

**DESIGN THINKING, STRATEGY AND INNOVATION IN AFRICAN
FINANCIAL SECTOR: A CASE STUDY OF LETSHEGO
HOLDINGS LIMITED IN AFRICA**

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DECLARATION

I declare that this is my original work and has not been presented to any other University or college.

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D61/84106/2015

SUPERVISOR

This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this project to the two angels who make me laugh all the time: my niece Mueni and my mini me, Sister Ann. In addition, I dedicate to my folks and siblings for being such a family that prayerfully supports: Dad Julius, Mom Liz and siblings Esther, Brian, Ann and Jonah, you guys are everything I needed!

ABBREVIATIONS AND ACRONYMS

DT	Design Thinking
PESTEL	Political, Economic, Social, Technological, Environmental and Legal
IOT	Internet of Things
SWOT	Strengths, Weaknesses, Opportunities and Threats
LHL	Letshego Holdings Limited
R&D	Research and Development

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ABSTRACT

The current competition landscape of the financial sector both globally and locally in Africa has significantly changed through changes in the external environment like 4th industrial revolution technology driven changes, increased customer expectations, convergence of industries and entrance of different players into the financial service offerings like Telco companies, financial technology companies offering mobile financial services, social platforms like Google and WhatsApp innovating to offer financial transfer services using the social platforms. The competitive strategies that a firm in this sector is constantly disrupted and changing to align the firms to sustained growth and hence firms need to identify and use different approach to remain competitive and sustain revenue. This research was conducted through a case study and primary data collection through interviews with management of Letshego Holdings Limited in quest of establishing the relationship of Design Thinking, Strategy and Innovation in Financial Sector. The study revalidated the challenges facing financial sector in regards to current and future innovation and explored how Design Thinking approach can be used to enhance building of innovation capabilities of a firm and address the inhibitors of innovation to ensure firms adopt competitive strategies that sustain their growth. The study established that a customer centered approach on identifying the services to offer and customer needs to meet (Design Thinking approach), innovative capabilities to self-disrupt by differentiating their offerings and services and explore untapped markets/segments using blue ocean strategies will build sustained organization strategies.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The wake of the fourth industrial revolution, industry 4.0, (Vaidyaa, S., Ambadb, P., & Bhoslec, S., 2018) has introduced a completely new twist on business competition, where dynamic digital disruptions are shaking industries with new ways of embedding technology to solve political, economic, social, technological, environmental and legal (PESTEL) problems. This is made possible with emerging technologies like Big Data analytics, block chain technology, artificial intelligence, machine learning, Internet of Things (IoT), nanotechnology, biotechnology, quantum computing, 3D printing and Enterprise Architecture.

The sustainable future of an organization in a competitive industry lies largely on its organizational direction informed by its strategy (Porter, 1980). Porter(1985) describes strategy as a deliberate systematic analysis of an organization in relation to its environment that informs its overall objective direction while Mintzberg & Waters (1985) states that strategies can either be emergent (unintentional, fluid) and/or deliberate (intentional, structured). Porter (1985) argues that businesses needs competitive strategy delivered through being different and/or a conscious choice of varied activities to offer unique value mix. The unique value mix describes innovation, which aims at giving an organization a strategic advantage by doing things in very new way and not just a mere novelty criterion (Tidd et. al, 2005) and Design thinking provides an agile and iterative user centered approach to building innovation capabilities of a firm.

The study will use Value Innovation Theory and the Concept of Competitive Advantage using RVB (Resource Based View of Strategy) Theory as the theoretical underpinning to explore these relationships and make both conceptual and empirical contribution. However, there is little empirical study on the relationship between Design Thinking, Strategy and Innovation.

The motivation of the study is to explore design-thinking concept and its relation to strategy and innovation and fill the knowledge gap since there is little research done on Design thinking in relation to strategy and innovation since it is a relatively new concept in management discourse (Carlgren, 2013). It seeks to identify the strategic problems facing the financial sector in Africa and provide practical ways in which Design thinking can be implemented to build innovation capabilities of a firm to solve these strategic problems facing financial sector firms.

The context of the study is on financial sector in Africa, which has seen significant disruption driven by technology and increased customer demands for access of services on the go, flexibly through their convenience and from mobile devices. Letshego Holdings Limited is a pan African financial services company with microfinances across 11 countries in Africa headquartered in Botswana but the Strategy and Innovation department sitting in Kenya. The organization has adopted strategy driven through digital innovation to remain competitive, sustain growth and meet the growing customer needs in the dynamic industry.

1.1.1 Concept of Design Thinking

Design thinking (DT) is an agile innovation management tool, which is an iterative, creative and practical human-centered approach on establishing innovative solutions and ideas (Brown, 2008) and to consistently translate these ideas into viable solutions. Though DT primarily originates in product design, it has developed to be a widespread management and problem-solving tool (Liedtka, 2014) for ill-defined and complex problems (Carlgren, 2013), by focusing on a human-centered view and practical approach. A very defining aspect of design thinking is focusing on providing value by allowing businesses to involve and interact with their customers in a way that gives them meaningful insights. According to Liedtka (2014), these unarticulated needs and desires results to a competitive advantage for a business that ideates them by translating them into design criteria and forming a foundation for differentiated value propositions.

Unlike other traditional problem solving techniques, DT is uncertainty reduction strategy (Liedtka, 2014) that delays making decisions to maximize learning and its therefore an approach to solving complex problems that are difficult to either articulate or solve through conventional or straightforward problem-solving techniques (Carlgren, 2013). In the recent years, practitioners have increasingly advocated for Design Thinking as a user-centered approach for innovation (Carlgren, Elmquist, & Rauth, 2014) for businesses to cope with dynamic environments. The DT process begins with understanding the requisites of a problem whether it is the client, the market, technology and the perceived constrictions). The innovator observes consumers in their real life conditions and use a variation of techniques (ethnography) in developing empathy for the consumers.

With the developed empathy, the innovator defines insights by creating a point of view to reframe the problem. The next stage is to Ideate and prototype a variety of alternatives in short iterations and then test them while getting feedback from users.

