Effect of Product Innovation Factors on the Financial Performance of Deposit Taking Saccos in Nairobi City County, Kenya

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Abstract- The research sought to investigate the effect of product innovation factors on financial performance of deposit taking saccos in Nairobi City County, Kenya. Despite the significance of product innovation, the effect of product innovation factors on financial performance is still misunderstood. Therefore the study sought to investigate the effect of product innovation factors on financial performance of deposit taking saccos in Nairobi City County, Kenya. The independent variables were branch networks, products' range, product location and product cost while the dependent variable was the financial performance of deposit taking saccos in Nairobi City County, Kenya. The study used descriptive research design. The study population was the 30 deposit taking saccos in Nairobi City County, which have been operating between 2013 and 2017. A census study of the 30 deposit taking Saccos was conducted. The study used purposive sampling to pick 3 respondents per Sacco which translated to a total of 90 respondents. Semi-structured questionnaires were used to collected primary data while secondary data was collected from published financial statements pertaining information which relates to the dependent variable, financial performance. The study established that branch network, product range, product location and product cost had a significant direct relationship to financial performance of deposit taking saccos in Nairobi City County, Kenya.

Index Terms- branch network, product range, product location, product cost, financial performance

I. INTRODUCTION

The banking sector in Kenya is witnessing changes based on the different innovations on the products, services, processes, systems, business models, technology, governance and regulations. Nyathira (2012) observed that in the past few years the financial sector in Kenya has gone through major changes and numerous new financial systems have come into place. With the recent innovations in the financial market and more so banking SACCO's in Kenya, the whole industry has been transformed through enhancement of efficiency and effectiveness.

Financial innovations are adopted by SACCOs as competitive strategy to surpass its rivals and presumed as vital means to remain in existence in the ever changing financial sector so as to attain its objectives, retain success and improve its performance in the aggressive business environment. SACCOs must take up new innovative means to fund their undertakings instead of depending on the members' deposits (Maorwe, 2011) and embrace exceptional innovative practices that ensure sustainability and growth while attaining competence in all operational levels (Mutuku, 2014).

Al-Wabal and Al-Samadi (2011); Gutu (2014) and Khrawish and Al-Sa'di (2011) have done research on finance innovation in developing countries like Jordan, India, Romania and Pakistan. They found that application of electronic banking reduces operational costs and leads to increased profits in banks. The cost of setting up internet banking and other electronic-based products is covered within a relatively short time once these innovations are in operation. This has encouraged such innovations in third world countries. However, it is necessary to expand the customer portfolio if we are to have increased bank performance (Sumra *et al.*, 2011).

In Nigeria, product quality and product mix or product line is directly and strongly correlated with the profitability of firms, customer loyalty and sales volume (Nwokah *et al.*, 2009). In Rwanda, mobile banking, visa/ debit card payment, ATM, electronic cheque payment, pay direct, among other electronic banking tools have a notable effect on the financial performance of banks because they increase: return on loans and equity, return on investment, profitability, bank assets and raise the quality of bank management (Asia, 2015).

In Kenya, the efficiency of the financial sector is vital for the country to realize its vision 2030 (GoK, 2008). The key financial pillars of efficiency, stability and access can fully be met by fully embracing financial innovation for the country to meet its targeted economic growth (Muiruri, 2014). Central Bank of Kenya (2013) notes that there have been various innovations in Kenya which include: electronic fund transfers, real transfer gross settlement, mobile baking, internet banking telephone banking and servicing of utility.

Ndeta (2016) assessed how financial performance of deposit taking Saccos in Western Kenya is affected by electronic banking and discovered a feeble direct link in embracing electronic banking and financial performance of DTS but a solid positive affinity exists between DTS liquidity and DTS capital adequacy. Consequently it is important for Sacco management to be rational when adopting innovations such as e-banking and work methods that enhance efficiency to ascertain maximum benefit with minimum cost. Saccos can use electronic banking to promote customer service delivery which may enhance membership mobilization

Financial innovations are adopted by SACCOs as competitive strategy to surpass its rivals and presumed as vital means to remain in existence in the ever changing financial sector so as to attain its objectives, retain success and improve its performance in the aggressive business environment. SACCOs must take up new innovative means to fund their undertakings instead of depending on the members' deposits (Maorwe, 2011) and embrace exceptional innovative practices that ensure sustainability and growth while attaining competence in all operational levels (Mutuku, 2014). Ongwen (2015) argues that product innovations in Kenya positively affect financial performance.

Over 50% of all cooperatives in Kenya are Sacco's. According to Onduko (2013), Saccos, as financial organizations, have a key role in financial intermediation in the financial terrain in Kenya majoring mostly on personal growth. Saccos are prominent for mobilizing savings and giving loans to members for corporate and personal growth (Onduko, 2013). Just like commercial banks, Saccos take deposits from particular people and make profits by charging high interest rate when they use the deposits to give loans.

