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INFLUENCE OF STRATEGIC INNOVATIONS ON COMPETITIVE POSITION OF COMMERCIAL BANKS IN NYAHURURU TOWN, KENYA

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Abstract: **Kenya has witnessed a mixture of highly successful financial institutions such as Equity Cooperative and Kenya Commercial Banks that profitably rakes in billions of shillings annually but on the other hand crumbling of some financial institutions. The study was based on resource-based theory, theory of organizational excellence, core competency theory and the alignment theory. The study used a descriptive research design. The study used a census of 36. The research instrument was a structured questionnaire. A standard multiple regression analysis was done on all independent variables on competitive position. The independent variables were; Management of innovation process, strategic alignment, customer insight, core technologies and competencies and disciplined implementation of strategies. The R calculated was 0.818 and R square was 0.6685 implying that all the independent variables taken together explain 66.85% of the variations in competitive positioning. The analysis of variance results showed the five independent variables have an influence on competitive position. The F-value was 3.575 and was significant with p-value of .000, which was less than 0.05. In the regression coefficient of the multiple regression model all the independent variables had a p-value equal to 0.000 and the constant had a p-value of 0.013. All these -values were less than 0.05. The model can provide information needed to predict competitive position from all the independent variables put together. strategic alignment the study concludes that consistent linkage between the bank's innovation strategy and the context within which innovation is implemented is crucial.**

Keywords: **(Management of Innovation Process, Strategic Alignment, Customers' Insight, Core Technologies and Competencies, Disciplined Strategy Implementation).**

I. INTRODUCTION

An innovation framework is a scalable platform created to harness the creative talents of employees while staying in alignment with an organization corporate strategy. It is a strategic approach to innovation from the inside-out that provides a way to act on new ideas. The aim of innovation frameworks are to positively impact on organizational culture, increase employee engagement in the innovation process and generate a constant stream of ideas that have measurable business impact. An organization attempting to continuously innovate will experience significant tensions as it tries to innovate and maximize operational performance (Hyland & Boer, 2006).

Strategic innovation is important to organizations, which include banks that fulfill an important function of financial intermediation, in order to stay in the competitive market sustainably. As the financial sector undergoes transformation globally due to marketing and technological innovations, banks management's strategic decisions in terms of product development, pricing distribution and promotion should evolve. Commercial banks operate in heavily regulated environment that requires certain degree of uniformity on their part in disclosing critical information. Continuous change, hyper-competition, changing demographics and customer needs require these banks to build adaptability competency for survival and fostering of organizational performance (CBK, 2013).

Global corporation such as Apple Inc, 3M and Proctor and Gamble, largely owe their outstanding business success to a sustained record of successful innovation. Yet despite the well association between innovation and business performance, many companies struggle in their attempts to become successful innovators. Developing a business environment that support and promotes innovation often requires extensive changes in organizational culture and systems, which can be difficult to achieve, not to mention disruptive, costly and time consuming. Though the potential long-term benefits are considerable, firms are often focused on short term gains and cost reductions and are unwilling to invest time and resources into long term organizational change projects (Schroeder, 2013).

In Africa, under African Union, the continent aims to reposition the continent as a strategic player in the global economy through improved application of science and technology in development. The AU’s Science, Technology and Innovation Strategy for Africa, 2024 (STISA-2024) provides an initial 10-year framework for pursuing this goal (Calestous Juma, 2016). In

In South Africa financial institutions have been able to create competencies and in order to sustain them, the banks have invested in online marketing, mobile banking, and paperless banking and customized customer service. This has helped them to come up with favorable core banking systems, marketing strategies, products as well as organization innovation. This has improved the financial performance of financial institution. This can be found through increased number of customers, increased profit growth and development of new banking products. Due to the improved financial performance, the financial inclusion has improved especially in developing countries. As a result of the rapidly changing technology and improved financial performance commercial banks have employed skilled and knowledgeable workers who are innovative to and able to deliver change (Khalil, 2012).

