

Effect of Product Innovation by Capital Market Intermediaries On Retail Investor Participation in The Nairobi Securities Exchange

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Abstract

Retail investor participation in the Nairobi Securities Exchange (NSE) has declined sharply, with active monthly participation dropping from 0.95% (11,283 investors) in 2019 to 0.46% (6,843 investors) in 2023, despite registered accounts growing by 24.9% over the same period. This study assessed the effect of product innovation on retail investor participation in the NSE. Anchored on the Theory of Financial Intermediation and the Schumpeterian Theory of Innovation, a positivist, descriptive correlational design was adopted. A census of all 112 licensed capital market intermediaries under the Capital Markets Authority of Kenya was conducted, targeting three senior executives per firm: Chief Investment Officers, Heads of Marketing, and Heads of Innovation/Technology. Data were collected in May–June 2025 using structured questionnaires, achieving a 97.33% response rate (n = 292). Diagnostic tests confirmed normality, linearity, homoscedasticity, and absence of multicollinearity. Regression analysis revealed that product innovation explained 48.0% of the variance in retail investor participation ($R^2 = .480$, $\beta = 0.656$, $p < .05$), with each unit increase in product innovation yielding a 0.656-unit increase in retail trading volume. The null hypothesis was therefore rejected. Key drivers included user experience enhancements ($M = 4.26$), robo-advisory services ($M = 4.23$), and mobile-based advisory ($M = 4.15$). The study concludes that introducing new investment products, services, and modifications that are accessible, user-friendly, and mobile-compatible is critical to reversing retail participation decline in Kenya. Intermediaries are recommended to develop fractional share ownership schemes, reduce minimum investment thresholds, embed financial literacy within platforms, and launch ESG-screened products to attract diverse retail investors.

Keywords

Capital market intermediaries, Nairobi Securities Exchange, new products, product innovation, retail investor participation, trading volume

Introduction

Retail investor participation in capital markets is a fundamental indicator of financial market development, economic inclusion, and wealth democratisation (World Federation of Exchanges, 2025). Markets with robust retail participation recover from institutional liquidity

crises 37% faster than institution-dominated markets (International Monetary Fund, 2024), and each 10% increase in retail participation correlates with a 0.8% increase in GDP growth across emerging economies (World Bank, 2020). Despite these well-established benefits, retail investor participation in Kenya's Nairobi Securities Exchange (NSE) has experienced a sustained and troubling decline.

According to the Nairobi Securities Exchange (2024), registered retail investor accounts grew from 1,183,642 in 2019 to 1,477,959 in 2023—a nominal 24.9% increase. Yet active monthly participants declined sharply from 0.95% (11,283 investors) in 2019 to 0.46% (6,843 investors) in 2023, representing a 51.6% reduction in absolute active numbers. Retail investors currently account for less than 10% of total NSE trading volume despite constituting over 99% of registered investors, while institutional investors dominate with approximately 89% of trading volume (Nairobi Securities Exchange, 2024). The average daily retail trading volume fell from KES 180 million in 2019 to KES 95 million in 2023—a 47.2% decline (Nairobi Securities Exchange, 2024).

Capital market intermediaries—the 112 licensed investment banks, fund managers, stockbrokers, REIT managers, and investment advisers regulated by the Capital Markets Authority of Kenya (CMA)—serve as the primary interface between retail investors and market opportunities. Their product innovation strategies, encompassing the introduction of new investment products and services and the modification of existing offerings, directly shape the investment vehicles available to retail investors and thus influence whether registered accounts remain dormant or become active. Yet in Kenya, product innovation by intermediaries has remained relatively limited, with most offering traditional equity and bond products that may not address the specific needs of mass-market retail investors (Tonui *et al.*, 2022).

Despite extensive global research on innovation and financial market participation, significant knowledge gaps persist. Most studies examine innovation types in isolation, lack contextual applicability to emerging markets such as Kenya, and insufficiently account for the unique mobile-centric, low-literacy environment that characterises Kenya's retail investor landscape. This study addresses these gaps by empirically investigating the effect of product innovation—specifically the number of new products introduced, the number of new services introduced, and product/service modifications—by capital market intermediaries on retail investor participation (trading volume) in the NSE.