The Sacco Societies Act (2008) controls Saccos' registration in Kenya. The Sacco Societies Regulatory Authority (SASRA) licenses, regulates and promotes Saccos as per the Act (2008). This Act also gives the least operational essentials and the important measures to be undertaken by deposit taking Saccos to minimize risk while ensuring stability of the Saccos funds. There are two classifications of Saccos: Deposit taking Saccos (DTS) and the non-deposit taking Saccos. DTS provide members with the basic banking services which include savings and credit services. DTS accept deposits, offer payment services and FOSA. FOSA means front office service activities, they are among the Saccos' banking undertakings that are licensed by SASRA, whose objective is to upgrade customer services, reduce costs and guarantee smooth running of Saccos (SASRA Report, 2014). Usually, Saccos start operating as non-DTS and grow to DTS where they are in a position to offer various financial services to members (Kenya Financial Stability Report, 2014).

There are more than 2000 Saccos in Kenya with only 186 registered Saccos by SASRA and which are authorized to conduct front office service operations (FOSA). Only 30 of them are located in Nairobi County (Appendix III). In this study, the performance of deposit taking Saccos will be determined by looking at its profitability which will be evaluated using return on asset (ROA).

Deposits taking Saccos in Kenya have always straggled to keep pace with this ever changing technology with some of the Saccos collapsing and others operating under losses (Sum & Memba, 2016). Long lines due to increased membership, transaction error, and insecurity and network failures are the common challenges in the operation of Saccos (Smith, 2013).

According to the Cooperative Development and Marketing Conference report (2010), in Kenya there are over 5200 registered Saccos who house a total of more than 5.6 registered members. Fin Access (2012) reports that more than 81% of Kenyans rely on Saccos to access financial services in Kenya. However, the total number of Saccos which have been registered with SASRA stands at 186 and there are only 39 Saccos registered with SASRA in Nairobi County.

Whilst it has been heavily researched on the Sacco services and financial innovations and how they interchangeably affect financial performance, there exist gaps on the actual factors which are behind such an effect. Kamakia (2014) renders that various features relating to product innovation and competitiveness such as branch networks, range of products, location, cost (charges), bank reputation, innovation and customer service affect financial performance in Kenya. However, it is not clear in which direction these factors affect product innovation and whether such effect translates to financial performance. If challenges from product innovation factors are revealed and mitigated, companies will be more willing to adopt product innovation and there will be growth in their financial performance (Kamakia, 2014).

Many studies have concentrated on the various innovations such as online banking, mobile banking and agency banking (Ngumi, 2013; Mugane, 2015; Munywoki, 2009; Nyathira, 2009; Akhisar, Tunay & Tunay, 2015; Ngari & Muiruri, 2014) while others have also concentrated on the different forms of financial innovations such as product innovations, process innovations and institutional innovations (Kibugo, 2016) thereby leaving the product innovation factors and their effect on financial performance less researched. Also, most scholarly research has placed much emphasis on the nexus between innovation and profitability and little emphasis on product innovation factors and performance (Youtie & Roper, 2008).These studies have not been able to establish the effect of product innovation factors on the performance of DTS in Nairobi City County, Kenya. Therefore this study was conducted in a bid to fill this gap by determining the effect of product innovation factors on the financial performance of DTS in Nairobi City County, Kenya. The specific objectives were: to assess the effect of branch networks on the financial performance of deposit taking Saccos in Nairobi City County, Kenya, to investigate the effect of products' range on the financial performance of deposits taking Saccos in Nairobi City County, Kenya, to evaluate the effect of product location on the financial performance of deposits taking Saccos in Nairobi City County, Kenya and to establish the effect of product cost on the financial performance of deposits taking Saccos in Nairobi City County, Kenya.

II. LITERATURE REVIEW

2.1 Branch Networks and Performance

According to Athanasoglou and Gioka (2007) branch network involves locating a firm in various places so as to have more opportunity to serve more customers. Spread of branch networks is referred to as the positioning of a firm's branches in different places so as to accomplish certain objectives (Tuwei (2016). Spreading in branch networks is also seen as dissolution of bank branches to foster accessibility of the banks' products and services and to encourage the banks' alliance with its customers (Adeyinka, 2013).

Adelowotan (2016) studied the nexus of growth of branch network and the performance of Nigerian banks. This research included all Nigerian banks operating in 1981 to 2013. Ordinary least of square (OLS) was used as a combined data analysis was embraced. Bank branches between 1981 and 2013 were the dependent variable while growth in total assets was the independent variable. It was revealed that bank branches growth had a direct relation to growth of assets in rural, urban and foreign areas.

Musyoka (2011) studied the nexus of spread of branch network and financial performance of commercial banks in Kenya. Descriptive research design was adopted to establish the relationship between the asset size, number of branches and the total capital ratio, which were the independent variables, and the financial performance of the banks, as the dependent variable. Results from this study indicate that there is a direct relation linking branch network and financial performance of the banks.