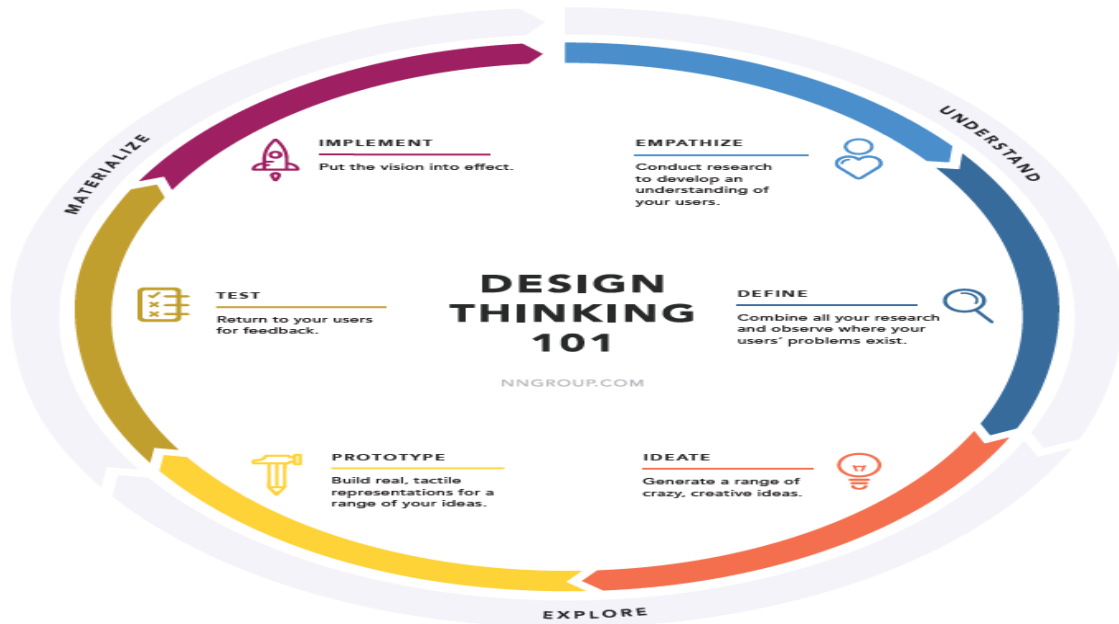


Figure 1: Description of a Design Thinking process (source Stanford d. School, 2009).

The innovator then modifies and reiterates solutions, and if need be, also formulate problem with iterations until users are satisfied and then proceed to implement (Brown and Wyatt, 2009).

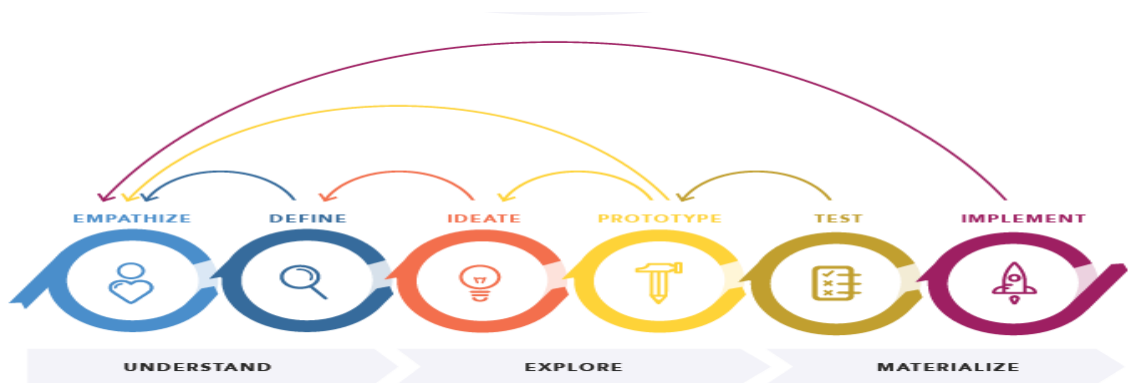


Figure 2: Description of a Design Thinking process (source Stanford d. School, 2009).

Design Thinking proponents have argued that it ought not be viewed as a linear process as an initiative can move both back and forth several times amongst different stages especially ideation, prototyping, testing and acclimatizing prototypes activities that are termed as highly entwined. (Brown, 2008; Liedtka and Ogilvie, 2011). Majority of the proposed tools are used in early stages that are considered more important, namely, the “empathize” or “define” stages explained above. However, the conception is still in an initial phase in academia with research concentrating on drawing the relation of its use to innovation in corporate perspectives (Carlgren, 2013; Carlgren, Elmquist & Rauth, 2014) and similarly developing an appreciation of it from a research viewpoint (Liedtka, 2014).

1.1.2 Organization’s Strategy

Johnson Scholes & Whittington (2008) defines strategy as the scope and direction of an organization over the long term that helps it achieve advantage in a changing environment through configuration of its resources and competences, with the aim of satisfying stakeholder expectations. A company strategy is concerned with how to grow the business, satisfy the customers, compete the rivals, manage each functional area, develop requisite capabilities and ultimately achieve company objectives. It has been argued, “Without strategy, an organization is like a ship without a rudder, going around in circles”. Business is environment serving and environment dependent, with strategy as the tool through which businesses use to adapt to the changes on the business environment. Nickols, F. (2016) describes strategy as a perspective, position, plan, and pattern used by an organizations in achieving their organizational goals.

Michael Porter (1985) argues that sustainable advantage of a business in a competitive industry cannot be achieved through operational efficiency alone but comes by either doing different activities from the rivals and/or similar activities in different from the rivals. He argues that competitive strategy is being different which means business need to consciously choose a different set of activities to offer a unique value mix. The competitive strategy is a combination of both the ends goals that the firm is strives to achieve and the means to get there (Porter, 1985).

Organizations undergo vigorous strategic management process that begins with strategic analysis that helps them identify the strategic issues facing the company both internally (capabilities, weaknesses) and externally (threats and opportunities) using tools like SWOT analysis, industry analysis among others. After analysis, the organizations develop strategic objectives for the business and functions, build tactical plans with the chosen strategy and implement. On a continuous basis, the organization evaluates and monitors the chosen strategy to ensure its achieving objectives and if there is need to change with the changing environment (Rumelt, 1991).

1.1.3 Innovation Imperativeness

In an environment with intense competition and constantly increasing complexity of market challenges, innovation is progressively gaining significant acknowledgement as a competitive advantage source (Tushman and O'Reilly, 1996; O'Connor, 2008; Govindarajan et al., 2011).

Declining margins, increased competition, globalization, decreasing resource availability, growing concern on environment that require businesses to maintain growth sustainably, increasing complexity of customer needs and trends towards shorter time to market, has increased pressure for businesses to differentiate their products and to adapt to a rapidly changing economy. Digital age has significantly changed the way we do business including the changing role of customers from passive consumers to active influencers, trendsetters and innovators (Prahalad & Ramaswamy, 2004; Hippel, 2005). With new technologies, inexpensive internet access and global reach, consumers' knowledge and opportunities on their needs has increased, enabling them to create their own products and challenge established businesses, opening the market to disruptive innovation. Due to this increasing power of consumers, businesses have begun to recognize the need for innovation as the key competitive strategy using user-centered approaches.

Innovation is a process in which organizations turn opportunities into new-fangled ideas and put them into wide practice (Tidd et al., 2005). This definition has however been criticized by Hatchuel, A., Le Masson, P., & Weil, B. (2006) as an ex-post judgement where the determination of whether it was a real innovation or not, is done only after the offer or product has been implemented. Schumpeter (1934) argues that it is until an idea succeeds in creating economic value, that it can be considered as an innovation. There are numerous definitions that are more specific and aligned to varied views on the novelty types including how they are carried out in practice or perceived to create value. Tidd et.al. (2005), argue that innovation is aimed at gaining strategic advantage by doing things in new ways and not just a mere novelty criterion.

