EFFECT OF INNOVATION STRATEGIES

ON GROWTH OF MICROFINANCE INSTITUTIONS IN NAROK TOWN,

KENYA

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SEPTEMBER, 2022

DECLARATION

Declaration by Student

This thesis is my original work and has not been presented to any other examination body. No part of this work should be reproduced without my consent or that of Maasai Mara University.

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DEDICATION

I dedicate this work to my friend Dickson, my sons Lempiris, Lemayian and My parents Mr. Parsinante and Mrs. Tusiapei Kishoyian for lighting the education candle for me.

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TABLE OF CONTENT

DECLARATION ____ **III**

DEDICATION ____ **IV**

ACKNOWLEDGEMENT ____ **V**

TABLE OF CONTENT ____ **VI**

LIST OF FIGURES ____ **XIV**

ABBREVIATIONS AND ACRONYMS ____ **XV**

ABSTRACT ____ **XVI**

OPERATIONAL DEFINITION OF TERMS ____ **XVII**

CHAPTER ONE ____ **1**

INTRODUCTION ____ **1**

1.0 INTRODUCTION ____ 1

1.1 BACKGROUND OF THE STUDY ____ 1

1.1.1 Global Perspective of Innovation Adopted by MFIs ____ 3

1.1.2 Regional Perspective of Innovation Adopted by MFIs ____ 5

1.1.3 Local Perspective of Innovation Adopted by MFIs ____ 6

1.1.4 Growth of MFI 7

1.1.5 Microfinance Institutions in Kenya 8

1.2 STATEMENT OF THE PROBLEM 10

1.3 OBJECTIVES OF THE STUDY 11

1.3.1 General Objective 11

1.3.2 Specific Objectives 12

1.4 RESEARCH HYPOTHESES 12

1.5 SIGNIFICANCE OF THE STUDY 13

1.6 ASSUMPTIONS OF THE STUDY 13

1.7 LIMITATIONS OF THE STUDY 14

CHAPTER TWO 15

LITERATURE REVIEW 15

2.1 INTRODUCTION 15

2.2 THEORETICAL REVIEW 15

2.2.1 Theory of Induced Institutional Innovation 15

2.2.2 Technology Acceptance Model 16

2.2.3 Diffusion of Innovation Theory 18

2.2.4 Economic Value-Added Theory 20

2.3 CONCEPTUAL REVIEW 21

2.3.1 Effect of Institutional Innovation on Growth of MFIs 21

2.3.2 Effect of Product Innovation on Growth of MFIs 22

2.3.3 Effect of Process Innovation on Growth of MFIs 23

2.3.4 Effect of Market innovation on Growth of MFIs 25

2.3.5 Growth of MFIs 27

2.1 CONCEPTUAL FRAMEWORK 29

2.4 EMPIRICAL REVIEW 31

2.5 SUMMARY OF LITERATURE REVIEW AND RESEARCH GAPS 39

CHAPTER THREE 40

RESEARCH METHODOLOGY 40

3.1 INTRODUCTION 40

3.2 RESEARCH DESIGN 40

3.3 TARGET POPULATION 41

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE 41

3.5 RESEARCH INSTRUMENT 42

3.6 PILOT TEST 43

3.6.1 VALIDITY TEST 43

3.6.2 Reliability Test 44

3.7 DATA COLLECTION PROCEDURE 45

3.8 DATA PROCESSING AND ANALYSIS 45

3.8.1 Correlation Analysis 45

3.8.2 Regression Analysis 47

3.8.3 Regression Assumptions 50

3.8.4 Regression Diagnostic Check 51

3.9 ETHICAL CONSIDERATIONS 55

CHAPTER FOUR 56

DATA ANALYSIS, PRESENTATION AND INTERPRETATION 56

4.1 INTRODUCTION 56

4.2 RESPONSE RATE 56

4.3 GENERAL BUSINESS CHARACTERISTICS 57

4.3.1 Number of Registered MFIs Customers. 57

4.3.2 Amount of Loans Advanced by the MFIs 59

4.3.3 MFIs Profits 60

4.3 **DESCRIPTIVE STATISTICS** 61

4.3.1 Institutional Innovations and Growth of Microfinance Institutions 61

4.3.2 Product Innovation and Growth of Microfinance Institutions 64

4.3.3 Process Innovation and Growth of Microfinance Institutions 66

4.3.4 Market Innovation and Growth of Microfinance Institutions 69

4.3.5 Growth of Microfinance Institutions 70

4.5 **INFERENTIAL STATISTICS** 72

4.5.1 Effect of institutional innovation on growth of MFIs. 73

4.5.2 Effect of product innovation on Growth of MFIs. 75

4.5.3 Effect of Process Innovation on Growth of MFIs. 77

4.5.4. Effect of Market Innovation on Growth of MFIs. 80

4.5.5 Regression Analysis for Overall Model 82

CHAPTER FIVE **85**

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS **85**

5.1 INTRODUCTION 85

5.2 SUMMARY OF FINDINGS 85

5.2.1 Institutional innovations and growth of Microfinance institutions 85

5.2.2 Product innovations and growth of Microfinance institutions 86

5.2.3 Process innovations and growth of Microfinance institutions 86

5.2.4 Market innovations and growth of Microfinance institutions 87

5.3 CONCLUSIONS OF THE STUDY **87**

5.4 RECOMMENDATIONS OF THE STUDY 88

5.5 SUGGESTIONS FOR FURTHER RESEARCH 89

REFERENCES **90**

APPENDIX I: INTRODUCTION LETTER **98**

APPENDIX II: QUESTIONNAIRE **99**

APPENDIX IV: LIST OF MICROFINANCE INSTITUTIONS IN NAROK TOWN **105**

APPENDIX V: RESEARCH PERMIT _____ 106

LIST OF TABLES

Table 3. 1: Interpretation of the degree of association between the variable 47

Table 3. 2: Variance Inflation Factor 54

Table 4. 1: Response Rate 57

Table 4. 2: Number of Registered Customers in Microfinance Institutions 58

Table 4. 3: Amount of Loans Advanced by Microfinance Institutions 59

Table 4. 4: MFIs Profits 60

Table 4. 5: Institutional Innovations and Growth of MFIs. 62

Table 4. 6: Product Innovation and Growth of Microfinance Institutions 65

Table 4. 7: Process innovation and Growth of Microfinance Institutions 67

Table 4. 8: Market Innovation and Growth of Microfinance Institutions 69

Table 4. 9: Descriptive Statistics for Growth of Microfinance Institutions 71

Table 4. 10: Institutional Innovations and Growth of Microfinance Institutions 73

Table 4. 11: Regression Coefficients for Institutional Innovation 74

Table 4. 12: Product Innovation and Growth of Microfinance Institutions 75

Table 4. 13: Regression Coefficients for Product Innovation 76

Table 4. 14: Process Innovation and Growth of Microfinance Institutions 77

Table 4. 15: Regression Coefficients for Process Innovation 79

Table 4. 16: Market Innovation and Growth of Microfinance Institutions 80

Table 4. 17: Regression Coefficients for Market Innovation 81

Table 4. 18: Multiple Regression Coefficients 83

LIST OF FIGURES

Figure 2. 1: Conceptual Framework _____ 30

Figure 3. 1: Probability Plot _____ 51

Figure 3. 2: Residual Scatter Plot _____ 53

ABBREVIATIONS AND ACRONYMS

AMFI	Association of Microfinance Institutions
ATMs	Automated Teller Machines
CBK	Central Bank of Kenya
EFT	Electronic Record Keeping
EIU	Economist Intelligence Unit
KWF	Kenya Women Finance Trust
MFIs	Micro Finance Institutions
NGOs	Non-Governmental Organization
RTGS	Real Time Gross Settlement
SACCOs	Savings and Credit Co-Operative Societies
SMEs	Small and Medium Enterprises
DTM	Deposit Taking Microfinance
ICT	Information Communication Technology

ABSTRACT

Innovations entailed various aspects adopted by firms to enhance long and short-term decisions making towards remaining competitive in the business environment. Microfinance institutions have adopted innovation strategies such as; institutional innovation, product innovation, process innovation, and market innovations that are the drivers of their growth. MFIs in Kenya and more so in Narok Town are no exception. This study sought to assess the effect of innovation strategies on the growth of microfinance institutions in Narok Town, Kenya. The study specifically examined the effect of institutional innovations, product innovations, process innovations, and market innovation on the growth of microfinance institutions firms in Nark Town, Kenya. The study was guided by the four theories: Induced Institutional Innovation, Technology Acceptance Model, Diffusion of Innovation and Economic Value-Added. The study adopted a cross-sectional research design. The study used census to pick the 180 respondents in the 11 registered MFIs. Data was collected using questionnaires from primary and secondary. Multiple linear regression model was used to assess the effect of institutional innovation, product innovation, process innovation and market innovation on growth of MFIs, a Pearson Correlation was run, and further the four independent variables were regressed on growth. The results showed that the three independent variables; institutional innovation, product innovation and process innovations had a significant and positive effect on growth of MFIs and market innovation was insignificant. It was concluded that the three innovation strategies impact MFIs growth positively. Therefore, it is recommended that to sustain MFIs growth, there is need to invest more on institutional innovation, product innovation and process innovation which will translate to more customers, higher sales and potentially higher profits.

OPERATIONAL DEFINITION OF TERMS

Innovation: This refers to the practical implementation of ideas by which, firms skillfully, carry out design and production of goods and services or improved of goods and services that are new to them regardless of whether they are new to their competitors, country or the world.

Innovation Strategy: Refers to specific techniques that Firms are using to chart their growth.

Market innovation: Refers to market process development that aim at enhancing operations of the market to satisfy customers' needs on the market. It involves developing and creating new markets for the products and services by microfinance institutions.

Institutional innovation: This refers to changes in structures, development of new collaborations aimed at enhancing institutional operations. This will be considered as the development of internal structures of microfinance institutions to enhancing service provision for their clients.

Process innovation: Refers to combination of various facilities, skills and technologies work and designs that enhance service delivery, product development and other operations of the firm. In this study process innovation will refer to the design of simple and suitable procedures for providing financial services to the borrowers.

Product innovation: Refers to creation and developments that enhance provision of different products and services. In this study product innovation will be considered as a creation and introduction of goods and services or improved version of ready goods and service in the institution to suit the needs of the MFIs Nark County.

Growth of microfinance Institutions: Refers to the increase of profits, number of customers served and amount of loans advanced which are determined by the innovations adopted but the institutions like institutional innovation, process innovation, product innovation and market innovation.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter explains the background of the study, the statement of the problem, the purpose of the study, objectives, hypotheses, significance, limitations and the scope of the study.

1.1 Background of the Study

For the past decade, pressure resulting from the market competition including market globalization, advancement in IT and computer networks and the changing nature of the workforce has been mounting on organizations forcing them to adapt to new strategies. According to Mycelia (2010) firms that seek to achieve effectiveness and efficiency in their operations must adopt new innovative strategies measures that entail creating, developing, and implementing new products or services. This is what 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. Spielman (2015) asserts that innovation is a continuous adoption of new ways of doing things such as developing new products and processes from the existing ones, re-innovating the market and institutional activities. According to Roberts and Amit (2012) firms that seek to achieve their goals and

enhance their growth through short and long-term strategies must be ready to adapt new innovations strategies in their process, products, markets and institutions. A firm's growth can be determined through; number of transactions undertaken, number of customers registered, Amount of loans advanced and accumulated profits in financial institution.

According to Matayo (2016) innovation has been defined in relation to various practices associated with it, for instance, the development of new markets, new products, and new sources of raw materials, new methods and processes of production, and through new ways of organization structures. He further indicated that the emergence of organizational structures and process innovations in microfinance institutions have led to new product development ideas. Osuga (2016) and Hajar (2015) indicated that innovations have led to the emergence of new ventures as well as the growth of existing companies. They also noted that innovation constitutes new products, processes of production, new sources of supply, new markets, and new ways in which business activities can be carried out. The ability of any firm to innovate is one of the main determinants of the firm's competitive advantage and growth.

According to Otieno (2013) the role played by microfinance institutions in the Kenyan economy cannot be overlooked. The sector is known for increased generation of GDP, employment creation, reaching the lower cadre population, innovation adoption, and creativity among the financial institutions. However, these institutions are slagging behind their counterparts the commercial banks in the adoption of strategic innovations for enhanced growth. Literature with regard to whether innovation strategies among

microfinance institutions on growth is still limited, despite the fact that there has been a focus by researchers in examining the effect of strategic innovation implementation in achieving competitive advantage, decision making, profitability and financial innovations, growth has not been on the focus. Innovation is one of the key principals' means through which a firm can achieve its strategic innovations and seek new business ideas and opportunities. Although innovation poses high risk and uncertainty to the firm is likely to have a very significant effect on the growth of the firm if it is done successfully (OECD, 2017).

