

**COMPETITIVE ADVANTAGE THROUGH INNOVATION  
STRATEGIES IN UNITED BANK OF AFRICA LIMITED**

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## DECLARATION

I hereby declare that this is my original work and has not been submitted to any other academic body.

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This Research project has been submitted for examination with my approval as the Supervisor.

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## **DEDICATION**

This research study is dedicated to my daughter for being the motivation I needed to complete this MBA program

## **ABSTRACT**

The need for innovation is obvious and crucial for commercial banks operating in a dynamic, uncertain and competitive environment particularly if they endeavor to survive and succeed in the current competitive global financial environment. In addition, commercial banks need to be innovative by producing a regular stream of innovations so as to gain competitive advantage. This study sought to investigate innovation strategies adopted by United Bank of Africa to achieve competitive advantage. The study adopted a case study research design since the unit of analysis was one commercial bank. Primary data was collected using an interview guide while secondary data was collected from published reports and other documents. Content analysis was used to analyze the interviewees' views about the achieving competitive advantage through innovation strategies in UBA.

From the findings, the study concluded that United Bank of Africa had adopted product, process and market innovation strategies which had enabled the bank to offer distinct and superior products and services in the competitive markets. From the findings, the study also concluded that innovation enabled UBA achieve competitive advantage by increasing its return on investment and customer base. Competitive advantage was also achieved through improved bank network across the country which strategically positioned the bank to deliver financial services to the Kenya Market. Enhanced product differentiation lead to the development of new financial products which uniquely catered for different groups of customers in the market.

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## **LIST OF ABBREVIATIONS**

UBA – United Bank of Africa

GDP - Gross Domestic Product



# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Banking Institutions can achieve competitive advantage through acts of innovation, and they can approach innovation in its broadest sense, including both new technologies and new ways of doing things (Porter, 1996). Drucker (1985) defined innovation as the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service. It is capable of being presented as a discipline, capable of being learned, and capable of being practiced. Betz (1997) assumed that innovation is to introduce a new or improved product, process, or service into the marketplace. Tidd , Bessan and Pavitt (1997) defined innovation as a process of turning opportunity into new ideas and putting these into widely used practice. Afuah (1998) proposed that innovation is the use of new technical and administrative knowledge to offer a new product or service to customers. Therefore, we can conclude that innovation is any practices that are new to organizations, including equipment, products, services, processes, policies and projects (Kimberly and Evanisko, 1981).

As financial marketplaces become more dynamic, interest in innovation, its processes and management has escalated. Banking institutions need to innovate in response to changing customer demands and lifestyles and in order to capitalize on opportunities offered by technology and changing marketplaces, structures and dynamics to achieve competitive advantage .Organizational innovation can be performed in relation to products, services, operations, processes, and people. Thompson and Strickland(2002), organization should innovate in order to renew the value of their asset endowment. Even before this, whilst the term innovation may not have been used extensively, processes that are associated with innovation and economic and technological change were perceived as being important .Although we recognize this, in this paper we focus only on explicit definitions of innovation. Thomas, Clark and Gioia, (2007), suggest that “Innovation is widely considered as the life blood of corporate survival and growth”. Innovation is recognized to play a central role in creating value and sustaining competitive advantage. Bessant et al. (2005) on the role of innovation in renewal and growth emphasize “Innovation represents the core renewal process in any organization. Unless it

changes what it offers the world and the way in which it creates and delivers those offerings it risks its survival and growth prospects”.

### **1.1.1 Innovation Strategies**

Innovation is an ambiguous concept, attracting multiple and often conflicting definitions, and conveying different things to different people both in the literature and in organisations . Storey (2003) suggests that the conceptualizations about what innovation is, is closely wrapped up with what it is for, because, clearly, it is not an end in itself. Hence, to a large extent, conceptualizations have to be inferred from treatments of its objectives.

Globalization, technological developments, volatility of consumer demands, and shorter product life cycles have precipitated continuing radical environmental shifts, and demanded a more strategic perspective from those who manage and lead organisations. There is now a greater focus on understanding the ways in which the human resource drives business, with a strong emphasis on developing entrepreneurial individuals and management teams as key elements of organizational success (Atkinson and Meagher, 1986). These changes have placed increased pressure on employees to be more productive, innovative and change orientated.

Storey *et al.* (2006) assert that “both in terms of practice and theorizing, the field of innovation in the UK has been stunted by a conventional view on what constitutes its proper realm of concern”. It is argued that a number of underlying issues must be addressed if organisations and their managers are to be made more effective including: job definition, selection, training and development, the identification of development needs, culture and context, and the link between development and organizational systems and structures. While this article acknowledges these concerns, it primarily aims to consider some of the contemporary debate within the field of innovation. In doing so, it gives consideration to a range of definitional issues, current debates about the purposes or intentions of these organisations which invest in innovation and a number of alternative but complementary innovation strategies. The article concludes with a brief discussion of the issues involved in evaluating the effectiveness of innovation, focusing in particular on the problems of measurement of outcomes.

### **1.1.2 Competitive Advantage**

A company has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces (Thompson and Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield the long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics; one it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly, it is hard for a competitor to imitate. Competitive advantage is also defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment.

