

Managerial Innovation and Competitiveness of Commercial Banks in Kenya

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Abstract: This study investigated on the influence of managerial innovation on competitiveness of Commercial Banks in Kenya. This study used the descriptive and correlational research designs with the sample of 175 middle level management employees (directors and general managers) through stratified and simple random sampling. The study used a questionnaire as the main source of data from the field. The questionnaire was developed by the researchers through the reading of literature and previous studies. Data was analyzed using the descriptive statistics and Pearson Correlations. The bank showed proof of existing elements of competitiveness. Managerial innovation has a significant positive influence on competitiveness of commercial banks in Kenya. The study recommends that commercial banks in Kenya should continue to embrace subjects of managerial innovation. The study also recommends that commercial banks should regularly review elements that exhibit competitiveness and act accordingly for improvement. Finally, the study recommends that commercial banks should apply practices associated with managerial innovation in order to be competitive.

Keywords: Commercial Banks; Competitiveness; Managerial Innovation.

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Introduction

Across the world, banking institutions continue to face stiff competition due to changing market dynamics, consumers' socioeconomic conditions and constant technological developments. According to McKinsey Global Banking Annual Review (2022), banks need to be innovative to improve their short-term resilience and longer-term opportunities in order to be competitive. Locally, the Kenya Bankers Association (KBA) report of 2021 indicates that the cost-to-income ratio, measure of bank's efficiency, substantially edged upwards to 74.1 percent in 2020 from 60.2 percent in 2019. This pushed some banks into mergers/acquisitions in a bid to achieve economies of scale while others were edged out (Central Bank of Kenya, 2022). Stiff competition brought by rapid technological advancements and increased financial legislation have reduced the revenue sources for banks, hence their competitiveness (Sarji, 2017; McKinsey Global Banking Annual Review, 2022). The sector thus needs to take on the dynamism in the environment through strategic innovation (Osano & Koine, 2016). Companies which have embraced strategic innovation, load themselves with competitive benefits as they are more efficient, they tend to respond to customer needs quickly and they are likely to achieve larger market shares (Ngango, 2015; Sarji, 2017; Ejike, 2018).

Roberts and Amit (2018) proposed managerial innovation as a vital capability to offer firms competitive benefits in turbulent business environments. Managerial Innovation (MI), also called Organizational Innovation or Administrative Innovation refers to generation and implementation of new management practices, processes, structures or techniques intended to further organizational goals (Ziraba & Okolo, 2018). Executives are required to show timely responsiveness and reconfiguration of internal and external competence that are congruent with changing business environments for their institutions to be competitive (Teece, 2020). Empirical evidence exists both globally and locally to suggest that managerial innovations help businesses to achieve competencies that play an important role in cost reduction, value addition, customer service, agility and speed (Mindra et al. 2015; Arasa & Dzinekou, 2018; Salisu & Bakar, 2019).

Managerial Innovation has been reported to be underexplored (Roy et al., 2018) even though studies have revealed that it has an influence on

performance (Salisu & Bakar, 2019). On the contrary, a study by Rocha (2015) recorded that Managerial Innovation had no significant influence on performance in publicly listed firms in Brazil. Additionally, although commercial banks are actively engaged in evaluating their competitiveness, the focus has been limited to financial indicators which mostly assess the firm in short terms (Mashovic, 2018, Ahmad & Zabri, 2016). This study sought to establish the influence of managerial innovation on competitiveness of Commercial Banks in Kenya.

Literature Review

This chapter presents the reviewed literature on variables under investigation.

Theoretical Underpinning

The Dynamic Capabilities perspective posits that organisations must integrate and reconfigure their resources and capabilities to renew or alter their resource mix to be able to cope with environmental changes (Monteiro et al., 2017; Najda-Janoszka, 2016). The theory attempts to explain why some specific firms attain business survival while others perish in times of changes in external environments (Tang & Gudergan, 2018). The proponents of this theory argue that the actual source of supportable competitive benefits is how quickly a firm responds to dynamic changes in the market by nurturing new capabilities and reconfiguring its resource base.