1.1.1 Global Perspective of Innovation Adopted by MFIs

According to Visconti (2011) microfinance institutions (MFIs) are not only spreading across the world but are also developing and adopting new innovations that offer them great opportunities for growth and survival. Silva and Chavez (2015) noted that most MFIs are now becoming more innovative and are trying to adopt to different strategies in their processes, products and market. In several countries such as Pakistan, Nepal, Thailand, and Malaysia, most private commercial banks are now converting into MFIs while others are now becoming financiers to the MFIs (Janda et al., 2014). Wagner (2013) asserted that the main purpose of developing MFIs across the world was to aid in poverty alleviation. MFIs were seen to be effective innovators for providing financial services to the low cadre population through its differentiated financial services. It provided an avenue for poor borrowers who did not have any collateral and acquire small amounts of money from MFIs to finance their Small medium enterprises.

Gonzalez (2011) noted that most MFIs are operating with both self-help groups and established Commercial banks to offer variety financial services to better the live hoods of the poor.

A report by the World Economic Forum (WEC) (2012) stated that innovation is the vital source of economic growth and acts as an essential role in refining social well-being and Security for most the countries. The report further noted that innovation plays numerous roles in economic improvement such as improved new products and efficient processes which trade as proven to be fast and efficient in services delivery, EFT money transfer, Pesa-Wave, debit cards, PayPal, Mpesa, Money gram and credit cards, these innovations have a positive effect on growth, profits earned and competition of both Commercial banks and MFIs. On the hand WEC (2018) report on global Competition: there is a considered principle for innovation that businesses are restructuring the economic ground by shifting the determinants of growth and competitiveness. The report further noted that business will no longer depend on productivity and cost-cutting for economic achievement: innovation, elasticity and acceptance to revolution are becoming the key ingredients. Where change is the only constant, businesses that can adopt new ideas in: market, product, process and institutions, more fast will have an opportunity to adoption of innovation strategies can fast-track growth and development for every economy. Nugroho and Mile (2009) in their study stated that there is a distinct advantage in adoption of innovations in process and product is to meet customers' needs and satisfaction which is not realized by the rural customers and are not able to access. Innovation as a strategy that is upcoming rapidly, making competition in

globally business environment stiff and hard to survive in the market, while on the other hand MFIs attempt to tackle the challenges on; Innovation adoption in personnel expertise, products, processes, market outreach, institutional and relevant in the market.

1.1.2 Regional Perspective of Innovation Adopted by MFIs

A study by Imai et al. (2011) noted that in most African states the microfinance sector has remained in existence for many decades. The ongoing effort to strengthen the capacity of MFIs calls for the adoption of new innovations that will increase the stability and growth of the institutions by reducing costs and increase outreach. The study further noted that MFI is expected to serve the needs of the Small and medium enterprises (SMEs) that are unable to receive any support from the mainstream financial institutions, and they cannot deliver or just collapse on the way after few months of funding. Gupta (2012) on the other hand indicated that most MFIs are faced with challenges that include scalability, growth, various initiatives in products, processes and market. Innovative activities are not only geared towards the provision of easy access to financial disbursements, repayments, deposits, withdrawals, and money transfers with minimal errors. But they also play a significant role in reducing transaction costs and extending the reach of these microfinance activities for enhancing customer satisfaction and retention.

According to Dary and Issahaku (2013) most of Microfinance institutions in the developing world are now adapting new technological development as one of the key inventions in enhancing the growth of the MFIs and profits. There is also sluggishness in

the adoption of new innovations strategies in products, process and market which have a negative effect in the growth of MFIs. According to the study several innovations including product innovation, marketing innovations, micro insurance, location innovation, and R&D innovation have been adopted by these MFIs in Ghana.

There has been an up rise of the microfinance institutions in East Africa, and mostly in the three countries in the region (Tanzania, Uganda, and Kenya) which is based on the innovation strategies on their products, services, and distribution networks in the past two decades. The above-mentioned efforts are prompted by improved use of technologies, determined by the need to replacing and improving on the outdated technologies, and helped by approachable entities like central banks, East Africa Union, that has focused on the financial innovations in new development of products, market reach and processes. This have ease Branchless banking and mobile money transfers allow for a much faster inclusion of rural populations into financial systems, expanding the market potential of microfinance. (Research Insight, 2013).

1.1.3 Local Perspective of Innovation Adopted by MFIs

The CBK (2014) report shows that the business environments in Kenya is changing and hence the financial innovations system have created more competitive market in the fields of product, process, market, and institutional. One of the drivers of these successful innovations is a technology that has facilitated new innovations in markets, locations, products and services, and organizations across Kenya, Narok town included. In CBK (2014) the report shows that the SMES and MFIs are significant in driving economies

and live hoods, the banking sector (5 commercial banks) launched a drive to help end financial crisis in the MFIs. The credit facility, titled Stawi, was launched in November 2019, to offer credit facilities solely through innovations platforms, the product, aimed at not only just providing finance to SMEs but also supporting them to enhance their competitiveness, Entrepreneurial skills and growth ability. The OECD (2017) identifies four types of strategic innovations which are; institutional innovation, process innovation, product innovation, and marketing innovation. Kariuki (2014) suggests innovation strategy is the main component for long-term firm achievement, and innovative productions are more effective in giving business a competitive advantage and growth.

1.1.4 Growth of MFI

According to Goyal, Marsh, Narayan, and Ahmed (2011) the growth of MFIs in terms of their performance is still at a very low pace especially in developing countries like Kenya. Growth is measured by such indicators as the number of customers served, loans advanced and the market share being commanded by the institution (profits). In developed countries and parts of Asia, the MFI is well-developed borrowing from the concept of Grameen bank which is the developer of MFI's concept in India. In the African continent, the concept is gaining significance both in Eastern and West Africa, where countries like Ghana, Nigeria and Zimbabwe, Uganda, and now Kenya are following the pace by adopting various concepts.

According to Sene (2010) there seems to be a better response to MFIs in developing markets than in developed markets. This is attributed to the fact that these countries have

a banking system that is more informal than what is seen in the developed countries. The study further established that the growth of MFIs has been influenced by the following factors; the need for creation of more jobs, the need to develop the informal sector, the focus on economic development through the SMEs, and focus on adoptions of innovation strategies.

Regardless of the many benefits, highlighted in the literature on the innovations, it is noted that innovations have posed many challenges to firms, in the case of Blue-chip companies such as Polaroid, Nokia, Sun Microsystems, and Hewlett-Packard. Some of the innovations initiatives have frequently failed, while those that have succeeded once have faced challenges in different levels, for example in product innovation in terms of consumer preferred improved products, highly differentiated products among others. This implies that some or most of the studies conducted have had a negative implication on the firm's growth. Others studies noted that the success of any innovation will depend largely on the environment, the firm is operating in and it can influence competition, high performance, decision on investment and increase in profit. With such mixed results from different sectors and different countries, there is a clear gap in the literature which might be attributed to the lack of comprehensive analysis of how different innovation strategies can affect a firm's performance in terms of growth.

1.1.5 Microfinance Institutions in Kenya

In Kenya, microfinance institutions (MFIs) were founded by the non-governmental organizations (NGOs) in partnership with the government. The implementation of the

Micro Finance Institutions Act 2008 in Kenya brought a lot of significant changes in the banking sector with the aim of protecting MFI clients. Some of governing Act aspects of MFIs are oriented towards developing and achieving government objectives without compromising stability and regulation of the sector (Goyal, Marsh, Narayan and Ahmed, 2011). According to Susanna (2010) microfinance institutions are those institutions that offer financial services to small borrowers at no collateral. The institutions, however, use very flexible techniques in order to reduce the risks involved. Because of their flexibility microfinance institutions are well located to provide necessary credit facilities to low-earning clients. According to a report Economist Intelligence Unit (2010) the emergence of microfinance institutions was aimed at filling the gap left by commercial banks in meeting the needs of the small borrowers. Kenya's microfinance institution has been inexistence way since the 1980s, and mainly since the implementation of the microfinance intermediaries Act of 2006. The country now has five deposit-taking microfinance intermediaries. (EUI, 2010) MFIs functioning under a regulatory framework and monitored are the best in Africa

According to Ongwen (2015) the variations that have taken place in the financial sector have been transformed by the adoption of technology which has aimed at enhancing business performance, competition and growth. All these improvements coupled with changes in the international financial environment and the increasing incorporation of domestic and international financial markets have initiated innovations in the sector. In the last three decades, there have been a lot of developments in the microfinance sector that have made more people come into the banking bracket due to the development of

user-friendly products and services. According to Cooper (2013) some of the MFIs are currently members of international forums. Besides the government has gone ahead and created the rural finance department at the CBK, and at the ministry of finance, a microfinance unit has been created. It was further noted that Microfinance institutions are currently faced with many challenges such as; limited funding, high default rate, the legal and regulatory environment, sluggish growth, lack of right technical skills, lack of asset collateral, poor infrastructure and operations of these institutions. It is upon this literature that this current study seeks to determine the effect of innovation strategies on the growth of Microfinance Institutions in Kenya, Narok Town.

1.2 Statement of 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, 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 adds20% to the GDP of the Kenyan economy CBK report (2014). 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 Narok Town, Kenya could be attributed to lack of innovative strategies hence being exposed to stiff competition, limited growth and expansion. Previous studies on financial performance, profitability, investment decision, competitiveness and growth innovation 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 (Otieno, 2013).This study attempted to empirically ascertain the effect of innovation strategies on the growth of MFIs with a focus on institutional innovations, product innovations, process innovations, and market innovations on the growth of microfinance institutions in Narok town, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to determine the effect of innovation strategies on growth of Microfinance Institutions in Narok town Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were:

i. To examine the effect of institutional innovations on growth of Microfinance Institutions in Narok town, Kenya.
ii. To assess the effect of product innovations on growth of Microfinance Institutions in Narok town, Kenya.
iii. To analyze the effect of process innovations on growth of Microfinance Institutions in Narok town, Kenya.
iv. To evaluate the extent of market innovation on growth of Microfinance Institutions in Narok town, Kenya.

1.4 Research Hypotheses

This study sought to test the following hypothesis:

H_{o1}: There is no statistical significant relationship between institutional innovations and growth of Microfinance Institutions in Narok town, Kenya.

H_{o2}: There is no statistical significant relationship between product innovations and growth of Microfinance Institutions in Narok town, Kenya.

H_{o3}: There is no statistical significant relationship between process innovations and growth of Microfinance Institutions in Narok town, Kenya.

H_{o4}: There is no statistical significant relationship between market innovations and growth of Microfinance Institutions in Narok town, Kenya.

1.5 Significance of the Study

This study might be of great importance to the regulators in the microfinance sector as it would provide a basis for policy making in the sector. The study is also expected to be of great significance to investors on the innovations and how they are likely to improve the position of the MFIs. It shall shed light about the new microfinance products, services and processes that would be an attraction to the borrowers not only in the sector but in all other financial sectors. These outcomes are also anticipated to be of great importance to Academicians/ researchers on the state of microfinance institutions in Kenya with regard to innovation status. This study would provide empirical data to scholars and other interested researchers who would wish to understand more about innovation as well as demonstrate the gaps that come along with the study of innovation. Moreover, this study contributed to the already existing body of knowledge and form a basis for further research work. It is also hoped that this study would be used by the government and industry regulators to understand the types of innovations in the microfinance industry so as ensure that the regulations that exist cover all the innovations and no gap exists. The study is also likely to form a basis for further study and add to the existing literature for academic use.

1.6 Assumptions of the Study

The study was undertaken with the following assumptions taken into consideration;

First, the respondents were able to provide appropriate answers to the questionnaire with regard to the four innovation practices. Secondly, it is assumed that the respondents were well familiar with the microfinance activities and the effect of the various innovations on

their growth. Further, the researcher assumed that the respondents would fully cooperate and provide appropriate data for the study. Lastly, it was also assumed that the sample was a good representation of the population and that the instruments were reliable and valid in collecting the required data.

