STRATEGIES ADOPTED TO ENHANCE COMPETITIVE ADVANTAGE BY COMMERCIAL BANKS IN KENYA

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DECLARATION

I declare that this project is my original work and has not been presented for a degree in any other university.

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REG. NO.: D61/64122/2013

This project has been submitted with my approval as the university Supervisor.

PROFESSOR JUSTUS MUNYOKI **DATE**

DEDICATION

I dedicate this work to the Almighty God and to my entire family for their encouragement and unending support. Special dedication to my parents, the late Dr Mathew Kimotho and Mrs. Lucy Kimotho for being my strength throughout my academic journey.

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I exalt my God for seeing me through this Project. It is by His grace and great love that I have been able to complete this project.

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ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
IPF	Insurance Premium Finance
IT	Information Technology
KCB	Kenya Commercial Bank
SMEs	Small and Medium Sized Enterprises
SOP	Standard Operating Procedure
SWOT	Strengths, Weaknesses, Opportunities, Threat

ABSTRACT

The study was on strategies adopted to enhance competitive advantage in commercial banks in Kenya. The question that the study sought to answer was what strategies are used by commercial banks in Kenya to gain competitive advantage in the Kenyan market. The study adopted a descriptive study design and the respondents were 38 banks. Data was collected using questionnaire and analyzed using SPSS. The results showed that licensing and strategic alliance are the two strategies that foreign-owned banks had used to penetrate the Kenyan Market. Other strategies that banks had used to gain a competitive edge here include decentralization of services, improving technological infrastructure and provision of foreign currency accounts. The strategies used by the various banks had been sustainable and they had improved competitive advantage. The key conclusion in this study was that even though all banks had strategic plans that they employed to give them competitive edge, these strategies were specific to their target market and goals and were not dictated by the industry. The main challenges that banks faced were competition, threat of substitute products and bargaining power of clients. Limitations of the study were that some of the subjects selected for the study were unavailable or unwilling to divulge certain information despite assurance of anonymity and confidentiality. Recommendations for future research would be to address areas that this research did not touch on such as comparing locally owned and international banks or focusing on specific banks as opposed to the industry in its entirety.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The concept of strategic management addresses three key areas: the goals of the organization, how they will be attained and how they will be evaluated. Strategic planning entails scanning of an organization's internal and external environment, strategy formulation, implementation, evaluation and control (Hofstrand, 2013). It is directly correlated to the performance of an organization and gives it competitive advantage. The quest for competitive advantage is the central focus in the field of strategic management, leading organizations to engage in planning meetings to set goals, study and analyze the market environment. In order to sustain competitive advantage, a strategy needs to give customers value for their money (Porter, 2008).

This study is driven by the structure-conduct-performance theory and Porter's five-force model, which give a market-based view of competitive advantage. It also looks at the resource-based view whose focus is on an organization's internal environment and the resources they have at hand that can drive competitive advantage (Srivastava, 2001). The focus of the study is the banking industry in Kenya and its trends in strategic planning and management.

Kenya currently has 44 licensed commercial banks and the industry has grown in the last decade with branches increasing by almost 100% and banking services becoming more accessible in the rural area. The motivation of the study is to find out the strategies that the banks have employed to ensure that they stay relevant in spite of the competition that comes with the growth and the challenges encountered since their inception in the country.

Globally, the banking industry has experienced slower growth following the economic recession that took place in 2007-08. From double-digit growth in 2006-07, the top 1000 banks experienced 2.7% growth between 2008 and 2010. The profits have since improved and returned to pre-recession levels. Emerging markets remained profitable during the worst phase of the recession whereas developed markets recorded huge losses (Capgemini, 2011). Kenya's banking industry is one of the emerging markets that experienced exponential growth between 2005 and 2011. This significantly increased the industry's ability to compete (SoftKenya, 2012), while also increasing competition. Banks therefore had to come up with strategies to stay relevant in order to attract clients.

1.1.1 The Concept of Strategy

Hunger and Wheelen (2011) define strategy as "a set of managerial decisions and actions that determine the long run performance of a company". Traditionally, too much bureaucracy and rigidity could wipe an organization from the market. The dynamics in the business environment therefore demand that firms adopt flexibility in their strategic management to achieve competitive advantage (Hunger & Wheelen, 2011).

According to Awuah (2011), the strategic management for banks should involve intense research and brainstorming, studying risks, measuring consequences and devising ways to mitigate and avoid them. It is only then that any decision is made on which strategy to adopt to offer growth for the banking sector as well as others. The strategic management of any organization is geared towards adding value and is usually a long-term approach. In its nature, strategic management is a proactive process because top management anticipates change and acts on it beforehand (Hofstrand, 2013; Aremu & Oyinlole, 2014). Having a strategy enables a business or firm to keep up with its competitors. A 1% change in strategic management for any business can result in about 23% change in organization performance (Aremu & Oyinlole, 2014).