Hirtle (2007) did a study to assess the effect of branch networks on Return on Assets. In his study, he adopted descriptive research design to determine the relationship linking the dependent and independent variables. A sample of 100 banks in US was used and correlation analysis done which showed no relationship linking the variables. In addition, an evaluation of the link of branch network and performance revealed that moderate-sized banks have an edge over small and large-sized banks regarding branch network growth.

According to Seale (2004), commercial banks branching in the US results to increased profitability, higher fee income and lower expenses. However in Spanish bank, Valverde *et al.* (2004) concluded that the nexus linking the number of bank branches and the number of ATMs expound on a remarkable percentage of cost inefficiency.

Njeri (2013) assessed how performance of DTS is affected by financial innovation. Descriptive research deign was used to establish the effect of branch network, number of customers who have adopted mobile banking, the number of ATMs installed and expenditure in ICT on the financial performance of DTS. This study disclosed a strong direct link in branch network, number of customers using mobile banking, the number of ATMs installed and expenditure in ICT and financial performance.

2.2 Product Range

In his study, Warucu (2001) revealed that focus and product differentiation are some of the significant strategies that the banks have used in their quest to gain competitive advantage. For instance, in Kenya there have been varied products offered in the banking and Sacco sector which entail ATM s, agency banking, debit cards, electronic banking, pesalink, Mvisa, internet banking and plastic cards including prepaid cards and credit cards. Varied services such as deposit, lending and financial advisory also cater for the services offered by Saccos (Warucu, 2001).

Makur (2014) studied the how financial performance of commercial banks in South Sudan is affected by financial innovation. In January 2009 to December 2013the commercial banks registered with the central bank of South Sudan were 16. A census study was used to study all the 16 banks using casual research methodology. The independent variables in the study were: number of transactions had done using ATM per day (Withdrawals, Deposits) the number of transactions done using a phone per day (paying bills), accessing the account (update, checking the balance), borrowing and depositing and the amount of money borrowed using internet transactions. The findings indicate that financial innovation yields strong financial performance of commercial banks in South Sudan.

Karaba (2012) did a study on the factors influencing competitive advantage of companies in the financial sector in Kenya, focusing on standard chartered Bank Kenya Limited. The factors analyzed were training, service provision, technology, product innovation and leadership. Descriptive research design was used. The study revealed that product innovation help in establishing a competitive advantage in Standard Chartered Bank in the banking industry in Kenya.

Ngari and Muiruri (2014) researched on the outcome of financial innovation on the financial performance of commercial banks in Kenya. Descriptive research design was used to assess, the relationships between mobile banking, credit cards, influence of internet banking and agency banking on the financial performance of commercial banks in Kenya, this research revealed that indeed financial innovations greatly impacts financial performance of the banks.

2.3 Product Location and Financial Performance

Location can be defined as the choice of where the firm is to be situated; this can be large, medium or small cities or rural or urban location (Kala *et al.*, 2010). Lucky and Minai (2011) on their study on the conceptual framework of the effect of location on performance of Small firms in Nigeria looked at the effect of; business accessibility, technologies accessibility and nearness to raw material to the success of a firm. The study used descriptive research design and revealed that when location is given serious and acute examination, it's possible to change the entrepreneurial scenario thus acting as a prompting force in reaching entrepreneurial success. The beginning of any firm's success is its strategic location.

Magali (2015) in his study on dependent and Independent variables of Saccos' growth in Tanzania revealed that 70% of non-urban Saccos had operated on losses occasioned by lack of reliable techniques and financial innovations that could prevent credit risk. Additionally, the aspect of management of credit risk hampered the profitability of rural Saccos.

Tamale (2017) did an analysis how financial performance of commercial banks in Kenya is affected by business diversification on. This study employed mixed research design, which is quantitative and descriptive research designs were used to establish the effect of channel diversification, Product diversification, location diversification, investment diversification and the perception of stakeholders in the banking sector regarding the relationship between business diversification, on the financial performance of commercial banks in Kenya. It was concluded that location diversification significantly affects the financial performance of medium sized banks category.

Gachimu and Njuguna (2017) did a research on strategic positioning and financial performance of commercial banks in Kenya. Correlation analysis was used to examine the nexus between technological innovation, market segmentation, product focus, and location strategy, which were the independent variables and the financial performance of commercial banks in Kenya, the dependent variable. It was revealed that commercial banks in Kenya use all four positioning strategies to enhance their competitiveness. It was further concluded that the location of a business in connection to technology, communication and geography, is key in promoting performance; strategic location and online platform accessibility, physical location, via communication channels enhances services offered to customers as there is increase interaction and feedback which significantly improves financial performance.

2.4 Product Cost

Claeys and Vennet (2008) researched on the determinants of interest margins of banks in Eastern and Central Europe. The study did a contrast of Central Eastern Europe and the West. In this study the findings revealed that clients are more willing to spend additional premiums as a result of convenience when picking which bank to work with.

