

**APPLICATION OF INNOVATION STRATEGIES TO CREATE A  
SUSTAINABLE COMPETITIVE ADVANTAGE AT THE  
NATIONAL BANK OF KENYA LIMITED**

**BY**

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## DECLARATION

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

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

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## **DEDICATION**

This work is dedicated to my beloved wife Esther, my two sons and the two daughters for their unwavering support during the entire period of my study. To my late mother who instilled in me the virtue of humility, hard work and value of education.

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## **ABSTRACT**

An organization which is serious about competing in the fast changing markets with fast changing technology must make things happen, it must innovate. Competitive advantage is the heart of a firm's performance in a competitive market. National Bank of Kenya has undergone through eras of evolution and business development as a commercial bank operating in an extremely competitive market for the last 45 years of its existence. In the banking industry, customers preferences are ever changing and the technologies for serving customer requirements are continually evolving; thus banks must establish capabilities for continuing streams of innovations

This study was guided by two objectives namely the application of innovation strategies at NBK, to create a SCA and to identify the factors that influence development of innovation strategies at NBK. The researcher collected both primary and secondary data for this study. Primary data was collected using an interview guide while secondary data was collected from the bank's strategic plans and reports.

The identified innovation strategies include installation of ICT core banking system leading automation of numerous back office processes meant to enhance convenience and save time, minimize errors and to serve customers better. The bank has also leveraged on technology to offer internet banking, Islamic banking, mobile banking as well as agency banking.

From the findings, the respondents indicated that the factors influencing development of innovation strategies in the bank included customer needs, technological changes and the firm's contextual variables which include managerial and employment structures, organizational structure and culture as well as staff skill development.

In conclusion, innovation is certainly a key competitiveness factor for firms as it can help to significantly increase performance by improving products, services, processes, business models and marketing strategies. The study revealed that innovation is an essential condition of the organization progress and critical element creating a sustainable competitive advantage for the enterprise.

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## **LIST OF ACRONYMS AND ABBREVIATION**

**ATMs**-Automated Teller Machines

**CBK** - Central Bank of Kenya

**KEBS** - Kenya Bureau of Standard

**KRA** - Kenya Revenue Authority

**KQ** - Kenya Airways

**NBK** - National Bank of Kenya Limited

**NHIF** - National Hospital Insurance Fund

**R&D** - Research and Development

**SCA** - Sustainable Competitive Advantage

**USP** - Unique Selling Proposition

**TSC**- Teachers Service Commission

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

An organization which is serious about competing in the fast changing markets with fast changing technology must make things happen, it must innovate. If it does not innovate, it risks being overtaken by competitors. Sometimes a business underestimates the competitive challenges it faces. The risk of this happening is high when competitors react to potential challenges in much the same way. Since most banks offer similar products and services, they continually search for a competitive advantage that will attract new customers and to retain the existing. Much emphasis has been placed on building innovative organizations and the management of the innovation process, as essential elements of organizational survival (Brown, 1997). Innovation can be transformational, radical or incremental depending on the effect and nature of the change. Afuah (1998) suggests that innovations do not have to be breakthroughs or paradigm shifting;

Innovativeness refers to a willingness to support creativity and experimentation in introducing new products, becoming technological leaders, and developing new processes. Innovation is defined as the creation of new knowledge and ideas to facilitate new business outcomes, aimed at improving internal business processes and structures and to create market driven products and services.

Firms, according to the resource-based approach, compete according to their different capabilities. Strategies to cope with a changing competitive environment are associated with the firm's capabilities. The resource based theory argues that competitive advantages lie in the heterogeneous firm specific resources possessed by the firm (Rumelt, 1984, Wernerfelt, 1984).

The ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage (Tidd,et al, (2001). It is no longer adequate to do things better, it's about "doing new and better things" (Slater and Narver, 1995).

Banks all over the world are experiencing stiff competition from competitors. To gain a competitive edge, they need to be innovative in their modes of operations. Intense competition and market saturation are forcing Kenyan Banks to look for new revenue streams by expanding their products and services offerings and focusing on customer loyalty. There have been a lot of strategic moves such as rebranding, opening of new branches, increasing of banking hours and focusing attention to the lower end of the market. There has been close attention to loan products for the salaried persons as well as small and medium size enterprises (SMEs) and many of the banks are now hiring direct sales agents to sell their products and relationship managers to offer personalized services to customers.. Use of ICT has created efficiency and increased delivery channels with such products as e-banking, mobile banking and SMS banking that has enabled payment of bills and cash transfers (Central Bank of Kenya, 2012).

The NBK has partnered with government regulators and agencies such as KRA, KQ, NHIF and KEBS in fashioning unique solutions to facilitate efficiency of payment, collecting and accounting for taxes, levies and other statutory levies. The benefit for this product offering is reduction of cost, ease of reconciliations, and reduction of risks of leakages in the collection process and more importantly enabled the bank to lock this high valued corporate clients.

### **1.1.1 Innovation Strategies**

Innovation is an ambiguous concept, attracting multiple and often conflicting definitions, and conveying different things to different people both in the literature and in organizations (Lees, 1992). Innovation is to introduce a new or improved product, process, or service into the marketplace. Tidd et al. (2001) defined innovation as a process of turning opportunity into new ideas and putting these into widely used practice. Afuah (1998) proposed that innovation is the use of new technical and administrative knowledge to offer a new product or service to customers. Therefore, innovation is any practices that are new to organizations, including equipments, products, services, processes, policies and projects (Ekvall, (1999).

Innovation is a management discipline, which focuses on the organization's mission, searches for unique opportunities, determines whether they fit the organization's strategic direction, defines the measures for success, and continually reassesses opportunities (Gaynor, 2002). The term innovation refers to both radical and incremental changes in thinking, things, and processes or in services, (McAdam and McClelland (2002). In many fields, something new must be substantially different to be innovative, not an insignificant change, 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.

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) suggested 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 areas for innovation.

The importance of having a clearly defined new innovation strategy guiding the innovation process was recognized by Griffin (1997). Innovation strategy provides a clear direction and focuses the effort of the entire organization on a common innovation goal. 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 (Clayton, (1997). Sustainable competitive advantage is not bound only to the physical environment. It includes different perspectives from society and environment, to the economy and organizational processes. As Kim and Mauborgne (1999) mentions, sustainable competitive advantage has three main pillars which organizations should contribute to their improvement; they

include economic, environmental and social performance. Maintaining a competitive advantage requires a strategy that makes the business unique and carries the company forward as the world around it changes.

### **1.1.2 Sustainable Competitive Advantage**

Sustainable competitive advantage is the prolonged benefit of implementing some unique value creating strategy based on the unique combination of internal organizational resources and capabilities that cannot be replicated by competitors. It is the advantage that enables the business to survive against its competition over along period of time. Sustainable competitive advantage is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Kihumba, (2008). For organizations, this entails the procurement of required resources and operating in the context of the sustainability standards and duties from a proactive perspective.

While the importance of defensive strategies in protecting and exploiting existing resource strengths cannot be underestimated, securing the long term future of an organisation must consider how to derive unique areas of value added in the future Ekvall, (1999). For this purpose sustainability has to assume a different meaning which points itself towards penetrability, for example, in terms of new breakthroughs. This is because the speed at which the uniqueness of the resources of an organization becomes accessible dictates the speed at which the competitive advantage of an organization diminishes. In fast-moving competitive environments, sustaining competitive advantage involves creating safe-havens from cutthroat competition by continuously creating gaps through unique resources that cannot be easily bridged by the competitors (Kao, (1991).