1.1.2 Competitive Advantage

When an organization has competitive advantage, it is outstanding in its performance and has what it takes to win industrial wars (Kathumi & Mugenda, 2012). Competitive advantage is geared towards adding value to any organization by utilizing both human and material resources; as well as differentiating its products (Mnjala, 2014). In the financial industry, tangible resources are superior in creating sustainable competitive advantage and outstanding performances (Mnjala, 2014). Innovation and technological advancement are positively correlated to competitive advantage as companies that have more innovative solutions to meeting a need tend to create and sustain competitive advantage over others (Abou-Moghli, Abdallah, & Muala, 2012).

Information technology (IT) has profoundly transformed the banking sector as electronic banking has enabled banks incorporating it to achieve competitive advantage over those that have not. Other components that have given banks competitive advantage include more Automated Teller Machines (ATMs) and branches, increasing withdrawal limits; all which increase ease and convenience of consumers to access money and other services (Jegede, 2014).

Lastly, customer service is a critical component in competitive advantage and organization performance (Alhakimi & Alhariry, 2014). Banks that understand the concept of competitive advantage tend to study the competition's weaknesses through a SWOT analysis of the environment and aim at improving it in order to better meet the needs of their target market (Mnjala, 2014).

1.1.3 Strategy and Competitive Advantage

A company is said to have competitive advantage when it can boast of having reasonable superiority over its rivals (Porter, 2008). It achieves this by applying competitive strategies based on the industry they are in and their target market. There are three possible types of competitive strategies that an organization can employ in order to gain a competitive edge. These include offering the most favorable rates in the industry, using the differentiation strategy, and cutting a narrow niche in the market (Porter, 1980). In the banking industry, different banks have different variations of these strategies based on what has proven reliable over time.

1.1.4 Banking Industry in Kenya

Different countries differ economically and these differences are visible in the banking industry. Developed countries have more banks ranked in the top 1,000 banks worldwide as compared to emerging economies. The banking industry entails accepting money from clients from deposit repayable in the future, or money from current accounts accessible upon customers' demand, and lending and investing finances at the risk of the person employing the money. Currently Kenya has 43 licensed commercial banks and one mortgage finance institution which also operates as a commercial bank. The Central Bank of Kenya (CBK) is not included as a commercial bank. Twenty-eight of the local institutions are privately owned with three having significant shareholding by State Corporations and the Kenyan Government (CBK, 2016). Commercial banks in Kenya are licensed, regulated and supervised by CBK under Cap 488 of the Banking Act.

The banking industry in Kenya has been growing exponentially having recorded an increase of more than 100% in the number of branches within the last decade; with branches in the rural area growing by more than 150%. This has significantly advanced financial presence in the country and the aim of the government is to increase the industry's ability to compete internationally, which is evident in bank expansions to border countries namely Rwanda, Tanzania, Southern Sudan and Uganda (SoftKenya, 2012).

The ever-growing number of financial institutions serving the same limited pool of clients requires banks to actively keep up with the competition to remain afloat. Additionally, economic hardships among many Kenyans have resulted in difficulties in loan qualification and repayments and even bankruptcy in some cases. Banks have therefore had to constantly change strategy to retain clients who are moving in search of cheaper interest rates on loans and better interest rates on savings as well as more accessibility of services. The dynamics of business operations in the banking industry have increased tremendously over the years as the market has become more liberal. Developing competitive advantage is not only key but sustainability is also vital (Mnjala, 2014).

Direct sales strategy is the top most effective method used by majority commercial banks in Kenya (57.9%) to reach more customers in different regions and make market presence countrywide. It involves marketing and selling products directly to consumers away from a fixed retail location. The competition from foreign banks that are well established and with high capital investments pushes local banks even further to spread regionally to the customers in order to keep up with the competitors (Kathumi & Mugenda, 2012).

1.2 Research problem

Strategy involves a set of managerial decisions and actions that determine the long run performance of a company (Hunger & Wheelen, 2011). The strategy a bank adopts determines its competitive advantage. Competitive advantage is an advantage gained over competitors which makes an organization outstanding by offering customers greater value, either through lower prices and product differentiation. This can be through providing products with additional benefits and service that justify similar or possibly higher prices. Competitive advantage can also be realized by efficiently using an organization's resources.

In Kenya, the banking industry has been growing steadily even though the past three decades have proved to be quite challenging for some banks leading to their collapse and being put under receivership. In order to alleviate some of the problems they have been experiencing, banks have had to formulate strategies that increase their competitive advantage and make them more efficient not only as individual banks but also as an industry (Waweru & Kalani, 2009).