In Kenya, firms have and should continue recognizing great potential afforded by product innovation to move the country forward. Low growth of firms experienced earlier in the country can be attributed to lack of innovativeness and government policies that were not supportive of innovation. For these reasons, companies largely depended on the imported technologies to solve local problems, which was not sustainable. However, Kenyan companies have been seen innovative strategies of late, which have seen them grow to become multinational companies. Safaricom for instance, with its famous mobile money transfer services has managed to be the most profitable firm in Kenya despite stiff competition from other mobile operators. In the banking industry in Kenya some specific banks have facilitated increased profitability since the onset of the new millennium.

According to Central Bank of Kenya, as at end of 2014, Equity Bank recorded the best return to shareholders of 49.4 per cent followed by Standard Chartered and I&M Bank, which had a return of 35 per cent and the Equatorial Commercial Bank being the worst performer on this parameter at negative 39 per cent (Nation Media Group, 2016; Central Bank of Kenya, 2014). Despite the success of these banks, several financial institutions have collapsed or put under receivership - three of them including Chase Bank Kenya, Dubai Bank Kenya and the Imperial Bank since June 2015.

The reasons, much like the three recent bank failures, were dressed in colorful words like “non-performing loans” and poor management practices. Of all the banks that have collapsed in the last 32 years, only two have ever been re-opened and one did not even survive. Trust Bank was reopened in August 1999 while Bullion Bank reopened in January 2000. The depositors in both banks had agreed to capitalize part of their deposits as shares. Only Bullion survived though but acquired by Southern Credit, and then merged with Equatorial Commercial Bank (Owaahh, 2016).

An organisation’s ability to innovate is regarded as a key factor for its success and is critical for its long-term prosperity, particularly in a dynamic and competitive markets(Shipton, West, Dawson, Birdi, & Patterson, 2006) as that found in the banking sector. Despite the well-documented association between innovation and business performance, many banks struggle in their attempts to become successful innovators (Schroeder, 2013). Banks need a structured innovation management approach and framework to ensure that they do not gamble with nnovation (Organizing for Innovation LLC, 2017). It is not known whether the poor performance of banks in Kenya is due to weakenesses in their innovations and frameworks. There is need to address this situation through research and gathering of data that would predicate on competitiveness that is provided for by innovation. The study was guided by five null hypotheses;

$\mathbf{H_{01}}$: Management of Innovation Process has no statistically significant influence on Competitive Position of Commercial Banks in Kenya

$\mathbf{H_{02}}$: Strategic Alignment has no statistically significant influence on the Competitive Position of Commercial Banks in Kenya

$\mathbf{H_{03}}$: Customers' Insight has no statistically significant influence on the Competitive Position of Commercial Banks in Kenya

$\mathbf{H_{04}}$: Core Technologies and Competencies has no statistically significant influence on Competitive Position of Commercial Banks in Kenya

$\mathbf{H_{05}}$: Disciplined Strategy Implementation has no statistically significant influence on the Competitive Position of Commercial Banks in Kenya

II. THEORETICAL UNDERPINING

The study was based on Resource Based Theory (RBV). The theory was developed by Theoretically, the central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources (Kostopoulo, Spanos & Prastacos, 2015). The basic logic of the RBV starts with the assumption that a company has a bundle of resources (distinct competencies) (Barney & Arikan, 2017). Management has an important role in creating a sustainable competitive advantage (for example, low costs/ prices, better services, innovativeness) based on these distinctive advantage competences. A firm is said to have sustainable competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney & Arikan, 2017).

According to RBV, firm's abilities also allow some firms to add value in customer value chain, develop new products or expand in new marketplace. The RBV draws upon the resources and capabilities that reside within the organization in order to develop sustainable competitive advantages. However, not all the resources of firm will be strategic and hence, sources of competitive advantage. Competitive advantage occurs only when there is a situation of resource heterogeneity and resource immobility.

