INNOVATION PROCESSES AND THE PERCEIVED ROLE OF THE CHIEF EXECUTIVE OFFICER IN THE BANKING INDUSTRY

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DECLARATION

This Management Project Report is my original work and has not been presented for a degree in any other University.

SIGNED: _____ **DATE:** 22-10-2003

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This Management Project Report has been submitted for examination with my approval as University Supervisor.

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This one, to the wisdom of time and the relentless Train of Knowledge

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Abstract

The research was undertaken to establish innovation processes and the perceived role of the Chief Executive Officer in the banking industry. The thrust of the study was to find out whether the CEO seek to encourage innovation, factors influencing innovation processes and the main barriers to bring innovation to market.

To gain insight into this proposition, primary data was collected using survey design from two classes of respondents in each of the 40 clearing banks; the Chief Executive Officer (CEO) and Business Development Manager (BDM). Factors that influence innovation such as bank objectives and strengths (both core and distinctive) were also investigated. Fifty-five percent of the BDMs and 65 percent of CEOs responded positively. The results were analyzed by use of descriptive statistics, while t-test was used to gauge perception.

Sixty-five percent of the CEOs and 50 percent of the BDMs perceive the CEO as a facilitator of innovation process to realize value. Fifty-nine percent of the cases indicated that the CEO is responsible for driving innovations, whereas in 50 percent of the cases, the responsibility was on cross-functional committees. Thirty-nine percent of the CEOs and 50 percent of the BDM consider innovation as the most important factor in achieving competitive advantage, yet 36 percent of the cases indicated that they were only able to commercialize less than 20 percent of the promising ideas. Good human resource base, expansive network and technology capability are considered distinctive competencies among the Banks. Innovation is encouraged within the organizational setup to the extent that in 59 percent of the cases, innovation formed part of the employees' assessment program.

But a number of constraints were identified as limiting efforts to bring good ideas to market. These include budgetary constraints, resistance to change, insufficient number of people who can be freed and unclear strategy and often conflicting priorities. Despite the resource and capability limitations, less than 10 percent of the cases indicated that they always used external resources to bring innovation to market.

To accelerate value realization, the research recommends Disruptive Growth Engine: First, the CEOs will have to create a strong innovation context setting a clear innovation agenda with tangible goals and promoting an innovation culture, build performance management and learning infrastructure to track the effectiveness of innovation investments and diffuse them effectively through the organization. The CEOs should restore confidence through empowerment – replacing denial with dialogue, blame with respect, isolation with collaboration and helplessness with opportunities for initiative to create a winner's attitude in people, even before victories.

Secondly, there is need to use external resources in general and outsourcing to augment resources and accelerate value creation, free up management to focus on key aspects and to tap into economies of scale from shared infrastructure and to flexibly scale operations to add muscle to innovation execution capability.

Though high resistance was displayed by the respondents in data collection, an important area open to further research is to evaluate the extent of outsourcing of innovations among the banks and the level of innovations that are commercialized to value by relying on internal resources compared to outsourcing.

CHAPTER 1: INTRODUCTION

1.1 Background

Kenyan banks, like other organizations are open systems operating in a turbulent environment; their continued survival depends on the ability to secure a "fit" with the environment (Cote 1990, Ansoff and McDonnel 1990, Pearce and Robinson 1997, Thompson and Strickland 1996, Johnson and Scholes 1999, Davenport 1993). The real challenge is therefore to venture into territories previously uncharted (terra incognita) and marked as "There be dragons." White (1996), points that there is no island in the stream.

The traditional banking Products are homogenous and intangible (Kotler, 2000). This presents a positioning constraint to banks desirous of differentiating themselves to the selected target market on key value proposition scale (Aaker, 1996). Banks must therefore innovate regularly to provide an array of products and services that continually delivers consistent value to customers for them to derive loyalty hence more revenues, cost saving opportunities and growth (Kotler 2000, Aaker 1996, Kambil 2002, Leonard and Rayport 1997, Kuria 2000). Competitive advantage is a function of either providing comparable buyer value by performing activities efficiently (low cost); or unique ways that creates greater buyer value than competitors and hence, command premium price (differentiation) (Porter 1986, Ansoff and Mcdonnel 1990, Pearce and Robinson 1997)

Business innovation is the discovery and implementation of the new technologies, new products and services, new customer experiences, new processes, new markets, new channels and new business models (Kambil, 2002). This results to competitiveness, and the process by which innovation is managed to gain an upper hand is referred to as corporate venturing (Morrissey, 2000). Through corporate venturing, innovation creates purposeful, focused change in an enterprise's economic or social potential (Drucker 1998, Johnson and Scholes 1999). It requires abandoning comfortable old ways of doing business (Davenport, 1993). There is no single success formula, which has universal validity (Ansoff and Sullivan, 1993).

Purposeful, systematic innovation begins with the analysis of the sources of new opportunities. Consumers settle for nothing less than excellent value for money (McKechnie 2002, Kotler 2000). It is a means by which the entrepreneur creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth. Innovation is thus a conscious search for opportunities (Drucker, 1998).

Innovation is about change, an ever-present feature of organizational life, it is not how many ideas you have; it's how many you make happen. The way such innovations are managed and the appropriateness of the approach adopted will determine how successful the organization will be (Burnes, 2000). Navister president while commenting on the competitive environment argued "... the art of progress is to preserve order amid change and to preserve change amid order...we're now a company that knows where it's going and how we intend to get there." (Bateman & Zeithaml, 1990: 706).

Innovation is an action oriented make-things happen process that tests a leader's ability to direct organizational change, design and supervise business processes, motivate people and achieve performance targets (Thompson and Strickland, 1996) and Pearce and Robinson, 1997). Sun Tzu (Kahaner, 1996), in the treatise of the Art of War adds that what enables the wise sovereign and the good General to strike, conquer and achieve things beyond the reach ordinary men is fore knowledge.

Leading a successful corporate venture calls for every ounce of character, courage, humor, wisdom and risk-taking (Jones, 2001). Banks must therefore be like Amoeba, get nourishment from the environment by allowing much of what is inside to flow out and much of what is outside to come in (White, 1996). They must reinvent themselves and implement carefully crafted strategic options or become victims of SPOTS (strategic plans on top shelf) trap (Ulrich and Young, 1989). More so, they must ape hedgehogs, focusing in one powerful idea that drives their business (Abbot, 2002).

The banking environment is rapidly changing following the introduction in the budgetary estimates of 2003/4 of a regulatory framework to control deposit rates and levying of bank charges (Ernst & Young, 2003). This is a threat to banks turf and income base hence the need to constantly re-evaluate the lessons of the past to create an entrepreneurial make-up (Hammer and Champy 1993, Cullum *et al* 2002).

The source of today's competitiveness lies in change; the ability to transform products and organization in response to changes in the economy, in social habits and in customer interest (Ondigo, 2002). This is the precarious situation that Kenyan banks have to contend with.

Moreover, as the geographical scope of the business broadens, business strategists must contend with a considerably wider variety of competitors, business environment and consumers who are more demanding, hard to please and less forgiving (Kotler, 2000). Literature by Ansoff and Sullivan 1993, Cullum *et al* 2002, Drucker 1998, Farkas and Wetlaufer 1996, Hill and Weflaufer 1998, Haapaniemi 2002, Kambil 2002, Mariotti 1999, Sorcher 1985, and Taylor 1993 is rich on the need for innovation. Morrissey (2000), details how innovation can be managed through corporate venturing. However, instances of success or failure have not been evaluated against the roles that the CEOs play in facilitating or stifling corporate ventures. Moreover, no empirical data has been compiled detailing the constraints that banks in Kenya face in the process of innovation.

1.2. Statement of Problem

The CEO by his actions or lack of action may be an agent of stifling innovation. Often, the CEO may regard himself as the key agent of innovation thus acting as the entrepreneur himself, and viewing staff as lacking innate entrepreneurial attributes, discouraging collaborative behavior that seeks to give staff the confidence to behave in an entrepreneurial way. By assuming that the requirements of entrepreneurship must be met by a single heroic leader (Cullum *et al*, 2002), the CEO may introduce derailing patterns of

behavior, the tendency to fight over turf and to gun down any wild geese that challenge the system. Such a stratagem destroys creativity.

Haapaniemi, (2002) notes that good ideas can come from anywhere in the organization hence the need to foster corporate entrepreneurship. Even where there are good ideas, innovation may stall due to organizational politics defined as competition for limited corporate resources (Kiechel, 1998).

With an ever-turbulent environment and a threat to their turf, banks must perfect the art of innovation. Should the CEO assume total involvement or assume the role of a facilitator to encourage entrepreneurial behavior? Do CEOs see themselves as the principal source of innovation? What do their managers think of their role? What factors influence the process of innovation in the banking industry?

1.3 Research Objectives

The study will establish the:

i. Process of innovation among the banks in Kenya,
ii. Perceived role of CEO in innovation i.e. total involvement versus facilitation (both as an office and the incumbent),
iii. Business Development Manager perception of the CEO role,
iv. Factors influencing innovation process in the banking sector in Kenya.

1.4 Importance of the Study

i. The study will highlight the role that the CEO play in the innovation process, either as agent of innovation or stifling innovation. This will assist in re-construction of the CEO role and thus increase bank's and CEO's "Bandwidth" in pursuit of growth and excellence.

ii. Identify the key factors constraining banks from implementing good ideas and thus deliver unique value proposition to their clientele. This is because innovation can shift a firm's relative structure and restore its competitiveness (Vernon and Wortzel, 1997)

iii. Provide a framework for further research in future, for instance assessment of the validity and viability of outsourcing innovation generation and implementation.

CHAPTER 2: LITERATURE REVIEW

2.1 The Growth of Innovation

Organizations at start-up tend to take a partial approach to innovation assuming incremental behavior to minimize departures from historical behavior within the organization and between it and the environment. Change is therefore reactive (Ansoff and McDonnel, 1990). The stable environment provides adequate growth and expansion opportunities with minimal effort. The resulting success introduces complacency; there is no deliberate search for growth.

With increasing environmental turbulence, change is inexorable; the threat of survival for the organization persists in the incremental model. Periodic systems are no longer capable of perceiving and responding to threats and opportunities fast enough (Pearce and Robinson 1997, Ansoff and McDonnel 1990). This calls for change in attitude towards change to anticipate threats and opportunities from external environment. This introduces entrepreneurial attitude, a deliberate search for growth through change (Morrissey, 2000).

As competition increases, the need for strategic issue management (SIM) emerges to fill the gap identified and to deal with issues that impact on the ability of an enterprise to meet its objectives (Ansoff and McDonnel, 1990). This capability helps to convert threats, which presents discontinuities in the environment into opportunities by aggressive entrepreneurial management. SIM enhances the timeliness of the firm's response by detecting surprising changes in real-time as they become evident, responds in real-time without waiting for the annual planning exercise and uses cross-organizational taskforce approach, which expedites the resolution of the issues. This infuses corporate venturing into the organization.

2.2 The Context of Innovation

The context of innovation is about respect for the reality of innovation process: the need for lots of trials, lots of failures, lots of scrounging, but always action (Peters 1997, Peters 1998), all with a view to create a fit with the turbulent environment (Pearce and Robinson 1997, Thompson and Strickland 1996). Drucker (1998) and White (1996) points out that innovation is the responsibility of every executive and it begins with conscious search for opportunities.

