TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIVERSITY EXAMINATION FOR:

MASTERS OF BUSINESS ADMINISTRATION

BSM 5101: MANAGEMENT OF INNOVATIONS

END OF SEMESTER EXAMINATION

SERIE MAY 2016

TIME: 3HOURS

<u>Instructions to Candidates</u>

You should have the following for this examination
-*Answer Booklet, examination pass and student ID*
This paper consists of **FIVE** questions.
Attempt **Question ONE (Compulsory)** and any other **THREE** questions.
Mobile phones are not allowed in the examination room.
Do not write on the question paper.

Question ONE

Read the following **case Study** and answer the questions.

a) Outline ways in which banks can manage technology innovations ***(15 marks)***
b) What are the long term benefits of technology innovations ***(10 marks)***

Case Study Digital Innovation

Kenya is known globally as the Digital Finance Services (DFS) success story.

The country's innovative use of mobile phone technology to drive financial inclusion has been widely acclaimed around the world.

Justifiably, in a recent survey, 2015 Brookings Financial and Digital Inclusion Project Report, by Brookings Institute, a US-based think tank, studying access to affordable financial services, Kenya achieved the overall top score for its financial inclusion efforts largely due to the growth of its digital finance services.

The Central Bank of Kenya (CBK) has been an integral part of the financial revolution, given the aspirations laid out in the development blueprint, Vision 2030.

The blueprint envisages a deeper and broader financial sector that contributes to improving the livelihoods of the majority of Kenyans, finances the growth of businesses, and funds the ambitious and transformative flagship projects underpinning our development goals.

The outcomes of an enabling legal and regulatory framework, investment by dynamic private sector players, and adaptive and receptive consumers have been transformative.

According to a 2015 report by GSMA, funded by Bill & Melinda Gates Foundation, access to formal financial services has increased to 67 per cent of Kenya's bankable population in 2013 from 26 per cent in 2006.

The GSMA report further notes that mobile phone financial services have played a key role in this. What began as money transfer services has now become a platform with a menu of financial services that also includes payments of goods and services, savings, credit, insurance, pensions, and even capital market products.

However, the CBK notes that much more still remains to be done, as 25 per cent of bankable population still cannot access any form of financial services.

Importantly, the regulator also notes that in order to optimize on the already banked population, there is a need to enhance the usage and quality of financial services.

More effort needs to be focused on bringing down the costs of financial services and improving the consumer experience in accessing the same.

In order to address concerns around usage and quality of financial services, commercial institutions globally are quickly zeroing in on digital banking as a necessary part of every lender's way to manage latter day client preferences and relationships.

This is based on the growing acknowledgement that a strong financial services industry can have a significant effect in supporting economic development.

Global precedents indicate that digital banks are enjoying an increased customer base, betting on the offer of a new customer experience with quicker processing, greater convenience, and anytime, anywhere availability.

New firms are also entering the field, including MovenBank from the US, Knab in the Netherlands, Alior Bank in Poland, and Fidor Bank from Germany, all of whom embrace social networks, mobile banking, and customer insight to better meet their clientele's needs.

In developing countries, the adoption of digital banking services may still be met by skepticism due to ingrained cultures about traditional banking.

Regardless of these scenarios, various studies acknowledge the fact that young customers prefer Internet and mobile banking and would seldom visit a bank branch. This promises a ripe customer base for financial institutions, hence mobile wallets are an imperative.

The adoption of DFS offers unprecedented growth opportunities. It not only promises accelerated economic growth, due to the reduced operational costs, but also, it will yield significant changes in socio-economic practices, while driving financial inclusion.

According to a 2013 World Bank study, it is anticipated that a 20 per cent increase in financial inclusion could lead to employment growth of 1.4 per cent.

Assuming a 20 per cent incremental change in financial inclusion in Kenya in the next five years, DFS alone could accelerate gross domestic product growth rate in the country by seven per cent.

For Kenya, driving our boundaries to achieve this rate of socio-economic growth will require continued and deeper public-private partnerships, the development of robust consumer protection system and the development of products based on a deep understanding of consumer behaviour, needs, and dynamics.

Further, according to a European Financial Management Association and A.T Kerney, study titled 'Banking in a Digital World', with digitization, another wave of value-chain disaggregation is likely to occur.

The demand for more sophisticated elements within the value chain, such as managing customer insight and closing the capability gap banks have with industry leaders, will open up doors for new entrants.

Big IT service providers and niche financial technology players are entering the market with innovative solutions.

And once customers get used to that kind of service, banks will need to react, either by shaping up their internal capabilities — a lengthy and expensive process — or by teaming up with new service providers.

The study further mentions that at a global level, non-bank players are gradually moving into providing what are traditionally known as banking services.

It outlines the much talked-about possible move into banking by telco players and large players such as Google and Amazon as another scenario that could disrupt the traditional banking industry.

The role of the banking industry therefore needs to be dynamic in order to keep up with the globalization movement, both at the procedural level and at the informational level.

In effect, such transformations will be a notable victory for the push towards improving the socio-economic status of the majority of Kenyans.

Question TWO

Explain the key factors influencing the innovation process ***(25marks)***

Question THREE

(a) Discuss in detail the different types of innovation ***(15 marks)***

(b)What are the key features of perspectives on Management Innovation ***(10 marks)***

Question FOUR

a) Explain the challenges facing the innovation process in organizations ***(15 marks)***

b) Provide possible solutions. ***(10 marks)***

Question FIVE

What conditions should managers put in place to invent and implement new management practices ***(25 marks)***