1.7 Limitations of the Study

This study was limited by various factors including; the perception and views and opinion of the respondents about the innovations and how they affect MFI the data was based on the understanding of the respondents hence likely gave varied responses. The study was both descriptive in nature and hence the data collected was assumed to represent the actual situation on how microfinance institutions are using innovation strategies to enhance their growth. The use of a sample in research is said to provide some level of bias and hence likely affected the accuracy of the results hence this study was limited to the sample size selected and hence the data might be considered appropriate for analysis. The study however, overcame the limitations by ensuring that the questionnaires were tested for validity and reliability to increase the precision rate. On the sampling techniques the study ensured that probability random sampling was used where every item was given an equal chance to participate and hence result into more valid data. The respondents were requested to provide their responses accurately and with precision to reduce the margin of error.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of literature related to the study objectives. The chapter is organized to discuss the various theories that will be applicable in the study. It then presents the conceptual framework that outlines the relationship between the variables. This is followed by an empirical review of studies that have been carried out in the past relating to the relationship between innovation strategies and the growth of MFIs. The chapter closes by presenting the summary of the studies reviewed and presenting the gaps in the review.

2.2 Theoretical Review

The study will be underpinned by the theories that explain the application of innovation strategies in the MFIs. This study was guided by the following theories; institutional innovation, technology acceptance theory, theory of innovation diffusion, and economic value-added theory.

2.2.1 Theory of Induced Institutional Innovation

The induced institutional innovation theory was proposed by Vernon and Hayami (1984). It posits that the demand for institutional change is dictated by the institutional resources available and the technical skills required for the change. Institutions are expected to

provide products and services that help to satisfy the needs of the customers and bring stability to the market complexity and uncertainty. The theory provides the link between various aspects of the institutions that are resource endowments, culture, and innovations. According to the theory financial institutions are expected to ensure that they have the expected technological expertise, the resources required and a culture that supports innovation of their products and services. The institutional culture must also be willing to embrace the innovations which will in turn also help the customers to accept and feel that their need is reached. This theory, therefore, is important to this study because it gives a clear indication that before any innovations customer's needs must be prioritized, satisfied and institutions (models and structures) will be involved which means that adopting the innovation will be easy and simple. This gives an understanding that institutional innovation is induced by combined various institutional factors to bring about the development of new products and services, to enhance acceptance of the innovation strategies and yield growth of the Institution.

2.2.2 Technology Acceptance Model

The founder of this model was Davis (1986) who sought to explain the driving force behind the adoption of technological know-how by firms in the financial sector. According to Monyoncho (2015) this model deals with perceptions and not systems real usage and defines the situation where new technological advancement is introduced to the customers. The level of confidence that users put on a system is very important as it affects the user's perception of the new technology and how beneficial it is to support both short and long-

run objectives of the firm. Furthermore, the level by which an individual considers a system will boost performance in the short and long-run (Mojtahed, Nunes and Peng, 2011).

The TAM confirms that the system's real utilization is established by each user's behavioral purpose for usage and is encouraged by an individual's awareness of the system. The theory also explains that the insight towards new technology has a direct relation to its functionality as well as the simplicity of the system (Lim and Ting, 2012). TAM deliberates that acceptance of technology and functionality is influenced by consumer's purposes that establish the customer's perception towards the system (Mojtahed, Nunes and Peng, 2011). The theory also indicates that the acknowledgements about the advancement in innovation are helpful in the improvement of states of mind that will in the long run result in system usage (Lim and Ting, 2012). The innovation is very important in the sense that it gives details and explains the reasons why clients accept or dismiss an advancement or data framework. The theory is very applicable to this study in the sense that it helps one understand how technology has enhanced innovation, and how it has been accepted by users, and to what level they have understood technology and how this will enhance the growth of MFIs (Lim and Ting 2012). This theory will help MFIs to examine the behavior of each new technology invented and how customers react to each one of them. This will help improve the end-user reception of a new technology introduced and improve usage which means if it's well-received, then increased sales, higher revenues and profits, this will translate to good competition with other institutions, and even growth opportunity will be achieved.

2.2.3 Diffusion of Innovation Theory

This 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 and 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 and 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. The main limitation of this innovation is the fact that the firms assume all customers are versed with the technology as well as a certain system for enhancing their financial satisfaction (Sarker and Sahay, 2004).

In Diffusion theory, Rogers (1995) recommended five important features of an innovation that it affects its diffusion: Relative benefit, this is the level to which possible users need to see how an innovation strategy improves their current situation. Relative advantage is often expressed in terms of economic profitability, social status, or other similar benefits. Rogers (1995) opposes that an innovation's relative advantage is positively correlated with its rate of adoption. Compatibility or the level to which an innovation is perceived by potential

adopters as being consistent with their existing ethics and past experiences. Compatibility with what is already in place makes a new idea seem less unclear, more familiar, easily accepted, and helps to give it meaning. This is useful because the rate of adoption of a new idea is affected by the old idea that it supersedes. Rogers (1995) claims that the perceived compatibility of an innovation is positively related to its rate of adoption. Complexity or the level to which an innovation is perceived as difficult to understand and use. Rogers claims that the more complex the innovation, the less likely it is to be quickly adopted. In support of this conjecture (Rogers and Daley ,1980) point out that in the late 1970s, a period of six to eight weeks of extreme frustration characterized the adoption of a new home computer. The training capability is the level to which a specific innovation may be subjected to limited testing. Roger's research suggests that if a possible adopter is able to play 'with the innovation before being faced with an adoption decision, then adoption is more likely to be accepted. Observability: the more the result of innovation is visible to others, the more likely the innovation as a strategy will be adopted.

Rogers quotes high Observability in public places and in the media as a clarification for the rapid take-up of video games such as Nintendo, and of cellular telephones. Diffusion theory is applicable in this study and will help in understanding systematically how innovation is being adopted in the institutions. The MFIs as part of this study, serve different cadre of customers, and with their old ideas that they have in place to adopt new innovation practices, it will give them a good chance to be adopted with the help of trained employees on the MFIs and the five features of diffusion theory will be clearly seen from compatibility, observability, relative benefit, simplicity, and trial ability. These ideas will

be familiar to both customers and employees. Therefore, when roger theory is used as a strategy in innovation of products and services it will give an advantage in terms of increases in new customers, profits, and growth.

2.2.4 Economic Value-Added Theory

This 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, Grant and Stewart, 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 and 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.

The main theory that that guided this study was diffusion theory supported by induced institutional theory, Technology acceptance Model and Economic Value-Added theory.

2.3 Conceptual Review

2.3.1 Effect of Institutional Innovation on Growth of MFIs

In the figure 2.1 conceptual framework, it illustrates the relationship that exists between the variables; that this study seeks to find out the effect of institutional innovation on the growth of MFIs in Narok Town. This variable was selected to explain how institutional innovation practices defined by Business structure, partnership and institutional culture which aims at achieving MFIs growth. According to (Salim and Sulaiman 2011), institutional innovation entails changes in the business structure which is in terms of the acceptance of norms, traditional behaviors and value of the group or employees. They further noted that institutional innovation has a direct effect on a firm's competitiveness.

Boachie-Mensahand (2015) stated that over fifty percent of the variations in the competitiveness of the firm are accounted for by innovation. The conceptual frame work shows that there is a direct relationship between institutional innovation and a firm's growth. It is therefore suggested that the firm's growth is directly influenced by institutional innovations. For the firms to enhance their innovations in terms of growth, there is a need to focus on activities aligned towards working style, beliefs, values and vision, partnerships, and policies which will strengthen the firm's innovation. Among the MFIs, institutional innovativeness is observed through business structure, institutional culture, business models and partnership. Institutions can also exhibit innovativeness through redesigning the institutions to strategically serve the target market Mugo (2012).

2.3.2 Effect of Product Innovation on Growth of MFIs

Studies contend that the development of new products, improved consumer-preferred products, competitive products and developing differentiated products have positive significant effect on growth the financial institutions in terms of customer and profits which translate to expansion and growth (Gudda, 2020). Karendi (2015) in his findings product innovation as a strategy has a significant relationship on the growth of the MFIs.

According to Bayus, Erickson, and Jacobson (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. Alegre, Lapiedra, and Chiva (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.

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 include 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.

2.3.3 Effect of Process Innovation on Growth of MFIs

Process innovation is also noted to have an effect on the growth of MFIs. According Mamoghli (2010) there is a direct link between process innovation and growth of MFIs. This entails having an effective and efficient process design that will enhance service provision and the adoption of automated processes for efficiency. According to Gudda

(2021), this is expected to bring about cost reduction, increase the number of clients served, increase market share, and increase profitability.

Lopez-Mielgo, Montes-Peon, and Vazquez-Ordas (2009) noted that process innovation has a significant effect on total quality management of an institution. The study further noted that process innovation improves speed, quality, and hence results in flexibility and cost-efficiency. Wang and Wei (2015) noted that in Germany, process innovation was seen to have a great effect on cost savings. The study further noted that where process innovation leads to cost savings, it enhanced firm's ability to market its products at competitive prices and enhanced performance through growth.

According to Nader (2011) innovations such as phone banking have a significant influence on the profitability and efficiency of firms that have already adopted them. The study proven that mobile banking is one of the process innovations variables that is adopted by banks to enhance profitability, efficient service delivery and promotes growth. Kagan, Acharya, Rao, and Kodepaka (2015) noted that the adoption of internet banking had a positive influence that boosted their competitive advantage over other competitors. While a study by Mabrouk and Mamoghli (2010) notes that if process innovation is continued and new technologies are familiarized then innovative MFIs are expected to continue earning high profits, compete with commercial banks, grow and become sustainable. In Ghana, the study noted that process innovation in mobile and internet banking has had a significant effect on the performance of the financial institutions through increased revenue, reduction of operating costs, improvement in

profitability, increased number of new customers and gradual growth is experienced in the MFIs (Sampong, 2015).

2.3.4 Effect of Market innovation on Growth of MFIs

This involves the application of technologies to enhance market operations of the institution. The adoption of innovations in the new market target, market orientation and new marketing methods will give MFIs a chance to grow and compete within the market. Market pressures call for shorter product life cycle making it hard for MFIs to sustain a competitive advantage due to lack of innovative strategies to support the market. Therefore, firms that are constantly innovating have a higher chance of growth and survival. Löfsten (2014) found a positive significant relationship between innovation and firm performance, with growth as one of the measures. A similar finding was noted by Rosebush et al., (2011) and Flood et al. (2015). This implies that market innovations have an impact operating competence which affects growth.

According to Sidek et al. (2013) market innovation is concerned about the four-marketing mix for products and the extended marketing mix for the services. It also deals with the segmentation of the marketing for the purpose of meeting the customers buying preferences. They also noted that with the advanced technology in the business operations in terms of the internet, the way marketing is done has improved because of the advanced marketing tools. Internet technology has enhanced the performance of marketing by making it possible for firms to achieve their competitiveness and hence enhance their growth and remain relevant.

Mwangi and Bwisa (2013) on the other hand indicated that Market innovation plays a crucial role in fulfilling market needs and responding to market opportunities. The main aim of these market innovations is to meet customers' demands and enhance their satisfaction. The study established that there is a positive significant effect between Market innovation and general growth of a firm. With appropriate marketing innovation, sales are likely to increase the demand for products hence increase the profits and growth is achieved. According to Rosen et al.(2011) effective market innovation results into market barriers that make it difficult for the competitors to enter hence strengthening the position the of firm in the industry and leading to its growth.

According to Rubera and Ktuirca (2012) there is a direct effect between Market innovation, financial performance and Institution growth. This is attributed to the fact that a company is able to achieve higher performance through effective innovations at the market level. Market innovation enhanced customer satisfaction through improved products and services, besides there is customer loyalty achieved due to perceived quality hence increased revenue that led to growth and a firm's. In the short term the firms enjoy increased sales and market shares, while in the long-term, innovation tends to have an indirect effect on economic, marketing and financial results. In a study by Campo et al. (2014), market innovation plays a critical role in improving a firm's performance through increased business incomes and successful competitiveness in uncertain environments. The study recognized that a change in the customers' needs calls for a change in the market under a dynamic market setting. Firms that will survive in this changing market state are those that have adopted appropriate market innovative strategies. In another

study by Rubera and Kirca (2012) it was established that market innovation has a great effect on sales through lower prices that results to higher volume of sales hence increased performance. In order for a firm to effectively perform, it has to come up with an appropriate strategic market innovation that will ensure that the firm understands the market orientation.

2.3.5 Growth of MFIs

Borbora (2011) noted that the available literature on the profitability of MFIs indicates that there is a need for these institutions to be profitable in order to grow and be sustainable. A high-quality credit portfolio is needed to achieve profitability and hence growth among the MFIs. There is a need for the MFIs to use appropriate strategies that will offer appropriate interest rates and sound management for the growth of MFIs. Kimando (2012) noted that business program is measured by the ability of the program to achieve its goals and objectives. For any organization or institution to grow there is need to have strategies through which they can still earn profits to enhance their future operations and same time grow. The measures of marketing strategies, the number of registered customers, advanced loans, and net profits earned have a great significance in defining the growth of the MFIs.