This study will also be guided by the theory of organizational excellence by Thomas Peters and Robert Waterman (2014). The theory of organizational excellence is related with the objective of management of innovation process by commercial banks on their competitive position. Organizations seeking to achieve excellence must manage the innovation process where creativity and initiative is encouraged, new ideas are experimented and staff are rewarded for noble ideas which add value to the organization in attaining competitive position. The theory maintains that the innovations that an organization adopts is directly linked to its success in capturing a larger market share (Schroeder, 2013). Therefore, competitive companies are characterized by management of innovation processes and which put emphasis on action, closeness to customers, entrepreneurship, productivity, value-based effort, simplicity, lean staff and economic utilization of resources. This implies that organizations are likely to stay in businesses if their management of innovations provide individuals associated with the organization room to, supports, motivates and empowers them by initiating and allowing for implementation new and creative ways of doing things (Nicanor, 2014).

According to the Core Competence theory which was developed by Hamel and Prahalad in (2001), organizations can move into new markets and market growth possibilities more easily by using their core competences. The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm (Nimsith,Rifas & Cader, 2016).

Strategic alignment helps organizations, including small businesses, define what matters most to the organization and then create a road map to achieving the organization's purpose. Strategic alignment requires planning, a willingness to reassess and make adjustments regularly and a workforce that feels involved and responsible for the organization achieving its objectives (Knudsen, 2003).Before the leaders of an organization can begin a strategic alignment of the organization, they must first take an honest look at the state of the organization. These leaders must decide what the goal of the organization should be, and then set objectives that will help the organization realize the goal. For example, a car company may have a goal of increasing market share, but the objectives to achieve this goal might include increasing vehicle fuel efficiency, reigning in production costs and improving buyers' perceptions of the brand -- objectives that don't directly support the goal. If the organization's leaders are not honest in their assessment of the organization, the strategic alignment is flawed from the beginning (Mintzberg & Quinn, 1998).

Leadership is widely described as one of the key drivers of effective strategy implementation (Pearce & Robinson, 2007). However, a lack of leadership, and specifically by the top management of the organization, has been identified as one of the major barriers to effective strategy implementation (Hrebiniak, 2005). Leadership is defined as "the leader's ability to anticipate, envision, and maintain flexibility and to empower others to create strategic change as necessary" (Hitt MA, 2007). Leadership is multifunctional, involves managing through others, and helps organizations cope with change that seems to be increasing exponentially in today's globalized business environment. Leadership requires the ability to accommodate and integrate both the internal and external business environment of the organization, and to manage and engage in complex information processing. Identifiable actions characterizing leadership that positively contributes to effective strategy implementation are determining strategic direction, establishing balanced organizational controls, effectively managing the organization's resource portfolio, sustaining an effective organizational culture and emphasizing ethical practices.

Concept of strategic alignment has played a key role in the development of strategic management thought (Zajac, 2000). One of the most widely shared assumptions in the strategy literature is that the appropriateness of a firm's strategy can be defined in terms of the alignment - also referred to as fit, match, co alignment or congruence - of its strategy with both its external and its internal contingencies (Jover, 2005). The literature review has also shown that strategic alignment paradigm asserts the necessity of maintaining a close and consistent linkage between the firm's strategy and the context within which it is implemented, and which calls for continuous adaptation and change. Strategic alignment is a capability in it that should be contrasted with a firm's underlying technological competencies and managerial capabilities. In addition, the study has shown that organizations should constantly scan the horizons for new opportunities to satisfy their customers within the context of regarding the customers' insights. For example, they should be capable of infusing products with irresistible functionality or, better yet, creating products that customers need but have not yet even imagined.