According to Ambrosini and Altintas (2019), firms' processes and managerial capabilities are the most important dynamic capabilities in assessing and reconfiguring the organizational asset base. Tang and Gudergan (2018) similarly suggested that a firm can perform better when managers become strategic in coordinating their human resource. Managerial rigidities limit the creation of dynamic capabilities (Daneels & Kleinsmith, 2016) and the firm's competitiveness.

Even though Dynamic Capability theory has been criticized for lack of a measurable model which makes it difficult to explore how dynamic capabilities can be utilized in the actionable managerial decision-making (Pavlou & El Sawy, 2011), this study assumes that a bank can achieve competitiveness if its managers quickly sense and seize existing opportunities in their environment to outperform their rivals. To be competitive, firms equally need to reconfigure their internal capabilities to match the volatile business arena (Kamasak, 2017). Some of the scholars who found

the Dynamic Capabilities theory significant in testing relations with performance include Chen et al. (2015), Janssen et al. (2016) and Kamasak (2017).

Conceptual Review of Variables

Managerial Innovation

Managerial Innovation (MI) also called Organizational Innovation or Administrative Innovation refers to the way a firm puts up its potential structures and processes that are significantly different from the current practices within the firm to derive economic and financial gains (Roy, 2016). MI is the introduction of a new organizational method in the practices, in the workplace set up or in the external relations for the organization (OECD, 2015). Su et al. (2018) described MI as an intelligent method to facilitate a corporation's development and increase its managerial strength capabilities by utilizing new approaches to exploit important resources. MI propagates changes in management techniques, use of new ideas for the recruitment of people, allocation of resources, structuring of tasks, authority and rewards and creation of unique skill sets (Anning-Dorson, 2018; Syafarudin, 2016).

Management Innovation has business policy and networking/collaborations as its indicators. According to Russell and Millar (2014), policy is a broad guideline for decision making that links strategy formulation with implementation. Ziraba and Okolo (2018) advanced that for a firm to achieve superior business performance, it must have a well-defined, disciplined process that has common written policies and procedures. Policies forge compliance with regulations, give guidance for decision-making and streamline internal processes. Matthysen and Harris (2018) suggest that banks should regularly review their organizational policies and procedures. As they do so, they should apply the most current regulations, standards, technology, and structural changes that improve their competitiveness.

Through relational capability, organizations can effectively develop collaboration, networking, and relationship with strategic partners to access and source information and resources the business cannot afford to provide independently, thus enhance its competitive advantage locally and in the global market (Divisekera & Nguyen, 2018; Chester Goduscheit & Faullant, 2018; Nieves & Diaz-Meneses, 2018; Diffley et al., 2018). Networking relationships in banking include linking a client's

account with mobile networks from telecommunication operators like Safaricom, Airtel and the use of services developed through partnership with telecommunication operators like Mpesa, Pesa Link to aid banks attain competitiveness (Mugo & Macharia, 2020).

Competitiveness

Competitiveness is a firm's ability to attract and retain customers in the conditions of competition, by proving products and services that meet high quality standards at competitive prices. In order to stay ahead of the competition and secure a market position, successful businesses should increasingly be innovative (Pedraza, 2014). Internal firm variables like strategy, structure, skills, innovation capacity and other tangible and intangible resources are highlighted as crucial to a company's competitive performance (Kamasak, 2017). A company can only remain competitive by continuously innovating when it uses its own resources and seizes chances from the outside to provide higher value for clients and unmatched revenues for itself (Anning-Dorson, 2018).

