INNOVATION STRATEGIES AT THE STANDARD CHARTERED BANK (KENYA) LIMITED

By

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DECLARATION

This project is my original work and has not been submitted for a degree in any other university.

Signed..Date...19th November 2008

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

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DEDICATION

I dedicate this first to God through whom all things are possible. Secondly, to my parents Valentine and Cecilia for their unlimited support.

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ABSTRACT

Banks nowadays are under intense pressure to fundamentally change how they operate and do business to ensure their survival and competitiveness. As banks go through these emotions innovation is evoked. Moreover since innovation involves careful consideration because of risks and returns involved, adopting the right innovative strategies cannot be overlooked.

Motivated by this concern, this research sort to investigate the various innovative strategies adopted by the Standard Chartered Bank (Kenya) Limited as one of the largest and dominant banks in Kenya. A case study was conducted. The researcher conducted an in depth personal interviews with the top and middle managers at the bank.

According to the findings, the bank has been able to successfully introduce various innovative strategies ranging from product, technological to customer care thus contributing enormously to its profitability over the years.

The study also made recommendations which banks should adopt to remain competitive key among them increasing the budget allocation to research and development departments to ensure sustainable innovative ideas are generated and effectively implemented.

CHAPTER ONE: INTRODUCTION

1.1 Background

The term innovation refers to both radical and incremental changes in thinking, things, and processes or in services, (Mckeown, 2008). In many fields, something new must be substantially different to be innovative, not an insignificant change, e.g., in the arts, economics, business and government policy. In economics, the change must increase value, customer value, or producer value. The goal of innovation is positive change, to make someone or something better. Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy.

Luecke and Katz (2003), gave a convenient definition of innovation from an organizational perspective: *"Innovation is generally understood as the successful introduction of a new thing or method . . . Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services''.*

Innovation typically involves creativity, but is not identical to it: innovation involves acting on the creative ideas to make some specific and tangible difference in the domain in which the innovation occurs. For example, Chesbrough, Henry William (2003) proposes: *"All innovation begins with creative ideas. We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is necessary but not sufficient condition for the second".*

For innovation to occur, something more than the generation of a creative idea or insight is required. The insight must be put into action to make a genuine difference, resulting for example in new or altered business processes within the organization, or changes in the products and services provided. A further characterization of innovation is as an organizational or management process. For example, Davila et al (2006), write: *"Innovation, like many business functions, is a management process that requires specific tools, rules and discipline."*

From this point of view the emphasis is moved from the introduction of specific novel and useful ideas to the general organizational processes and procedures for generating, considering and acting on such insights leading to significant organizational improvements in terms of improved or new business products, services or internal processes. Through these varieties of viewpoints, creativity is typically seen as the basis for innovation, and innovation as the successful implementation of creative ideas within an organization. Thus, individuals may display creativity but innovation occurs in the organizational context only.

It should be noted, however, that many use the term 'innovation' rather interchangeably with the term 'creativity' when discussing individual and organizational creative activity. As Davila et al (2006) comment, *"Often, in common parlance, the words* creativity, *and* innovation *are used interchangeably. They shouldn't be, because while creativity implies coming up with ideas, it's the "bringing ideas to life" . . . that makes innovation the distinct undertaking it is."*

Innovation has been studied in a variety of contexts, including in relation to technology, commerce, social systems, economic development, and policy construction. There are, therefore, naturally wide ranges of approaches to conceptualizing innovation in the scholarly literature. Fortunately, however, a consistent theme may be identified: innovation is typically understood as the successful introduction of something new and useful, for example introducing new methods, techniques, or practices or new or altered products and services.

Today, innovation performance is a crucial determinant of competitiveness and organization progress. In many countries, the pace of change in banking industry is dramatic. Frequently reported trends are blurring of industry boundaries, deregulation, and globalization, pressures from new and existing competitors, rapidly advancing information technology, and increased customer sophistication. The banking industry worldwide is becoming increasingly interrelated.

New types of corporate and business strategies are being explored: industry consolidation, better market segmentation, expanded product offerings and changed delivery channels (Brooks, 1987). Joint ventures and strategic alliances between banks and insurance companies have proliferated. Information Technology (IT) has been recognized as a key enabler of change (Bradley *et al.*, 1993). It is also becoming a driver of change with new products such as electronic data interchange (EDI), debit cards and smart cards. Turbulent industry conditions are accompanied by many attempts at radical organizational change. This runs from hiring a new CEO and top management team to product innovation, business process re-engineering, and Total Quality Management (TQM)/continuous improvement. Many efforts are strategic in character and driven from the top of the firm (Canals, 1993).

Innovations can be characterized as incremental/radical, first mover/late mover and imitative/inventive. The three categories are not mutually exclusive. However, each point to a different feature of innovation and reveals insights not found as readily in the other two. Business is not about looking at historical figures, nor about taking comfort from an attractive financial statement. It is about identifying the sustainability of the revenue streams, the long-term competitiveness of the company's products and understanding where every penny goes and making sure that it is adding value.

Davila et al (2006) state that, innovation is a process which finds expression in much of the literature relating to organizational behavior in environments responding to strong triggers for change. He indicates further that even when there are no resources that are obvious candidates for "promotion" to strategic resources, a business may still have a viable future. This will depend, however, on the organization's capacity for developing new capabilities or other resources before competitors have the chance to do the same.

Organizations should not wait until there are signs of crisis before they start thinking about transforming themselves to discover new products as by then it may be too late. The time to worry about is when they are successful, when they are making excellent profits, when the media say what wonderful organizations they are. That is when it is so important to raise their sights to the future, anticipate what might happen and deal with it. To be able to create ambition, it means fighting any sense of complacency or arrogance. It requires restlessness, constantly striving for perfection, an understanding of the fluidity of business, an appreciation that things are never permanent, never as good as it might look, and that the company is always vulnerable. Invariably that understanding and awareness leads to taking momentous decisions. It might mean changing a product range, creating a new distribution channel and deciding to operate in certain functional areas, businesses or countries.

In her post entrepreneurial model, Kanter(1984) states that traditional organizations face a difficult balancing act between gaining the full benefits from existing mainstream business and at the same time creating new activities that will become the mainstream business of the future. The job of creating new products or ventures used to be the sole domain of the strategic planners or the research and development departments.

For purposes of this study, innovation is a tool of management for strategic change, as it provides a way of how to create the conditions that make proactive change a natural way of life. It aims at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase profit potential of an organization. Profit increase is the payment one gets when he/she takes advantage of change in the external environment.

1.2 The Kenyan Banking Industry

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. Banks in Kenya have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members.