A company has sustainable competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Damanpour, (1996). Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Gaynor, (2002) define a core competence as an area of

specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics first it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will, perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for.

Resource Based View perspective stresses that the resources of the company whether tangible or intangible like Brand name, assets, cash, customer loyalty, R&D capabilities are an important firm resources that hold the potential for sustained competitive advantage (Barney, (1991).

### **1.1.3 The Banking Industry in Kenya**

The banking industry in Kenya is governed by the companies Act, the Central Bank of Kenya Act, the Banking Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2012). The CBK, which falls under the ministry of Finance, is responsible for formulating and implementing policy and fostering the liquidity, solvency and proper functioning of the financial system.

Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The assets increased to Ksh. 2.3 trillion by September 2012 on account of increased loans and advances while deposits crossed Ksh 1.72 trillion in September 2012 (Central Bank of Kenya, 2012). The resilient performance is largely attributed to the enabling legal and regulatory environment and robust risk management framework coupled with wide branch expansions and aggressive marketing both in Kenya and the East African community region. The main issues affecting the banking industry in Kenya include changes in the regulatory framework, declining interest margins due to customer's pressure, increased automation of services, which are customer centred, and introduction of non-traditional players who offer financial services products like M-pesa. M-Shwari is the latest innovative product

introduce by Commercial Bank of Africa (CBA) in partnership with Safaricom which enables subscribers to save and borrow money from their mobile phone.

#### **1.1.4 The National Bank of Kenya Limited**

National Bank of Kenya Limited (NBK) is a commercial bank in Kenya and a large financial service provider serving individuals, small to medium companies, SMEs and large corporations. The bank was established in 1968 by an Act of parliament as a 100% government owned financial institution. In 1994 the government reduced its shareholding to 68% by selling 32% shareholding to the public. The government further divested from the bank and its current shareholding stands at NSSF 48.06%, general public 29.44% and Kenya government 22.5% ([www.nationabank.co.ke](http://www.nationabank.co.ke)). The bank operates one subsidiary company: NATbank trustee and investment services ltd incorporated on 21<sup>st</sup> July 1995 in Kenya with a share capital of kshs. 10million ([www.nationalbank.co.ke](http://www.nationalbank.co.ke)).

NBK has developed new innovations that have influenced its financial performance. This includes mobile banking technologies, electronic money transfer, internet banking transactions, ATM deposits and withdrawals, online account opening among others. All these technological innovations contribute heavily in building customer base, capital base as well as enhancing their profitability which results to Sustainable competitive advantage borne out of core competencies that yield long term benefit to the bank.

NBK ltd is the twelve largest Kenyan commercial bank in assets valued at approximately Ksh. 67.2 billion as at December 2012 while customers deposits stood at Kshs. 55.2 billion ([www.nationalbank.co.ke](http://www.nationalbank.co.ke)). The bank offers financial services through its over of 57 branches and still growing countrywide branch network, supported by Alternate Delivery Channels which include over 700 Visa branded ATMs. NBK has gone through a turbulent growth journey since incorporation: from the glory days when it pioneer the introduction of computerized on line services in 1985, the decline brought about by the loan defaults leading to the run on the bank in 1997 and the recovery or restructuring after the government capital injection in 2002

## **1.2 Research Problem**

To succeed in the long run, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find a suitable way for creating and adding value for their customers. Strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful organization has this business self-awareness and seems to have a clarity of vision, even though it does not arise from a formal planning process (Pearce and Robinson, 2003).

The innovation literature has tended to place emphasis on firms' characteristics and factors which lead them to innovativeness or technological progressiveness (Avlonitis et al., 2001). Irrespective of trade sectoral issues, certain characteristics of the firms and particularly the entrepreneurs themselves have been associated with firm growth and development. Reinhilde and Bruno (1999), judging from the analysis on manufacturing firms in Belgium, asserted that a firm's inclination toward either internal sources or external sources in formulating its innovation strategy, rested directly with the technological conditions of the firm, and most high-tech firms would tend to mainly rely on internal R&D. Kenya's financial system has experienced remarkable innovations leading to improved efficiency of the financial system. The banking industry has over the years continued to introduce a wide range of new products and services prompted by increased competition, embracing I.T and enhanced customer's needs.

National Bank of Kenya has undergone through eras of evolution and business development as a commercial bank operating in an extremely competitive market. The bank has adopted the enhanced human resources management and market positioning strategies in responding to external environment. In the banking industry, customers preferences are ever changing and the technologies for serving customer requirement are continually evolving thus banks must establish capabilities for continuing streams of innovations. The banking industry demands for continuous development and



implementation of innovation strategies. This is the rationale that motivates NBK in its pursuit to conquer the market amid the ever changing environment.

Locally, studies on innovation have been conducted. Odhiambo, (2008) did a survey of innovation strategies at the Standard Chartered Bank (Kenya) Limited. Gitonga, (2003) carried out a research on innovation processes and the perceived role of the CEO in the banking industry. Mwangi (2007) conducted an investigation on factors influencing financial innovation in Kenya's securities market which was a study of firms listed at the NSE, while Kihumba, (2008) investigated the determinants of financial innovation and its effects on banks performance in Kenya. No studies on the application of innovation strategies to create sustainable competitive advantage at NBK have been done. This is despite the increased rate of innovations being adopted each and every day to ensure sustained competitiveness in the current drastic and changing banking industry. It is in this light that the researcher aims to answer the following research question: - what Innovation strategies has NBK employed to create a sustainable competitive advantage?

### **1.3 Research Objectives**

The objectives of this study were:

- i. To determine the application of innovation strategies at NBK, to create a SCA.
- ii. To identify the factors that influence development of innovation strategies at NBK

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

The study is invaluable to several stakeholders in the banking industry including the management of banks, the policy makers as well as the scholars.

The management of commercial banks in Kenya will find the results of this study intriguing as a source of information on what competitive strategies are applied in the market and what they need to do in order to be competitive in the market. The immediate beneficiary of this research will be the NBK where the researcher will be getting information from and therefore any recommendation made by the researcher will be directly addressing issues that affect the Bank.

The policy makers will obtain knowledge of the industry dynamics and the responses that are appropriate and specific for NBK; they will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector.

The study will provide information to potential and current scholars on strategic management. This will expand their knowledge on innovation strategies and also identify areas of further study.

Moreover, the researcher and other academicians will be in a position to comprehend the concept of Innovation strategies more so in the context of the banking industry for competitive advantage.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are concept of strategy, concept of innovation strategies, types of innovation strategies, sustainable competitive advantage, innovation strategies and sustainable competitive advantage and factors influencing development of innovation strategies.

### **2.2 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. 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 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.

## **2.3 Innovation Strategies**

Thompson's, (2007) early and straightforward definition simply states: Innovation is the generation, acceptance and implementation of new ideas, processes products or services. A similar definition of innovation was proposed more recently by Wang et al. (2008) innovation can be defined as the effective application of processes and products new to the organization and designed to benefit it and its stakeholders. Damanpour (1996) provides a detailed definition of innovation, which is much quoted: Innovation is the multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace.