In this research, innovation is not restricted to a technological innovation or product, but also includes experiences, business models, processes, services and various combinations of them. In addition, this thesis has considered innovation as development of innovative offers and the activities involved in these developments, avoiding judgments on what is widespread or new. Scholars further describe innovation in light of the extend of novelty using pairs of adjectives (Mascitelli, 2000) like radical/incremental, revolutionary/evolutionary, continuous/discontinuous, disruptive/sustaining and newstream/mainstream.

One adjective referring to doing things in a completely new way, while the other describing some kind of improvement (Verganti and Norman, 2012) that builds on existing knowledge, technology, or new combinations in a less novel state. Though organizations appreciate the imperativeness of innovation, many find it hard to achieve since it is inherently ambiguous and complex (Benner and Tushman, 2002; O'Connor, 2008). Traditionally, efforts on innovation focused on either how to utilize known technology in very new markets or how to build new technologies for already established markets. Hence, there is an increasing emphasis by businesses on how they can produce more innovative products and value for the organization and/or the customer.

1.1.4 Design Thinking, Strategy and Innovation.

According to Carlgren (2013) implementation and application of Design Thinking approach to innovation enhances building innovative capabilities of a firm through a customer centric, iterative and practical methodology.

Carlgren (2013) further argues that the innovation culture that positions a firm for sustained growth through innovative competitive strategies can be facilitated by adoption of Design Thinking. According to Wyman (2017), financial sector firms are facing an era of de-banking due to 4th industrial revolution which can only be solved through innovative strategies anchored on enhanced customer involvement, the cornerstone of Design Thinking Innovation model. According to Michael Porter (1985) sustainable competitive advantage of a business in a competitive industry cannot be achieved through operational efficiency alone but comes by either doing different activities from the rivals and/or similar activities in different from the rivals, attributing Innovation to competitive strategies of a business. There are however no research relating Design Thinking, Strategy and Innovation variables.

1.1.5 Overview of Financial Sector in Africa

Different countries classify financial services industry differently; however, according to the North America Industry Classification System 2017 and International Labor Organization (ILO), financial services include monetary regulators (central banks), credit intermediaries, Funds, Trusts, and Other Financial Securities, Vehicles, Commodity Contracts, and Other Financial Investments.

According to Chironga, M., Cunha, L., Grandis, H., & Kuyoro, K. (2018) of McKinsey, the banking industry which is the bigger player in the financial sector is facing sluggish growth and disappointing return on Equity (ROE) at a narrow range between 8% to 10% at the global level.

In contrast, Africa banking is growing at almost double in profitability relative to the global average and despite heightening competition and tightening regulation, there is still opportunity to grow. The penetration of Africa’s retail-banking stands at about 38% of her GDP equivalent to about half the worldwide average of the emerging markets. Revenue pool for African banking grew at a constant compound yearly growth rate of 11% between 2012 and 2017 using the 2017 exchange rates and is predicted to remain a growth leader at an approximated growth rate of 8.5% over the next five years (McKinsey, 2018).

According to Wyman (2017), firms and businesses in financial sector have seen an increased complexity in competitive market, with customers’ growing demand of flexible accessibility of the services on the go and at the comfort of their convenience with seamless channels. As a result, businesses are utilizing technology capabilities to develop and provide innovative customer-centered products to meet the ever-growing customer needs and to stay competitive.

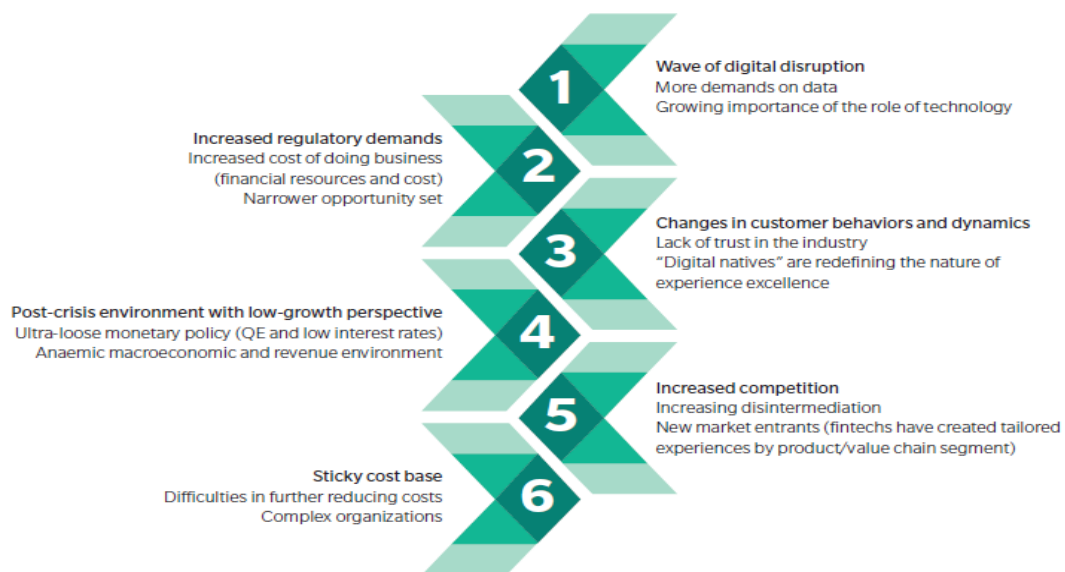


Figure 3: Structural trends reshaping the Financial Sector (source IESE Business School, 2017).

Emergence of financial technology (fintech) companies into the industry increases competition due to their greater flexibility to develop and move products to the customers due to their relative small size. There is therefore intense pressure for the players in the market to identify and use agile innovation management approaches that will sustain their competitive advantage (Wyman, 2017).

1.1.6 Letshego Group Holdings Ltd (LHL)

Our case study, Letshego Holdings Limited (“Letshego”) headquartered in Gaborone Botswana, was incorporated in 1998. Listed on the Botswana Stock Exchange (2002), LHL, a pan African financial services company, is one of the Botswana’s leading indigenous groups, with a market capitalization approximating to about USD 500mn and among the top 50-listed sub-Saharan, African businesses (excluding South Africa) focused on inclusive finance. The company has presence in eleven countries across East, West and Southern Africa (Ghana, Botswana, Kenya, Rwanda, Lesotho, Mozambique, Namibia, Nigeria, Rwanda, Swaziland, Tanzania and Uganda) providing appropriate, simple and accessible microfinance consumer and savings solutions to the financially under-served. The Group is focused on providing financially inclusive services to the underserved clientele with financial solutions. As at 2018, the group had four banks, three deposit-taking microfinances and six credit-only microfinances. Though the group adopted Design Thinking recently in 2018 and continues with the implementation process, substantial improvement in their Innovation Management process is visible.

1.2 Research Problem

From early 2000s, design-thinking concept arose as an approach to innovation, gaining more interest amongst practitioners endeavoring to transform their businesses through innovation (Holloway, 2009; McCreary, 2010; Martin, 2011; Carlgren, 2013). Business schools such as Stanford and MIT Sloan have begun teaching Design Thinking to better position their students to deliver in an increasingly uncertain and complex environment. Advocates of DT argue that if organizations could learn to reason and work like designers, they would innovatively transform their business, by addressing problems differently in an iterative, practical and customer-centered approach.