Tsuma *et al*. (2015) researched on the how financial performance of Saccos in Kenya is affected by financial innovations, with a focus on Kakamega Teachers Co-operative Society Limited. Descriptive research design was used to determine the nexus of the independent variables which were automation, computerization and ATMs on the dependent variable-financial performance. It was revealed that Saccos in Kenya have adopted financial innovations thus reducing their operational costs.

According Asogwa *et al.* (2011) farmers fail to organize themselves into institutions that can help them in risk sharing and increase bargaining power has resulted to soaring levels of cost inefficiency which is responsible for low profits realized. To be able to revitalize the small scale farmers' productivity, it would involve coming up with collective farmers' institutions that allow risk sharing which results to increased bargaining power that is currently not available to the farmers.

Kiaritha *et al.* (2014) researched on the how the financial performance of the banking sector in Kenya is affected by operating costs. This study adopted descriptive research. Saccos in the banking sector in Kenya were the target population while the sampling frame was got from the Ministry of Cooperative Development and Marketing database. Simple random sampling and stratified sampling was adopted in this study. Primary data was collected using a Likert scale questionnaire while a secondary data collection sheet was used to collect secondary data. The study revealed that the Saccos had effective policies to govern how they are run and their operating cost.

2.5 Critique of Literature and Research Gaps

Relevant literature reviewed, from several researchers: Hirtle, 2007; Adelowotan, 2016; Musyoka, 2011; Lucky and Minai, 2011; Tamale, 2017, Gachimu and Njuguna, 2017; Makur, 2014; Karaba, 2012; Ngari and Muiruri, 2011; Claeys and Vennet, 2008; Tsuma *et al*., 2015 have revealed that product innovation factors have positive impact on financial performance of banks and Saccos. However other scholars like Valverde *et al*. (2004) and Magali (2015) found out that product innovation factors have negative effects on financial performance of banks and Saccos. Alternative views and mixed results observed from the different countries and writers are mostly subsequent to not comprehensively analyzing different innovation and performance indicators. This study thus investigated financial performance of DTS in Nairobi City County is affected by various product innovation factors.

From the reviewed literature, it is clear that comprehensive research has been done in the area of product innovations. All the reviewed literature shows that the preceding researchers only focused on the variables of product innovations, while this study covers variables of product innovation factors like branch network, product location, product range and product cost which make the study more all-inclusive. The assessed literature indicates no study in Kenya links product innovation factors to financial performance of DTS in Nairobi City County. This study fills this literature gap by researching on effects of product innovation factors on financial performance of DTS in Nairobi City County, Kenya.

III. RESEARCH METHODOLOGY

Descriptive research design was used in this study to comprehend the nexus between the independent and dependent variables. It is the most suitable design because it describes the association between two variables, where the independent variable, results in a specific impact on the dependent variable (Cooper & Schindler, 2006). Descriptive research design answers the "how" question. The relation investigated in this study will be the effects of product innovation factors on the financial performance of DTS in Nairobi City County, Kenya.

The 30 licensed Deposit taking Saccos in Nairobi City County, Kenya, for the period of 2013-2017 was the population of this study, as shown in Appendix III. The sample frame for this research was all the 30 licensed DTS in Nairobi City County, Kenya, for the period of 2013-2017. According to SASRA (2013), there were 30 licensed Deposit taking Saccos between 2013 and 2017 in Nairobi City County. The study used purposive sampling to pick 3 respondents per Sacco which translated to a total of 90 respondents who were selected for the purpose of this study.

Primary and Secondary data was used. Semi-structured questionnaires containing open and closed ended questions were used in collection of primary data while published financial statements with information relating to the dependent variable, financial performance were used to collect secondary data. The study mainly focused on primary data, thus the main data collection instruments were the questionnaires. Questionnaires were preferred because of their ease of administration and because they save on both cost and time of data collection. For maximum data collection, questionnaires had open ended and closed ended questions. The two sections of the questionnaire were: Section I, which had questions on background information and section II, questions on the research questions. Likert scale ratings ranging from 1 to 5 was the format of the structured questions within the questionnaire. In which case 5= Strongly Agree, 4 = Agree, 3= Neutral, 2=Disagree, 1= Strongly Disagree. Secondary data collection sheet was be used to collect secondary data for the period between 2013 and 2017.

This was done to rehearse on the tool with a small-scale data before the larger research design was rolled out. This enabled testing of the feasibility, equipment and methods

(Sreevidya & Sunitha, 2011). The research questionnaire's validity and reliability was tested in the pilot test. The pilot test for this study involved 9 respondents which is 10% of the sample population

The validity of the research schedules' content was ensured by consulting the supervisor who reviewed and further guided on the quality of data collection tools for this study. Reliability of the schedules was tested using Cronbach's alpha coefficient where a threshold value of ≥ 0.7 was used. In this study, data analysis involved preparing the collected data, coding it, editing and cleaning it to prepare it for processing using STATA software version 13 and multiple regression model shown below:

$Y = \beta0 + \beta1X1 + \beta2X2 + \beta3X3+\mathcal{E}$

Where Y – Performance of DTS in Nairobi County, as measured by Return on Assets

X1 – branch network

X2 – products' range

X3 – product location

X4 – product cost

β0- Constant

Ɛ- Error term

β1, β2andβ3 –Coefficients of the independent variables

Analyzed data presentation was done using tables and charts.