Innovation involves conversion of new knowledge into a product, process or services.

One of the ways of achieving growth and sustaining performance is to encourage and foster innovative practices and creativity internally within the institution. In addition, the organizational structures and culture must support the innovative practices for them to translate to commercialization (Dodgson 2001)

Mueller (1971) is of the opinion that innovation is a vast subject; it means many things, both tangible and intangible; to many people. A new idea, theory, machine, tool, social arrangement, and behavioral pattern all fall under the general subject of innovation. Mueller (1971) points out that while innovation is a natural human activity, it is planned and deliberate. It is also a continuous process, for whenever innovation occurs, change results and those affected by the change must in turn innovate in order to respond. According to Mueller (1971), innovation leads to change which leads to the necessity for further innovation, which again leads to change, a continuity cycle.

Innovativeness refers to a willingness to support creativity and experimentation in introducing new products, becoming technological leaders, and developing new processes. Innovation is the creation of new knowledge and ideas to facilitate new business outcomes, aimed at improving internal business processes and structures and to create market driven products and services. Innovation encompasses both radical and incremental innovation.

## 2.4 Types of Innovation Strategies

A company competitive strategy consists of the business approaches and initiatives it undertakes to attract customers fulfill their expectations, to withstand competitive pressures and to strengthen its market position.

In general, to meet with these new challenges from globally-distributed technology innovation, information age and service development, a holistic approach is needed to integrate key strategies to achieve sustainable development through technology innovation and HRM.

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

The importance of having a clearly defined new product/service strategy guiding the innovation process was recognized by (Griffin, 1997) and (Cooper *et al.* 1999). Innovation strategy provides a clear direction and focuses the effort of the entire organization on a common innovation goal. (Oke, 2004) suggested 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 areas for innovation. Kuczarski & Associates, (1994) suggested 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 Human Resource Management element of innovation 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) suggested 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. One of the most important roles that organizational culture plays in sustaining competitive advantage may be through its maintenance support for capabilities through the socialization of new employees.

Building a strong brand in the market is the goal of many organizations in creating innovation strategies (Hooley *et al.*, 2005). This is because it provides a host of benefits to a firm, including less vulnerability to competitive marketing actions, larger margins, and greater intermediary co-operation and support and brand extension opportunities. The most recent literature (Falkenberg, 1996; Srivastava *et al.*, 2001) considers brand equity as a relational market-based asset because it exists outside the firm and resides in the relationships of final users with brands. At the same time, the emergence of relationship marketing as a dominant focus of both marketing theorists and practitioners suggests that trust is the main factor on which a relationship is based. Therefore, there is a growing recognition, regarding the resources in which this superior financial performance lies, that intangible assets determine a significant proportion of organizational performance such as: the quality and experience of personnel, corporate culture, knowledge, brand equity, and so forth (Falkenberg, 1996; Srivastava *et al.*, 1998).

## **2.5 Sustainable Competitive Advantage**

In today's global and dynamic competitive environment, innovation is becoming more and more relevant, mainly as a result of three major trends; intense international competition, fragmented and demanding markets and diverse and rapidly changing technologies (Wheelwright & Clark, 1992). Firms that offer products that are adapted to the needs and want of target customers and that market them faster and more efficiently than their competitors are in a better position to create a sustainable competitive advantage (Prahalad & Hamel, 1990).

Sustainable competitive advantage is not bound only to the physical environment. It includes different perspectives from society and environment, to the economy and organizational processes. Sustainable competitive advantage has three main pillars which organizations should contribute to their improvement; they include economic, environmental, and social performance.

Organizations are changing to become more sustainable, ecological and ethical in practice. Most discussions of sustainable competitive advantage focus on defensive strategies based on existing resource strengths. For example, Grant (2005) considers the sustainability of the competitive advantage along the dimensions of durability, mobility and replicability. Durability determines how long the competitive advantage can be sustained and is considered in terms of the ability of competitors to imitate through gaining access to the resources on which the competitive advantage is built. This in turn can be considered in terms of mobility, referring to the extent to which resources can be transferred between competitors together with replicability which describes the ease with which resources can be copied by competitors. An example, where durability, mobility and replicability are particularly pertinent, relates to many retailers who derive their competitive advantage through identifying, acquiring and maintaining well-located outlets in addition to the value added stemming from their services and offerings.

Sustainable competitive advantage allows the maintenance and improvement of the enterprise's competitive positions in the market. It is an advantage that enables business

to survive against its competition over along period of time. Benefits derived from sustainable competitive advantage include repeat sales and customer retention.

## **2.6 Innovation Strategies for Sustainable Competitive Advantage**

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals (Porter, 1985). The goal of such a business strategy is to achieve a sustainable competitive advantage. A competitive advantage exist when a firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus a competitive advantage enables a firm to create superior value for its customers and superior profits for itself (Barney, 1991).

Oliver, (1997) proposes that in order to have a sustainable competitive advantage, consumers must perceive some differences between a firm's product offering and the competitor offering. For gaining sustainable competitive advantage, a firm has to optimally utilize its internal resources and capabilities to exploit external opportunities at the same time, gauging the external threats. More emphasis has to be placed on the Organization's capability to change, innovate, and be flexible and to learn how to adapt to a rapidly changing environment.

Oliver (1997) argues that both resources and institutional capital are indispensable to creating a sustainable competitive advantage. The capability based view of the firm also explains how enterprises develop and maintain their sources of competitive advantage. However, it does not explain why some firms, which developed a core competence, eventually lost it because of "core rigidities" within those firms.

Enterprise knowledge theory suggested that the root of a firm's sustainable competitive advantage comes from the knowledge within the firm as well as the cognitive capacity of people to apply that knowledge. In practice the tacit knowledge of the people can be tapped as a source of sustainable competitive advantage. Given the diverse nature of the firm resources, sustainable competitive can be derived from; the market environment in which the firm is positioned, the resources available and the firm processes that delivers continuous innovation. According to Jiang (2002), a firm that wants to obtain sustainable



competitive advantage should possess the capabilities to adopt its operations to the dynamics of the market environment.

The resource based theory argues that competitive advantages lie in the heterogeneous firm-specific resources possessed by the firm (Rumelt, 1984, Montgomery and Wernerfelt, 1988). Resources include “all assets, capabilities, organizational processes, firm attributes, culture, information and knowledge which enable the firm to conceive and implement strategies that improve efficiency and effectiveness” (Barney, 1991, P. 101}. Although capabilities are resources dependant, Grant, 1991), resources do not exclusively determine what the firm can do and how well it can do it. A key ingredient in this relationship is entrepreneurial key decision maker of the firm (Grant, 1991).

A strong relationship exist between Organizational learning processes and organizational capabilities (Prahalad and Hamel, 1990) in that its argued that organizational capabilities are “the collective learning in the organization”. (Grant, 1991) further defined distinctive organizational capabilities as the organization’s capacity to perform a range of organizational routines for purposes of delivering products and services to the market in a way that outperforms competitors. Distinctive capabilities are information based knowledge systems. The competitor in ability to duplicate the distinctive capabilities (Grant 1991) on which competitive advantage is founded is suggested as a key source of sustainable competitive advantage.