Statement of the Problem

Optimal retail investor participation in capital markets is a cornerstone of inclusive economic development and market stability. Ideally, individual investors should actively engage in securities trading to enhance market liquidity, support price discovery, and build household wealth. However, Kenya's NSE faces a critical challenge: despite a 24.9% growth in registered accounts between 2019 and 2023, active participation declined by 51.6% (Nairobi Securities Exchange, 2024). The 99.5% dormancy rate—over 1,471,000 of 1,477,959 registered accounts conducting no transactions in any given month—indicates that account registration does not translate into market participation.

Previous research reveals significant conceptual, contextual, and methodological gaps. Feuerriegel and Pröllochs (2021) focused solely on product information without examining

service modifications or new product introductions. Back *et al.* (2023) examined robo-advisors in Germany's high-literacy market, leaving their dynamics in low-literacy emerging markets unexplored. Njiru (2019) narrowly studied balanced funds without exploring broader product innovation effects. None of these studies simultaneously examined multiple product innovation dimensions-new products, new services, and modifications-within Kenya's unique capital market context, creating the knowledge gap this study addresses.

Objective

This study assessed the effect of product innovation by capital market intermediaries on retail investor participation in the Nairobi Securities Exchange.

The following null hypothesis was tested: H_{01} : There is no statistically significant effect of product innovation by capital market intermediaries on retail investor participation in the Nairobi Securities Exchange.

Literature Review

Theoretical Framework

This study is anchored on two complementary theoretical frameworks. The Theory of Financial Intermediation, developed by Gurley and Shaw (1960) and extended by Diamond (1984), explains that financial intermediaries exist to overcome market imperfections-information asymmetries, high transaction costs, and liquidity constraints-that prevent direct engagement between savers and capital markets. Lerner and Tufano (2011) established that innovation is intermediaries' primary tool for continuously reducing such participation barriers. Specifically, product innovations such as exchange-traded funds and micro-investment options address minimum transaction barriers, while service innovations such as robo-advisory tools reduce information asymmetries.

The Schumpeterian Theory of Innovation (Schumpeter, 1976) provides the typological foundation for categorising intermediary innovations into new goods (new investment products), new production methods (process innovations), and new markets (new investor segments). Neo-Schumpeterian extensions by Dosi (1982) and Fagerberg (2006) further acknowledge that in emerging market contexts, incremental innovations and hybrid adaptations-rather than purely disruptive changes-often prove more effective in driving participation. Together, these theories explain why product innovation by capital market intermediaries should, by design, reduce participation barriers and thereby increase retail investor trading activity.

Empirical Review

Number of New Products Introduced

The introduction of new investment products is a critical mechanism through which intermediaries expand market access. Bhattacharya and Sardashti (2022), studying new product pre-announcements in the United States, found that institutional investors responded positively ($p = 0.02$), though retail investor responses were weaker, reflecting different risk perceptions and information processing capabilities. Calvet *et al.* (2016) demonstrated in Sweden that structured financial products attracted older and wealthier investors, broadening

participation, though this pattern may not transfer directly to emerging markets. In the Rwandan context, Tuyishime and Rusibana (2021) found that new investment product availability significantly affected retail investor participation ($p = 0.02$), with financial knowledge moderating these effects.

Number of New Services Introduced

Service innovations-including robo-advisory services, investment education platforms, and mobile-based portfolio tools-address both accessibility and knowledge barriers to retail participation. Back *et al.* (2023) in Germany found that robo-advisors improved portfolio diversification by 42% among retail investors ($p < 0.05$) and increased trading frequency ($p = 0.003$). However, their experimental setting limited applicability to real-world emerging market conditions characterised by lower financial literacy and technology adoption barriers. Mo (2023) demonstrated in China that value-added services significantly improved performance dimensions including market performance ($p = 0.976$) and work efficiency ($p < 0.05$). Nadeem and Mazhar (2019) identified significant demographic correlations with investment service adoption ($p = 0.001$), though their study did not link service innovations to participation rates. In Kenya, the Financial Sector Deepening (2025) confirmed that only 28% of adults demonstrate sufficient investment literacy, underscoring the potential of educational service innovations to activate dormant accounts.

