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Effect of Organizational Innovation on Growth of Microfinance Institutions in Kenya (A case of Faulu Micro Finance Bank in Coast Region)

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ABSTRACT

Despite innovation absorbing real and substantial costs, the available literature tends to focus heavily on training and education, and has primarily been concerned with measuring the inputs, process and immediate outcomes rather than the longer term impact of innovation. To the best of the researcher's knowledge no study had ever been conducted to investigate the effects of innovation strategies on growth of Microfinance Banks in Kenya. This research focused on Faulu Micro Finance Bank Branches in coast region; the general objective of this study was assessing the effects of organizational innovation on the growth of Microfinance Institutions in Kenya with specific focus of Faulu Microfinance Bank in coast region. Specifically, the study was assessing the effects of product innovation, market innovation, process innovation and service innovation on the growth of Microfinance Institutions in Kenya with specific focus of Faulu Microfinance Bank in Coast region. This research was studied through the use of a survey research design. The target population of this study was 96 staff working in Faulu Microfinance Bank in coast region with a sample size of 77 employees. These study utilized questionnaires which were dropped physically to the respondents' place of work and stratified random sampling was used to get the sample. The descriptive statistical tools such as SPSS were used to help the researcher to describe the data and determine the extent to use. Multiple regression analysis was used to determine whether variables predict a given dependent variable. Tables were used to summarize responses for further analysis and facilitate comparison. This study investigated whether innovations adopted by Faulu Microfinance Bank branches in Coast Region lead to growth of Micro Finance Bank.

Introduction

The study tested the research framework with key variables as organizational innovation and growth of Microfinance Institutions. There was statistically significant effect of product innovation on growth of Faulu Microfinance Bank in coast region. There was statistically significant effect of process innovation on growth of Faulu Microfinance Bank in coast region The results revealed that market innovation had a positive and statistically significant effect on growth of Faulu Microfinance Bank in coast region there also was statistically significant effect of service on growth of Faulu Microfinance Bank in coast region. Some of the recommendations that the study made were that bank should also strive to ensure product range extension, product differentiation, and new product introduction to be productive, to grow faster, to invest more and also to earn more profit. Microfinance bank should ensure new products and techniques introduction, to help in reduction of costs, improved new equipment and delivery methods. This will help the tap into customers' needs so well that new processes generate their own source of marketing momentum, also from the study microfinance bank should ensure that they adapt the new services in order to cope with the fast changing technology.

Innovation according to Frankelius (2009) can be defined as something original and more effective and, resulting from new break into market or society. Innovation leads complete to successful implementation of creative ideas in different fields in organizations , it can be product market, processes and technology innovation, leading to better products and services thus higher productivity and growth. Innovation acts as the major catalyst to growth of organization. Heyne, Boettke and Prychitiko (2014) who contributed greatly to the study of innovation economics, argued that entrepreneurs continuously look for better ways to satisfy their consumer base with improved quality, durability, service and price which come to fruition in innovation with advanced technologies and organizational strategies. According to Salge and vera (2012) innovation may be linked to positive changes in efficiency, productivity, quality, competitiveness, and market share. However, recent research findings highlight the complementary role of organizational culture in enabling organizations to translate innovation activity into tangible performance improvements. Peter (2012) wrote, Innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual the family kitchen. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth. "Similarly Christensen (2013), made it clear that disruptive innovation is the key to future success in business.

The world of work is changing with the increase in the increase in the use of technology and both companies and business are becoming increasingly competitive. Companies will have to downsize and re- engineer their operations to remain competitive. This will affect employment as businesses will be forced to reduce the number of people employed while accomplishing the same amount of work if not more (Antony, Mark, Joseph, & Elizabeth, 2008). According to Salge and Vero (2009) all organization can innovate, including for example hospitals, universities, and local government. Even mass transit systems have innovated with hybrid bus fleets to real-time tracking at bus stands. In addition, the growing use of mobile data terminals in vehicle that serve as communication hubs between vehicles and a control center automatically send data on location, passenger counts, engine performance, mileage and other information. This tool helps to deliver and manage transportation systems (Transportation research board 2007).

Mark, Katz, Rahman, and Warren (2008) stated that Innovation by businesses is achieved in many ways, with much attention now given to formal (R&D) for "breakthrough innovations". R&D help spur on patents and other scientific innovations that leads to productive growth in such areas as industry, medicine, engineering, and government, growth of any organization is very vital for the survival and existence of the organizations and as Davila, Marc, and Robert (2006) notes, "Companies cannot grow through cost reduction and re-engineering alone. Innovation is the key element in providing aggressive top-line growth and for increasing bottom-line results". One survey across a large number of manufacturing and services organizations found, ranked in decreasing order of popularity, that systematic programs of organizational innovation are most frequently driven by improved quality, creation of new markets, extension of the product range, reduced labour cost. Improved production processes, reduced materials, reduced environmental damage, replacement of products and services, and reduced energy consumption, conformance to regulations (Davila, Marc, & Robert, 2006).