According to Bharadwaj (1993), competitive advantage can be developed from a particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the achievement of the firm to be able to perform above average industry performance.

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology either to be included as a part of the product, or to assist making it. Information technology has become such a prominent part of the modern business world that it can also contribute to competitive advantage by outperforming competitors with regard to internet presence from the very beginning (Porter, 1985).

### **1.1.3 Overview of the Banking Industry in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Central Bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines (CBK, 2011). Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy (Johnson and Johnson, 1985). A well developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade

UBA Kenya Bank Limited is a subsidiary of United Bank for Africa Plc, one of Africa's leading financial institutions offering universal banking to more than 7 million customers across 750 branches in 19 African countries. With presence in New York, London and Paris and assets in excess of \$19bn, UBA is your partner for banking services for Africans and African related businesses globally. UBA Kenya was formed as a wholly owned subsidiary of UBA plc, and is part of 13 African countries where UBA plc has operations namely Nigeria, Ghana, Uganda, Cameroon, Cote d'Ivoire, Liberia, Sierra Leone, Senegal, Burkina Faso, Chad, Benin and Tanzania.

In November 2008, in line with UBA's strategic objective of achieving Pan African status, UBA Kenya Bank Limited was formed as a wholly owned subsidiary of UBA plc, and later licensed by the Central Bank of Kenya (CBK). The Bank opened its doors to the public on October 7, 2009, after the government gazetted UBA Kenya Bank Ltd as a bank in a supplementary edition of the Kenya gazette (Access Online, [www.ubagroup.com](http://www.ubagroup.com)).

UBA Kenya Bank Limited brings to the market comprehensive world-class financial services to the Kenyan market and seeks to make positive contributions to the country's economy. UBA Plc's strategy is to develop a global African bank, which is a bank owned by Africans for Africa. UBA's expansion into Kenya is in line with this strategic aim of supporting African business, wherever they are found. In addition to introducing innovative products and services to the market, UBA Kenya is determined to change the way people bank in Kenya. UBA Kenya making the bank strategically positioned as an ideal partner for regional businesses in East Africa (Access Online, [www.ubagroup.com](http://www.ubagroup.com)).

## **1.2 Research Problem**

Current and future challenges and opportunities facing business organizations are in the fields of sustainable development; e-Commerce; and new product development. According to Porter and Stern (1999) has shown the three identified domains above to be of critically important interest to today's governments and many organizations. The power of the innovation capability construct is that it is generalizable to all these domains, as it relates to the organizational potential to convert new ideas into commercial and community value. Drucker (1998) is very explicit in stating that innovation is work rather than genius; successful innovation requires hard, focused, and purposeful work. The process of innovation in banks can incorporate both incremental and radical change. Incremental innovation produces small continual changes and is often visible in organizations in the form of continuous improvement or TQM (Bessant and Caffyn, 1997).

The need for innovation is obvious and crucial for commercial banks operating in a continuous uncertain and competitive environment. Most importantly, to survive and succeed in the current competitive global financial environment, commercial banks need to be innovative by producing a regular stream of innovations so as to gain competitive advantage (Robbins and Coulter, 1999).

Some of these banks consider adoption of innovation strategies to access to advance technology, inexpensive power, access to highly trained and skilled personnel human resources to improve on financial service delivery and gain competitive advantage over its rival (Raymond, 1998). Beddowes (1994) indicated that the clarity of commercial banks objectives in terms of

innovation has led to an increased emphasis on the evaluation of return on investment; Doyle (1994) observes that systematic evaluation rarely occurs within organisations. It is only those bank that are able to adapt to the changing environment and adopt new ideas and ways of doing business that can be guaranteed hope of survival and gaining of competitive advantage. Some of the forces of change that have greatly influenced the financial institutions to be more innovative include intense competition, regulation, and technological advancement. According to Mavondo and Farrell (2003) argued that an innovative commercial banks is characterized by its ability to channel creativity to survive in highly competitive market and achieving competitive advantage by providing a unique financial product or service to customers.

Previous research studies had concentrated on the adoption of innovation strategies adopted by various institutions like banks. Gitonga (2003) carried out the research on innovation processes and the perceived role of the CEO in the banking industry while Odhiambo (2008) studied innovation strategies at the Standard Chartered Bank (Kenya) Limited. There is no known study that has focused on extent to which innovation strategies influence achieving of competitive advantage in commercial bank in Kenya. This study therefore seeks to fill this knowledge gap by investigating innovation strategies adopted by commercial bank to achieve competitive advantage focusing on United Bank of Africa, Kenya by answering the following questions,

- i. What are the innovation strategies adopted by UBA bank?
- ii. To what extent has innovation strategies influenced achieving of competitive advantage in UBA bank?

### **1.3 Research Objectives**

The objectives of this study are:

- i. To determine the innovation strategies adopted by UBA bank.
- ii. To determine the extent to which innovation strategies achieve competitive advantage in UBA bank.

#### **1.4 Value of the Study**

This study will be important to the management of commercial banks as they will be able to know for certain what environmental factors play a bigger role in shaping their operations and how they affect performance and what innovation strategies to be adopted in order to achieve competitive advantage. Knowing and understanding the adoption of innovative strategy practices may provide insight into the reasons why firms are able to be innovative. The study would be useful in helping managers of firms improving their innovative capabilities and activities.