Product/Service Modifications

Modifications to existing investment products-including fee simplification, threshold reduction, ESG integration, and user experience enhancement-represent lower-cost mechanisms for expanding retail access without requiring entirely new product development. Nadeem and Mazhar (2019) found in India that product modifications significantly increased retail investor participation across mutual fund adoption ($p < 0.05$), life insurance flexibility ($p = 0.001$), and market accessibility ($p = 0.002$), particularly by improving returns and reducing perceived risks. Padigaret *al.* (2022) demonstrated that AI-embedded product modifications generated stronger investor responses when firms' marketing departments held significant influence ($p < 0.05$). Briere *et al.* (2024) found that mobile application modifications and social media tools improved market accessibility ($p < 0.05$), though simultaneously amplifying behavioural biases. Njiru (2019) in Kenya confirmed that risk perception ($p = 0.001$) and fund performance ($p < 0.05$) influenced retail investment decisions, while high fees negatively impacted choices ($p < 0.05$), establishing the importance of fee modification strategies in the Kenyan context.

Methodology

Research Philosophy and Design

The study adopted a positivist research philosophy, selected for its alignment with the study's objectives of quantifying measurable relationships between product innovation dimensions and retail investor participation through statistical hypothesis testing (Saunders *et al.*, 2019). A descriptive correlational research design was employed, appropriate for examining naturally occurring relationships between variables without manipulation. This design was specifically chosen because the study's objectives required examining associations between four product innovation dimensions and retail investor trading volumes in real-world

intermediary settings, which could not be experimentally manipulated without ethical and practical complications.

Population, Sampling, and Respondents

The target population comprised all 112 licensed capital market intermediaries registered with the Capital Markets Authority of Kenya between May and June 2025: 23 investment banks, 42 fund managers, 24 stockbrokers, 12 REIT managers, and 11 investment advisers. A census approach was adopted, targeting all 112 firms to eliminate sampling error. Within each firm, three senior management respondents were purposively selected; the Chief Investment Officer, the Head of Marketing, and the Head of Innovation/Technology. This purposive selection ensured respondents possessed direct oversight of product innovation implementation and retail investor engagement strategies. Individual executive responses were not aggregated to a single firm-level score; rather, each of the 292 responses constitutes an independent observation, with the individual senior executive serving as the primary unit of analysis representing expert insight into firm-level product innovation practices across the sector.

A pilot test was conducted with 36 respondents from 12 randomly selected intermediaries (10% of the target), who were subsequently excluded from the main study to avoid bias. The final study targeted 300 respondents from 100 intermediaries.

Data Collection and Instrumentation

Data were collected using structured questionnaires comprising 12 closed-ended items per variable, anchored on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree), supplemented by open-ended qualitative questions. The product innovation construct was measured across three dimensions: number of new products introduced (4 items), number of new services introduced (4 items), and product/service modifications (4 items). Questionnaires were administered through electronic and physical channels from May to June 2025, with follow-up reminders at two-week intervals.

Validity and Reliability

Content validity was established through expert review by capital market specialists and dissertation supervisors. Construct validity was confirmed using Kaiser-Meyer-Olkin (KMO) tests and Bartlett's Test of Sphericity. The product innovation construct achieved a KMO value of 0.764 and a Bartlett's sphericity significance of 0.000 ($p < 0.05$), confirming adequate sampling appropriateness and construct validity. All 12 items in the product innovation scale yielded factor loadings above the 0.4 threshold in factor analysis (range: 0.523–0.828), confirming convergent validity. Reliability was assessed using Cronbach's alpha, which yielded a coefficient of 0.864 for the product innovation scale, exceeding the 0.7 threshold and confirming strong internal consistency.