Research has shown measurable growth in Organization who have been in constant innovation in areas of their products, process, and in marketing and technological innovation compared to others. Henry, Ali, and Tokar (2013) in their review of literature on innovation management found 232 innovation metrics. They categorized these measures along five dimensions i.e. inputs to the innovation process, output from the innovation process, effect of the innovation output, measures to assess the activities in an innovation process and availability of factors that facilitate such a process, Corporate measurements are generally structured around balanced score cards which cover several aspects of innovation such as business measures related to finances, innovation process efficiency, employees' contribution and motivation, as well benefits for customers. Measured values will vary widely between businesses, covering for example new product revenue, spending in R&D, time to market, customer and employee perception &satisfaction, number of patents, additional sales resulting from past innovations(Davila *et al.*, 2006). Innovation strategy gives an organization a clear direction and focus in achieving the set goal. Management needs do R&D in the area of innovation for growth of the organization.

Profile of Faulu Microfinance Bank

Faulu Microfinance Bank is a limited liability company duly incorporated in Kenya under the Companies Act. The company changed its name to Faulu Kenya Deposit Taking Microfinance (DTM) Limited in 2008 as part of the requirements to obtain the Deposit Taking License from the Central Bank of Kenya. In May 2009 Faulu became the first registered DTM in Kenya under the microfinance Act and is regulated by the CBK. Faulu Microfinance Bank was founded by food for the Hungry International (FHI), a Christian relief organization, loan scheme program that targeted the economically active poor in Mathare. From its humble roots as a loan scheme in 1991, Faulu is currently one of the top Deposit Taking MFIs in Kenya have successfully developed a platform aimed at banking the previously unbanked though a variety of saving, credit, micro insurance and mobile banking solutions .

Faulu Microfinance Bank has demonstrated a track record of enviable growth in its assets and loan book. Faulu Microfinance Bank has grown tremendously over the last 20 years from a single MFI office in 1991 to over 90 services outlets which include 27 banking branches in seven of the eight provinces in Kenya by end of 2011, with various strategic partnerships that make its financial services available countrywide. Faulu Microfinance Bank has demonstrated a track record of enviable growth in its assets and loan book. Faulu Microfinance Bank has grown tremendously over the last 20years from a single MFI office in 1991 to over 90 service outlets which include 27 banking branches in seven of the eight provinces in Kenya by the end of 2015, with various strategic partnership that make its financial services available countrywide. Faulu Microfinance Bank has created a strong brand in the Deposit Taking Microfinance Industry and continues to strengthen its presence in the market in a deliberate effort to grow its banking business. Faulu envisions being market leader through diversified products, wider distribution networks, strategic partnership and affordable pricing due to reduced costs and cheap deposits from its banking business

Despite many microfinance institutions setting out on a development path towards becoming true financial intermediaries; offering not only loans, but a full range of banking services including savings, checking and other non-cash payment services. Deals not only with fluctuating demand for loans but also with threat from competitions to survival in the market industry. However organization need to research on effects of innovation on achieving organizational growth. According to Lisa (2014) businesses should not be without continual innovations, continuous improvement gives organizational sustainability through repackaging and re-branding, organization should reinforce their brand**;** development branding is popular in organizational leadership. Lisa (2014) explains businesses which are successful don't only respond to the current needs of their customers, but usually predict the future trends and come up with an idea, service or product that can meet the future demand quickly and effectively. In this way you can stay ahead of your competition as trends, technology or markets shift. Current Research by Jimenez and Vall (2011) has shown how the use of social media in organizations innovation campaign is great for managing, motivating and getting focused in the business.

However there is a gap that can be addressed by answering the research question below: the effects of organizational innovation on growth of microfinance institutions in Kenya with specific focus of Faulu Microfinance Bank in Coast. Innovation can bring the added value the need to organization plus widen employment base. It is detrimental for the quality and growth of business (Lisa 2014).

Therefore the purpose of this study was to fill existing gaps in the innovation literature by providing an analysis on effects of organizational innovation on growth of microfinance institutions in Kenya with specific focus of Faulu Microfinance Bank in Coast region.

Research Objectives

i)To find out the effects of product innovations on growth of Faulu Microfinance Bank in coast region of Kenya.

ii)To determine the effects of market innovations on growth of Faulu Microfinance Bank in coast region of Kenya

iii) To examine the effects of process innovations on growth on Faulu Microfinance Bank in coast region of Kenya.

iv) To determine the effects of service innovations on growth of Faulu Microfinance Banks in coast region of Kenya.

Literature Review

Theoretical Framework

Innovation can be defined as coming up with a new thing or doing something in a different way, this may involve new process, new products or services and bringing in new knowledge.