There are forty-six banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned and yet some partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

The Kenyan Banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate. The spread between deposits and loans continues to be around 8.5%, offering much profit potential. Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from Kshs 13.15 billion in December 2005 to Kshs 18.22 billion in December 2006. This growth is a continuation of the strong growth in profit after taxes that the industry has achieved for the past several years. The increase in profit reflected an increase in interest income on loans and advances, which rose by 14.36% or Kshs 5.51 billion to Kshs 43.9 billion in December 2006 from Kshs 38.39 billion in December 2005. The increase in interest income was due to the growth of 16% in loans given out. The rate on loans in the industry has been stable at an average of 11% (The Kenyan Banking Sector Report, 2007).

Return on Equity (ROE) and Return on Assets (ROA) have increased over the years. Returns of 23.03% and 2.74% were generated respectively in 2006. Shareholder equity stretched by 16% from Kshs 79.16 billion in 2005 to Kshs 91.82 billion in December 2006. Due to the improved economic environment, total assets expanded by 17.8% in 2006 to stand at Kshs 809.5 billion compared to 6.7% growth recorded in the previous period. The asset growth was funded by an increase in deposits, retained profits and fresh capital injection. A couple of examples of capital injections are Diamond Trust Bank, which raised Kshs 776 million of capital through a rights issue. Family Finance Bank raised Kshs 500 million through a private placement from 6,500 new shareholders (The Kenyan Banking Sector Report, 2007).

Loans and advances constituted 51% of the total assets, while government securities constituted 19% of total assets in December 2006. Advances to deposit ratio went down to 63.72% in 2006 from 66.06% in 2005. Growth in deposits (20%) was greater than the growth in loans (17%). Investment by banks in government securities increased by 16% in 2006. Furthermore, there was a 37% growth in loans to other banking institutions. Both these growths led to the growth in loans being less than the growth in deposits as the balance 3% deposits were lent out to other banks and invested in government securities. As a result of increased lending to other banks, the asset quality measured by the ratio of net non performing loans to net loans improved from 7.88% to 4.98%(The Kenyan Banking Sector Report, 2007).

1.2.2 The Standard Chartered Bank (Kenya) Limited

The Standard Chartered Bank (K) Limited opened its branches in Kenya in January 1911, with two branches; one at Treasury Square in Mombasa and the other on Kenyatta Avenue in Nairobi. Today, 97 years later, the Bank has an excellent franchise, with a network of 31 branches strategically located across the country, 71 Automated Teller Machines (ATMs) and 1471 employees. It has been a source of pride in the industry owing to its profitability. For example profit before taxation in 2007 continued to grow for the fourth year in a row to Ksh 4.9 billion, an increase of 29% over 2006 on the back of strong revenue growth and proactive risk management. Total revenue in the year 2007 rose to Ksh 9.5 billion from 7.9 billion in 2006. Customers' deposits also grew to Ksh 73.8 billion in 2007 from Ksh 64.9 billion in 2006 reflecting an impressive 14% rise (SCB Annual report and accounts 2007).

The bank has also been recognized for its exemplary services in Kenya and in the region; for example in 2007, it was voted East Africa's Most Respected Company (Financial services) by the PriceWaterHouseCoopers. The bank also received further accolades including the 'Best Bank in Product Marketing' and 'Best Bank in Corporate Banking' during the annual 2007 Banking Awards. With 25% local shareholdings, Standard Chartered Bank (K) Limited has remained a public quoted company on the Nairobi Stock Exchange since 1989 (SCB Annual report and accounts 2007).

As the oldest foreign bank in Kenya, Standard Chartered Bank (K) Limited enjoys a market share of approximately 27%. The Bank has two core business divisions: - Wholesale Banking (made up of Client Relationships and Global Markets) and Consumer Banking. These two businesses are supported by the functions of Operations and Technology, Finance, Human Resources and Corporate Affairs. The corporate and institutional business is mainly handled out of the four major cities in Kenya: Nairobi, Mombasa, Kisumu and in Eldoret Town.

In 1996 the bank centralized the back office operation of all its branches into one central location with a real-time accounting system, which offers many benefits such as streamlined processes, improved service levels, increased efficiency and a standardized approach to our product offering.

Standard Chartered bank (K) Limited has been selected for this study on the following premises: First it commands a large market in the Kenyan Banking sector, secondly it is one of the oldest bank in the industry hence the researcher will be able to trace the innovation development in the sector. It also has advanced modern technology. Based on the above the bank has played a big brother role in the industry and its best practices has been used by other players to bench mark

1.3 Statement of the problem

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Commercial banks often attempt to benchmark competitors or related service industries to improve new product development (NPD) and other key business processes. The banking sector can hardly be regarded as a model of innovation. Indeed, its tradition, probity, and established ways of doing business have been a source of pride to the sector.

Banking, which has been characterized by its "tried and tested" processes of service delivery, is greatly affected by environmental change. Competition is escalating, both from traditional players and from new entrants, owing to deregulation. Changing consumer behavior and needs, globalization, deregulation, disintermediation and the emergence of new financial service models are all dynamics in the banking industry. Information technology is also having its impact (Chorafas, 1987; Scarborough and Lannon, 1988; Chen, 1999; Park, 1999).

The past four decades have witnessed acceleration in technological innovation within the banking industry. The increase in innovation adoption is a largely defensive measure against increasingly sophisticated and highly demanding consumers, escalating competition, and the necessity to control and reduce rising costs (Barra, 1990).

Commercial banks in Kenya are realizing that stiff competition in the banking industry necessitate the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage. The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command. The business environment in the country has drastically changed resulting in some commercial banks opening a number of branches a cross borders and thus increasing competition in the industry globally. Commercial banks have ended up 'hawking' their services to potential clients and this has led to downward prices due to competition. Strategic management in the banking industry demands that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved. Therefore, venturing in this area gives hope that, areas of interest for further research can be identified and further understanding of the concept of competitive innovative strategies particularly in the banking industry in Kenya will be enhanced.

Although much has been learned about innovation in the Kenyan local commercial banks and other financial institutions in recent research studies i.e. (Gitonga, 2003; Mwangi, 2007), gaps in knowledge of best practices and cross-industry differences remain. Banks should exercise caution in interpreting the findings of benchmarking projects before adopting practices from other industries. The study confirms the importance of innovative strategies adopted by The Standard Chartered Bank.

1.4 Objectives of the Study

The objective of this study is to investigate the innovative strategies adopted by The Standard Chartered Bank (K) Limited.

1.5 Justification of the Study

The findings of this study will be of value to the various stakeholders in the banking industry:

Scholars will expand their knowledge on strategic responses in Kenyan banking sector and identify areas of further study.

Policy makers will gain the much needed knowledge of the banking dynamics and the responses that are appropriate; hence obtain guidance in designing appropriate policies that will regulate the sector participation.

Other Stakeholders will be able to identify the external environmental factors that affect the operations of the bank as well as on its efforts made to overcome these challenges.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson et al, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 1997).

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

''Strategic management is an ongoing process that assesses the business and the industries in which the company is involved, assesses its competitors and sets goals and strategies to meet all existing and potential competitors. It then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment''(Lamb, 1984).