Data Analysis

Quantitative data were analysed using SPSS version 28.0. Descriptive statistics (means, standard deviations, frequencies) characterised the distribution of responses. Pearson correlation analysis examined the bivariate association between product innovation and retail

investor participation. Simple linear regression analysis quantified product innovation's predictive effect on trading volume, specified as: $Y = \beta_0 + \beta_1 X_1 + \varepsilon$, where Y = retail investor participation (trading volume), X_1 = product innovation, β_0 = constant, β_1 = regression coefficient, and ε = error term. Four diagnostic tests were conducted to confirm regression assumptions: normality via the Kolmogorov-Smirnov test, multicollinearity via VIF and tolerance values, linearity via scatter plots, and heteroscedasticity via the Breusch-Pagan test.

Ethical Considerations

Ethical approval was obtained from the National Commission for Science, Technology and Innovation (NACOSTI) and the Institutional Scientific and Ethics Review Committee (ISERC) of USIU-Africa prior to data collection. All respondents provided written informed consent and were assured of voluntary participation, the right to withdraw without consequence, data confidentiality, and anonymisation of responses. No respondent personally identifiable information was retained. Findings are reported in aggregate form, ensuring individual and organisational confidentiality. There are no competing interests to declare in this study.

Results

Response Rate

Of 300 targeted respondents, 292 usable questionnaires were returned—an overall response rate of 97.33% (Chief Investment Officers: 96.00%; Heads of Marketing: 98.00%; Heads of Innovation/Technology: 98.00%). This rate is well above the 70% threshold recommended by Hendra and Hill (2019) for adequate analysis. Response rates across intermediary types were remarkably consistent, ranging from 96.67% to 98.25%, indicating no significant response bias by firm category.

Diagnostic Tests

All diagnostic tests confirmed the suitability of regression analysis. Normality: Kolmogorov-Smirnov test yielded $p = 0.084$ for product innovation and $p = 0.149$ for retail investor participation (both > 0.05), confirming normal distribution of residuals. Multicollinearity: VIF for product innovation was 1.799 (tolerance = 0.556), well below the threshold of 10. Linearity: scatter plots demonstrated a clear linear relationship between product innovation and retail investor participation, with data points distributed uniformly around a regression line and no systematic curvature. Heteroscedasticity: Breusch-Pagan test yielded $\chi^2(1) = 2.71$, $p = 0.094$ (> 0.05), confirming constant variance of residuals.

Descriptive Statistics of Product Innovation

Table 1 presents the descriptive statistics for all 12 product innovation items. The descriptive statistics revealed strong agreement among respondents regarding new product introduction and its impact on retail investor participation. Respondents agreed that their firms have introduced new investment products that significantly increased trading volumes at the NSE ($M=4.12$, $SD=0.92$). The launch of alternative investment products led to measurable growth in retail trading volumes ($M=3.94$, $SD=1.01$). The introduction of micro-investment options with reduced minimum thresholds boosted the volume of trades conducted by retail investors ($M=4.05$, $SD=1.13$). The development of new products directly contributed to higher trading

volume from retail clients (M=4.06, SD=1.07). The results showed high agreement levels regarding the implementation of new investment services. Respondents agreed that new investment services such as robo-advisory and portfolio analysis tools increased the frequency and volume of trades by retail investors (M=4.23, SD=1.04). Investment education platforms empowered retail clients, resulting in increased trading volume (M=4.08, SD=0.87). Personalized investment guidance services led to a rise in the average trading volume per retail client (M=3.84, SD=1.27). Mobile-based investment advisory services positively influenced trading volumes of retail clients (M=4.15, SD=1.20).

Regarding product and service modifications, reducing minimum investment thresholds stimulated greater trading volume (M=3.98, SD=1.02), while fee structure simplification and ESG screening also registered positive agreement (M=4.10 and M=3.84 respectively). User experience enhancements recorded the highest mean in this dimension (M=4.26, SD=0.96), reflecting strong consensus that accessibility improvements are the most effective modification strategy. The overall mean of 4.05 with a standard deviation of 1.05 confirmed strong, consistent agreement across all twelve product innovation indicators, with low variability signalling convergent senior management perceptions of product innovation's positive influence on retail trading volumes.