While there is an extensive study on the role of the design function and designers relative to new-fangled product development (Beverland, 2005), there are fewer studies that deliberate design as a crucial factor in the innovation field. (Noble, 2010; Hobday et al., 2011). There is limited empirical research on Design Thinking in corporate settings, and more particular, in research examining design thinking in relative to innovation (Kimbell, 2011; Johansson-Sköldberg et al., 2013; Liedtka, 2014). Thus, organizations interested in using design thinking as an innovation tool are relying largely on the concept description and marketing by its supporters. There is little contextual or individuals' accounts to such generic descriptions or context to what transpires when the concept needs to be incorporated with existing structures, processes and customs (Rylander, 2009). There is however, an increasing number of organizations implementing DT successfully, judging from the success stories on the increasing numbers of business press articles and books, which provide inspiration for different types of use.

From a scholarly point of view, it is hard to theorize and associate the concept to prevailing models and philosophies (Kimbell, 2011; Johansson-Sköldberg et al., 2013) due to the lack of an empirical foundation of the use of design thinking in organizational setting and its potential contribution to innovation. As such, there is great need to have more study on corporate settings (Carr et al., 2010). This research endeavors to fill this gap, by exploring design-thinking concept, its relation to strategy and as a probable enabler of innovation in financial services industry.

To fill the highlighted research gap, the research will aim at answering the question: How does the implementation of design thinking enhance building innovation capabilities and solve problems facing financial sector regarding current and future innovation?

1.3 Research Objective

The objective of this study was to explore the concept of design thinking, its relation with innovation and strategy and its enabler role on building innovation capabilities that give competitive advantage to Letshego Holdings Limited in the financial sector.

1.4 Value of the Study

The research is going to contribute to the body of knowledge by exploring the concept of design thinking and its relation to strategy and innovation, which is an area that has very little empirical study done. The study will point out the knowledge gap in the existing literature, which will be valuable for other academicians and scholars who wish to verify the findings.

The exploration of the relationship between design thinking, strategy and innovation will provide findings backed up with collected, analyzed and interpreted data, opening up more recommendations for further research.

To Letshego management and other management in the financial sector, business executives, entrepreneurs and the corporate world, the research is going to explore a practical application of design thinking in strategy and innovation; how it can solve both the current and future problems facing innovation in financial sector and how organizations can benefit from innovative capabilities build by design thinking. This will be very useful to the practitioners who intend to build competitive advantage in the age of dynamic digital disruption by providing them with agile, human-centered approach to innovate and build strategies.

The governments and the regulatory bodies who provide advisory and policymaking roles to the organizations that adopt design thinking in their strategy and innovation to influence their performance and industry competitiveness, will find this research valuable in their role. In addition, these bodies can also adopt the recommendations of this study to prototype them, test, implement and lead on the sensitization of design thinking as an enabler for innovation and strategy.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the theories and concepts underpinning this study. Towards the end, the chapter does empirical review of previous related studies done on the variables with the aim of exposing the relation between Design Thinking, Strategy and Innovation.

2.1 Theoretical Foundation

This section discusses the concepts and theories that are relevant and form the foundation for this study. A theory is an explanation of a natural world aspect that is testable repeatedly. The key concepts and theories underpinning this study discussed are Competitive Advantage using Resource Based View (RBV) Theory and Value Innovation Theory.

2.1.1 Value Innovation Theory

Amit and Zott (2012) fronted value innovation theory, which is the cornerstone of blue ocean strategy. They described it as a simultaneous chase of both differentiation and low cost in generating value for both the customer and the company. To the buyers, value emanates from offering's utility minus its price while to the company value comes from the offering's price without its cost. Therefore, value innovation is simply achievable when the entire system of utility, cost and price are aligned.

With the increased competition and complexity in the market, the duo advises organizations to fundamentally shift their strategy by redirecting its strategic attention from competitors to offering substitutes, and from current consumers to non-consumers in the industry. They argue that the strategy canvas has two parts, an action framework and a diagnostic framework, with the later one referring to the current play state in the known market space while the former one is a four-action framework that can be used to develop a new blue ocean for organizations in the current market (Amit and Zott, 2012).

The four action framework, according to the duo includes, first, to eliminate the factors that are below the industry's standards and the firms spend a lot to compete in but have less value to the organizational' competitiveness, bringing no profits. Secondly, the organization should reduce those factors that are below the industry's standard, the products and services they overdesigned at the completion (Kim and Mauborgne, 2005) and stress the firms' cost structure with little gain from the overdesigned services. Thirdly, the firms should raise factors that can be raised well beyond the industry's standard and are valuable to customers but ignored by organizations in their competition. These factors usually do not have enough factor inputs. Fourthly, the firm should create factors that should be created but the industry has never presented. These factors can produce new demand for both the existing customers and open up new market for companies. This Eliminate-Reduce-Raise-Create Grid forms drive that pushes organizations to create a new value and identify the new market blue ocean. This framework encourages businesses to not only focus on eliminate and create value factors but also lessen and raise factors.

Blue Ocean strategy founded on value innovation theory focuses on creating new demand from unknown market space according to Kim & Mauborgne (2004) who argue that, any organization can use the strategy to eliminate the factors it competes on and build something novel for new market demands. From this discussion, we can argue that Value Innovation theory and blue ocean strategy can be used to create innovation capabilities of an organization.

2.1.2 Resource Based View (RBV) Theory

An organization obtains competitive advantage when it acquires or develops a set of features or implements actions that enables it to outdo its opponents (Wang, 2014). Resource based view was advanced, focusing on the organization's internal environment as the paramount driver for its competitive advantage with emphasize on its resources and capabilities in competing in the environment. The RBV theory dates back to Penrose's (1959) argument that the actual resources owned and deployed by an organization are more imperative than the industry structure.

Wernerfelt (1984) much later coined the actual 'resource-based view' term, with a view of the firm as a bundle of resources and assets, knit semi-permanently to the firm. While early researchers had classified organizations' resources simply into three types namely physical, human and monetary (Ansoff, 1965), these have evolved into more comprehensive explanations of organizational resources to include skills, knowledge and technical expertise (Hofer & Schendel 1978).

RBV researchers argue that, it is only the strategically useful and important competencies and resources (Barney 1991) that ought to be regarded as sources of competitive advantage. These have been described as strategic assets (Amit & Schoemaker, 1993; Markides & Williamson, 1994), core competencies (Barney, 1991; Prahalad & Hamel, 1994) and distinctive competencies (Papp & Luftman 1995). Amit & Shoemaker (1993) describe strategic assets as a set of specialized resources and capabilities that are scarce, appropriate and difficult to either trade or imitate, offering a competitive advantage to the firm. Business strategy can be considered as a tool used to manipulate such strategic resources in creating competitive advantage (Powell, 2001). Barney (1991) and Prahalad & Hamel (1994) describe core competencies as the firm-level resources that are rare, distinctive, valuable and that competitors cannot substitute, imitate or reproduce. Distinctive competencies (Papp & Luftman 1995) have been classified as those things that enhance the business successfulness in the marketplace.

