations have a substantial effect on strategy implementation process in commercial banks listed in NSE in Kenya The study recommended that managers at banks should consistently make an effort to invest in innovative product designs and modify the current products in order to enhance strategy implementation process. The research also recommends future studies should explore the factors affecting the execution of strategies in financial institutions in Kenya, beyond just commercial banks. This would encompass SACCOS, microfinance institutions, and mortgage companies.

Keywords: *Product innovations, Strategy implementation process, Kenya commercial banks.*

Introduction

Financial institutions operate in heavily regulated and volatile environment characterized by continous change, hyper competition, changing demographics and needs of customers that demand rapid improvement and adoption of strategies and counter strategies (Quinn, 2017). Organizations have recognized the significance of innovation as a result of global market competition, as the rapid advancement of technologies is diminishing the competitive advantage of current products and services. Consequently, product innovations give firms a strategic direction to overcome the problems they face as they strive to attain a lasting competition edge (Tu & Wu, 2021; Battisti, et al., 2020).

Globally, product innovations in most banking institutions have been established to have been affecting the process of implementing stratefies. In China, some part of implementation process include: motivating employees, determining compensation, evaluating management performance, and implementing control procedures (Gruin & Knaack, 2020). In Ukraine, Naumenkova, Mishchenko and Dorofeiev (2019) noted that banks and other financial institutions have adopted innovations like digital technologies to implement strategies to save time and reduce operating costs. In Pakistan, Tahir, Shah, Arif, Ahmad, Aziz and Ullah (2018) indicate that the financial institutions have taken advantage of rapidly evolving financial innovations and improved monetary effectiveness to facilitate the process of implemeting various strategies.

In Africa, limited access to formal banking and high amounts of immigrant transfers have heightened the need and demand for innovative financial services. Product innovations have been accelerated by the usage of mobile phones which has experienced a fast growth (Gosavi, 2018). Banks and other financial institutions in Africa have taken advantage of mobile introduction to initiatate various innovations for enahncing the process of implementing strategies in the organization (Lashitew, Bals & van Tulder, 2020). In South Africa, financial institutions have developed their expertise through investing in various modern banking services such as electronic marketing, m-banking, and personal support of customers (Chishti & Sinha, 2022).

In Kenya, the banking industry is no exception to product innovations and specifically, the NSE listed commercial banks have undergone tremendous changes in the last decade (Chipeta & Muthinja, 2018). The Kenyan banking industry's competitive environment has driven transformative technological advancements that have revolutionized today's banking landscape (Ndung'u, 2018). The banking sector in Kenya has undergone a substantial transformation with the introduction of various products which encompass the implementation of electronic systems to manage queues, the creation of fresh deposit accounts, the development of novel loan options, as well as the introduction of credit cards, debit cards, and bancassurance products (CBK, 2019). Therefore, strategy implementation is seen to be a connecting loop between formulation and control. Strategy implementation poses a significant obstacle for modern-day companies, as numerous elements play a crucial role in determining its effectiveness (Fuertes, *et al*., 2020).

Statement of the Problem

Increased global competition among the companies is causing the financial industry to undergo constant transformations including coming up with new products (Battisti, *et al*., 2020). Product innovations have since become instrumental in various ways towards contributing to efficiency and diversity (Dongol, 2021). Among commercial banks in Kenya, there has been issues of increased cybersecurity risks, increased number of fraud and financial crime and also incrased breach of customer data privacy (Odongo, 2022). These issues could be linked to various product innovations initiated to enhance the process of strategy implementation. In addition, the process of strategy implementation in commercial banks have faced challenges of weak management roles in implementation, inadequate commitment to the strategy and poor coordination (Kamande, 2017).

Several researches were done in connection to effect of product innovations on strategy implementation process. However, the existing studies exhibited both contextual and conceptual gaps. For instance, a study by Peter, Munga and Nzili (2021) exhibited a conceptual gap as it who studied how process innovation strategies affects performance of tier one Kenyan commercial banks and could not establish how product innovations affect strategy implementation process. Moreover, a study by Ibekwe (2021) who looked at financial innovation and performance of deposit money banks in Nigeria exhibited contextual gaps as they focused on deposit money banks and microfinance banks respectively. This study thus sought to fill these research gaps by answering the question: What are the effects of product innovations on the strategy implentation process of commercial banks listed on Nairobi Securities Exchange?