Strategic management is a combination of three main processes namely strategy formulation; strategy implementation and strategy evaluation. On the same note, strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. Whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Henry, 1978).

According to Collis (1995) concepts, theories, and analytic frameworks are not alternatives or substitutes for experience, commitment, and creativity. They provide useful frames for organizing and assessing the vast amount of information available on the firm and its environment and for guiding decisions, and may even act to stimulate rather than repress creativity and innovation. The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprises decisions also permits the application of powerful analytical tools to help companies create and redirect their strategies. Strategy helps firms establish long-term direction in its development and behavior (Gary and Prahalad, 1993).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel and Prahalad (1989) view organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination, it requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies(Buzzell and Gale, 1989).

2.2 Originality of the Innovation

Chandler (1990) indicates that some innovations are built on existing products, services, or procedures, and are incremental in nature. Others involve greater degrees of difference and are more radical than incremental. Some innovators aim to be first, others aim for second place. He adds that a different dimension of innovations is the degree to which they imitate something already familiar. For example cell phones, although allow mobility and provide a radical change in the sense of freedom from phone wires, they are imitative of earlier telephones in function and physical shape.

Personal computers operate on internal principles similar to those used in minicomputers and mainframes. However, individuals without extensive special training can operate the PC, unlike its larger predecessors. It allows direct interaction from nonprofessional users, does not require a special physical environment, and can be found in conveniently portable versions. Thus, in several ways, it is inventive rather than imitative (Chandler, 1990).

Different terminologies have been used to categorise and describe product development. Crawford (1983), for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge. Meyer (1984) similarly categorised product development into primary and secondary innovations. Primary innovations were broadly concerned with the development of new markets and relate to instances where there is a high degree of technical originality and a commensurate change in consumer behavior. Secondary innovations, on the other hand, are basically business or company focused and typically involve improvements to an existing market.

Griffin (1997) and Cooper *et al.* (1999) recognizes the importance of having a clearly defined new product strategy guiding the innovation process. Innovation strategy provides a clear direction and focuses the effort of the entire organization on a common innovation goal. Management needs to develop the strategy and communicate the role of innovation within a company, decide how to use technology and drive performance improvements through the use of appropriate performance indicators. Oke (2002) indicates that the first step in formulating an innovation strategy is to define what innovation means to the firm or the areas of focus in terms of innovation. By understanding the drivers of innovation needs, a firm can develop its focus on areas for innovation. The innovation strategy needs to specify how the importance of innovation will be communicated to employees to achieve their buy-in and must explicitly reflect the importance that management places on innovation. Kuczmarski and Associates (1994) argues that more successful firms had more tangible and visible signs of management commitment to new product development especially in terms of providing adequate funding and resources, than less successful firms. A Mercer Management Consulting (1994) study also reveals that the management of high performing companies was visibly and tangibly committed to new product development and explicitly formulated and communicated the firm's new product development strategy.

The middle portion of the framework, creativity and ideas management, selection and portfolio management and implementation management, comprises the processes necessary for carrying out or developing an innovation. The process used in carrying out an innovation task requires an understanding of how firms manage the process of developing new products and services. Development includes the process of generating, selecting, and transforming ideas into commercially viable products and services. Several studies suggest that firms with high performance in innovation usually have a formal process for developing new products and services (Shaw *et al.*, 2001).

This formal process includes creativity and ideas management, selection and portfolio management and implementation management. Creativity and ideas management is the stimulation of ideas addressing customer requirements. The scope of ideas should be wide and all employees should be involved and ideas from customers cultivated. Selection and portfolio management provides an efficient means to select from the many ideas generated and choose the best ideas for implementation. Implementation is the fundamental capability to turn new ideas. The Human resource management element of the framework deals mainly with people and organization climate issues: the underlying impetus of innovation management is the need to create an environment where employees are motivated to contribute to innovation. An effective human resource policy that supports innovation and encourages the development of an innovative organization is needed. O'Reilly and Tushman (1997) suggest that firms should focus on norms that support creativity and implementation in order to build an innovative culture. Rewarding employees for their innovation effort is one way to build an innovative culture. Studies have confirmed that the type of reward mechanisms that best practice firms offer to their employees have been based on financial and non-financial rewards (Feldman, 1996).

2.3 Stimulus for Innovation

According to Lieberman and Montgomery (1988), inventions are by definition only introduced by one firm, or at most by a small handful of firms that bring a new product or service to market simultaneously. They add that companies that attempt to introduce an invention should logically stand to gain some substantial advantage, because there is a real risk of coming late to the finish line and gaining no prize. Companies that succeed in commercializing an invention are sometimes known as first movers. There are three basic types of advantages that can go to first movers.

If an invention involves proprietary technology then the first firm to obtain the patent or copyright wins the exclusive right to market the product. The lack of competition can be a definite strategic advantage (Gilbert, 1993).

Chandler (1990) states that preemption of scarce assets can sometimes provide an advantage to one or a few first movers that will not be available to those that adopt the innovation later. According to Rogers (1983), the creation of buyer switching costs can also provide an advantage to one or a few first movers that are denied to followers. Firms seeking to gain one or another of these advantages are sometimes referred to as first movers. Those that do not aim for invention, but innovate by adopting an invention that appears to be a winner, can be said to be late movers. Even if an innovation is clearly incremental rather than radical, the first mover is introducing or seeking change to a greater degree than the late mover, who waits until an invention no longer seems new to the market or the industry before adopting it (Tushman and Anderson, 1986).

Second movers are firms that do not aim for invention, but anticipate a key point at which advantages that are not available to inventors will be up for grabs. These advantages might consist of market knowledge or resolution of technological uncertainty. Innovators in this category are not so much reactive or defensive as they are opportunists who identify the point of opportunity as some time later than invention (Tushman and Anderson, 1986).

Rogers (1983) argues that first movers are those aiming for invention they clearly break new ground. Inventions, because no other firm has yet introduced them, seem different and new. Second movers are still aiming for relatively early introduction, and tend to be closer to the first mover than the late mover end of the continuum. Late movers, who introduce an innovation because many competitors already have it and who will lose sales unless they introduce one too, are obviously toward the late end of the continuum. Furthermore, the degree of technological imitation or invention is sometimes very different from the impact of an innovation.

Technologically imitative innovations can sometimes have truly inventive effects; conversely, innovations that require highly inventive technology can sometimes bring about very little perceived change. The technology required to design and mass-produce each new generation of computer chips is complex and very expensive. To the average user, the new chip makes computers operate a little faster, but if the user limits his or her work to word processing and relatively simple spreadsheets, the difference may not even be noticed (Tushman and Anderson, 1986).

