

EFFECT OF INNOVATIONS ON FINANCIAL PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KENYA

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Abstract

Innovation involves the design, the development, and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance. This study sought to establish the role of innovation and its effects on financial performance of MFIs in Kenya. More specifically the study focused on the following specified objectives: to determine the effect of product and process innovations on financial performance of MFIs. The dynamism associated with technology has always created a lot of tension to the market. Descriptive data design was applied in data collection. The population of interest was of 14 MFIs that were interviewed using unstructured questionnaires. In addition multiple regression model was used to assist in the determination of the relative importance of each of the four variables on the performance of the MFIs in Kenya. The study found that product innovation and process innovation had a positive effect on financial performance. The study concluded that relation between the microfinance institutions performance and the product innovation and process innovation are very important. The study recommends that there should be development of policies around the activities of microfinance institutions to ensure that there is continuous product innovation as well as improvement of process innovation to enhance efficiency and effectiveness in their operations.

Keywords: *Product innovation, Process innovation and financial performance*

1.0 INTRODUCTION

Businesses all over the world are faced with the challenges posed by the ever changing and turbulent competitive environment. The rate, direction and magnitude of this competition must therefore be the concern of every top executive entrusted with the running of any organization. In today's business landscape, service firms must continuously renew their processes and offerings to remain competitive (Thakur & Hale, 2013). As the world shifts to a more globalized economy, competition only intensifies. Now, more than ever, innovation is proving to be a subject of importance and plays a pivotal role in fueling growth and increasing competitive advantage. As Hitt et al., (1991) argue that strategic competitiveness can best be achieved by firms through developing new technologies. The only way for a firm to gain a sustainable competitive advantage is invariably upgrade its processes and activities through innovation (Porter, 1990; Drew, 1997).

Technology creates a significance change which influences ability to innovate and is viewed both as a major source of competitive advantage and of new product innovation (Gunasekaran et al., 1996). There are various definitions of innovation in the literature; however, most definitions share common themes relating to knowledge, which may be turned into new products, processes and services to improve competitive advantage

and meet customers' changing needs (Nystrom, 2000). According to Carnegie and Butlin (2003) innovation may refer to "something that is new or improvement done by an enterprise to create significantly added value either directly for the enterprise or directly for its customer. Research on technological innovation, broadly defined, forms a huge body of research focused on problems of technology based change in organizational and social settings (Rogers, 1995; Drazin and Schoonhoven, 1996). Innovation can, from a firm perspective, be conceived as a complex process involving the development, transformation and application of new combinations of ideas, knowledge, technologies, capabilities and resources with the objective to develop a new idea or behavior with the potential to (i) increase the profitability of a firm, (ii) reduce its production and distribution costs, and/or (iii) increasing the willingness of customers to buy and pay for their products (Therrien, Doloreux & Chamberlain, 2011; Jiménez & Sanz-Valle, 2011).

The wave of financial innovation begun in the early 1960s in United States and other developed economies producing major changes in the financial landscape (Boot & Thakor, 2007). The International financial landscape is changing rapidly; economies and financial systems are undergoing traumatic years. Globalization and technology have changed with continuing speed, financial arenas are becoming more open with new products and services being invented and regulators everywhere are scrambling to assess the changes and master the turbulence (Sandeep *et al*, 2002). Innovation consists of firms developing new products or new production processes to better perform their operations, in which case the new products could be based on the new processes (Tufano, 2002 & Lawrence, 2010). In the financial services industry, innovation is viewed as the act of creating and popularizing new financial instruments, technologies, institutions and markets, which facilitate access to information, trading and means of payment (Solans, 2003). CBK report (2017) there are various development and banking innovations that have taken place, they include: use of agency banking, growth of Microfinance Banks (MFBs), Kenya Electronic Payment and Settlement System (KEPSS), Automated Clearing House operations (ACH), automated teller machines (ATMs) and plastic card usage, and mobile phone usage for funds transfer.

