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EFFECT OF INNOVATION STRATEGIES ON ORGANIZATIONAL PERFORMANCE: A CASE STUDY OF BANK OF KIGALI

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ABSTRACT

Innovation can be viewed as a purposeful and focused effort to achieve change in an organization's economic. The impact of innovation on organizational performance is still misunderstood for various factors, either there is little understanding of the drivers of innovation by managers or innovation strategies are established but the its effect on organizational performance is not evaluated and determined. The researcher was used descriptive research design allowed the researcher to answer questions. The model summary show that, process innovation, Service innovation and organizational innovation were affected the organization Performance with (R^2=0.089), the variations in aspects of Process innovation, Service innovation and organizational innovation are contributed 8.9% to organization performance of BK. ANOVA results further shown that all independents variables influence the BK performance. The analysis of the financial reports indicates that the Bank of Kigali ROE & ROA was increased from 2014-2016**.** The banking industry is facing multiple pressures and banks have to adapt to greater regulation in innovation strategies of their products. The study recommended that bank of Kigali has to continue to improve innovation strategies by critically assessing current innovation capabilities and performance.

Keywords: *Innovation strategies, organizational performance and Bank of Kigali*

1. Background of the study

Innovation is about helping organizations grow. Innovation can be viewed as a purposeful and focused effort to achieve change in (an organization's) economic or social potential. Bottom-line growth can occur in a number of ways, such as better service quality and shorter lead times in nonprofit organizations and cost reduction, cost avoidance, and increased turnover in profit-focused organizations (Drucker & al., 2015). It can happen at all levels in an organization, from management teams to departments and even to the level of the individual. The study of the economics of innovation wrote that not to innovate is to die'. Certainly companies that have established themselves as technical and market leaders have shown an ability to develop successful new products and quality services.
According to (Bessant & al., 2009). Suggest that effective innovation must involve all areas of an organization with the potential to affect every discipline and process. Hence, concluded that cumulative adoption of innovation types over time has a positive relation with firm performance. Once again, the relationship between innovativeness and future performance has been examined by (Bowenet & al.,2010). Definitions are confused and the link between innovation and business performance remains to be proven. The power of the innovation capability construct is that it is gen realizable to all these domains, as it relates to the organizational potential to convert new ideas into commercial and community value. (Fagerberg & Nelson, 2004), is very explicit in stating that innovation is work rather than genius; successful innovation requires hard, focused, and purposeful work. The process of innovation in organizations can incorporate both incremental and radical change. Incremental innovation produces small continual changes and is often visible in organizations in the form of continuous improvement.
Innovation is challenging and faces uncertainties that are existent in both incremental innovations, such as updated versions or extensions of current products and processes, and radical innovation that base upon the development or application of new ideas and novel technologies (Dewar et al., 2009).

2. Statement of the Problem

Innovation has been cited as one of the key factors that affects competitiveness. Yet despite widespread agreement about its benefits, effects of innovation strategies on performance of BK are not properly determined. Although the significance of innovation in showing performance in organizations, the impact of innovation on organizational performance is still misunderstood for various factors, either there is little understanding of the drivers of innovation by managers or innovation strategies are established but the its effect on organizational performance is not evaluated and determined (Chesbrough, 2003). The outcome of the previous studies on impact of innovation on performance has been empirically inconclusive. Previous studies have produced contradicting results regarding the impact of innovations on organization's performance. Scholars (Balwinder, 2009), in their studies showed that innovations had least impact on performance, while others (Kim & Mauborgne, 1997), showed that innovation had significant contribution to performance. It is at the center of such mixed conclusions that created and inspired the need to carry out a study from in profit making organizations context to establish the influence of innovation strategy on organizational performance.

3. General objectives

The general objective of this study was to examine the effect of innovation strategies on organization performance in Rwanda.