Qualitatively, respondents identified product innovation as driving investor interest in innovative companies, boosting share value appeal, attracting tech-savvy investors, and encouraging sector diversification. Critically, while senior management perceptions were strongly positive, respondents simultaneously acknowledged persistent structural barriers-particularly the 100-share minimum purchase requirement-that constrain the full translation of product innovation into active retail participation. This tension between positive perceptions and structural constraints represents a key finding that moderates the interpretation of the quantitative results.

Table 1

Descriptive Statistics of Product Innovation by Capital Market Intermediaries

Statements	SD	D	N	A	SA	Mean	SD
New investment products (ETFs, REITs, green bonds) significantly increased retail trading volume.	2.10%	6.80%	4.50%	50.30%	36.30%	4.12	0.92
Launch of alternative investment products led to measurable growth in retail trading volumes.	7.50%	2.40%	1.70%	65.10%	23.30%	3.94	1.01
Micro-investment options with reduced minimum thresholds boosted retail trading volumes.	1.00%	16.10%	6.80%	28.40%	47.60%	4.05	1.13
New product development directly contributed to higher trading volume from retail clients.	1.40%	13.40%	6.20%	36.30%	42.80%	4.06	1.07
New investment services (robo-	3.80%	6.50%	3.10%	36.60%	50.00%	4.23	1.04

Statements	SD	D	N	A	SA	Mean	SD
advisory, portfolio analysis tools) increased retail trading frequency.							
Investment education platforms empowered retail clients, resulting in increased trading volume.	2.10%	5.10%	6.20%	56.50%	30.10%	4.08	0.87
Personalized investment guidance services led to a rise in average trading volume per retail client.	3.80%	20.50%	5.10%	28.80%	41.80%	3.84	1.27
Mobile-based investment advisory services positively impacted retail client trading volumes.	3.40%	14.00%	2.40%	24.70%	55.50%	4.15	1.20
Reducing minimum investment thresholds stimulated greater trading among newly onboarded investors.	1.40%	13.70%	3.80%	47.60%	33.60%	3.98	1.02
Simplification of fee structures encouraged more active trading, increasing retail volumes.	3.40%	6.20%	6.50%	45.20%	38.70%	4.10	1.00
ESG screening incorporated into funds attracted retail investors contributing to higher volumes.	2.70%	13.00%	9.20%	47.90%	27.10%	3.84	1.05
User experience enhancements led to increased transaction volumes among retail investor base.	4.10%	3.40%	1.70%	44.20%	46.60%	4.26	0.96
Average						4.05	1.05

Note: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree

D. Regression Analysis: Product Innovation and Retail Investor Participation

Simple linear regression was conducted to quantify the individual effect of product innovation on retail investor participation. Results are presented in Tables 2, 3, and 4.

Table 2 shows that product innovation explains 48.0% of the variance in retail investor participation ($R^2 = 0.480$, Adjusted $R^2 = 0.478$), establishing a strong explanatory relationship.

Table 2

Model Fitness of Product Innovation and Retail Investor Participation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693a	0.480	0.478	0.261884

a Predictor: (Constant), Product Innovation

Table 3 confirms overall model significance, with $F(1, 290) = 267.431$, $p < 0.001$, indicating that product innovation is a statistically significant predictor of retail investor participation.

Table 3

Analysis of Variance (ANOVA) of Product Innovation and Retail Investor Participation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.341	1	18.341	267.431	.000b
	Residual	19.889	290	0.069		
	Total	38.231	291			

a Dependent Variable: Retail Investor Participation b Predictor: (Constant), Product Innovation

Table 4 shows that product innovation is positively and significantly related to retail investor participation ($\beta = 0.656$, $t = 16.353$, $p < 0.001$). A unit increase in product innovation by capital market intermediaries increases retail investor participation (trading volume) in the NSE by 0.656 units when other factors are held constant. The resulting regression model is: $Y = 1.475 + 0.656X_1$. The null hypothesis (H_0) is rejected, confirming that product innovation by capital market intermediaries has a statistically significant positive effect on retail investor participation in the NSE.

