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## Effect of Product Innovations on Growth of Microfinance Institutions in Narok Town

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### Abstract

Innovations enhance long and short-term decisions making towards remaining competitive in the business environment. MFIs in Kenya and more so in Narok Town are no exception. The study sought to assess the effect of product innovation strategies on the growth of microfinance institutions in Kenya, Narok Town. The research adopted cross-sectional design and a census was applied of 180 respondents employed in 11 registered MFIs. Primary and Secondary data was collected and correlation and linear regression analyses were applied. The results showed that product innovation had a significant positive association to growth of MFIs in Narok Town ( $r= 0.190, p=0.019$ ), and product innovation had a positive Statistical effect on growth of MFIs in Narok Town ( $\beta=0.169, t(149) = 2.35, p=0.02 < 0.05$ ). In conclusion, it is evident that the more MFIs invest in innovative products the better their growth. The study therefore, recommends that the MFIs in Narok town need to invest more in product innovation as a mean to sustain their growth and remain afloat in the competitive market.

**Keywords:** Product Innovation, Growth, Strategy

### Introduction

Product innovation as a strategy encompasses the development of new products, improved consumer-preferred products, competitive product and developing differentiated products with a view to delivering products that will exceed customer expectations, this will return to increase sales revenue, profits and ultimately firms growth.

Various studies have shown that for a firm to attain competitive advantage, make profits and ultimately growth, product innovation must be one of its main strategy. Gudda (2020) Contend that the development of new product, improved consumer-preferred products, competitive products and developing differentiated products have positive effect on growth of firm's institutions. Karendi (2015) in his findings showed that product innovation as a strategy has a significant relationship to the growth of the MFIs. According to Bayus et al (2010) product innovation is a major strategy in a firm as it offers protection to a firm from market threats and competitors. Gudda (2017) posits that every time a firm introduces an innovative product it had significant effect on the firm in terms of competitiveness, increase in profits, reduced cost of production, new customers gain and growth experienced gradually.

According to Karendi (2015), innovations vary depending on whether the firm is product-based or service-based. In the current study, focus was on microfinance institutions that are service-based. A study by Karabulut (2015), indicated that the main source of competitive advantage in modern business is the adoption of new innovations. He, however, notes that innovation is a risky affair but firms that seek to succeed must take this path if they have to remain competitive and sustain their growth. Studies have shown that proactive firms engage in new innovations in order to grab new market opportunities and retain their competitive advantage (Gudda, 2020; Osuga, 2016). These innovations includes the development of new markets, new products, product competitive, developing new processes of operation, and re-inventing their organizational structures. According to Hajar (2015), the capability of a firm to innovate is recognized as a key competitive advantage strategy. Walker (2014) noted that innovation enhances a firm's growth by strategically placing a firm in the market. Though they mainly considered innovations leading to competitive advantage by the firms, there is a need to understand how it influences the growth of the firm. A similar view was held by (Rosli & Sidek, 2013) who observed that product innovation significantly influences firm competitiveness among Malaysian enterprises. Kojo (2013) on the other hand considered the savings and product innovations as the main innovations among the MFIs. He observed that MFIs in developing countries like Kenya needed to develop unique products and services so that they could enhance their growth.

### **The Problem**

The MFIs operate in a very competitive environment and these institutions are struggling to survive. This indicates that for most of them to remain relevant in the market they must come up with innovative strategies to enable them to be competitive and grow against their main competitors are commercial banks. The innovations have become very dynamic given that even the network providers like Safaricom have invented microcredit services where individuals can access banking services while at the comfort of their home World economic Forum (WEC) 2012. Most commercial banks have partnered with the network. In earlier studies by different writers, it has been revealed that the small and medium enterprises sector adds 20% to the GDP of the Kenyan economy CBK report 2019. With an aim of fast growth, MFIs have made SMEs access to credit grow double from 7.5% in 2016 to 18.9% in 2020. Despite this rise, a current study has shown that over 50% of SMEs have failed. 3 in every 5 SMEs fail within first months of launching, yet these SMEs are supposed to promote the growth of MFIs. This pose a major risk to MFIs. Failure to be innovative has led to the loss of income from loans due to processing errors, undetailed information of clients, non-compliance with loan policies and excessive concentration of credit risks, and unskilled employee. Commercial banks' profits for the last five years stand at 78% while for MFIs stands at 18%. It remains not clear whether the growth of MFIs in Kenya, Narok Town could be attributed to lack of innovative strategies hence being exposed to stiff competition, limited growth, and expansion. Previous studies on financial performance, innovations, profitability, investment decision, competitiveness and growth of MFIs have shown that the debate on MFIs is not conclusive hence the need for this current study. Conducting such a study is justified by the increased rate of microfinance institutions' failure and sluggish growth. This study empirically ascertain the effect of product innovation on growth of MFIs in Kenya, Narok Town.