Enduring success requires sustainable competitive advantages and implies continuous improvement and innovation (Han et al, 1998; Lewis, 1993). Given the transience of any advantage, business strategy becomes a means to create competitive advantage faster than one’s rivals mimic your current advantages. Indeed, the management of such change becomes an innovation-based source of competitive advantage (Porter, 1998). Changes for strategic advantage include: technology, people and culture, strategy and structure, and products and services (Daft, 1998). According to Willard (2002), one important way to win a competitive position in turbulent market is through application of innovation strategies.

## **2.7 Factors Influencing the Development of Innovation Strategies**

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. 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).

Strategic innovation is the ability to create and revitalize the business idea and concept of the company by changing both the market of the company and the competencies and business system of the company. In this way, strategic innovation is concerned with developing the entire company. Evidently, organizations need to be more innovative and think proactively in their strategic management. As far as analysis of strategy is concerned, the adoption of strategies (whether collaborative strategy or competitive strategy) is thus important in managing innovations and in making the innovation happen. When the resources and capabilities required in the diffusion of innovation are not available within an economic entity, it is likely that innovators adopt collaborative strategy and vice versa. However, the innovatory strategies employed by innovators along the stages of innovation can change over time. The changes of the strategies of the innovator in the light of ever-changing market competition, in turn, influence the progress of innovation.

The degree of innovation reflects the extent of new knowledge embedded in an innovation (Dewar and Bulton, 1986, Ettlie, 1983) and learning from market is a key source of innovation. Entrepreneurial firms pursuing innovation based competitive strategy build and nurture distinctive market focused learning capabilities, which enables them to outperform their competitors by creating superior value to their customers. The process of development of innovation strategy at the firm level depends upon a number of interrelated factors which range across all sections of a firm and is strongly influenced by

interplay of many components in the firm's external environment. According to Mansfield, (2002), the sources of firm's innovation process can be attributed to the firms' entrepreneurship; market focused learning capability and organizational learning intensity. These factors also define the firm's sustainable competitive advantage.

The firm's specific characteristics are most important determinants that explicitly influence the innovation behavior. These are combination of factors including firm's contextual variables, managerial and employment structures, organizational structure, technological infrastructure and staff skill development (Mansfield, 2002). Entrepreneurship was taken as a firm behavior in which the firm displays innovativeness, proactiveness and risk taking propensity in their strategic decision making. The Entrepreneurial firm is generally distinguished in its ability to innovate, initiate change, and rapidly react to change flexibly.

Learning from market changes has emerged as a key source of innovation and firm performance particularly in the market driven firm perspective (Slater and Narver, 1995). This approach argues that to be effective innovators, organizations should constantly scan the horizons for new opportunities to satisfy their customers. Generating innovative ideas through collection and dissemination of market information is a starting point for innovation. Knowledge of market preferences reduces the degree of incompatibility of new products with the customer's needs; it is likely to enhance adoption and success of innovations (Cooper and Kleinschmidt, 1987). Firm's environmental conditions indirectly influence innovation strategy i.e effect of government policies, the role of financial systems and initiatives cultivating innovative activities.

The firm's external networking configuration can also influence innovation strategy of the firm. The network consists of firm's technological relationships including technological collaborations, technology transfer relationships and technical feedback with other firms, customers and agents (Kelly and Brooks, 2008).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter explains the research design of the study as well as the data collection method and analysis.

### **3.2 Research Design**

This study was a case study since the unit of analysis is one organization. Case study designs are appropriate when in – depth information is desired for describing phenomena of interest in a single unit study ( Kothari, 1990). Kandie (2001) argues that a case study is a form of qualitative analysis where studies are done on institutions and from the study, data generalization and inferences are drawn. The study method gives in-depth information on the effectiveness of innovation strategies adapted by the National Bank of Kenya Ltd.

### **3.3 Data Collection**

The researcher collected both primary and secondary data for this study. Primary data was collected using an interview guide. The interview guide had open-ended questions which enabled the researcher to collect qualitative data. The interview guide was administered through face interviews to allow for further probing. Secondary data was collected from the bank’s strategic plans.

The respondents consisted of five General Managers and five Managers in planning, product development, and ICT, Marketing and Relationship divisions. The respondents were considered to be involved in the formulation and implementation of policies regarding innovation strategies in the bank. The researcher considered the categories of staff to be in a position to offer valuable information regarding the Bank’s innovation strategies.

The interview guide comprised of three sections. The first part comprised of general questions relating to the respondents, part two related to the application of innovation

strategies at NBK to create a SCA, and part three identify factors that influence development of innovation strategies.

### **3.4 Data Analysis**

The data collected from the interview was edited for completeness and consistency. Given that data was qualitative in nature, content analysis was used to analyze the data. According to Creswell (2003), content analysis is a technique for making inference by systematically and objectively identifying specified characteristic of messages and using the same to relate trends.

The content of the responses obtained after carrying out the interviews was therefore analyzed to search for relationship between application of innovation strategies and sustainable competitive advantage. The analyzed information enabled the researcher identify, interpret and make a scholarly judgment on the innovation strategies applied by the bank in creating a sustainable competitive advantage in the industry.

## **CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION**

### **4.1 Introduction**

This chapter presents data analysis, interpretations and discussions. Information in this chapter is divided into two sections. The first section details the analysis of general information of the respondents while the second section deals with analysis of data on the two objectives based on descriptive statistics.

The aim of this study was to investigate the application of innovation strategy on sustainable competitive advantage with focus on National Bank of Kenya (NBK) Limited. The chapter discusses findings from the analysis. Data was interpreted using content analysis. The successful application of innovation strategies is significantly enhanced by ensuring that the bank's reward and sanction system reinforces the planning process.

Such is the case at NBK, and therefore it is the current challenge the management of NBK has to deal with this aspect of competitive advantage to ensure efficient and effective as well as quality service delivery to its customers. Innovation strategies for NBK are formulated by the executive committee at the headquarter (National Bank Building) and then communicated and implemented through the various business units and branches. The top management team is responsible for the implementation of operational innovation strategies and policies and is empowered by the Board to make general and operating business decisions. The Board must ratify all innovation strategy and/or policy decisions.

The researcher interviewed the respondents using an interview guide. Some of the respondents could not be accessed due to work commitment while others were on leave. The researcher managed to interview 7 of the respondents.