Table 4

Regression Coefficients of Product Innovation and Retail Investor Participation

Model		β (Unstandardized)	Std. Error	Beta (Standardized)	t	Sig.
1	(Constant)	1.475	0.162		9.090	0.000
	Product Innovation	0.656	0.040	0.693	16.353	0.000

a Dependent Variable: Retail Investor Participation

Discussion

The finding that product innovation significantly and positively predicts retail investor participation ($\beta = 0.656$, $R^2 = 0.480$, $p < 0.05$) aligns with the foundational prediction of the Theory of Financial Intermediation: that innovations reducing participation barriers translate

into increased market engagement (Lerner & Tufano, 2011). The correlation coefficient of $r = 0.693$ demonstrates a strong positive linear relationship, indicating that as intermediaries intensify product innovation across new products, new services, and modifications, retail trading volumes increase proportionally.

The beta coefficient ($\beta = 0.656$) is notably stronger than effects typically observed in developed markets. Bhattacharya and Sardashti (2022) found weaker retail investor responses to product pre-announcements in the United States relative to institutional investors—a divergence this study attributes to Kenya's historically limited product ecosystem, where each new investment vehicle addresses multiple simultaneous access barriers rather than marginal improvements in an already-diverse marketplace. This finding corroborates Calvet *et al.*'s (2016) theoretical model that financial innovation alters risk preferences and drives market participation, while providing empirical evidence lacking in their original formulation.

The highest-scoring dimension—user experience enhancements ($M = 4.26$)—signals that accessibility improvements resonate most strongly in Kenya's mobile-centric environment. This is consistent with Briere *et al.*'s (2024) finding that mobile application enhancements lowered market entry barriers ($p < 0.05$) and validates Schumpeter's (1976) proposition that the opening of new markets through product adaptation creates transformative economic opportunities. The strong agreement on robo-advisory services ($M = 4.23$) extends Back *et al.*'s (2023) German findings to an emerging market context, suggesting that automated advisory tools generate participation benefits across markets despite differences in financial literacy levels, though likely through distinct mechanisms: in Germany, they optimise existing participation quality; in Kenya, they address fundamental advisory access gaps.

The strong agreement on micro-investment options ($M = 4.05$) directly validates Nadeem and Mazhar's (2019) evidence that threshold reductions increase new account activity among lower-income investors, and extends Feuerriegel and Pröllochs, (2021) finding that retail investors are 42% more likely to invest when offered simplified, purpose-built vehicles with transparent fee structures. However, a critical tension emerges from the qualitative data: despite senior management perceiving threshold reductions as effective, respondents simultaneously noted that the 100-share minimum purchase requirement remains a structural barrier, and that many retail investors continue to prefer Treasury bills and real estate over equities. This perception-reality gap—high agreement scores coexisting with persistently low participation (0.46%)—suggests that product innovation efforts, while necessary, are insufficient when structural market constraints remain unresolved.

The relatively lower scores for ESG screening ($M = 3.84$) and personalised guidance services ($M = 3.84$) reflect the cognitive demands these products impose. ESG investing requires understanding non-financial performance dimensions, which presupposes financial literacy levels that only 28% of Kenya's adult population possesses (Financial Sector Deepening, 2025). This finding foreshadows the moderation hypothesis in the broader study: product innovation effects are amplified for investors with adequate financial literacy but constrained for those lacking foundational investment knowledge. Investment education platforms ($M = 4.08$) thus represent a strategically important bridge—embedding literacy development directly within product innovation to address both supply-side (product availability) and demand-side (investor capability) constraints simultaneously.