Studies carried out by Farkas and Wetlaufer (1996) on the CEOs role indicate that in effective companies, CEOs do not simply adopt leadership approach to suit their personalities. Instead, they adopt the approach that will best meet the needs of the organization and the business situation at hand. In an interview with Franco Bernabe, CEO of Eni, Italy's largest energy-focused group, Hill and Wetlaufer (1998) found that CEOs face crises as disruptive and dramatic and comments that when a leader has to make important decisions, he requires an inner compass to indicate the way.

Spreier and Sherman (2003), while quoting a study conducted by the Hay Group in the year 2002 argued that companies that ranked highly on the Fortune's Most Admired List have been focused on addressing critical strategic issues and are more successful in maintaining the capability and commitment of their workforces. These companies capitalize on the challenges facing them, refuse to compromise their long-term objectives for short-term demands and create a momentum that helps sustain them through tough times. Eighty-four percent of the most admired respondents and ninety-two percent of their less admired peers reported that they have had to change how they manage people.

Failure in implementing corporate ventures traces its roots in organizational inability to recognize contextual rationality (Weick, 1996). People are often thrust into unfamiliar roles to fulfill difficult tasks, and small mistakes can combine to something monstrous. Faced with sudden crises, organizations that seem quite sturdy can collapse. While commenting on 1949 wild fire at Mann Gulch, Weick (1996:144) says that under such

circumstances "it is hard to make common sense when each person sees something different." The world of decision-making is about strategic rationality and is built from clear questions and answers that attempt to remove ignorance.

Haapaniemi (2002) survey on 350 CEOs concluded that regardless of the industry, company or size, CEOs feel that innovation is critical to achieving competitive advantage. However, only one in ten executives strongly agreed that their organizations excel on innovation. Kambil (2002), found that most companies are able to commercialize less than one in five promising ideas, and only one in eight executives felt strongly that their companies excelled at implementing innovative ideas.

The underlying cause of the partial success in such ventures is that most innovation processes focus overwhelmingly on idea generation and not execution to value. The discrepancy may be attributed to the fact that strategy is implemented through organizational design (Hill and Jones, 2001). Thompson and Strickland (1996) argue that corporate venturing is an action oriented, make things happen task that tests a manager's ability to direct organizational change, design, and supervise business processes, motivate people and achieve performance targets. Execution of the new innovation must mirror the realities of the company's environment and the resources allocation process must mirror the innovation (Christensen, 1997).

Norton and Willcocks (1996) in their study of The News Corporation concluded that the values, aspirations and style of the then dominant CEO, Rupert Murdoch, single handedly influenced the strategic development of the company. Murdoch "really is the driving force and major decisions are made by him... and has a lot of vision as to where that business ought to be going" (pp 783). Studies carried out by Peck (1995), Calori *et al* (1996), Johnson and Sayers (1996) and Potter (1996) on Fisons, PSA Peugeot Citroen, UNHCR and BMW Acquisition of the Rover Group respectively, demonstrate the determining power that CEOs weld in corporate venturing.

While defining the strategy of PSA, Calori *et al* (1996) states that Jacques Caveat chose to be the CEO and chairman in order to stimulate synergies between Peugeot and Citroen. Peck (1995) commenting on the role of John Kerridge, the Fisons CEO says that he was personally instrumental in Fisons achieving the most remarkable business turnarounds in the recent times.

Wilson and Benson-Rea (1996), in their study of Coopers Creek and the New Zealand Wine Industry further adds that the success of the company was due to the CEO, Andrew Hendry who consciously managed the growth of the company in order to attempt to retain the benefits of small size. Kambil (2002), agrees with both Calori *et al* and Benson-Rea and observes that CEOs being the chief strategists, should strive to create greater focus in their organization on process and support for executing and commercializing innovations.

While quoting Barclays bank and its CEO Matt Barrett, Dore (2001:16) says that "The Barclays team are seized by the need for re-invention, not just change." This, the CEO argues "is brought about in three ways: internal transformation to maximize value over time, a comprehensive approach to technology, integrating to everything the Bank does; and becoming an employer of choice for the best and brightest people."

Innovating regularly at all levels in all functions is a basis for sustainable strategic advantage (Peters, 1994). Commenting on Chrysler, the USA motor manufacturer ways of innovation, Taylor (2003) says that instead of Chrysler reducing the supply of cars, it is reducing the cost of making them by deciding what is strategic and what is non-strategic which they outsource. Schlosser (2003) and Kiechel (1998), adds that innovation is only useful if you can make it work for the organization.

Morrissey (2000), attributes the inability of organizations to launch innovative products despite their extensive financial and human resource base to a number of barriers. First is rigidity, the failure of strategists to appreciate emerging technologies that make them view

"seed as weeds." This results from a false sense of security with the status quo that blinds corporate strategists to the impact of emerging technologies on their core competence.

Second, new venture becomes a demand for funding and technical talent. Kiechel (1998) points that innovation is stalled by organizational politics defined as competition for limited corporate resources – money, power or opportunities for promotion. Quoting Foster's book *Innovation* Kiechel adds, "One man's innovation is another man's failure" (pp 131). This explains a possible derailing behavior that curtails creative effort in organizations.

Third, application of scarce resources to current products may cloud management's objective evaluation of "seeds." Innovative products often have long-term breakeven points and relatively high hurdle rates due to their inherent risk. In addition, contribution to earnings from these new products may not significantly influence the firm's stock price or enhance its multiple.

2.3 The Changing Role of the CEO

In a typical organization arrangement, the CEO is the leader, the decision-maker, the architect of the future, the prime motivator, the chief strategist and the principal blame-taker (Waruingi, 2003). Senior executives are ultimately responsible for every decision and action of every member of the company, including those decisions and actions of which they are not aware. They select and disseminate within the corporation an area of expertise that will be a source of competitive advantage and are charged with taking decisions, directing others and creating framework of rules, systems and expectations within which the organization operate (Burnes, 2000).

During 1980s, top executives were judged on their ability to restructure, declutter and delayer their corporations. In the 1990s and beyond, they will be judged on their ability to

identify, cultivate, and exploit core competencies that make growth possible – indeed, they will have to rethink the concept of corporation itself (Prahalad and Hamel, 1990).

However, leadership is no longer seen as one defining role: It is a dynamic relationship between leaders and followers. Farkas and Wetlaufer (1996), points that the CEO's job is like no other in the organization, it is infinite. The CEO's job is to make sense of the environments that suddenly change from the expected to the unexpected, the inconceivable, or the incomprehensible and to point the way to safety in the face of surprise (Weick 1996, Taylor 2003). Quoting Andrea Jung, Avon's Chief, Naughton (2003) argues that the era of a celebrity CEO is definitely over.

Mariotti (1999), further adds that a leader must create a clear understanding of the current reality and a healthy dissatisfaction with the current situation. CEO must develop a guiding overarching philosophy about how he or she can best add value (Farkas and Wetlufer, 1996). Leadership can only be learnt not taught (Adler, 1996). As such the stakes are too high for CEOs to lead without clarity, consistency and commitment.

No wonder then, Sorrcher (1985), estimates that one-third of those chosen for senior executive positions are subsequently seen as disappointment. Anecdotal information gathered in previous research suggests that the number may be as high as 50 percent. Research indicates that between 35% and 50% of all CEOs are replaced within five years ((Farkas and Wetlaufer, 1996).

Allen Hamilton survey of the world's 2,500 largest publicly traded companies found that 253 CEOs left their positions in year 2002 – a 10 percent rise over 2001 (Associated Press, 2003). Of those, nearly 100 were forced out of their jobs because of poor performance – a 70 percent increase over the number fired in 2001. The CEOs who were dismissed in 2002 generated median shareholders returns of 6.2 percentage points, lower than CEOs who retired voluntarily. It took an 11.9 percent shortfall to prompt a firing in 2001 (Associated Press, 2003).

Creativity is at the heart of entrepreneurship. Entrepreneurs can identify opportunities, large or small that no one else has noticed. Good entrepreneurs also have the ability to apply that creativity to effectively marshal resources needed to achieve their goals (Cullum *et al,* 2002). Entrepreneurs have the drive and the passion to achieve success. They focus on creating value by doing things better, faster and at lower cost. They take risk – breaking the rules, cutting across accepted boundaries and going against the status quo.

To innovate, leaders have to leverage on organizational learning for sustainable competitive advantage (Burnes 2000, White 1996). Business leaders must create a clear purpose and direction for the organization, align all corporate systems in that direction, and build organizational commitment to common goals (Farkas and Wetlaufer, 1996).

Quoting studies conducted by Arie de Geus on the companies that have survived top 500 in UK for 75 years, White (1996) says that the key to their longevity was their ability to conduct "experiments in the margin," looking for new business opportunities while challenging the organization to grow and learn. The ability to grow and learn has become the backbone of any organization wishing to survive and prosper in changing and turbulent markets (Burnes, 2000).

2.4 Factors facilitating innovation in an organization

Kambil (2002) describes innovation as the discovery and implementation of the new technologies, new products and services, new customer experiences, new processes, new markets, new channels and new business models geared towards competitiveness. According to Mckechnie (2002), innovation creates wealth-producing resources or endows existing resources with enhanced potential for creating wealth. But a number of factors facilitate innovation:

- **Leadership**

The role of leadership is to create a clear purpose and direction for the organization. The role of a leader is to identify productive areas of uncertainty and confusion and to lead the organization into those areas in order to gain competitive advantage. Leadership must establish and communicate the mission of what the company is striving to become and achieve.

Goleman (1998) argues that emotional intelligence is the sine qua non of leadership. No matter where a company is located or what it makes, its leader must develop a guiding overarching philosophy how he or she can add value. Leadership is generally exercised at three different levels according to Mintzberg (1998). At individual level, leaders mentors, couches and motivates; at group level, they build team and resolve conflicts; at organizational level, leaders build culture. Mckinsey study called "War of Talent" found that firms with leadership depth were much profitable than those without (Ulrich, 1999).

To usher a culture of innovation, leadership must exhibit three attributes: who leaders are (values, motives, personal portraits, characters), what leaders know (skills, abilities, traits) and finally, what leaders do (behaviors, habits, styles, competencies). In view of these attributes, Jack Welch proposed in a meeting that GE leaders would be held accountable both for "making numbers" and for "living the values," (Ulrich, 1999).

- **Shared Vision**

Building a shared vision creates an environment in which people believe they are part of a common entity – a community. Vision creates a sense of purpose that binds people together and propels them to fulfill their deepest aspirations. The discipline of building a shared vision is centered around a never-ending process whereby people in an organization articulate their common stories – around vision, purpose, values, why their work matters and how it fits in the larger world (Senge, 1994). Collective aspiration give team members a compelling reason to begin to work together and provides a context for the emotional challenges required for team learning, and hence innovation.

- **Team learning**

Team learning implies building alignment to enhance team's capacity to think and act in new synergistic ways, with full coordination and a sense of unity because team members know each other's heart and mind. As alignment develops, people do not need to overlook or hide their disagreement; they develop capacity to use their disagreements to make their collective understanding richer. Team learning perfects mental models discipline; balancing advocacy with inquiry, seeking to bring tacit assumptions and beliefs that link "what we see" to " what we conclude." Team learning transforms those skills into capabilities; they become collective vehicles for building secured understanding.

Both team learning and shared vision helps to reduce resistance to change by creating an understanding of the change and its implications, believe that change makes sense to the organization (urgency) and tolerance to change.

