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Original Research

Evaluation of Process Innovation Strategy Influence on Performance of Equity Bank and Safaricom PLC in Kenya: A Comparative Analysis

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Abstract

Though a strong relationship is known to exist between innovation and performance, many companies are more inclined to falling back to generic strategies as a default strategy though ironically it is innovation strategies that both achieve a turn-around and register stellar performance. The purpose of this study was to conduct a comparative study of process innovation strategy's influence on performance of Safaricom PLC and Equity Bank in Kenya. Such tools as descriptive and cross-sectional designs, likert and semantic differential scale was used with primary and secondary data collection instruments as well descriptive statistics and inferential statistics comprising of spearman rank correlation and multiple regression analysis were used and a fifty nine (59), which translates to 56% respond rate. Findings indicated a positive and insignificant effect between process innovation strategy and performance for both entities, with Equity Bank having a stronger correlation (β =0.1299, $p <$ 0.05 and β =-0.003, $p >$0.05). Hence, one of the cardinal recommendation is the need for innovation to be entrenched in in all sectors of business, company and industry. Besides, companies must shift from use of generic strategies as default strategies and move to and be deliberate in the use of innovation strategies. Again, companies should detach innovation strategies from top management alone. Hence, companies should therefore create innovation-centric environments where it welcomes and harnesses all ideas and ideation from all staff including middle and junior staff.

Keywords: Innovation, process, strategy.

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Introduction

Scholars have already established a strong link existing between performance and innovation strategies as packaged in the four Oslo Manual, that is product, process, marketing and organizational innovation (Ayinaddis, 2023; Faisal, et al, 2021). It has been noted that despite its default use of generic strategies, it is when the two companies employ innovation strategies, in particular, process innovation strategy they not only achieve a turnaround but stellar growth. This article zeroes in to process whose measures is calibrated according to what it brings, what it enhances, what it betters, what it improves and what it reduces in an organization.

Scholars have already established a strong link existing between performance and innovation strategies as packaged in the four Oslo Manual, that is product, process, marketing and organizational innovation (Ayinaddis, 2023; Faisal, et al, 2021). Zeroing into process innovation, the measures is calibrated according to what it brings, what it enhances, what it betters, what it improves and what it reduces in an organization. Hence, while process innovation brings in software, equipment as well as about techniques, it enhances or increases efficiency of the production process as well as make improvement of a production method as well as quality improvements effect. Process innovation works in the inverse proportion in that, by decreasing customer and suppliers' complaint, it consequently or subsequently bring in better customer service and better service to suppliers. On the other hand, process innovation decreases in return cost as well as cost reduction effect as it subsequently increased labor market and puts in place a more effective legal and regulatory compliance with the overall effect being increasing overall performance (Liu, et al, 2022; Rammer, 2021; Suwignjo, et, al, 2022).

Associated with such innovation strategies are immense one being that innovation strategies propel improvement of the processes. Besides, process innovation strategy in particular have key problem resolution. This makes many companies maintain competitive strategy. While lowering of relative costs, it subsequently is attractive to a privileged value mix for the customer build customer loyalty. This in turn leads to market share dominance and superior financial performance creating distinctive competitive advantages which in essence conceptualized as a superior market position in the market able to drive sustainability and growth of organizations (Falciola, 2020; Idris et al., 2022; Herrera et al., 2020; Dornberger, 2019; Morelos et al., 2021; Buijtendijk et al., 2021; Alnoor, et al, 2023; Ali, et al, 2021). In this respect, in their quest to spur performance, innovation in general and process innovation in particular has been an answer to their performance. This has made them increasingly become important in all companies.

Therefore, this study aims to carry out a comparative analysis of process innovation strategy's influence on the performance of Equity Bank and Safaricom PLC in Kenya. Though of Equity Bank and Safaricom PLC are the most profitable companies in Kenya, it is when this performance is attributable to innovative strategies that two companies seem to achieve both a turn-around and register stellar performance.

With more reasons than one, an analysis of innovation strategies influence on performance of Safaricom and Equity Bank, both in Kenya was informed by the two having a track record of being the most profitable companies in Kenya but are yet to fully embrace innovation strategies. Rather, they seem to more fall back to default strategies, that is, generic strategies like the Michael Porter's strategies such as the focus, differentiation and cost leadership strategies. It is when the two companies apply innovation strategies that they seem to achieve both a turn-around and register stellar performance.

In such an increasingly competitive business environment, the reliance of the generic strategies may not work or may not continue to spur growth and post profitability. Michael Porters generic strategies encapsulated in competitive advantage, cost leadership and differentiation, sometimes known as hybrid strategy are more suitable in a stable business environment and not in the more complex and unpredictable environment. Hence, an increasing number of emerging studies are faulting generic strategies and their inability to sustain the increasing speed of competition. On the other hand, all innovations strategies simultaneously strategies turning out to be positive and significant in a given company or organization and this for a long time. Hence, the gap that this study seeks to address is therefore the need to moving from using generic strategies as default strategies to embracing innovation strategies beyond being just unplanned activity to increasingly becoming widespread in each and every organization's strategic development especially given such unstable business environment.