Learning from market changes has emerged as a key source of innovation and firm performance particularly on the market driven firm perspective. This approach argues that, to be effective innovators, organizations should constantly scan the horizons for new opportunities to satisfy their customers. Generating innovative ideas through the collection and dissemination of marketplace information is a starting point for innovation. Because knowledge of market preferences reduces the degree of incompatibility of new products with customer needs, it is likely to enhance the adoption and success of innovations (Kleinschmidt & Cooper, 1995). As argued by (Prahalad & Hamel, 1990) "the critical task for management is to create an organization capable of infusing products with irresistible functionality or, better yet, creating products that customers need but have not yet even imagined". In this paper, customer insight is conceptualized to incorporate learning activities aimed at both customer preference changes and competitor actions.

A strong banking industry is important in every country and can have a significant effect in supporting economic development through efficient financial services (Van, 2004; Van Horne, 2004). Some Kenyan banks, however, continue to conduct most of their banking transactions using traditional methods. In Kenya, the role of the banking industry thus needs to change, both at the procedural level and at the informational level. This change will include moving from traditional distribution channel banking to electronic distribution channel banking. Given the almost complete adoption of internet, SMS and other technologies by banks in developed countries, the reason for the lack of such adoption in developing countries like Kenya is an important research question that is addressed by this study.

Strategy implementation is an integral component of the strategic management process and is viewed as the process that turns the formulated strategy into a series of actions and then results to ensure that the vision, mission, strategy and strategic objectives of the organization are successfully achieved as planned (Thompson, 2003). Strategy formulation has been widely regarded as the most important component of the strategic management process - more important than strategy implementation or strategic control. However, recent research indicates that strategy implementation, rather than strategy formulation alone, is a key requirement for superior business performance (Kaplan, 2000). In addition, there is growing recognition that the most important problems in the field of strategic management are not related to strategy formulation, but rather to strategy implementation, and that the high failure rate of organizational initiatives in a dynamic business environment is primarily due to poor implementation of new strategies.

III. RESEARCH METHODOLOGY

The study applied a descriptive research design with a census of 37 respondents who included 18 managers and 19 supervisors from all the commercial banks in Nyahururu. A closed ended questionnaire was used to collect data from the respondents. A self-administration method was used to collect the data where the respondents filled the questionnaire and the questionnaire was picked immediately. Thirty-five questionnaires were returned and this represented 97.22% response rate which was deemed to adequate for the purpose of data analysis. Inferential data analysis method was used to analyze the data. Tools for inferential data analysis used were regression and hypothesis testing.

IV. RESULTS AND DISCUSSION

Regression analysis was carried out to determine the amount of variation in competitive position explained by management of innovation process. The calculated R value was 0.589. The R square was equal to 0.347 which means that 34.7% of the corresponding variation in competitive position can be explained by change in management of innovation process. Regression analysis was carried out to determine the amount of variation in competitive position explained by strategic alignment. The calculated R value was 0.498. The R square was equal to 0.248 which means that 24.8% of the corresponding variation in competitive position can be explained by change in strategic alignment. To determine the amount of variation in competitive position explained by customer insight. The calculated R value was 0.645. The R square was equal to 0.416 which means that 41.6% of the corresponding variation in competitive position can be explained by customers insight. Regression analysis was carried out to determine the amount of variation in competitive position explained by core technologies and competencies. The calculated R value was 0.629. The R square was equal to 0.395 which means that 39.5% of the corresponding variation in competitive position can be explained by change in core technologies and competencies. To determine the amount of variation in competitive position explained by disciplined strategy implementation. The calculated R value was 0.675. The R square was equal to 0.456 which means that 45.6% of the corresponding variation in competitive position can be explained by change in disciplines strategy implementation.

A standard multiple regression analysis was done on all independent variables on competitive position. The independent variables were; Management of innovation process, strategic alignment, customer insight, core technologies and competencies and disciplined implementation of strategies. R calculated was 0.818 and R square was 0.6685. This means that all the independent variables taken together explain 66.85% of the variations in competitive positioning. The rest of 33.15% are explained by other factors outside the model. The R square (66.85%) seems to be higher than the individual R square of the bivariate models. Therefore, when all the independent variables are combined together, they explain more about the variations in the dependent variable than the individual independent variables.