From the foregoing background, there is need for MFIs to put in place appropriate strategies that will enhance innovations that will lead them to offer a wide range of services particularly regarding financial products. Ferreira et al. (2011) has indicated that strategies aimed at the growth of MFIs need to include long-term strategies such as

business culture, institution culture, partnerships, marketing innovation, product innovation and process innovation which will increased profits, return on assets, return on equity, an increased number of employees as well as served customers. A lot of literature has focused on assessing the entrepreneurial characteristics in defining the growth of the business. The literature on innovative practices needed by the MFIs is still limited hence the need for this study that seeks to assess the effect of innovations adopted by MFIs on their growth.

According to Shehnaz and Sulaiman (2016) 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. For instance, the introduction of new products or services, improving on their operations and processes among others. These strategies are very crucial for MFIs facing uncertainty due to changes in customers' demands and advancements in technology. The study will be underpinned by four famous strategic management theories, the Economic value-added theory, diffusion of innovation theory, technology acceptance theory and theory of induced institution innovation. It is notable that a firm's success and growth is defined by its profits which is a based-on availability resources, how firm adopts to new technology and how best the firms can respond to the changes in the business environments.

According to Chowdry (2011) the operation of the MFIs has been influenced by the technological advancement in these institutions. Predictably, microfinance institutions focused on providing microcredit in terms of small loans to the poor and small and

micro-enterprises. Currently, there is an important shift of MFIs offering more innovative modified services to their client. Silva and Chavez (2015) in their study stated that MFIs do not only provide microcredit services but it is also devoted to providing an up to date technological innovations. According to Aemiro and Mekonnen (2012) the role of MFIs has been impacted and reshaped by innovation which has changed their business models and structures. It is further noted that MFIs have developed innovations that have effectively assisted in the mitigation of risk factors. A study by Chowdry (2011) pointed out that to date there are many institutions that are financiers of microfinance services in South Asia and this includes non- Governmental organizations, Rural Support Programs, Non- Banking Financial Institutions among others. He further explained that MFIs have been proven to be the most effective channel for providing credit to small and medium enterprises and they have a chance to growth easily which is not the case.

2.1 Conceptual Framework

A conceptual framework is an illustrative framework that shows the correlation between study variables as shown in Figure 2.1. It shows the relationship between the selected independent variables (institutional innovation, product innovation, process innovation and market innovation) and the dependent variable that is the growth of MFIs.

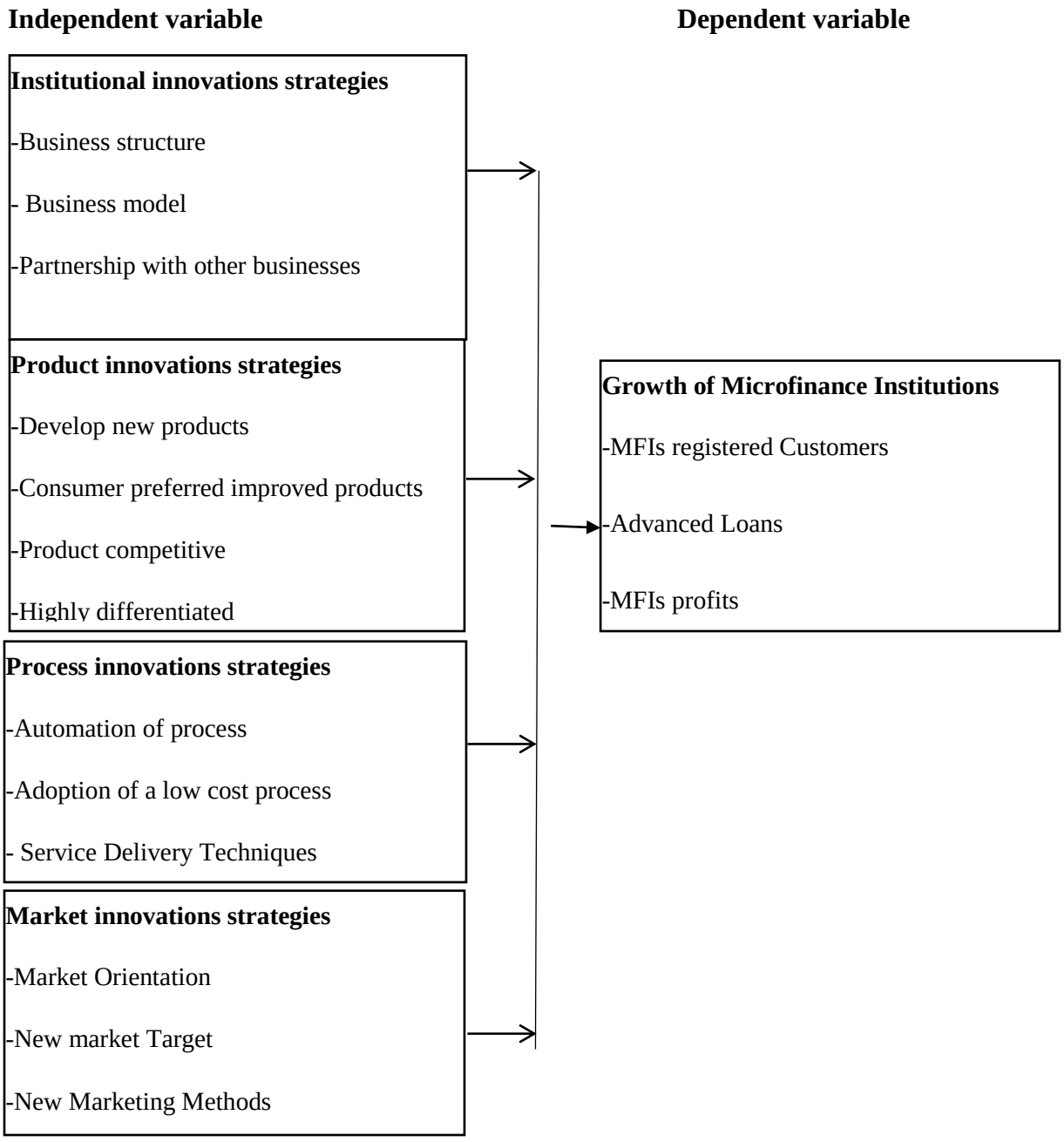

Figure 2. 1: Conceptual Framework

2.4 Empirical Review

In this section several studies related to the area of study have been reviewed to help in establishing the research gaps.

Shurie and Olando (2020) on assessed the Effect of Business Advancement on Financial Performance of Small and Medium-sized Enterprises in Garrisa, 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) determined 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 is creates a gap in the current study to fill.

Musyoka (2013) established 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 (2019) 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.

2.5 Summary of Literature Review and Research Gaps

The present study recognizes the scholarly efforts put into earlier studies related to innovations. However, it is acknowledged that there are limitations regarding these studies that are supposed to be effectively addressed in the variables of the present study. Most studies reviewed have indicated that the focus by most researchers has been on competitive advantage, profitability, sustainability, investment decision making, and performance. The studies have also focused on other variables that define the performance or competitive advantage with limited studies being conducted on innovation as a determinant of growth. There has also not been a direct link between the innovations that have been studies and growth, but most studies have looked at a link between innovation and performance. Performance has also been considered but in terms of profitability not growth. In terms of product innovation again the literature has shown that there has been little focus on establishing how it affects the growth of the MFIs. In the Kenyan perspective, a lot of focus on innovation has been on commercial banks which have a well-established technological base. There is little focus on the effect of various innovations on the growth of the MFIs. Most of the studies have employed the descriptive design that seeks to describe the situation as it is. The use of cross-sectional design has not been utilized yet most of the studies have used data from different firms which call for cross-sectional data for comparison and assessing the relationship between the variables. There is also a gap in the literature where it is observed that in Narok County there is no single study that has been conducted to assess the situation of MFIs besides understanding the various innovation strategies that are applied to enhance growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, population, sampling technique and sample size. It also discusses the research instrument, pilot testing, and data collection procedure. Lastly, it discusses how the collected data was processed and analyzed and how the resulting findings were presented.

3.2 Research Design

This study adopted the cross sectional research design. Cross sectional design is appropriate for studies that aim at collecting data from different firms or from same firm but over a given period of time. It helps to make comparisons of various variables from different firms. Descriptive design on the other hand is used in studies that seek to collect data which requires the respondents to describe a situation as it is by giving their views and perceptions (Kothari, 2014). Since this study involved different firms and sought to collect data by assessing the views of the respondents the cross-sectional descriptive design was appropriate (Mugenda and Mugenda, 2012). Note that the design can be used to explain or expose the current status of two or more variables at a given point in time. The study sought to answer the five relevant questions of research, what, who, when, where and how.

3.3 Target Population

The study targeted all the 11 registered microfinance institutions operating in Narok town with 180 employees working in the MFIs. These institutions serve more than 5000 SMEs in Narok town in different sectors. This implies that they must have different suitable strategies to be able to meet the needs of their customers. Different strategic innovations need to be put in place to ensure that the firms remain relevant in the market given the stiff competition they are receiving from Commercial banks, Network providers, credit APPs, SACCOs and merry go round associations that most offer similar products.

3.4 Sample Size and Sampling Technique

According to Kothari (2014) sampling is needed to make the study practice spatially when the population targeted is very large. Economic census survey sampling system is however, a new method of collecting data which helps in corresponding to changes in survey area, economic census with low cost and high efficiency, improved data quality and shortening data release time, this was used in this study, where180 respondents were picked, from the 11registered MFIs, which was manageable and because these institutions are all within Narok town. According to Kothari (2014) and Mugenda (2012) a census is most appropriate for studies with small populations and where the researcher needs very high degree of precision in the results.

3.5 Research Instrument

Primary data was used for this study. Primary data was collected using structured questionnaires constructed by the researcher to capture the data needed for the study, during the period 2015 to 2019 and the respondents were staffs who are employed in the MFIs (clerks, cashiers, project officers and credit managers). Managers also gave secondary data from already audited financial reports and the respondents are the MFIs managers with an aim of providing information on general business characteristics. According to Mugenda and Mugenda (2012) a questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. It is most preferred in social studies as it gives the respondents enough time to evaluate the questions and give appropriate answers. Since it is answered in the absence of the researcher there is no room for manipulation or for influencing the respondents.

Kothari (2014), noted that questionnaires are effective in collecting data from a relatively large population that is dispersed over the research area. Unstructured questionnaire is standardized to ensure that all respondents are asked same questions and answer them differently which will give a researcher a good visual of the problem. The questionnaire was self-administered by the researcher. The demographic part of the study was semi structured where the respondents were asked to give their characteristics; the data was descriptive in nature and assisted in describing the nature of the respondent.

3.6 Pilot Test

A pilot study was carried out before the main study with an aim of determining the reliability and validity of the research instrument. Since all the 11 registered MFIs was considered for the study; the pilot was done on 2 (10% of 11) MFI in Bomet town. Pilot study enabled the researcher to carry out the study or leave it depending on the results finding from collected data in the pilot study, also gave the researcher new ideas which might not have been foreseen before conducting pilot study, and this idea increased chances of getting clearer findings in the main study. Mugenda (2012) suggests that a proportion of 10% of the study sample is appropriate for a pilot test. So, two institutions were selected purposively for the pilot this implies that in every institution 9 employees were selected. The responses from the questionnaires was used to determine the validity and reliability of the instruments.

3.6.1 Validity Test

According to Orodho (2012) a research instrument is said to be valid when it is able to measure that which it is supposed to measure. It is the degree to which the results obtained from a research instrument represent the phenomenon under study. For this study both face and content validity were tested where face validity ensured that the questionnaire is simple and precise but comprehensive enough to collect the required data. Face validity was also achieved through the structure and flow of the question items. On the other hand, Content validity test was done by using 2 experts from the two MFIs used for piloting. The

2 experts were asked to make their responses which was used in the computation of the validity coefficient index (VCI) as defined by (Amin, 2005).

$$VCI = \frac{\text{Average of number of common responses from the two experts}}{\text{Total number of question items on the question}}$$

The instrument had a total of 23 questions out of which the first expert exerted that 19 were valid while the second expert exerted that 21 were valid this gave an average number of questions as 20. From this, the validity coefficient index (VCI) was determined to be 86.96% which was an acceptance validity level.