It has been observed that, though of Equity Bank and Safaricom PLC are the most profitable companies in Kenya, it is when this performance is attributable to innovative strategies that two companies seem to achieve both a turn-around and register stellar performance. Yet, the reliance of the generic strategies is so strong and dear to so many companies. However, Michael Porters competitive advantage, cost leadership and differentiation, also known as generic strategies more apply in stable business environment, but may not work or may not continue to spur growth and post profitability in such an increasingly competitive business environment. Therefore, this study aimed at carrying out a comparative analysis of marketing innovation strategies influence on the performance of Equity Bank and Safaricom PLC in Kenya.

Conceptual Framework

The conceptual framework independent was process innovation strategy, dependent variable being performance while moderating variable consists of firm characteristics as firm size and number of employees among other indicators.

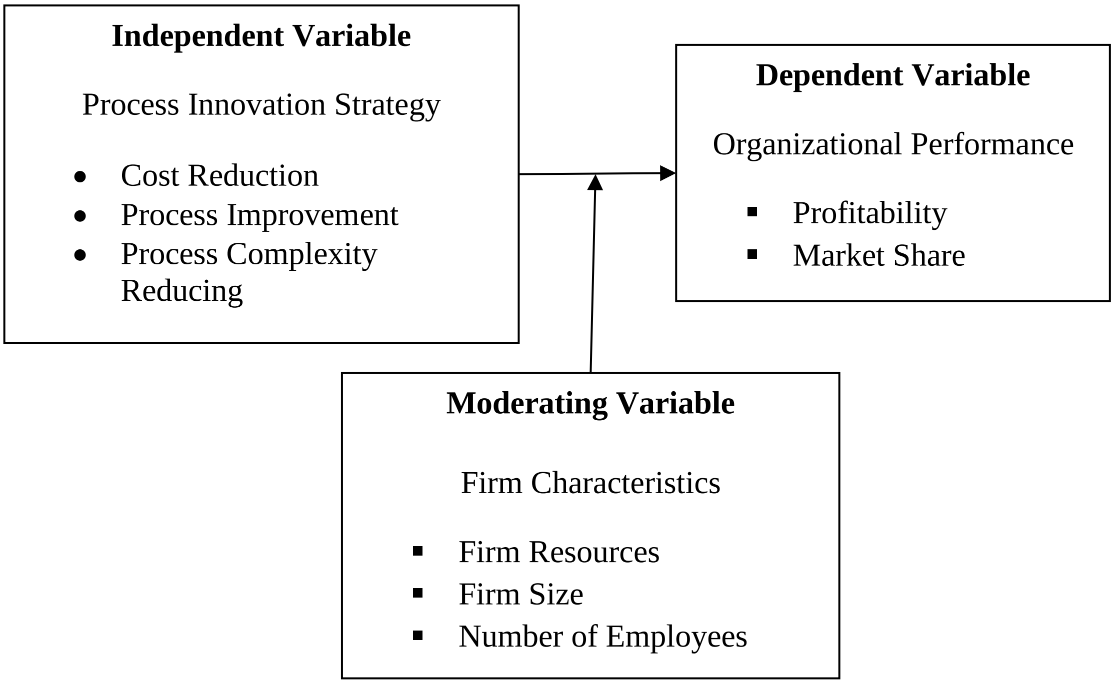

Figure 1. Conceptual Framework

Hence, the purpose of the study was to establish process innovation strategy influence on performance of Equity Bank and Safaricom PLC in Kenya. It was guided by the null hypothesis that there was no statistically significant influence of process innovation strategy on performance of Equity Bank and Safaricom PLC in Kenya.

Methodology

Semi-structured, that is, primary and secondary data collection instrument were employed as well as the nonprobability convenient sampling, and, for data analysis, descriptive statistics such as frequency distribution and percentages, mean, standard deviation was used, further, to better present the relationships existing, inferential statistics comprising of spearman rank correlation and multiple regression analysis was used.

The two companies received different number of questionnaires. However, the methodology had limitation in the sense that while Equity Bank had branches across the country, Safaricom PLC had only its headquarters to gather data from. Hence, managers at the headquarters of Safaricom getting twenty of them out of which 10 were completed and returned. This was a response rate of 50%. On the other hand, out of 86 questionnaires issued to managers at Equity Bank, 49 were completed and returned, a yield of 57% response rate. Overall, therefore, 56% response rate of for both companies was achieved. Several scholars argued that a response rarely going beyond 50% is considered satisfactory and acceptable for analysis and anything beyond that considered very good (Wu, et al, 2022; Sammut, et al, 2021; López, 2023; Shiyab, et al, 2023). Hence, 56% response rate achieved in this study can be considered very good.