Analysis of regression model coefficients was carried out and the results showed a positive beta coefficient of 0.566 as indicated in the coefficient's matrix with a p-value= 0.00 and a constant of 1.487 with a p-value of 0.000 which was less than 0.05. Hence, both the constant and management innovation process contribute significantly to the model. The model can provide information needed to predict competitive position from management innovation process. The regression equation is presented as; $Y = 1.487 + 0.566X_1$ where Y is the competitive position and X_1 is the management of the innovation process. Further, there is a positive beta coefficient of 0.380 as indicated in the coefficient's matrix with a p-value= 0.00 and a constant of 2.006 with a p-value of 0.000 which is less than 0.05. Hence, both the constant and strategic alignment contribute significantly to the model. The model can provide information needed to predict competitive position from strategic alignment. The regression equation is presented as; $Y = 2.006 + 0.38X_2$ where Y is the competitive position and X_2 is the strategic alignment.

The analysis of variance (ANOVA) results for management innovation the F-value was 0.357 with a p-value of 0.007 which was less than 0.05, implying that the overall model is significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence, this study rejects the null hypothesis that management of innovation process has no significant influence on competitive position and confirm indeed that there is a positive and significant influence of management of innovation process on competitive position in commercial banks in Nyahururu town. Secondly, the model fit was appropriate for this data since the F value was equal to 4.988 with p-value of 0.000

which was less than 0.05. This implies that the overall model is significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence, this study rejects the null hypothesis that strategic alignment has no significant influence on competitive position and confirm indeed that there is a positive and significant influence of strategic alignment on competitive position in commercial banks in Nyahururu town.

The analysis of variance (ANOVA) results further indicated that the model fit is appropriate for this data. The F-value was equal to 4.745 with p-value of 0.000 which was less than 0.05, implying that the overall model is significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence, this study rejects the null hypothesis that customers insight has no significant influence on competitive position and confirm indeed that there is a positive and significant influence of customers insight on competitive position in commercial banks in Nyahururu town. The analysis of variance (ANOVA) results indicated that the model fit is appropriate for this data since the F value was equal to 2.744 with p-value of 0.000 which was less than 0.05. This implies that the overall model is significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence, this study rejects the null hypothesis that core technologies and competencies have no significant influence on competitive position and confirm indeed that there is a positive and significant influence of core technologies and competencies on competitive position in commercial banks in Nyahururu town.

The analysis of variance (ANOVA) results indicated that the model fit is appropriate for this data. The F value is equal to 3.864 with p-value of 0.000 which was less than 0.05. This implies that the overall model is significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence, this study rejects the null hypothesis that disciplined strategy implementation has no significant influence on competitive position and confirm indeed that there is a positive and significant influence of strategy implementation on competitive position in commercial banks in Nyahururu town.

Analysis of regression model coefficients was carried out and the results are shown in table 4.22. The table shows that there is a positive beta coefficient of 0.561 as indicated in the coefficient's matrix with a p-value of 0.00 and a constant of 0.958 with a p-value of 0.000 which was than 0.05. Hence, both the constant and customer insight contributes significantly to the model. The model can provide information needed to predict competitive position from strategic alignment. The regression equation is presented as; $Y = 0.958 + 0.561X_{3,}$ where Y is the competitive position and X_3 is the customer insight. Secondly, there is a positive beta coefficient of 0.541 as indicated in the coefficient's matrix with a p-value= 0.00 and a constant of 2.750 with a p-value of 0.000 which is less than 0.05. Hence, both the constant and core technologies and competencies contribute significantly to the model. The model can provide information needed to predict competitive position from core technologies and competencies. The regression equation is presented as; $Y = 2.75 + 0.541X_4$ where Y is the competitive position and X_4 is the core technologies and competencies.