Non-financial performance measures have been used to suggest competitiveness (Ahmad & Zabir, 2016). These indicators include market share, productivity and efficiency, customer happiness, customer retention and customer response. According to Porter' (1980) theory of competitive advantage, there are two main factors that contribute to a company's ability to perform at a high level: (1) a low-cost advantage, which boosts efficiency and (2) a differentiation advantage, which can increase customer responsiveness and market share. As each institution is unique, commercial banks should therefore apply strategies that work for them better in enhancing competitiveness.

Managerial Innovation and Competitiveness

Al-Jawarneh (2016) investigated the influence of managerial innovation on school performance in the Turkish Republic of North Cyprus. The study found a strong positive and significant association between the two variables. In Nigeria, Salisu and Bakar (2019) examined the determinants of Sustainable Competitive Advantages in Small and Medium Enterprises. The results indicated that management innovation effectively and efficiently created and improved sustainable competitive advantage of SMEs. Mindra et al. (2015) investigated the impact of managerial innovation on business performance in SMEs in Uganda.

The outcome showed that the owners of successful businesses exhibited powerful characteristics of social capital, personal values, resourcefulness, resilience and strategic flexibility which are vital factors for managerial ability. Moreover Arasa and Dzinekou (2018) explored the association between management ability and performance of private universities in Kenya. The results indicated a positive influence of managerial capability on private universities' performance. Basing on this evidence, commercial banks can boost competitiveness by embracing managerial innovation strategy.

Methodology

Design

This study used the descriptive and correlational research designs. Descriptive research is interested in establishing the feelings and preferences of people from a large population. Through descriptive survey design, the status and nature of managerial innovation in Tier One commercial banks in Kenya was ascertained. Correlation design was useful in establishing the association between the independent variable (managerial innovation) and dependent variable (Competitiveness).

Population and Sampling

Even though there were 38 commercial banks in Kenya by the time of data collection, the study targeted only the Tier One commercial banks headquartered in Nairobi. The choice of Tier One commercial banks is because they are highly ranked by CBK based on their large capital and reserves, net assets, loans and deposits, hence have adequate resources required for strategic innovation as compared to Tier Two and Tier Three which are considered small banks (Central Bank of Kenya, 2022). There are nine Tier One banks in Kenya including Kenya Commercial Bank (KCB), Equity Bank, Cooperative Bank, National Commercial Bank of Africa (NCBA), Standard Chartered (Stanchart), Amalgamated Banks of South Africa (ABSA), Stanbic Bank (SBK), Diamond Trust Bank (DTB) and Investments and Mortgages (I&M). Equity Bank was excluded as its population was used for pilot study. The study used 175 middle level management employees (directors and general managers) through stratified and simple random sampling.

Instruments

This study used a questionnaire as the main source of data from the field. The questionnaire was developed by the researchers through the reading of literature and previous studies.

Validity and Reliability

The study measured the validity of the research instrument using the content validity approach. To confirm the content validity, the questionnaire was subjected to thorough examination through discussion with two university supervisors and two experts from bank sector to determine the level to which the outcome derived from data analysis would really describe the occurrence under study. They were asked to evaluate the statements in the questionnaire for relevance and whether they were meaningful and clear. All the four expert judges were asked to independently rate the items, and all the items in the questionnaire that were agreed and confirmed to have the relevant content were retained. For reliability tests, Cronbach Alpha was tested for each variable. The results show that the coefficients for the variables were above the minimum threshold of 0.7 thus was found appropriate for this study.

Statistical Treatment of Data

Data was analyzed using descriptive statistics and Pearson Correlations.

Ethical Considerations

The researchers regarded confidentiality such that no names appeared on the questionnaires. Responses were treated as strictly confidential to ensure that no one could be identified. Additionally, the researchers ensured informed consent of the respondents by not putting any participants under pressure to participate. The respondents and the researchers both signed a non-disclosure agreement. The respondents were prepared and informed about the process to be followed while carrying out the study, how long the survey would take, the intention of the research and the context of privacy/confidentiality. Further, the researchers obtained license from NACOSTI which regulates and assures quality in the Science, Technology and Innovation sector before undertaking a study.