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$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

- Where:
- Y ………………………………………… dependent variable
- β_0 ………………………………………… the intercept
- β_1 to β_4 ……………………………………Regression coefficient
- X_1, ……………………………….…… Process innovation strategy
- ε ……………………………….……………error term

For analysis of moderating variable:

$Y = \beta_0 + \beta_1 X_1 \, I + M + \varepsilon$

Where:

M = Moderating variable (Firm Characteristics)

Research Findings, Analysis and Presentation

According to Hayashi et al. (2019), Cronbach's Reliability Coefficient Alpha was used for determination of consistency of items on the questionnaire yielded consistent data after repeated trials or whether consistency was maintained under similar conditions, and, by use of SPSS version 28 Cronbach's reliability coefficient alpha was computed for quantitative data, items were correlated among themselves with the reliability results from market innovation strategy was 0.897 as per Table 1.

Table 1. Reliability Results

Variable	Item	Alpha Value	Recommendations
Market innovation strategy	20	0.879	Reliable

This study's purpose was to comparatively analyze of process innovation strategy's influence on the performance of Safaricom PLC and Equity Bank in Kenya. Forty nine (49) Equity Bank's respondents and ten (10) of Safaricom PLC respondents.

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Table 2. Comparative Table on the Role Played by Process Innovation Strategy at Equity Bank and Safaricom PLC

Statement	Company	n	Mean	SD	5	4	3	2	1
The role played by introducing equipment in our company which are either new or those that are really improved upon for the last three years	Equity Bank	49	4.20	0.935	43	43	10	0	4
	Safaricom	10	4.30	0.483	30	70	0	0	0
The role played by bringing in software in our company which are new or renewed is in a great way for the last three years	Equity Bank	49	4.35	0.830	53	33	10	4	0
	Safaricom	10	4.10	0.738	30	50	20	0	0
The role played by bringing about techniques in our company that are very new or are modified significantly for the last three years	Equity Bank	49	4.24	0.804	43	43	10	4	0
	Safaricom	10	4.50	0.707	60	30	10	0	0
The role played by the improvement of a production method in our company for the last three years	Equity Bank	49	4.20	0.935	45	39	10	4	2
	Safaricom	10	4.60	0.699	70	20	10	0	0
The role played by the enhancement of efficiency of the production process in our company for the last three years	Equity Bank	49	4.29	0.866	49	35	14	0	2
	Safaricom	10	4.40	0.516	40	60	0	0	0
The role played by better customer service witnessed in our company for the last three years	Equity Bank	49	4.45	0.792	59	31	6	4	0
	Safaricom	10	3.60	1.265	20	50	10	10	0
The role played by the decrease in customer complaint witnessed in our company for in the last three years	Equity Bank	49	4.22	0.872	47	33	16	4	0
	Safaricom	10	3.90	0.994	30	40	20	10	0
The role played by better service to suppliers witnessed in our company for the last three years	Equity Bank	49	4.18	0.697	33	55	10	2	0
	Safaricom	10	4.60	0.516	60	40	0	0	0
The role played by decrease in suppliers' complaints realized in our company for the last three years	Equity Bank	49	4.06	0.876	33	49	10	8	0
	Safaricom	10	4.40	0.516	40	60	0	0	0
Statement	Company	n	Mean	SD	5	4	3	2	1
The role played by increased labor market felt in our company for the last three years	Equity Bank	49	4.06	0.922	39	35	20	6	0
	Safaricom	10	4.40	0.516	40	60	0	0	0

Statement	Company	n	Mean	SD	5	4	3	2	1
our company for the last three years									
The role played by the decrease in return cost in our company for in the last three years	Equity Bank	49	4.16	0.825	37	47	14	0	2
	Safaricom	10	4.10	0.876	30	60	0	10	0
Process innovation strategy has contributed to improvement of a production method in our company for the last three years	Equity Bank	49	4.63	0.530	65	33	2	0	0
	Safaricom	10	4.00	1.247	50	20	10	20	0
Process innovation strategy has contributed to a marked quality improvements effect in our company for the last three years	Equity Bank	49	4.49	0.739	61	29	8	2	0
	Safaricom	10	4.30	0.823	50	20	10	20	0
Process innovation strategy has had appreciable cost reduction effect in our company for the last three years	Equity Bank	49	4.47	0.767	61	27	10	2	0
	Safaricom	10	4.70	0.483	70	30	0	0	0
Process innovation strategy has contributed to a more effective legal and regulatory compliance in our company	Equity Bank	49	4.47	0.616	53	41	6	0	0
	Safaricom	10	4.40	0.843	60	20	20	0	0
Process innovation strategy has contributed to the overall performance in our company for the last three years	Equity Bank	49	4.59	0.610	65	29	6	0	0
	Safaricom	10	4.00	1.118	50	20	20	10	0

Inferential Analysis, Correlation Analysis and Hypothesis Testing

The study conducted Pearson correlation analysis as well as tested hypothesis to investigate how the independent variables influence the dependent variable for both Equity Bank and Safaricom PLC in Kenya. The first specific objective of the study.