Market-Based View Theory

The Market-Based View of strategy argues that organization factors and external market orientation are the primary determinants of firm performance (Bain, Caves, Porter, Peteraf, & Bergen, 2010). Bain's (2008) the sources of value for organization are attached in the competitive situation characterizing its end-product strategic position. Organization performance is determined factors in both internal and external within which it operates (Schendel, 2009).

Researchers observed that the organizational performance was significantly dependent on the environment. They viewed strategy in the environment that affected the performance of the organization. Organizations should formulate strategy that strives to bring positive results, via an assessment of the external environment based on the five forces model (Porter, 2007). The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyer the five-force model enables organizations to analyze the current situation of their industry in a structured way. However, the model has limitations. Porter's model assumes a classic perfect, static market structure, which is unlikely to be found in current dynamic markets. According to Wang (2009), some industries are complex with multiple inter-relationships, which make it difficult to comprehend and analyze using the five force model. Furrer (2008) urged that since the1980s onwards, the focus of studies in strategic management has changed from the structure of the industry to the organizations internal structure, with resources and capabilities. This approach to strategy is known as the Resource-Based View.

Innovators Solution Theory

Christensen and Raynor, (2013) in innovators solution theory rests on the hope that if one can build enough commercial success in the marketplace, then he/she is better placed to eventually winning the battle of persuasion. The argument goes to explain that the hard numbers will win the war. Unfortunately the track record shows that even with strong commercial success , numbers and reasons are not enough to dislodge the forces of competition , without proper focus and constant innovation strategizes , organization are being faced out due to the changes of dynamics in the market (Christensen & Raynor, 2013).

According to Ryan and Kaminski (2011) Innovation theory is not rooted in a single discipline or school of thought but, conceptual drive are drawn from a variety of academic disciplines and research areas including the economics of increasing returns; behavioral economics; analysis of competitive advantage; analysis of national systems; and socio-technical regimes (Philip &Robert, 2012).The first systematic effort by an economist to analyze the process of innovation was undertaken by Joseph Schumpeter in the first half of the twentieth century. Schumpeter and Stenzel (2007) identified three stages of the process: invention, innovation and diffusion. According to Schumpeter, invention is the first demonstration of an idea; innovation is the first commercial application of an invention in the market; and diffusion is the spreading of the technology or process throughout the market (Schumpeter & Stenzel, 2007).

The Five Force Framework

Organizations are in constant strain to gain competitive advantage and thus new innovative strategies are always being looked for, Michael Porters five forces, theory was originally developed as a way of investigating attractiveness of organizations, thus being able to identify the source of competition in an organization.Pearce and Robinson (2007) show how porter's work appeared as a cornerstone in the Harvard Business Review, where the five forces that shape competition in an organization are explained. Porters well defined analytical framework helps managers strategize and come up with better competitive strategies and gain growth over their competitors. Every organization has an underlying structure that gives rise to these five competitive forces. The strategists have to move first in positioning the organization to cope best with its organizational competitive environment (Porter, 2008).

Through identifying five contending forces that drive organizations competition namely threat of entry, bargaining power of suppliers and buyer threat of substitute products and competitive rivalry. According to Johnson and Whittington (2001) threat of entry will depend on extend to which there are barriers to entry, the factors need to be overcome by new entrants if they to compete successfully. This means the organization has to come with need better products through continues innovation so as to retain its market share and gain growth and competitive advantage.

The seriousness of the threat of entry of depends on the barriers present and on the reaction from existing competition that the entrant can expect, if barriers to entry are high and a new one can expect sharp retaliation from the entrenched competitors, then they won't pose a serious threat of entering according to Pearce and Robinson (2007) for example the entry of Safaricom into the financial market has placed a threat to all banking institutions. Suppliers can exert bargaining power on participants in an organization by raising prices or reducing the quality of purchase goods and services. Powerful suppliers can therefore squeeze profitability out of an organization unable to return on cost increase in its own prices.

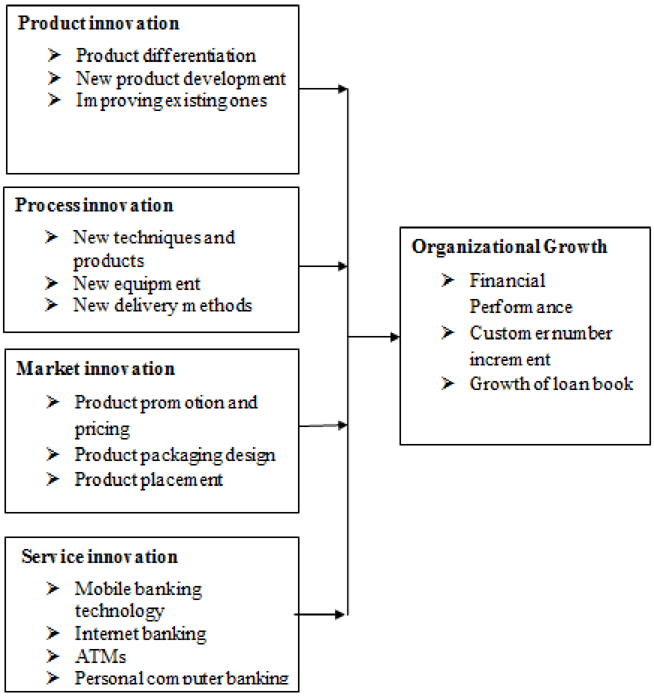
According to Pearce and Robinson (2007) there is a significant increase in the core capital requirement by CBK to improve the financial strengths of banks expected, it has shown that customers can force prices, demand higher quality or more service and play competitors off against each other all at the expense of the organization.