Results and Discussion

This section presents the results of the study as guided by specific research questions.

Research Question 1: What is the perception of respondents on the existence of Managerial Innovation in the banks under investigation?

In order to come up with answers to this research question, respondents were asked to indicate their level of agreement or disagreement with statements by ticking predetermined numbers as seen in table.

The following is the used scale of mean score interpretation: 4.50-5.0= strongly agree, 3.50-4.49 = agree, = 2.50-3.49 = undecided, 1.50-2.49 = disagree and 1.00-1.49 = strongly disagree.

As indicated in table 1, respondents strongly agreed that employees' operations are guided by policies. Tabe-Khoshnood and Nematizadeh (2017) revealed that policies and organizational processes are components of managerial innovation which are critical for organizational success. The bank

supervisors should encourage a work environment where all staff adhere to laid out policies. This forges compliance with regulations, gives guidance for decision-making, streamlines internal processes and helps employees to know what they are responsible for, what is expected of them and what they can expect from their supervisors and co-workers, thus frees them up to do their jobs with confidence and excellence (Osborne & Hammoud, 2017; Ziraba & Okolo, 2018).

Table 1: Perception on Managerial Innovation

No.	Managerial Innovation	Mean	Std. Dev.	Mean Interpretation
1	Employees' operations are guided by policies	4.6	0.7	Strongly Agree
2	The supervisors mentor the staff they lead	4.3	0.7	Agree
3	My organization has room for exemption of policies	4.1	0.9	Agree
4	Employees are punished for not following policies	4.3	0.7	Agree
5	Supervisor seeks relations with other firms	4.2	0.7	Agree
6	Networking has improved service delivery	4.3	0.7	Agree
7	Customer complaints are quickly resolved	4.2	0.8	Agree

Table 2: Perception of Respondents on Competitiveness

No.	Competitiveness	Mean	Std. Dev	Mean Interpretation
1	My organization has enjoyed reduced labor costs due to digitization	4.5	0.7	Strongly Agree
2	My company enjoys reduced production costs due to innovation	4.4	0.7	Agree
3	Innovation has improved the turnaround time for rendering services to customers	4.6	0.5	Agree
4	Customer base has continued to increase in the last three years	4.4	0.7	Agree
5	My bank's branch network has grown for the past three years	4.3	0.8	Agree
6	The use of artificial intelligence has brought more clients	4.1	0.8	Agree
7	New products are designed from customer suggestions	4.2	0.8	Agree

Respondents agreed that supervisors mentor the staff they lead. Mentorship is an evolution of traditional management which is an active leadership style that involves leading by example. This model creates a conducive work environment where junior members of the staff learn from their supervisors and build a cohesive team that can easily achieve targets through teamwork. The results also revealed that banks have a room for exemption of policies. Firms which provide for exemption of policies by use of appropriate channels are flexible and dynamic and act with the business environment in mind. This lack of rigidity provides avenues to meet customer needs which would have otherwise been declined which leads to improved customer satisfaction. Respondents

additionally agreed that employees are punished for not following policies. Non-adherence to policy depicts a non-cultured institution whose members work without order. This lack of order can create constant disagreements among staff which deter competitiveness. Besides, managerial innovation can be attained when supervisors seek relations with other firms. This good working relations can be an avenue for information sharing in the running of institutions and can minimize operational costs, boosting competitiveness. Further, the respondents agreed that networking had an improved effect on service delivery. Networking involved the use of partners to design products which offer clients with convenience. This builds customer satisfaction which results to enhanced competitiveness. Finally,

respondents agreed that customers' complaints are quickly resolved. Quick complaint resolution results from a dynamic management style which is customer responsive, yielding loyalty and enhancing competitiveness.

Research Question 2: What is the perception of respondents on competitiveness in the banks under investigation?