4. Specific objectives

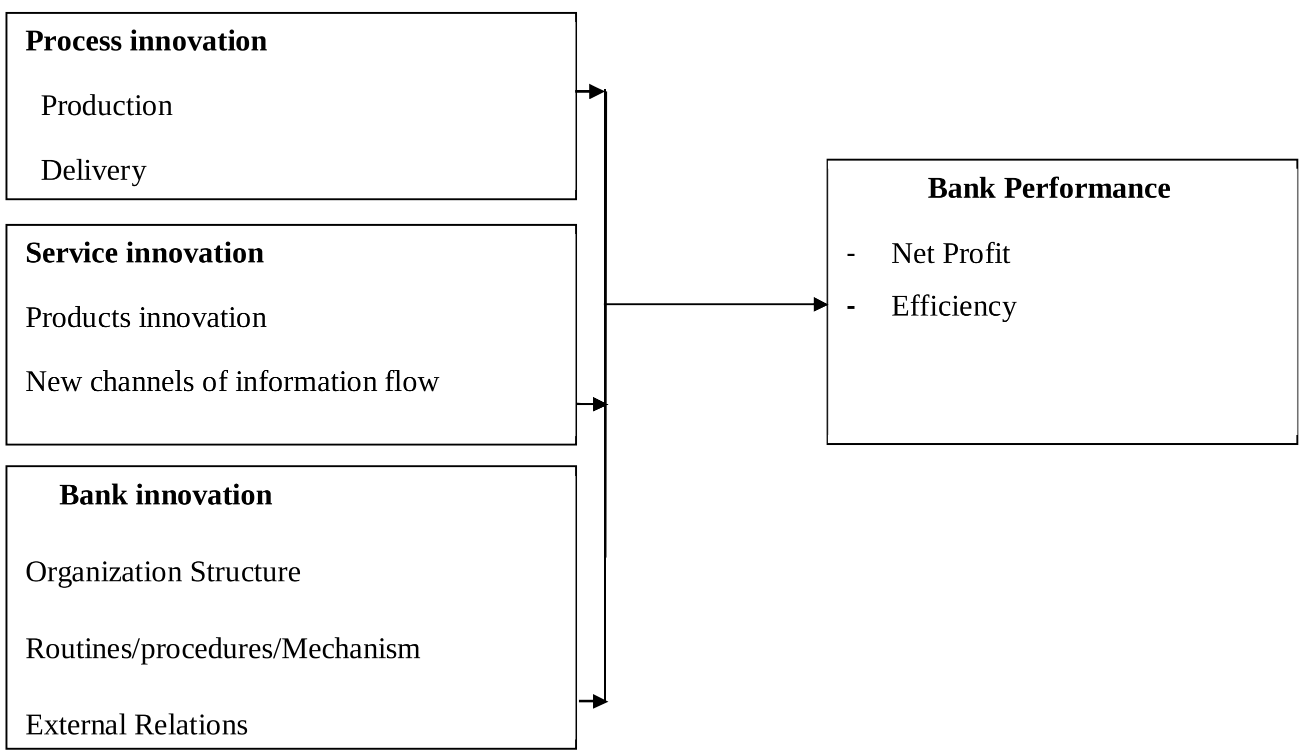
1. To examine the effect of process innovation to the performance of BK,
2. To determine the effect of service innovation to the performance of BK,
3. To assess the effect of bank innovation to the performance of BK.

5. Conceptual framework

Conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation.

Independent Variable **Dependent Variable**

Innovation strategies **Organization Performance**



Source: Researcher compilation, 2017

Figure1. Conceptual framework

6. Empirical Review

Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Karanja, 2009). Innovation as a term is not only related to products and processes, but is also related to marketing and organization. (Schumpeter et al., 2015), described different types of innovation: new products, new methods of production, new sources of supply, the exploitation of new markets, and new ways to organize business. Innovation strategy is considered as developments and new applications, with the purpose of launching newness into the economic area. It can be conceived as the transformation of knowledge to commercial value. Innovation has great commercial importance due to its potential for increasing the efficiency and the profitability of companies.

According to (Fagerberg & al., 2010), the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge. Companies procure additional competitive advantage and market share according to the level of importance they give to innovations, which are vital factors for companies to build a reputation in the marketplace and therefore to increase their market share and quality of service.

The innovation strategies adopted by radio stations in Kenya (Lusweti & al., 2009), reviewed this study concluded that innovation strategies are very essential in any business and hence they should be put in place at any cost since it helps the organization to realize their objectives. As far as analysis of strategy is concerned, the adoption of strategies (whether collaborative or competitive strategies) is thus important in managing innovation and in making the innovation happen. The innovation strategies carried by (Odhiambo & al., 2008), the Standard Chartered Bank and concluded that with the advent of globalization, financial institutions have been forced to improve their ways of doing business in order to attract and maintain existing customers. Such innovative strategies focus on all aspects of the business operations ranging from customer care, technological advancement to better products in the market.

7. Research Methodology

The researcher was used descriptive research design allowed the researcher to answer questions. The descriptive research design is considered because of the relationships amongst the study variables. The research was carried out by gathering information from selected respondents. The population under this research consists of organization staff from different levels was conducted mainly in Bank of Kigali head quarter. This means that the study was used structured questionnaire to collect the data related to effects of innovation strategies on organizational performance. The target population of this study was 430 employees of BK head office. Researcher was determined the sample size by using the formula of Slovin's. The sample size was 207 employees of BK.