The bank customer require banks to offer reasonable interest rate, this is forcing companies to rethink on how to capture and retain customers thus the bank need to focus on creating unique competitive products and services that will meet the needs of customers in a more satisfying way.

Substitution reduces demand for a particular class of products as customers tend to switch to the alternative even to the extent that this class of products or services becomes absolute for example introduction of players who offer financial services products for example safaricom Mpesa and Mshwari. Johnson and Whittington (2005) define competitive rivals as organization with similarly products and services aimed at the same customers group. Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and aggressive advertising according to (Pearce & Robison, 2007). Faulu Microfinance Bank faces competition from other Microfinance banks like Kenya Women Microfinance Trust, Jamii Bora, Rafiki Microfinance Bank as they all focus on the same customer group within the SMEP.

Conceptual Framework

A Conceptual framework is viewed as a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical aspects of a process or systems being conceived. An independent variable is that variable which is presumed to affect or determine a dependent variable.



Independent Variables **Dependent variable**

Figure 2.1: The Conceptual Framework

Growth of Microfinance Bank

According to Richard (2009) organizational growth consists of three specific areas of organization outcome, financial performance (profits, return on assets, and return on investment) product market performance (sales, market share) and shareholder return (total shareholder returns, economic value added).Organizational effectiveness has a broader meaning and touches many fields of an organizational performance including strategic planning, finance, and operations, legal and overall organizational development. Organization in recent years attempt to manage organization performance and growth using score card methodology where performance is tracked and measured in multiple dimensions such as financial performance, customer service, social responsibility, employee stewardship.

Product Innovation

Product innovation is the development of new products, changes in design in which product are established, or use of new materials in the processing of existing products. Product innovation includes introducing new products, enhanced quality and improving their overall performance (Hong, 2010). Product innovation, cost-cutting innovation and process innovation are three different classifications of innovation which aim to develop organizational production methods (Hoang & Paul, 2010). Peter (2012) suggests that both product innovation and entrepreneurship are interconnected and must be used together in unison for an organization to be successful, Product differentiation is the marketing process that demonstrates the differences between products. Differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the organization, as customers view these products as unique or superior. Organizations that are able to utilize product innovation effectively will be able to grow in profitability and gain competitive advantage over its remaining competitors.

Two distinct activities in product innovation include; old product development, which involves improving existing products, and new product development, which involves a greater degree of innovational challenge. Thus product innovation can be divided into two categories of innovation: radical innovation which aims at developing a new product, and incremental innovation which aims at improving existing products (Wong, 2014).The growth , expansion and gaining of competitive advantage of organization depends on the product innovation, organization that is capable of differencing its products from those of competitors in the same industry will make more profits and thus growth, and this can be achieved through product differentiate.

Market Innovations

A marketing innovation is the implementation of a new marketing method which involve changes in product design or packaging, product promotion or pricing and product placement (OECD Oslo Manual, 2005). Through market innovation organizations are able to address the current customer needs, get opportunity to open new markets as well as increase the organization sales thus high productivity and growth. According Kotler (2011) market innovation relates to pricing strategies, product placement, product package design and promotion of the products. Marketing is one of the best ways of communication between an organization and its consumers, through marketing the organization sells itself to the public as well as its products. Through the marketing concept an organization is able to determine customers' needs and wants and satisfying them more effectively than other competitors (Kotler, 2011). According to Kim and Mauborgne (2011) market innovation is concerned with improving the mix of target markets and how chosen markets are best served, it helps to identify new markets for the organizational products, and better ways to reach and serve the target markets. This can be also achieved through market segmentation.

Innovation on the market has a greater impact on business performance leading to bigger share market and higher productivity. Through market innovation organization area able to deliver superior quality products to their customers leading to gain in market share thus increase in sales and growth of the organization. Innovation on the market has a greater impact on business performance leading to bigger share market and higher productivity. Through market innovation organization area able to deliver superior quality products to their customers leading to gain in market share thus increase in sales and growth of the organization. The market in which an organization offers its products can be a predictor of the effects of innovative. Strength and weakness of competitors and demand raised by consumers. Organizations often find themselves having to modify their products sold on the international market, to gain both high returns and retain a bigger market share.