In order to achieve the main purpose of this study, the researcher found it useful to find out the general information of the respondents. The general information of the

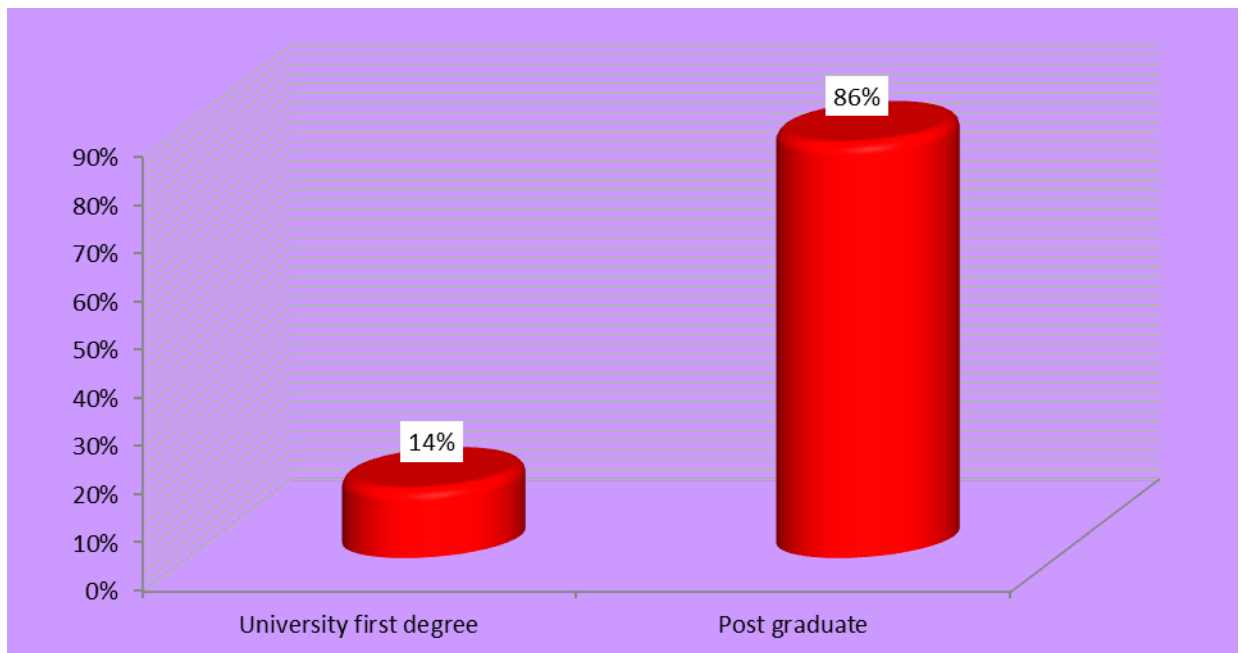
respondents included employee position in the bank, level of education, work experience and the department.

The respondents included top and middle level management who are involved in development of strategy in the bank.

The respondents were asked to indicate their position in the bank where the study established that 3 were general managers while the other 4 respondents were managers in charge of planning, product development, ICT and marketing.

The study sought to find out the respondents level of education. From the findings, majority 6(86%) of the respondents had attained postgraduate qualification while 1(14.29%) had attained first university degree. It was also established that in addition, the respondents had attended many other short courses both in-house and outside on the job training. Figure 4.1 displays the study findings.

**Figure 4.1: Respondents Level of Education**



From the findings, majority of the respondents had attained academic qualification commensurate with their job designation and thus knowledgeable about the strategy formulation and implementation.

The study found it necessary to find out the respondents years in service as employees of National Bank of Kenya. Based on the findings, majority (57%) of the respondents had over 10 years experience while 29% had between 5-10 years. It also reveal that 14% of the respondents had an experience not exceeding 5 years.

## **4.2 Application of Innovation Strategies to Create a Sustainable Competitive Advantage**

One of the objectives of the study sought to find out the application of innovation strategies at NBK, to create a SCA. The respondents were interviewed to answer the resultant research question as discussed in the following sub sections.

### **4.2.1 Mission and Vision**

The researcher sought to find out whether National Bank of Kenya had a formal documented mission and vision statements. The respondents confirmed that the mission and vision statement was indeed documented and was part of the overall marketing/strategic plan. The banks vision states “To be the preferred bank in the provision of comprehensive financial solutions in the region” while the mission states “At National Bank, we are dedicated to excellence in providing competitive financial solutions, meeting the changing needs of our customers, being a responsible corporate citizen, providing attractive opportunities to our employees and improving shareholders value”. The interviewed employees also indicated that the mission and vision statements are reviewed after a period of five years together when the entire strategic plan is also reviewed.

### **4.2.2 Innovation strategies used by NBK**

The study also sought to find out whether National Bank of Kenya had an innovation strategy. According to the respondents, the bank had an innovation strategy which is part



of the overall marketing/strategic plan. It was also established that the current strategy was formulated in the year 2011.

The bank innovation strategy is primarily driven by the growing level of competition and the rapid pace of change in the banking industry.

#### **4.2.3 Product Innovation Strategy**

The study reveals that NBK uses a number of innovative strategies to create sustainable competitive advantage. The bank uses innovative pricing strategies to attract clients while ensuring they stay ahead of their competitors. The bank also uses first mover advantage and ideally becomes a game changer in the financial sector in the country. The bank also competes on USP and therefore can sell a seemingly generic product at a premium. The respondents reported that in the last five years, the bank has made five innovation strategies. It is worth noting that the respondents were of the view that the bank needs to adopt more effective strategies in order to stay ahead of their competitors. The banking industry faces stiff competition from other players such as the telecommunication firms and retail outlets, insurance companies and Saccos.

The study found out that product innovation strategy employed include creating and nurturing strong customer tailor made products through leveraging on technology and reengineering of business. Tailor made products like Taifa savings account, Ahadi savings account for both personal and business accounts. According to the interviewee this was adopted owing to its Brand names and low charges. Premium banking services was also introduced to meet the needs of high net worth customers who prefer preferential treatment and don't wish to queue in the bank. The bank has also adopted the use of internet banking to break geographical barriers thus enabling customers to transact without necessarily having to come to the bank.

The bank has established strong dominance in the public sector and has tailored products and services to suit this particular segment for example salary processing for big corporate institutions like TSC, DOD and others as well as leveraging technology to

connect its system with other big clients like KRA, KEBS, KQ and KPA for ease revenue collection.

The bank has capitalized on innovative product development strategies to create sustainable competitive advantage. The bank uses four basic strategies for competing through product development. This includes competing through: product proliferation, value, design and through innovation. In using innovation to compete, the bank has developed strong technological culture and world class capability to develop innovative products. The organization has also developed a clear sense of the customer (through a combination of research and intuition) and the ability to translate product concepts into attractive saleable products. The study found out that the innovative strategies employed revolve around creating and nurturing a strong, customer tailored made products, aggressive marketing, leveraging on technology to create innovative delivery channels that make banking services easily accessible to the customers, nurturing strong, learning and innovative culture, continuous improvement and reengineering of business processes. The study revealed that some of the innovative delivery channels used by the bank include: - the ever expanding branch network, mobile and internet banking, agency banking and ATMs. The bank has established a 24/7 call centre to handle customer complaints and issues promptly. The call center also acts as a one stop centre on all issues relating to the bank

The Bank has also introduced new Customer Value Propositions developed for Business/SME banking and relationship managers for corporate clients. This has enabled the bank to lock their corporate customers from competitors.

The study found that the bank has launched Islamic Banking division to offer shariah compliant products and services with dedicated branches offering full range of Shariah compliant services to customers professing the Muslim faith. In addition an Islamic banking system has been installed to efficiently serve this market segment. This has significantly contributed to the growth in balance sheet.

The Bank has introduced a number of products and services in order to meet the needs of its customers. The products include AHADI saving account which is tailored for savings

only for both personal and businesses. LPO financing is also another product tailored towards meeting the needs of SMEs which require funds to meet orders for supply of goods and services.