The hypothesis of the study was that there is no statistically significant influence of process innovation strategy on performance of Equity Bank and Safaricom PLC in Kenya. For equity Bank, $t=9.617$; $p=0.000$ shows that process innovation strategy is a significant determinant of performance of Equity Bank. For Safaricom PLC, $t=3.556$; $p=0.007$ shows that process innovation strategy is a significant determinant of performance of Safaricom limited. The null hypothesis that there is is no statistically significant influence of process innovation strategy on performance of Equity Bank and Safaricom PLC in Kenya is rejected.

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Table 3. Process Innovation Strategy Regression Model Summary

Model Summary[b]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Equity bank	.814[a]	0.663	0.656	0.35560	1.871
Safaricom PLC	.783[a]	0.613	0.564	0.39128	2.398

The findings indicate that for Equity Bank, the coefficient of determination, represented by R squared, is 66.3%. This implies that 66.3% of the variability in organisational performance of Equity Bank can be attributed to changes in process innovation strategy, with a confidence level of 95%. Results showed a significant and positive correlation between the variables, evident by a correlation coefficient of 0.814. For Safaricom PLC, R squared, is 0.613, equivalent to 61.3%. This implies that 61.3% of the variability in organisational performance of Safaricom PLC can be attributed to changes in process innovation strategy, with a confidence level of 95%. Results showed a significant and positive correlation between the variables, evident by a correlation coefficient of 0.783.

Analysis of variance (ANOVA) for Equity Bank showed a significance level of 0.000. This means that the relationship between the independent variables and dependent variables was significant. The estimated value of F was more than the critical value of F (92.49 > 4.047). This shows that process innovation strategy significantly influences performance of Equity Bank. On the other hand, ANOVA for Safaricom showed a significant level of 0.007, hence a significant relationship between the independent variable and dependent variable. The estimated value of F was more than the critical value of F (12.647 > 5.117). This shows that process innovation strategy insignificantly influences performance at Safaricom PLC.

On the other hand Equity Bank posted a positive and significant effect of process innovation strategy on performance of β =0.1299, $p < 0.05$ wth an absolute t-value of 2.312 and Pearson correlation coefficients of 0.814. On the other hand, there was a positive and insignificant effect of process innovation strategy on performance of Safaricom PLC of β =-0.003, $p > 0.05$ and t-value of 0.013 and Pearson correlation coefficients of 0.783. Akpoviroro, et al, (2021) study on the impact of process innovation on organizational performance confirmed the same that indeed there was a major effect between the two variables hence a confirmatory study.

With an absolute t-value of 2.312 for Equity Bank and 0.013 for Safaricom PLC, it is evident that the process innovation strategy had a more substantial influence on the performance of Equity Bank compared to Safaricom. The higher t-value for Equity Bank suggests a greater significance and effectiveness of its process innovation strategy in influencing performance. This observation is further reinforced by the Pearson correlation coefficients, where Equity Bank demonstrated a higher coefficient of 0.814, while Safaricom PLC had a coefficient of 0.783.

Findings therefore indicated a positive and insignificant effect of product innovation strategy on performance for Equity Bank and Safaricom PLC, process innovation strategy (β =0.1299, $p < 0.05$ and β =-0.003, $p > 0.05$) with Equity Bank having a stronger correlation.

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Firm Characteristics as Moderating Effect: Analysis Secondary Data

As independent variable, process innovation strategy was moderated against firm characteristics which is operationalized by firm resources, firm size and number of employees.

Table 4. Financial Figures

	Measure	Company	1	2	3	
	in millions		2020	2021	2022	AVERAGE
1	Pretax Profit	Equity Bank	22,170	51,881	59,844	44,652
		Safaricom PLC	105,773	93,636	102,213	100,541
2	Total Assets	Equity Bank	1,015,093	1,304,913	1,447,010	1,255,672
		Safaricom PLC	213,225	230,629	346,799	263.551
3	4 SHD Equity	Equity Bank	138,641	176,191	182,211	165,681
		Safaricom PLC	143,080	137,635	179,701	153,472

While Equity Bank had employees in every branch, Safaricom had them only at the headquarters and used a network of agents, not employees across the country and so this measure could not properly apply. The two companies being listed in the Nairobi Securities Exchange and hence considered large in size, the other measure of firm size could not be varied. This is represented in the subsequent figures:

