

The Impact of Innovation on Commercial Bank Competitiveness

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Abstract- This study attempts to close a research gap by examining the relationship between innovation and Somalia's commercial banks' competitiveness. The study's primary objective is to assess how innovation could increase the competitiveness of commercial banks. In particular, the study examines the relationship between financial innovation and commercial bank competitiveness, the impact of innovation strategy on commercial banks' competitive position, and the role of technical innovation on competitiveness. The study uses two primary research designs: predictive and explanatory. To shed light on the strength of the relationship between two or more variables at a particular moment in time, an explanatory correlational design was used. Structured questionnaires were used to gather primary data, and cross-sectional and correlational study methodologies were used. A sample of 86 respondents was chosen from the 110 members of the target demographic. The questionnaire's demographic part recorded the respondents' age, gender, marital status, and educational attainment. To guarantee accuracy and consistency, data analysis was carried out in tandem with data gathering. The study's conclusions offer commercial banks doing business in Somalia useful information. The study provides banks with useful advice on how to improve their capacity for innovation in order to get a competitive edge by documenting different types and methods of financial innovation. The findings show that bank competitiveness is significantly impacted by financial innovation and innovation strategy, but there is little correlation between technological innovation and competitiveness. Based on this conclusion, the report advises bank management to put in place efficient systems to improve internal innovation processes, especially by bolstering organizational and technology innovation practices.

Keywords- Innovation; Financial Innovation; Innovation Strategy; Technological Innovation; Bank Competitiveness; Commercial Banks; Somalia; Competitive Advantage; Banking Sector.

I. INTRODUCTION

Innovation refers to the process of transforming creative ideas into concrete actions that result in measurable and meaningful improvements within a specific field or organizational context (Davila et al., 2006). In this sense, innovation is understood as the effective and successful application of novel ideas within an organization to create value.

A commercial bank, on the other hand, is a financial institution that provides fundamental financial products such as savings and current accounts to individuals and corporate clients. In addition to these core services, commercial banks offer a wide range of financial functions to the public, including the acceptance of deposits and the provision of loans and advances to customers (Oke & Goffin, 2001).

The capacity to deliver goods and services as effectively and efficiently as or better than the relevant rivals is what is meant by competitiveness. This entails long-term success in global marketplaces without protection or subsidies in the traded sector. Competitiveness typically refers to an advantage gained by greater productivity, even though transportation costs may enable businesses from a country to compete successfully in their home market or in nearby countries.

Banks in Somalia have united under the Somalia Bankers Association (SBA), which acts as an advocate for the banks' interests and deals with matters impacting its members. The SBA covers banking financial institutions, interest rates, and other publications and rules.

The banking industry consists of 45 entities that are authorized to conduct financial intermediation. They follow the Central

Bank of Somalia's prudential rules. Of the 45, one is a non-bank financial institution and two are mortgage finance firms. Thirty-five of the forty-five commercial banks—the majority of which are modest to medium-sized—are locally owned, while ten are controlled by foreigners. The government owns a sizable portion of three locally owned banks. According to the CBK Bank Supervision Annual Report (2010), the Nairobi Stock Exchange lists six of the largest banks.

II. LITERATURE REVIEW

Few research have been done on innovation and the competitiveness of commercial banks, according to the examination of the literature. According to Mabrouk and Mamoghli (2010), innovative banks continue to make significant profits on a variety of new or better goods if the process of innovation is maintained and new technologies are introduced over time. However, if the ideas were widely used, remarkable gains would decrease (Berger the Mester, 2003).

According to Frame and White (2004), financial innovation encompasses developments that enhance banks' ability to reduce costs and risks internally, as well as innovations that more effectively address the needs and preferences of clients externally. The introduction of new financial products and services (like debit and credit cards and automated teller machines), the adoption of new production and delivery methods (like the use of computers and telecommunications for information access, electronic payment systems, digital record-keeping, and loan securitization), and the development of new organizational structures (like internet-only banks and institutions providing both traditional and non-traditional financial services) are the three main categories into which they broadly divide financial innovation. Because they improve the mobilization and allocation of funds toward profitable investment, these innovations are seen as essential to economic growth (King & Levine, 1993).

Product innovations and company performance are often positively correlated, according to several of these studies. On the other hand, other research show no association at all or a negative relationship. The research vacuum exists because no local study has looked into how bank innovation affects the performance of commercial banks in Lebanon.