The policy makers will also find the results of this study very invaluable, as it will be able to significant of adoption of innovation strategies in order to achieve competitive advantage in the banking industry. The banking regulator in Kenya will also find the results of this study very invaluable, as it will be able to ascertain the extent of competition in the industry and the innovation strategies that mitigate the effect of such competition to commercial banks and achieving competitive advantage following guidelines provided for by the government.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents the literature review on study done on the same study. The specific areas covered in this chapter includes concept of strategy, innovation strategies, competitive advantage, innovation strategies adopted by banking institutions, use of innovation strategies to achieve competitive advantage

### **2.2 Concept of Strategy**

A strategy is a long term plan of action designed to achieve a particular goal, most often winning. Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed (Hamel and Prahalad,1994). Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 1997).

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives amid the competitors' existence. It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives. Strategic management comes in handy and combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and executive team. Strategic management provides overall direction` to the enterprise and is closely related to the field of Organization Studies (McAdam and McClelland, 2002).



“Strategic management is an ongoing process that assesses the business and the industries in which the company is involved, assesses its competitors and sets goals and strategies to meet all existing and potential competitors. It then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment (Hamel, and Prahalad,1994).

Strategic management is a combination of three main processes namely strategy formulation; strategy implementation and strategy evaluation. On the same note, strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. Whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Drucker, 1985).

### **2.3 Concept of Innovation Strategies**

Strategic innovation is the ability to create and revitalize the business idea and concept of the company by changing both the market of the company and the competencies and business system of the company. In this way, strategic innovation is concerned with developing the entire company. Evidently, organizations need to be more innovative and think proactively in their strategic management. At least, this has rapidly become the mantra of the new decade both among managers and in academia. The well-known work on innovation management and technology management has gained newfound – or perhaps re-found – respectability and has begun to influence the way we think about strategic management as a discipline (Davila and Robert, 2006).

On top of that a new set of publications has begun to emerge. These publications take their starting-point in the strategic realm rather than the innovation realm and, hence, focus on strategy and innovation or strategic innovation. This and other similar books – and the thinking behind strategic innovation as a concept is based on three pillars (Drejer, 2002). First is the recognition

by many that strategic managers need to consider both strategies for tomorrow and strategy for today in order to stay successful over time. This is now state-of-the-art knowledge within the field of strategic management – following the work of people such as Hamel and Prahalad (1996) acknowledgement of Porter (1996) that strategy needs to consider both operational effectiveness and differentiation.

## **2.4 Competitive Advantage**

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. Porter, (1985) identified two basic types of competitive advantage: cost advantage, differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Anderson,1996).

Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. The following diagram combines the resource-based and positioning views to illustrate the concept of competitive advantage (Bessant and Francis, 1998)

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm was doing and any advantage quickly would disappear. Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. The following are some examples of such resources which include patents and trademarks, proprietary know-how, installed customer base, reputation of the firm and brand equity (Canals, 1993)

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage, (Christensen,1997). Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy, (Porter, 1985).

Another important decision is how broad or narrow a market segment to target. Porter formed a matrix using cost advantage, differentiation advantage, and a broad or narrow focus to identify a set of generic strategies that the firm can pursue to create and sustain a competitive advantage. To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

## **2.5 Innovation Strategies**

The specific areas reviewed below under this concept of innovation strategies include product, process and market strategies.

### **2.5.1 Product innovation**

Different terminologies have been used to categorise and describe product development. Crawford (1983), for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge. Meyer (1996) similarly categorised product development into primary and secondary innovations. Primary innovations were broadly concerned with the development of new markets and relate to instances where there is a high degree of technical originality and a commensurate change in consumer behaviour. Secondary innovations, on the other hand, are basically business or company focused and typically involve improvements to an existing market (Gaynor,2002).

According to Storey and Easingwood,(1998), product innovation provides the most obvious means for generating revenues. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. Improved and radically changed products are regarded as particularly important for long-term business growth. The power of product innovation in helping companies retain and grow competitive position is indisputable. Products have to be updated and completely renewed for retaining strong market presence.

### **2.5.2 Process innovation**

According to Cumming, (1998), process innovation embraces quality function deployment and business process reengineering. It is a type of innovation, which is not easy, but its purpose is now well understood. An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices (Constable and McCormick, 1987). Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained. In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (Johne and Storey, 1998).

### **2.5.3 Market innovation**

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served. Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets. Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to develop the profitability of a business to the full. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues, which might have been earned, are misread (Kimberly and Evanisko,1981),

It is the prime responsibility of marketing specialists to provide such insights. Sometimes this responsibility is seen to cover solely the identification of present and likely future geographical

market opportunities. Geography is, however, only one simple way for segmenting markets. A very wide range of possible criteria exists for segmenting, stretching from objective criteria based on demographic data through to subjective criteria based on life style interpretations of consumer and business buying behaviour (Anderson, 1996).