Several studies have been done to explore some of the strategies that organisations have employed both locally and internationally in order to increase competitive advantage. At the global level, one such study was done in Sri Lanka where it was found that the banks there have decentralized their services in a bid to make them more accessible Edirisinghe, (2008). MCIntosh (2005) did a study on the effect of competition among microfinance institutions in the Ugandan microfinance market. The conclusion was that to increase market penetration, there is need to adopt competitive strategy. Awuah (2011) researched on evaluation of strategies for achieving competitive advantage in the banking industry, case of Ghana Commercial Bank. The study showed extensive branch network helped achieve competitive advantage but recommended improvement in the I.T infrastructure, staff training, decongesting banking halls and streamlining loan application processes.

Other industries have been able to employ competitive strategies that are not necessarily applicable in banking or may not have as much impact. One such strategy is service differentiation in the airline industry to meet the needs of persons with physical challenges or disabilities. A study done by Rahman (2011), indicates that Asian arlines are slowly becoming aware of the need to improve the situation for persons that are physically challenged in a bid to catch up with their counterparts in Europe, America and Australia.

Locally, a study by (Kathuni & Mugenda, 2012) sought to find out how direct sales increase competitive advantage. The study concluded that due to the existing competition especially between foreign-owned and locally owned banks, direct selling stands out as the most effective strategy in increasing revenue and market share. The study recommended that banks increase regional branches countrywide in order to increase market presence. Different banks have also chosen to collaborate with each other even though they are in competition. For example, banks share information about borrowers as and when necessary so that they know their creditworthiness. Ensuring that loans are given only to those whose creditworthiness can be trusted has increased bank performance by up to 76.6% (Waweru & Karani, 2009).

Other studies indicate that in banking, as with any other industry, there are different markets. Whereas some banks have focused on large corporate clients, many more have focused on the average citizen and tailored their services to suit even the least income earner. For instance, Equity Bank has targeted hair salons, the millet grower and others in a bid to exploit and sustain further growth (Kungu, Desta, & Ngui, 2014). Gakumo (2006) investigated the application of Porter's generic Strategies by commercial banks in Kenya. The conclusion was that each industry adopts different competitive strategies depending on its environment hencemaking them unique.

Having looked at various local studies concerning strategy and competitive advantage in the banking industry both in Kenya and beyond, studies that address competitive strategies that commercial banks in Kenya need to adopt or have adopted are few and far between. Therefore, the study seeks to answer the following question: What are the strategies adopted to enhance competitive advantage by commercial banks in Kenya?

1.3 Research objective

The objective of this study was to determine the strategies used by commercial banks in Kenya to gain competitive advantage in the Kenyan market

1.4 Value of the study

The information gathered in this research will complement the existing literature addressing competitive advantage of commercial banks in Kenya. It will also be a platform for those who wish to carry out further research on a related subject.

The information gathered from this study will also serve to either prove or disprove the various theoretical foundations discussed in the literature review. It will inform on whether there is one model that is primarily applied or if there is an eclectic application of the theories in strategic planning in commercial banks in Kenya.

The study will also benefit customers of commercial banks in Kenya especially in the area of mobile and digital banking and how understanding these concepts can save them time. The study may benefit the banks by attracting more clientele to the banks if more service awareness is displayed.

Another value of this study is provision of information for stakeholders in the banking industry; and more so investors, managers and owners of banks. Every investor values their time and money and understanding digital banking, for example, can help them design more effective strategies to improve service delivery and therefore grow their competitive advantage. The findings can be useful in assessing current strategies and determine which ones are still useful for the industry and which ones need to be discarded.

With the different bank policies that exist, for example, borrowing policies, lending policies, deposit policies and interest rate policies, the findings of this study will help shed more light in understanding these policies and how they are applied in the bank industry.

Lastly, findings in this study will assist other government authorities and policy makers in the banking industry as they can use these findings as reference to assess and amend some of the policies that may be repressing the industry and hindering its growth.

This chapter introduces the study to be undertaken. It begins with giving the background of the study, which discusses the concept of strategic management and competitive advantage and how the two concepts interact to ensure that an organization operates at its optimum in order to yield maximum results. The chapter then talks about the global state of the banking industry and the banking industry in Kenya. Following the background, this chapter discusses the research problem by giving the research problem, the objectives of the study and the value that study will add to the various stakeholders involved. The following chapter is the literature review and gives theoretical foundations upon which this study is set and the gaps in the existing studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews in greater lengths the work of the scholars that laid foundations on strategy and competitive advantage. The chapter also addresses the banking industry in Kenya and the various strategies that they have incorporated in order to gain competitive advantage. Various theories have highlighted in detail different aspects in business pertaining to strategy and competitive advantage. The following section will discuss the market-based theory, the industrial organization theory and the relational view of strategy.