IV. DATA ANALYSIS

4.1 Response Rate

Ninety questionnaires were issued to the study participants out of whom only 65 were received back representing a 72% response rate. Falconer and Hodgett (1999) state that, "even in a survey which is perfectly targeted to its sample, about 42% to 58% response rate is the maximum that is likely to be achieved." Hagger *et al.* (2003) proposes that a researcher should strive to achieve a response rate of 50 percent, 60 percent or 75 percent.

4.2 Demographic Information

The researcher used four demographic items in the questionnaire; Gender, age group, work experience, and level of educational. The respondent's responses were as below:

4.2.1 Gender of the Respondents

Table 4.1 shows that majority of the respondents were males comprising 64.6 percent while females were 35.4 percent implying that both gender were represented in the study.

Table 4. 1: Gender of Respondent

	Frequency	Percent
Male	42	64.6
Female	23	35.4
Total	65	100

4.2.2 Age of the Respondents

Table 4.2 shows that most respondents were in the age group 26-30 which comprised 38.5 percent followed by age bracket of 36-40 years with 23.1 percent, then the age 31-35 with 15.4 percent, 20-25 with 12.3 percent, age bracket of above 45 had 6.2 percent and finally the age group 41-45 had 4.6 percent. This gave the implication that all age groups were represented in the study.

Table 4. 2: Age (Years)

Age Group	Frequency	Percent
20 – 25	8	12.3
26 – 30	25	38.5
31-35	10	15.4
36-40	15	23.1
41-45	3	4.6
Above 45	4	6.2
Total	65	100

4.2.3 Work Experience

Table 4.3 shows that respondents with less than one year work experience were 13.8 percent, 2-3 years 18.5 percent, 4-5 years 16.9 percent, 6-7 years 27.7 percent, 8-9 years 13.8 percent and above 10 years 9.3 percent. This gave the implication that the majority were with enough professional experience to tell if product innovation factors affect financial performance.

Table 4. 3: Work Experience

	Frequency	Percent
Less than one year	9	13.8
Between 2-3 years	12	18.5
Between 4-5 years	11	16.9
Between 6-7 years	18	27.7
Between 8-9 years	9	13.8
Above 10 years	6	9.3
Total	65	100

4.2.4 Respondents' Level of Educational

Table 4.4 below shows that the level of education was as follows; 33.9 had diploma education, 60 percent of the respondents were degree holders, those with a masters degree were 4.6 percent while those with a PhD were only 1.5 percent. This implied that most persons had attained education level sufficient to influence favorably their comprehension. The findings are shown in table 4.4.

Table 4. 4: Respondent's Educational Qualifications

	Frequency	Percent
Diploma	22	33.9
Degree	39	60
Masters	3	4.6
PhD	1	1.5
Total	65	100

4.3 Pilot Test Results

The researcher conducted a pilot study involving 9 respondents. The findings showed that the study was feasible as conceptualized. The pilot study revealed that the respondents could comprehend the questions as framed. It further showed that descriptive research design will provide answers to the research questions. The effectiveness of the pilot study was highly evident as it enabled the researcher to establish the content validity of the questionnaires and the overall research tools and as such making the necessary efficiency modifications prior to the actual research process. The researcher conducted reliability analysis using Cronbach's Alpha. The results showed that there was a Cronbach alpha of 0.778 indicating that there was internal consistency.

4.4 Study Findings

4.4.1 Branch Network and Financial Performance

The research sought to determine effect of branch network on the financial performance of DTS in Nairobi City County. The respondents were asked to give their opinion on the statement that growth in deposit taking Saccos' branches is positively related to asset growth in rural areas. 33.85%, strongly agreed, 23.08% agreed, 12.30% strongly disagreed, 21.54% disagreed and 9.23% were neutral. 75.3% strongly agreed that growth in deposit taking Saccos' branches is positively related to asset growth in urban areas, with only a total of 7.7% disagreeing and strongly agreeing. When asked if growth in deposit taking Saccos' branches is positively related to asset growth in foreign areas, 38.46% strongly disagreed and 16.92% disagreed giving a total of 55.38% which is more than half of the population. 26.15% strongly agreed, 13.85% agreed while 4.62% were neural. The study relates to the study on the nexus of growth of branch network and the performance of Nigerian banks that revealed that bank branches growth had a direct relation to growth of assets in rural, urban and foreign areas (Adelowotan, 2016). In this study it is however revealed that growth in deposit taking Saccos' branches is positively related to asset growth in rural and urban areas but is inversely related to growth of assets in foreign areas.

