

**EFFECTS OF PRODUCT INNOVATION ON THE GROWTH OF MICROFINANCE
INSTITUTIONS IN KENYA**

(A Case Study of Faulu Kenya, Kimathi Street Branch)

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BCOM/2013/42603

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF BACHELOR OF COMMERCE OF MOUNT
KENYA UNIVERSITY**

OCTOBER 2015

ABSTRACT

Previous studies have shown that microfinance institutions play a vital role in the economic development of many countries including Kenya through the provision of a wide range of financial products and services to the poor, low-income households and micro and small enterprises. Unfortunately, majority of these studies have concentrated on the growth of MFIs.

This has resulted in little or no research on determinants of MFIs product innovation in microfinance institutions, including the favorable competition, new technological inventions and proper firms policy in microfinance institutions in Kenya.

The purpose of this study was to determine the effects of product innovation on the growth of microfinance institutions in Kenya. The specific objective was to determine the effects of competition, technology and firm's policy on product innovation on the growth of microfinance institutions in Kenya. Descriptive research design was used in the study. The target population included Finance Department, Marketing Department and Administration Department respectively of Faulu Kenya, Kimathi Street, Old Mutual Building, a total of 300 employees and a sample size of 80(62.5%)of the target population. Stratified random sampling method was used to ensure that all the subgroups in the study were included. Data collected questionnaires, as a data collection instrument. The study used the quantitative and qualitative data analysis methods that were analyzed using Microsoft Excel 2010 and SPSS.

The study concluded that competition, technology and firms policy in the microfinance institutions affect the performance on the product innovation on the growth of microfinance institutions in Kenya according to 62.5% of the respondents.

The study recommended that the free market economy performs through competition, therefore, a certain amount of market power is required to make investments and take risks in research and development. Customer knowledge must be complemented with technology knowledge before a product can be created. To access knowledge in technologies, organizations should develop technologies systematically and to create platforms of capability. Finally, firms should embrace innovation by putting into consideration the cultural capacities for organizing cultural capacity as a tool of cultural materials from people to develop a line of conduct in a certain realm of action.