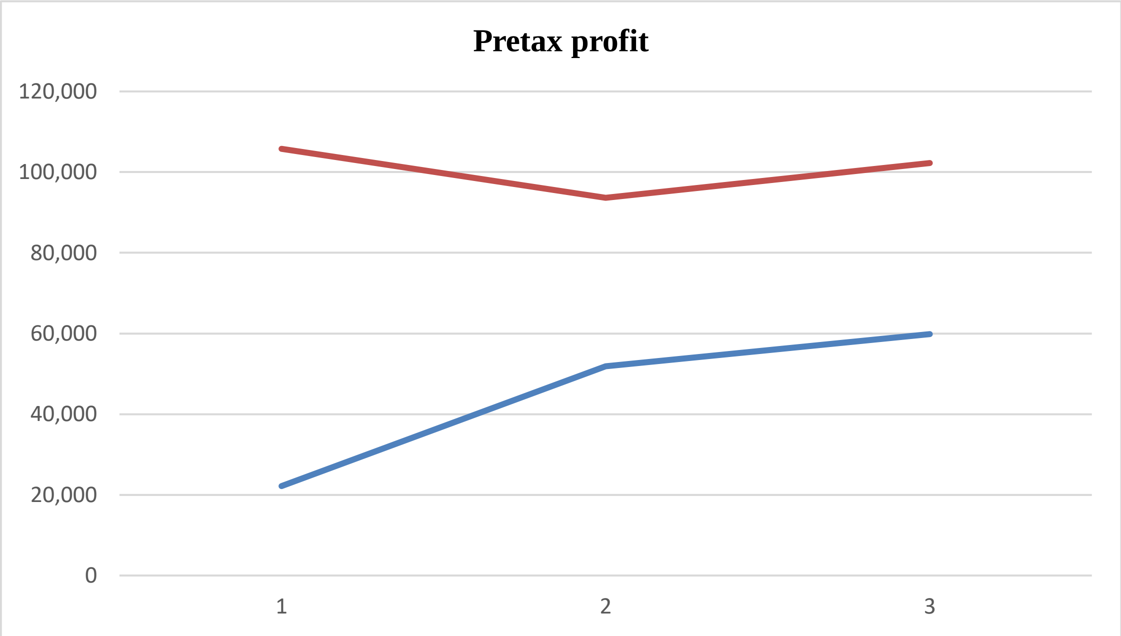

Figure 1 .Pretax Profit
(Key: Green-Safaricom PLC, Brown-Equity Bank)

The third measure was firm resources and here, secondary data, that is, financial statements was used as a determination and comparison. According to the financial statements of Equity Bank, pretax profit rose through the 3 years form 22 billion, 51 billion and 59 billion for the years 2020, 2021 and 2022 respectively. Total assets for equity bank have been rising from 1,015 billion, 1,304 billion then to 1,447 billion. Shareholder equity rose form 138 billion, 176 billion and 182 billion for 2020, 2021 and 2022 respectively. For Safaricom PLC, pretax profit dipped from 105 billion to 93 billion, then rose to 102 billion for 2020, 2021 to 2022 respectively. Total assets rose form 213 billion, 230 billion and 346 billion for 2020, 2021 and 2022 respectively. Shareholder equity rose from 143 billion, 137 billion, then 179 billion for 2020, 2021 and 2022 respectively.

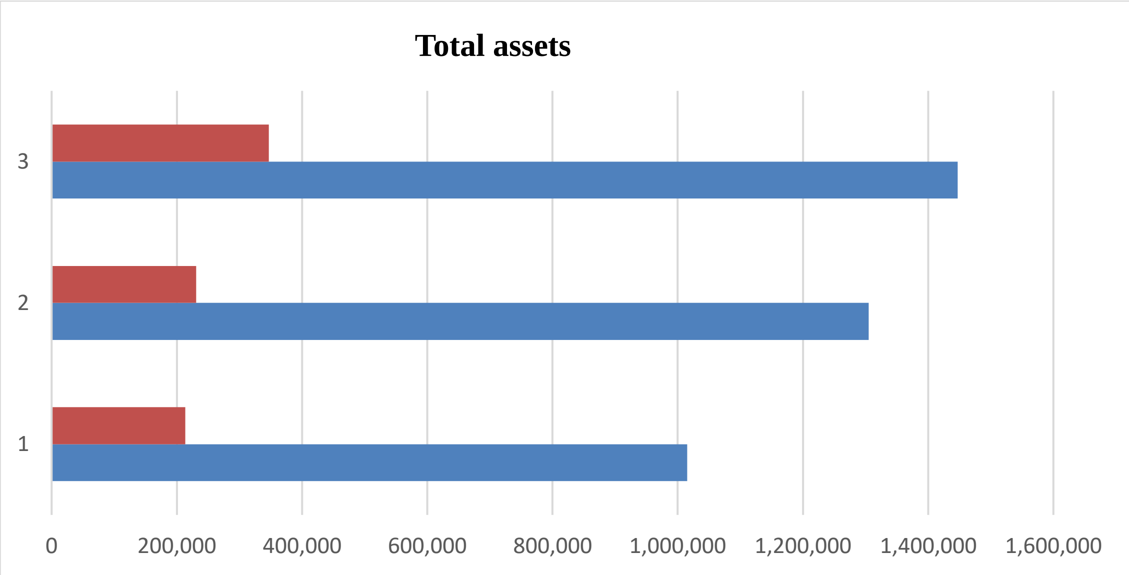

Figure 2. Total Assets
(Key: Green-Safaricom PLC, Brown-Equity Bank)