In recent years, “benefit segmentation” has become more widely used (Hooley et al., 1998). It is based on the study of buyers’ attitudes, on the assumption that in great measure it is needs and benefits which make up markets and which alter markets. In this form of segmentation emphasis is on “usage occasions”, namely how buyers seek to gain benefits in particular buying situations. This form of segmentation is particularly powerful for dividing a total potential market into meaningful market opportunities. Its power derives from being predicated on the assumption that the same individual buyer can have different usage needs for the same core product. This happens quite frequently in practice

#### **2.5.4 Stimulus for Innovation**

According to Lieberman and Montgomery, (1988), inventions are, by definition, only introduced by one firm, or at most by a small handful of firms that bring a new product or service to market simultaneously (Oakey and Rothwell, 1998). They add that companies that attempt to introduce an invention should logically stand to gain some substantial advantage, because there is a real risk of coming late to the finish line and gaining no prize. Companies that succeed in commercializing an invention are sometimes known as first movers. There are three basic types of advantages that can go to first movers. If an invention involves proprietary technology then the first firm to obtain the patent or copyright wins the exclusive right to market the product. The lack of competition can be a definite strategic advantage (Gilbert, 1993).

Chandler, (1990) states that preemption of scarce assets can sometimes provide an advantage to one or a few first movers that will not be available to those that adopt the innovation later. According to O'Reilly and Tushman, (1997), the creation of buyer switching costs can also provide an advantage to one or a few first movers that are denied to followers. Firms seeking to gain one or another of these advantages are sometimes referred to as first movers. Those that do not aim for invention, but innovate by adopting an invention that appears to be a winner, can be

said to be late movers. Even if an innovation is clearly incremental rather than radical, the first mover is introducing or seeking change to a greater degree than the late mover, who waits until an invention no longer seems new to the market or the industry before adopting it (Shaw and de Mattos, 2001).

Second movers are firms that do not aim for invention, but anticipate a key point at which advantages that are not available to inventors will be up for grabs. These advantages might consist of market knowledge or resolution of technological uncertainty. Innovators in this category are not so much reactive or defensive as they are opportunists who identify the point of opportunity as some time later than invention (Plessis, 2007).

Porter (1996), argues that first movers are those aiming for invention they clearly break new ground. Inventions, because no other firm has yet introduced them, seem different and new. Second movers are still aiming for relatively early introduction, and tend to be closer to the first mover than the late mover end of the continuum. Late movers, who introduce an innovation because many competitors already have it and who will lose sales unless they introduce one too, are obviously toward the late end of the continuum. Furthermore, the degree of technological imitation or invention is sometimes very different from the impact of an innovation.

Technologically imitative innovations can sometimes have truly inventive effects; conversely, innovations that require highly inventive technology can sometimes bring about very little perceived change. The technology required to design and mass-produce each new generation of computer chips is complex and very expensive. To the average user, the new chip makes computers operate a little faster, but if the user limits his or her work to word processing and relatively simple spreadsheets, the difference may not even be noticed (Tidd, Bessant and Pavitt, 2001).

In determining whether a given innovation fits better with one kind of innovation strategy than another, both the technological and the customer perception aspects must be taken into account. Innovations that are technologically inventive generally require more time and effort to develop than those that are technologically imitative. Innovations that are perceived as imitative by the

customer lend themselves to perceptions of stability, whereas those seen by the customer as inventive foster a perception of change (Nadler, Nadler, 1992).

## **2.6 Competitive advantage through innovation strategies**

Innovation, technology advances, and competitive advantage are connected by complex and multidimensional relationships. Demands for organizational innovation and technological advantage are increasingly crucial components of competitive strategy for many banking firms (Miller 1989). Most commercial banks face serious competitive challenges due to the rapid pace and unpredictability of technology change (Ansoff, 1988). Banking Industry dependent on highly sophisticated technologies and banking firms engaged in multinational competition are particularly vulnerable to the need for continuous and rapid modification of their product features and the ways in which they conduct business and argued that global strategies are dependent in large part on accelerating the speed at which innovations are translated into profitable commercial ventures (Feldman,1996).

The less a strategy can be imitated, the more durable the source of competitive advantage (Porter, 1985). Given the array of capabilities needed to sustain effective corporate entrepreneurship, innovation provides an attractive source of competitive advantage if it creates positive synergy for the firm. Likewise, if the innovation process or the outcomes of innovation are difficult to copy, effective corporate becomes an increasingly important ingredient in sustaining competitive advantage. Fisher, (1990) suggested that banking product form, function, pricing, and distribution offer potential avenues for reducing imitability for innovative firms. Others argue that managerial innovations, such as the strategic management of human resources (Schuler and Jackson, 1989), or information-based innovations, such as new market research techniques, provide more durable routes to competitive positioning than can be gained from product innovations. Parker, (2002), recommended that banking firms could only specialize in developing technologies that have pivotal importance to their business in order to protect imitability of key competitive elements. The common thread is identifying outcomes that are difficult for other firms to replicate (Knox ,2002).

The outcomes are no better if a firm chooses to resist change as it innovates and diversifies. The consequences of neglected structural and cultural implications of increased diversification and organizational differentiation particularly where new products often require new structures to foster market exploitation. Therefore, innovation activities must be compatible with a firm's ability to manage potentially radical organizational change (Allaire and Firsirotu, 1985). This capability can be taken to an extreme (Meyer, 1996).