72.31% were positive that branch networks in deposit taking Saccos relates positively to Financial Performance, with 50.77% strongly agreeing and 21.54% agreeing. The study agrees with the study done by Musyoka (2011) on the nexus of spread of branch network and financial performance of commercial banks in Kenya which established that there is a direct relation linking branch network and financial performance of the banks.

When asked if medium-sized enterprises have a competitive advantage over small-sized deposit taking Saccos in terms of branch network growth, 44.62% strongly agreed, 15.38% agreed, 20% strongly disagreed, 10.77% disagreed while only 9.23% were neutral.

Table 4. 5: Branch Network and Financial Performance

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Growth in deposit taking Saccos' branches is positively related to asset growth in rural areas	12.3	21.5	9.2	23.1	33.8
Growth in deposit taking Saccos' branches is positively related to asset growth in urban areas.	4.6	3.1	1.5	15.4	75.4
Growth in deposit taking Saccos' branches is positively related to asset growth in foreign areas	38.5	16.5	4.6	13.8	26.2
There is a positive relationship between deposit taking Saccos' branch networks and financial performance	9.2	16.9	1.5	21.5	50.8
Medium- sized enterprises have a competitive advantage over small-sized deposit taking Saccos in terms of branch network growth	20.0	10.8	9.2	15.4	44.6

4.4.2 Product Range and Financial Performance

The research sought to determine effect of product range on the financial performance of DTS in Nairobi City County. 89.23% were of the opinion that their Sacco has embraced product focus strategy which drives its financial performance positively, while only 9.23% were negative. More than half of the population, 89.24%, was positive that their Sacco has embraced product differentiation strategies which affect its performance positively. This research agrees with the study done by Warucu (2001) which revealed that product focus and differentiation are some of the significant strategies that the banks have used in their quest to gain competitive advantage.

When asked if product variety boosts dynamism resulting in more stability of Deposit taking Saccos and greater performance as both products act as cash cows, 27.69% agreed while 55.38% strongly agreed. In combination, the number for the respondents who agreed and strongly agree was greater, 92.3%, compared to those who were neutral, disagreed and strongly disagree combined, 7.7%, with the statement that product innovations help attaining competitive advantage of deposit taking Saccos in Nairobi City County, Kenya. This was in line with the study done by Karaba (2012) on the factors influencing competitive advantage of companies in the financial sector in Kenya, focusing on standard chartered Bank Kenya Limited. The study revealed that product innovation help in establishing a competitive advantage in Standard Chartered Bank in the banking industry in Kenya

Majority of the respondents, 60.00%, strongly agreed that there is a positive relationship between product range and financial performance of deposit taking Saccos in Nairobi City County. This agrees with Ngari and Muiruri (2014) who researched on the effect of financial innovation on the financial performance of commercial banks in Kenya and established that indeed financial innovations greatly impacts financial performance of the banks.

Table 4. 6: Product Range and Financial Performance

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Our Sacco has embraced product focus strategy which drives its performance positively	3.1	6.2	1.5	16.9	72.3
Our Sacco has embraced product differentiation strategies which affects its performance positively	6.2	4.6	0	24.6	64.6
Product variety boosts dynamism resulting in more stability of Deposit taking Saccos and greater performance as both products act as cash cows	6.2	7.7	3.1	27.7	55.4
Product innovations help attaining competitive advantage of deposit taking Saccos in Nairobi City County, Kenya	3.1	4.6	0	16.9	75.4
There is a positive relationship between product range and financial performance of deposit taking Saccos in Nairobi County	7.7	10.8	7.7	13.8	60.0

4.4.3 Product Location and Financial Performance

The research sought to determine effect of product location on the financial performance of DTS in Nairobi City County. More than 80% of the respondents were of a positive opinion that deposit taking Saccos' access to informed publics positively contributes towards financial performance while only 1.54% of the respondents strongly disagreed, 3.08% disagreed and 7.69% was neutral. 76.92 % were of the opinion that deposit taking Saccos' access to business contributes positively towards financial performance. Majority of the participants 67.69% were positive that DTS access to technology contributes positively towards financial performance. This study agrees with the study done by Lucky and Minai (2011) on the conceptual framework of the effect of location on performance of Small firms in Nigeria which looked at the effect of; business accessibility, technologies accessibility and nearness to raw material to the success of a firm. This study revealed that when location is given serious and acute examination, it's possible to change the entrepreneurial scenario thus acting as a prompting force in reaching entrepreneurial success.

When the participants were asked if DTS location diversification affects performance in a significant manner, 43.08% strongly agreed and 36.92% agreed making up more than 70% of the population. This was in line with the study by Tamale (2017) who did an analysis how financial performance of commercial banks in Kenya is affected by business diversification and concluded that location diversification significantly affects the financial performance of medium sized banks category.

32.31% agreed and 38.46% strongly agreed that strategic location, promotes enhanced customer service, interaction and feedback which goes a long way in improving performance. This research agrees with Gachimu and Njuguna (2017) who did a research on strategic positioning and financial performance of commercial banks in Kenya and revealed that strategic location enhances services offered to customers as there is increased interaction and feedback which significantly improves financial performance.