In determining whether a given innovation fits better with one kind of innovation strategy than another, both the technological and the customer perception aspects must be taken into account. Innovations that are technologically inventive generally require more time and effort to develop than those that are technologically imitative. Innovations that are perceived as imitative by the customer lend themselves to perceptions of stability, whereas those seen by the customer as inventive foster a perception of change (Nelson, 1993).

2.4 Approaches of Innovation Strategy

Some companies choose a strategy that involves constant innovation e.g. to be a technological leader. For such firms, the perception of newness, of constant innovation, is critical to carrying out their chosen strategy (Gilbert, 1994).

Other companies choose a strategy that emphasizes stability, reliability, and a clear implication that the old familiar product or service will be there when the customer wants it. For firms whose marketing strategy is strong on stability, the perception of change may be harmful to the execution of their strategy. This does not mean that they will not or should not entertain any innovation at all. It does mean that they need to favor at least the appearance of stability over change whenever they can (Booz and Hamilton 1982).

As with each of the three dimensions of innovation, the strategies of most firms fall somewhere along a continuum with regard to innovation. Only a relatively few companies place strong strategic emphasis on innovation and build their self-identity around pride in newness. At the other extreme, most firms do not center their self-identity on sameness and lack of innovation. If the previous discussion of the three dimensions of innovation is basically accurate, then firms can take a stance toward innovation and implement it through judicious selection of new products, services, and procedures.

Innovations that are radical, inventive, and early have some characteristics in common. They typically require more planning and effort, and involve higher cost and risk of failure. But they also frequently offer greater rewards and performance improvement if they succeed. The cultures of some companies are much more supportive of such innovations than are the cultures of others. A strategy that favors the development and introduction of innovations with these characteristics might be called proactive (Nelson, 1993).

On the other hand, innovations that are incremental, imitative, and relatively late have different characteristics from those described above. They require the ability to improve on another firm's invention; that is, to deliver a product or service at relatively high volume and low cost, as well as a culture that accepts the position of follower rather than leader in terms of innovation. A strategy that favors the development and introduction of such innovations might be called reactive (Nelson, 1993).

2.4.1 Proactive Innovation Strategy

Proactive innovation strategy depends at least partly for its success on the quality of creative genius. Individuals who have this quality often do not fit well in large bureaucratic organizations. Some companies find and keep such people apparently by chance. However, firms long known for their proactive innovation strategy, such as 3M, Motorola, and Hewlett Packard, appear to work at creating structures and reward systems that encourage the exercise of creative genius, (Tushman and Anderson, 1988).

Companies that have strongly proactive innovation strategy are rewarded the effort as well as results. The radical, inventive innovation that is introduced early is a relative rarity. It might be compared to the home run in baseball. Batters who try for home runs often strike out, but when they succeed the outcome of the contest is sometimes changed immediately. Proactive innovators must have a tolerance for failure, along with a strong focus on the key innovation that will change the competitive structure of an industry (Nelson, 1993).

The company that practices a proactive innovation strategy cannot be satisfied with all strikeouts. Even though unsuccessful efforts are a partial consequence of this strategy, the company that has too many of them in a row is likely to run out of money and die. Success, in the form of commercial products or services selling at a profit, must be held up as the company's goal, and rewards for successful effort must signal the importance of this goal (Nelson, 1993).

2.4.2 Reactive Innovation Strategy

According to Porter (1990), companies with a reactive innovation strategy aim to hit many singles. These are easier to achieve than home runs, but each one by itself does not move a team as far. As indicated above, a succession of incremental, imitative, late innovations can have a very dramatic cumulative effect. However, this strategy appears less dynamic than that of the proactive innovator; neither is always and automatically better.

The reactive innovation strategy requires more emphasis on process than product innovation. Because innovations of this type are easier to achieve, reward systems need to emphasize results. Results need to be viewed in terms of commercial success. The culture of reactive innovators tends to be less supportive of creative genius and more congenial to those who progress systematically in a logical fashion (Gilbert, 1994).

In some ways, reactive innovators need to devote more time and attention to their competitors than do proactive innovators. Because the reactive innovator emphasizes adoption of the inventions of others, there is clearly a need to stay current on what inventions are being introduced, how they are being received, and what factors determine the most opportune time for a late mover to introduce its innovation. Further, imitative innovations require not just awareness but also a detailed understanding of the product or service being imitated (Alam, 2002).

2.5 Choosing an Innovation Strategy

Most companies pursue, by design or by circumstance, an innovation strategy that falls somewhere between the pure proactive and the pure reactive. The choice of an innovation strategy is influenced by several factors: the industry in which a firm competes; the past history and present strategy of the firm; the resources, human and material that the firm currently possesses; and so forth (Aharoni and Nachum, 2000).

Various industries are characterized by different levels of innovative activities. The term "high velocity industry" has been used in recent studies to describe, among others, the microprocessor and personal computer industries (Eisenhardt, 1989). In such industries, the life cycle of products is measured in months rather than years, and companies that fail to bring innovations to market within months of the industry leaders are considered non-competitive. Other industries, such as insurance, home appliances, and airframe manufacturing, are characterized by much slower rates of change and longer product life cycles. All industries involve some degree of innovation. The findings of various studies of innovation have at least some applicability to every company, but the particular industry in which a company competes is an important factor in forming an innovation strategy (Eisenhardt, 1989).

A second factor that influences the choice of innovation strategy for a given company is its present strategy and the history that has led to it. Not all companies consciously engage in strategic planning. And of those that do, not all make a deliberate choice of innovation strategy. All companies do actually follow some strategy or mix of strategies, and this actual practice presents both opportunities and limits with respect to a conscious choice to pursue a particular innovation strategy (Gilbert, 1994).

Different support systems (culture, structure, reward systems) are required for success in executing different innovation strategies. The system with which a company finds itself as a result of its history will be more supportive of some approaches to innovation and less supportive of others. If dramatic changes are needed to support a newly chosen innovation strategy, the difficulty of implementing such a strategy is correspondingly greater and the attractiveness correspondingly less (Tushman and Anderson, 1988).

One way of viewing the support systems discussed above is to consider the resources needed to pursue either a proactive or a reactive innovation system. In terms of human resources, proactive innovation requires (or at least is considerably aided by) creative genius. People with this talent are relatively rare, and if they are not already present, recruiting and retaining them can be a significant problem (Tushman and Anderson, 1988).

In addition to the people, in some industries a research and development operation is needed to pursue proactive innovation successfully. Such an operation can mean costly laboratories and people with the specialized skills to staff them. It is generally agreed that the management of research and development efforts presents special problems, both for the direct managers of the departments and for top management in terms of assessment and investment (Tushman and Anderson, 1988).

Rogers (1983) states that one way to characterize innovation is by the degree to which they are radical or incremental. Radical innovations are sometimes described as frame-breaking. What is striking about them is how different they are. Incremental innovations tend to resemble familiar products or services, but change them in some useful or appealing way.