Issues such as structure, culture, human resources, and strategy patterns link innovation activities and imitability. These issues differ from other factors linking innovation and competitive advantage in one important way: configuration problems often increase with innovative success and the implementation of creative solutions. Successful innovation typically generates a need for change, thus creating new problems for maintaining the configuration. In this way, success can trigger the unraveling of a firm's existing strategy pattern because new capabilities, structures, preferences and relationships are frequently required to exploit innovation (Jelinek, 1986).

According to Gaynor (2002), innovative success, and subsequent requirements for sustained exploitation, provides incentives for change in the strategic configuration. Innovative success might enable a firm to broaden its market appeal by introducing cost savings as well as unique features. Successful adaptability requires both knowing when to change and knowing when change is not appropriate (Tushman and Nadler, 1986). Innovation activities that help a firm make correct choices will have a greater probability of creating competitive advantage. As Clark (1987) points out, the foundation of competitive advantage is the set of capabilities such as human skills and relationships, material resources, and relevant knowledge that a firm uses to build products and deliver services having marketplace appeal (John and Storey, 1998).

The link between innovation and market-based competitive advantage is based on management facilitating and maintaining sufficient innovative activity to create a firm that is prepared, but nimble and ready to act (informed opportunism), the firm must not feel so compelled to act from pent-up ideas that irrelevant or trivial product features are introduced to the market (Miller, 1990) and that decision-makers must thoroughly understand the customer so as to be able to



make appropriate decisions on which features to include and which to exclude (Deming, 1986) as well as having sufficient expertise as to potential applications of their innovation activity that latent customer needs can be identified (Feigenbaum, 1991).

Timing an ability to respond to a wide and shifting range of customer interests, however, is linked with generating a steady stream of innovation activities (Kanter, 1983). Waterman (1987) argues that informed opportunism is the key to competitive innovation over the long term. Feldman (1996) indicated that a steady investment in research and innovation activities generate a powerful source of information that supports product-oriented opportunistic action. Such activities keep a bank informed about relevant technology and gives managers a feel for what might be useful in the marketplace. He reasons that if innovation activities are so carefully managed that they only react to demonstrated customer interests, this situation can contribute more to driving out invention than creating it (Higgins, 1995).

Innovation can trigger a reshaping of the market environment. Schroeder (1990) explains that the effects of innovation are dynamic and have different effects on industry segments at different times. Impact on competition is asymmetric, variably affecting firms in distinct strategic groups. The consequences of innovation are driven by on-going innovation development, the emergence of complementary technologies, and the widening use of a new idea (Mckeown and Max ,2008). In this way, he contends, innovation breeds more innovation. Winners and losers are created by actions that firms take in response to an innovation's competitive impact. Innovation launches opportunities for the firm and for astute and flexible competitors as well. Thus, innovation is an important vehicle for shaping the competitive environment as well as responding to it. The key element linking organization competencies and competitive advantage is defining and achieving the appropriate contingent capability profile (McAdam and McClelland, 2002).

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

### **3.1 Introduction**

The chapter presented the research design and methodology of the study. It entails the study design, the population, the data collection techniques and the data analysis procedure.

### **3.2 Research Design**

This was a case study since the unit of analysis is one organisation. This was a case study aimed at getting detailed information regarding the achieving competitive advantage through adoption of innovation strategies. According to Mugenda (2008), a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari, (2004) noted that a case study involves a careful and complete observation of social units. It was a method of study in depth rather than breadth and placed more emphasis on the full analysis of a limited number of events or conditions and other interrelations.

### **3.3 Data Collection**

The study adopted both primary and secondary data. Primary data was collected using self-administered interview guide while secondary data was collected from published reports and other documents. Secondary data includes the company's publications, journals, periodicals and information obtained from the internet.

The interview guide had open-ended questions. The open-ended questions enabled the researcher to collect qualitative data. This was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the study. The interview guide designed in this study comprised of three sections. The first part included the general information about the bank while the the second and third parts was devoted to the identification of the innovation strategies adopted by the bank to achieve competitive advantage. The interview guide was administered to 35 staff who included senior management staff working in UBA.

### **3.4 Data Analysis**

Before processing the responses, the completed interview guide was edited for completeness and consistency. Content analysis was employed. This was a systematic detailed qualitative description of the objectives of the study. It involved observation and detailed description of objects, items or things that comprise the study. This method made it possible to analyze and logically group the large quantity of data and compile the rest of the study. Content analysis was used to analyze the interviewees' views about the achieving competitive advantage through innovation strategies in UBA.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the discussions and interpretations of the study. Primary data was collected using interview guide. Data analysis was done through content analysis to determine the innovation strategies adopted by UBA Bank and the extent to which innovation strategies achieved competitive advantage in United Bank of Africa.

### **4.2 Data Analysis**

#### **4.2.1 Background of the interviewees**

The study investigated the background of the respondents on the basis of their education qualifications, departments that they were working in, period in years the respondents had worked in their current departments and their positions.

#### **4.2.2 Qualifications of the Interviewees**

The interviewees were requested to indicate their level of education. From the findings, 57% of the interviewees indicated that they were graduates with a bachelors degree, 25% of the interviewees indicated that they were postgraduates with masters degree, 11% of the interviewees were high diploma holders while 7 % of the interviewees were diploma graduates with diploma certificates. This implied that United Bank of Africa had an educated human resource support.