Service Innovation

New technologies have become an important part of organization throughout the world, leading to growth of any organization. Technological innovations are creating formidable new changes for organization and employees (Nouri, 2006). According to Nouri (2006) technology will be implemented within an organization either because a performance gap leads to managerial needs to change technologies to a more promising new technology. The main objective for the implementation of a new technology is increase performance or effectiveness of organization and lead to growth.

Technological innovation is used to refer to the process through which technological advances are produced (Goh, 2007). The innovation process includes a set of activities that contribute to increase in the capacity to produce new goods and better services, through implementing new forms of production processes thus technological innovation is where idea of a flow, generate application and dissemination of better goods and services. Ivatury (2008) urged there is importance of continuously monitoring and adapting to marketing environment changes by organization which have recognized that businesses are constantly spinning out new opportunities and threats comes as a consequence of spotting the need for customer care techniques and services.

Technological innovation have reshaped the business environment ,the banking industry is among the leading sector in adopting and utilizing new techniques for example the use of internet banking, mobile banking, ATMs and computerized personal banking. Donner (2007) stated that the development of electronic banking services via multiple electronic channels has made it easier and possible to provide new kinds of added value for customer. New M-banking services are less expensive and have a larger geographical footprint defined by the reach of mobile networks in contrast to services offered by traditional retail banks branches which are out of reach for any people in rural areas from both an economic and geographical perspective

Process Innovation

A process innovation is the creating and implementation of a new or improved production or delivery method. This includes changes in techniques, equipment and software. Process Innovations can be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products (OECD Oslo Manual, 2005). Fagerberg *et al.,* (2004) stressed that while the introduction of new products is commonly assumed to have a clear, positive effect on the growth of income and employment, process Innovation, due to its cost-cutting nature, and leads to growth in organization. Implementing and developing the innovation process requires energy to overcome the resistance to change, a visionary and committed leadership provide the energy to overcome this resistance. Innovations that are radical, inventive and early have some characteristics in common. But they also frequently offer greater rewards and performance improvement if they succeed in the literature; innovation is widely reported to be determinant of organizational performance. Several studies Clark (2006) have concluded that innovative organizations are more profitable than their non innovative counterparts and are less profitable, perhaps due to benefits derived from development of products, process and other aspects of organization operations.

Empirical Review

Organizational innovation is the implementation of a new organizational method in the organization business practices, Organizational innovations have a tendency to organization's performance by reducing administrative and transaction costs, improving workplace satisfaction, gaining access to non-tradable assets or reducing costs of supplies (OECD Oslo Manual, 2005).

Conjectural studies are the pioneers of the innovation literature that has been grown and matured by the research which tried to elucidate the innovation concepts by defining organizational policies, processes, and characteristics whereby companies test and realize their efforts for innovative and creative ideas regarding their products, processes, and markets (Hitt, 2012).The global competition, which became particularly tough after 80's, forced the organization's focus on their business strategies, especially on innovations (Kuratko & Hodgetts, 2005). At the present time, due to the tough global competition, both individuals and organization's begin to evaluate and to apply their innovation strategies and entrepreneurial abilities with the purpose of gaining competitive advantage (Hult, 2003). Innovation has a significant role in creating high performance and competition among organizations, the study by Fagerberg (2004) revealed that innovative countries had higher productivity and income than the less-innovative ones. It is obvious that organizations have different levels of innovative capabilities; nonetheless innovative activities need to be focused on many aspects simultaneously such as new products, new organizational and marketing practices or administrative systems, and new process technologies (Drejer, Garcia, Calantone, Johannessen, Lin, & Chen, 2007). Innovation literature does not reveal whether a specific innovation type is likely to provide more or less an impact on organization performance, it can be said that innovations influence each other and need to be implemented in conjunction (Walker,2008).Walker (2008) announced that organizational, marketing and service (or Product) innovations were found to lead in organizations growth Considering the existing descriptive and empirical literature, organizational innovations, or in other words, organizational renewal in the form of structural improvements leading to the betterment of intra-organizational coordination and cooperation mechanisms would contribute to the formation of a suitable inner environment for the other types of innovations -namely process, product and marketing- to flourish (Gunduz & Li, 2007). Oke's study on British firms (2007) revealed that developing formal implementation processes was necessary to pursue incremental

Product or service innovations, implying that the improvement of the processes is a driving force for the success of the output (product and/or service) innovations. Innovation has a considerable impact on organizations' performance by producing an improved market position that conveys competitive advantage and superior performance (Walker, 2004). Yeh and Yi-Ching (2007) associated innovations with increased organization's sales; and they argued that organizational innovations rather than technological innovations appeared to be the most vital factor for total sales. On the other hand, Johne and Davies (2011) ensured that marketing innovations increase sales by increasing product consumption and yield additional profit to organization. Moreover, Oke (2007) in a recent empirical study on British firms showed that different types of innovations were found to be related to innovative performance.