- **Availability of resources**

Resources, both capital and human must be availed to realize innovations value. In the earlier studies carried out by Kambil (2002) and Haapaniemi (202), resource constraints was identified as one of the reasons why many organizations are unable to realize innovations to value. Some of these constraints include lack of financial muscle, insufficient skilled people as well as enough people who can freed to bring about disruptive growth. Scarce resources results to organization not being able to develop channels or network for delivering goods and services and as a result, new customers experience cannot be launched. Resources are also required to acquire sufficient technology, which enhances level of service hence customer loyalty. Often, innovations may become a demand for funding and technical talent. This introduces politics within the organization, which can stall innovations.

- **Unclear and often conflicting strategy**

Successful innovations are those where choices are internally consistent and fit some key situational variables. For innovation to be successful, a clear strategy must be in place.

Clear strategy can help reduce expenses and unnecessary operations by culling what is not of value to the organization. Kotter (1996) adds that with strategy, clarity of direction is achieved and in this way, inappropriate projects can be identified and terminated even if they have executive support.

- **Risk pervasiveness**

Often, innovations fail to materialize to commercial value because they are inherently risky demanding organizational and individual change. At the outset of a promising idea, it is often unclear if the idea can be translated into a viable product or solution and whether a corresponding market will materialize. These risks make it harder to drive innovations to market, as even talented managers can be risk averse, unwilling to risk their career on an unproven opportunity. In driving innovation, organizations must therefore strike a balance between allocating resources and managing risk.

- **Organizational culture**

Organizational culture may discourage experimenting in the margin as well as collaborative behavior. Culture may present itself in the form of rigidly. In this way an organization become complacent gaining a false sense of security with the status quo and failing to appreciate emerging technologies as a recipe for growth and excellence.

- **Sufficient worthwhile ideas**

An organization may lack sufficient worthwhile ideas to implement and achieve the desired change to gain an upper hand in its environment. This may call for use of external resources and outsourcing in general to deliver the extra muscle.

2.5 The Agenda for Innovation

Corporate venturing agenda provides key innovation stages and enablement factors. The key stages include; sourcing and discovering ideas, connecting right resources to the right ideas, implementation and scaling value creation. Critical factors that enable innovation

are; learning environment, aligned organization and performance management (Kambil, 2002).

i. Sourcing and Discovering Ideas

This stage involves a search for the "new" ideas or "seeds" and insight to commercialize. Both Kambil (2002) and Morrissey (2000) points that lead users – users who are the first to need a product, process or service (i.e. customers)– are effective source of innovative ideas. Quoting Patrick Barwise of London Business School, Pellet (2O02) argues that customers should be looked at as invaluable sources of ideas. The best early-warning signs of threats and opportunities tend to come from talking to the most demanding customers about their problems and experiences. Other sources include suppliers, alliances, competitors, external consultants and academic institutions.

ii. Connect the Right Resources to the Right Ideas

This involves coining an innovation strategy aimed at evaluating different ideas for commercial feasibility, resource allocation and demands organizational and individual change to turn unproven opportunity to reality. Innovation is inherently risky (Pellet, 2002). This requires organizations to change their risk pervasiveness and inculcate a culture tolerant of risk. Finding the elusive balance between allocating resources and managing risk is one of the principal challenges CEOs face in driving innovation.

To succeed in this endeavors, it is thus imperative that people be rewarded not only for their day-to-day job but also establish performance assessment processes that consider innovation a priority. More so, resources available must be assessed to understand the limitations and ensure that failure is not the eventual result. This implies that budget and staff resources must be freed to support the development of innovation.

iii. Implementation

This involves transforming ideas to novel products, processes and services for commercial application. Kambil (2002) notes that this process is not easy and many innovations fail at

this stage. Implementation could be achieved either internally or through agents. Formal innovation process should focus on establishing collaboration and alignment across diverse organizational and inter-organisational resources to transform innovations to novel products, processes and services.

The magic bullet for successful innovation requires nurturing a corporate culture that values innovation accepts risk and creates an innovation management system that evaluates ideas, culling and implementing the keepers and discarding the rest (Pellet, 2002). Such initiatives calls for companies to cultivate a free exchange of ideas and resource allocation that allows them to identify ideas, surface them to the top and take ideas in stages so that they're not betting the company on each one.

iv. Scaling Value Creation

Scaling innovations involves diffusion and acceptance of the innovation across the organization and the creation of new systems and processes to support the commercialization of the innovation. Scaling the adoption of any innovation and particularly process innovations often requires dissemination of the innovation and buy-in from multiple parts of the organization.

Developing good ideas should be part of every employee job description and covered in performance reviews. It is important to tie this to performance metrics and must permeate top to bottom (Pellet 2002, Haapaniemi 2002)).

2.6 Principles of Innovation

Purposeful systematic innovation begins with the analysis of the sources of the new opportunities (Morrissey, 2000). Depending on the context, sources will have different importance at different times. Because innovation is both conceptual and perceptual, would-be-innovators must also go out, look and listen. Successful innovation work out analytically what innovation has to be to satisfy an opportunity, then go out and look at potential users to study their expectations and their needs (Davenport, 1993).

To be effective, an innovation has to be simple and focused. It should do only one thing, otherwise it will confuse people (Drucker 1998, White 1996, Peters 1997). Even innovation that creates new users and new markets should be directed toward specific, clear and carefully designed application. Innovation is work rather than genius; it requires knowledge, ingenuity and focus coupled with diligence, persistence and commitment (Haapaniemi, 2002).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research design

The study is a survey meant to provide insight into the process of innovation and the perceived role of CEO in the banking industry in Kenya.

3.2 Population

The population of interest comprises of all commercial banks in full operation in Kenya as at April 2003. A list of such banks as obtained from Central Bank of Kenya (CBK) consists of 40 banks (one is under receivership, one not fully operational as commercial bank)

3.3 Sample Size

The study is a census survey of all CEOs and Business Development Managers (BDMs) from 40 banks as at 30th April 2003. Both respondents are deemed to possess sufficient information on the study area.

3.4 Data Collection Method

The research involved collection of primary data by use of "drop-and-pick" questionnaire. This is a variant of mail questionnaire and is used to speed up data collection. The questionnaire was divided into two sections, A and B. In section A, the questionnaire comprised both open-end and closed-end questions. This section of the questionnaire was administered to BDMs only to collect company information and quantitative data on innovation process. Section B was administered to both BDMs and CEOs to collect data on perceptions. Given that innovation is both conceptual and perceptual, a five-point Likert-type scale was used to assess responses.

3.5 Data Analysis

The results were analyzed using descriptive statistics - mainly averages, frequencies, and standard deviation. To gauge sets of responses from CEO and BDM in order to understand levels of consensus or otherwise, t-test was used to measure correlation in responses. In all the analysis, Statistical Package for Social sciences (SPSS) was used.

CHAPTER 4: FINDINGS AND DISCUSSION

This chapter presents findings on the quantitative factors involved in the innovation process as well as perceptual data on the role of Chief executive Officer in banking industry. All the forty banks were surveyed (one bank was then under receivership) in two parts: the Business Development Managers (BDMs) completed and returned twenty-two (equal to 55 percent response) while Chief Executive Officers (CEOs) completed and returned twenty-six questionnaires (equal to 65 percent response).

4.1 Banks profile

As indicated in Table 1 below, majority of the banks were established between 1971-2000, across the time with no evidence of clustering. The lack of clustering could be attributed to the stringent government control especially on capitalization following the collapse of politically correct banks around the same time.

Table 1: Period of establishment

Year established	Frequency	Valid percentage	Cumulative percentage
1896	1	5.0	5.0
1900-1950	2	10.0	15.0
1951-1970	5	25.0	40.0
1971-1990	6	30.0	70.0
1991-2000	6	30.0	100.0
Total	20	100.0	
Missing	2		
Total	22		

Source: Research data

To gain scope in understanding how banks relate to the external environment, the respondents were asked how their banks defined the business they were in, in terms of

products, market share and service. Sixty percent of the cases encouraged change within their organization while 40 percent said that they took a broad perspective of their products while maintaining a proactive approach in response to external environment. This is displayed in the Table 2 below:

Table 2: Comparative elements of relationship with external environment

Element	Frequency	Percent of cases
Change is encouraged	12	60.0
Products are broad defined	8	40.0
Proactive approach is adopted in response	8	40.0
Specialize in a few products for key defined markets	7	35.0
Market is broadly defined	5	25.0
Total	40	

Source: Research data

The essence of encouraging change within an organization and being proactive is to develop a fit with the turbulent environment (Johnson & Scholes 1999, Daveport 1993). Developing such capability allows organizations to detect forthcoming development either inside or outside of the organization, which is likely to have an important impact on the ability of the enterprise to meet its objectives. Such development may be an opportunity to e exploited, a threat, which present discontinuities or a weakness, which imperils continuing success, even survival of the enterprise (Ansoff and McDonnel, 1990). Being proactive equips the organization to venture more into the areas of uncertainty, converting threats into opportunities by aggressive and entrepreneurial management (White, 1996). Pearce & Robinson (1997) add that being focused motivates people to achieve performance targets. Encouraging change implies introducing disruptive growth engine. Such disruptions succeed because they appeal to those customers whose capabilities and needs have been outstripped by the development of newer and more complex product features. In the face of a disruptive technology dominant competitors flee to the upper end

of the market where their increasingly sophisticated products cab enjoy higher margins until their newly spawned competitors eventually overtake them (Heskett, 2003).

Because of homogeneity and intangibility of the bank products, there is need to broadly define products to provide an array of products and services that continually deliver consistent value to the customers to derive loyalty, more revenues and growth opportunities. Moreover, as the geographical scope of business widens, more competitors enter the race and survival will depend on the customer loyalty.

A primary objective of all the banks is to report a real net return to the shareholders. This objectively is met in two ways:

- Maintaining good human resource base ----------71.4% of the cases
- Improvement in technology ----------28.6% of the cases

Good human resource base coupled with sound technology are vital to proactively anticipate change in the external environment and respond appropriately within the banking industry.

To understand how banks would match the changes in both internal and external environment, the responded were asked to state their internal and external competencies. The results are presented in the Table 3 below:

Table 3: Banks distinctive competencies

Strength	Frequency	Percent of cases
Good management/human resources	13	68.4
Expansive network	8	42.1
Technology capability	7	36.8
Product quality/price	6	31.6
Size of the firm	6	31.6
Total	44	

Source: Research data

Organizational success depends on both core and distinctive competencies, to build sustainable competitive advantage. Good management – skills and knowledge expansive network and technology capability are important distinctive competencies to help gain heart and mind share especially in a fragmented market. Sound management is responsible for overall performance of the firm including strategic positioning of the firm in its environment in a way that assures coordinated performance towards its objectives. Good human resource base creates "troops" who can identify disruptive ideas, which results to products and services furthering growth of disruptive engine.

No wonder then Barclays Bank CEO argues that the Barclays team is seized by the need for reinvention and not just change. This is brought about through internal transformation to maximize value, comprehensive approach to technology and by becoming an employer of choice for the best and brightest people (Dore, 2003). Ansoff and McDonnel (1990) points that general management capability must match the turbulence of the firm's environment for optimum profitability.

Expansive network implies "presence" represented by branch network. Geographical spread has been the reserve of the "big five" and ensures that they tap resources from each of the zone from where they are represented. By bringing banking services closer to the

people, such banks have won loyalty and clientele base, which now allows them to control the market. Technological capability is critical to interconnect the vast branch network to ensure provision of real time services. Technology has also allowed banks to reduce processing time for a variety of services. More so, the introduction of Internet banking and other virtual private banking networks has reduced congestion in the banking halls. Technology has also allowed banks to introduce innovative products and services and some banks have positioned themselves on the value proposition scale of efficiency.