1.1 Overview of Microfinance Industry

According to Gomez and Santor (2008), MFIs have expanded throughout the developing and developed world and now serve over 10 million households worldwide. Micro finance is a subset of financial innovation targeting the small scale clients with micro saving and credit facilities that they can afford (Tufano, 2002). From the years 1970s to date there has been high increase and growth of microfinance institutions (MFI) in Kenya. Many have grown fast and their levels of efficiency greatly increased until some have been converted into leading banks in Kenya for example the Equity Bank and the Family Bank. The well-known microfinance institutions operating in Kenya include; Faulu Kenya, Kenya Women's Trust Fund and Jamii Bora among others. Micro financing is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lacked access to banking and related services. In Kenya Micro Finance Institutions play an essential role in the economic development by serving the population ignored by the big Banks.

Kenya has 14 licensed microfinance institutions (CBK, 2017). An appropriate banking environment in Kenya is considered a key pillar as well as an enabler for economic growth (Koivu, 2002). With the continuously emerging wave of information driven economy, the banking industry in Kenya has inevitably found itself unable to resist technological indulgence. Deposit taking microfinance institutions in Kenya aim at expanding financial access which still remains low mostly on the low income and small enterprises according to Financial

Sector Deepening Kenya (FSD Kenya, 2012). DTM growth and development has been seen as a part of financial sector development which fosters economic growth (Levine, 2004).

1.2 Statement of the Problem

The concept of innovation is fundamental as it spurs growth of financial institutions worldwide (Mugo, 2012). Presently, innovation is a continuous process geared toward providing a wider range of financial products and financial intermediation which is a crucial factor in determining competitiveness and the progress of financial institutions (Mohanty & Panda, 2004). The emergence of new technologies, products, processes, markets and global competition in the banking industry places demand in the financial market to apply any new skills necessary to remain competitive and achieve competitive advantage either locally or in the global market (Melody, 2009). The financial market has already been depicted as exhibiting little market orientation and fulfilling services with little regard to customer needs as well as including branches dissimilar in efficiency which have contributed to low financial performance (Parasuman et al., 2001).

Micro finance institutions in over the last 10 years have experience unnoticeable growth not only in terms of financial performance but also in their operations. Study shows that stiff competition in the industry, technology and innovation are among the factors influencing growth of micro finance institutions in Kenya (Mugo, 2012). Most micro finance institutions are yet to adopt technology fully. Poor systems, slow operation are innovation challenges facing the MFIs in Kenya. Financial market reports (2015) described slow adoption of technology in the banking sector has been a major challenge to performance.

Several research has been conducted regarding innovations in the financial market. Mostly related to commercial banks and deposit taking SACCOs. Mukuru (2014) conducted a study on effects of financial innovation of commercial banks in South Sudan. Korir (2014); Zewdia (2013) and Kumar (2011) also focused their research on commercial banks innovations. Mbogo and Ashila (2010) conducted a study on factors affecting product innovation on micro finance institutions in Kenya. Despite of these studies, the problems of effective and efficient service delivery in the deposit taking institutions have not yet improved. This can be evidenced with the deterred growth of micro finance institutions. These include Chege (2008) who analyzed a case of the common strategies applied by Equity Bank, which did not identify the trend of MFIs innovation over time. Mutua (2006) conducted a study on the linkage between MFIs and commercial banks in Kenya” focused on how the MFIs fill the gap by using new technology, methods and partnerships, where she analyzed the reasons for products innovation among the MFIs. Onduku, (2013) conducted his research on the effects of financial innovation on performance of SACCOs in Kenya with a case study of registered SACCO’s in Nairobi county. Sum (2016) conducted a study on role of financial innovation on financial performance of deposit taking SACCO’s in Kenya. These studies were out of the scope and could not give a clear prediction on whether the MFIs face similar problems. The most related study was conducted by Mugo (2012) on the effects of financial innovation on growth of MFIs. However this study generalized the financial innovation. The study failed to be specific on the factors to consider the effects of specific financial innovation such as ATM machines, credit cards, agencies and new deposit accounts in the financial performance of MFIs in Kenya. Thus this research seek to bridge the existing gap by investigating the role of current financial innovations and how they affect the financial performance of MFIs in Kenya.