Table 4. 7: Product Location and Financial Performance

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Deposit taking Saccos' access to informed publics contributes positively towards financial performance	1.5	3.1	7.7	24.6	63.1
Deposit taking Saccos' access to business contributes positively towards financial performance	7.7	12.3	3.1	20.0	56.9
Deposit taking Saccos' access to technology contributes positively towards financial performance	13.8	16.9	1.5	26.2	41.5
Deposit taking Saccos' location diversification affects performance in a significant manner.	6.2	10.8	3.1	36.9	43.1
Strategic location, promotes enhanced customer service, interaction and feedback which goes a long way in improving performance.	10.8	13.8	4.6	32.3	38.5

4.4.4 Product Cost and Financial Performance

The research sought to determine effect of product cost on the financial performance of DTS in Nairobi City County. The respondents were asked to give their opinion on the statement that Customers prefer SME products which are highly affordable to them, 90.77% of the respondents were of a positive opinion. This study disagrees with the study on the determinants of interest margins of banks in Eastern and Central Europe which revealed that clients are more willing to spend additional premiums as a result of convenience when picking which bank to work with (Claeys & Vennet, 2008).

As seen from 40% who agreed and 26.15% who strongly agreed, most of the respondents had a positive opinion on the statement that Saccos that innovate cut down operational costs thereby increasing their profit margins and yielding greater performance. The study agrees with the study done by Tsuma *et al*. (2015) on the effect of financial innovation on financial performance of Saccos in Kenya which focused on Kakamega Teachers Co-operative Society Limited which revealed that Saccos in Kenya have adopted financial innovations to enable them reduce their operational costs.

As evident from the results, 27.69% agreed and 24.62% strongly agreed, most participants were of the opinion that high level of cost inefficiency is highly attributable to the low profitability that results from inadequate organization that can provide opportunities for risk sharing and improved bargaining power among SMEs.The research agrees with the study done by Asogwa *et al.* (2011) on why farmers fail to organize themselves into institutions that can help them in risk sharing and increase bargaining power which has resulted to soaring levels of cost inefficiency which is responsible for low profits realized. The study revealed that to be able to revitalize the small scale farmers' productivity, it would involve coming up with collective farmers' institutions that allow risk sharing which results to increased bargaining power that is currently not available to the farmers.

Most respondents agreed, 78.47%, that high product cost negatively affects the performance of deposit taking Saccos in Nairobi City County. Majority of the respondents agreed, 63.08%, that Risk sharing (by insurance means) is essential in reducing possible unintended losses such as loan default which might deteriorate the financial performance of deposit taking

Saccos in Nairobi County. The study agrees with the study done by Kiaritha *et al.* (2014) who researched on how the financial performance of the banking sector in Kenya is affected by operating costs. The study revealed that the Saccos had effective policies to govern how they are run and their operating cost.

Table 4. 8: Product Cost and Financial Performance

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Customers prefer SME products which are highly affordable to them	0	6.2	3.1	44.6	46.2
Saccos that innovate cut down operational costs thereby increasing their profit margins and yielding greater performance	16.9	13.8	3.1	40.0	26.2
High level of cost inefficiency is highly attributable to the low profitability that results from inadequate organization that can provide opportunities for risk sharing and improved bargaining power among SMEs	20.0	26.2	1.5	27.7	24.6
High Product cost negatively affects the performance of deposit taking Saccos in Nairobi County	4.6	12.3	4.6	33.8	44.6
Risk sharing (by insurance means) is essential in reducing possible unintended losses such as loan default which might deteriorate the financial performance of deposit taking Saccos in Nairobi County	18.5	15.4	3.1	33.8	29.2

V. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study revealed that growth in deposit taking Saccos' branches is positively related to asset growth in rural and urban areas but is inversely related to asset growth in foreign areas. It was further established that there is a strong positive relationship between deposit taking Saccos' branch network and financial performance, that is, increase in Sacco branches results to increased profits. **Medium-sized enterprises were also seen to have a competitive advantage over small-sized deposit taking Saccos in terms of branch network growth. It was also revealed that spread in branch networks is seen as dissolution of Sacco branches to foster accessibility of the Saccos' products and services and to encourage the Saccos' alliance with its customers.**

The research revealed that product focus and product differentiation are some of the significant strategies that the banks have used in their quest to gain competitive advantage which has positively impacted their financial performance. It was seen that product variety boosts dynamism resulting in more stability of DTS and greater performance as both products act as cash cows. It was established that product innovation has greatly helped the DTS in establishing a competitive advantage over other Saccos. The research revealed that indeed product innovations greatly impacts financial performance of the Saccos and that product innovation yields strong financial performance of deposit taking Saccos.