A key tactic that businesses may employ to enter new markets, increase their market share, and get a competitive edge is

innovation. Many businesses are adopting innovation as a crucial strategy to remain relevant in a competitive market, driven by the competitiveness of the dynamic global marketplaces. The value of a company's goods and services is continuously being eroded by rapidly evolving technology and heightened competition. The creation of new goods or innovative methods by businesses to produce new goods is what defines innovation. In this instance, the new procedures improve the organization's performance (Lawrence, 2010).

According to Bhattacharyya and Nanda (2000), financial innovation is the unexpected advancement in the range of financial goods and instruments that is prompted by unforeseen changes in client demands and preferences, tax policy, technology, and regulatory impulses. In addition to increasing the number of financial institutions, the financial sector's advancements have raised the complexity of new payment methods and asset substitutes for cash. This has mostly been caused by advances in technology and more rivalry as the number of institutions rises. A crucial aspect of banking has been impacted by advancements in payment systems that have begun to produce near alternatives to actual cash.

The Return on Assets of a commercial bank may be used to gauge its performance (Cyern, Emre & Asl 2008). The many externalities that operate inside the bank's environment determine how well a commercial bank performs. Due to the unstable nature of the banking sector, banks must adapt in order to survive. Cicea and Hincu (2009) assert that banks must set appropriate metrics for achieving performance goals. Financial innovations tend to improve the performance of the financial sector's institutions, according to Batiz-Lazo and Woldesenbet (2006).

Commercial banks can assess their success using a variety of metrics, such as market leadership, total revenue, and customer happiness. One of the general objectives of profit-oriented organizations is to increase revenue as it guarantees their long-term survival and expansion. In the banking industry, financial innovations result in better goods and product delivery (Alam, 2011).

Objectives of the study

“The primary aim of this study was to examine the relationship between innovation and commercial banks in Mogadishu, Somalia.”

III. METHODOLOGY

The two main research designs used in this study are explanation and prediction. The degree of link between two or more variables at a certain point in time is explained or clarified using an explanatory correlation design. The question of whether two variables co-vary—that is, if changes in one affect changes in the other—is of interest to researchers. As an illustration, innovation and commercial banks' competitiveness are linked to banker motivation. The investigator finds factors that will positively predict a criteria or outcome in the second type of design, known as a prediction design.

Study population.

The researcher will focus on the financial performance of the internal control system during the data gathering procedure. This comprises 90 populations that were chosen from Mogadishu's private banks. In this kind of study, ICBC will represent the target population, which is the group of interest.

Sample size

The sample size is very important for clear comprehending of the population. The sample size consists of 86 respondents which was selected same privet banks in Mogadishu.

The sample size will determine by using Slovene's formula for sample Random determination

$$n = N / (1 + (N * e^2))$$

Where:

- N = Total Population
- n = Sample size
- e = is the confidence level at 0.0025

Substituting into the formula,

$$n = 90 / (1 + (90 * 0.0025^2))$$

$$= 90 / 1 + .225$$

$$= 90 / 1.225$$

Therefore n = 73respondents.

Data collection methods

Research data will be gathered from the target demographic using a questionnaire. Participants in the research will get an overview of its goals. Additionally, they will be asked to provide as honest a response as they can.

Data analysis

The statistical software for social science, or SPSS, will be used to examine the data. The results of the study will be presented using frequency tables and charts after descriptive analysis.

Data Presentation

The following section is discussed the gender, age marital status, qualifications and experience of the respondents

Table 1
Gender of respondents

Gender of respondents	Frequency	Percent
Male	37	50.6%
Female	36	49.3%
Total	73	100%

Source: primary data 2020

Table 1 shows that most of respondents 37(50.6%were male, and 36(49.3%) were female.

Table 1.2
Age of respondents

Age of respondents	Frequency	Percent
18-35	20	27.3%
36-48	31	42.4%
49-58	22	30.1%
Total	73	100%

Source: primary data 2020

Table 1.2 shows that most of respondents 20(v were their age b/w 18-35 years while the next 31(42.4% were their age b/w 36-48 years and the remaining of respondents 22 (30.1% were their age b/w 49-5 years.

Table 1.3
Material Status of respondents

Material Status of respondents	Frequency	Percent
Single	35	47.9%
Married	38	52.1%
Total	73	100%

Source: primary data 2020

Table 1.3 shows that most of the respondents 35 (47.9%) were married and 38(52.1%) were single.