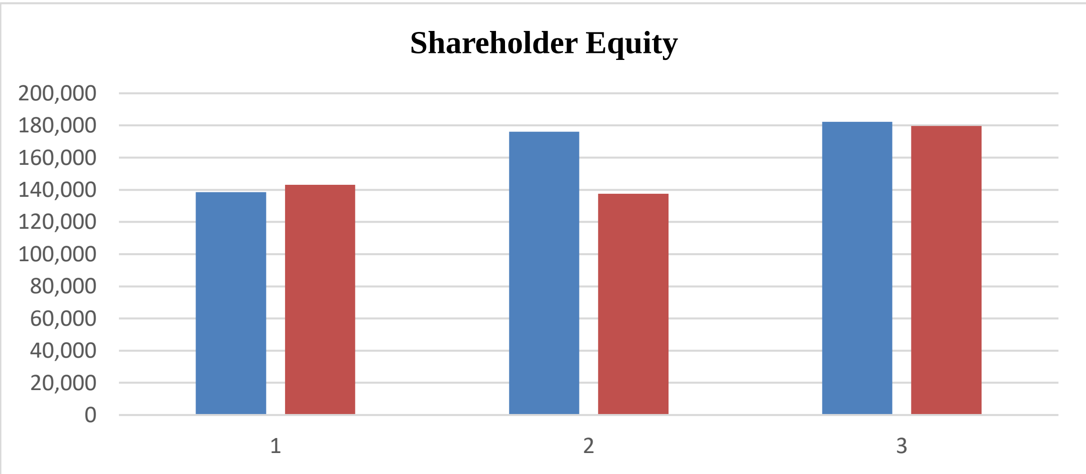

Figure 3. Shareholder Equity
(Key: Green-Safaricom PLC, Brown-Equity Bank)

Financial ratios calculation indicates that return on assets for equity bank rose from 2% to 4%. Return on equity rose from 16%, 29% and 33%. Market share for the bank dropped from 14% to 13%. Return on assets for Safaricom PLC dropped from 50% to 41% and 29% for 2020, 2021 and 2022 down respectively. Return on assets dropped from 74%, 68% and 57% for 2020, 2021 and 2022 respectively. Safaricom's market share rose from 64% to 66%. This is illustrated in table 2:

Table 5. Financial Ratios

Measure	Company	1	2	3	
in millions		2020	2021	2022	AVERAGE
ROA (%)	Equity Bank	2%	4%	4%	3%
	Safaricom Ltd	50%	41%	29%	40%
ROE (%)	Equity Bank	16%	29%	33%	26%
	Safaricom Ltd	74%	68%	57%	66%
Mkt share (%)	Equity Bank	14%	14%	13%	14%
	Safaricom Ltd	64%	64%	66%	65%

This is represented in the subsequent figures:

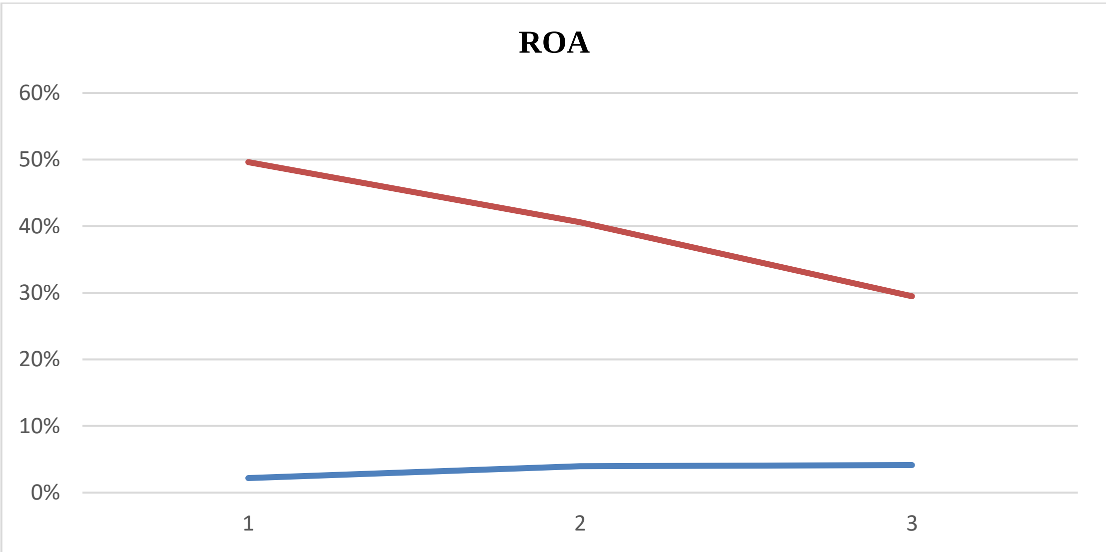

Figure 4: Return on Assets-1
(Key: Green-Safaricom PLC, Brown-Equity Bank)