#### **4.2.4 Process Innovation Strategy**

The respondents reported that the bank had introduced process innovation strategy. The identified process innovation strategy includes installation of a robust and superior ICT core banking system. The bank has also automated numerous back office processes meant to enhance convenience and save time, minimize errors to serve customers better. The bank has also centralized some of the back office work into head office including account opening and related activities, credit application processing and credit administration work. This has freed time at the branches and eliminated wastage thus improves efficiency. The process innovation strategy has made the bank agile, flexible and accessible to its customers.

The study found out that some of the processes include leveraging on technology to create innovative delivery channels that make banking services easily accessible to the customers, nurturing strong, learning and innovative culture, continuous improvement and reengineering of business processes. The study revealed that some of the innovative delivery channels used by the bank include: - the ever expanding branch network, mobile and internet banking, agency banking and ATMs. The bank has a presence in all major towns and has branches in major airports operating on 24 hour basis.

The bank has also introduced innovative processes aimed at making the bank accessible and flexible and making the customer the centre of all processes. The bank has streamlined operation and processes through centralization in order to create uniformity and ensure seamless flow in service delivery to customers.

The automation of back office function was aimed at cutting cost and increasing efficiency. This according to the respondents has enabled the bank to standardize its process and procedures thus improvement in turnaround time in service delivery.

#### **4.2.5 Human Resource Innovations**

Based on the findings, the bank has established business units where the general managers and division heads are tasked with business mission. National bank of Kenya has also consolidated the support functions so as reduce the number of divisional level heads and rearranged them to supporting the business units. The bank has undertaken restructuring and is guided by performance management system.

The study has revealed that organizational learning and continuous training of staff have an effect on innovation strategy since it enables staff to acquire and retain cutting edge knowledge and skills and thus able to continuously seek new ways of doing things.

The study showed that management has tried to foster and maintain an innovative culture as atop priority where employees are provided incentives to be innovative in the work process. The dynamic leadership and open door policy has gone a long way in fostering a culture where all employees are free to contribute in the way the bank interacts with its customers.

The bank has focused 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. One of the most important roles that organizational culture plays in sustaining competitive advantage may be through its maintenance support for capabilities through the socialization of new employees.

The bank has developed clear compensation and promotion policies for its employees. The benefits given to employees are commensurate to their dedication to their respective work. In as much as most employees interviewed were satisfied with the culture of NBK communication. The bank management has ensured a smooth flow of both up-down and down- up flow of information. It was also revealed that the bank has also developed clear guidelines on determining/ selecting prospective employees for various training and development opportunities. In an effort to encourage self development and continuous learning the Bank offers staff with interest free loans in order to ensure right skills and knowledge is impacted on its employees.

For employees to be productive, the management has availed the right equipments/

materials/ facilities e.g. offices. By doing this, the employees feel much relieved and comfortable in their workplace. The respondents also reported that team building activities had been initiated to enhance staff morale and enhance stronger bonds among staff.

#### **4.2.6 Role of Organization Structure in Supporting Innovations**

According to the findings and review of the bank's policy documents, the study revealed that the bank recently changed its organizational structure to support innovations. All the general managers and division managers are now assigned business focused roles. The bank has also created business units and support units. This implies that the organization structure of the bank has been structured in a way to involve all levels of staff in the innovation process. According to the managers, flat structures seem to compliment innovation initiatives in some of the most cutting edge technologies. High levels of innovation are required in industries that are very competitive. In supporting the innovation process, the leadership and the management of the bank has been from time to time requested the employees to come up with new product development ideas as a way of employee involvement in product innovation.

Some of the respondents felt that bank management and leadership is the one driving innovatin, leaders are at the forefront and able to champion the cause, it also gives direction and ensures the vision and mission of the bank is sustained to achieve the desired results.

The respondents expressed their dissatisfaction with the bank's capability to acquire knowledge and technology through external linkages and networks. They further indicated that this can be enhanced by changing the organization structure to allow for free flow of ideas from the lower cadre staff to the top management level. In the bank, flat structures are now being used to facilitate free flow of ideas in order to inculcate the culture of innovation.

#### **4.3 Factors Influencing Development of Innovation Strategies**

The second objective of the study sought to identify the factors that influence development of innovation strategies at National Bank of Kenya Limited.

From the findings, the respondents indicated that the factors influencing development of innovation strategies in the bank included changing needs of customers, technological changes and management commitment and organisation's culture.

#### **4.3.1 Changing Customer Needs**

Offering superior customer service has become critical element in the banking industry and requires companies to continually enhance customer experience and satisfaction, to deliver quality in a competitive environment. Customer satisfaction and customer service are two of most repeated catch phrases in major organizations. Managing the implementation and execution of innovation strategy is an operations-oriented, make-things-happen activity aimed at shaping the performance of core business activities in an innovation strategy-supportive manner. Management's handling of the innovation strategy implementation process can be considered successful if things go smoothly enough that the company meets or beats its innovation strategy and financial performance targets and shows good progress in achieving management's innovation strategy vision geared towards efficient and sustainable competitive advantage to its intended clientele.

The study revealed that one of the main factors that influence the development of Innovation strategy is the needs of the customer to suit the ever changes in the market. The Bank has established a strong marketing department to constantly carry out market research and marketing intelligence in order to help the bank anticipate and adapt to changes in the market place. The Bank has endeavored to establish and nurture a strong marketing learning capability which has enabled it to be competitive by creating superior value to its customers.

Due to the competitive nature of the banking industry, the bank must constantly scan the horizons for new opportunities to better satisfy their customers. The study found out that the bank has recruited new talents to reinforce critical department like marketing and product development in order to bring innovative ideas through the collection of market information necessary for new product development which meet the needs of the customers.

Customer sustainable competitive advantage refers to the processes and actions that make it easier for customers to do business with a company. That is, an organization can use these customer contact points to communicate their understanding of the ability to meet and implement the necessary innovation strategies to satisfy customer needs.

The NBK innovation strategy is more customer centric and all function are customer focused. This is evident from the fact the bank centralized all back office work to be handled at head office including account opening and related activities, credit application processing and credit administration work. This has freed time at the branches and eliminated wastage thus improves efficiency. This has made the bank agile, flexible and accessible to its customers.

.NBK has also always aimed to be at the financial heart of the community and have been striving hard to remain close to the customer, assess the market needs and be responsive to the evolving requirements of the business community, the industrial and manufacturing sector and indeed, every segment of the economy.

Successful execution of innovation strategies will require banks to take a component based view of their business and assess each component to determine where and how it should be managed. NBK will need to identify which components (or business modules) are truly differentiating and innovative, as opposed to those components that would be better served by leveraging best-in-class specialists.

At NBK procedures that focus on customer service satisfaction, are in line with its vision and mission statement.

To enhance the relationship between application of innovation strategy and the customer service, NBK has converted competitive methods in a way that conforms to a cost leadership, differentiation, or focus generic innovation strategy type. The bank had been reporting quality innovations which have helped it remain competitive in the market.

### **4.3.2 Management Commitment and Organization's Culture**

Strategy formulation is the role of top management of any organization and therefore management is a determining factor for development of innovation strategy. The study found out that the bank's top management is responsible for the formulation and implementation of the overall strategy of the bank. This is visible from their commitment to the bank's transformation in availing adequate funding and resources for new product developments, branch expansions, and rebranding of the bank.