Objectives of the Study

The objective of the study was to examine the effect of product innovations on the strategy implementation process of commercial banks listed on Nairobi Securities Exchange.

Theoretical Framework

The study was based on Merton’s market efficiency theory of innovation whose proponent is Merton (1990). He presents a significant explanation for the existence of financial innovation. According to his theory, financial innovations arise from efforts to enhance market efficiency and benefit society. Merton asserted that the market has imperfections, which necessitates financial institutions to pursue innovation in order to improve market efficiency. According to Merton's theory, the pursuit of market efficiency and societal well-being motivates the development of financial innovations. According to Zouari and Abdelmalek (2020), financial economists typically perceive the movement of funds towards exploiting investment prospects and embracing financial advancements as beneficial factors that enhance market efficiency, enable the sharing of risks, and promote economic growth.

The theory highlights importance of analyzing the market's response to innovation, which can help commercial banks understand how new products will be received by customers and how they can influence competitive advantage. If the market perceives the new product as valuable, then it will likely result in positive outcomes for the bank's strategy implementation. The theory suggests that markets are efficient in processing information, which means that any new information, including information about product innovations, is quickly reflected in the prices of securities. Therefore, if the market perceives the innovation as a potential threat to the bank's existing products or services, it may result in negative outcomes for the bank's strategy implementation. The theory is very relevant in an attempt to examine the effect of product innovations on strategy implementation process of commercial banks in Kenya.

Empirical Literature Review

Nakato, Ngigi and Andemariam (2021) studied how product innovation affects performance of printing SMEs in Kampala Central District. The research employed an explanatory research design and carried out a complete survey of 125 smaller sized printing entities located in the central district of Kampala. The "data was collected by use of self-administered questionnaires that were given to the managers of smaller sized printing entities. The data was analyzed using SPSS software. The study revealed that introducing new products had a positive impact on the performance of smaller sized printing entities. The study recommended that printing companies should consistently make an effort to invest in innovative product designs and enhance current products in order to achieve a competition advantage.

Nadupoi, Patrick and Diana (2022) studied how product innovations affects growth of microfinance banks in Narok Town. The study utilized a cross-sectional design and a complete count of 180 individuals who work for 11 registered microfinance institutions. Both primary and secondary data were gathered, and the analysis included correlation and linear regression techniques. The findings revealed a strong connection between product innovation and the growth of microfinance institutions (MFIs) in Narok Town. The conclusion was that MFIs that invest more in innovative products will experience better growth. The study recommended that in order to maintain growth and stay competitive, microfinance institutions in Narok town should increase their investment in product innovation.

Omwanza and Jagongo (2019) studied the association amongst the product "innovations and financial performance of Kenyan microfinance banks. The purpose of the study was to determine the impact of new financial products on the financial performance of Microfinance Institutions in Kenya". The research employed a descriptive survey approach. The research showed that product innovation playsed a key role in the performance of MFIs and helps them stay competitive in the market. As a result, it is crucial for MFIs to continuously innovate and provide new products that meet customers' demands. In order for microfinance institutions to thrive and increase their revenue streams, it is crucial for them to continuously engage in innovative practices. The success of MFIs heavily relies on their ability to be innovative.

Mbogori, Gichohi and Moguche (2018) studied how "product innovation affects performance of Kenyan cement processing firms. The research design employed in the study was descriptive. Its objective was to acquire information from the heads of departments in all cement manufacturing firms in Kenya. The collection of data was carried out through the distribution of questionnaires and analysed using descriptive statistics.. The findings showed a positive and significant association amongst product innovation and performance of Kenyan cement firms. The conclusion was that product innovation positively affects performance of cement processing firms in Kenya". The study recommended that cement processing companies in Kenya should enhance their product-related innovations.