#### **4.2.3 Interviewees' department**

The study sought the department in which the interviewees were working in. From the findings, majority of the interviewees indicated that they were working in finance, credit, operations and human resources management. This clearly indicated that the information on achieving competitive advantages through innovation strategies in United Bank of Africa was collected from the interviewees who were drawn from diverse bank units.

#### **4.2.4 Period the Respondent had been working in their current department**

The study sought to determine the period in terms of years, the interviewees had been working in their current departments in the bank. From the findings, 65% of the interviewees indicated that they had been working in their current department in the bank for a period of 5 years, 30% of the interviewees indicated that they have been working in their current departments in the bank for a period of 6-10 years while 5% of the interviewees indicated that they had working in their current department for a period of 2-3 years. This implied that the interviewees had worked in the bank for a period of more than 2 years, as such they were well experienced on innovation strategies adopted by the bank for the purpose of achieving competitive advantages.

#### **4.2.5 Interviewees rank in the department**

The interviewees were requested to indicate their position in the departments. From the findings, the interviewees indicated that they were head of departments in the Bank. This implied that the information on influence of innovation strategies on achieving competitive advantage was collected from staff who were involved in strategic management .

### **4.3 Results of the Study**

The findings of the study were based on the study objectives' which were to determine the innovation strategies adopted by UBA and to determine the extent to which innovation strategies achieved competitive advantage in UBA bank.

#### **4.3.1 Innovative Strategies Adopted in United Bank of Africa**

The study sought to investigate innovation strategies adopted by United Bank of Africa.

#### **4.3.2 Product Innovation Strategies**

The interviewees were requested to indicate the innovation strategy adopted by the United Bank of Africa. From the findings, the United Bank of Africa had adopted product innovation strategies which had enabled the bank to offer distinct and superior financial product in the competitive markets. The interviewees gave example of products such as U-Mobile, U Direct, UBA's internet banking, Non-Resident Kenyan Banking, Asset Finance, Hakuna Matata Loans, UBA AfriCash and U-Care developed due to adoption of innovation strategies in the bank.

### **4.3.3 Product Process Innovation**

The interviewees also indicated that the United Bank of Africa had adopted process innovation through offering quality services at a low cost. From the findings, the bank was offering accounts for clients where no minimum balance was required, charging financial services at a relatively low cost and sought to introducing innovative financial products and services to the market with an aim of changing the way people bank in Kenya.

### **4.3.4 Market Innovation**

The interviewees indicated that the United Bank of Africa serve the Kenyan through segmentation of the markets. From the findings, bank was offering financial services for business services such as Business Current Accounts, UBA Gold Accounts and UBA Savings Accounts. The bank was also offering loans to business persons to enable them access funds. The study found that the bank was also offering U-Care bank for children, UBA AfriCash for efficient payment system for the booming trade activities within Africa and Non-Resident Kenyan for Kenya living abroad.

### **4.3.5 Whether innovation strategies adopted improved competitiveness by UBA Bank**

The study sought whether innovation strategies adopted in UBA improve the bank competitiveness. From the findings, the innovation strategies were crucial for UBA bank for continuous operations due to uncertain and competitive financial competitive environment. The interviewees indicated that innovation strategies were adopted to enable the bank to survive and succeed in the current global financial markets.

The study further found that United Bank of Africa considered adoption of innovation strategies to utilised new technological advancement, accessibility of highly trained and qualified bank staff and skilled personnel human resources so as to improve financial services delivery in the East Africa and the whole Africa countries.

#### **4.3.6 Achieving competitive advantage through innovative strategies in UBA Bank**

The interviewees were requested to indicate the effects of innovation strategies adopted by the bank.

#### **4.3.7 Improve Return on Investment**

From the findings, the interviewees indicated that innovation had led to an increased emphasis on the evaluation of return on investment in the bank where bank increased its Return on Investment by 25% in the year 2010.

#### **4.3.8 Increased Number of Customers**

The interviewees indicated that due to adoption of product innovation, development of new financial products had led to increased number of customers. The study found that innovation strategies adopted by the UBA led to increased in number of customers resulting in opening of 7 branches across the country and strategically positioning the bank to delivery financial services to the Kenya Market.

#### **4.3.9 Development of Superior Bank Products**

The interviewees indicated that through innovation strategies, the United Bank of Africa differentiate it products by developing new financial products for different groups of customers in the markets. The study found that innovations strategies adopted by the bank had made the bank offering financial services at a low cost charging relatively low interest at 15% on their loans.

#### **4.3.10 Quality Financial Services**

The study further found that through innovation strategies, the bank had improved on efficiency, quality and customer responsiveness which resulted in a cost advantage. This implied that the bank was able to perform better than its rivals by offering quality financial services that were difficult to be imitated by their rivals in the markets.

#### **4.3.11 Development of organisational learning**

The study sought the effects of organisational learning and continuous training on innovation strategies at the UBA . From the findings, the bank's learning and training had improve the competency of the staff and increased acquisition of skills and knowledge which had enable the bank to utilised the skill to formulate and implement innovation strategies in the bank.

The respondents explained that though training of staff , the bank had been able to develop new products such as Pay As You Go bank accounts which allows customers to pay only for transactions carried out with no ledger or maintenance fee and UBA AfriCash which was designed to provide an efficient payment system for the booming trade activities within Africa.