However, a surprising number of banks were unable to identify their distinctive competencies. This raises a fundamental point as to how often banks undertook a SWOT analysis to establish their highs and lows. Unless banks undertake capability analysis, examining how well they matched the environment, it will be difficult to identify vast issues that present discontinuities in their environment. To exploit opportunities in the market, each bank must identify what it can do better than the competitor. Identifying and marshalling these competences gives enhances competitiveness in providing an array of products and services that continually translate to real value to clients.

To gain insight into the process of idea generation to realization to market, respondents were asked who is responsible for driving innovation in their organizations. The results are presented in Table 4 below.

Table 4: Responsibility for driving innovation

Driver	Frequency	Percent of cases
CEO	13	59.1
Cross-functional committees	11	50.0
Marketing department	6	27.3
Business units	4	18.2
Board of directors	4	18.2
R&D	2	9.1
Total	40	

Source: Research Data

As shown in Table 4, fifty-nine percent of the cases indicated that the CEO is responsible for driving innovation in the bank, while 50 percent see the responsibility falling on cross-functional committees. Far fewer, 18 percent cited business units. This perhaps explains why ideas fail to yield value as members of such cross-functional committees continue with their existing responsibilities.

The CEO is ultimately responsible for every decision and action of every member of the company. As such, Burnes (2000) points that the leader must select and disseminate area of expertise that will be a source of competitive advantage. This is achieved by creating a clear understanding of the current reality and a healthy dissatisfaction with the current situation (Mariotti, 1999).

Given the demands on the CEOs time, they can only personally shepherd a few of the most important ideas to successful value creation, while continuing to encourage company-wide innovation. All promising ideas need an executive sponsor, ideally someone connected to the area of the company most affected by the idea, to guide idea through the innovation process.

4.2 Sourcing and discovering new ideas

This is first stage of innovation process and the objective is to find new ideas and insights to commercialize. Respondents were therefore asked to check the main sources of ideas from a variety of sources provided. The outcome is indicated in table 5 below:

Table 5: Internal sources of ideas

Source	Frequency	Percent of cases
Individual staff	15	68.2
Executive committee	12	54.5
Ideas committee	4	18.2
Board of directors	4	18.2
External agencies	2	9.1
Total	37	

Source: Research data

From Table 5, an overwhelming 68.2 percent of the cases identified individual staff members as main internal sources of ideas closely followed by Executive Committee at 54.5 percent. The finding agrees with the banks response that they consider a good compliment of human resource base as a core competence.

To determine how well internal sources of ideas were viewed, respondents were asked to rate on a Likert-type scale of 1-5 (1=totally agree, 5=totally disagree) the statement that good ideas can come from anywhere in the organization. The results re presented in Table 6 below:

Table 6: Good ideas Can emerge from anywhere in the organization

Respondent category	Scale	Frequency	Percent response	Valid percentage	Cumulative percentage
BD	Totally agree	18	81.8	90.0	90.0
	Agree	2	9.1	10.0	100.0
	Perhaps	0	0	0	
	Total	20	90.9	100.0	
	Missing	2	9.1		
	Total	22	100.0		
	Totally agree	21	80.8	84.0	84.0
	Agree	3	11.5	12.0	96.0
	Perhaps	1	3.8	4.0	100.0
	Total	25	96.2	100.0	
	Missing	1	3.8		
	Total	26	100.0		

Source: Research data

The findings indicates both the CEO and BDM overwhelmingly agree that good ideas can emerge from anywhere in the organization. Recognition of this fundamental is critical to creating entrepreneurial attributes, encourage collaborative behavior and to give members confidence to behave in an entrepreneurial way.

Respondents were asked how often they used external resources to help deliver innovation. The response was as shown in Table 7 below:

Table 7:Frequency of outsourcing innovations

Event	Frequency	Valid percentage	Cumulative percentage
Sometimes	18	81.8	81.8
Never	2	9.1	90.9
Always	2	9.1	100.0
Total	22	100.0	

Source: Research data

Less than 10 percent of the respondents agreed that their organization always enlist external resources to help deliver innovation. Use of external resources can be used to complement internal development, and help close the personnel and skills gap that is preventing banks from realizing the value of most innovations.

Focusing on the valuable external sources of innovation, respondents were asked who among the external parties the bank enlisted as valuable sources of innovation. The outcome is presented in Table 8.

Table 8: Valuable external sources of innovation

External source	Frequency	Percent of cases
Customers	20	90.9
Competitors	11	50.0
Alliances	7	31.8
External consultants	7	31.8
Ads /promotion agencies	6	27.3
Suppliers	2	9.1
Total	22	

Source: Research data

From Table 8, an overwhelming 90.9 percent of the banks' respondents view their customers as the most valuable external source of innovation followed by competitors at 50 percent of the cases. To further validate the findings, both the CEOs and the BDMs were asked to rate the importance of each external partner on Likert-type scale of 1-5. For each partner, a mean was calculated and interpreted with respect to the scale. The findings are presented in Table 9 below:

Table 9: Importance of external source of ideas

	Respondent	N	Mean	Std. Deviation	Std. Error
Customers	CEO	26	1.4	.90	.17
	BDM	19	1.0	.22	.05
Suppliers	CEO	26	2.5	.86	.16
	BDM	19	2.5	1.01	.23
Alliances	CEO	26	2.2	1.03	.20
	BDM	17	2.0	.89	.21
Competitors	CEO	26	1.7	1.07	.21
	BDM	19	1.5	1.12	.25
External consultants	CEO	25	2.7	1.13	.22
	BDM	18	2.4	.98	.23
Academic institutions	CEO	25	3.2	1.16	.23
	BDM	18	3.2	1.01	.24
Advertising and promotional	CEO	24	2.7	.94	.19
	BDM	18	2.5	.85	.20

Source: Research data

As shown in Table 9, both respondents concede that customers are very important, at mean of 1.42 and 1.05 respectively followed by competitors with a mean of 1.77 and 1.53 (important) respectively. There is little reliance on academic institutions with a mean of 3.2 (just important)

Discovering valuable ideas that are customer relevant is not easy. One promising solution is to enlist customers to help co-create and deliver innovations. Work by Eric Von Hippel (Kambil, 2002) shows that "lead users" are an effective source of innovative ideas. By including lead users in the idea generation process, banks can capture the value of customer discoveries and experiences.

To understand how banks sustain innovation process to ensure continued improvement, respondents were asked how their various banks encouraged innovation. The outcome is presented in Table 10 below:

Table 10: Primary ways of encouraging innovation

Method	Frequency	Percent of cases
Performance assessment	13	59.1
Suggestion-reward based value	9	40.9
Suggestion-no reward	4	18.2
No program	3	13.6
Total response	29	

Source: Research data

Clearly as shown in Table 10, banks seem to have adopted performance assessment programs as the tool to encourage innovation. Fifty-nine percent of the cases used performance assessment as part of job description while 40 percent used suggestion reward-based value. A surprising 13.6 percent had no program in place to stimulate innovation.

There seems to exist set criteria for determining which idea to implement among the banks, at 40 percent. The result of criteria used is presented in Table 11.

Table 11: Mode of determining ideas to implement

Process of determining	**Frequency**	**Percent of cases**
Process vary by innovation	**9**	**40.9**
No formal process	**5**	**22.7**
Formal business case review	**9**	**40.9**
Total responses	**23**	**100.0**

Source: Research data

Such a criteria is important as it implies that screening and filtering of ideas is not a major barrier to commercializing innovations.

4.3 Connecting the right resources to the right ideas

The object of connecting the right resources to the right ideas is to convert a significant number of promising ideas into commercially viable outcomes. The respondents were therefore asked to state when is the last time their banks were able to realize innovation to value. The results are presented in a tabular form (Table 12):

Table 12: When is the last time your Bank undertook innovation to completion?

Period	Frequency	Valid percentage	Cumulative percentage
Last 6 months	16	76.2	76.2
6-12 months	4	19.0	95.2
12-18 months	1	4.8	100.0
Total	21	100.0	
Missing	1		
Total	22		

Source: Research data

As indicated in Table 12, of the 22 respondents, 72.7 percent indicated that they had undertaken innovation to completion in the last six months, while 18.2 percent had accomplished the same in the last 6-12months. This translates to 95.5 percent of innovations in new technology, 86.4 percent in new products and 41 percent in services as indicated in the Table 13.

Table 13: What field was the innovation accomplished?

Innovation	Frequency	Percent of cases
New technology	**21**	**95.5**
New products	**19**	**86.4**
Services	**9**	**40.9**
New customer experience	**7**	**31.8**
New process	**6**	**27.3**
New markets	**6**	**27.3**
New channels	**6**	**27.3**
New business models	**3**	**13.6**
Total responses	77	

Source: Research data

New technology should revolutionalize organization operations, improving the level of service, processes and delivery channels, yet the corresponding improvement in these areas in nothing to report home. Christensen and Raynor (2003) contend that capabilities of the organizations are a function of resources other than people, namely, processes and values. No wonder then bank customers continue to raise major service delivery issues with their banks. It is important for banks to evaluate areas of spillovers/synergies following an innovation to be able to maximize on any investment in innovation.

To understand the level of implementation of good ideas, the respondents were asked what percentages of good ideas are actually implemented to realize value. The results are presented in a tabular format in Table 14.

Table 14: Proportion of Banks ideas that are commercialized

Proportion	Frequency	Valid percentage	Cumulative percentage
Less than 20%	8	36.4	36.4
20 – 40%	5	22.7	59.1
41 – 60%	2	9.1	68.2
61 – 80%	5	22.7	90.9
More than 80%	2	9.1	100.0
Total	22	100.0	

Source: Research data

From the results presented in Table 14, thirty-six percent of the banks commercialize less than 20 percent of the promising ideas, and only 22.7 percent commercialize more than 60 percent. Kambil (2002) points that this could be explained by the fact that most innovation processes focus overwhelmingly on idea generation and not execution to value. Research indicated that banks face limited hitches in generation of sufficient worthwhile ideas. However, good ideas are not transformed into business reality.

The inability to successfully bring good ideas to market can be traced to a number of reasons. In sourcing and connecting right ideas to right resources, respondents were asked to mark elements that were constraining their initiatives. The result are shown in Table 15.

Table 15: What prevent companies from undertaking innovations

Dichotomy label	Frequency	Percent of Responses
Unclear strategy and conflicting priorities	10	37.0
Poor coordination across functions	7	25.9
Innovation pipeline management	3	11.1
Sufficient worthwhile skills	3	11.1
An innovation culture	2	7.4
An ineffective senior management team	1	3.7
Inadequate down-the-line leadership skill	1	3.7
Total responses	**27**	**100.0**

Source: Research data

The results from Table 15 tell it all. Fifty percent of the cases considered unclear strategy and conflicting priorities as the main constrain while 35 percent of the cases picked poor coordination across functions as a factor responsible for stalling innovations in the banking sector.

To further investigate the elements limiting implementation of innovations, the respondents were asked to look through the entire process of innovation and highlight the challenges that the bank face today in delivering innovations. The results are presented in a tabular format in Table 16.