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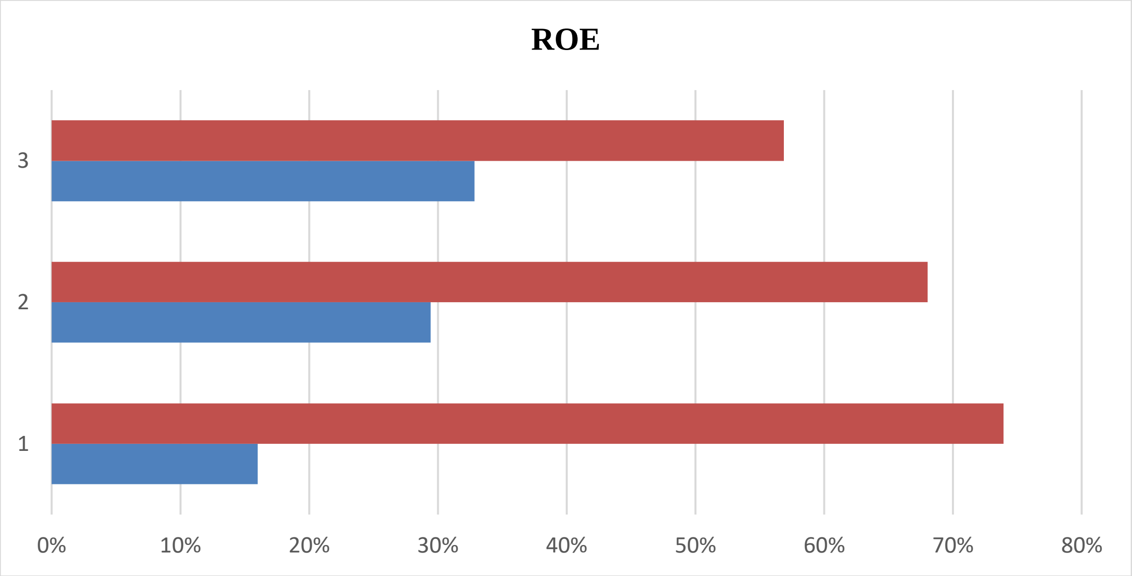

Figure 5. Return on Assets-2
(Key: Green-Safaricom PLC, Brown-Equity Bank)

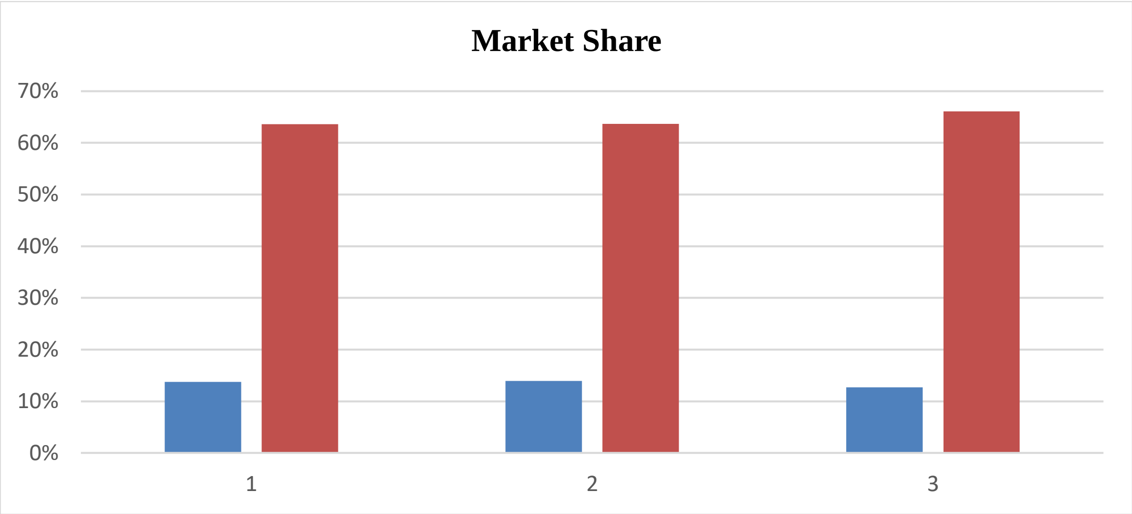

Figure 6. Return on Assets-3
(Key: Green-Safaricom PLC, Brown-Equity Bank)

Summarized and averaged, as Table 6 shows, Safaricom PLC was way ahead of Equity Bank in pre-tax at 44.652 against 100, 541), Return on Assets (ROA) at 3% against 40%, Return on Equity (ROE) at 36% against 66%, and market share at 14% against 65%. . On the other hand, however, Equity Bank leads in total assets at 1,255,672 against 263.551) and Shareholder Equity at 165,681 against 155,472. The results that each company is ahead of the other in some aspects is a pointer that both companies share in size as large firms. This can further be confirmed by the fact that the two companies are listed in the Nairobi Securities Exchange.