Another dimension of innovations that provides useful insights is that of timing or the degree to which the introducing company is early or late compared to the first introduction. Inventor firms sometimes gain very significant competitive advantages by being the first to market with a product or service. However, firms that adopt the inventions of others and get the timing right often achieve performance results that are better than those of first movers (Nelson, 1993).

The third feature of innovations we have discussed is inventiveness versus imitation. Innovations can require substantial technological inventiveness but appear to imitate existing products, or be technologically imitative but apparently inventive. Obviously, they can also be both technologically and apparently inventive and imitative (Nelson, 1993).

For managers who are concerned with choosing or evaluating an innovation strategy, the existing strategy and history of their company and its current resources are important factors. Innovations that are radical, early, and inventive flow more naturally from a proactive strategy. Conversely, those that are more incremental, late, and imitative are best supported by what we call a reactive innovation strategy (Porter, 1990).

According to Porter (1990), if a company is already good at and consistent in using one or the other strategy, a change of the opposite is likely to be slow and difficult. The resources and practices needed to support one strategy are different from those needed to support the other. If a company is not especially good at either strategy, or finds on reflection that it pursues a mix of both, change in one direction or the other is likely to improve that company's success in using innovation to improve performance.

Both proactive and reactive innovation strategies have their advantages. If a company chooses the one that fits its history, present resources and future goals better and then follows it consistently, mistakes are more apt to be avoided and profits from innovations are more likely to follow (Nelson, 1993).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a case study design. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behaviour under study. A case study design is most appropriate when detailed analysis of single unit of study is desired. It provides focused and detailed insights to phenomena that may otherwise be unclear.

The importance of a case study is emphasized by Young (1960) and Kothari (1990) who are in agreement that a case study is a very powerful form of qualitative analysis that involves a careful and complete observation of a social unit irrespective of what type of unit is under study. It is a method that drills down rather than casts wide. Since this study sought to identify the innovative strategies at Standard Chartered Bank (K) Limited, a case study design was deemed the best design to fulfill the objectives of the study.

3.2 Data Collection

In this study, emphasis was given to primary data. The primary data was collected using interview guide. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It made it possible to obtain data required to meet specific objectives of the study. The interviewees were the Head of strategy and functional heads in charge of finance, risk management, information technology and operations, human resources, marketing and research division, and public affairs and communication division.

3.3 Data Analysis

Qualitative data was analyzed using qualitative analysis. Qualitative data analysis seeks to make general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the sample (Mugenda and Mugenda, 2003).

CHAPTER FOUR: DATA FINDINGS

4.1 Introduction

The research was a case study aimed at establishing the innovative strategies adopted by The Standard Chartered Bank Kenya Limited. An interview guide was used to obtain data from the senior managers including Head of strategy and functional heads in charge of finance, risk management, information technology and operations, human resources, marketing and research division, and public affairs and communication divisions. Analysis was done through quantifying the results obtained from the interview and comparing them to come up with a conclusion.

The interview guide had two sections. The first section dealt with the innovative strategies adopted by The Standard Chartered Bank (K) Limited to the changes in environment. The other section discussed the factors that have affected the implementation of the innovative strategies and indicates the measures the bank has taken to overcome there challenges.

4.2 Innovative strategies

To meet customer needs and demands, banks in the country are reinventing themselves into a flexible dynamic sales organization at the front end and efficient, low cost processors at the back. Driving this reinvention and innovation is intense global and local competition.

Innovation and adaptation are critical to banks in the country. Standard Chartered Bank (K) Limited understands that the key to staying ahead lies in leveraging all available customer relationship management tools in order to ensure its customers get what they want when they need it while ensuring that the banking operations have real time, relevant access to information about customers and critical operations across the enterprise.

From the interview it was evident that the bank aims at providing a range of innovations in various areas that offer customers a choice. This is in line with the banks missions to provide unique and innovative solutions to its customers. Key among the innovative strategies the bank has employed include:-

4.2.1 Product innovation

This is one of the areas that all the respondents unanimously agreed that the bank has made great impact in its bid to stay a head of the game in the Kenyan banking sector. Standard Chartered Bank (K) Limited in 2004 re-launched an ambitious plan to reshape its product innovation to suit the needs and suitability of the market. Product development in the bank forms an integral part of its effort to adhere to responsible selling and marketing. All products are developed after market research which helps to identify existing opportunities and how best to exploit them while putting the customers' needs first. This has helped in building the broad product mix that has helped the bank remain competitive in the market as follows:-

In February 2004 the bank launched the Auto loan product followed shortly after in April 2004 by the re-launch of the 'unsecured loan products'. These two products ensured the banks lending portfolio to customers increased by a massive 23% during the same year. In May the same year the bank made a milestone in the Kenya banking sector by being the first to launch the 'Fixed Rate Mortgage' product in the Kenyan market. This according to the respondents was necessitated by the customers' need to have a fixed rate when acquiring credits hence be able to be more certain about the repayment amounts and periods of credit. It was also noted that due to its innovativeness, the product won the Institute of Financial Services/ Deloitte U.K Grand Prix Gold Spak Award in 2005 beating a field of other international banks and financial institutions.

In October 2004 the bank came up with the 'All in One' account to cater for the needs of customers with many banking transaction in a given month. Through this product customers are charged a fixed amount of commission of Ksh 750 irrespective of the number of transactions in any given month. The respondents were in agreement in the way the concept played a huge role in increasing the number of customers hence more profits recorded.

In July 2005 the bank also re launched the Small and Medium Enterprises (SME) business model to fully address the needs of the increasingly sophisticated SME sector in Kenya. This included expanded product range to include unsecured loans to professionals, 'The Express Trade' product which allows for quicker trade document processing hence being very attractive to the business class customers. According to the respondent the bank also made significant strides in real estates sector when in 2006 it introduced the 'Investment Mortgage' product to cater for the needs of the sector. This is coupled with offering the much needed financial and investment advice to the customers.

The respondents indicated that in 2007 the bank went ahead to introduce a number of innovative products that included the exclusive 'Diva account' product to cater for the female customers. In a bid to increase the numbers of the account holders the bank introduced yearly exchange overseas trips for the customers at a subsided rates, for example in 2007 they visited Dubai while in 2008 they made trips to Singapore and Malaysia. During such trips the customers are able to exchange business ideas while exploiting other potential business opportunities abroad. Also introduced during the same year were the Foreign Currency Safari Savings accounts to cater for customers who make frequent trips out of the country.

The respondents also concurred that the bank continued to launch more innovative products in the year 2008. For example the bank introduced the 'X- account' that comes with the insurance package for the account holders. This has been made possible through the banks' partnership with APA Insurance Company. This was necessitated by the need to insure the assets of the customers against such risk as fire, accident and burglary. In the event of the risks occurring the bank assesses the extent of the damage then the account holder is compensated appropriately. All these products have enabled the bank immensely increase it customer base and loyalty while at the same recording hire profits.