## Literature Review and Hypothesis Development

### Theoretical Framework

Diffusion theory was propounded by Rogers (1995) who sought to explain the method through which innovation can be passed over a certain period of time among different users (Sarker & Sahay, 2004). The theory discovers different ways in which innovative thoughts are passed from one generation to the other. According to the theory, there are several ways in which innovation can be reinforced (Echchab & Hassanuddeen, 2013). The diffusion of innovations theory describes that innovationists apply a distribution curve that can be divided into five segments to categorize users in terms of innovativeness. Diffusion theory explains that the vital aspect in establishing implementation of innovation is an absolute advantage, companionable, simplicity, trial ability as well as ease to be detected (Monyoncho, 2015). This theory classifies the innovation users into various categories which tend to give the impression that different groups of people can use innovations in different ways. This theory supports on product innovation and how customers will adopt to it in terms of preferred products, new developed products, competitive product or differentiated products.

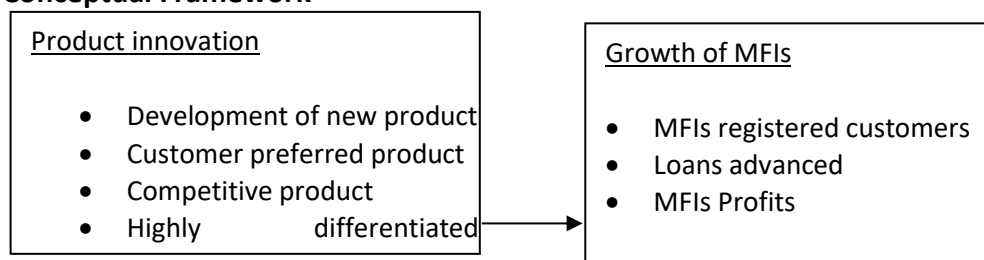
Economic Value-Added theory was propounded by (Stewart, 1982). The theory is used to measure a firm's competitive advantage based on the residual wealth calculated by subtracting its cost of capital from its effective profit, adjusted for taxes on a cash basis. The focus of the theory is on the capability of a firm to create wealth from the economic model and not the accounting model (Abate et al., 2014). It is a theory that has been used by most firms to make decisions that support their competitive advantage in terms of financial innovations. The critics of the theory argue that it is a financially unpractical unless markets are well-organized (Chen & Dodd, 2002). However, this theory can be used to justify their competitive advantage and creation of wealth in the MFIs which can be ploughed back to the business to ensure growth and business operation continuity.

### Product Innovation and MFIS Growth

According Gudda (2017) refer to as innovativeness -and goes on to define product innovativeness as the propensity of a firm to innovate or develop new products that meet and / or exceed customers' expectations or the extent of unmet market needs as reflected in its uniqueness in comparison to similar products offered in the market. Alegre et al (2006) indicated that a firm's effectiveness is determined by product innovation. They further noted that the measure of product innovations was conceptualized in terms of new products, improved products, and consumer preferred products, which largely and positively influenced the firm competitive advantage and growth. The success and growth of a firm are highly determined by the adoption of appropriate Innovative strategies especially if the firms are operating in a very competitive environment and product innovation is one of the strategies that firms must adopt. From the foregoing the researchers postulated that:

**H<sub>02</sub>:** *There is no relationship between product innovations and growth of Microfinance Institutions in Kenya, Narok town.*