Table 16: Challenges stalling implementation of innovations

Dichotomy label	Frequency	Percent of Cases
Budgetary constraints	16	80.0
Risk pervasiveness	8	40.0
Culture devoid of risk tolerance	5	25.0
Lack of criteria to Id/assess ideas	5	25.0
Idea generation	4	20.0
Resource allocation	4	20.0
Lack of support for new ventures	3	15.0
Poor communication within the org.	3	15.0
Inadequate skills	3	15.0
Total responses	**51**	

Source: Research data

As shown on Table 16, lack of innovation implementation resources was considered as a major hitch in attaining success. Budgetary constraints (80%), risk pervasiveness (40%), culture devoid of risk tolerance (20%) and lack of criteria to identify and assess new ideas (20%) are the main sources of challenges facing banks in Kenya today in connecting right ideas to right resources. Partly, the results are consistent with prior work by Professor M. Tushman and Charles O'Reilly of Harvard Business School (Kambil, 2002). The duo notes that innovations fail to realize value because often they demand organizational and individual change.

Budgetary constraints may partially be attributed to lack of resource allocation strategy or conflicting strategy alluded to earlier in Table 15. Taylor (2003) point that the success of Chrysler in reducing cost of making cars is their capacity to determine what is strategic and what is not which they outsource. If this is not done, competition for limited corporate resources results, which according to Kiechel (1998) stalls innovative effort.

Innovations also fail to materialize to commercial value because they are inherently risky. Forty percent of the cases concurred that risk pervasiveness remain a major challenge in delivering innovations. At the outset of a promising idea, it is often unclear if the idea can be translated into a viable product or solution and whether a corresponding market will materialize. These risks make it harder to drive innovations to market, as even talented managers can be risk averse, unwilling to risk their career on an unproven opportunity. CEOs need to create an innovation agenda and a culture tolerant of risk by setting expectations for innovation and developing methods to measure the success of innovative activities.

For innovation to be successful, banks must have a clear strategy in place. Strategy provides both logic and a first level of detail to show how a vision can be accomplished. Such strategy clarifies the general direction for change, motivate people to take action in the right direction and help coordinate the actions of different people in a fast and efficient way. With clarity, the inability to make decisions can disappear. Similarly, a clear strategy can help clear the decks of expensive and time-consuming clutter. Kotter (1996) argues that with clarity of direction, inappropriate projects can be identified and terminated even if they have political support. The resources freed can be put toward the transformational process.

Despite the above constraints, and in an effort to determine if the CEO was up to the call of leadership, both the CEOs and BDMs were asked if the incumbent CEO was up to the challenge of innovation. The response is shown in Table 17.

Table 17: Is the CEO up to the challenge of delivering innovations

Respondents		Scale	Frequency	Percent	Valid Percent	Cumulativ Percent
BD	Valid	Totally agree	14	70.0	73.7	73.7
		Agree	4	20.0	21.1	94.7
		Perhap	1	5.0	5.3	100.0
		Total	19	95.0	100.0	
	Missing	System	1	5.0		
	Total		20	100.0		
CE	Valid	Totally agree	19	73.1	76.0	76.0
		Agree	5	19.2	20.0	96.0
		Perhap	1	3.8	4.0	100.0
		Total	25	96.2	100.0	
	Missing	System	1	3.8		
	Total		26	100.0		

Source: Research data

The results s presented in Table 17 indicates that seventy percent of the BDMs agreed that their CEOs were up to the challenge of innovations. This was in agreement with self-evaluation by CEOs, with 73.1 percent agreeing that they were up to this challenge.

Good management attributes are important because during shifts in environmental turbulence, management capability is critical to organization responding appropriately to discontinuous challenges. To understand significance of management attributes, both the CEO and the BDM were asked to rate selected attributes on a Likert-type scale of 1 (very Important) to 5 (not a factor). The results collected were analyzed, mean rate (importance) computed and presented in Table 18 below.

Table 18: Characteristic of a good Venture Manager

	Respondent category	N	Mean	Std. Deviation	Std Error
Ability to take risk	CEO	26	1.4	.57	.11
	BDM	19	1.3	.59	.13
Good team building	CEO	26	1.3	.56	.11
	BDM	20	1.2	.41	.09
Good negotiating skills	CEO	26	1.5	.58	.11
	BDM	20	1.3	.57	.12
Recognizes and appropriately rewards	CEO	26	1.4	.85	.16
	BDM	19	1.3	.68	.15

Source: Research data

All the four leadership characteristics examined and presented on Table 18 above have a mean score of less or equal 1.5 indicating that they very important, to the extent that the business of banking requires an abrasive leader. These venture attributes are a prerequisite if leadership is to "make numbers" and "live values" as argued by Jack Welch of General Motors (Ulrich, 1999). White (1996) points that such qualities builds capacity for organization to "experiment in the margin." More so, the leadership attributes are critical for any company to create a fit with the turbulent environment (Johnson & Scholes, 1999)

4.4 Transforming ideas to novel products, process and services

Effectively transforming ideas to commercially useful applications is not easy and many innovations fail at this stage (Kambil, 2002, Haapaniemi 2002). In transforming ideas to value, respondents were asked to mark the main factors limiting the implementation. The response is shown in a tabular format in Table 19.

Table 19: Factors limiting ideas transformation

Factor	Frequency	Percent of cases
Resistance to new ideas	11	57.9
Sufficient available people who can be freed	7	36.8
Information Technology	6	31.6
Sufficient skilled people	5	26.3
Ability to develop new skills	3	15.8
Knowledge sharing and mgt system	3	15.8
Project management skills	2	10.5

Sources: Research data

The results from Table 19 show that four elements; resistance to new ideas, sufficient number of people who can be freed, sufficient skilled people and information technology are seen as major limiting factors in the process of transformation. Innovations fail to succeed often because of demands for organizational and individual change. Many organizations especially those without strong expectations for innovation-based

performance are likely to resist innovations, seeking stability in individual work, organization relationships and processes. More than 57 percent of the cases indicated that resistance to change was a major force to contend with.

To reduce resistance, it is important to understand that formal innovation process should focus on establishing collaboration and alignment across diverse organizational and inter-organizational resources to transform innovations to novel products, processes and services. Changing the company dynamics requires collective commitment to the new courses of action lest local decisions, taken in isolation may undermine that change. Resistance to change can also be reduced by more open and frequent communication to employees and paying constant attention to employees' needs

4.5 Setting innovation context on the CEO agenda

The analysis below gives and indication of what the CEO perceive of their role in innovation and the BDMs perception of the same role i.e. perceptual data.

To understand respondents' perception of the innovation, both the CEO and BDM were asked to indicate how important innovation was and the result rated on a Likert-type scale of 1 (most Important) to 5 (not a success factor). The results were collected, mean rate (importance) computed and presented in Table 20 below.

Table 20: Importance of innovation

	Respondent category	N	Mean	Std deviation	Std. Mean
Most important	CEOs	18	1.7	1.07	.25
	BDMs	14	1.4	.75	.20
One of five important	CEOs	20	2.3	1.42	.31
	BDMs	8	1.5	.75	.26
Just	CEOs	11	3.4	1.29	.39
	BDMs	6	3.5	1.04	.42
Not a success	CEOs	9	4.0	1.22	.40
	BDMs	7	3.7	1.49	.56

Source: Research data

Both the CEO and the BDM consider ability to of their bank to innovate as the most important factor to achieving competitive advantage. With a mean of 1.7 for the CEOs and 1.4 for the BDMs, the difference in mean is not significant at 95 percent confidence interval and therefore both respondents agree. This being the case, the innovation thrust should permit the CEO to address the need to identify, scope, invest in and grow new core global businesses for future corporate growth. In addition, the thrust should offer senior management opportunity to pilot new business outside the mainstream core business model and culture. This is only possible if the CEO embraces venture characteristic highlighted on table 18. The CEO must therefore continually look for ideas from all the available sources.

To gauge the importance of various sources of ideas, each of the respondents were asked to rate these sources on a Likert-type scale with 1 being the most important source and 5 being the least important. A mean score was then calculated for each source and presented in tabular form as shown in Table 21.

Table 21: Importance of sources of ideas

Source	Respondent category	Frequency	Mean	Std deviation	Std error mean
CEO	CEO	25	1.36	0.569	0.114
	BDM	20	1.25	0.444	0.099
Executive committee	CEO	23	1.70	0.974	0.203
	BDM	20	1.90	1.294	0.289
Ideas committee	CEO	22	2.68	1.673	0.357
	BDM	17	2.06	1.600	0.388
Business units	CEO	25	2.08	1.222	0.244
	BDM	19	1.74	1.098	0.252
Board of directors	CEO	26	2.04	0.824	0.162
	BDM	19	2.37	1.212	0.278
R&D	CEO	24	2.38	1.408	0.287
	BDM	16	2.50	1.414	0.354
External Agencies	CEO	25	2.60	1.155	0.231
	BDM	18	2.50	1.295	0.305
Individual staff	CEO	26	1.88	0.909	0.178
	BDM	19	1.58	0.692	0.159

Source: Research data

From the above mean scores, it is apparent that the CEO consider themselves a very important source of innovation with a mean score of 1.3, more important than individual staff. This observation is confirmed by the BDM who scored the CEO's role higher at a mean of 1.2 (very important).

Although the CEO rates themselves highly as a good source of ideas, they also agree that their role should be limited in determining the actual source of ideas, with a mean score of 3. The argument is supported by the BDMs at similar score. Only 15 percent of the BDMs and 7.7 percent of the CEOs totally agreed (mean score=1) that the CEO should determine

the source of ideas. This is a healthy finding which is important to avoid political behavior in innovation process within the organizations, as such behaviors hinder entrepreneurial behavior.

To understand if the CEO should determine which ideas to implement, both respondent were asked whether they agree with the statement that the CEO should determine which ideas should be implemented. A Likert-type scale was used and the results analyzed in a tabular form presented in Table 22.

Table 22: At selection stage, should the CEO determine the ideas to implement?

Respondents		Scale rating	Frequency	Percentage	Valid Percent	Cumulative Percent
BD	Valid	Totally agree	5	25.0	25.0	25.0
		Agree	6	30.0	30.0	55.0
		Perhap	8	40.0	40.0	95.0
		Totally disagree	1	5.0	5.0	100.0
		Total	20	100.0	100.0	
CE	Valid	Totally agree	6	23.1	23.1	23.1
		Agree	13	50.0	50.0	73.1
		Perhap	4	15.4	15.4	88.5
		Totally disagree	3	11.5	11.5	100.0
		Total	26	100.0	100.0	

Sources: Research data

Twenty-three percent of the CEO totally agree while 50 percent agree that the CEO should determine which ideas should be implemented, compared to 25 percent of the BDMs who totally agree and 30 percent who hold the same opinion. Implementing any decisions is a strategic option and the CEO being the chief strategist should be involved. This is because the action has budgetary implications while the outcome of the option whether success or failure will affect the future of the organization. The involvement of CEO will ensure that only worthwhile ideas are implemented and non-strategic ones are culled. Waruingi (2003) contends that in a typical organization, the CEO is responsible for every action of the company including those decisions and actions that they are not aware of. Prahalad and Hamel (1990) add that the CEO should be judged on their ability to identify, cultivate and exploit core competencies that make growth possible. Peck (1995), Calori *et* al (1996) and

Wilson and Benson-Rea (1996) clearly show how steering by the CEOs resulted to business turnarounds for Fisons, Peugeot and Citroen, and Coopers Creek respectively.

In determining who to enlist as an external source of innovation, the respondents were asked how important each of the entities were, on a Likert-type scale with ratings 1 (very important) – 5 (not a factor). A mean was then calculated for each of the respondents and the resultants compared to the scale. The results are presented on Table 23.