Conceptual Framework

The conceptual framework shows how independent variable (product innovations) relates to depenednt variable (strategy implementation process) as represented in Figure 1 below:

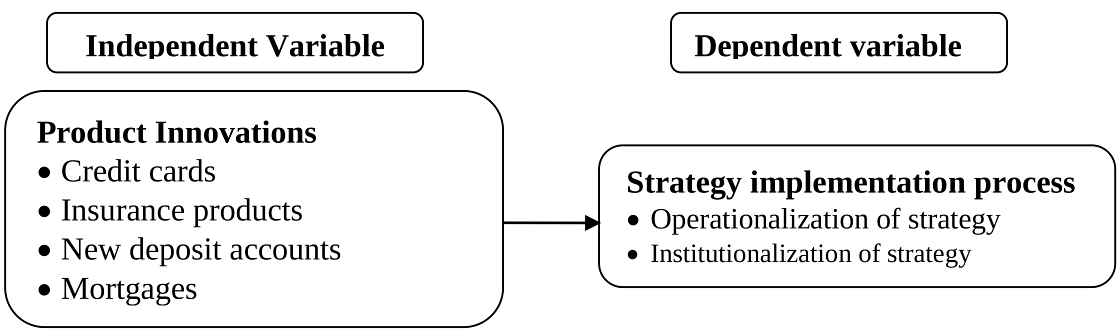

Figure 1 Conceptual Framework

Research Methodology

The study used descriptive research design. This design was ideal as the research involves collecting and making comparisons about a concept simultaneously. Bloomfield and Fisher (2019) asserts that descriptive research designs are suitable for determining if there are significant connections between variables during a specific timeframe. The unit of analysis was management staff working at 11 head offices of commercial banks listed on Nairobi Securities Exchange. The study targeted 159 participants including senior managers, credit officers, accountants, human resource managers, operations managers and relationship officers from each of the 11 NSE listed Kenyan commercial banks. The size of sample size was 69 selected using stratified random sampling method

The study used research questionnaires for collecting primary data. Pilot testing was done to test for validity and reliability of research questionnaires. The study utilised primary data that was obtained by using a questionnaire. The research first obtained research permit from NACOSTI and permission from the management of the listed commercial banks. The questionnaires were distributed using a method where they were initially provided to the respondents and then collected by the researcher at a later time.

The data underwent analysis through the use of Statistical Package for Social Sciences (SPSS Version 25.0). Every questionnaire recieved was recorded, and the questions within the questionnaire were assigned codes to make data entry easier. Data cleaning was done by checking for mistakes in data entry. For quantitative data, descriptive statistics like frequencies, percentages, mean score and standard deviation were approximated and information illustrated in tables. The regression model took the following form:

$\mathbf{Y = \alpha + \beta_1 X_1 + \varepsilon}$ where; **Y**= strategy implementation process; $\mathbf{X_1}$= product innovations; **ε**= error term.

Research Findings and Discussions

Descriptive Statistics

The study intended to establish how product innovations affects the strategy implementation process of NSE listed commercial banks in Kenya. The participants were required to specify which product innovations that were employed by their bank. The results are presented in Table 1.

Table 1: Product Innovations Adopted

	Frequency	Percent
Credit cards	56	95
Insurance products	29	49
New deposit accounts	53	90
Mortgages	57	97

From results in Table 1, most of the particpants specified that the product innovations adopted by the bank were mortgages represented by 97%, credit cards (95%), new deposit accounts (90%) and insurance products (49%). Few banks had embraced insurance products probably because of many insurance agencies in the market.

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The participants were required to specify the extent of adoption of the product innovations by their bank using 1 to 5 where 1 is very lowly, 2 is lowly, 3 is moderately, 4 is highly and 5 is very highly. The results are illustrated in Table 2.

Table 2: Adoption Extent of the Product Innovations

		Low	**Moderate**	**High**	**Mean**	**Std. Dev.**
Credit cards	f	2	10	47	3.831	0.592
	%	3.4	16.9	79.7		
Insurance products	f	7	39	13	3.085	0.702
	%	11.9	66.1	22		
New deposit accounts	f	1	3	55	4.119	0.560
	%	1.7	5.1	93.2		
Mortgages	f	2	19	38	3.593	0.619
	%	3.4	32.2	64.4		