Research Methodology

This research problem was studied through the use of a descriptive survey design method. According to Orodho (2007) this design involved collection of information by way of interviewing and administering questionnaires to a sample. This method was preferred because it allowed for prudent comparison of the research findings.

The target population of this study was be 96 staff working in the Faulu Microfinance Bank branches in coast region, the study focused more on the section and particularly on top, middle and lower level management staff who are directly dealing with the day to day management of the Faulu Microfinance Bank in coast region, since they are the ones conversant with the effects of innovation strategies on the Faulu Microfinance Bank in Coast Region.

Random sampling was be used to select a sample from the target population of 96 employees. According to Singh (2014) Yamane formula for calculating sample size will be utilized. This formula is reliable to 95% and less than 5% deviation factor. Every individual in the population being sampled has an equal likelihood of being included in the study (Banerjee, 2007). The formulae is shown as:

$$n = \frac{N}{1 + N(e^2)}$$

Where:

e = Deviation of sampling/ precision error i.e. 0.05

N= Target population

n= sample size

$$n = \frac{96}{1 + 96(0.05^2)}$$

n = 77

Regression analysis was used to examine the relationship between innovation strategies and growth of microfinance bank in Faulu microfinance and it was aided by the Statistical packages for Social Sciences (SPSS) version 21 for analysis. Multiple regressions attempted to determine whether a group of variables together predict a given dependent variable. In this study growth of Faulu microfinance bank was regressed against four independent variables: product innovation, process innovation, market innovation, technology innovation. The regression equation that was used in this study was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Growth of microfinance Bank in Faulu Microfinance Bank

β = Constant term indicating the level of performance in the absence of any independent variables

β_1, β_2, β_3 and β_4 are the coefficient functions of the independent variables

X_1= Product innovation

X_2 = process innovation

X_3= market innovation

X_4= Technology Innovation

ε = Error term of the regression.

Research Findings

In the research analysis to enhance quality of data obtained, the researcher used likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point likerts scale. Where very great extent was the highest and not at all was the lowest. The analysis for mean, standard deviation and coefficient of variation were based on this rating scale.

Product Innovation

The study sought to investigate the extent to which the above product innovation contributed to the bank performance. Majority of the respondents indicated that new product development contributed to the bank performance to a moderate extent as shown by a mean score of 3.82 and standard deviation of .886, Product improvement contributed to the bank performance to a moderate extent as shown by a mean score of 3.61 and a standard deviation of .904, Product Differentiation contributed to the bank performance to a moderate extent as shown by a mean score of 3.58 and a standard deviation of 1.017, Product replacement contributed to the bank performance to a moderate extent as shown by a mean score of 3.55 and a standard deviation of .875, while Product Innovations contributed to the bank performance to a moderate extent as shown by a mean score of 3.45 and standard deviation of .875.

Table 4.7. Product Innovation.

	N	Mean	Std. Deviation
To what extent does product Innovation affect the performanceof the bank?	67	3.45	.875
To what extend does product Differentiation affect the performance of the bank?	67	3.58	1.017
To what extent does product Product improvement affect the Performance of the bank?	67	3.61	.904
To what extent does product Replacement affect the performance of the bank?	67	3.55	.875
To what extent does new product Development affect the performance of the bank	67	3.82	.886

Process Innovation

The study also sought to investigate the extent to which various process innovation strategies affected growth of Faulu Microfinance bank in coast region bank. From the mean score analysis, the study found that the respondents agreed indicated that New equipment innovations were used to a higher extent as shown by a mean score of 3.90 and a standard deviation of .781, New delivery methods innovations were used to a moderate extent as shown by a mean score of 3.61 and a standard deviation of .834 and also new techniques and product development were used to a moderate extent as shown by a mean score of 3.58 and standard deviation of .924.

Table 4.8. Process Innovation.

	N	Mean	Std. Deviation
To what extent do new techniques And product development affect the performance of the bank?	67	3.54	.924
To what extent does new Equipment affect the Performance of the bank?	67	.390	.781
To what extent do new Delivery methods affect the Performance of the bank?	67	3.61	.834

Market Innovation

The respondents were required to rate the extent to which market innovation affected the growth of microfinance bank performance in coast region. Majority of the respondents indicated that product packaging innovation leads to growth of microfinance bank to a higher extent as shown by mean score of 3.96 and a standard deviation of .727, product Placement innovation strategies offers the best service to the markets to a moderate extent as shown by a mean score of 3.90 and a standard deviation of .940, product promotion innovation strategies helps in improving growth of microfinance bank the mix of target to a moderate extent as shown by a mean score of 3.76 and a standard deviation of .924 while product pricing innovation helps in identifying better(new) potential markets for growth to a moderate extent as shown by a mean score of 3.70 and a standard deviation of .954.