4.2.2 Distribution / market innovation

The respondents pointed out that the bank has invested massively in ensuring their services are reaching as many customers as possible.

This has been made possible through niche marketing where the bank has targeted the middle and higher income customers. This is evident in its branch networks across the country. It has also increased the automated teller machine (ATM) distribution in the country to an impressive 58 ATMs as at September 2008.

Besides, the respondents pointed out that the bank has adopted the extended banking hours approach to cater for the customers who may not find enough time during the day to transact banking business. For example the Bank's Ukay Branch in Nairobi opens up to 9 PM and on Sundays. This proactive innovative strategy was meant to reap from the government's agenda of the 24 hour economy. The respondents pointed that the strategy has worked well for the bank with high transactions being recorded in the late evenings and weekends.

4.2.3 Customer service innovation

Standard Chartered Bank (K) Limited according to the respondents puts customers first in its endeavors to improving the profitability and increasing its Kenyan market share. Hence the need to innovate the mode and ways of customer service.

For example the bank launched the 'Outserve Plus' initiative in 2004 to set high standards for customer service and operational excellence. According to the respondents, the initiative is meant to exceed the customers' expectation in service delivery. It aims at delighting customers with service quality and provides a framework within which the bank embeds the culture of continuous improvement and excellence. 'Outserve plus' initiative helps the bank offer a differentiated customer service hence drive customer loyalty. As a result of becoming operationally excellent the respondents pointed out that the banks aims to make life easier for its customers and staff while at the same time enabling the bank achieves sustainable growth. It was pointed out that the bank has put in place measures to recognize and reward those staff that exhibit true ideals of 'outserve plus' to the customers and fellow employees. The awards have gone a long way in motivating employees to do their work diligently hence attractive more customers to the bank.

The bank has also introduced a 'complaint management system' to help serve customers better. The loyalty manager provides a consistent end to end approach to complaints logging, tracking and monitoring through to resolution. The banks Customer Feedback Department ensures that all complaints logged on from across the bank have been dealt with to the end. The loyalty manager has been very critical in helping the bank manage customer experience. For example in 2007 the turn around time in reducing customer complaints went up to 79 percent from 69 percent in 2006.

It was also noted that the bank has introduced various initiatives to cater for the disabled customers for example plans are at advanced stage to complete the building of ramps at all branches and ATM sites to help customers on wheel chairs access the same facilities as other customers. Besides the bank has employed personnel to guide and help customers who face difficulties in operating services in ATMs.

The bank has also taken intensive approach towards remodeling of its branches in a bid to attract more customers. A pilot project has been concluded in the banks' Westland's Branch that now boasts of bigger customers' lounges and state of the art ventilation facilities.

4.2.4 Technological innovation

The respondents pointed out that the bank has played great steps in improving its technological capacity and innovations.

For example all its thirty one branches are now electronically interconnected hence ensuring real time reporting and data access. Customers can now transact business from any branch or ATM site irrespective of where their account is domiciled. The bank takes a lot of pride of being the only bank in Kenya whose technological advancement allows its ATMs to offer more services apart from the traditional cash withdrawal. According to the interviewees, the bank's ATMs have been modified to render additional services including cheque and cash depositing and payment of utilities such as electricity. In August 2008 the bank also launched and additional service in which the account holders can now access their accounts mini statements from the ATM. Such can be generated to cover daily, weekly or monthly transactions. It also has the option of the statements being sent via the account holders' email address upon subscription. According to the interviewees, the bank has chosen a leading-edge strategy through front running in technology.

This strategy has helped in driving intelligent marketing for the bank. It has also enabled new cross- and up-selling capabilities, supported by more integrated and effective customer data management in the back office.

It was also pointed out that the bank has adopted the 'Shared Service Centre' model of operation. This approach entails centralization of common support services in specific departments for example reconciliation department technology and operations departments etc. It was also noted that besides supporting the local branches, the banks Shared Service Centre in Nairobi also renders the same services to other five countries namely Uganda, Tanzania, Zambia, Botswana and South Africa. This innovative idea the respondents said has gone along way in increasing efficiency in operations, reducing duplication of roles hence a major role in cutting down costs for the bank. This has been enabled through the interconnectivity and pooling of data between the six countries.

4.2.5 Human resources innovation

The increase of economic activities in the country has seen rapid growth of financial services resulting in strong competition for talent. As a result employee retention is a key management priority for Standard Chartered Bank (K) Limited.

The respondents pointed out that the bank has introduced various innovative strategies aimed at attracting and retaining employees. One such initiative is the employee engagement survey popularly known as the 'Q12'. This survey according to the respondents is carried out every year and supervised by the renowned opinion polling firm: - The Gullup Company Ltd from the United States of America. The survey is meant to rate and gauge the level of engagement of employees as effective engagement leads to increased productivity and revenue and lower employee turnover. Results of the survey are deliberated upon by the employees and the management and measures put to forever increase the yearly ratings.

The respondents also concurred that the bank has introduced the 'Wellness program' to fully address the employees' wellbeing. The program is complete as a department with fulltime staff and seconded to the office of the Managing director. It was pointed out that for the last two years the bank has been running the wellness program for employees to ensure that they improve on work life balance. The initiative is also meant to train the staff on issues affecting their life such as healthy eating habits, exercises and diseases like the HIV Aids epidemic.

4.3 Factors affecting the strategies

The respondents noted that the factors affecting innovation strategies at Standard Chartered Bank (Kenya) Limited included: economical changes e.g. lack of enough funds to expand, inflation; political factors e.g. the bills affecting the banking industry, social factors as well as technological changes e.g. communication infrastructure and machines used in the bank.

4.3.1 Technological factors

The level of technological sophistication increases on a daily basis. As more and more customers continue to take up Standard Chartered Bank (K) Limited's services, there has been an increasing need to maintain high standards of technological advancement and services or lose business. This means that the bank has to invest in highly technological equipment to remain competitive in the market.

In addition, all interviewee unanimously agreed that, the current global trend is leaning towards the continued introduction of modern and up to date technology. The interviewees noted that the consumers' needs are also changing with the ever sophisticated information technology era. Customers are ever yeaning to obtain as much more information at the comfort of their offices desks or homes as possible. They require the banks to be able to offer them the transactions without the hustle of going to the banking halls. All these call for the continued modernization of the banks' technology hence the introduction of services such as the Mobile banking services.

There respondents were also of the opinion that the bank has faced a lot of difficulty interns of the costs of replacing the obsolete machine and other technological machines. When new technological innovations are introduced the old machines and equipments are rendered redundant hence the need to dispose them off.

4.3.2 Political Factors

Political factors were also noted to have a major influence on the innovative strategies adopted by the bank. Majority of the interviewee said that, there are policies and regulations put in place in Kenya to govern the operations of commercial banks. As majority of the interviewees contended, these policies and regulations have tended to have political connotation since the regulatory bodies like Central Bank of Kenya are under the Ministry of Finance- a political office.