### Conceptual Framework



**Independent Variable**

**Dependent Variable**

**Figure 2.1 Conceptual Framework**

### Empirical Review

Shurie and Olando (2020), assessed the Effect of Business Innovation on Financial Performance of Small and Medium-sized Enterprises in Garissa, Kenya. The objectives of the study were four; to establish the effect of financial institutional innovation, on the financial performance of SMEs in Garissa County, to establish the effect of financial product innovation on the financial performance of SMEs in Garissa County, to find out the effect of financial promotion innovation influences the financial performance of SMEs in Garissa County and to find out the effect of financial process innovation influence the financial performance of SMEs in Garissa County. The study used a descriptive research design and the population was 258 small-medium enterprises in Garissa County as its target population from where a sample population of 155 respondents was selected using stratified proportionate random sampling. The findings were that at 0.05 (5%) significance level, each; financial institutional innovation, financial product innovations have a positive and moderate statistically significant effect on the financial performance of small and medium-sized enterprises in Kenya while each; promotion innovation and financial process innovations have a statistically strong positive significant effect on the financial performance of small and medium-sized enterprises. This research mentioned that the financial performance of SMEs in Kenya should actively embark on adopting financial institutional innovations for improving their financial performance, embrace financial product innovations, develop and acquire promotion resources and support modern financial process innovations for the firm's performance. Shurie's study only concentrated on the SMEs, leaving out the MFIs which are also collapsing, and are the financiers of SMEs, having failed in growth. This study gives a gap to be filled in the current study of effect of innovations adopted by MFIs in Narok.

Kibugo (2016), in a study to determine the effect of financial technologies on the performance of microfinance institutions, in Nakuru Town. The objectives of the study were three; to analyze the effect of process innovation on performance of the MFIs, Assess the effect of product innovation on performance of the MFIs and the effect of institutional innovation on the performance of the MFIs. The study used descriptive survey research design, the target population entailed all employees working with AMF-Kenya registered MFIs and the accessible population comprised of 187 employees working with AMF registered MFIs in Nakuru Town, Kenya. Using stratified random sampling techniques, samples of 70 respondents were taken from the study population. The study out comes were that there is a supervisory system that controls MFIs in terms of Partnerships, financial preparation, branch networking and the opening of new branches are among other innovations. Further the study noted that MFIs mobile banking is the newest technology to be adopted with a low response of acceptance within the customers. It also concluded that



technology can be a source of effective performance, if the MFIs considers it will be able to give an opportunity to meet customers' needs, achieve competitive advantage, and grow to remain relevant in the market. Kibugo's study concentrated on the financial technologies on the performance of the MFIs in Nakuru and the focus was not on growth of MFIs which creates a gap in the current study to fill.

Musyoka (2013), sought to establish the relationship between financial innovation and competitive advantage of insurance firms in Kenya. The objective of the study was only one determine the effect of institutional innovation on competitive advantage of insurance firms in Kenya. The study used descriptive survey and the target population was 29 insurance companies in Kenya operating in last five years which was purposively sampled. The findings of the study were that the competitiveness of the firm increased with adoption of appropriate institutional innovations which are partnership, benchmarking and business culture. The study further indicated that financial innovations helped in reducing administrative, transaction costs, service costs and improving labor productivity. The conclusion of Musyoka's study showed that institutional innovations have positive significant effect on competitive advantage and financial innovation of the insurance firms. However, the study was limited to insurance sector living out the MFIs on the innovation strategies adopted to enhance growth which this study sought to examine.

Kariuki (2010) studied the relationship between financial engineering and performance of Commercial Banks in Kenya. The study objectives were two; to investigate the effect of financial engineering on the financial performance of commercial banks and to determine financial engineering strategies adopted by commercial banks in Kenya. Using a causal research model where all 43 commercial banks were considered. Senior, medium, and low management in the respective banks were the target population. Secondary data were collected from the annual reports of commercial banks as well as from the annual reports of the Central Bank of Kenya's Bank Supervisory Department. The study recognized that financial engineering brings different advantages in the Commercial Banks like brand improvement, most importantly being improved customer service, market expansion, and increased return on investment. It also noted that Commercial Banks have an already established framework for strategic management and have adopted financial engineering strategies with process innovation citing a positive feedback on profits increase, improve quality service delivery, saving cost and enhancing quality personnel. Therefore, a gap exists amongst the MFIs since Kariuki's study only concentrated on Commercial Banks in Kenya.