The interviewees also indicated that through the bank learning and training, the United Bank of Africa offers training to customers on how to carry out their businesses and financial management as well as improving customer relationship thereby attracting more customer across the country. This concurred with Johnne and Storey, (1998), who indicated that for bank services, which by their very nature rely on personal interactions to achieve results, the management of the bank was improved through process innovation, and this was a particularly challenging activity important key factors in driving the Bank towards a innovative strategy advantage. The study further found that United Bank of Africa faces serious competitive challenges due to the rapid pace and unpredictability of technology change facing the financial markets. This concurred with Ansoff, (1988) who indicated that banking Industry dependent on highly sophisticated technologies and banking firms engaged in multinational competition are particularly vulnerable to the need for continuous and rapid modification of their product features and the ways in which they conduct business and argued that global strategies were dependent in large part on accelerating the speed at which innovations were translated into profitable commercial ventures.

#### **4.3.12 Leader in the markets**

The study requested the interviewees' to indicate how innovation strategies had led to the bank as a leader in the markets. From the findings, the interviewees' indicated that the innovation formulation and implementation had led UBA Kenya strategically positioned as ideal financial



institutions for regional businesses in East Africa. The interviewees indicated that innovation approach adopted by the UBA enabled the bank to develop new financial products such as U Mobile that is mobile phone banking across the East Africa region and Africa at large, introduce new money transfer mode, UBA AfriCash which was designed to provide an efficient payment system for the booming trade activities within Africa and Kenya included.

#### **4.4 Challenges faced by UBA bank in the adoption of innovation strategies**

The interviewees were requested to indicate challenges faced by United Bank of Africa bank in the adoption of innovation strategies. From the finding, The interviewees indicated that communication barriers were reported more frequently than any other type of barriers to innovation strategy implementation at the United Bank of Africa. The interviewees also indicated that lack of top management's commitment to the innovation strategies was also hindering effective adoption of the innovation strategies in the bank and that in some cases top managers may demonstrate unwillingness to give energy and loyalty to the innovation strategy implementation process.

The interviewees further indicated that lack of mutual coordination, incentive systems and the level of decentralization between the general manager and other superior staff greatly affected innovation strategy adoption. The interviewees further indicated that improper or inadequate planning also affected the innovation strategies adoption.

#### **4.5 Discussion**

The study found that United Bank of Africa had adopted product innovation strategies and developed innovative financial products such as U-MobileU, U DirectUBA's internet banking, Non-Resident Kenyan Banking, Asset Finance, Hakuna Matata Loans, UBA AfriCash and U-Care developed due to adoption of innovation strategies in the bank. The bank had also adopted process innovation by offering quality services at a low cost. offering accounts for clients where no minimum balance was required, charging financial services at a relatively low cost and introducing innovative financial products and services to the market with an aim of changing the way people bank in Kenya. The study found that United Bank of Africa had adopted market innovations through segmentation of the markets, offering financial services for business services such as Business Current Accounts, UBA Gold Accounts and UBA Savings Accounts,

offering U-Care bank for children, UBA AfriCash for efficient payment system for the booming trade activities within Africa and Non-Resident Kenyan for Kenya living abroad.

The study found that innovation strategies adopted in united bank of Africa enabled the bank to attract more customers, development of new bank Products, improve Quality Financial Services, enhance training of Staff and customers and development of innovative financial products such Hakuna Matata Loan and Non-Resident Kenyan Banking. The study also found that the through innovation strategies adoption, United bank of Africa innovation activities that help United Bank of Africa management to make correct choices which has greater probability of creating competitive advantage through human skills and relationships, material resources, and relevant knowledge that United Bank of Africa used to build products and deliver financial services that was marketplace appealing, attracting and increasing customer base as well as improving profitability of the bank.

The study finally found that United Bank of Africa was facing challenges when adopting innovation strategies which included lack of top management's commitment, ineffective communication and resistance from the management and staff which hindered effective adoption of innovation strategies in the banks

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presented discussions, conclusions and recommendations of the study basing on the objectives of the study which were to determine innovation strategies adopted by United Bank of Africa and to determine the extent to which innovation strategies achieved competitive advantage in UBA Bank.

### **5.2 Summary of the findings**

The study established that the United Bank of Africa had adopted product innovation strategies, which enabled UBA to offer distinct products in the competitive Kenyan market. Examples of these unique product offerings included U-Mobile, U-Direct, UBA's internet banking, Non-Resident Kenyan Banking, Asset Finance, Hakuna Matata Loans, UBA AfriCash and U Care were developed due to adoption of innovation strategies in the bank.

The study also revealed that through the adoption of process innovation strategies UBA was able to offer quality services with a fast turn-around time at a low cost.

The study established that United Bank of Africa sought to serve the Kenya markets through segmentation of the markets. This was achieved by offering customized financial services to cater for the different market segments. Such products and services included Business current accounts, to cater for small and medium business enterprises; corporate account packages to cater for multinationals and large corporate organizations; U-care savings accounts for children.

From the findings, study established that innovation strategies had led to an increased emphasis on the evaluation of return on investment in the bank where bank increased its ROI by 25% in the year 2010. Adoption of product innovation had led to increased number of customers and opening of 7 branches across the countries which were strategically positioned to deliver financial services to the Kenya Market.