Table 23: Role of CEO in sourcing external innovation

	Respondent category	N	Mean	Std. Deviation	Std. Error Mean
CEO	Chief Executive	24	1.38	495	101
	Business Development	18	1.39	698	164
Business development manager	Chief Executive	24	1.54	658	134
	Business Development	19	1.58	769	176
Executive commitee	Chief Executive	26	1.96	1.183	232
	Business Development	20	1.95	1.356	303
Cross-functional Committee	Chief Executive	26	2.00	1.131	222
	Business Development	19	1.89	1.197	275
Board of directors	Chief Executive	24	2.04	999	204
	Business Development	17	1.88	1.317	319
Marketing department	Chief Executive	24	1.71	806	165
	Business Development	20	1.80	696	156

Source: Research data

The results presented on Table 23 indicate that the CEOs agree that they should play a primary role in determining who to enlist as a partner, with a mean score of 1.38 (very important). The BDMs totally agrees with the CEOs role with a mean of 1.39. Test of significance at 95 percent interval indicate the difference in average means (i.e. importance) is not significant.

The role that the CEO should play also came under scrutiny. Respondents were asked, on a scale of I-5, what role should the CEO play. Mean score for each role was then computed and presented in the Table 24 below.

Table 24: Perceived role of the CEO

	Respondents							
	BDM				CEO			
	N		Mean	Std. Deviation	N		Mean	Std. Deviation
	Valid	Missing			Valid	Missing		
Facilitation	16	4	1.3	.50	24	2	1.3	.64
Total involvement	16	4	1.7	.68	24	2	1.9	.88
Just involvement	14	6	3.3	1.39	21	5	2.8	1.32
Both facilitation and	17	3	1.4	.62	25	1	1.7	.72
Adviser	16	4	2.0	1.34	22	4	1.9	1.25

Source: Research data

Data presented on Table 24 show that an overwhelming majority of the CEOs and BDMs totally agreed that the role of CEO should be that of facilitating innovation, with a mean score of 1.38 (1 =totally agree), compared to total involvement, with a mean score of 1.75 for the BDM and 1.92 for the CEO.

It was important for the research to establish whether the incumbent CEO is up to the challenge of delivering innovation. The CEOs were asked whether they totally agree (score=1) or totally disagree (score=5) if they are up to the challenge of delivering innovation. On the other hand, the BDMs were required to respond to the same question on the same ratings and results presented in a tabular form as shown on Table 25.

Table 25: Are you up to the challenge of delivering innovations?

Respondent category	Scale	Frequency	Percentage	Valid %	Cumulative %
BD	Totally agree	14	70	73.7	73.7
	Agree	4	20	21.1	94.7
	Perhaps	1	5	5.3	100
	Total	19	95.5	100	
	Missing	1	5		
	Total	20	100		
CEO	Totally agree	19	73.1	76	76
	Agree	5	19.2	20	96
	Perhaps	1	3.8	4	100
	Total	25	96.2	100	
	Missing	1	3.8		
	Total	26	100		

Source: Research data

Clearly over 70 percent of the CEO and BDM all concurred that the current CEO is up to the challenge of delivering innovation to market, achieving a ranking of 1 – Totally agree (Table 25). This observation agrees with the earlier findings that innovation continue to be seen as critical in achieving competitive advantage.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Largely and from the perspective of both the CEOs and the BDMs, the role of CEO is seen as that of facilitator of the process of innovation. CEOs see themselves and are seen as important source of ideas, play an important role in selecting ideas to implement to value as well as enlisting external support for driving innovation.

Majority of the CEOs and BDMs agree that the ability to innovate is the most important attribute in achieving competitive advantage, with a respective mean of 1.7 and 1.4. This is supported by the fact that 60 percent of the cases encouraged change within their organization. These organizations adopted a proactive approach in response to external environment and took a broad perspective of their products. A lasting impression is that 59 percent adopted innovation as criteria for evaluating their employees.

The essence of encouraging change within an organization and being proactive is to develop a fit with the turbulent environment (Johnson & Scholes 1999, Daveport 1993). Developing such capability allows organizations to detect forthcoming developments either inside or outside of the organization, which are likely to have an important impact on the ability of the enterprise to meet its objectives. Such development may be an opportunity to be exploited, a threat, which present discontinuities or a weakness, which imperils continuing success, even survival of the enterprise (Ansoff and McDonnel, 1990).

Being proactive equips the organization to venture more into the areas of uncertainty, converting threats into opportunities through aggressive and entrepreneurial management (White, 1996). Pearce & Robinson (1997) add that being focused motivates people to achieve performance targets. Encouraging change implies introducing disruptive growth engine. Such disruptions succeed because they appeal to those customers whose capabilities and needs have been outstripped by the development of newer and more

complex product features. In the face of a disruptive technology dominant competitors flee to the upper end of the market where their increasingly sophisticated products can enjoy higher margins until their newly spawned competitors eventually overtake them (Heskett, 2003).

Organizational success depends on both core and distinctive competencies, to build sustainable competitive advantage. Good management – skills and knowledge, expansive network and technology capability were noted as important distinctive competencies acquired by the banks to gain heart- and mind-share in a fragmented market. Sound management is responsible for overall performance of the firm including strategic positioning of the firm in its environment in a way that assures coordinated performance towards its objectives. Good human resource base creates "troops" who can identify disruptive ideas, which results to products and services furthering growth of disruptive engine.

Creating a strong innovation context implies setting a clear innovation agenda with tangible goals and promoting an innovation culture. Improving the context of innovation also includes building performance management and learning infrastructure to track the effectiveness of innovation investments and diffuse them effectively through the organization. The CEO can also encourage greater cross-functional and organizational co-operation to support innovation and permit multiple models of the organization from separate business units to cross-functional teams to nurture and implement innovations.

The role of a leader is to identify productive areas of uncertainty and confusion and to lead the organization into those areas in order to gain competitive advantage. True leaders are like experienced travelers struggling against all odds, overcoming the might of nature (White, 1996). They focus on their particular guest with pragmatic realization that there is a multitude of ways of getting there. They combine focus on given objectives with flexibility and explore the unexpected byways. Competitive advantage comes from going off the beaten track and moving to an area of uncertainty. Mariotti (1999) notes that the

most important aspect of leadership is to take people to places they would be afraid to go alone.

Banks do not appear to use external resources to deliver innovation to market despite the constraints both in finances and skills. However, the use of external resources in general and outsourcing to augment resources and accelerate value creation through the innovation process is gaining currency elsewhere (Kambil, 2002). The survey indicated that less than 10 percent of the banks always used external resources with more than 85 percent using such resources sometimes.

Evidence of outsourcing is growing and can be an advantage in different stages of innovation from outsourcing lead users capabilities for sourcing ideas to services for business planning, evaluating and testing the feasibility of ideas and for selectively acquiring capabilities to transform ideas to products. Outsourcing innovation should compliment internal development.

Banks give due consideration to sound human resource base. Despite this initiative, research indicated that resistance to new ideas is a factor derailing innovation. Burnes (2000) asserts that the way innovations are managed and the appropriateness of the approach adopted will determine how successful the organization will be. In essence, banks while in the process of innovation, should strive to preserve order amid change to achieve meaningful progress. Spreier and Sherman (2003) adds that open and frequent communication is critical to reduce resistance.

In addition, insufficient number of people who can be freed and information technology are the key factors hindering innovation. The emergence of business process outsourcing provides new strategies for dealing with resource and skill deficits that impede innovation implementation. Outsourcing key process frees up management to focus on key aspects of the innovation process and allows management to accelerate the deployment of

innovations. Outsourcing allows the innovators to tap into economies of scale from shared infrastructure and the ability to flexibly scale operations.

5.2 Conclusion and Recommendations

Despite the challenging economic times, the changes in legal framework affecting the banks, research indicates that both the CEOs and the BDMs recognize the importance of innovation for sustained growth and to create a unique outfit. But while the banking sector is abound with ideas, many of them were found to execute less than 20 percent to realize value. This situation can be addressed if the CEO can amplify the returns on innovation in two important ways: by improving the context of innovation and by using outsourcing and other external resources to add muscle to innovation execution capabilities.

The CEO should therefore drive to create greater focus in their organization on processes and support for executing and commercializing innovations. The CEO must inculcate the culture of "experimenting in the margin", driving more towards areas of uncertainty – the untilled land *(terra incognita)*. As banks wade through difficult times, executives must focus on the future and on the new sources of growth, being proactive, anticipating change and developing ideas and solutions ahead of competition.

The CEO has to establish and communicate the mission of what the company is striving to become and to achieve, by providing a clear strategy. The strategy must contain noble goals that are obtainable (Holliday, 2002). CEOs must choose to deliver clarity, consistency and commit to avoid being obsolete. No matter where a company is located or what it makes, its CEO must develop a guiding, overarching philosophy about how he or she can add value.

When competitive environment pushes an organization to its limits, the old mindset no longer holds. A discontinuous improvement in capability is needed, and that entails transformation. The ultimate and largely ignored task of leadership is one of creating and breaking paradigms (Ansoff and Sullivan1993, Taylor 1993). Breaking paradigms entails

encouraging change by introducing disruptive growth strategies. Such disruptions succeed because they appeal to those customers whose capabilities and needs have been outstripped by the development of newer and more complex product features. In the face of a disruptive technology dominant competitors flee to the upper end of the market where their increasingly sophisticated products can enjoy higher margins until their newly spawned competitors eventually overtake them.

The efficiency of delivery of bank services depends on the level of information technology adoption – many banks cited IT as a major constrain in perfecting operations/processes. Joint ventures in IT may help players in the banking industry make quantum leaps. In order to establish significant sharing proposition, there needs to be an agreement on what will be shared. Sharing needs to be seen as a strategic option, changing the way each organization operates.

Reduction of resistance to change requires collaboration across departments and divisions and not just because innovations often come from joint projects. Changing the company dynamics requires collective commitment to the new courses of action lest local decisions, taken in isolation may undermine that change. Resistance to change can also be reduced by more open and frequent communication to employees and paying constant attention to employees' needs. Leaders should restore confidence through empowerment – replacing denial with dialogue, blame with respect, isolation with collaboration and helplessness with opportunities for initiative. Each leader must manage the tricky task of creating a winner's attitude in people, even before victories.

Banks need to evaluate synergies arising from all innovations to maximize value on investment. Innovation in technology for instance should permeate through the organization improving processes and services. This should arguably reduce level of complains in service levels endemic in the banking industry today.

To accelerate value realization, the research recommends disruptive growth engine: CEOs will have to create a strong innovation context setting a clear innovation agenda with

tangible goals and promoting an innovation culture, build performance management and learning infrastructure to track the effectiveness of innovation investments and diffuse them effectively through the organization.

The use of third party providers or joint ventures can be a source of competence for banks unable to invest in upgrading their own processes. There is need to use external resources in general and outsourcing to augment resources and accelerate value creation, free up management to focus on key aspects and to tap into economies of scale from shared infrastructure and to flexibly scale operations to add muscle to innovation execution capability

An important area open to further research is to evaluate the extent of outsourcing of innovations among the banks. The research should capture comparative data on level of innovations that are commercialized to value by relying on internal resources compared to outsourcing, with a view to recommend a hybrid strategy to organization facing similar constraints.

5.3 Limitations to the study

High-level resistance by the bank managers and the CEOs to share information was a primary hitch in this research work. A majority of those that responded took too long a time to complete the questionnaires, others lost or misplaced them resulting to replacement up to three times! Worse, some banks displayed high level suspicion, considering researcher's effort as a disguised industrial espionage, and therefore declined to respond.