3.6.2 Reliability Test

Reliability is the degree of measure that shows that a research instrument was able to provide similar responses when subjected to different samples drawn from the same population (Kimberlin and Winterstein, 2008). A researcher used either test re- test method or Cronbach alpha reliability test. In a test re test method the questionnaire is administered to the same respondent at a small interval of time then the responses are correlated to determine the degree of consistency. Besides that, the Cronbach also reliability test is applied where the researcher wants to save time and other resources, the questionnaire is administered once and the reliability is then tested by the help of Statistical Package for Social Sciences version 23. For this study the Cronbach internal study was used as suggested by Sakari (2010).

3.7 Data Collection Procedure

The researcher obtained an official letter from the University to introduce herself to the management of the MFIs from which respondents were drawn. The student also applied for a research permit from the National Commission of Science, Technology and Innovations. After the letter of authorization and the permit were obtained the researcher then sought permission from the MFIs. The 180 questionnaires were produced and administered to the respondents within a period of one week.

3.8 Data Processing and Analysis

All data collected were subjected to the appropriate data cleaning, processing and analysis harmoniously. Data processing and analysis were enabled using both Statistical Package for Social Sciences (SPSS) Version 23 software and Microsoft Excel software. Data analysis involved both descriptive and inferential statistics. Descriptive statistical tools included means, mode, standard deviations, and variance. The result of the analysis was obtainable in form of tables.

3.8.1 Correlation Analysis

Correlations the level in which two variables are related "correlation coefficient". NCME.org. National Council on Measurement in Education. Archived from the original on July 22, 2017. Retrieved April 17, 2014.The Pearson's moment correlation coefficient is used to measure the level and type of association that exist between two variables. The

study carried out correlation analysis at 95% level of confidence to test the following null and alternative hypothesis;

$H_0 : \rho = 0$

Against

$H_1 : \rho \neq 0$

The rejection of the null hypothesis showed that the particular independent variable has a significant relationship with the dependent variable. Otherwise, the failure to reject the null hypothesis showed that the variable has no linear relationship with the dependent variable.

The correlation coefficient is known to take the values between – 1 and 1, where –ve shows inverse relationship between the variables while +ve shows direct relation between the variables and lastly 0 depict no relationship between the variables. The interpretation of the degree of association between the variable was guided by table 3.1;

Table 3. 1: Interpretation of the degree of association between the variable

Size of Correlation	Interpretation(Relationship of Correlation)
-1	Perfectly negative
-0.8	Strongly negative
-0.5	Moderately negative
-0.2	Weakly negative
0	No Association
+0.2	Weakly positive
0.5	Moderately positive
0.8	Strongly positive
1	Perfectly positive

3.8.2 Regression Analysis

Regression is the statistical method that helps in showing the relationship between the dependent variable which is denoted by Y, and the independent variables which are denoted by X_1 X_2, X_3, X_4 and β is unknown parameter. The study used both simple regressions to test the relation on each variable and the multiple regressions to test the combined effect of the independent variables on the dependent variable. The models were as follows;

$$\gamma = \beta 0 + \beta x + e$$ (Simple linear regression model)

$\gamma = \beta 0 + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \varepsilon$ (Multiple linear regression model)

Where:

Y is Growth of Microfinance Institutions

β_0 is Constant

X_1 is Institutional Innovation

X_2 is Product Innovation

X_3 is Process Innovation

X_4 is Market Innovation

ε_i is Error term

$\beta_1, \beta_{2,}, \beta_3, \beta_4$ Are Regression coefficients of Independent Variables.

The following test was carried out on the regression models to test for the adequacy of the regression model and adequacy of individual parameters. Statistical Packages for Social Science (SPSS Version 26) was used to assist in the analysis for all the research objectives. The study's quantitative results were presented using tables, pie charts and graphs while qualitative findings were presented in thematic and narrative form.

Analysis of variance

Analysis of variance (ANOVA), is a statistical test used in testing the adequacy of the regression model. The statistical model was used to test the adequacy of the fitted multiple linear regression model at 95% level of confidence based on the following null and alternative hypothesis;

$$H_0 : \beta_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$$

Against

$$H_1 : \beta_0 \neq \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq 0$$

The rejection of the null hypothesis would show that at least one of the regression parameters is significantly different from zero meaning that at least one of the independent variables affect the growth of MFIs.

t- test

A t-test is a statistical check that is used to examine the capacity of two groups. It is frequently used in hypothesis testing to determine whether a technique or treatment genuinely has an effect on the population of interest, or whether two organizations are one of a kind from one another. Population of interest, or whether two groups are different from one another. When the test for the adequacy of the regression model show that at least one of the regression parameters is adequate. The t-test for individual parameter was carried out to identify the particular coefficients that are significantly

different from zero. The test was carried out at 95% level of confidence to test the following null and alternative hypothesis;

$$H_0 : \beta_i = 0$$

Against

$$H_1 : \beta_i \neq 0$$

The test statistic will be given by;

$$t = \frac{\hat{\beta}_i}{SE\left(\hat{\beta}_i\right)}$$

The rejection of the null hypothesis showed that the regression parameter is significantly different from zero meaning that the independent variable coefficient by the parameter β_i do affect the sustainable growth of MFIs. The test assisted in answering the research objectives, the rejection of the null hypothesis in the test lead to the rejection of the research objectives and the failure to reject the null hypothesis leads to the failure of the specific research hypothesis. The test was at 0.05 level of significance (Orodho, 2005).

3.8.3 Regression Assumptions

In order to validate the results given by the regression model, the following linear regression model assumption diagnostic check were carried out;

3.8.4 Regression Diagnostic Check

In order to verify if the conclusions made on the research hypothesis were valid based on the multiple linear regression model fitted, a diagnostic check was carried out on the fitted regression model so as to assess the validity of the model and the conclusions made from the model.

3.8.4.1 Normality of the residuals

Linear regression assumes that the residuals of the fitted regression model are normally distributed. To assess this assumption a probability plot and Shapiro Wilk's test for normality was carried out. The results of the probability plot were as illustrated in Fig.3.1

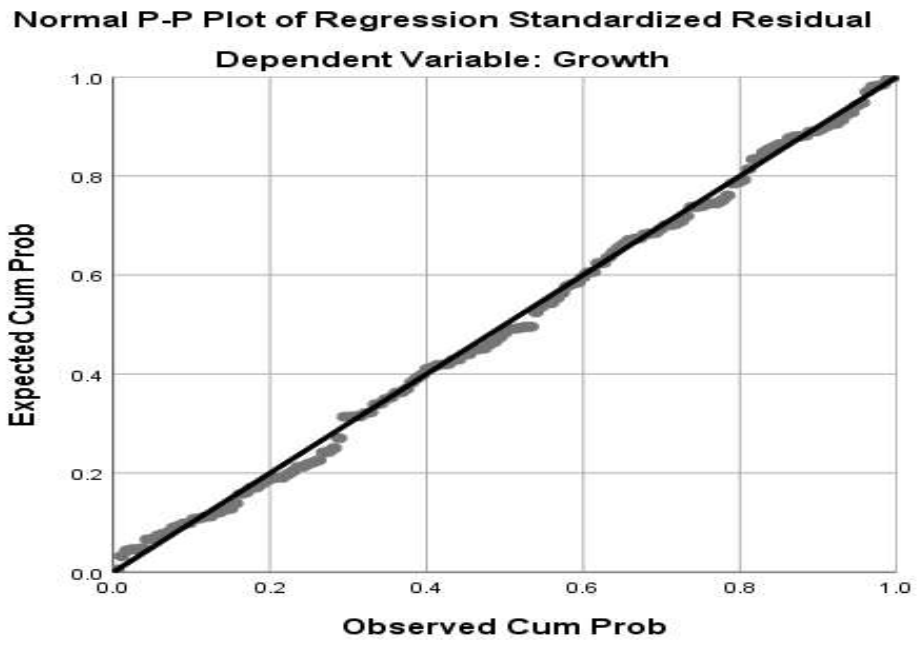

Figure 3. 1: Probability Plot

The results illustrated in Fig.3.1, shows that the residual plots align on the normality line, this shows that the residuals are approximately normally distributed. To verify this, the test for normality was carried out at 95% level of confidence based on the following null and alternative hypothesis;

H_0: The residuals are approximately normally distributed

Against

H_1: The residuals are not approximately normally distributed.

Based on the Shapiro Wilks's test for normality, at 95% level of confidence, the results showed that there was no sufficient evidence to reject the null hypothesis (W=0.992, p=0.54). This shows that there was no sufficient evidence to refute the claim that the residuals are normally distributed. This shows that the assumption for normality of the residuals was satisfied.

3.8.4.2 Homoscedasticity

Ordinary least square technique used in estimating the regression parameters assumes that the residuals have constant variance. To assess this assumption, a scatter plot of standardized predicted and standardized residuals was plotted. The Breusch-Pagan / Cook-Weisberg test for heteroscedasticity was also carried out. The result of the fitted plot were as illustrated in Fig 3.2;

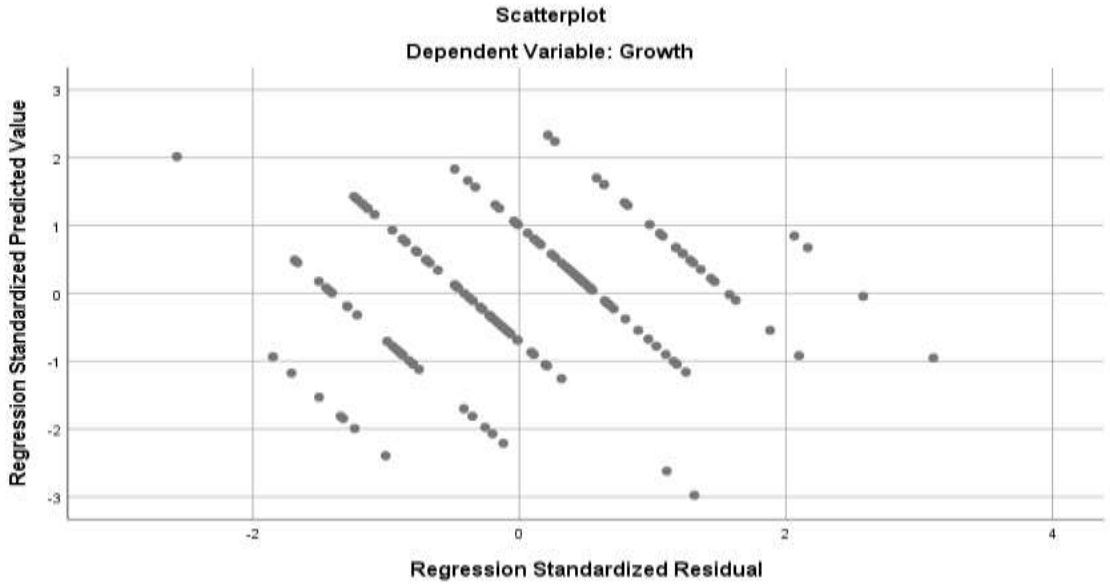

Figure 3. 2: Residual Scatter Plot

The plot in Fig.3.2, showed no relationship or pattern in the plot. This shows that there is a likely hood that the residuals had a constant variance. To verify this conclusion, Cook-Weisberg test for heteroscedasticity was carried out at 95% level of confidence based on the following null and alternative hypothesis.

H_0: The residuals are homoscedastic

Against

H_1: The residuals are heteroscedastic

At 95% level of confidence, the results showed that there was no sufficient evidence to reject the null hypothesis (Chi-square (1) = 0.20, p=0.6582). This shows that the residuals

have constant variance. Therefore, the assumption for constant variance of the residuals was satisfied by the model.

3.8.4.3 Autocorrelation

Ordinary Least Square assumes that there is no serial correlation among the residuals of the fitted regression model. To assess this assumption, the Durbin Watson statistic is usually used and the rule of thumb states that if the statistic is between 1.5 and 2.5 then there is no autocorrelation. The study computed the statistic for the fitted model and the results yield a statistic of 2.406, this shows that the statistic was within the required limits and therefore the assumption of no serial correlation was satisfied by the model.

3.8.4.4 Multi-Collinearity

Lastly, linear regression model assumes that the independent variables are not strongly correlated with each other. To assess this assumption, the study used the Variance Inflation Factor (VIF) which according to the rule of thumb is required to be between 1 and 10 for the variables to be considered not to be collinear. The results of the statistic for the fitted model was as illustrated in the table 3.2

Table 3. 2: Variance Inflation Factor

Variable	VIF	1/VIF
Process	1.02	0.976294
Product	1.02	0.977856
Institutio~l	1.01	0.988370
Market	1.01	0.988958
Mean VIF	1.02	

The results in table 3.2, shows that all the VIF statistic were between 1 and 10, this shows that the assumption of lack of Multi-Collinearity among the independent variables was satisfied. In conclusion, given that the fitted regression model satisfied all the assumptions for Ordinary Least Square estimation technique used in fitting the model, the conclusions made from the regression model were valid and justified.