8. Data Analysis

The data was collected by using questionnaires instrument and were analyzed quantitatively using descriptive statistics and tested the Regression analysis and Pearson Correlation of the variables. Data collected was edited, coded and analyzed by using the computer package SPSS 23. Data analysis was done in line with the study objectives, which was aligned to the conceptual framework.

9. Model specification

Y=β0+β1X1+β2X2+β3X3+ε

β 0=Slope

β1, β2 and **β3**=Intercepts

ε= Error term

x1=Process innovation

x2=Service innovation

x3=Bank innovation

10. Regression Analysis

Table1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.299[a]	.089	.076	278

a. Predictors: (Constant), Process innovation, Service innovation and Organizational innovation

According to results the model summary shown that, all variables, Process innovation, Service innovation and organizational innovation were strongly affect the Bank of Kigali Performance (R^2=0.089), with variations in aspects of Process innovation, Service innovation and organizational innovation were contributed 8.9% to BK performance.

The rule of Thumb is that, usually an R square of more than 50% is considered as better, but in this study R^2 is small (0.089) implying that innovation strategies have positive contribution to the BK performance with percentage of 8.9%, but there are other factors that influence the BK performance variable that are not included in this model.

Table 2: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.830	3	8.457	812.144	.000[a]
	Residual	.896	203	.010		
	Total	34.725	206			

a. Predictors: (Constant), Process innovation, Service innovation and Bank innovation

b. Dependent Variable: BK performance.

ANOVA results further shown that aspects independents variables were positive influenced BK performance. Sig value (0.000) is less than the level of significance (0.05). The F-statistics (F=812.144) is greater than the P-value (0.000) hence a further confirmation that the aspect of innovation strategies influenced the BK performance.

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.153	.094		1.628	.107
	Process innovation	.520	.042	.947	22.050	.000
	Service innovation	.040	.024	.044	1.653	. 102
	Bank innovation	.035	.005	.132	.896	.005

a. Dependent Variable: BK performance

Using linear regression analysis from SPSS data bases, Process innovation, Service innovation and Organizational innovation were regressed to find out how they impacted on Bank of Kigali performance.

$Y=0.153+0.920x1+0.04x2+0.05x3+ \varepsilon$

Basing to the above equation, all variables have positive relationship on the BK performance. This means that all variables were positive contributed to the Bank of Kigali performance in three previous years 2014-2016.

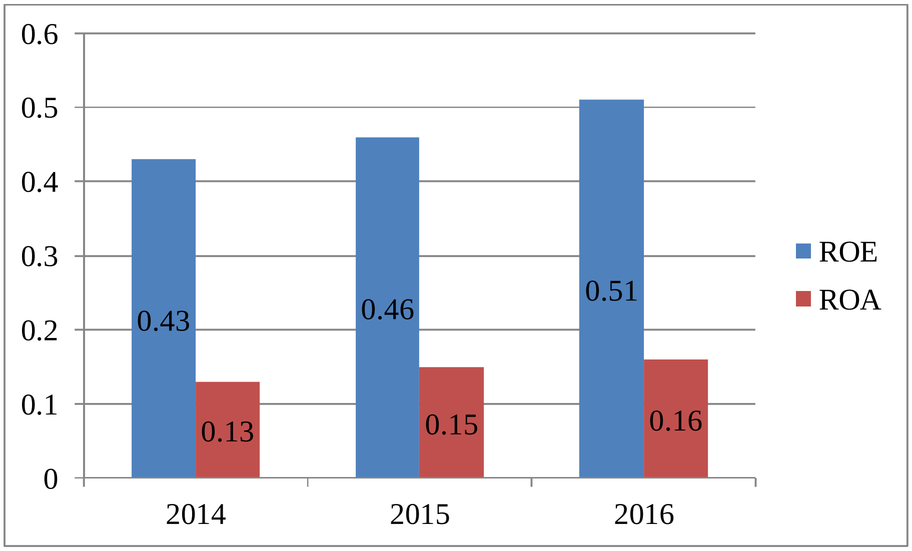
Table 4: Relationship between process innovation and BK performance

	BK performance		Process innovation
BK performance	Pearson Correlation	1	.564**
	Sig. (2-tailed)		.000
	N	207	207
Process innovation	Pearson Correlation	.564**	1
	Sig. (2-tailed)	.000	
	N	207	207

**. Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation coefficient, (r=0.564) shows that there is Positive and Moderate correlation between innovation strategies and BK performance. P-value (0.000) is less than the level of significant (0.05). This means that BK performance was positive affected by strategies innovation.