In addition, majority of the interviewees pointed out that, some politicians have used their positions in parliament to influence the operations and activities of commercial banks through the bill, such a case mentioned was the Joe Donde Bill, which in 2001 sought to regulate the interest rates charged by the commercial banks.

4.3.3 Economic Factors

The interviewees noted that the high inflation rate in Kenya has had serious impact on the bank's bid to innovate. This because higher inflations rates lead to lower disposable income to the consumers hence lower numbers of transactions which in turn lowers the profitability levels of the company.

The respondents were also in agreement that most of the innovative strategies employed by the bank involve huge investments in terms of capital and equipments. For example the changes in technology requires the bank to acquire the latest and modern machines and equipments hence the effect of inflation results in instability in prices of machines. The costs of products promotion and advertisements have also gone up due to the effects of the economic changes.

Human capital was also noted to be adversely affected by the economic factors. Innovation requires skilled personnel from the point of idea generation to the last bit of implementation and evaluation. According to the respondents there has been a problem in attracting and retaining such skills because of the huge sums of salaries that they demand.

4.3.4 Social Factors

Social and cultural issues have also immensely affected the success of adoption and implementation of innovative strategies at the Standard Chartered Bank (K) Limited.

The respondents concurred that changing the behaviors of customers towards the new strategies has been a big issues for example such resistance has been reported in the use of ATM to perform such services like cheque and cash. Majority of customers still believe visiting the banking halls to make such transactions over the counter despite the same service being available at the ATM sites around the clock.

HIV/AIDS epidemic according to the respondents has reduced the numbers of customers and banking transactions they make in given period. This is because they channel most of their incomes and savings in fighting the scourge though paying hospital bills.

According to the interviewees, the bank has invested on corporate social responsibility through engagement in various social activities. Majority of the respondent mentioned awareness against HIV/AIDS as the major activity that the bank used to sensitize members of the society on dangers associated with the condition. In this way, the interviewees claimed that the bank is able to improve the reach to majority of its existing and potential clients hence improving the levels of customer loyalty.

4.3.5 Competition

The researcher learnt that competition was the major factor to the bank's innovative strategies. This was revealed by the respondents who said that the banking industry has been experiencing a lot of competition in Kenya through tremendous growth and proliferation of banks whose scale of operations had been regarded as harmless to the big banks like Standard Chartered Bank (K) Limited.

There has been competition between banks to capture and command the larger market. Competition has been witnessed by the rate at which more innovative strategies are being launched by different banks in the sector. Such competition has also increased the art of copying and imitation of strategies by competitors hence the demand to keep on introducing strategies.

The study also revealed that the competition in the market was greatly affecting the human resource function. Standard Chartered Bank (K) Limited employees have been a target to its competitors who poach them with promise for better pay. This has been occasioned by the superior level of training that the bank offers to its staff. The bank has been forced to introduce more incentives to attract and retain its staff. Such incentives include attractive pay and loans e.t.c.

Competition has also affected promotion and marketing of the company products and image. This has forced the bank to adopt the latest advertising and promotion strategies in a bid to out do its competitors.

Standard Chartered Bank (K) Limited, accordingly has responded to the high level of competition by employing different strategies such as offering a wide range of services to be able to capture a large customer base, intensive staff training has also been adopted to equip the employees with the much needed skills on new developments in the market and to improve on service delivery to the customers. Majority of the respondents felt that in the next five years the bank will have expanded to cover a wider geographical area in order to reach more groups of people.

4.3.6 Legal Factors

Another change that the interviewees identified as affecting their operations concerns the legal environment. The regulatory guidelines promulgated by Central Bank of Kenya (CBK) have been posing a major challenge to the organization. These include the reserve rates and liquidity ratios demanded by the CBK as well as the requirements of the Banking Act.

Additionally most of the innovative ideas to be launched by the bank have to be vetted by the regulatory authorities before implementation. This usually deals a blow to the speed and timing of implementation hence making the bank lose some of the market to competitors. Most of the legal requirement also comes with additional licensing obligations. For example the banks are required to pay the municipal council licenses fee and rates to be allowed to do outdoor advertisements. This in turn impacts negatively on the banks marketing and promotion budget.

CHAPTER FIVE:SUMMARY,CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes findings of the study. It also gives conclusions and recommends further study areas for follow up.

5.2 Summary of the Findings

Standard Chartered Bank (K) Limited as one the oldest banks in the Kenyan market has made great steps towards innovation in its bid to continue having its large share in the market.

For example product innovation was one area that came out quite evidently during study; most of these innovations have been introduced to target a specific market and people. Examples of these products include the Diva savings account, All in One account, unsecured loans etc. These products have seen the bank realise huge growth in its customer base hence increase in profitability over the years.

Technological innovation was also not left behind in which the bank has made a lot of strides in improving the services that can be accessed from the ATM; such services include cheque deposits, cash deposits and mini statements. Though a new concept in the Kenyan market it has helped reduce the long queues in the banking halls. Centralisation of common services through the 'Shared services centre' has also helped in increasing efficiency and reducing costs through elimination of duplication of duties. The introduction of longer hours of doing business as was noted with the Bank's Ukay Branch has worked well for the bank to attract customers who work late hence can only transact banking business during the late hours.

Superior customers service forms the back borne of any bank if it is to continue in business, the bank's innovative ideas such as the 'Outserve plus' initiatives and the 'complaint management system' will go along way in attracting and retaining the customers. Additionally the human resource base of any company is equally important hence the introduction of strategies such as the 'Wellness program' to cater for the employees' welfare and the survey conducted by the Gullup Company Limited to rate the level of their engagement in the working environment.

In its endeavours to continuously improve on the level of innovation, Standard Chartered Bank (K) Limited has faced a lot of difficulties that include the harsh economic conditions which is a recipe of high inflation rates hence lower profits:, The bank has faced stiff competition from other local banks that has put spirited effort to take control of the market through introduction of other innovative products etc. Other factors include changes in technological advancement that requires constant adoption of latest and modern infrastructure, legal factors such as the stringent regulatory requirement from Central Bank of Kenya. Political and social factors were also mentioned as impediments for the growth of innovation.

5.3 Conclusion

With the advent of globalisation, banks like Standard Chartered Bank (K) Limited have been forced to improve their ways of doing business in order to attract and maintain the existing customers. Such innovative strategies focus on all aspects of the business operations ranging from customer care, technological advancement to better products in the market.

As is the case with Standard Chartered Bank (K) Limited, more emphasis should always be put on proactive approach to innovation to reap from the first mover advantage such as higher profits before dilution of the market by the imitators and reactive innovators. Banks should carry out extensive research to ascertain the needs of the intended customers and niche market in order to obtain its full benefits. Measure should also be taken to encourage the generation of creative ideas within the banks, this can be done through continuous brain storming sessions, offering rewards etc. Innovative strategies should also take into account the various challenges such as economic, political, social etc. as these can easily water down the gains made from innovation.