The major criticism raised on RBV is that it ignores the nature of the industry and market demand, focusing only on the firm's internal resources (Hooley et al. 1996). Other researchers have argued that internal and external elements cannot be separated (Andrew, 1971; Chandler, 1962). The concept of 'fit', (Maier & Remus, 2002), has been used to describe a complementary act between the internal-oriented RBV and the external-oriented MBV with Amit and Schoemaker (1993) pointing out the importance of linking the firm's internal resources to its external market settings as the source of competitive advantage.

2.2 Empirical review and knowledge gaps

There are several researches done on either combination of the variables both locally and globally. There is however no research done with the three variables within African context. Globally, Dobni (2010) performed an exploratory research on achieving synergy between strategy and innovation-The key to value creation, using qualitative approach on Canada firms. The study argues that there is a clear relation between strategy and innovation in competitive contexts. The study further argues that organizations do not innovate through strategy but rather strategy and innovation are different but complement each other in that, strategy supports innovation and innovation supports strategy. The study establishes some synergy between strategy and innovation arguing that organizations do not need to defect from their strategy process entirely, but rather adopt innovation imperative to deliberately wean from incremental innovation. The study further argues that organizations not only need to seek right strategy to pursue but also to fundamentally change how strategy is practiced in order to enhance performance and create value.

Carlgren (2013) conducted an exploratory study on Design Thinking as an enabler of Innovation, using a qualitative approach and interviews, to explore ways that large firms in Sweden understand design thinking concept and its potential relationship to innovation. The study made two key theoretical contributions. First, the study suggests a performative perspective on design thinking, presenting a conceptual model on understanding design thinking as a boundary object, that focuses on the value DT has and becomes under various settings, rather than focusing on what design thinking is; thus putting focus on context.

The proposed conceptual model on understanding design thinking as a boundary object consists of five core principles with set of practices, techniques and principles, taking into account the fact that design thinking is shaped by the applied context, accommodating a multiplicity ways of applying and using design thinking. Secondly, the study argues that design thinking plays an enabling role in enhancing innovation capability of a firm, showing how various perceived values and results of using design thinking relate to the elements fronted in innovation capability theory namely processes, mindset, resources and a strategic intent to innovate. The study augments a new approach of generating innovation capability of a firm through the long-term use of design thinking while exposing the interplay with the present capability of the organization. The research paves way for more studies and research, both on the use of design thinking on an organizational setting and on how DT can be used to build innovation capability.

Tideholm and Rydén (2015) performs an exploratory case study on the topic: Design Thinking as Facilitator for Innovation in Swedish Healthcare, A case study at Karolinska University Hospital. The study uses qualitative approach to investigate the near-future innovation problems facing health sector in Sweden and how DT can be used to solve these problems. The study finds out that there are three misaligned levels of problems aggregation in innovation namely strategic, cultural and structural, with hesitation towards new concepts and methodologies, large organizational complexity and the difficulty of obtaining patient involvement perceived to be the major challenges.

The study argues that though implementation of Design Thinking is difficult, involving a more philosophical approach of DT to patient participation and inter-functional work can address some of the innovation problems that face the Swedish healthcare including generation of new ideas, development of quality measures and patient-centered way of aligning workers.

Locally, Gathara (2009) conducted a research on the Application of Innovation in developing Strategies at Safaricom Limited. The study found out innovation strategies used by Safaricom were on organizational structure, financial, customer care, technology, human resource and products, and helped build competitive advantage. Kimotho (2016) performed a research on the determinants of digital innovations by financial institutions in Kenya. The study argues that organizational resources and technological changes are determinants of digital innovations. Kibor (2014) conducted a comparative study on Innovation as a competitive strategy in the mobile telephony companies and banking sector in Kenya. The study finds out that competition determines the appropriateness of a firm's activities that are able contribute to its performance, such as cohesive culture, innovations and good implementation.

From these reviews, its noted there is very little empirical studies done on the relationship of Design Thinking, Strategy and Innovation and this research seeks to add to this body of knowledge.

In addition, the reviewed empirical studies on Design thinking and Innovation has been done in different industry contexts namely healthcare and large firms while this research focuses at exploring the concepts and their relationships in the financial sector. There is no local, Kenyan or Africa research done on Design Thinking in relation to Strategy and Innovation that this study will cover. There is no study done on Design Thinking, Strategy and Innovation at Letshego Holdings Limited.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter will discuss the methodology to use to gather data, including the tools and methods to be used to analyze and present the information related to the subject under study.

3.1 Research Design

Hartley (2014) defines research design as the steps taken in the process of linking the data collection process, analysis and its interpretation. The research adopts a case study design in exploring Design Thinking, strategy and innovation in financial sector, a case study of Letshego Holdings Limited.

The study adopts an exploratory, qualitative approach built on a realism view since there is scant empirical research on the aspect of applying DT to corporate settings making it a budding theory field as described by Edmondson and McManus (2007) in which such approach would be suggested (Edmondson and McManus, 2007; Bryman and Bell, 2007; Easterby-Smith et al., 2012). The study is therefore of a descriptive concern according to Cooper & Schindler (2003) who describe a study that is concerned with finding out who, when, which, where and how as a descriptive design. Other similar previous studies that have successfully adopted this design include Lisa Carlgren (2013), Ellen Simon (2015) among others.

3.2 Data Collection

Edmondson and McManus (2007) recommend qualitative interviews, ethnographic studies (observations), or a mix thereof, for a qualitative research. These are suitable when a researcher needs to examine distinct levels of meanings reflected by the responses of the interviewees.

This study uses an interview guide with a mixture of in-depth semi-structured interviews, observations and primary data collected using a comprehensive open-ended interview guide. The sole case study selected offered a prospect to complement both interviews with observations and review of internal documentation.

The targeted respondents to the interview are nine employees that include the Group Head of Strategy & Innovation, Group Chief Information Officer, Group Project Manager, Chief Finance Officer, Marketing Manager, Head of Group IT Audits & Projects Assurance, Operations Manager, Applications Support Analyst and Electronics Channels Manager.

3.3 Data Analysis

The study will use content analysis for analyzing data collected (Babbie, 2001) from interviews and observation. The data will be prepared through entering, editing and coding before analyzing it. Open and axial coding will be used in analyses as guided by Strauss and Corbin (1998), where the excerpts from interview responses will be given keywords and then sorted thematically.

The analysis will be iterative with all emergent themes paralleled with the existing preceding research using a systematic combining approach advocated by Dubois and Gadde (2002). Systematic combining is an abductive approach of interpretation of data, where the understanding develops with the empirical data being observed against the intermediary conceptual models (Dubois and Gadde, 2002).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter discusses how the primary data collected through interviews from Letshego Holdings limited was analyzed. The findings of the study are presented as to address the research objective on exploring the Design thinking, Strategy and Innovations in financial sector and responding to the research question. From target nine respondents, seven availed themselves for the interview, representing 78%.