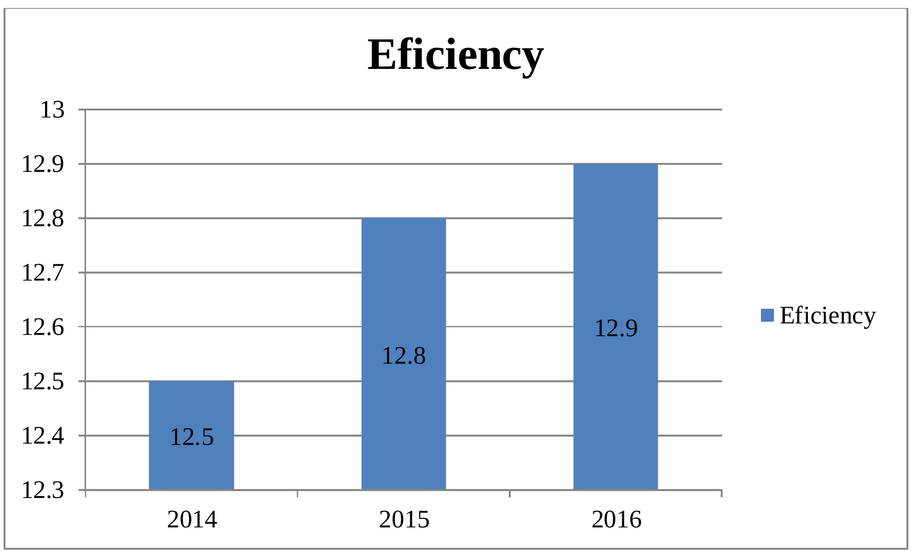
Figure 2: The Profitability of Bank of Kigali in previous three years



Source: BK Financial Reports (2014, 2015 and 2016)

As revealed in figure 2, BKs profitability in terms of, return on asset and return on equity kept changing from 2014 to 2016. It is evidenced that the ROA increased greatly from 2014 to 2016 and this is represented by 0.13 to 0.16 respectively. This evidences the best performance of the Bank of Kigali in previous three years, in the year unlike the following years where the performance deteriorated. The analysis of the financial reports indicates that the Bank of Kigali ROE keep increased from 0.43 in 2014 up to 0.51 in 2016 respectively. This means innovation strategies have positive impact to the profitability of Bank of Kigali.

Figure 3: The efficiency ratio of Bank of Kigali



An efficiency ratio measures a Bank of Kigali ability to use its assets to generate income. The efficiency ratios usually translate to improved profitability of BK. The efficiency ratio is typically used to analyze how well a company uses its assets and liabilities internally. An efficiency ratio of Bank of Kigali from 2014-2016 is increased as shown by the figure 3. The BK efficiency in 2014(12.5%), in 2015(12.8%) and 2016(12.9%). This means that bank of Kigali was used wisely its assets and liabilities in previous three years. An increased of efficiency ratios indicates that BK reduces risk of unsatisfied customers' needs.

11 Conclusion and Recommendations

11.1 Conclusion

The banking industry is facing multiple pressures and banks have to adapt to greater regulation in innovation strategies of their products. Banks have to meet increasingly diverse and demanding innovation strategies. The study concludes that innovation strategies are central to bank's future growth and performance. Bank of Kigali has serious innovation strategies, improved its profitability. The study concluded that innovation strategies provide a clear direction and focuses the effort of the entire organization on a common innovation goal and thus organizations tend to make full of utilization to effect on it performance. The study concludes that product innovations strategies such as process innovation, service innovation and organizational innovation contributed to the bank of Kigali performance.

In addition, the study concludes that process innovation strategies such reduction of costs contributed to the bank's profitability. To prioritize innovative actions raised banks effectiveness by improving the processes. This is particularly so when it is combined with product innovation. Process innovation alone, without the introduction of new products, runs the risk of being associated with lower growth performance, alternative measures, such as productivity, productivity growth, or profitability, capture the beneficial influence of process innovation more rapidly. Use of technology innovation promoted a friendly and helpful staff hence customer satisfaction. Innovations ensured that the services given to customers were of high quality. Use of technological innovations such as Automated Teller Machines, Points of Sales, electronic funds transfer, internet banking and telephone banking, all strategies innovation enhance the performance of bank of Kigali.

11.2 Recommendations

Researcher recommends the management of bank of Kigali to recognize the effect of strategies innovation on bank performance in order to increase number of customers and keep increasing the bank performance.

Researcher also recommends that bank of Kigali should also endeavor to ensure product range extension, product replacement, product improvement, product repositioning and new product introduction in order to improve the bank performance. This will help BK to tap into customers' needs so well that new products generate. The study also recommends that Bank of Kigali also should ensure that they adapt the new technology in order to manage the innovation strategies. 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.

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