Table.1.4
Educational level of respondents

Educational level of respondents	Frequency	Percent
Bachelor	28	38.35%
Diploma	14	19.17%
Secondary	18	24.65%
Master	13	17.81%
Total	73	100%

Source: primary data 2020

Table 1.4 shows that most of the respondents 28(38.35% were Bachelor, while 13 (17.81% were master Degree and 14(19.17%) were Diploma the remaining 18(24.65%) were secondary.

Table 1.5
Job experience of respondents

Job experience of respondents	Frequency	Percent
Less than 1 year	11	15.1%
between 1 – 2 years	20	27.4%
2 – 3 years	25	34.2%
More than 3 years	17	23.3%
Total	73	100%

Table 1.5 shows that most of the respondents 25 (34.2% were b/w 2-3 years , while 17(23.3%) were more than 3 years and 11(15.1%) were less than 1 year 20(27.4%) were b/w 1-2 years.

Table 1.6
Technological innovation and competitive positioning in the commercial banking sector

Statements	Mean	Std. Deviation
The profitability of commercial banks is a major motivator for investing in debit and credit cards.	2.43	1.315
The commercial banks' profitability is a major factor in ATM investment.	2.97	1.142
Internet banking generates substantial profit margins and therefore makes a positive contribution to the annual profitability of commercial banks.	3.06	1.131
Your primary motivation for using online banking is its round-the-clock service.	3.28	1.140
Telephone banking yields high income margins and consequently contributes positively to the annual profits of commercial banks.	3.30	1.355

Total Average Mean	3.01	1.217
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Source: primary data 2020

Table 1.6 indicates that the majority of respondents agreed that there is a relationship between technological innovation and the competitiveness of commercial banks, as reflected by a mean score of 3.01 and a standard deviation of 1.217.

Table 1.7
Innovation strategies and their influence on commercial bank competitiveness.

Statements	Mean	Std. Deviation
Customers and stakeholders benefit from commercial banks' use of the New Business Partners concept.	2.72	1.469
Commercial banking institutions use innovation strategies to facilitate new customer engagement in investment activities at minimal or no cost.	2.81	1.133
The best innovation strategy in the banking industry is the New Service Concept.	3.10	1.227
New revenue models allow commercial banks to innovate and redesign their strategic approaches.	3.17	1.150
The bank's online technology is crucial for you to open an account with us.	3.56	1.298
Total Average Mean	3.07	1.26

Source: primary data 2020

Table 1.7 indicates that the majority of respondents agreed that there is a relationship between innovation strategy and the competitiveness of commercial banks, as reflected by a mean score of 3.07 and a standard deviation of 1.26.

Table 1.8
Correlation between Financial Innovation and Commercial Bank Competitiveness

	Financial Innovation	Commercial Bank Competitiveness

Financial Innovation	Pearson Correlation	1	.466**
	Sig. (2-tailed)		.000
	N	85	84
Commercial Bank Competitiveness	Pearson Correlation	.466**	1
	Sig. (2-tailed)	.000	
	N	84	85

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

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

Source: primary data 2020

Table 1.8 shows that there is moderate significant positive relationship between financial innovation and commercial bank competitiveness which was indicated by r-value of (r=0. 466**) and p-value (p=0.00).

Table 1.9

Correlation between Technological Innovation and Commercial Bank Competitiveness

		Technological Innovation	Commercial Bank Competitiveness
Technological Innovation	Pearson Correlation	1	.474**
	Sig. (2-tailed)		.000
	N	85	84
Commercial Bank Competitiveness	Pearson Correlation	.474**	1
	Sig. (2-tailed)	.000	
	N	84	85

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

Source: primary data 2020

Table 4.3.2 shows that there is moderate significant positive relationship between Technological innovation and commercial bank competitiveness which was indicated by r-value of (r=0. 474**) and p-value (p=0.00).

Findings

The results indicate a moderately significant positive correlation between financial innovation and the competitiveness of commercial banks, as evidenced by a correlation coefficient of $r=0.466^{**}$ and a p-value of $p=0.00$.

The finding shows that there is moderate significant positive relationship between Technological innovation and

commercial bank competitiveness which was indicated by r-value of (r=0. 474**) and p-value (p=0.00).

IV. CONCLUSION

The primary aim of this study was to examine the relationship between innovation and the competitiveness of private commercial banks in Mogadishu, Somalia. The results indicate a moderately strong positive relationship between innovation and commercial bank competitiveness, as evidenced by a correlation coefficient of $r=0.586$ and a significance level of $p=0.00$.

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