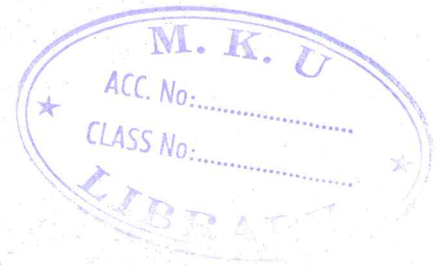


**THE EFFECTS OF FINANCIAL INNOVATION ON FINANCIAL GROWTH OF
DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA**

BY



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**A RESEARCH PROJECT SUBMITTED TO MOUNT KENYA UNIVERSITY IN
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ABSTRACT

In today's global and dynamic competitive environment, product innovation is becoming more and more relevant, mainly as a result of three major trends: intense international competition, fragmented and demanding markets, and diverse and rapidly changing technologies. The study aimed to answer the following research questions, that is, how does product innovation affect financial growth of Deposit Taking Micro-Finance Institutions in Kenya?, Does market innovations affect financial growth of Deposit Taking Micro-Finance Institutions in Kenya? Do process innovations affect financial growth of Deposit Taking Micro-Finance Institutions in Kenya? How does technological innovation affect financial growth of Deposit Taking Micro-Finance Institutions in Kenya? This research problem was studied through the use of a descriptive research design. The respondents of this study was senior, middle and lower level managers in product development, IT, operation departments and marketing department in each DTM while two (2) respondents in each department was targeted contributing to 72 respondents. The researcher collected both primary and secondary data. Secondary data was to be obtained from the balance sheet and income statement of each individual DTM. The study was generated both qualitative and quantitative data. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 18.0) and analyzed using descriptive statistics. Qualitative data was analyzed based on the content matter of the responses.

In conclusion, majority of DTM had embraced product innovation while management support of competitive strategies and information intensity influence organization adoption of product innovation mostly. Additionally, the study concluded that product diversification and product development are the key success factors in product innovation strategies. Improved and radically changed products are regarded as particularly important for long-term DTM growth and that products at the DTM have been updated and completely renewed for retaining strong market presence to a great extent. Further the study concluded that DTM's vision and mission statements influence organization towards a product development to a great extent while product development is regarded to be important to a great extent in both the supply of the core product as well as in the support part of any offer. The study recommended that for organization to be effect on its financial performance particularly financial institution they must recognize product innovation. This due to the realization that consumers are changing their preference as the innovation changes hence organization that was reluctant to old models be run out of the market by the organization that embraced product innovation. On market innovation, the study recommended that for organization to have large market share, it must recognize marketing innovation to reach more customers.