1.3 Objectives of the Study

The general objective was to explain the Effect of innovations on financial performance of micro finance institutions in Kenya.

1.3.1 Specific Objectives

1. To establish the effect of product innovation on financial performance of MFIs in Kenya
2. To determine the effect of process innovation on financial performance of MFIs in Kenya.

1.4 Research Questions

1. What is the effect of product innovation on financial performance of MFIs in Kenya?
2. What is the effect of process innovation on financial performance of MFIs in Kenya?

1.5 Scope of the Study

The study concentrated on 14 Microfinance Institutions since they are in direct competition with the mainstream banks in Kenya. The study will cover product innovations, service innovation, process innovation and institutional innovation. The selected 14 micro finance institutions are registered by CBK and have been accredited to offer front office services.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Transaction Cost Innovation Theory

The transaction cost innovation theory's main pioneers are Hicks and Niehans 1983 (as cited by Njeri 2013). They thought that the dominant factor of financial innovation is the reduction of transaction cost, and in fact, financial innovation is the response of the advance in technology which caused the transaction cost to reduce. The reduction of transaction cost can stimulate financial innovation and improve on financial service. This theory studied the financial innovation from the perspective of microscopic economic structure change. MFIs just like other organizations are faced with challenges of ever escalating transaction costs that threaten sustainability. As a result, they have embarked on invention of methods for cutting down transaction costs. This theory was therefore important to this study since it helped the researcher to articulate the significance of financial innovations on the financial performance of MFIs in Kenya as a result of transaction cost cutting measures. This theory is relevant to the study since businesses innovate to reduce their costs and maximise profits.

2.1.2 Schumpeter Theory of Innovation

In the 1930s Schumpeter started studying how the capitalist system was affected by market innovations. After analyzing the capitalist model Schumpeter tried to understand what companies would be in a better position to innovate. He developed a theory where a company's ability to innovate was mainly connected to its size. Initially he defended that small companies should be in a better position to innovate due to flexibility while larger companies might get trapped in bureaucratic structures. Schumpeter (1928) argued that entrepreneurs, who could be independent inventors or research and development (R&D) engineers in large corporations, created the opportunity for new profits with their innovations. In turn, group of imitators attracted by super-profits would start a wave of investment that would erode the profit margin for the innovation. However, before economy could equilibrate a new innovation or set of innovations, conceptualized by Schumpeter as Kondratiev cycles, would emerge to begin the business cycle all over again.

Schumpeter (1939) drew a clear distinction between the entrepreneurs whose innovations create the conditions for profitable new enterprises and the bankers who create credit to finance the construction of the new ventures. Schumpeter (1939) emphasized that the special role of credit-creation by bankers was ‘the monetary complement of innovations’. Therefore, as independent agents who have no proprietary interest in the new enterprises they fund, bankers bear all the risk. This requires having the special ability to judge the potential for success in funding entrepreneurial activities. According to Schumpeter (1939) it is just as important to deny credit to those that lack that potential as it is to supply those that have the potential for success.