Table 4.9. Market Innovation.

	N	Mean	Std. Deviation
To what extent does pro Promotion affect the Performance of the bank?	67	3.76	.924
To what extent does product Pricing affect the performance of the bank?	67	3.70	.954
To what extent does product Packaging affect the performance of the bank?	67	3.96	.727
To what extend does production Placement affects the performance of the bank	67	3.90	.940

Service Innovation

On how the technology innovation contributed to the Bank performance, majority of the respondents indicated that Mobile banking technology greatly affected the company's performance has lead to much growth as shown by a mean score of 4.33 and a standard deviation of .746 , new technological innovation strategies in banking has also shown a higher mean of 4.28 and standard deviation of .692, Internet Banking, social networking, online collaboration and web conferencing affects the bank performance to high an extent as shown by a mean score of 4.27 and standard deviation of .709, ATM's usage affects the banks performance to a good an extent as shown by a mean score of 4.01 and standard deviation of .929 while personal computerized banking affects the banks performance to a moderate extent as shown by a mean score of 3.54 and a standard deviation of .871.

Table 4.10. Service Innovation.

	N	Mean	Std. Deviation
To what extent does service innovation affect the growth of microfinance bank in coast region?	67	4.28	.692
To what extent does mobile banking technology affect the performance of the bank in coast region?	67	4.33	.746
To what extent does internet banking affect the performance of the bank in coast region?	67	4.27	.709
To what extent does ATM affect the performance of the bank in Coast region?	67	4.01	.929
To what extent does personal Computerized banking affect the Performance of the bank in Coast region?	67	4.55	.530

Growth of Microfinance Institution

The opinion statement in agreement was that the microfinance bank had experienced growth shown by high means from adoption of innovation strategies. Customer numbers had a greater increment with a mean of 4.61 and a standard deviation of .491, the bank's loan and deposit grew scoring a mean of 4.55 and standard deviation of .530 implying more business was coming in while financial profits had an improvement scoring a mean of 4.32 and a standard deviation of .735 signifying that the bank was making more business and expanding.

Table4.11. Growth of Microfinance.

	N	Mean	Std. Deviation
The microfinance bank has experienced growth in its financial performance	67	4.37	.735
The bank has experienced an Improvement in its customer Number increment	67	4.61	.491
The bank has experienced a growth in loan and deposit book ?	67	4.55	.530

Correlation Analysis

To establish the relationship between the independent variables and the dependent variable the study conducted correlation analysis which involved coefficient of correlation and coefficient of determination.

Coefficient of Correlation

In trying to show the relationship between the study variables and their findings, the study used the Karl Pearson's coefficient of correlation (r). This is as shown in Table 13 below. According to the findings, it was clear that there was a positive correlation between the independent variables, product innovation, process innovation, market innovation and technology innovation, and the dependent variable growth of microfinance institution. The analysis indicates the coefficient of correlation is equal to 0.914, 0.880, 0.851 and 0.86 for product innovation, process innovation, market innovation and technology innovation. This indicates positive relationship between the independent variables organizational innovation strategies and the dependent variable growth of microfinance institutions.

Coefficient of Determination

Table 14 below indicates an overall P-value of 0.000 which is less than 0.05(5%).

Table 4.12. Model summary.

Model	R	R square	Adjusted R Square	Std. Error of the estimate	R Square Change	F Change	df_1	df_2	Sig. F Change
1	.934a	0.873	0.865	0.616	0.873	106.282	4	62	0.000

This shows that the overall regression model is significant at the calculated 95% level of significance. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (growth of microfinance institution) that is explained by all independent variables. From the findings this meant that 87.3% of variance is attributed to combination of the four independent factors investigated in this study while the 12.7% is explained by other factors in the microfinance banking industry not studied in this research.

Regression Analysis

Analysis of Variance (ANOVA)

The ANOVA tests to establish whether the model is significantly better than the mean at predicting the outcome variable. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model is as per below with P-value of 0.00 which is less than 0.05. The results shows that all the four organizational innovation variables (product, process, market and service) were significant in predicting factors affecting growth of microfinance bank in coast region.

Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicates that the model was significant at F = 106.282, p = 0.000.Organizational innovation had significant effect on growth of Microfinance institutions in Kenya (R=0.934; R^2=, adjusted R^2 = F4 (62) = 106.282; p-value <0.001).

Table 4.13. ANOVA[a.]

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	161.154	4	40.289	106.282	.000a
	Residual	23.502	62	.379		
	Total	184.657	66			

a. Dependent Variable: Growth of Microfinance Bank.
b. Independent (Constant), product innovation, process innovation, market innovation and service innovation.

Multiple Regression Analysis

The researcher conducted a multiple regression analysis as shown in Table 16 below so as to determine the relationship between growth of microfinance bank and the four variables investigated in this study.

Table 4.14. Multiple Regression Analysis.