Nyambura and Tirimba (2018), examined the impact of product innovation factors on the financial performance of deposit-taking SACCOs in Nairobi City County, Kenya. The objectives of the study were four; to analyze the effect of branch network on financial performance of deposit-taking SACCOs, to evaluate the effect of product range on financial performance of deposit-taking SACCOs, to evaluate the effect of product location on the financial performance on the deposit-taking SACCOs and to determine the effect of product cost on the effect of financial performance on deposit-taking SACCOs. The study used descriptive research design and the population was 30 banks-taking deposits in Nairobi City County, which were in operation between 2013 and 2017. A census study of the 30 deposits taken by SACCOs was conducted and Purposive sampling of 3 respondents per Sacco, which translates to a total of 90 respondents. The finding of the study was that product innovation variables on financial results is still overlooked, despite the importance of product innovation. This study found that the branch network, product range, product location, and cost of the product had a significant direct relationship to the financial performance of

deposits taking SACCOs in Nairobi City County. This study only focused on one variable product innovation and on SACCOs only in Nairobi leaving out the MFIs. The current study filled a gap by examining different variables institutional, process, and market innovation on how they can influence the growth of MFIs.

Otieno *et al* (2013) evaluated the effect of the provision of micro-finance on the performance of micro-enterprises. The objective of this study was one; to evaluate the effect of the provision of microfinance on the performance of youth micro-enterprises under the K-REP program in Kisii County, Kenya. The study employed a cross-sectional survey design. A sample of 86 youth micro-enterprises was selected from a population of 110 using a simple random sampling technique. The results of the study showed that loans had the largest significant effect on the performance of micro-enterprises with a beta coefficient of 0.385, followed by training in micro-enterprise investment with a beta coefficient of 0.281, and savings mobilization had the least but significant effect with a beta coefficient of 0.272. The study concluded that the provision of microfinance has a significant effect on the performance of youth micro-enterprises in Kenya. Therefore, the provision of microfinance to the youth to engage in micro-enterprise activities will help spur economic development and alleviate youth unemployment, in line with Kenya's vision 2030. In Otieno's study, he fails to show how these MFIs will grow after financing the SMEs, which helps leaves a gap to be filled on the effect of innovation strategies on growth of MFIs.

Atieno (2014) assessed the effect of Microfinance innovations on access to finance by SMEs in Kenya. The study objectives were four; to assess the effect of process innovations on the financial performance of insurance companies, to examine the effect of institutional innovation on the financial performance of insurance companies, to assess the effect of product innovation on the financial performance of insurance companies, and to examine the effect of financial innovation on the financial performance of insurance companies in Kenya. A Survey design was used and a sample of 4 DTMs was surveyed out of the 9 DTMs registered by AMFI as per the 2011 report. The Secondary data was collected from AMFI reports of the selected DTMs. The results of the study were that innovative products from the MFIs are positively related to increase and access to the finances by SMEs, innovative strategies adopted on loan products, saving products, and location have significant improvement on access to finances by SMEs. The study further noted also that the 4 DTMs have introduced a wide range of innovations in the past four years; these innovations include product innovation (savings and loans), marketing innovations, micro-insurance, and location innovation. One of the major problems of Small and Medium Enterprises is the operation capital, lack of improved systems to finances access, MFIs failure to enhance the out-reach of microfinance through creating awareness of the products/activities and operations to SMEs, especially those in rural and semi-urban areas that are yet to appreciate the benefits that are available to them. More so, the growth of MFIs through the creation of rural branches is imperative for increasing access to MFIs services. However, Atieno's study has not examined the implication of innovations on growth MFIs. Therefore, the current study sought to examine how different innovation strategies variables can influence the growth of the MFIs.

Omwanza and Jagongo (2019), examined the relationship between financial innovations and financial performance of microfinance institutions in Kenya. The objectives of the study were four; to establish the effect of financial institutional innovation on the financial performance of MFIs in Kenya, to establish the effect of financial product innovation on the financial performance of MFIs in Kenya, to find out the effect of financial marketing innovation on the

financial performance of MFIs in Kenya, to find out how the effect of financial promotion innovation influences the financial performance of MFIs in Kenya. The study used descriptive survey method with reachable population of 8,789 (in year 2019) of registered AMF, a sample of 369 respondents collected using stratified random sampling. The results of the study showed that innovations adopt different Variables: product innovations, marketing innovations, location innovation, and development innovation. Financial innovations include institutional innovation, product innovation, and process innovation, these innovations have eased the way of doing business for MFIs. The study further shows that product innovation has an imperative effect on performance of the MFIs and gives it a chance to remain relevant in the market, inferential statistics results indicated a positive relationship is between these financial innovations and financial performance of MFIs. The study concluded that it is consequently important for MFIs to constantly engage themselves in providing new products that fulfill customers' needs. Innovation should be an ongoing practice so that it gives microfinance institutions ideal ground to grow their revenue streams, thus better performance of MFIs, however performance of MFIs is strongly based on their innovativeness. In Omwanza and Jagongo study they concentrated on how to better the performance of the MFIs in relation to financial innovation, failing to explain reasons why this MFIs area failing and sluggish in growth. This creates a gap to be filled in the current study on the effect of innovation strategies on growth of MFIs.