The study revealed that United Bank of Africa learning and training had improved the competency of the bank staff and increased acquisition of skills and knowledge to formulate and

implement innovation strategies in the bank. The study established that training of staff enabled bank to develop new products such as Pay As You Go bank accounts which allows customers to pay only for transactions carried out with no ledger or maintenance fee and UBA AfriCash which was designed to provide an efficient payment system for the booming trade activities within Africa.

The study found that innovation and technological advantage were increasingly crucial factors which UBA required to adopt in order to achieve competitive strategy. Innovative success and the subsequent requirements for sustained exploitation, provides incentives for change in the strategic configuration in the bank. As a consequence, UBA was able to broaden its market appeal by introducing cost savings as well as unique features of its financial services thereby achieving competitive advantage over its rivals in the market.

The study revealed that management of the United Bank of Africa faced various challenges such as communication barriers, lack of top management's commitment to innovation, lack of mutual coordination, poor incentive systems and resistance to innovation.

### **5.3 Conclusion**

From the findings, the study concluded that United Bank of Africa had adopted product, process and market innovation strategies which had enabled the bank to offer unique and superior product and services in the dynamic and competitive Kenyan market.

The study concluded that innovation strategies at adopted by UBA, contributed to the bank's survival and success in the uncertain and competitive financial environment consequently achieving competitive advantage.

UBA was able to increase its ROI by 25% in the year 2010, increase its customer base and improve its branch network across the country. This strategically positioned the bank to deliver financial services to the Kenya Market and enhance differentiation of its products and services through developing new financial products for different groups of customers in the markets. The study also concluded that innovation strategies led to improved financial service delivery at a

low cost. As a consequence the bank became more efficient, leading to improved quality and customer responsiveness.

The study finally concluded that the management of the United Bank of Africa face various challenges during implementation of innovation strategies which included lack of effective communication channels, lack of top management's commitment to implementation of innovation strategies, lack of mutual coordination, poor incentive systems and improper or inadequate planning affecting the adoption of innovation strategies.

#### **5.4 Recommendation of the Study**

The following were recommendations made after carrying out the study on competitive advantage through innovation strategies in United Bank of Africa.

##### **5.4.1 Recommendation for Further Study**

The study investigated competitive advantage through innovation strategies in United Bank of Africa. The study recommends that a further study should be carried out to investigate the challenges affecting implementation of innovation strategies in United Bank of Africa and how these challenges can be resolved.

##### **5.4.2 Recommendations to United Bank of Africa**

From the findings and conclusions, the study recommends that management of the UBA Bank should adopt innovation strategies to improve on their general financial performance. This can be done by the Bank putting in place flexible organizational structures, supporting a 360 degrees open communication model and providing incentives to staff that come up with innovative ideas.

The study recommends that management of UBA should investigate ways of reducing challenges facing the implementation of innovation strategies such as lack of top management's commitment to the innovation strategies and lack of mutual coordination and inadequate planning.

### **5.4.3 Recommendations for Policy and Practices**

From the findings and conclusions, the study recommends that the Banking Sector policy makers which include the Central Bank of Kenya and the Kenya Bankers Association should develop innovation policy frameworks to be adopted by commercial banks. These policies will holistically educate, prompt and guide commercial banks to adopt innovation strategies.

### **5.5 Limitation of the Study**

The method used is descriptive research design whereby the variables cannot be controlled by the researcher. The study used questionnaire as the instrument for collecting data. This is because time for the data collection was limited to two weeks. The study was carried out in only one bank due to financial constraints of the researcher. This study was also limited to the United Bank of Africa as it sought to investigate the competitive advantage through innovation strategies in United Bank of Africa limited.

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## **APPENDIX I: INTERVIEW GUIDE**

### **Questionnaire for Innovation Strategies and Their Impact on the Competitive Advantage in UBA Bank**

#### **PART A: DEMOGRAPHIC INFORMATION**

1. Name (optional): .....
2. What level of education have you completed?.....
3. Which department do you work at? .....
4. How many years have you been working at your current department?.....
5. Which is your rank in the department?.....

#### **SECTION B. Innovative Strategies And Their Impact On Competitive Advantage**

6. What form of Innovative strategies has your bank adopted?  
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.....
7. What are some of the innovation strategies adopted by UBA Bank?  
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8. What is the impact of above innovative strategies in UBA Bank?  
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9. What is the influence of bank Management on the adoption of innovative strategies?  
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10. What effect does organisational learning and continuous training have on innovation strategies?

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11.What are the most important key factors in driving your Bank towards a innovative strategy advantage?

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12.What are some of the technological factors affecting adoption of innovative strategies at UBA bank?

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13. Kindly indicate how innovation strategies has led your bank as a leader in the markets.....

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14.Kindly indicate the how innovation strategies adopted by the UBA bank created distiveness competence?

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**SECTION C: Innovation strategies influence achieving of competitive advantage in UBA Bank.**

15.What is the effect of new product development as an innovative strategy in achieving competitive in your bank?

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16. Kindly indicate whether innovation strategies adopted by your bank has led to offering of superior bank services at a low cost than its competitors in the markets.

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17. What are the challenges faced by UBA bank in the adoption of innovation strategies?

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