The study revealed that the location of a deposit taking Sacco in connection to technology, location in places where technology has been embraced, informed public, that is people who understand how deposit taking Saccos operate, and businesses, that is where there are businesses and few or no financial institutions, is key in promoting its financial performance. The research showed that deposit taking Saccos' location diversification significantly affects their financial performance, the Sacco should have branches located in different areas. It was also established that strategic location enhances services offered to customers as there is increases interaction and feedback which goes a long way in improving financial performance.

The study revealed that customers prefer products that are highly affordable to them and that Deposit Taking Saccos have adopted product innovations thus cutting down operational costs enabling them to increase their profit margins thus yielding greater performance. High level of cost inefficiency was shown to be highly attributable to low profitability that results from inadequate organization that can provide opportunities for risk sharing and improved bargaining power among SMEs. It was established that high product cost negatively affects the performance of deposit taking DTS in Nairobi City County. Risk sharing by means of insurance was revealed to be very essential in reducing possible unintended losses such as loan default which might deteriorate the financial performance of DTS.

5.2 Conclusions

The study established that there is a strong positive relationship between deposit taking Saccos' branch network and financial performance. The study concludes that growth in deposit taking Saccos' branches is positively related to asset growth in rural and urban areas. It was concluded that medium-sized enterprises have a competitive advantage over small-sized deposit taking Saccos in terms of branch network growth. It was also concluded that spread in branch networks is dissolution of Sacco branches to foster accessibility of the Saccos' products and services and to encourage the Saccos' alliance with its customers.

It was concluded that DTS have embraced product focus and product differentiation which has positively affected their financial performance. It was seen that product innovations have been adopted by DTS as competitive strategy to surpass their rivals and are presumed as a vital means to remain in existence in the ever changing financial sector so as to attain the Saccos' objectives, retain success and improve its performance in the aggressive business environment. The research concluded that Organizations operating as if their environment is still stable are not only losing competitive advantages, but are also facing huge financial losses

The research concluded that when location is given serious and acute examination, it is possible to change the entrepreneurial scenario thus acting as a prompting force in reaching entrepreneurial success of deposit taking Saccos, thus, the beginning of any firm's success is its strategic location. The research concluded that deposit taking Saccos' location diversification significantly affects their financial performance, that is, the Sacco should have branches located in different areas.
It was concluded that DTS have come up with new or more advanced products or processes that lower the cost of producing external financial services thus improving their financial performance. More so, the adoption of product innovation has helped DTS reduce their operational costs and leading to increased profits. It was concluded that high product cost negatively affects the performance of deposit taking DTS in Nairobi City County. The study also concluded that Risk sharing by means of insurance was revealed to be very essential in reducing possible unintended losses such as loan default which might deteriorate the financial performance of DTS.

The overall study concludes that there is a strong positive and statistically significant relationship between product innovation factors and financial performance of DTS in Nairobi City County, Kenya. The results as presented by the regression model revealed that the effect of product innovation factors on financial performance of DTS is statistically significant.

5.3 Recommendations

The government should set up or encourage the setting up of organizations or institutions that allow risk sharing which results to increased bargaining power that is currently not available to the Sacco Members. The government should come up with policies that will enable Saccos to open more branches, be able to adopt product innovation which increases the product range, enables Saccos to strategically locate themselves and policies that help Saccos reduce cost of their products.

It is also recommended that SASRA should develop a framework that encourages Saccos to embrace product innovation factors in their operation which will improve their financial performance. SASRA should also come up with regulations that ensure Saccos have effective policies to govern how they are run and their operating cost to enable them offer their products to customers at a lower cost.

The DTS are encouraged to explore different product innovations factors that will help them perform better since the product innovation factors considered in this study were found to significantly improve financial performance. DTS should invest in product innovation factors such as branch network and product range. This would be important since majority of the respondents confirmed through their response that this helps reach as many customers as possible.

5.4 Suggested Areas for Further Research

The scope of this research attempted to assess the effect of product innovation factors on financial performance of DTS in Nairobi City County, Kenya. The study was limited to the DTS, and the findings cannot be equally generalized to apply to commercial banks and other financial institutions. In connection to this limitation, it is possible to carry out further research on how product innovation factors affect financial performance in other sectors. Further research can also be done on the challenges of embracing the product innovation factors and how they can be mitigated to encourage product innovation in DTS in Nairobi City County. More research can also be done on factors such as Sacco reputation and services offered by deposit taking Saccos.

5.5 Limitation

The study was confronted by a couple of challenges. Financial Performance is a sensitive topic and some respondents did not feel at ease giving out information on the same. The researcher had to assure them that there were ethics that were put into consideration including ensuring that the identity of the participants was not disclosed to third parties and the information gathered was exclusively for academic purposes. The data for this study was collected from officers who were not readily available due to their busy schedules. The researcher personally administered the questionnaires so as to enhance the rate of returned responses from respondents. The researcher made proper arrangements with respondents to avail themselves for the study off-time hours and motivated them on the value of the study. However, despite all the mentioned limitations, credible data collected and analyzed.

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