The study revealed that the bank has created a conducive environment that support innovation and builds an innovative culture. The bank rewards employees for their creativity and development of critical skills and capabilities and in order to attract and retain staff with skill and core competence. It is important that the stakeholders support and own the innovation strategies as they are the ones to implement the strategies in place and nurture it to success. Top management support of innovative strategies is critical in order to avail resources for development and implementation of strategies, reward for innovative employees' in order to encourage and nurture creativity and innovation within the organisation. Some of the respondents felt that Bank management and leadership is the one that drives the innovation since they are at the forefront and able to champion the cause, gives direction and ensures the vision and mission is sustained to achieve the desired goal.

Innovation strategy-focused organizations require that all employees understand the innovation strategy and conduct their day-to-day business in a way that contributes to the success of that innovation strategy. Having superior skills/capabilities of personnel, high level of service quality, continuous learning on how to do things better, effective leadership focused on continuous improvement of the bank's value adding systems and superior/valuable resources are key to creating a sustainable competitive advantage.

Organization learning and continuous training is also another issue cited by the respondents to influence development of innovation strategies. From the findings,



organizational learning and training enables staff to acquire and retain cutting edge knowledge and skills which ensures continuous injection of new ways of doing business.

### **4.3.3 Technological Factors**

Technology is one of the key elements that drive innovation in the banking industry as it assure the survival of the entity. Technology continues to fundamentally realign business relationship between the bank and its customers and has become a key influencer in the development of innovation strategies. Technology has enabled the bank to offer E-payment solutions and Real time online electronic transfer of funds.

The study found out that the bank has leveraged on technology to create innovative delivery channels that made banking services easily accessible to the customers and nurturing strong, learning and innovative culture, continuous improvement and reengineering of business processes. The study revealed that some of the innovative delivery channels used by the bank included Mobile and internet banking services, agency banking, Islamic banking, trade finance and off site ATMs. The bank has also been able to automate all functions and technological configuration and collaboration with its corporate clients. The bank has technological cooperation with KRA, KEBS, KPA, NHIF and KQ whereby the bank can verify taxes, levies or payments due from customers while the corporate customers can confirm on their system all payments made without necessary coming to the bank.

The changes in government policy can also indirectly influence innovation strategy as it may lead to initiatives for cultivating innovative activities, for example agency banking and M-swari concept and M-pesa services which has revolutionize mobile banking services.

The study also found out that changes in the regulatory environment as well as other changes in the bank external environment have an influence in the development of innovation strategies. Due to the competitive nature of the banking industry, the bank must constantly scan the horizons for new opportunities to better satisfy their customers. The study found out that the bank has recruited new talents to reinforce critical department like marketing and product development in order to bring innovative ideas

through the collection of market information necessary for new product development which meet the needs of the customers.

#### **4.4 Discussion**

From the study, it is evident that the customer is the main focus in the bank's innovation strategy. The bank has endeavored to continuously innovate and reengineer its processes and operations in order to meet the ever changing needs of its customer. Superior and quality customer service is key to winning and retaining clients. The service concept serves as the foundation upon which the components of the sustainable competitive advantage system are built. It also provides a framework of evaluating services in an ongoing basis as those services change and improves.

Service and product support are increasingly critical elements in the achievement of customer satisfaction and winning new markets. The bank established customer relationship managers for the corporate customers in order to better understand the customer's needs and also cross sell other bank products to the customer and thereby ensure retention of the customer.

A critique here is that the researcher believes that in reality some innovation strategies are planned and some innovation strategies just emerge from the actions and decisions of organizational members at NBK. The researcher wishes to state that planned innovation strategy and realizing, or emergent innovation strategy evolve hand-in-hand and affect each other in the process of innovation strategy implementation, where innovation strategies are communicated, interpreted, adopted and enacted towards efficient and sustainable competitive advantage. The management of NBK has overlooked the adaptation of the best innovation strategies that assure results in terms of customer sustainable competitive advantage which is the bank's core business, in the current competitive banking environment.

Another problem is that some top-level managers believe innovation strategy implementation is "below them" something best left to lower-level employees. High level of top-management's assume the role of planning and thinking innovation strategy,

and assume the role of lower level “grunts” is simply to carry out the top-level’s demands and implementation requirements. Empowerment of the employees at lower-levels to implement innovation strategies is considered an essential aspect. They also need to be brought closer to accepting the importance of innovation strategy implementation for satisfactory sustainable competitive advantage to their clients.

Even though innovation strategy implantation at NBK remains a top priority for its success, it is faced with the challenge of creating its plans that are breakthrough in their orientation rather than “more of the same,” getting all stakeholders to commit to the organization’s innovation strategies and to follow through on implementation of critical activities, and decreasing cycle time in the planning process. The bank has based its innovation strategy management process on the fundamental notion that an effective innovation strategy offers unique opportunities for market differentiation and long-term competitive advantage. Innovation strategy implementation is not an easy task by any means. The future of an organization to successfully implement a innovation strategy is been attributed to the various obstacles including lack of management support and understanding, lack of sufficient training, failure to allow sufficient time for the evolution.

The respondents stated that the main challenges in the development and implementation of innovation strategies include resistance from the key stakeholders which include staff, high cost of projects, lack of skills and innovativeness. It is important that the stakeholders support and own the innovation strategies as they are the ones to implement the strategies in place and nurture it to success. Suggested solutions were continuous training of staff, top management support of innovative strategies is critical inorder to avail resources for development and implementation of strategies, reward for innovative employees’ inorder to encourage and nurture creativity and innovation within the organisation. According to Mansfield (2002) the firm’s specific characteristics are most important determinants that explicitly influence the innovation behavior. These are combination of factors including firm’s contextual variables, managerial and employment structures, organizational structure, technological infrastructure and staff skill development.

The respondents agreed that some of the innovation strategies can be duplicated by the competitors. However, the bank has tried to come up with unique innovation that cannot be matched in the industry. The bank invest substantial amount of money to support the implementation process and due to promptness, it becomes difficult for the competitors to match their innovation strategies. The study further revealed that if the strategy is based only on price, then it could easily be matched by the competitors.

The some of the respondents explained that while the bank has established linkages with several public and corporate institutions, a lot still needs to be done to fully utilize and realize the benefits of acquiring knowledge and technology through external linkages and networks. They further indicated that this can be enhanced by changing the organization structure to allow for free flow of ideas from the lower cadre staff to the top management level. In the bank, flat structures are now being used to facilitate free flow of ideas in order to inculcate the culture of innovation.

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

### **5.1 Introduction**

This chapter summarizes the findings and make conclusion based on the findings. The recommendations of the study and areas for further research are also presented.

### **5.2 Summary**

The objective of this study was to determine the application of innovation strategies to create a sustainable competitive advantage. The research findings show that the bank has a visible brand, highly skilled employees and products and services with wide market coverage.

The study revealed that the interviewees are aware of the strategies and the challenges that the organization is facing in the process of achieving its objectives. They are knowledgeable about the operations of its strategy formulation and implementation in the bank. The researcher felt that the results obtained from the respondents reflects the true position as in the organization.

NBK operates in a complex dynamic highly competitive and regulated environment. The bank has endeavoured to modernize its infrastructure through employment of new technologies and continuous training and maintaining workforce that is motivated and willing to steer the bank towards the attainment of its objectives.