3.9 Ethical Considerations

Confidentiality was well-maintained throughout the research for the sake of the respondents. The identity of the respondents was also kept private. The respondent's contribution remained to be willingly. The aim of the study was clearly defined to the respondents in the questionnaire. The research was carried out for academic purposes. Honesty and trustworthiness was exercised throughout the study. The findings of the study were interpreted rightfully, accurately and the statistical procedures were applied without biasness for a favorable outcome. The findings of the study were made public by proving a copy of the thesis to the university library where students and members of the public will be able to access and read.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the study on the effect of innovation strategies on growth of microfinance institutions firms in Kenya Narok Town. The results are presented along the specific study objectives. The Chapter contains: Introduction, Response rate, effect of institutional innovations on growth of Microfinance Institutions in Narok Town kenya, effect of product innovations on growth of Microfinance Institutions in Narok Town Kenya, effect of process innovations on growth of Microfinance Institutions in Narok Town Kenya, effect of market innovation on growth of Microfinance Institutions in Narok Town,Kenya. The chapter determines the effect of innovation strategies on growth of Microfinance Institutions in Narok Town,Kenya.

4.2 Response Rate

The researcher distributed a total of 180 questionnaires of which 151 were returned and used for the analysis. This represents a response rate of 84% which was considered adequate. According to Marton (2016) a response rate above 70% is considered appropriate for a descriptive study. The results of the response rate are summarized in Table 4.1.

Table 4. 1: Response Rate

Responses	Frequency	Response Rate (%)
Responded	151	84%
Not Responded	29	16%
Total	**180**	**100%**

4.3 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 4.2, Table 4.3 and Table 4.4respectively.

4.3.1 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 4.2.

Table 4. 2: 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**
Total	**1,1767**		**1,4838**	**1,7473**	**2,0245**	**2,3861**	**1,7636.8**	**4,191.850112**
Mean	**1,961.167**		**2,473**	**2,912.167**	**3,374.167**	**3,976.833**	**2,939.467**	**6,98.6416233**

Results in Table 4.2 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 growth and compete within their markets.

4.3.2 Amount of Loans Advanced by the MFIs

The amount of loans advanced was to sought with a view of assessing the level MFls lending to its customers over five years' period under study. The results are presented in table 4.3

Table 4. 3: Amount of Loans Advanced by Microfinance Institutions

MFIs **Year**	**2015**	**2016**	**2017**	**2018**	**2019**	**Mean**	**standard deviation**
KWFT	1,885,4096	2,218,8550	1,9373625	1,999,7090	1,897,2454	**1,987,7163**	**1,222,751.596**
SMEP	1,680,700	2,680,120	1,890,169	3,840,112	3,960,461	**2,810,312**	**9,511,01.165**
MUSONI	1,345,9691	1,385,7450	1,422,6850	1,455,8805	1,535,3712	**1,429,1302**	**6,456,36.3275**
FAULU	1,695,7811	1,693,4753	1,722,894	1,7220,894	1,923,4571	**1,751,3785**	**8,691,44.393**
RAFIKI	3,109,778	3,821,148	2,856,122	2,976,102	3,412,160	**3,235,062**	**3,467,59.9708**
PLATINUM	1,282,4220	1,277,0000	1,423,2322	1,5240,00	1,620,0019	**1,425,3312**	**1,342,101.365**
Total	**6,688,629,6**	**7,225,2021**	**6,979,9982**	**7,833,003**	**7,133,377**	**7,198,0936**	**3,486,063.814**
Mean	**1,114,771,6**	**1,204,2004**	**1,163,3330**	**1,230,5501**	**1,285,5563**	**1,199,6823**	**5,810,10.7285**

The results in Table 4.3 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.

4.3.3 MFIs Profits

The amount of profits earned in the MFIs will help in explaining the profits progress trends over the five years of study. The results are presented in table 4.4.

Table 4. 4: 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	**1,973,367**	**8,632,97.8457**
SMEP	7,601,60	8,46400	9,20150	8,50970	9,51420	**8,65820**	**6,6393.98075**
MUSONI	1,531,100	1,771,915	1,914612	1,700,719	2,945,911	**1,972,851**	**5,019,58.682**
FAULU	1,441,663	5,33238	1,175,738	2,261,325	3,899,537	**1,862,300**	**1,159,677.904**
RAFIKI	1,55926	2,45993	8,02895	1,53183	960,112	**4,63621.8**	**3,46415.9556**
PLATINUM	9,980,116	1,150,253	1,560,170	1,721,240	1,937,360	**3,269,828**	**3365028.662**
Total	**1,557,9545**	**5,5172,99**	**8,241,239**	**1,026,8056**	**1,243,280.3**	**1,040,7788**	**3,449,002.71**
Mean	**2,596,591**	**9,19549.8**	**1,373,540**	**1,711,343**	**2,072,134**	**1,734,631**	**5,748,33.7605**

Table 4.4 shows that in 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 consistent with the view of Abate, Grant and Stewart (2014) in Economic added value theory that most firms make decisions that support their competitive advantage in terms of financial innovations. The tenets of theory can be applied to leverage their competitive advantage and creation of wealth which ploughed back for MFIs growth and business operations continuity.

4.3 Descriptive Statistics

The study sought the opinion of respondents with regard to institutional Innovation, product Innovation, process innovation and Market Innovation on growth of microfinance institutions.

4.3.1 Institutional Innovations and Growth of Microfinance Institutions

The respondents were asked to rate their degree of agreement or disagreement with given statements on institutional innovations based on four elements: Innovative partnership, innovative business models, innovative culture and innovative structures, 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 4.5

Table 4. 5: Institutional Innovations and Growth of MFIs.

Statements	SA	A	NS	D	SD	Total
Adoption of institutional innovation through partnership	83(55)	45(30)	23(15)	0%	0%	151 (100)
Innovative business models	68 (45)	60(40)	8(5) (5)	15 (10)	0%	151 (100)
Institutional innovations adopted to embrace innovative culture to meet customers' needs	91 (60)	53 (35)	7(5)	0%	0%	151 (100)
Institutional innovation Improves business structure and competitiveness	68 (45)	45 (30)	8(5)	23 (15)	8(5)	151 (100)

** Summary of Descriptive Statistics for Institutional Innovations in percentage*

Key: SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree and SD = Strongly Disagree

The results in Table 4.5 show that 83(55%) of the respondents strongly affirms who adopt new innovative strategies through partnership will enhance growth of MFIs, 45(30%). This finding concurs with Gudda (2020) that partnerships and collaborations enhances firm innovativeness, and by extension its performance and growth of MFIs. On the other hand 23(15%) were not sure if partnership innovation will enhance growth of MFIs. These results are consistent with the findings of Musyoka (2013) that partnerships and benchmarking contributes to MFIs competitiveness and growth.

The study also established that 68(45%) of respondents strongly agreed that the role of MFIs has been impacted and reshaped by institutional innovation which changed their business models, 60(40%) of respondents agreed that innovative business models, 8(5%) were not sure of the statement, Lastly, 5(15%) of respondents disagreed on statement that the innovative business models will enhance MFIs growth. The results are consistent with the findings of Shurie and Olando (2020) that for business growth adoption of innovative business models such as operations is critical for better financial performance and growth.

The study further sought to establish whether the institutional innovative culture must be willing to embrace innovations. The results are 91(60%) of the respondents strongly agreed with the statement 53(35%) agreed on the statement that innovative culture will contribute to MFIs growth, while 7(5%) of respondents to some extent were not sure. The results are consistent with the findings of Musyoka (2013) that the competitiveness of the firm increased with adoption of appropriate institutional innovative culture. Finally, the results on wither innovative structures affects growth of MFIs were interpreted as follows; 68(45%) of the respondents strongly agreed with the statement, 45(30%) of respondents agreed on the statement that innovative will attribute to growth of MFIs. 8(5%) respondents were not sure of the statement, 23(15%) disagreed on the statement that growth can be achieved through innovative structures while 8(5%) strongly disagreed on the statement. The results are in assonance with Kariuki (2010), that organization innovative structuring brings brand improvement, better customer service and hence MFIs growth.

4.3.2 Product Innovation and Growth of Microfinance Institutions

The respondents were asked to rate their degree of agreement or disagreement with given statements on product innovation, based on four sub-variables; 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 4.6

Table 4. 6: 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	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	68(45)	83(55)	0%	0%	0%	151 (100)
Financial innovations system has created more competitive products	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	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 4.6 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 and 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, Bwisa & Kihoro, 2013) are in agreement with the study that differentiated products will enhance MFIs competiveness 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.

4.3.3 Process Innovation and Growth of Microfinance Institutions

The respondents were asked to rate their level of agreement on the effect of process innovation on the growth of microfinance, on four variables: Innovative automated processes, innovative low cost strategies, innovative loan control policies and innovative service delivery techniques. 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 Descriptive statistics were calculated and the results are presented in Table 4.7

Table 4. 7: Process innovation and Growth of Microfinance Institutions

Statements	SA	A	NS	D	SD	Total
The ability of any firm to automate process is one of the main determinants of the firm's competitive advantage and growth	91(60)	45(30)	8(5)	7(5)	0%	151(100)
Failure to adopt low cost innovative strategies has led to the loss of income from loans due to processing errors	75(50)	68(45)	8(5)	0%	0%	151(100)
Non-compliance of loan policies and excessive concentration of credit risks is a result of innovation failure	0%	15(10)	45(30)	68(45)	23(15)	151(100)
Innovative processes are more effective in giving business a competitive advantage in service delivery techniques and enable growth	75(50)	68(45)	8(5)	0%	0%	151(100)

***** *Descriptive Statistics of process innovation in %*

Key: SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree and SD = Strongly Disagree

The results in Table 4.7 indicate that 91(60%) respondents strongly agreed that growth of microfinance institutions could be impacted by the ability of a microfinance institution to automate innovative processes 45(30%) agreed on the statement that innovative automated process will aid growth of MFIs, 8(5%) respondents were not sure of the statement while 7(5%) respondents disagreed that innovative automated processes will enable MFIs to grow.

The results are consistent with the findings of Atieno (2014) that ability and willingness to be innovative impacted the financial performance and growth of microfinance institutions. Further, 75(50%) of respondents strongly agreed that innovative low cost strategies will enable the MFIs to growth, 68(45%) of respondents agreed that with innovative low cost strategies MFlS will realize growth, finally 8(5%) of respondents were not sure with the statement. The results are in agreement with the findings of Nyambura and Tirimba (2018) that as a result of poor outdated technology MFIs suffered huge losses from poor loan tracking, thus limiting them growth.

The study further sought to establish whether non-compliance of innovative loan policies and excessive concentration of credit risks is a result of innovation failure. The results indicate that 68(45%) of the respondents disagreed that innovative loan policies enabled MFIs to growth, 23(15%) strongly disagree, 15(10%) agreed that the innovative loan policies and non-compliance enabled MFIs grow. Finally, 45(30%) respondents were not sure of the. The results contradicted Nyambura and Tirimba (2018) who noted that poor outdated technology make MFIs suffer huge losses due to poor loan tracking, hence, limiting growth. Lastly, 75(50%) of the respondents strongly agreed that innovative service delivery techniques enhance growth of MFIs, 68(45%) agreed. Lastly, 8(5%) of respondents were not sure. These results are in agreement with Atieno (2014) that for MFIs to achieve competitive advantage and grow, they must be willing to adopt innovative processes in service delivery techniques.

4.3.4 Market Innovation and Growth of Microfinance Institutions

The study assessed the rate of the respondents on marketing innovation and growth of microfinance institutions, in four elements; marketing programs, innovative market target, innovative market orientations and innovative marketing strategies. 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 4.8.