4.1 Organization overview

Letshego Holdings Limited celebrated her 20th year of transforming lives in 2018. The Innovation department has been operational since 2016 and integrated with Strategy to Strategy & Innovation department in 2018. Strategy & Innovation is a group level function that runs ideas management and innovations with champions across the 11 countries that LHL currently operates. The group has focused on digital-anchored strategy to provide simple, accessible and easy services to the customers.

4.2 Competitive strategies adopted by financial sector

The study sought to determine the key competitive strategies that financial sector firms adopt. The respondents noted that since financial institutions are largely deposit and/or credit taking, there is strict regulations on pricing with market liberation, leaving the industry to market forces of demand and supply.

In addition, the respondents noted that since consumers of financial services are both protected and informed, firms no longer compete on price but on differentiated service offerings and market focus. The Group Head of Strategy & Innovation pointed out that through provision of products tailored to a given segment of the target market, with provision of simple, accessible and reliable services relative to their rivals, firms are able to attract and retain customers. Asked how firms identify competitive strategies to adopt, respondents pointed out that, key considerations include the level of competition in the given target market segment, the strategies that rivals are using, the regulatory controls enforced and the capabilities of the firm in delivering a unique value mix to the customers differentiated from the rivals. The Electronics Channels Manager and the Group Marketing Manager noted that, firms that are able to offer financial services to the customers through digital channels like mobile, internet or cards, attract and retain customers who need services on the go and from their own convenience.

Asked how changes in technological, legal, political and economic factors affect adoption and implementation of strategies by firms, the Chief Finance Officer and the Group Chief Information Officer highlighted that financial sector is highly disruptive and any changes in the external environment directly affects transaction levels by the customers, cost of operations, interest rates/charges and can cause influx of customers due to the availability of alternatives.

4.3 Innovation capabilities for competitive strategy of a firm in financial sector

The study sought to establish the relationship between innovative capabilities of a firm with the competitive strategies it adopts. The respondents were asked what determines the firm's innovation appetite and what determines the level/nature of innovation to adopt. The Operations Manager pointed out that, the organizational culture and the top management determines the innovation appetite of a firm. The respondents noted that, a firm is as innovative as its management and organization culture. It was highlighted by the Group Chief Information Officer that, for a firm to increase its appetite and agility to innovate, the tone must be set from the top management with a culture of innovation and creativity built through reward system and robust idea harnessing programs.

The respondents also noted that, the structure of an organization influences the innovation capabilities of a firm with a decentralized system with a level of autonomy being more adaptable due to changes in the environment. Other factors highlighted by the respondents as determinants of innovation capabilities for competitive strategies of a firm include strategic assets, core competencies, differentiated resources and human resources. For a firm to build competitive strategies, they need capabilities and resources that enhance their innovativeness.

4.4 Key Inhibitors to innovation in LHL and financial sector

The study sought to establish the innovation inhibitors facing LHL financial sector by asking the question "What are the key problems/challenges facing financial sector and LHL in regards to current and future innovation capabilities".

From the interviews with the respondents, the common areas highlighted when discussing development work and innovation can be grouped into three categories namely strategic, cultural and structural. At a more granular level, these were presented as Organization Leadership & Governance, organizational complexity, lack of or inadequate customer involvement, lack of innovation strategy, organization culture and inertia to adapt to new methodologies and concepts.

On Organization Leadership and Governance, the Group Head of Strategy & Innovation pointed out that an organization is as innovative as the support the leadership and governance arms give. The tone from the top builds or inhibits the innovative culture. This includes organization strategic direction, policies and frameworks that guide the organization's culture including innovation culture, recognition and reward management systems and tolerance for risk and failure set by the organization to encourage creativity. On organization complexity, the respondents noted that, bureaucracies introduced when an organization grows in size and structure is a serious inhibitor of innovation. Organizations that are small in size and/or with decentralized structures can often approve and implement innovative ideas as they have less bureaucracy.

When an organization lacks innovation strategy, there is no clear direction, guidelines and can lead to initiatives misaligned to the overall business strategy and/or lack of feasible innovations. The respondents noted that, firms with a properly constituted Innovation management function, having a clear framework and strategy, are able to harness ideas, integrate R&D, implement initiatives faster and keep the organization rolling with changes in the environment in a more proactive way.

Organization culture that encourages creativity and innovation, recognition and reward for contribution to new ideas, tolerates risk and failure and instils a sense of ownership to employees is a big impetus to innovation. Such a culture creates an agility to an organization and reduces the resistance to change. A firm that lacks such or has a culture that impedes innovation that in turn is an impediment to competitive strategy in the era of industrial revolution 4.0.

Very critical aspect on unsuccessful innovation and initiatives pointed out by the respondents is lack of or less involvement of customers in the innovation process. When interviewed, the respondents stressed that, the success of any initiative is to have the target customers buy, which is a factor of meeting the actual customer need and not a perceived need. It was highlighted by the Group Marketing Manager that, firms that involve customers to understand their real problems and needs, build products that address those problems and test them enough times with the customers, their new products and/or initiatives break out fast and successfully. Conversely, firms that do not involve customers from the problem identification throughout the innovation process, end up with big failure rates. The respondents also pointed out that lack of clear guideline on how to involve customers as an impediment to innovation too.

4.5 Design Thinking as a possible solution to the problems/inhibitors of innovation

The researcher explained the meaning and concept of Design Thinking to the respondents and asked the question of how implementation of design thinking can help solve the problems highlighted in regards to innovation. The responses can be grouped into three categories: strategic, cultural and structural.

At the strategic level, the respondents pointed out that, since the approach of design thinking begins and ends with the customer, it provides a practical way to align the business strategy to the actual needs of the customers that in turn can translate to the right tone from the top. The methodical nature of DT approach would require an organization to have a clear innovation strategy that reflects their appetite, resources and customer centricity.

Similarly, the Head of Group, Strategy & Innovations noted that the iterative and practical nature of design thinking model calls for a dedicated Innovation management function/team and good handshake collaboration amongst different functions like IT, project management, Business Analysts and the actual business.

The cornerstone of design thinking is the user-centeredness or customer centricity and this is at the core of successful initiatives according to the respondents of this study. The Group Marketing Manager pointed out that the lack of and/or inadequate customer involvement in the innovation process as the major reason of failed, rejected and unviable initiatives when they hit the market. Implementation of design thinking approach addresses this problem by involving customers from the start throughout the process to the end in iterative way. The respondents noted that DT provides a structured method of involving customers throughout the innovation and idea management process.

On Structural hindrances to innovation, Head of Group, Strategy & Innovations pointed out that implementation of design thinking requires cross-functional teams' composition that cuts across different lines, profiles and roles.

In addition, the Group Project Manager highlighted that the bureaucracies experienced in centralized leadership and/or big organizations can be addressed to ensure agility if Design Thinking is implemented in a manner that provides for autonomy to an Innovation management function dedicated for ideas and initiatives. Similarly, the Head of Group IT Audits & Projects Assurance emphasized that the model of DT encourages agile management of ideas and initiatives that solves the structural hindrances. Respondents pointed out that the DT model that practically inculcates an innovative culture in an organization from a user-centered perspective and iterative process of idea management helps address the cultural inhibitors of Innovation.