The study reveal that the mission and vision statement was indeed documented and was part of the overall marketing/strategic plan which is reviewed after a period of five years together when the entire strategic plan is also reviewed. The bank uses innovative pricing strategies to attract clients while ensuring they stay ahead of their competitors. The bank also uses first mover advantage and ideally becomes a game changer in the financial sector in the country. The bank also conducts market survey in order to tailor product and services that meets the needs of the customer. The respondents reported that in the last five years, the bank has made five innovation strategies. It is worth noting that the respondents were of the view that the bank needs to adopt more effective strategies in

order to stay ahead of their competitors. The banking industry faces stiff competition from other players such as the telecommunication firms and retail outlets, insurance companies and Saccos.

The identified process innovation strategies include installation and implementation of ICT core banking system. The bank has also automated numerous back office processes meant to enhance convenience and save time, minimize errors to serve customers better. The bank has also centralized some of the back office work into head office including account opening and related activities, credit application processing and credit administration work.

As a human resource innovation strategy, the bank conducts internal recruitments where the bank has established internal vacancy broadcasts to fill any positions arising and the required competencies, skills and academic qualifications can be met by employees of the bank. Additionally, the bank conducts external recruitments where they recruit key talent into some of the roles that are new to the bank and or are created in the new organization structure. The bank is conscious that outside experience is a necessary catalyst for changing for better.

Regarding work environment, the respondents indicated that the bank has creating a conducive environment for the staff development and nurture creativity and innovation. For employees to be productive, the management has availed the right equipments/ materials/ facilities e.g. offices. By doing this, the employees feel much relieved and comfortable in their workplace. The respondents also reported that team building activities had been initiated to enhance staff morale and enhance stronger bonds among staff. According to the findings and review of the bank's policy documents, the study revealed that the bank recently changed its organizational structure to support innovations. All the general managers and division managers are now assigned business focused roles. The bank has also created business units and support units. This implies that the organization structure of the bank has been structured in a way to involve all levels of staff in the innovation process.

From the findings, the respondents indicated that the factors influencing development of innovation strategies in the bank included customer needs, technological changes and the

firm's contextual variables which include managerial and employment structures, organizational structure and culture as well as staff skill development.

Innovation is driven by new market/ product development. The main challenges in the development and implementation of innovation strategies include resistance from the key stakeholders which include staff, customers, and suppliers among others, the high cost associated with formulation and implementation as well as the rapid changes in technology leading to continuous innovations.

The respondents agreed that some of the innovation strategies can be duplicated by the competitors. However, the bank has tried to come up with unique innovation that cannot be easily matched in the industry. The bank invest substantial amount of money to support the implementation process.

### **5.3 Limitation of Study**

This study was limited to an individual organisation and thus may not provide appropriate information for policy formulation in the industry.

The study covered only NBK and cannot be inferred to other organisations and show industry trends.

The study was also limited by time since the researcher had to work within a limited time frame and thus exposure of the subject may have been constrained.

### **5.4 Conclusion**

Organizations succeed in a competitive marketplace over the long run because they can do certain things their customers' value better than their competitors. Only firms who are able to continually build new strategic assets faster and cheaper than their competitors will earn superior returns over the long run. In a struggle to survive, organizations are continuously looking for a 'sustainable competitive advantage'. As industries mature and companies can no longer differentiate themselves by attributes such as products or pricing, organizations seek alternative ways of survival. Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company.

According to the findings, the study concluded that the sources of sustainable competitive advantage were found to be internally generated. It was established that these sources

originated out of the possession of superior and high quality internal capabilities and competencies. The sources that were found to be highly significant in generating sustainable competitive advantage include: superior skills/capabilities of personnel, high level of service quality, continuous learning on how to do things better, effective leadership focused on continuous improvement of the bank's value adding systems and superior/valuable resources.

Innovation strategies alone are not sufficient to lead to competitive advantage. Firms continue to emphasis on innovation strategies since it may lead to sustainable competitive advantage in some cases or may lead to competitive survival.

## **5.5 Recommendations:**

In line with the findings, the study makes the following recommendations;

The bank should develop strong research and development capabilities-NBK can gain a strong competitive advantage in its industry if it has strong research and development capabilities. Strong research and development reflects in the bank's product development processes. Banks with strong research capabilities often lead the market with innovation.

Develop superior product or customer support. Any organization that has the capacity to quickly respond to customers need and provide subsequent support will have a competitive advantage over competitors.

Develop superior database management and data processing capabilities-This source of competitive advantage is quite clear and understandable. An organization that demonstrates the capacity to process data speedily will have a competitive advantage over other firms with lower processing capacity. This source of competitive advantage usually plays itself out in the banking industry and the service industry in general.

Invest on strong and innovative marketing strategy- In the market place, the company with the best marketing strategy wins. No doubts about it. The competition to gain a stronger competitive advantage in the marketplace is the reason why corporations spend millions of shillings on marketing research and advertising annually



## **5.6 Recommendations for Further Research**

The analysis of the empirical study has indicated a number of relevant issues that the research project did not investigate, but which might be important for further research on application of innovation strategies to create a sustainable competitive advantage. This study was conducted in National Bank of Kenya Limited; other studies should involve banks in Kenya and explore the innovation strategies that create SCA in order to obtain more holistic information.

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## **APPENDICES**

### **Appendix I: INTERVIEW GUIDE**

This Interview guide is designed to collect data from the National Bank of Kenya Ltd on Application of Innovation Strategies to create a Sustainable Competitive Advantage. The data shall be used for academic purposes only and will be treated with strict confidence.

**The following sections provides sample questions to be used carrying out the interview.**

#### **PART 1: RESPONDENT'S BACKGROUND REVIEW**

- 1) What position do you hold in the Bank?
- 2) What's the highest level of education you have attained?
- 3) How long have you worked in the Bank?
- 4) In which department or division do you work?

#### **PART 2: APPLICATION OF INNOVATION STRATEGIES TO CREATE A SUSTAINABLE COMPETITIVE ADVANTAGE**

- 1) Does your organization have a formal documented mission and vision statements?
- 2) How often are the missions and vision statements reviewed?
- 3) Does your organization have an innovation strategy in place?
- 4) Which year was the current Innovation strategy developed?
- 5) Which Innovation strategies does NBK use to create a SCA?
- 6) How many Product Innovation strategies has the Bank made in the last 5 years?
- 7) What Process Innovation strategies has been introduced?
- 8) What steps has the Bank taken to enhance HR Innovations?
- 9) What wellness activities has the bank taken to improve the working condition of the employees?
- 10) How will you consider the Organizational structure in supporting Innovations within the Bank?

- 11) How has the leadership and management of the Bank been supporting the Innovation process?
- 12) How effective would you consider the innovation strategies adopted by the bank in creating a sustainable competitive advantage?

### **PART 3: FACTORS THAT INFLUENCE APPLICATION OF INNOVATION STRATEGIES**

- I. What factors influence development of Innovation strategies in the Bank?
- II. What challenges are there in the development and implementation of Innovation strategies?
- III. How easy is it for your competitors to match your innovation strategies?
- IV. What is the Bank's capability to acquire knowledge and technology through external linkages and networks?