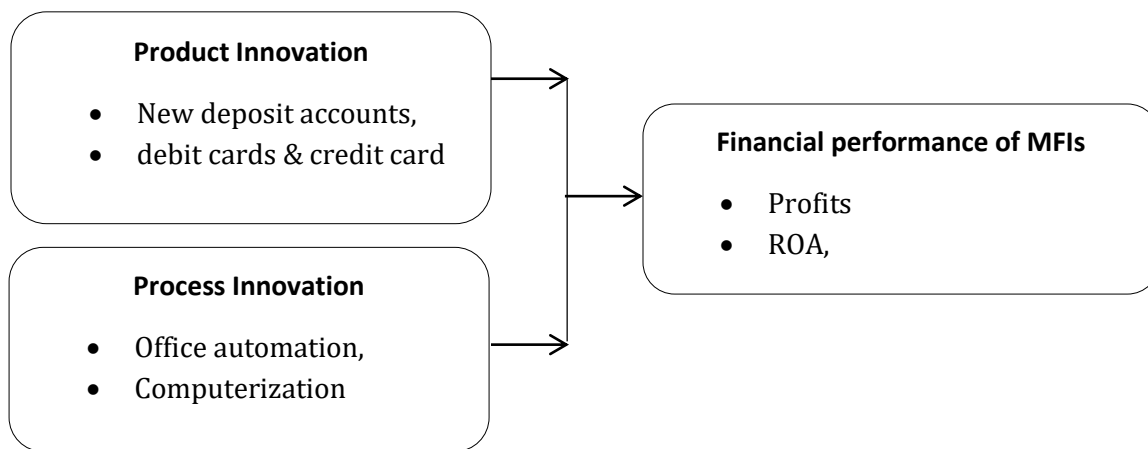
2.1.3 Innovation diffusion theory

The innovation diffusion theory was developed by Rogers (2003). According to the theory, there are four elements of diffusion which including innovation, time, communication channels, and social systems that affect adoption of innovation. Rogers, (2003) states that an individual’s technology adoption behavior is determined by his or her perceptions regarding the relative advantage, compatibility, complexity, trainability, and observability of the innovation, as well as social norms. MFIs will adopt financial innovations which are compatible, while avoiding those which are complex. MFIs will train in the new inventions and observe what new their competitors are doing to achieve set goal. MFIs will observe and try to make the products and process very unique from those of their competitors.

2.2 Conceptual Framework

The independent variables include product innovation, Process innovation. The dependent variable in this study is financial performance represented by current ratio, Return on Assets (ROA) and Profit margin ratio.

Independent variable **Dependent variable**



2.1 Conceptual framework

2.3 Empirical Review

2.3.1 Product innovation and financial performance

Studies show that new product development has positive impact on the performance of the firm (Ettlie & Reza 1992). Alamdari & Fagan (2005) explored the relationship among production and financial performance. The researchers found that product delivery speed measuring production performance is positively associated with market share measuring market performance of the firm. Anderson, Fornell & Lehmann (1994) examined the

relationship among the quality of the product being provided and customer satisfaction. The researchers are of the view point that better quality of the product brings more customer satisfaction which means that product innovation being made leads to innovative performance. Tabas & Beranova (2012) sought to determine possible effect of product innovations on the financial performance of small and medium-sized enterprises in the Czech Republic. From the results of their pilot study of statistical sample of 100 companies, it was evident that continuous innovations are necessary.

According to Onduko (2015) product innovation refers to the innovations of new or modified financial services such as the introduction of new deposit accounts, credit card, debit card, insurance, leasing, hire purchase, and other financial products. Product innovations are introduced to respond better to changes in market demand or to improve the efficiency of work and deregulate the essential part. Various research done in the past have in the banking industry have supported that product innovation has great impact on profitability of a firm.

2.3.2 Process innovation and financial performance

Process innovation refers to a method of introducing new business processes leading to increased efficiency or market expansion (Onduko, 2013). Examples include office automation and use of computers with accounting and client data management software. Process innovation is associated with downsizing, restructuring, automation more use of technology, delayering, flattening the hierarchy, reorganizing and total quality management. Dauda et al., (2011) in assessing the relationship between financial innovation and commercial banks performance in Nigeria concluded that there is a significant relationship between technology innovations and Nigeria Banks performance. Similar results were obtained by Abor (2005) in assessing the relationships between effects of technological innovations on banking services in Ghana. Abor (2005) concluded that computerization has enhanced efficiency in the processes of a firm.

Mabrouk and Mamoghli (2010) in their study on Dynamics of Financial Innovation and Performance of Banking Firms: Context of an Emerging Banking Industry, analyzed the effect of the adoption of two types of financial innovations namely; product innovation (telephone banking and SMS banking etc) and process innovation (Magnetic strip card (debit, ATM and credit card), Automatic cash dispenser; (Automatic teller machine; Electronic payment terminal etc) on the performance of banks. Their analysis included two adoption behaviours, first mover in adoption of the financial innovation and imitator of the first movers. They found out that first mover initiative in product innovation improves profitability while process initiative has a positive effect on profitability and efficiency. Banks that imitate are less profitable and less efficient than first movers.