The analysis of variance results of standard multiple regression model. The F-value was 3.575 with p-value of 0.000, which was less than 0.05. this indicates that the overall model was significant in prediction of competitive position of commercial banks in Nyahururu town, Kenya. Hence the study rejects the null hypothesis that when all independent variables are taken together, they do not have a combined effect on the competitive position. The study further confirms that indeed there is a positive and significant influence of strategy implementation on competitive position of commercial banks in Nyahururu town, Kenya. The regression coefficient of the multiple regression model. All the independent variables had a p-value equal to 0.000 and the constant had a p-value of 0.013. All these values were less than 0.05. Therefore, the constant and the independent variables contribute significantly to the model. The model can provide information needed to predict competitive position from all the independent variables put together. The multiple regression equation is presented as follows; $Y = 0.673 + 0.439X_1 + 0.338X_2 + 0.351X_3 + 0.52X_4 + 0.503X_{5;}$

V. CONCLUSION

The study concludes that bank leadership has a major role in innovation strategy through provision of vision, strategic innovation framework and constant evaluation of the strategic innovation framework. Null hypothesis that management of innovation process has no statistically significant influence on competitive position of commercial banks in Kenya is rejected. On strategic alignment the study concludes that consistent linkage between the bank's innovation strategy and the context within which innovation is implemented is crucial. Thus, finding the balance between the relevant contingencies in the business environment (external fit) and the firm's internal resources, competencies and capabilities (internal fit)' and having a continuous change serves the bank well in competitive position. The null hypothesis that strategic alignment has no statistically significant influence on the competitive position of commercial banks in Kenya is rejected.

On customer insights the study concludes that some banks have limitation in opening up the horizon of meeting customer needs and duplicates what others have done. However, they look for new products to meet customers' needs. Good relation with customers, creation of new products, listening to customer's suggestions and aspirations all contributes positively on the banks competitive position as it enhances customer satisfaction. The null hypothesis that customers' insight has no statistically significant influence on the competitive position of commercial banks in Kenya is rejected.

On Core Technologies and competencies competitive position of commercial banks, banks are utilizing existing technology to advance their market share locally and internationally. The channels being used include internet and SMS based channels. This study concludes that moving from traditional distribution channel banking to electronic distribution channel banking will impact positively on competitive position of the banking. The null hypothesis that Core technologies and competencies has no statistically significant influence on competitive position of commercial banks in Kenya was rejected

On disciplined implementation of innovation strategy, banks are consistently concerned about innovation and innovation goals are shared by all stakeholders. Implementation of innovation strategy is broken down into administrative sub-activities. Thus, strategy implementation, rather than strategy formulation alone, is a key requirement for superior business performance and a key competency in strategy implementation. Well set out policies are important when it comes to bank competitive advantage. The null hypothesis that disciplined Strategy Implementation has no statistically significant influence on the Competitive Position of Commercial Banks in Kenya was rejected.

VI. RECOMMENDATIONS

The study recommends that for banks to be competitive in the market they should enhance innovations in their operations so that they realize the full benefits of innovation strategies. Through compliance with the regulations and policies the commercial banks will realize performance as a result of process, product, market and technology innovations

Banks should align their operations and activities towards realizing their strategic goals. The leadership and management should enhance their capacity in offering leadership, vision and innovation framework in order to boost their competitive position. Customer satisfaction will le to enhanced competitive position in the banking industry. Banks should continuously use existing technology knowledge and competencies to go beyond their traditional market segments and finally bank leaders and managers should ensure that innovation goals are shared throughout the organization by all stakeholders such as the employees and directors.

VII. SUGGESTIONS FOR FURTHER STUDIES

The study recommends the following topics are areas of possible further research:

i. The relationship between outsourcing of skills and innovation of commercial banks in Kenya

ii. Challenges facing human resource management in the management of innovation strategy framework in commercial banks in Kenya

iii. The influence of technology on bank's competitiveness through product differentiation

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