Ringera and Muturi (2019), studied effect of investment decisions on the financial performance of microfinance firms in Kenya. The objectives of the study were two; to examine the effect of expansion decisions on the financial performance of microfinance firms in Kenya and to assess the effect of development decisions on the financial performance of microfinance firms in Kenya. The study used descriptive design, the target population was all the registered 14 microfinance institutions in Kenya, and data were collected from 126 respondents. The findings were that expansion decision, investments, and development had a positive statistically significant effect on the performance of microfinance institutions. The study further noted that there should be formation of policies that guide activities of MFIs to enforce continuous renewal decision, replacement decision, expansion decision, and development. Effective MFIs structures should be in place to enable the activities of various microfinance institutions are concentrated on development decisions. The study concluded that both the management and stakeholders play a major role to ensure that progress decisions and development are aligned with the vision and mission of these institutions. In this study, the researchers only focused on decision-making to ensure performance. This brings a gap to be filled on the effect of innovation strategies on growth of MFIs.

### **Methodology**

This study adopted the cross sectional research design which was considered to be appropriate for this study because it aimed at collecting data from different firms at a specified period of time and different MFIs. A target population of 11 registered microfinance institutions was considered in Narok Town, with a sample population of 180 employees and a census sampling technique was employed. The study collected primary data. Primary data was collected using structured questionnaires which was issued to all the staff employed in the MFIs (clerks, cashiers, project officer and credit officers). Secondary data was collected from already audited financial reports and the information was provided by the managers of the MFIs with a view to providing information on the general business



characteristics. All data collected were subjected to the appropriate data cleaning, processing and analysis harmoniously. Data analysis was based on descriptive statistics and regression analysis.

## Results

### General Business Characteristics

The general characteristics of the business studied in this study were the five years data on their registered customers, advanced loans and profits, the results are presented in the tables below; Table 4.1, Table 4.2 and Table 4.3 respectively.

### Number of Registered MFIs Customers

Number of registered customers will sort to establishing the view of MFIs customer base, the results are presented in table 4.1.

Table 4.1

*Number of Registered Customers in Microfinance Institutions*

MFIs Year	2015	2016	2017	2018	2019	Mean	standard deviation
KWFT	3,224	3,267	4,150	4,819	5,319	4,155.8	830.7970631
SMEP	1,600	2,120	2,640	3,269	4,161	2,758	893.4721036
MUSONI	1,500	2,801	2,923	3,149	3,669	2,808.4	718.5734757
FAULU	2,620	2,929	3,120	4,016	4,789	3,494.8	796.5529235
RAFIKI	503	610	820	880	921	746.8	162.2336587
PLATINUM	2,320	3,111	3,820	4,112	5,002	3,673	908.517914
<b>Total</b>	<b>1,1767</b>	<b>1,4838</b>	<b>1,7473</b>	<b>2,0245</b>	<b>2,3861</b>	<b>1,7636.8</b>	<b>4,191.850112</b>
<b>Mean</b>	<b>1,961.167</b>	<b>2,473</b>	<b>2,912.167</b>	<b>3,374.167</b>	<b>3,976.833</b>	<b>2,939.467</b>	<b>6,98.6416233</b>

Results in Table 1 shows that there was a general growth in customer base for all the MFI that under the five years study. KWFT had the highest number of registered clients for all the five years under study with a mean of 4,155.8, while Faulu followed closely with a mean of 3,493.8, Platinum also had a good number of registered customers under studied period with a mean of 3,674, Musoni and SMEP also registered good number of customers with the means of 2,758 and 2,808.4 respectively, RAFIKI had the least number of registered clients for all the five years under study with a mean of 746.8. The results translated to a significant improvement of customers increase over the five years of study as shown in the calculated means where the overall mean is 2,939. The findings were similar to Kibugo (2016) who indicated that the growth in customer's numbers will provide opportunity for MFIs to growth and compete within their markets.