2.3.3 Financial performance

Financial performance refers to measure of how well a firm can use available resources it has to generate revenues (Bessler et al., 2008). It is a term used to reflect how revenues of a firm change from one period to other, or between two or more firms in the same industry. There are many different ways to measure financial performance of a firm, though they should be taken in aggregation (Korir, 2014). Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales (Business Dictionary, 2011).

There has not been a specified tool to measure the performance of MFIs. Traditionally, financial performance of MFIs has been measured using a combination of convictional accounting measures and risk and returns measures. Just like other firms, financial ratio analysis, bench marking, measuring performance against budget or combination of these has also been used.

Financial innovation has been a continuous process and vital part of corporate world. Greater freedom and flexibility have thus enabled companies to invent and innovate financial instruments and their subsequent introduction in the market (Salakha, 2012). According to Ignazio (2007) financial innovations can be grouped into; new products, services, process, institutional innovations. Mukur (2014) noted that the financial market in Kenya have frequently been innovating new products, services and governance in order to improve their financial performance. The financial sector has over time developed successfully with innovation products and services available in financial market. These products developed include; debit cards, credit cards, ATM cards, M-pesa and others which facilitate the use of electronic means of payment and sometimes substitute for the use of physical cash.

2.4 Research Gap

Many of the reviewed studies have considered the effect of innovations on the banks. Few studies have studied the effect of innovations on MFIs. This study fills the gap by applying the same variables on a segment within the banking industry which is the deposit taking microfinance institutions, who are in direct competition with the main stream banks in Kenya.

3.0 RESEARCH METHODOLOGY

The study adopted the descriptive also referred to as diagnostic research design which is considered with describing characteristics of a particular individual or groups of individuals, (Kothari, 2005). According to Cooper and Schindler (2003), the descriptive study tries to answer the, who, what, when, where and sometimes how questions. The target population of this study was the 14 registered MFIs in Kenya. The study did not sample the target population because of its small size. However two respondent from each level of management was selected at random to answer the questionnaire. A total of 84 respondent were therefore involved in the study.

The data for this particular study was collected by use of structured questionnaires to ensure consistency in the collection of data. The structured questionnaires by the researcher was organized as per the variables of the study which assisted in the coding and analysis. This research focused both primary and existing secondary data. Primary data was collected through the administration of questionnaires to senior management of MFI employees. The data was analyzed using descriptive statistics and presented by use of cross tabulation charts and graphs, tables, percentages and frequencies to display a visual presentation of the data, for ease of understanding and analysis. The analysis was done with the aid of the statistical package for social sciences (SPSS) software, IMB 2015 version. The study used a multiple regression analysis to establish the relationship between the dependent and the independent variables as well as the correlation coefficient which was used to establish the strength of relationship.

The regression model is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \text{ Where:}$$

Y = Financial Performance

β_0 = Constant Term, β_1 = Beta coefficients, X_1 = Product Innovation, X_2 = Process Innovation,

ε = Error term.

4.0 FINDINGS AND DISCUSSIONS

4.1 Response Rate

Table 4.1 Response rate

	Number	Percentage
Responded	71	86
Did Not Respond	13	14
Total	84	100

Table 4.1 indicates that out of the 84 questionnaires administered, only 71 were returned. The overall response rate was thus found to be 86% which was very high. The 14% of the respondents did not respond. The interpretation was that the high response rate was essential to obtain sufficient observations for further analysis.

4.2 Descriptive Statistics

Table 4.2 Product innovation

Statement	Mean	Standard deviation
We have developed new deposit accounts	4.46	1.205
All our customer are registered with credit cards	4.56	1.216
All our customer are registered with debit cards	4.53	1.204
Most of our withdrawal transaction are done with debit and credit cards	4.41	1.178

The study sought to examine the respondent’s level of agreement or disagreement on the various measures of Product innovation. Table 4.2, presents the relevant results which show that on a scale of 1 to 5 (where 1= strongly disagree and strongly agree=5) the means were found to be; We have developed new deposit accounts 4.46 Standard deviation 1.205, all our customer are registered with credit cards 4.56 Standard deviation 1.216, All our customer are registered with debit cards 4.53 Standard deviation 1.204, Most of our withdrawal transaction are done with debit and credit cards 4.41 Standard deviation 1.178.