4.6 Design Thinking, Strategy and Innovation in LHL and Financial sector

From the respondents, implementation of Design Thinking approach to innovation will facilitate and enhance building innovative capabilities of a firm and a culture that will position the firm for sustained growth through innovative competitive strategies. Similarly, the respondents pointed out that the problems facing firms in a financial sector can be greatly solved through enhanced customer involvement which is the cornerstone of Design Thinking Innovation model.

4.7 Discussion

This study has explored the relationship between Design Thinking, Strategy and Innovation in Financial Sector: A case study of Letshego Holdings Limited answering one research question.

The research answers the question, *how does the implementation of design thinking enhance building innovation capabilities and solve strategic problems facing financial sector regarding current and future innovation?* The results show the current strategic problems facing the financial sector in regards to competitiveness and Strategic direction, the challenges and problems firms in this sector are facing in regards to innovations that could be addressed by implementation of Design Thinking and ultimately, demonstrating the relationship between Design thinking, Strategy and Innovation.

The analysis shows that the current competitive landscape of the financial sector both globally and locally in Africa has significantly changed through external influences from different environmental fronts and changes introduced by the emerging technologies and industry convergence introduced by the 4th industrial revolution as highlighted below:

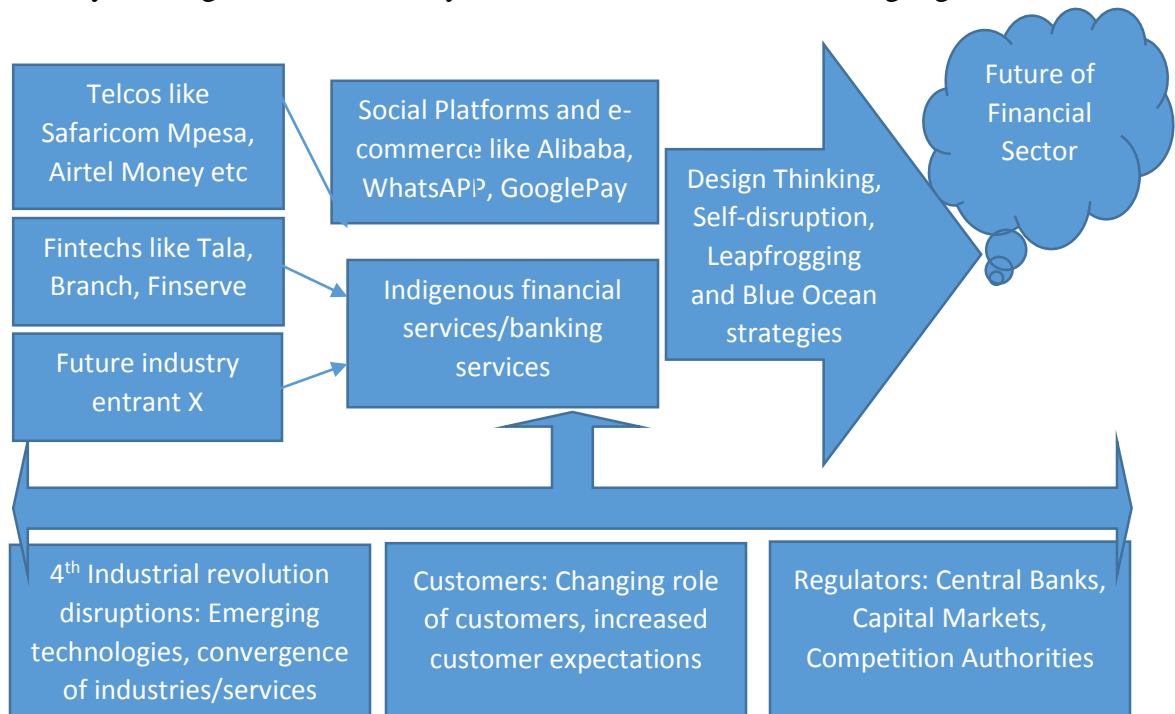


Fig 4. The current and future of financial sector players and landscape, by Author (2018)

The future of financial sector is blurred (Wyman, 2017) due dynamic technology driven changes, increased customer expectations, convergence of industries through entrance of different players into the financial service offerings like Telco companies, financial technology companies offering financial services through mobile devices, social platforms like Google and WhatsApp offering money transfer and other financial services using the social platforms.

The competitive strategies that a firm in the financial sector is constantly being disrupted and changing to align the firms to sustained growth. This was also pointed out by Wyman (2017). Firms hence need to identify and use different approach to remain competitive and sustain revenue (Tidd et. al., 2005). These would require user centered approach on identifying the services to offer and customer needs to meet (Design Thinking approach), innovative capabilities to self-disrupt by differentiating their offerings and services and explore untapped markets/segments using blue ocean strategies. The sustained organization strategies any firm in this sector adopts must be anchored on innovations that meet the actual customer needs through a unique value mix different from the competition.

LHL identifies competitive strategies to adopt and innovations to implement through direct customer interactions that provide raw insights and feedbacks, internal staff ideas and externally through Market intelligence and research. However, this process is still at infancy stage in utilization largely due to organization culture that is still low on encouraging creativity, not fully involving customers throughout the innovation process and low tolerance to risks and failures.

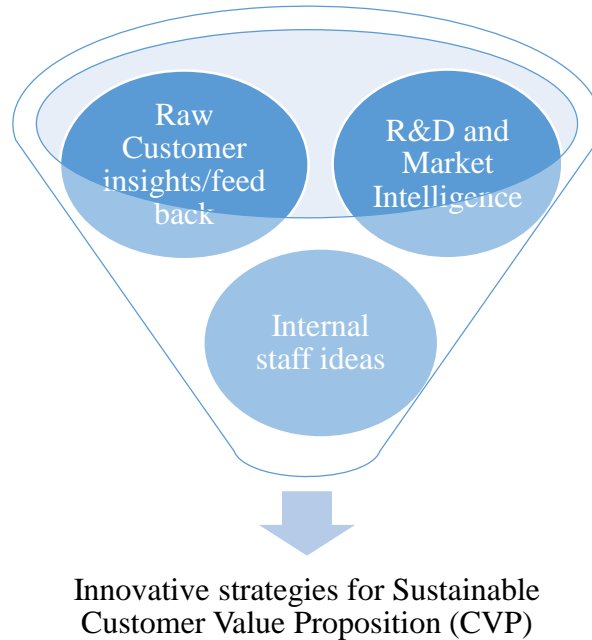


Fig 5. The sources of Innovation strategies that create value proposition for customers, by Author (2018)

Implementation of Design Thinking approach provides a methodology that sustains and directs the initiatives and innovations that a firm takes in quest to sustain competitive edge in a disruptive age through customer involvement and agile iterative idea management process. It would be promising and advantageous to involve customer representatives to a larger extent throughout the entire process with a view of the customer as a lead user and not an expert since there is no "perfect" customer for evaluations.