### Amount of Loans Advanced by the MFIs

The amount of loans advanced was sort with a view to assessing the level MFIs lending to its customer over five years period. The results are presented in table 4.2.

Table 4.2

Amount of Loans Advanced by Microfinance Institutions

MFIs Year	2015	2016	2017	2018	2019	Mean	standard deviation
KWFT	1,885,4 096	2,218,8 550	1,9373 625	1,999,7 090	1,897,2 454	<b>1,987,7 163</b>	<b>1,222,751 .596</b>
SMEP	1,680,7 00	2,680,1 20	1,890,1 69	3,840,1 12	3,960,4 61	<b>2,810,3 12</b>	<b>9,511,01. 165</b>
MUSO NI	1,345,9 691	1,385,7 450	1,422,6 850	1,455,8 805	1,535,3 712	<b>1,429,1 302</b>	<b>6,456,36. 3275</b>
FAULU	1,695,7 811	1,693,4 753	1,7220, 894	1,7220, 894	1,923,4 571	<b>1,751,3 785</b>	<b>8,691,44. 393</b>
RAFIKI	3,109,7 78	3,821,1 48	2,856,1 22	2,976,1 02	3,412,1 60	<b>3,235,0 62</b>	<b>3,467,59. 9708</b>
PLATIN UM	1,282,4 220	1,277,0 000	1,423,2 322	1,524,0 000	1,620,0 019	<b>1,425,3 312</b>	<b>1,342,101 .365</b>
<b>Total</b>	<b>6,688,6 29,6</b>	<b>7,225,2 021</b>	<b>6,979,9 982</b>	<b>7,383,3 003</b>	<b>7,713,3 377</b>	<b>7,198,0 936</b>	<b>3,486,063 .814</b>
<b>Mean</b>	<b>1,114,7 71,6</b>	<b>1,204,2 004</b>	<b>1,163,3 330</b>	<b>1,230,5 501</b>	<b>1,285,5 563</b>	<b>1,199,6 823</b>	<b>5,810,10. 7285</b>

The results in Table 4.2 show that KWFT advanced the highest amount of loan in year 2015 (1,885, 4096) to year 2018 (1,999, 7090) while in year 2019 FAULU advanced the highest amount (1,923,457). In 2015 to 2017 SMEP advanced the least amount of loans of Ksh. 1,680,700, 2,680,120 and 1,890,169 respectively, while in 2018 and 2019 RAFIKI advanced the least amount of loans of Ksh. 2,976,102 and 3,412,160 respectively. The results show a significant increase in loan advanced over years. This results are consistent to Atieno (2014) where there was an increase in loans accessed by rural customers. The increase in loans borrowed could be attributed to innovative products and processes from the MFIs that are related to increase and access of the finances by Customers.

### MFIs Profits

The amount of profits earned in the MFIs will sort to establish the progress trends of the MFIs profits over the studied period. The results are presented in table 4.3.

Table 4.3  
MFIs Profits

MFIs Year	2015	2016	2017	2018	2019	Mean	Standard Deviation
KWFT	1,710,580	9,69500	1,867,674	3,580,619	1,738,463	<b>1,973,367</b>	<b>8,632,97.8457</b>
SMEP	7,601,600	8,46400	9,20150	8,50970	9,51420	<b>8,65820</b>	<b>6,6393.98075</b>
MUSONI	1,531,100	1,771,915	1,914612	1,700,719	2,945,911	<b>1,972,851</b>	<b>5,019,58.682</b>
FAULU	1,441,663	5,33238	1,175,738	2,261,325	3,899,537	<b>1,862,300</b>	<b>1,159,677.904</b>
RAFIKI	1,55926	2,45993	8,02895	1,53183	9,60112	<b>4,63621.8</b>	<b>3,46415.9556</b>
PLATINUM	9,980,116	1,150,253	1,560,170	1,721,240	1,937,360	<b>3,269,828</b>	<b>3365028.662</b>
<b>Total</b>	<b>1,557,9545</b>	<b>5,5172.99</b>	<b>8,241,239</b>	<b>1,026,8056</b>	<b>1,243,2803</b>	<b>1,040,7788</b>	<b>3,449,002.71</b>
<b>Mean</b>	<b>2,596,591</b>	<b>9,19549.8</b>	<b>1,373,540</b>	<b>1,711,343</b>	<b>2,072,134</b>	<b>1,734,631</b>	<b>5,748,33.7605</b>