	Unstandardized coefficient		Standardized coefficient			
	Model	**B**	**Std Error**	**Beta**	**T**	**Sig.**
1	(Constant)	6.524	.454		14.384	.000
	Product innovation	.403	.074	.846	5.414	.000
	Market innovation	.364	.162	.545	2.247	.028
	Process innovation	.404	.117	.827	3.444	0.01
	Service Innovation	.165	.055	.369	2.999	0.04

The regression equation was:

$Y = 6.524 + 0.403X_1 + 0.364X_2 + 0.404X_3 + 0.165X_4$

Where:

Y = Growth of Microfinance Institution

β = Constant term indicating the level of performance in the absence of any independent variables β_1, β_2, β_3 and β_4 are the coefficient functions of the independent variables

X_1= Product Innovation

X_2 = Process Innovation

X_3= Market Innovation

X_4= Service Innovation

ε = Error term of the regression

The regression equation above has established that taking all factors into account (growth of microfinance came as a result of product innovation, process innovation, market innovation and service innovation) constant at zero growth of microfinance will be 6.524. The findings presented also shows that taking all other independent variables at zero, a unit increase of product innovation will lead to a 0.403 increase in the scores of growth of microfinance institution; a unit increase in process innovation will lead to a 0.364 growth of microfinance institution; a unit increase in market innovation will lead to a 0.404 increase in the scores of growth of microfinance institution and a unit increase in service innovation will lead to a 0.165increase in the scores of growth of microfinance institution. The result suggest that market innovation contribute most to growth of microfinance bank in coast region therefore leaders and managers in microfinance banking institution should focus on utilizing market innovation followed by product innovation, process innovation and service innovation.

There was statistically significant effect of product innovation growth of Faulu Microfinance Bank in Coast Region (β=0.846; t=5.414; p<0.05) the findings is consistent with results of Jimenez and Vall (2011). There was statistically significant effect of process innovation on growth of Faulu Microfinance Bank in Coast Region (β=0.545; t=2.247; p<0.05) the findings are supported by Ussahawanitchakit (2012). The results revealed that market innovation had a positive and statistically significant effect on growth of Faulu Microfinance Bank in Coast Region (β=0.827; t=3.444; p<0.05), there also was statistically significant effect of service on growth of Faulu Microfinance Bank in Coast Region (β=0.369; t=2.999; p<0.05) the findings is consistent with results of Jimenez and Vall (2011). Overall the statistical analyses revealed that organizational innovation plays a positive and have statistically significant effect on growth of Faulu Microfinance Bank in Coast Region. Recent empirical findings have emphasized that organizational innovation is critical competence and a key element on the effect of growth of Microfinance Institutions (Granter & Hacker, 2013; Jimenez & Vall, 2011; Matthews & Becker, 2009; Ussahawanitchakit, 2012).

Conclusions

The overall study concluded that product innovation, process innovation, market innovation and service innovation had significant effect on growth of Faulu Microfinance Bank in Coast Region.

The study also revealed a positive relationship between organizational innovation and growth of microfinance institution with all independent variables having a significant effect on growth of microfinance institutions.

Recommendations

The study recommends that the bank should strive to ensure product range extension, product differentiation, and new product introduction to be productive, to grow faster, to invest more and also to earn more profit. The product development strategies can be effectively adopted if there is good information flow, there is specialization and also if the management fully supports the product innovation strategies. The power of product innovation in helping microfinance institution retain and grow to competitive position is indisputable. It recommends that Faulu Microfinance bank should ensure new products and techniques introduction, to help in reduction of costs, improved new equipment and delivery methods. This will help the tap into customers' needs so well that new processes generate their own source of marketing momentum. The bank should establish that there are staffs available in good time to serve the customers efficiently, use of improved process innovation to promote a friendly and help staff hence customers satisfaction, less time is required at the service point due to improved processes in the bank and the innovations ensure that the services given to customers are of high quality. The study recommends that for all the microfinance institutions enhance their growth in increased customer's number, for their business to grow further and also for them to invest more they should embrace the adoption of market innovative strategies. The findings shown growth in numbers, customer satisfaction and retention market from aggressive anti-competitive marketing campaigns in product promotion, improved and attractive packaging designs better pricing and placement are critically important if the aim is to develop the performance of microfinance institutions. The study bank should ensure that they adapt the new technology in order to cope with the fast changing technology. Technology innovation encourages ease of flow of information and fast delivery to the intended persons. For efficient adoption of technology innovation strategies, there should be reliable infrastructure, enough financial resources and the staff should be equipped with adequate skills and knowledge of the new technology through regular training in order to ensure that they do not resist the adoption of the new technology in the bank.

Suggestions for Further Study

The researcher recommends more research in related areas in other Microfinance banking industry like effects of organizational innovation along other resources like organizational culture and knowledge management on growth of microfinance institutions

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