Table 4. 8: Market Innovation and Growth of Microfinance Institutions

Statements	SA	A	NS	D	SD	Total
New innovative Marketing programs have the ability of reducing costs while increase outreach	83(55)	68(45)	0%	0%	0%	151(100)
Internet technology has enhanced the performance of marketing, making it possible for firms to achieve their new target markets and hence enhance their growth and remain relevant	103(68)	48(32)	0%	0%	0%	151(100)
The main aim of market orientations is to meet customers' demands and satisfaction and hence firms' growth	83 (55)	53(35)	15(10)	0%	0%	151(100)
Appropriate marketing innovation strategies increase the demand for products hence the profits and growth are achieved	45 (30)	68(45)	15(10)	23(15)	0%	151(100)

***** *Descriptive Statistics for Market Innovation in %*

Key: SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree and SD = Strongly Disagree

The results in Table 4.8 show that 83(55%) of the respondents strongly agreed that new innovative marketing programs have the ability to accelerate growth of MFIS. The results are agreeing with the Kibugo (2016) that innovative market programs can be a source of effective performance and growth, 68(45%) of respondents strongly agreed. Secondly 103(68%) respondents strongly agreed that innovative marketing targets will enable growth or expansion of MFIs, 48(32%) respondents agreed that the results are consistent with the findings of Kibugo (2016) that innovative marketing targets can be a source of effective performance due to realization of new target markets and growth of MFIs. Thirdly, 83(55%) respondents strongly agreed that growth of microfinance institutions could be impacted by innovative market orientation. This concurs with Ringera and Muturi (2019) that market innovation decision, investments and development had an effect on the growth of microfinance institutions.53(35%) agreed that innovative market orientation l have an effect on MFIs growth,15(10%) of respondents were not sure . Finally, 68(45%) of the respondents strongly agreed appropriate marketing strategies will increase demand for products which translates to more profits and growth. The results are agreeing with the findings of Omwanza and Jagongo (2019) that marketing innovative strategies will positively impact the growth of MFIs.

4.3.5 Growth of Microfinance Institutions

Further, the respondents were asked to indicate their level of agreement or disagreement regarding growth of microfinance institution, in the following element; innovative strategies, number of registered customers, advanced loans and MFIs profits. 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 4.9

Table 4. 9: Descriptive Statistics for Growth of Microfinance Institutions

Statements	SA	A	NS	D	SD	Total
The growth in the sector has been largely attributed to innovation strategies.	60(40)	83(55)	8(5)	0%	0%	151(100)
Through innovative strategies MFIs have expanded their customers registration	53(35)	37(25)	23(15)	23(15)	15(10)	151(100)
Operating expense, cost per borrower ratio and debt to equity ratio has significantly reduced due to adoption of innovation strategies	45(30)	53(35)	30(20)	23(15)	0%	151(100)
MFIs are using innovative strategies to tap into profits trading opportunities	68(45)	75(50)	8(8)	0%	0%	151(100)

***Descriptive Statistics for Growth of Microfinance Institutions in %*

Key: SA = Strongly Agree; A = Agree; NS = Not Sure; D = Disagree and SD = Strongly Disagree

The results presented in Table 4.9 indicate that 83(55%) of the respondents strongly agreed that the growth in the sector has been largely attributed to innovation strategies and enable growth of the MFIs, 60(40%) of respondents agreed that with innovative strategies the MFIs are able to grow, 8(5) of respondents were not sure of the statement. Secondly, 53(35%) of the respondents strongly agreed that due to innovation the MFIs have increased their geographical coverage which implies to more customers being registered, 37(25%) agreed s, 23(15%) are not sure, while 15(10%) disagreed. The findings are similar to Kibugo (2016)

that innovative strategies led to the expansion of commercial banks in Kenya. This could be attributed to the fact that innovative strategies combined with modern technology is likely to enable MFIs serve clients who are not within. Further, the results on the innovative loan advanced indicated that 53 (35%) of the respondents agreed that innovative loan advances to customers by MFIs has significant influence on their growth, 45(30%) of respondents strongly agreed, 23(15%) were not sure. Further, MFIs profits earned were sought. 75(50%) of the respondents strongly agreed that profits have contributed to MFIs growth. In addition, 68(45%) of respondents strongly agreed that MFIs profits influenced growth with 8(5%) not sure. These results are consistent with Omwanza and Jagongo (2019) that growth of MFIs is through innovative strategies, improved operating expenses and reduced significantly, hence increasing the operating profit and retained earnings which will be used on growth of MFIs.

4.5 Inferential Statistics

The study employed the use of Pearson's Correlation analysis to determine if there was a linear relationship between each of the independent variables in the study and growth of MFIs. Further, after determining the existence of a linear relationship between the variables, a simple linear regression model was fitted between each of the independent variables and growth of the MFIs. This was used to determine the effect of each independent variable on the dependent. A multiple linear regression model was also fitted to determine the confounding effect of each independent variable on Growth.

4.5.1 Effect of institutional innovation on growth of MFIs.

The first objective of the study sought to determine the effect of institutional innovation on growth of MFIs. To achieve this objective a Correlation analysis between institutional innovation and growth of microfinance institutions in Narok town was carried out. The results are presented in Table 4.10

Table 4. 10: Institutional Innovations and Growth of Microfinance Institutions

		Growth
Institutional Innovation	Pearson Correlation	0.266**
	Sig. (2-tailed)	0.000
	N	151

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

The results in Table 4.10 shows that there is a positive significant linear relationship between institutional innovation and growth of microfinance institutions (r=0.266, p<0.05). This indicates that an improvement in institutional innovation is expected to have a positive effect on the growth of microfinance institutions. The results Concurs with Atieno (2014) that institutional innovations are positively related to growth of MFIs. The study further sought to establish the magnitude of institutional innovation on growth of microfinance institutions in Narok town. This was necessary in testing null Hypothesis which stated:

Ho_1: *Institutional innovation has no effects on the growth of microfinance institutions in Kenya, Narok town.*

A simple linear regression model was fitted to test the hypothesis and the results are as presented in Table 4.11.

Table 4. 11: Regression Coefficients for Institutional Innovation

Growth	B	S.E.	t	*p*	[95% Conf	Interval]
Institutional	.0. 259	0.077	3.37	0.001	0.107	0.412
Constant	1.687	0.235	7.17	0.000	1.222	2.152
Mean dependent var		2.417	SD dependent var		1.157	
R^2		0.071	Number of obs		151	
F		11.330	Prob > F		0.001	

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

The results in Table 4.11 shows that $R^2 = 0.071$, indicates that 7.1% of the growth of MFIs is explained by institutional innovation. It also suggests that 92.9% of variation in growth of MFIs are not contributed by institutional innovation under this study. Institutional innovation was determined to have a significant positive effect on growth of MFIs (β=0.259, t (149) = 3.37, *p*=<0.05). This implies that the null hypothesis was rejected and the alternate accepted. It was concluded that institutional innovation has a statistically significant effect on the growth of MFIs. The results are in agreement with Ferreira *et al.,* (2011) that strategies aimed at the growth of MFIs need to include long-term strategies such as business culture, institution culture and partnerships, this is in line with Vernon and Hayami (1984) on induced institutional innovation theory which posits that before

any innovations customer needs must be prioritized and the institutions (models and structures) must be able to adopt to the new innovations because this will imply that customers will embrace the new technology leading to market growth, higher sales, higher revenues and profits that could be reinvested to sustain expansion and growth .

4.5.2 Effect of product innovation on Growth of MFIs.

The second objective was of the study was to determine the relationship between product innovation and growth of MFIs to achieve the correlation analysis between product innovation and growth of microfinance institutions in Narok town was carried out and the results were as presented in Table 4.12

Table 4. 12: 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 4.12 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.

The study further sought to establish the magnitude of the impact of product innovation on growth of microfinance institutions in Narok town. This was hypothesized as:

Ho_2: *There is no significant effect of product innovation on growth of microfinance institutions in Narok town, Kenya.*

A simple linear regression model was fitted between growth and product innovation. The results are as illustrated in Table 4.13.

Table 4. 13: Regression Coefficients for Product Innovation

Growth	B	S.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
^{2}	0.036	Number of obs	151
F-test	5.541	Prob > F	0.020

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

The results in Table 4.13 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 determined to have a significant positive effect on growth of MFIs (β=0.169, t (149) = 2.35, p<0.05). The null hypothesis was rejected and alternative hypothesis was accepted that product innovation have a statistically significant effect on the growth of MFIs. The results are in consonance with a plethora of studies in extant literature (Alegre, Lapiedra, & Chiva 2006; Gudda,

Bwisa & Kihoro, 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 firm's competitiveness, and by extension sales and growth. In line with this Rodgers (1995) diffusion theory maintained that as new innovations are launched in market place, customers would adopt innovations as they are able to observe its compatibility with an existing technology (the manual systems of conducting business). Due to simplicity of the innovations more customers would adopt them because of their efficiency and effectiveness in transaction at relatively lower cost. Due to this the MFIs are likely to grow their sales, increase revenues and profits as a result of higher volumes of transactions. Profits generated can be then ploughed back to sustain their expansion and growth.

4.5.3 Effect of Process Innovation on Growth of MFIs.

The third objective of the study was to assess the relationship between process innovation and growth of MFIs in Narok Town. The results of Pearson's Correlation analysis between process innovation and growth of MFIs were as illustrated in table 4.14.

Table 4. 14: Process Innovation and Growth of Microfinance Institutions

		Growth
Process Innovation	Pearson Correlation	0.354**
	Sig. (2-tailed)	0.000
	N	151

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

The results in Table 4.14 shows that there is a positive and significant linear relationship between process innovation and growth of microfinance institutions ($r = 0.354$, $p<0.05$). This means that an innovative process is expected to lead to a positive growth of microfinance institutions. This finding is consistent with the findings of Omwanza and Jagongo (2019) that process innovation has eased the way of doing business for MFIs. This could be attributed to the fact that competitive products could enhance customer satisfaction and hence increase in customer base.

The study further sought to establish the magnitude of the impact of process innovation on growth of microfinance institutions in Narok town. This was aimed at testing the null

Hypothesis 3 stated that:

Ho_3: *There is no significant effect of process innovation on growth of microfinance institutions in Narok town, Kenya.*

A simple linear regression model was fitted between process innovation and growth of MFIs. The results were as illustrated in Table 4.15.

Table 4. 15: Regression Coefficients for Process Innovation

Growth	B	E	t	p	[95% Conf	Interval
Process	0.335	0.073	4.62	0.00	0.192	0.479
Constant	1.347	0.248	5.43	0.00	0.857	1.837

Mean dependent var	2.417	SD dependent var	1.157
R-squared	0.125	Number of obs	151
F-test	21.305	Prob > F	0.000

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

The results in Table 4.15 shows that, R^2 of 0.125 indicates that 12.5% of the growth of MFIs is explained by MFIs process innovation. It also suggests that other factors of process innovation contribute 85.5% of variance in the growth of MFIs. Process innovation was determined to have a significant positive effect on growth of MFIs (β=0.335, t (149) = 4.62, p<0.05). Therefore, reject the null hypothesis and accept the alternative hypothesis that process innovation has a statistically significant effect on the growth of MFIs. The results are similar to (Lopez-Mielgo, Montes-Peon and Vazquez-Ordas, 2009) who noted that process innovation has a significant effect on performance and growth of an institution. Davis (1986) and Monyoncho (2015) in technology acceptance model theory holds if new innovation is improved to the end user and well received then it will translate to improved sales, higher revenue generations and ultimately improve profits, which can then be ploughed back for further investments, expansion and growth of MFIs.

4.5.4. Effect of Market Innovation on Growth of MFIs.

The fourth objective aimed to establish the relationship between market innovation and growth of MFIs in Narok Town, to achieve this, correlation analysis was done and results presented in Table 4.16;

Table 4. 16: Market Innovation and Growth of Microfinance Institutions

		Growth
Market Innovation	Pearson Correlation	0.234**
	Sig. (2-tailed)	0.003
	N	151

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

The results in Table 4.16 shows that there was a positive significant linear relationship between market innovation and growth of microfinance institutions (r = 0.234, p <0.05).This means that market innovation is an important factor on the growth of microfinance institutions. The results are in agreement with the findings of Ringera and Muturi (2019) that market innovation has a significant relationship with the growth of microfinance institutions. The study further sought to establish the magnitude of the impact of market innovation on growth of microfinance institutions in Narok Town. The analysis was done using simple linear regression model. This was necessary in testing the null Hypothesis 4 stated as:

H_{o4}*: There is no significant effect of market innovation on growth of microfinance institutions in Narok town, Kenya.* The results were as illustrated in Table 4.17.