It took persuasion for BDMs and CEOs to respond; this persuasion could have motivated them to provide inaccurate data or to pass the questionnaires on to inappropriate assistant to wade away the "bother." Such data could easily affect the outcome of the research.

Finally, the research was broad in nature and details required in comparison to resources available for research work. This limitation is real granted the broad nature of the subject of innovation being the engine to drive business to prosperity.

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CHAPTER 1: INTRODUCTION

1.1 Background

Kenyan banks, like other organizations are open systems operating in a turbulent environment; their continued survival depends on the ability to secure a "fit" with the environment (Cote 1990, Ansoff and McDonnel 1990, Pearce and Robinson 1997, Thompson and Strickland 1996, Johnson and Scholes 1999, Davenport 1993). The real challenge is therefore to venture into territories previously uncharted (terra incognita) and marked as "There be dragons." White (1996), points that there is no island in the stream.

The traditional banking Products are homogenous and intangible (Kotler, 2000). This presents a positioning constraint to banks desirous of differentiating themselves to the selected target market on key value proposition scale (Aaker, 1996). Banks must therefore innovate regularly to provide an array of products and services that continually delivers consistent value to customers for them to derive loyalty hence more revenues, cost saving opportunities and growth (Kotler 2000, Aaker 1996, Kambil 2002, Leonard and Rayport 1997, Kuria 2000). Competitive advantage is a function of either providing comparable buyer value by performing activities efficiently (low cost); or unique ways that creates greater buyer value than competitors and hence, command premium price (differentiation) (Porter 1986, Ansoff and Mcdonnel 1990, Pearce and Robinson 1997)

Business innovation is the discovery and implementation of the new technologies, new products and services, new customer experiences, new processes, new markets, new channels and new business models (Kambil, 2002). This results to competitiveness, and the process by which innovation is managed to gain an upper hand is referred to as corporate venturing (Morrissey, 2000). Through corporate venturing, innovation creates purposeful, focused change in an enterprise's economic or social potential (Drucker 1998, Johnson and Scholes 1999). It requires abandoning comfortable old ways of doing business (Davenport, 1993). There is no single success formula, which has universal validity (Ansoff and Sullivan, 1993).

Purposeful, systematic innovation begins with the analysis of the sources of new opportunities. Consumers settle for nothing less than excellent value for money (McKechnie 2002, Kotler 2000). It is a means by which the entrepreneur creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth. Innovation is thus a conscious search for opportunities (Drucker, 1998).

Innovation is about change, an ever-present feature of organizational life, it is not how many ideas you have; it's how many you make happen. The way such innovations are managed and the appropriateness of the approach adopted will determine how successful the organization will be (Burnes, 2000). Navister president while commenting on the competitive environment argued "... the art of progress is to preserve order amid change and to preserve change amid order...we're now a company that knows where it's going and how we intend to get there." (Bateman & Zeithaml, 1990: 706).

Innovation is an action oriented make-things happen process that tests a leader's ability to direct organizational change, design and supervise business processes, motivate people and achieve performance targets (Thompson and Strickland, 1996) and Pearce and Robinson, 1997). Sun Tzu (Kahaner, 1996), in the treatise of the Art of War adds that what enables the wise sovereign and the good General to strike, conquer and achieve things beyond the reach ordinary men is fore knowledge.

Leading a successful corporate venture calls for every ounce of character, courage, humor, wisdom and risk-taking (Jones, 2001). Banks must therefore be like Amoeba, get nourishment from the environment by allowing much of what is inside to flow out and much of what is outside to come in (White, 1996). They must reinvent themselves and implement carefully crafted strategic options or become victims of SPOTS (strategic plans on top shelf) trap (Ulrich and Young, 1989). More so, they must ape hedgehogs, focusing in one powerful idea that drives their business (Abbot, 2002).

The banking environment is rapidly changing following the introduction in the budgetary estimates of 2003/4 of a regulatory framework to control deposit rates and levying of bank charges (Ernst & Young, 2003). This is a threat to banks turf and income base hence the need to constantly re-evaluate the lessons of the past to create an entrepreneurial make-up (Hammer and Champy 1993, Cullum *et al* 2002).

The source of today's competitiveness lies in change; the ability to transform products and organization in response to changes in the economy, in social habits and in customer interest (Ondigo, 2002). This is the precarious situation that Kenyan banks have to contend with.

Moreover, as the geographical scope of the business broadens, business strategists must contend with a considerably wider variety of competitors, business environment and consumers who are more demanding, hard to please and less forgiving (Kotler, 2000). Literature by Ansoff and Sullivan 1993, Cullum *et al* 2002, Drucker 1998, Farkas and Wetlaufer 1996, Hill and Weflaufer 1998, Haapaniemi 2002, Kambil 2002, Mariotti 1999, Sorcher 1985, and Taylor 1993 is rich on the need for innovation. Morrissey (2000), details how innovation can be managed through corporate venturing. However, instances of success or failure have not been evaluated against the roles that the CEOs play in facilitating or stifling corporate ventures. Moreover, no empirical data has been compiled detailing the constraints that banks in Kenya face in the process of innovation.

1.2. Statement of Problem

The CEO by his actions or lack of action may be an agent of stifling innovation. Often, the CEO may regard himself as the key agent of innovation thus acting as the entrepreneur himself, and viewing staff as lacking innate entrepreneurial attributes, discouraging collaborative behavior that seeks to give staff the confidence to behave in an entrepreneurial way. By assuming that the requirements of entrepreneurship must be met by a single heroic leader (Cullum *et al*, 2002), the CEO may introduce derailing patterns of

behavior, the tendency to fight over turf and to gun down any wild geese that challenge the system. Such a stratagem destroys creativity.

Haapaniemi, (2002) notes that good ideas can come from anywhere in the organization hence the need to foster corporate entrepreneurship. Even where there are good ideas, innovation may stall due to organizational politics defined as competition for limited corporate resources (Kiechel, 1998).

With an ever-turbulent environment and a threat to their turf, banks must perfect the art of innovation. Should the CEO assume total involvement or assume the role of a facilitator to encourage entrepreneurial behavior? Do CEOs see themselves as the principal source of innovation? What do their managers think of their role? What factors influence the process of innovation in the banking industry?

1.3 Research Objectives

The study will establish the:

i. Process of innovation among the banks in Kenya,
ii. Perceived role of CEO in innovation i.e. total involvement versus facilitation (both as an office and the incumbent),
iii. Business Development Manager perception of the CEO role,
iv. Factors influencing innovation process in the banking sector in Kenya.

1.4 Importance of the Study

i. The study will highlight the role that the CEO play in the innovation process, either as agent of innovation or stifling innovation. This will assist in re-construction of the CEO role and thus increase bank's and CEO's "Bandwidth" in pursuit of growth and excellence.

ii. Identify the key factors constraining banks from implementing good ideas and thus deliver unique value proposition to their clientele. This is because innovation can shift a firm's relative structure and restore its competitiveness (Vernon and Wortzel, 1997)

iii. Provide a framework for further research in future, for instance assessment of the validity and viability of outsourcing innovation generation and implementation.

APPENDIX 1

PART A - SECTION (i): QUESTIONNAIRE TO BE COMPLETED BY THE BUSINESS DEVELOPMENT MANAGERS

PART A: BANK INFORMATION

a). In which year was your Bank established_____

b). Please state:

- Mission statement of the Bank_____

_____

_____

- Vision statement of the Bank_____

_____

_____

c. Please list top three objectives of the Bank in the order of importance

i. _____

ii. _____

iii. _____

e. Please explain your basic understanding of innovation in as far as banking sector is concerned _____

_____

d. What do you consider as your Bank's key strengths:

Internally (core competence)

a. _____

b. _____

c. _____

Compared to competitors (distinctive competence)

a. _____

b. _____

c. _____

PART A - SECTION (ii): IMPORTANT REQUEST

PLEASE COMPLETE THE FORM BY TICKING THE APPROPRITE ANSWER

1. If we define business innovation as the discovery and implementation of the new technologies, new products and services, new customer experiences, new processes, new markets, new channels and new business models, when is the last time your Bank undertook innovation(s) to completion?
   - ❑ Last six months
   - ❑ 6– 12 months
   - ❑ 12 – 18 months
   - ❑ 18 – 30 months
   - ❑ Not recently
2. By adopting a working definition of innovation as in (1) above, in what field was the innovation(s) undertaken?
   - ❑ New technologies
   - ❑ New products
   - ❑ Service(s)
   - ❑ New customer experience
   - ❑ New process
   - ❑ New markets
   - ❑ New channels
   - ❑ New business models
3. If corporate venturing is defined as the process through which organizations manage innovation, who is primarily responsible for driving innovation in your company
   - ❑ CEO
   - ❑ Business units
   - ❑ Cross-functional committees
   - ❑ Marketing Department
   - ❑ R&D
   - ❑ Innovation function
   - ❑ Board of directors

4. What is the primary way(s) that your company uses to encourage innovation?
   - ❑ Performance assessment/innovation – is part of job description
   - ❑ No program
   - ❑ Suggestions-reward based value
   - ❑ Suggestions-no reward
5. What are the main sources of new ideas in your company?
   - ❑ Executive committee
   - ❑ Ideas committee
   - ❑ Board of directors
   - ❑ External agencies
   - ❑ Individual staff
   - ❑ Others (specify)
6. How does your company determine which ideas to implement?
   - ❑ Process vary by innovation
   - ❑ No formal process
   - ❑ Formal business case reviewed
   - ❑ Formal process identify winners
   - ❑ Other (please specify)
7. Does your company use external resources to help deliver innovation?
   - ❑ Sometimes
   - ❑ Usually
   - ❑ Never
   - ❑ Always
8. Who among the external partners listed below does your bank enlist as valuable sources of innovation?
   - ❑ Customers
   - ❑ Suppliers
   - ❑ Alliances
   - ❑ Competitors
   - ❑ External consultants

- ❑ Academic institutions
- ❑ Advertising and promotional agencies
- ❑ Others (please specify)

9. What are the major factors limiting your company from implementing new ideas?
   - ❑ Sufficient available people who can be freed up
   - ❑ Sufficient skilled people
   - ❑ Project management skills to manage execution
   - ❑ Knowledge sharing and management systems
   - ❑ Information technology
   - ❑ Resistance to new ideas/ways/processes/standards
   - ❑ Ability to develop the necessary new skills
10. What proportions of your company's promising innovative ideas are commercialized?
   - ❑ Less than 20%
   - ❑ 20% to 40%
   - ❑ 41% t0 60 %
   - ❑ 61% to 80%
   - ❑ More than 80%
11. What prevents your company from commercializing more promising ideas?
   - ❑ Unclear strategy and conflicting priorities
   - ❑ An innovation culture
   - ❑ An ineffective senior management team
   - ❑ Innovation pipeline management
   - ❑ Poor coordination across functions or departments
   - ❑ Inadequate down-the-line leadership skills and development
   - ❑ Sufficient worthwhile ideas

12. In the process of innovation, what role does your CEO play?

- ❑ Facilitation
- ❑ Involvement
- ❑ Total involvement
- ❑ Both facilitation and involvement
- ❑ Adviser
- ❑ Hindrance
- ❑ Can sometimes hinder

13. To the best of your knowledge is your Bank CEO up to the challenge of innovation?

☐ Yes ☐ No

14. Which of the following attributes of successful Venture Manager would you associate with your CEO?

- ❑ Ability to take risk
- ❑ Obsessed with continuous improvement
- ❑ Focuses on the horizon
- ❑ Encourages a culture that questions the status quo
- ❑ Good team building
- ❑ Good negotiating skills
- ❑ Recognizes and appropriately rewards entrepreneurship

15. Which one of the following is true regarding the business of your Bank in terms of products, market share and service?