The results in Table 4.3 shows that in year 2015 PLATINUM recorded the highest profits of Ksh. 9,980,116 while in year 2016 and 2017 MUSONI recorded the highest profits of Ksh. 1,771,915 and Ksh. 1,914,612 respectively. In the year 2018 KWFT recorded the highest profits of Ksh. 3,580,619 while year 2019 FAULU recorded the highest profits of Ksh. 3899537. For the year 2015 to 2018 RAFIKI generated minimum profits of Ksh. 1, 55926, 2,459, 93, 8,028,9 5 and 1,53183 respectively. In the year 2019 SMEP generated the least profits of Ksh. 9,514, 20. The profits attained are as a result of good improvement over the five years under study with a total mean of 1,734,631 which has shown good MFIs growth. These results are in consistent with Abate, Grant & Stewart, (2014) in Economic added value theory propounded that the theory has been used by most firms to make decisions that support their competitive advantage in terms of financial innovations. The critics of the theory argue that it is a financially unpractical unless markets are well-organized (Chen & Dodd, 2002). However, this theory can be used to justify their competitive advantage and creation of wealth in the institutions which can be ploughed back to the business to ensure growth and business operations continuity.

#### Product Innovation on Growth of MFIs

The respondents were asked to rate their degree of agreement or disagreement with given statements on product innovation within their organization, based on four key areas of product innovation; customer preferred products, highly differentiated products, competitive products and new adopted products, on a five-point scale of 1 – 5, where; 1- Strongly Agree, 2-Agree, 3-Not sure, 4-Disagree, 5- Strongly Disagree. Descriptive statistics were calculated and the results are presented in Table 4.4

Table 4.4

*Product Innovation and Growth of Microfinance Institutions*

Statements		SA	A	NS	D	SD	Total
Product innovation is a vital source of organization growth when consumer preferred products are achieved	Frequency	83 (55)	53 (35)	15(10)	0%	0%	151 (100)
Product innovation allows for a much faster inclusion of highly differentiated products in the MFIs	Frequency	68 (45)	83 (55)	0%	0%	0%	151 (100)
Financial innovations system has created more competitive products	Frequency	76 (50)	68 (45)	7(5)	0%	0%	151 (100)
Firms that seek to achieve their goals and enhance their growth must be ready to adapt new product innovations	Frequency	91 (60)	60 (40)	0%	0%	0%	151 (100)

*\* Summary of Descriptive Statistics for Product Innovation in %*

Key: SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree and SD = Strongly Disagree  
 The results in the table 4.4 illustrates, 83(55%) respondents strongly agreed that consumer preferred products being realized will attribute to MFIs growth, 53(35%) respondents agreed that customer preferred products will enhance growth of MFIs, in some extent 15(10%) respondents are not sure if the customer preferred products will enable growth of MFIs. The findings are in line with Omwanza & Jagongo (2019) that innovative customer preferred products have an imperative effect on growth of MFIs.

The study also established that 83(55%) of the respondents agreed that Product innovation allows for much faster inclusion of highly differentiated products in the MFIs. 68(45%) Strongly agreed with the statement that highly differentiated products will enhance growth of MFIs. The study further showed that 76 (50%) respondents strongly agreed that MFIs have created more competitive products, 68(45%) respondents agreed with, while 7(5%) respondents were not sure whether the competitive products would enhance growth of MFLs. These findings are in agreement with findings of Ringera and Muturi (2019) that it is fundamental for MFIs to constantly engage in providing new differentiated products that fulfill customer needs (Gudda et al., 2013) are in agreement with the study that differentiated products will enhance MFIs competitiveness and growth.. Finally, 60(40%) of respondents agreed that adoption of new innovative products Contribute to growth of MFIs, while 91(60%), strongly agreed on adaption of new innovative products. These findings concur with Gudda, Bwisa and Kihoro (2014) that product innovation is a major driver of a firm competitiveness in meeting consumer needs which could translate to higher sales and growth of MFIs.