The study reveals direct relation between Design Thinking, Innovation and Strategy giving importance and supporting the theories underpinning this study. The study establishes Design Thinking as an enabler of Innovation by enhancing building of innovation capabilities and feasible solution to the problems a firm faces in regards to current and future innovation in line with arguments of Resource Based View (RBV) Theory.

The study further reveals the role of Innovation and unique value creation for both the customer and the business to a firm's competitive strategy and sustained growth in support of the arguments of Value Innovation Theory. It identifies that, a firm requires to have a balanced and unique value mix from its competitors by evaluating its offerings, market insights and customer involvement.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the key study findings, conclusions and recommendations of the study based on the objective of the study. The objective of this study was to explore the concept of design thinking, its relation with innovation and strategy and its enabler role on building innovation capabilities that give competitive advantage for Letshego Holdings Limited in the financial sector.

5.1 Summary of the key findings

The study sought to establish the problems/challenges/inhibitors facing LHL in the financial sector in regards to current and future innovation and how implementation of design thinking can enhance building of innovation capabilities to solve these problems/challenges/inhibitors while enhancing competitive strategies and competitive advantage of the firm.

The study established that due to the dynamic changes in the financial sector both globally and regionally ranging from entry of other industry players like telco, e-commerce and platform players like Google, financial technology companies, stiffer competition due to increasing convergence of industries enabled by emerging technologies, liberalization of the markets, globalization, increased customer expectations and stringent regulations, firms can no longer compete at price or hold to a rigid strategy and sustain growth.

This has increased complexity in the industry forcing the need for firms to constantly amend their strategies in order to sustain growth and offer unique and innovative value mix to the customers compared to the competition.

The study also established that LHL in the financial sector require innovative strategies to sustain growth both current and in the future. The study found out that the future of financial sector is largely influenced by the 4th industrial revolution and emerging technologies and firms need to develop and adopt strategies that are anchored on technology-driven innovation and customer centeredness. Further, the firms need to exploit strategic resources and innovation capabilities that help them solve the challenges faced in the industry like key human resources retention, strategic assets, core competencies, distinctive resources, innovative organization culture and use of technology and data insights to understand the actual needs of the customers, behavioral consumption patterns

The study established that the key Inhibitors of innovation at LHL can be grouped into strategic, cultural, structural and less customer involvement. Strategic inhibitors are insufficient leadership support and tone from the top, lack of formalized innovation management strategies, less structured Strategy & Innovation function and no formalized idea harnessing and idea management process. The structural issues noted were high level of bureaucracy introduced by the centralized group structure and inter-country operations with different regulatory and market specific challenges. Cultural issues noted were low creativity culture caused by low tolerance for risks and failures, less willingness of people to adapt to new changes and methods and inadequate idea recognition and reward process.

Also key noted was the lack of clear guideline and method of involving customers in the innovation process with inadequate involvement pointed out.

The study established that implementation of Design Thinking will significantly address the inhibitors of innovation at LHL and the financial sector by requiring involvement of customers throughout the innovation process in a more proactive and structured manner, provide a clear process for identification of innovation ideas, test and implement in an agile and iterative approach with iterations and delaying decisions until they are aligned to the real customer needs. The study also established that LHL has begun implementation of user centered design approach which is the cornerstone of design thinking and study provides critical justification of the adoption of Design Thinking.

5.2 Conclusions

The study concluded that, a strategy to begin from the customer side in understanding their needs and working backwards to innovate and develop unique value to them (Design Thinking approach) will ensure sustained growth and competitive advantage and hence Design Thinking is directly related to innovation and Strategy. The study further concluded that implementation of Design thinking helps address the inhibitors to innovation that firms face in the current era. The study also noted that success of design thinking implementation in a corporate setting requires management support with the right tone from the top through policies, structures and right organizational culture.

5.3 Recommendations

The study recommends Design Thinking to be a cornerstone of how financial sector firms formulate strategy allowing them to assess different prospective business model scenarios including the essential execution capabilities. At the interplay between Business Modelling and Design Thinking, firms should undertake a comprehensive process to understand the causal consumer needs and behaviors at a leadership perspective and work backward to design new services and products. Similarly, on balancing Agile Implementation and Design Thinking, the firms should undertake processes to rapidly build, prototype and test alignment to the identified customer behaviors and needs.

The study further recommends LHL and other firms in the financial sector to fully adopt and implement Design Thinking approach to innovation with an empowered Innovation management function, idea recognition and reward management system in place and culture that tolerates some level of risk and failure to encourage innovation culture within the organization. Further, the study recommends leadership and management level support to yield benefits of Design Thinking implementation in the organization.

5.4 Limitation of the study

The study was done on a pan African business with operations across different markets in Africa and avoids the specific considerations at a market geographical boundaries with geo-level unique cases. However, the findings and conclusions are taken to present a sector-wide and Africa-wide financial service firms.

In addition, the study looked at a group structured business running different financial services at individual subsidiary level with centralized management avoids the specific considerations at each subsidiary level or application in a decentralized structure. However, the findings and recommendations are scalable to different nature of business operations within a financial sector. Lastly, the case study was done on an organization that is not at a full maturity level on implementation of Design Thinking where benefits are still being observed.

5.5 Areas of further research

The study focused on financial sector in Africa, the research can be explored at individual Africa countries like Kenya, South Africa and Nigeria and at other continents outside Africa. The study also recommends further research on other sectors where Design Thinking can be implemented like Telecommunication sector, Automobile industry and Manufacturing industry.

From the findings in the research pointing to issues on organization culture and innovation, it would be of interest to have research on the role of Design Thinking on Organizational Innovation Culture. In addition, research on the role of Open Innovation in financial sector Strategy and competitiveness would be of interest in exploring ways in which firms in this sector can collaborate on innovation processes.

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APPENDICES

Appendix: Interview Guide

1. STRATEGY

- a) How does the organization identify competitive strategies to adopt?
- b) Explain how LHL has used the following generic competitive strategies to gain the innovative advantage.
 - Cost leadership
 - Differentiation
 - Market focus
- c) Have these innovative strategies been implemented by other firms in the industry and how successful have they been?
- d) Have changes in the following factors affected the adoption and implementation of the strategies at LHL and how?
 - Technological factors
 - Political factors
 - Economic factors
 - Legal factors
 - Any other
 - How rigid and/or flexible is the strategic management process at LHL?

2. INNOVATION

- a) How does LHL describe itself in regards to innovation appetite and current innovation maturity?
- b) How does LHL identify innovative strategies and approach?
- c) How do you describe the relationship between Innovation and Strategy?
- d) What areas has LHL not applied innovation strategies yet?
- e) What is the innovation future of LHL?

3. DESIGN THINKING

- a) What are the key strategic problems/challenges and inhibitors facing financial sector and LHL in regards to current and future innovation capabilities?
- b) How can implementation of design thinking help overcome these innovation inhibitors and enhance building of innovation capabilities of the organization to address these strategic problems?