As per the results in Table 2, the participants implied that credit cards were adopted to a lowly extent (3.4%), to a moderate extent (16.9%) and to a higher extent (79.7%). The average was 3.831 and its standard deviations was 0.592. The findings imply that most banks have adopted credit cards to a high extent. Further, the participants specified that insurance products were adopted to a lower extent (11.9%), to a moderate extent (66.1%) and to a higher extent (22%). The average was 3.085 and its standard deviations was 0.702. The findings imply that most banks have moderately adopted insurance products. Moreover, the respondents indicated that new deposit accounts were adopted to a lower extent (1.7%), to a moderate extent (5.1%) and to a higher extent (93.2%). The average was 4.119 and its standard deviations was 0.560. The findings imply that most banks have highly adopted new deposit accounts. Finally, the respondents indicated that mortgages were adopted to a lower extent (3.4%), to a moderate extent (32.2%) and to a higher extent (64.4%). The mean was 3.593 and its standard deviation was 0.619. The findings imply that most banks have highly adopted mortgages. The findings agrees with Nakato, Ngigi and Andemariam (2021) indicated that introducing new products had a positive effect on the performance of smaller and medium-sized printing businesses. It also uncovered that the integration of visual designs, the utilization of digital printing technology, and the application of polymer sheets stood out as significant advancements in their merchandise.

Inferential Statistics

The researcher also undertook regression analysis to test how product innovations affects strategy implementation in commercial banks listed in NSE in Kenya. The results are expressed in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.751[a]	.564	.557	.329
a. Predictors: (Constant), Product Innovations				

From the findings in Table 3, R was 0.751 which shows that there is a strong and positive association between product innovations and strategy implementation process in commercial banks. Further, the R-square was 0.564 which implies that 56.4% of the variations in strategy implementation process in NSE listed commercial banks in Kenya are explained by product innovations. The findings agree with Omwanza and Jagongo (2019) who found that product innovation playsed a key role in the performance of MFIs and helps them stay competitive in the market.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.021	1	8.021	73.804	.000[b]
	Residual	6.195	57	.109		
	Total	**14.216**	**58**			

From the ANOVA findings in Table 4, sig. value was 0.000 and F-computed was 73.804. Since sig. value was less than 0.05 and the F-computed was more than F-critical (4.0099), then the regression model was significant. This implies that strategy implementation process in NSE listed commercial banks in Kenya is significantly predicted by product innovations. The findings agree with Muchemi and Makori (2017) who argued that product innovations have significantly contributed to implementation of different strategies in Kenyan commercial banks.

Table 5 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.871	0.147		5.925	0.000
	Product Innovations	0.706	0.171	0.536	4.129	0.000

From the coefficients of regression, the equation will be:

$\mathbf{Y}= 0.871 + 0.706\ \mathbf{X_1}$

Where: $\mathbf{Y}$= Strategy implementation process; $\mathbf{X_1}$= Product innovations

From the results in Table 5, the study found that a unit increase in product innovations results to 0.706 increase in strategy implementation process in commercial banks listed in NSE in Kenya. The findings agree with Nakato, Ngigi and Andemariam (2021) who indicated that introducing new products had a positive impact on the performance of small and medium-sized printing businesses.

Conclusions

The study concluded that product innovations have a substantial effect on strategy implementation process in commercial banks listed in NSE in Kenya. It was established that banks adopted product innovation including new deposit accounts, credit cards and mortgages have a substantial effect on strategy implementation process in commercial banks. Commencial banks needs to continue initiating product innovations such credit cards, insurance products, new deposit accounts and mortgages to effectively ensure strategy implementation. Product innovations help banks meet the evolving needs and expectations of their customers. Innovative products allow banks to differentiate themselves from their competitors. By developing and promoting distinctive products, banks can build a strong brand image and establish themselves as industry leaders. Most banks were found to have highly adopted new deposit accounts, credit cards and mortgages while moderately adopting insurance products.

Recommendations

The government should establish a supportive regulatory framework that encourages financial innovations within the banking sector. This can be achieved by collaborating with regulatory bodies, including the Central Bank of Kenya and the Capital Markets Authority, to create a conducive environment for banks to implement innovative financial products and services. Clear guidelines and streamlined approval processes should be developed to facilitate the introduction of new financial innovations.

The study recommended that managers at banks should consistently make an effort to invest in innovative product designs and modify the current products in order to enhance strategy implementation process. There is also a need for listed commercial banks to establish an efficient product research department responsible for conducting surveys and gathering information on new products that they need to adopt and that are tailored towards enhancing the strategy implementation process.

The research also recommends future studies should explore the factors affecting the execution of strategies in financial institutions in Kenya, beyond just commercial banks. This would encompass SACCOS, microfinance institutions, and mortgage companies. There is also a need for future scholars to unearth other factors that affect the strategy implementation in the financial institutions in Kenya. This would highlight other factors apart from financial innovations that affect strategy implementation like employee participation.

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