The 52% of unexplained variance ($1 - R^2 = 0.520$) is theoretically significant: it establishes that product innovation alone, while a powerful driver, does not fully account for retail participation dynamics. Consistent with the broader study's findings, process innovations ($R^2 = 0.522$), organisational innovations ($R^2 = 0.574$), and financial literacy as a moderator ($\Delta R^2 = 0.047$) collectively explain the remaining variance. This hierarchy confirms the Schumpeterian principle that complementary innovations across product, process, organisational, and market dimensions produce synergistic market transformation effects that no single innovation type can achieve in isolation.

Conclusion

This study concludes that product innovation by capital market intermediaries has a significant positive effect on retail investor participation (trading volume) in the Nairobi Securities Exchange ($\beta = 0.656$, $R^2 = 0.480$, $p < 0.05$). The number of new products introduced, the number of new services introduced, and product/service modifications collectively explain 48.0% of the variance in retail trading volumes, establishing product innovation as a substantive driver of market engagement. The null hypothesis (H_0) is rejected. The study establishes that product innovation's effectiveness in Kenya's context depends critically on alignment with retail investors' technological preferences and financial capabilities. Innovations that simplify investment processes—user experience enhancements, mobile-based advisory, robo-advisory tools, and fee simplification—generate the strongest participation effects. Conversely, sophistication-intensive innovations such as ESG screening and personalised guidance demonstrate weaker effects in a low-literacy environment, underscoring the importance of embedding financial literacy development within product design.

The gap between high senior management agreement scores ($M = 4.05$) and persistently low active participation (0.46%) reveals a critical implementation paradox: intermediaries recognise product innovation's strategic importance but face structural market barriers—including NSE minimum share purchase requirements, high transaction costs, and investor trust deficits—that constrain innovation's translated impact. Achieving the Capital Markets Authority's 2029 target of one million active retail investors requires not only sustained product innovation, but coordinated regulatory reform addressing structural barriers that innovation alone cannot overcome.

Recommendations

Based on the findings, the following recommendations are made. Capital market intermediaries should develop fractional share ownership mechanisms enabling investments below the 100-share NSE minimum, with entry points of KES 100–500 to accommodate investors constrained by low disposable income. Intermediaries should launch micro-investment products that aggregate small monthly contributions (KES 50–200) into diversified portfolios through automated mobile money subscription, leveraging Kenya's 93.8% mobile penetration. User experience enhancements across all digital platforms should be prioritised, as these generated the strongest participation effects ($M = 4.26$); this includes streamlined interfaces, contextual investment education, and personalised risk-profiling tools.

Robo-advisory services should be expanded at costs 60–80% below traditional advisory fees to democratise professional investment guidance previously accessible only to high-net-worth clients. Intermediaries should embed structured financial literacy modules within all product platforms, addressing the fundamental barrier that only 28% of potential retail investors possess sufficient investment literacy to effectively utilise innovative products. ESG-screened products should be marketed with simplified, jargon-free explanations of non-financial performance to attract younger and socially-conscious investors who represent an underserved retail segment.

The Capital Markets Authority should consider revising the 100-share minimum purchase requirement to facilitate micro-lot equity trading, and should mandate transparent all-in fee disclosure to eliminate hidden charges that deter price-sensitive retail investors. Future research should examine how product innovation effects vary across investor demographic segments, conduct longitudinal assessments of participation sustainability following specific product launches, and explore whether innovation effects differ between mobile-platform products and traditional instruments-providing a more granular understanding of which product innovation strategies most effectively activate Kenya's pool of over 1.47 million dormant registered investors.

Competing Interests

The author declares no competing interests or conflict of interest in relation to this study.

Author Contributions:

Elizabeth M. Emongor conceived and designed the study, led data collection and empirical analysis, interpreted the findings, and drafted the original manuscript as the principal author. Dr. Bwire Albert contributed to the methodological framework, reviewed the quantitative models, and revised the manuscript. Prof Elizabeth Kalunda verified the results, and provided critical feedback on earlier drafts. All authors read and approved the final manuscript.

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Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Licensing Statement

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