Table 4.3 Process innovation

Statement	Mean	Standard deviation
process innovation has enhanced time saving in our operations	4.45	1.205
Computerization has led to reduction of frauds	4.56	1.216
Office automation increased the number of customers served in a day	4.50	1.204
process innovation has enhanced efficiency in the MFI operations	4.49	1.178

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Table 4.4 Financial performance

Statement	Mean	Standard deviation
New products innovations have caused Annual income to increase over five years	4.63	1.279
Institution innovation has led to increase in return on assets	4.62	1.200
Annual return on equity has increased over five years	4.75	1.168
Non-performing loans have decreased over five years	4.69	1.154
Process and service innovation has led reduction in operation cost	4.61	1.223

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4.3 Correlation analysis

Table 4.5 Correlation analysis

		Financial performance	Product innovation	Process Innovation
Financial performance	Pearson Correlation	1		
	Sig. (2-tailed)			
Product innovation	N	71		
	Pearson Correlation	0.848**	1	
Process Innovation	Sig. (2-tailed)	0.000		
	N	71	71	
Process Innovation	Pearson Correlation	0.824**	0.475**	1
	Sig. (2-tailed)	0.000	0.000	
	N	71	71	71

From table 4.5 it can be observed that the correlation between the independent variables and the dependent variable was high and positive at 0.848 and 0.824, for financial performance, Product innovation and Process Innovation respectively. Burns and Burns (2008), asserted that multi-collinearity is the presence of very high correlations between the independent variables and should be avoided.

4.4 Regression Results

Table 4.6 Model Summary

R	R-Square	Adjusted R-Square
0.854	0.810	0.805

From table 4.6 the values of the results were R 0.854, R Square 0.810 and adjusted R square 0.805. These values clearly suggests that after adjusting for the degrees of freedom there is a strong relationship between, Product innovation and Process Innovation and financial performance in the models. This indicates that Product innovation and Process Innovation causes a variation of R 0.854, R Square 0.810 and adjusted R-square 0.805 on financial performance.

Table 4.7 Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	68.137	2	17.034	166.826	0.000
Residual	6.739	66	0.102		
Total	74.877	70			

The results in Table 4.7 indicates that the overall models was a good fit since the value of F-statistic was found to be 166.826 and the p-values was found to be 0.000 which is less than the critical value of 0.05. This suggest that all the two variables considered were relevant in explaining the financial performance among microfinance banks.

Table 4.8 Coefficient Table

Model		Coefficients		t-statistics	p-value
		Beta	Std. Error		
1	(Constant)	0.004	0.039	0.091	0.927
	Product Innovation	0.306	0.057	5.338	0.000
	Process Innovation	0.293	0.055	5.279	0.000

The fitted regression model is

$$Y = 0.004 + 0.306 X_1 + 0.293 X_2 + \epsilon$$

Standard Error 0.039 0.057 0.055

t-Statistics 0.091 5.338 5.279

p-value 0.927 0.000 0.000

Where; Y = Financial performance, X1 = Product Innovation, X2 = Process Innovation ϵ = Error Term