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Table 6 .Three Year Averaged Results for Equity Bank and Safaricom PLC

		Equity Bank	Safaricom PLC
1	Pretax	44.652	100, 541
2	Total Assets	1,255,672	263.551
3	Shareholder Equity	165,681	155,472
4	ROA	3%	40%
5	ROE	36%	66%
6	Market Share	14%	65%

Discussion

This study was confirmatory to other studies. For example, Demeter, et al, (2021) study aimed at unearthing the impact of process innovation on business performance in the context of a dependent market economy posted that process innovation has the largest impact on business performance hence confirming the same from this study. However, the interest for this researcher to determine which among the four innovation strategies, that is product, process, marketing and organizational innovation strategies has the largest impact on performance is dealt elsewhere. Makundi, (2020) study in the Tanzania Revenue Authority pointied the irreplaceable tool of process innovation in performance of firm's hence confirming findings of the two variables.

Cheah, et al, (2022) study on the impact of innovation strategies on performance strategic direction in Small and Medium Entreprises (SMEs) revealed revealed that process innovation has positive influences on organizational performance hence the researcher's confirmed this findings to be in harmony with his study. On the other hand, Munga and Nzili (2021) had findings from the study revealing a positive and significant effect on the performance of process innovation strategies on such commercial banks hence once more confirming such findings going along with his. On the other hand, Mutisya, et al, (2022) explored the influence of process innovation strategy on the performance of commercial banks, with the study recommending the adoption of process innovation strategies by banks to enhance their overall performance hence a confirmatory study of the positive and significant relationship existing between the two variables.

Suwignjo, et al, (2022) set out to establish what makes process innovation in Indonesian state-owned companies and through that came out with twenty eight factors behind process innovation implementation that led to success with some more successful than others does not directly confirm the researcher's findings. On the other hand, Demeter, et al, (2021) had the objectives to unearth the impact of process innovation on business performance in the context of a dependent market economy went on to confirm that process innovation has the largest impact on business performance hence confirming the current study.

Kustiningsih and Tjahjadi (2020) delved into the mediating role of business process performance in the relationship between innovation strategy and cost performance among manufacturing companies had positive relations but did not confirm the overall nature of process innovation being positively influencing performance. Hence, seven out of nine studies were confirmatory of positive and significant influence of process innovation

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strategy and performance. Suwignjo, et al, (2022) twenty eight factors behind process innovation implementation led to success with some more successful than others was a confirmation of the success of process innovation on firm performance.

As a pointer to firm characteristics, secondary data was summarized and averaged with the results indicating that each company is ahead of the other in some aspects is a pointer that both companies share in size as large firms. This can further be confirmed by the as a pointer to fact that the two companies are listed in the Nairobi Securities Exchange. Hence, as Table 6 above revealed, Safaricom PLC was way ahead of Equity Bank in pre-tax, ROA, ROE and market share. On the other hand, however, Equity Bank leads in total assets and Shareholder Equity.

Conclusions and Recommendations

The objective of evaluating process innovation strategy influence on performance of Equity Bank and Safaricom PLC in Kenya was also proved to have no statistically significant influence of process innovation strategy on performance of Equity Bank and Safaricom PLC in Kenya hence rejected as well.

Noted earlier is the fact that it was only when the two companies applied innovation strategies that they seem to achieve not only a turn-around but more, register stellar performance. It was the same case on process innovation strategies where the two companies received full benefits of process innovation strategies such as success in implementing new or significant change in techniques, equipment or software, cost reduction effects, firms with quality improvements and the improvement of a production method, enhance the efficiency of the production process, decrease in customer complaint, decrease in return cost.

As noted earlier, the downturn is that, despite this, the two companies as well as many other companies in Kenya and elsewhere are yet more inclined to falling back to generic strategies and therefore yet to adopt as a default strategy innovation strategies in general and process innovation strategies in particular. As pointed earlier, many studies have already confirmed that innovation strategies spur performance. Hence, rather than making generalization, this particular study is a confirmatory study that indeed innovation strategies in general and process innovation strategy indeed spur performance. Hence, on this basis, the cardinal recommendation is the need for companies to shift from use of generic strategies as default strategies and move to and be deliberate in the use of innovation strategies in particular process innovation strategy.

To realize the full potential in process innovation that is, bringing in new or improved software, equipment and techniques, enhance efficiency of the production process, make improvement of a production method and have quality improvements effect which subsequently decreases customer and suppliers' complaint and therefore bring in better customer service and better service to suppliers, decreases in return cost and cost reduction effect, increase in labor market as well as put in place a more effective legal and regulatory compliance with the overall effect being increasing overall performance, another recommendation is for companies to detach innovation strategies in general and process innovation strategy in particular from top management alone. Hence, companies should therefore create innovation-centric environments where it welcomes and harnesses all ideas and ideation from all staff including middle and junior staff.

Future Studies

The fact that it when the two companies apply innovation strategies that they seem to achieve both a turn-around and register stellar performance invites the need of future studies which therefore should delve into depths of the comparative study of process innovation strategy and generic strategies such as the Michael Porter's strategies such as the focus, differentiation and cost leadership strategies.

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