Standard Chartered Bank (K) Limited has carefully but steadily carried out most of the innovative strategies against the backdrop of the challenges through cost management and intensive product awareness while at the same time reaping from the benefits of its established brand name and goodwill in the Kenyan and regional market.

5.4 Recommendations

From the discussions and conclusions in this chapter, it is recommended that although there are some challenges in developing competitive strategies at the Standard Chartered Bank (K) Limited, such as technology and competition, innovative strategies are very important for the bank to be and remain competitive in the market. The bank should therefore incorporate more and intensive proactive market intelligence in its product development to ensure more acceptability of their products in the market.

The bank should also be able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms. Thus, competitive advantage would enable the firm to create superior value for its customers and superior profits for itself.

It is also recommended that Standard Chartered Bank (K) Limited should adopt serious awareness campaigns to make the public know about its products and the commissions charged for its different products. This will go along way in correcting the perception with the general public that it is a bank for the rich and that its rates/ commissions charged are exorbitantly high for the common man.

The study also recommends to the government through Central Bank of Kenya should step in by reducing the regulatory requirement like additional licensing and ensure that there is fair competition and ethical business practice in banking industry through fighting the menace of product imitations and unhealthy advertisements meant to underrate competitors.

5.5 Areas for Further Research

The researcher suggests that for effective conclusive study on innovative strategies adopted by Standard Chartered Bank (K) Limited, a replicate study be carried out using the in-depth questionnaire method to investigate the customers' perception on the strategies adopted by the bank. A study should also be carried out on the bank's main competitors to establish how they strategize to counter these moves.

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APPENDICES

Appendix I: Respondents' Letter

To: Respondent

From: Odhiambo Gordon Omollo

Dear Sir/Madam,

SUBJECT: RESEARCH PROJECT

I am pursuing a Master of Business Administration (MBA) program at the University Of Nairobi. My area of specialization is Strategic Management.

As a partial fulfillment of the requirements for the award of the degree, I am currently conducting a research study on **INNOVATION STRATEGY AT THE STANDARD CHARTERED BANK (KENYA) LIMITED.**

Your firm has been selected for this study, I humbly request for your valuable time in assisting to complete the attached questionnaire.

The information you provide in this study will be treated with utmost confidentiality and will not be used for any other purpose apart from its intended academic use. I hereby undertake not to make direct reference to your name in any presentation or report thereto the study.

I would appreciate any additional information, in the form of suggestions and comments, which you deem necessary to make my research findings more conclusive, relevant and reflective of the study area. A copy of the research report will be availed to the respondents upon request.

Thank you in advance.

Yours faithfully,

Appendix II: Interview Guide

INNOVATION STRATEGIES AT THE STANDARD CHARTERED BANK (K) LIMITED.

1. **Innovative strategies**

a) Explain what innovative strategies your company has adopted in the following areas.

I. Financials...

II. Organizational structure...

III. Technology ....

IV. Customer care...

V. Product ....

VI. Human resources...

VII. Any other (please specify...

b) Explain how the bank has used the following generic competitive strategies to gain the innovative advantage.

I. Cost leadership...

II. Differentiation...

III. Market focus...

c) Have these innovative strategies been implemented by other banks in the industry and how successful have they been?...

....

....

....

2. Factors influencing innovation strategies

a) How has the following factors affected the adoption and implementation of the strategies at Standard Chartered Bank (K) Limited?

I. Technological factors.

Explain...

....

....

....

II. Political factors.

Explain...

....

....

III. Economic factors.

Explain...

....

....

....

IV. Social factors.

Explain……………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………

V. Legal factors.

Explain……………………………………………………………………………………

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……………………………………………………………………………………………

……………………

VI. Any other (please specify)……………………………………………………

……………………………………………………………………………………..

b) Explain what measures the bank has put in place to overcome the issues in (a) above………………………………………………………………………………………

………………………………………………………………………………………..

c) Explain the successes of the innovative strategies adopted by the bank in the following area:

I. Customer base…………………………………………………………………

II. Profitability……………………………………………………………………

III. Asset base………………………………………………………………………

IV. Employee retention………………………………………………………………………..

V. Brand image………………………………………………………………………………

VI. Any other (please specify) ……………………………………………………………

d) Explain the bank's future in of innovation………………………………………………..

………………………………………………………………………………………………

Thanks

Appendix III. Standard Chartered Bank's branch network

	BRANCH	TOWN
1	Eldoret Branch	Eldoret
2	Machakos Branch	Machakos
3	Meru Branch	Meru
4	Kisumu Branch	Kisumu
5	Kitale Branch	Kitale
6	Kericho Branch	Kericho
7	Treasury Square Branch	Mombasa
8	Kenyatta Avenue Branch	Nairobi
9	Maritime Branch	Mombasa
10	Westlands Branch	Nairobi
11	Nakuru Branch	Nakuru
12	Nanyuki Branch	Nanyuki
13	Nyeri Branch	Nyeri
14	Thika Branch	Thika
15	Moi Avenue Branch	Nairobi
16	Harambee Avenue Branch	Nairobi
17	Kiambu Branch	Kiambu
18	Industrial Area Branch	Nairobi
19	Kakamega Branch	Kakamega
20	Malindi Branch	Mombasa
21	Old Mutual Branch	Nairobi
22	Kabarnet Branch	Kabarnet
23	Yaya Branch	Nairobi
24	Ruaraka Branch	Nairobi
25	Langata Branch	Nairobi
26	Makupa Branch	Mombasa
27	Karen Branch	Nairobi
28	Muthaiga Branch	Nairobi
29	Ukay Branch	Nairobi
30	Eastleigh Branch	Nairobi
31	Kisii Branch	Kisii

Source :(Research data)

Appendix IV. Standard Chartered Bank's historical performance

	2007 KSH' (Millions)	2006 KSH' (Millions)	2005 KSH' (Millions)	2004 KSH' (Millions)	2003 KSH' (Millions)
Operating income	9,549	7,930	7,514	6,380	7,405
Profit before tax	4,910	3,810	3,513	2,691	4,010
Loans and advances to customers	39,469	35,762	34,042	26,557	18,924
Deposits from customers	73,841	64,879	59,683	56,585	53,769
Shareholders' equity	10,916	10,130	9,589	6,063	5,989
Total dividends	2,888	2,480	2,119	1,768	1,013
Dividend per share (Ksh)	10	8.5	7.5	6.5	8.5
Earning per share (Ksh)	12.14	9.07	8.72	6.74	10.25
Number of Branches	30	28	28	28	28
Number of ATMs	61	59	58	58	58
Number of employees	1,279	1,126	1,045	1,011	995

Source :(Research data)