4.4.1 Product Innovation

From table 4.8 the regression coefficient of Product Innovation was found to be 0.306. This value shows that holding other variables in the model constant, an increase in Product Innovation by one unit causes the financial performance to increase by 0.306 units. The value of the coefficient is also positive. The positive effect shows that there is a positive relationship between Product Innovation and financial performance. The coefficient was not just positive but also statistically significant with a t-statistic value of 5.338. The standard error was found to be 0.057 and the p-value was found to be 0.000. Ettlíe & Reza (1992), show that new product development has positive impact on the performance of the firm. Alamdari & Fagan (2005) explored the relationship among production and financial performance. The researcher found that product delivery speed measuring production performance is positively associated with market share measuring market performance of the firm. Anderson, Fornell & Lehmann (1994) examined the relationship among the quality of the product being provided and customer satisfaction. The researchers are of the view point that better quality of the product brings more customer satisfaction which means that product innovation being made leads to innovative performance. According to Onduko (2015) product innovation refers to the innovations of new or modified financial services such as the introduction of new deposit accounts, credit card, debit card, insurance, leasing, hire purchase, and other financial products. Product innovations are introduced to respond better to changes in market demand or to improve the efficiency of work and deregulate the essential part. Various research done in the past have in the banking industry have supported that product innovation has great impact on profitability of a firm.

4.4.2 Process Innovation

From table 4.8 the regression coefficient of Process Innovation was found to be 0.293. This value shows that holding other variables in the model constant, an increase in Process Innovation by one unit causes the financial performance to increase by 0.293 units. The value of the coefficient is also positive. The positive effect shows that there is a positive relationship between Process Innovation and financial performance. The coefficient was not just positive but also statistically significant with a t-statistic value of 5.279. A t-statistic value of 2.0 and above is normally accepted to be significant for inference analysis. The standard error was found to be 0.055 and the p-value was found to be 0.000. López-Mielgo et al. (2009) reported that especially process innovations exert a positive influence on the total quality management efforts of the organizations. Camisón & Villar-López (2012) recently over refined the relationship of two types of innovation (product & process) with firm performance. Researcher concluded positive relation of product innovation capabilities with performance and the relationship of process innovation and firm performance is mediated by the development of product innovation capabilities.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of findings

The mean and standard deviation was first used to describe the response patterns of the respondent. It was revealed that majority of the respondents agreed that the various factors were very relevant in explaining the relevance of the Product innovation and Process innovations as developed in the institution. The correlation analysis revealed that there is low correlation between Product innovation variable and other explanatory variables. This permitted further analysis to include this variable as one of the explanatory variable. The regression analysis revealed that product innovation as a variable has a positive effect on financial performance. The regression analysis also revealed that Process Innovation as a variable has a positive effect on financial performance.

5.2 Conclusion

5.2.1 Product innovation

Based on the findings the study concluded that the relation between the microfinance institutions performance and the Product innovation is very important. Thus the microfinance institutions should integrate Product innovation with the overall objectives and goals in which they intend to attain. Further, the researcher conclude that proper Product innovation in microfinance institutions is important and could lead to transformation of these entities. Moreover, with reference to the study findings the researcher concludes that the Product innovation of microfinance institutions should be integrated with the overall strategies of the firms.

5.2.2 Process Innovation

The study concluded that relation between the microfinance institutions performance and the Process Innovation is very important. Thus the microfinance institutions should integrate Process Innovation with the overall objectives and goals in which they intend to attain. Further, the researcher conclude that proper Process Innovation in microfinance institutions is important and could lead to transformation of these entities. Moreover, with reference to the study findings the researcher concludes that the Process Innovation of microfinance institutions should be integrated with the overall strategies of the firms.

5.3 Recommendations

5.3.1 Product innovation

The study recommends that there should be development of policies around the activities of microfinance institutions to ensure that there is continuous Product innovation. There should also be an establishment of good microfinance institutions structures that will ensure that the activities of various microfinance institutions are focused towards product innovations. The study recommends that both the management and other interested players ensure that product innovations are aligned with the long term goals of these organizations.

5.3.2 Process Innovation

The study recommends that there should be development of policies around the activities of microfinance institutions to ensure that there is continuous Process Innovation. There should also be an establishment of good microfinance institutions structures that will ensure that the activities of various microfinance institutions are focused towards Process Innovation. The study recommends that both the management and other interested players ensure that Process Innovation are aligned with the long term goals of these organizations.

5.4 Area for Further Research

From the regression model it was noted that the variables included were only able to explained R 85.4%, R Square 81.0 % and adjusted R square 80.5 % of the variation in the dependent variable. This study therefore recommends the improvement of this model by including more variables that are relevant in explaining the variation.

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