**Effects Product Innovation on Growth of MFIs****Linear Relationship between Product Innovation and Growth of MFIs**

Correlation analysis was carried out between product innovation and growth of MFIs and the results were was illustrated in table 4.5

Table 4.5

*Product Innovation and Growth of Microfinance Institutions*

	Growth	
Product Innovation	Pearson Correlation	0.190**
	Sig. (2-tailed)	0.019
	N	151

\*\* . Correlation is significant at the significance level  $\alpha = 0.05$  (2-tailed)

The results in Table 4.5 shows that there is a positive and statistically significant linear relationship between product innovation and growth of microfinance institutions ( $r = 0.190$ ,  $p = 0.019 < 0.05$ ). This shows that an enhanced MFI product innovation is expected to results into a positive growth. This is in line with the assertion of Gudda (2020) that innovative products are a positive predictor of a firm's competitiveness in meeting customers' needs and by extension, growth and expansion of MFIs.

**Effect of Product Innovation on Growth of MFIs**

In order to determine the general effect of product innovation on growth of MFIs, the study fitted a simple linear regression model with product innovation as the independent variable and growth of MFIs as the dependent variable. The results of the fitted model was as illustrated in table 4.6.

Table 4.6

*Regression Coefficients for Product Innovation*

Growth	B	E	t	P	[95% Conf	Interval]
Product	0.169	0.072	2.35	0.02	0.027	0.311
Constant	1.896	0.24	7.89	0.00	1.421	2.37
Mean dependent var		2.417	SD dependent var		1.157	
R-squared		0.036	Number of obs		151	
F-test		5.541	Prob > F		0.020	

The results in Table 4.6 shows that  $R^2$  of 0.036 indicates that 3.6% of the growth of microfinance institutions can be accounted for by MFIs product innovation. It also suggests the remaining 96.4% of variation in the growth of MFIs could not be accounted for by product innovation but by other factors. Product innovation was found to have a significant positive effect on growth of MFIs ( $\beta = 0.169$ ,  $t(149) = 2.35$ ,  $p = 0.05$ ). We reject the null hypothesis and conclude that product innovation have a significant effect on the growth of MFIs. The results show that there is growth when MFIs enhance product innovation. The results are in consonance with a plethora of studies in extant literature (Alegre et al., 2006; Gudda et al., 2013) that a firm's effectiveness is determined by product innovation. Conversely, Gudda



(2017) affirm that to bring new and unique products to the extent of fulfilling unmet market needs would enhance a firms competitiveness, and by extension sales and growth.

### Effect of Product Innovation on Growth of MFIs

The study assessed marginal effect of product innovation strategies on growth of MFIs with other modes innovation such as institutional innovation, process innovation and market innovation put into perspective. The study assessed the marginal effect using a multiple linear regression model in which the results of the fitted model were as illustrated in table 4.7.

Table 4.7  
Multiple Regression Coefficients

Growth	B	E	T	P	[95% Conf	Inter val]	Si g
Institutional	0.288	0.07	4.12	0.000	0.150	.427	*
Product	0.161	0.064	2.50	0.014	0.034	.288	*
Process	0.341	0.068	4.99	0.000	0.206	.477	*
Market	0.132	0.066	2.02	0.045	0.003	.262	*
Constant	-0.382	0.424	-0.90	0.369	-1.221	.456	
Mean dependent var	2.41	SD dependent var	1.157				
R-squared	0.257	Number of obs	151				
F-test	12.594	Prob > F	0.000				

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

The results in table 4.7 shows that, the test for adequacy of the regression model showed that there was sufficient evidence at 95% level of confidence to show that the fitted regression model was adequate ( $F(4, 146) = 12.594, p < 0.05$ ). This shows that at least 1 of the innovation strategies had a significant effect on the growth of MFIs. The results shows that  $R^2 = 0.257$ , this shows that the four independent variables (Market innovation, Product Innovation, Process Innovation & institutional Innovation) in the study could account for 25.7% of the variations in the growth of MFIs. The test for significance the coefficient of product innovation at 95% level of confidence shows that it was significant ( $\beta = 0.0161$ ,

$p=0.014$ ), This shows that product innovation had a significant positive effect on growth of MFI in Narok in line with Alegre et al (2006) study that indicated that a firm's effectiveness is determined by product innovation.

### Conclusion and Policy Implication

In conclusion, it is evident that there is growth of MFIs due to enhanced product innovation, as a result of higher sales, improved revenues that are reinvested in the MFIs to drive more growth.

MFIs should formulate policies that would enhance product innovations if they are to improve their growth because potentially they would attract new customers who will consume new products. This could translate into increase in sales volumes and potentially generate higher profits that will drive desired growth.

### Suggestions for Further Research

Owing to the limitations of the study it is suggested that it be replicated in terms of broader scope and use of more robust analysis for generalizability.

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