- ❑ Change is encouraged
- ❑ Products are broadly defined
- ❑ Market is broadly defined
- ❑ Proactive approach is adopted in response to external changes
- ❑ We specialize in a few products for key defined market segments

16. What would you consider as the main challenges your Bank faces today in delivering innovation?

- ❑ Idea generation
- ❑ Risk pervasiveness
- ❑ Lack of support for new ventures
- ❑ Poor communication within the organization
- ❑ Culture devoid of risk tolerance/managing risk
- ❑ Resource allocation
- ❑ Budgetary constraints
- ❑ Inadequate skills
- ❑ Lack of clear-cut criteria for identifying and assessing new ideas
- ❑ Any other

THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONNAIRE.

END.

PART B: QUESTIONNAIRE TO BE FILLED BY THE CHIEF EXECUTIVE OFFICERS AND BUSINESS DEVELOPMENT MANAGERS

IMPORTANT REQUEST

PLEASE COMPLETE THE QUESTIONNAIRE BY TICKING THE APPROPRIATE ANSWER

1. If we define business innovation as the discovery and implementation of the new technologies, new products and services, new customer experiences, new processes, new markets, new channels and new business models, on a scale of 1-5, how important is your company's ability to innovate in achieving success or competitive advantage? (1=highest score, 5=lowest score)

	1	2	3	4	5
Most important factor	☐	☐	☐	☐	☐
One of five most important factors	☐	☐	☐	☐	☐
Just important	☐	☐	☐	☐	☐
Not a success factor	☐	☐	☐	☐	☐

2. Considering the various forms of innovation, what is the importance of each of the innovation to your organization? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
New technologies	☐	☐	☐	☐	☐
New products	☐	☐	☐	☐	☐
Service(s)	☐	☐	☐	☐	☐
New customer experience	☐	☐	☐	☐	☐
New process	☐	☐	☐	☐	☐
New markets	☐	☐	☐	☐	☐
New channels	☐	☐	☐	☐	☐
New business models	☐	☐	☐	☐	☐

3. Do you agree with the statement that good ideas can emerge from anywhere in the organization? (1= Totally agree, 2=agree, 3=perhaps, 4=disagree, 5=totally disagree)

1	2	3	4	5
☐	☐	☐	☐	☐

4. On a scale of I-5, how often does your Bank experience shortage of good ideas? (1 =always, 2 =usually, 3 =sometimes, 4 =rarely, 5=never)

1	2	3	4	5
☐	☐	☐	☐	☐

5. How important are the external partners listed below as sources of ideas? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
Customers	☐	☐	☐	☐	☐
Suppliers	☐	☐	☐	☐	☐
Alliances	☐	☐	☐	☐	☐
Competitors	☐	☐	☐	☐	☐
External consultants	☐	☐	☐	☐	☐
Academic institutions	☐	☐	☐	☐	☐
Advertising and promotional agencies	☐	☐	☐	☐	☐
Others (please specify)	☐	☐	☐	☐	☐

6. In determining which external partner to enlist a source of innovation, how important is each of the entities listed below? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
CEO	☐	☐	☐	☐	☐
Business development manager	☐	☐	☐	☐	☐
Executive committee	☐	☐	☐	☐	☐
Cross-functional committees	☐	☐	☐	☐	☐
Board of directors	☐	☐	☐	☐	☐
Marketing department	☐	☐	☐	☐	☐

7. In terms of idea generation, how important are the various sources of ideas listed below in your Bank? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
CEO	☐	☐	☐	☐	☐
Executive committee	☐	☐	☐	☐	☐
Ideas committee	☐	☐	☐	☐	☐
Business units	☐	☐	☐	☐	☐
Board of directors	☐	☐	☐	☐	☐
Research and development	☐	☐	☐	☐	☐
External agencies	☐	☐	☐	☐	☐
Board of directors	☐	☐	☐	☐	☐
Individual staff	☐	☐	☐	☐	☐
Others (specify)	☐	☐	☐	☐	☐

8. In your opinion, do you think the CEO should determine the source of new ideas? (1= totally agree, 2=agree, 3=perhaps, 4=disagree, 5=totally disagree)

1	2	3	4	5
☐	☐	☐	☐	☐

9. During the selection stage, do you agree that the CEO should determine which ideas to implement? (1= Totally agree, 2=agree, 3=perhaps, 4=disagree, 5=totally disagree)

1	2	3	4	5
☐	☐	☐	☐	☐

10. On a scale of I-5, how often is your Bank unable to implement good ideas? (1 =always,2 =usually, 3 =sometimes, 4 =rarely, 5=never)

1	2	3	4	5
☐	☐	☐	☐	☐

11. Considering factors limiting your company from implementing new ideas, how often is each of the factors listed below a constrain? (1 =always,2 =usually, 3 =sometimes,
4 =rarely, 5=never)

	1	2	3	4	5
Executive control/involvement	☐	☐	☐	☐	☐
Sufficient skilled people	☐	☐	☐	☐	☐
Project management skills to manage execution	☐	☐	☐	☐	☐
Knowledge sharing and management systems	☐	☐	☐	☐	☐
Information technology	☐	☐	☐	☐	☐
Ability to develop the necessary new skills	☐	☐	☐	☐	☐

12. Consider the barriers that prevent your company from commercializing innovations. What is the level of strength of each barrier listed below? (1=very strong, 2=strong, 3=mild, 4= weak, 5=not a barrier)

	1	2	3	4	5
Unclear strategy and conflicting priorities	☐	☐	☐	☐	☐
An innovation culture	☐	☐	☐	☐	☐
An ineffective senior management team	☐	☐	☐	☐	☐
Innovation pipeline management	☐	☐	☐	☐	☐
Poor coordination across functions or departments	☐	☐	☐	☐	☐
Inadequate down-the-line leadership skills and development	☐	☐	☐	☐	☐
Sufficient worthwhile ideas	☐	☐	☐	☐	☐

13. As the CEO, what importance do you attach to the following attributes of a successful Venture Manager? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
Ability to take risk	☐	☐	☐	☐	☐
Good team building	☐	☐	☐	☐	☐
Good negotiating skills	☐	☐	☐	☐	☐
Recognizes and appropriately rewards entrepreneurship	☐	☐	☐	☐	☐

14. How important are the following attributes regarding the business of your Bank in terms of products, market share and service? (1=very important, 2=important, 3=just important, 4=not important, 5=not a factor)

	1	2	3	4	5
Change is encouraged	☐	☐	☐	☐	☐
Products are broadly defined	☐	☐	☐	☐	☐
Market is broadly defined	☐	☐	☐	☐	☐
Proactive approach is adopted in response to external changes	☐	☐	☐	☐	☐
Specialize in a few products for key defined market segments	☐	☐	☐	☐	☐

15. Consider the various challenges your Bank faces today in delivering innovation. As the CEO, how critical do you think these challenges are? (1=very critical, 2=critical, 3=mild, 4=not critical, 5= not applicable)

	1	2	3	4	5
Idea generation	☐	☐	☐	☐	☐
Risk pervasiveness	☐	☐	☐	☐	☐
Culture devoid of risk tolerance/managing risk	☐	☐	☐	☐	☐
Resource allocation	☐	☐	☐	☐	☐
Inadequate skills	☐	☐	☐	☐	☐

16. In summary, on a scale of I –5, what role should the CEO play in corporate venturing? (1= Totally agree, 2=agree, 3=perhaps, 4=disagree, 5=totally disagree)

	1	2	3	4	5
Facilitation	☐	☐	☐	☐	☐
Total involvement	☐	☐	☐	☐	☐
Just involvement	☐	☐	☐	☐	☐
Both facilitation and involvement	☐	☐	☐	☐	☐
Adviser	☐	☐	☐	☐	☐

17. (Is your current CEO) As the incumbent CEO today, on a scale of 1 - 5 do you think you are up to the challenge of delivering innovations to ensure your Bank remains competitive?

(1= totally agree, 5=totally disagree)

1	2	3	4	5
☐	☐	☐	☐	☐

THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONNAIRE

END

APPENDIX 2

LIST OF CLEARING BANKS

1. Kenya Commercial Bank
2. Barclays Bank of Kenya
3. Standard Chartered Bank
4. Co-operative Bank of Kenya
5. National Bank of Kenya
6. Commercial Bank of Africa
7. National Industrial Credit Bank
8. First American Bank
9. Imperial Bank
10. Investment and Mortgages Bank
11. Prime Bank
12. Bank of India
13. Bank of Baroda
14. Consolidated Bank
15. Citibank
16. Habib Bank
17. Habib Bank AG Zurich
18. Credit Agricole Indosuez
19. African Banking Corporation
20. Akiba Bank
21. Middle East Bank
22. Dubai Bank
23. Credit Bank
24. Transnational Bank
25. Chase Bank
26. Stanbic Bank
27. Credit Finance Corporation
28. Giro Bank
29. Equatorial Commercial bank

30. Paramount Universal Bank
31. Fina Bank
32. Victoria Commercial Bank
33. Guardian Bank
34. Diamond Trust Bank
35. Southern Credit Bank
36. Development Bank of Kenya
37. Fidelity Commercial Bank
38. Charter House Bank
39. K-Rep Bank (not a full bank yet)
40. Industrial Development Bank
41. City Finance Bank
42. Delphis Bank (under statutory management)

Source: CBK, 2003

APPENDIX 3

LETTER OF INTRODUCTION

11th August 2003

_____

_____

Timothy Gitonga
C/o University of Nairobi
Faculty of Commerce
Lower Kabete Campus

Dear Sir/Madam.

MBA RESEARCH PROJECT

I am a Master of Business Administration student from the University of Nairobi specializing in **Strategic Management**. As a partial fulfillment of the requirement for the award of an MBA degree, the University of Nairobi expects me to submit a research project report on a real management problem.

To achieve this noble mission, I intend to conduct my research on the Banking Industry in Kenya titled **"INNOVATION PROCESSES AND THE PERCEIVED ROLE OF THE CHIEF EXECUTIVE OFFICER IN THE BANKING INDUSTRY."** It is hoped that the findings will contribute to the pool of knowledge as well as provide insight into the art of corporate venturing in the banking industry. Your contribution to this end will therefore be highly appreciated.

I have therefore attached a questionnaire supported by an introduction letter from the MBA Co-ordinator – University of Nairobi, who is also my Supervisor. Please complete the questionnaire, which I propose to collect from your office.

Yours faithfully,

Timothy Gitonga
MBA Student

UNIVERSITY OF NAIROBI

FACULTY OF COMMERCE

MBA PROGRAM – LOWER KABETE CAMPUS

Telephone 732160 Ext 208
Telegrams "Varsity", Nairobi
Telex 22095 Varsity

P O Box 30197
Nairobi, Kenya

DATE 11th AUGUST 2003

TO WHOM IT MAY CONCERN

The bearer of this letter TIMOTHY GITONGA

Registration No: D61/P/8533/2000

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/~~she~~ is required to submit as part of his/~~her~~ coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/~~her~~ by allowing him/~~her~~ to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

M.B.A. OFFICE
P.O. Box 30197
NAIROBI
UNIVERSITY COMMERCE FACULTY

JACKSON MAALU
COORDINATOR, MBA PROGRAM