Table 4. 17: Regression Coefficients for Market Innovation

Growth	B	S.E	t	*p*	[95% Conf	Interval]
Market	0.103	0.074	1.39	0.003	-0.043	0.25
Constant	2.103	0.244	8.62	0.000	1.621	2.586

Mean dependent var	2.417	SD dependent var	1.157
R-squared	0.013	Number of obs	151
F-test	1.938	Prob > F	0.003

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

The results in table 4.17 shows that R^2 of 0.013 indicates that 13% variation in growth is explained by MFIs market innovation strategies. Therefore, it implies that Market innovation was not a significant determinant of MFIs growth (β=0.103, t (149) = 1.39, p<0.05). Therefore, we fail to reject the null hypothesis and conclude that market innovation does not have a statistically significant effect on growth of MFIs. The result is with contrast to Ringera and Muturi (2019) that market innovations strategies have a positive significant effect on growth of MFIs. However, it's in line with (Rodgers, 1995) diffusion theory where he explains when an innovate a product is introduced to the market the early adopters will observe, checked on its compatibility with market, simplicity and trialability, potentially leading to low sales, low revenue generation and low profits with resultant low investments, slow rate of expansion and minimal growth. Nonetheless, for firms to sustain expansion and growth it will be prudent that when institutions are placing innovative products on the market for the first time or improved, it would attract more customers (early majorities), thus improving their sales and revenues. Based on this, MFIs

would always bring to Market most preferred product that would meet customers' needs that would be adopted by early majority which will translates to higher revenue, sales and higher profits for reinvestment and growth.

4.5.5 Regression Analysis for Overall Model

The study assessed how innovation strategies under study (institutional innovation, product innovation, process innovation and market innovation) affects growth of microfinance institutions in Narok town. Using multiple linear regression analysis. The results of the fitted linear regression model were as illustrated in table 4.18

Table 4. 18: Multiple Regression Coefficients

Growth	B	S.E.0	t	*P*	[95% Conf	Interval]
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	0.00	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^2	0.257	Number of obs	151
F-test	12.594	Prob > F	0.000

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

The results in Table 4.18 shows that the test for adequacy of the regression model Indicate that there was sufficient evidence at 95% level of confidence that the fitted regression model was adequate (F (4, 146) = 12.594, p<0.05). This implies that at least 1 of the innovation strategies had a significant effect on the growth of MFIs. R^2=0.257our independent variables (Market innovation, Product Innovation, process innovation & institutional Innovation) accounted for 25.7% of the variations in the growth of MFIs. The test for significance of each of the individual coefficients of the independent variables showed that the coefficient of Institutional innovation (B =0.288, p<0.05), Product innovation (β = 0.161, p=0.014), Process innovation (β = 0.341, p<0.05) and Market innovation (β = 0.132, p=0.045), were significant at 95% level of confidence. It implies that in general, the innovation strategies have a positive impact on growth of MFIs. These results are consistent with Ringera and Muturi (2019) that innovation strategies have

significant effect on the growth of microfinance institutions. It is evident that if firms invest in innovations- of institutional, products, processes and markets as exposed my economic value-added theory (Steward, 1982) then they can compete well in market, create wealth which can be ploughed back to business for reinvestment which will translate to growth, expansion, attraction of new customers, development of new products and stay relevant in the market.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of major findings, conclusion based on the findings and the recommendations. It further points out areas warranting further research.

5.2 Summary of Findings

This section discusses the summary of the effect of institutional innovations, product innovations, process innovations and market innovations on the growth of MFIs in Kenya, Narok Town.

5.2.1 Institutional innovations and growth of Microfinance institutions

The first objective was to examine the effect of institutional innovations on growth of Microfinance Institutions in Narok town, Kenya. The results revealed that institutional innovations had a statistically significant effect on the growth of MFIs. This was in the view that institutional innovation entails changes in the business structure, business culture, partnership and having good business models which is in terms of the acceptance of norms, traditional behaviors and value of the group or employees, leadership and finally acceptance of innovations has a direct effect on a firm's competitiveness and growth.

5.2.2 Product innovations and growth of Microfinance institutions

The second objective was to assess the effect of product innovations on growth of Microfinance Institutions in Narok town, Kenya. The findings revealed that product innovations had statistically significant effect on the growth of MFIs. This implies that when product innovations is positive, growth is also positive. MFIs should ensure that product innovations are enhanced work towards achieving growth. Product innovation is the vital source of economic growth and acts as an essential role in refining social well-being and security for most organizations. Therefore, MFIs that make efficient product innovations realize growth.

5.2.3 Process innovations and growth of Microfinance institutions

The third objective was to analyze the effect of process innovations on growth of Microfinance Institutions in Narok town, Kenya. The results showed that process innovations had a statistically significant effect on growth. This implies that process innovations can have a major impact on overall growth. Results further indicated that the emergence of organizational structures and process innovations in microfinance institutions have led to new product development ideas. Therefore, MFIs that embrace innovations in their process are able to realize efficiency with operation and enhance growth of MFIs.

5.2.4 Market innovations and growth of Microfinance institutions

The fourth objective was to evaluate the extent to which market innovation have on growth of Microfinance Institutions in Narok town, Kenya. The study results revealed that market innovations had no statistically significant effect on growth of MFIs.

5.3 Conclusions of the Study

Findings on the first objective indicated that firms that seek to achieve effectiveness in operations must adopt new institutional innovative strategy through partnership with other firms. Moreover, the role of MFIs has been impacted and reshaped by innovation which has changed their business models to be more focused on specific target customers, enhance product visibility and market share. In addition, institutional culture should promote innovations of products that would meet customer's needs. Furthermore, institutional innovation entails changes in the business structure and has a direct effect on a firm's competitiveness.

Findings on the second objective indicated that product innovation is a vital source of economic growth when customers are given their preferred products. Moreover, product innovation allows for a much faster inclusion of differentiated products in the firm. Furthermore, product innovations strategies have given the MFIs good chance to create more competitive products in the market. In addition, firms that seek to achieve their goals and enhance their growth must be ready to adapt new product innovation strategies

Findings on the third objective revealed that ability of any firm to automate processes is one of the main determinants of the firm's competitive advantage and growth. Furthermore, failure to be innovative would led to losses of income from loans due to processing errors. Moreover, non-compliance of loan policies and excessive concentration of credit risks is a result of innovation failure. In addition, Innovative processes are more effective in giving business a competitive advantage in service delivery techniques and which enable growth.

Findings on the lastly, market innovation has no effect on the growth of MFIs. Therefore, it is not a critical contributor to the growth of MFIs.

5.4 Recommendations of the Study

The study recommends the following, from the conclusions of research findings:

i. Institutional innovation strategies which comprises of business culture which is embraces beliefs and behaviors that influence how employees and leadership interact with one another, and how to handle new innovative strategies which means they can be adopted easily into the system. while also partnership will be fundamental in improving the MFIs outcomes, lastly the MFIs business models must be clearly strategized since it provides the MFIs with the knowledge about its competitive edge of the firm, and provide better insight while working in the firm, also a strong business model leads to more generation of profits and future growth.

ii. Microfinance institutions policy makers and management should enhance product innovation as a strategy in order to emphasis on the development of new products, strategize on highly differentiated products, competitive products and consumer preferred improved products are given first priority, this will ensure that MFIs remain competitive in the market, enhance their profits and on the growth of firms.

iii. Appropriate process innovation strategies which are vital to MFIs as it offers a good policy towards easy swift service delivery techniques, automated services which will lead to low cost of processes and operations in the MFIs. This strategy will develop customers-centric approaches to improve customer experience which will translate to potentially higher profits for expansion and growth of MFIs.

iv. The MFIs should not necessary concentrate on market innovations since it might not contribute much to their growth.

5.5 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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APPENDIX I: INTRODUCTION LETTER

Nadupoi Victoria Kishoyian

P.O. BOX 861-20500,

Narok -Kenya

Phone: 0726911774

Email: nadupoikishoyian@gmail.com

10th February 2021

Dear Respondent,

RE: DATA COLLECTION

I am Nadupoi Victoria Kishoyian, a student of Maasai Mara University Pursuing a Master's Degree in Business Management (Strategic option). I'm currently conducting a research on**' *'Effect of Innovation strategies on growth Microfinance Institution Narok Town, Kenya''.*** Polite request do not write your name on the questionnaire, the information given will be treated as confidential, please write your answers on the questionnaires that is provided, write correct answers for each question and try to give honest information. Kindly, note that this inquiry is being done for academic purposes only. Thanks in advance.

Yours Faithfully,

Nadupoi kishoyian

APPENDIX II: QUESTIONNAIRE

Dear Sir/madam,

This questionnaire consists of question that will be answered by the employees of MFIs. The information will be treated with confidentiality as the core ethical consideration. The purpose of the study is to investigate the effect of innovation strategies on growth of MFIs in Narok town. You are kindly requested to answer the questions below with uttermost sincerity.

SECTION A: Effect of institutional innovations on growth of Microfinance Institutions

In a scale of 1-5, indicate your level of agreement on the effect of institutional innovations on growth of MFI. The scale as follows is applicable; 1-Strongly Agree, 2-Agree, 3-Uncertain, 4-Disagree, 5- Strongly Disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Firms that seek to achieve growth and efficiency in their operations must adopt new institutional innovations through partnership					
The role of MFIs has been impacted and reshaped by innovation which has changed their business models					
The institutional culture must be willing to embrace the innovations which will in turn also help the customers to accept and feel that their need is reached.					
Institutional innovation entails changes in the business structure and has a direct effect on a firm's growth and competition					

SECTION B: Effect of product innovations on growth of Microfinance Institutions

In a scale of 1-5, indicate your level of agreement on the effect of product innovations on growth of MFI. The scale as follows is applicable; 1-Strongly Agree, 2-Agree, 3-Uncertain, 4-Disagree, 5- Strongly Disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Product innovation is a vital source of organization growth when consumer preferred products are achieved					
Product innovation allows for a much faster inclusion of highly differentiated products in the MFIs					
Financial innovations system has created more competitive products					
Firms that seek to achieve their goals and enhance their growth must be ready to adapt new product innovations					

SECTION C: Effect of process innovations on growth of Microfinance Institutions

In a scale of 1-5, indicate your level of agreement on the effect of process innovations on growth of MFI. The scale as follows is applicable; 1-Strongly Agree, 2-Agree, 3-Uncertain, 4-Disagree, 5- Strongly Disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The ability of any firm to innovate is one of the main determinants of the firm's adoption to low cost process which will enhance competitive advantage and growth					
Failure to be innovative has led to the loss of income from loans due to processing errors					
Innovative automation of processes will reduce non-compliance of loan policies and excessive concentration of credit risks which is as result of innovation failure					
Innovative processes are more effective in giving businesses competitive advantage on service delivery technique which will lead to efficiency and growth of firms					

SECTION D: Effect of market innovations on growth of Microfinance Institutions

In a scale of 1-5, indicate your level of agreement on the effect of institutional innovations on growth of MFI. The scale as follows is applicable; 1-Strongly Agree, 2-Agree, 3-Uncertain, 4-Disagree, 5- Strongly Disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Marketing innovations has the ability of reducing costs while increase outreach					
Internet technology has enhanced the performance of marketing, making it possible for firms to achieve their new target markets and hence enhance their growth and remain relevant					
The main aim of market orientations is to meet customers' demands and satisfaction and hence firms' growth					
Appropriate marketing innovation strategies increase the demand for products hence the profits and growth are achieved					

SECTION E: Growth of MFIs

In a scale of 1-5, indicate your level of agreement on the measures of growth on MFIs. The scale as follows is applicable; 1-Strongly Agree, 2-Agree, 3-Uncertain, 4-Disagree, 5- Strongly Disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The growth in the sector has been largely attributed to innovation strategies.					
Through innovative strategies MFIs have expanded their geographical coverage beyond Narok town in terms of customers registration					
Operating expense, cost per borrower ratio and debt to equity ratio has significantly reduced due to adoption of innovation strategies					
MFIs are using innovative strategies to tap into profitable trading opportunities					

Thank You for Your Cooperation

APPENDIX III: RESEARCH QUESTIONNAIRE FOR MANAGERS

Please Note that the Information to be filled is for the Years Indicated

Growth of MFI (Secondary Data Collection)

Measures of growth	**2015**	**2016**	**2017**	**2018**	**2019**
Total number of Customers in the MFIs					
Amount of loans Advanced					
MFIs profits					

APPENDIX IV: LIST OF MICROFINANCE INSTITUTIONS IN NAROK TOWN

1. Pamoja Women Development Programme
2. ECLOF kenya –Narok Branch
3. Sumac DTM ltd
4. Musoni Microfinance
5. Rafiki Microfinance bank
6. Uwezo Microfinance
7. Smep Microfinance
8. Faulu Microfinance
9. Kenya Women Fund Trust
10. Platinum Microfinance
11. Mycredit Microfinance

APPENDIX V: RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **163825**

Date of Issue: **23/June/2021**

RESEARCH LICENSE

This is to Certify that Ms.. NADUPOI Nadupoi KISHOYIAN of Maasai Mara University, has been licensed to conduct research in Narok on the topic: EFFECTS OF INNOVATION STRATEGIES ON GROWTH OF MICROFINANCE INSTITUTIONS FIRMS IN NAROK TOWN for the period ending: 23/June/2022.

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