In order to come up with answers to this research question, respondents were asked to indicate their level of agreement or disagreement with statements by ticking predetermined numbers as seen in table 1. The following is the used scale of mean score interpretation: 4.50-5.0= strongly agree, 3.50-4.49 = agree, = 2.50-3.49 = undecided, 1.50-2.49 = disagree and 1.00-1.49 = strongly disagree.

Results from table 2 indicate that respondents either strongly agreed or agreed with the seven statements. Particularly, they agreed that their organizations have enjoyed reduced labor costs due to digitization. The reduction in labor costs has led to increased revenues significant in the attainment of competitiveness. They also agreed that their organizations enjoyed reduced production costs due to innovation, hence better profitability and competitiveness. The study also revealed that innovation has improved the turnaround time for rendering services to customers improving customer satisfaction which has boosted competitiveness. Additionally, respondents concurred that their customer base has continued to increase in the last

three years reflecting an increase in sales, deposits and profits and improving competitiveness.

Furthermore, they agreed that their networks had grown for the past three years, indicative of increased market share which is a significant component of competitiveness. Besides, the use of artificial intelligence has brought more clients through ecosystem banking who come on board with increased deposits boosting competitiveness. Lastly, the respondents agreed that new products are designed from customer suggestions depicting a customer responsive attitude that yields customer satisfaction, loyalty and retention that translate to competitiveness. These findings concur with those of Onafadeji and Adeniran (2021) who found that sales growth influenced the competitiveness of selected shoes and garment enterprises in Nigeria. Other studies which lend support to these findings include that of Funsho et al. (2021), Byukusenge and Muiruri (2021) and Wallace and Kilika (2021).

Research Question 3: What is the relationship between managerial innovation and competitiveness?

This research question sought to establish the relationship between managerial innovation and competitiveness. The possible correlation strength was determined by the following scale of interpretation: $\geq .70$ = strong relationship, $r \geq .50$ = moderate relationship and $r \leq .50$ = weak relationship.

Table 3: Correlation Analysis

		Product innovation	Competitiveness
Product innovation	Pearson Correlation	1	.705**
	Sig. (2-tailed)		.000
	N	115	115
Competitiveness	Pearson Correlation	.705**	1
	Sig. (2-tailed)	.000	
	N	115	115

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

To reach this objective, the following null hypothesis was tested: there is no significant relationship between managerial innovation and competitiveness. As seen in table 3, the analysis yielded the p-value of .705 which suggests an existing strong correlation between innovation and competitiveness due to the Sig of .000 which is lesser than the critical value. Therefore, the null hypothesis is rejected and it is maintain that there is a significant, strong and positive correlation

between innovation and competitiveness. This suggests that the more innovation takes place in the organizations under investigation, the higher the chances for the organizational competitiveness. Therefore, innovation enhances organizational competitiveness. *These findings concur with Al-Jawarneh (2016) who found that managerial innovation had a strong effect on school performance in the Turkish Republic of North Cyprus. In addition, Salisu and Bakar (2019) found*

that management innovation *showed a strong positive relation with performance of SMEs in Nigeria*. Furthermore, Mindra et al. (2015) equally found a strong association between managerial innovation and business performance in SMEs in Uganda. Lastly, Arasa and Dzinekou (2018) found that managerial innovation positively influenced the performance of students in private universities in Kenya.

Conclusions and Recommendations

Conclusion

Based on the empirical evidence, the study concludes that managerial innovation existed in commercial banks in Kenya. Secondly, the study concluded that commercial banks in Kenya showed proof of existing elements of competitiveness. Lastly, the study concluded that managerial innovation has a significant positive influence on competitiveness of commercial banks in Kenya.

Recommendations

The study recommends that commercial banks in Kenya should continue to embrace subjects of managerial innovation. The study also recommends that commercial banks should regularly review elements that exhibit competitiveness and act accordingly for improvement. Finally, the study recommends that commercial banks should apply practices associated with managerial innovation in order to be competitive.

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