2.2 Market-based Theory

The market-based theory puts the market at the center of its explanation and analysis of firm strategies. It focuses on the analysis of markets and industries and deems them sufficient to address all the questions pertaining to companies and organizational behavior (Pitelis, 2005). It was influenced by Mason and Bain and constitutes Bain's structure-conduct-performance framework and Porter's five-force model of competitive advantage.

2.2.1 Five-force Model of Competitive Advantage

Porter's five-force model is based on the market-based view of competitive advantage. According to this view, every player in any industry operates within an external environment to which its strategy is usually linked (Ogori, 2010). This external environment influences the firm's strategy and overall performance.

In the banking industry, an institution's level of competitiveness is defined by its ability to design, produce and sell products or services that are superior to the competition. This can be achieved through lower pricing for similar benefits, providing differentiated products and utilizing resources effectively (Drucker, 1954; Kathumi & Mugenda, 2012; Darshani, 2013; Mnjala, 2014). A bank can choose to offer lower interest rates on a loan, or offer it at the same interest rate as but differentiate it by giving a longer payment period or offering a larger amount.

Porter defines competitive strategy as "a deliberate action of choosing a different set of activities to deliver a unique mix of value" (Porter, 1980, p. 60). In his work, he formulated five forces that drive the economic and competitive position of a business. These are bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute products and the rivalry of existing competitors. The interplay between these forces determines the intensity of competition in regards to the nature of the industry (Nemati & Barko, 2004). Porter also outlines five strategies to gaining competitive advantage: market signaling, switching costs, barriers to exit, broad versus focused strategies and cost versus differentiation (Porter, 2008). Pricing also determines competitiveness in any particular industry (Get Through Guides, 2008).

The management picks the strategy that best fits its environment and is not mandated to adapt to existing forces in its environment that are not in line with its agenda (Harrison & St. John, 2004). If a bank wants to introduce mobile banking, for example, it considers its resources and clientele in order to determine the complexity of its product. Is the service going to be accessible from a basic phone or from a smart phone only? Will the service only be available locally or can the client access it when not in the country? This is determined by the target market and the importance of a company to assess their business environment is crucial in strategizing how to couture products and services.

Sustainable competitive advantage is based on a bank's capacity to build a unique and inimitable capability or competence that can be transported into desired products and service offerings (Nemati & Barko, 2004); and that remains relevant regardless of environment development (Porter, 1980). This is derived from the ability to build, at lower costs and faster than competitors, the core competencies that bring forth unanticipated products (Pock, 2007).

Another way in which banks achieve competitive advantage is through differentiation of product and service as well as sales and marketing. The manner in which banks interact with their customers affects their orientation, distribution strategy, brand image and overall performance (Pock, 2007). One significant step that banks have taken is to go to the seller's location by having branches closer to the people as well as ATMs designed to offer services they previously could not. This has attracted clientele from small businesses, as they are able to bank their daily income and withdraw it when necessary.

2.2.2 Structure-Conduct-Performance Model

The structure-conduct-performance (SCP) framework by Bain (1968) is one of the best-known theories that illustrate the market-based view of competitive advantage. According to this framework, the strategic position of a company is defined by the value addition of its products and the difference in how it renders its service. Hence, the performance of a company is determined solely by the dynamics of the industry within which it operates. Organizations therefore need to develop competitive strategy in response to the structure of the industry.

There are three elements to this theory namely structure, conduct and performance. Structure refers to the variables that are relatively constant that influence the behavior of the consumer as well as the service or product provider. Conduct is the behavior of the consumers and sellers among themselves as buyers or sellers and with each other. A company gets to decide their strategic behavior with regards to what they intend to spend on research and development, marketing and advertising, staff training, just to mention but a few. Performance is measured by analyzing and comparing the results of key industry players with regard to efficiency, customer service, profitability and pricing of the product (Policonomics, 2012). In the banking industry, structure, conduct and performance are interdependent. The paradigms are correlated and their interaction determines profitability. An extenuating factor that affects a bank's performance is its attitude towards risk as this affects the decision to diversify.

2.3 Industrial Organization Theory

Industrial organization theory looks at how markets and industries work and particularly how companies compete. It falls under two categories namely Theories of markets and market structure and Theories of the firm (Shy, 1996). Theories of market and market structure focus on how firms compete with each other. The firm is not viewed as a unique entity but as part of a player in the specific industry that it is part of. Theories of the firm, however, focus not only on multiple firms in the industry but also on the specifics of individual firms. It seeks to find out why some aspects of the business or transaction are handled through the larger market whereas others are conducted within a company or firm. In the banking industry, for example, theories of the firm would look at the various banks registered under the Central Bank of Kenya and look at their size, boundaries, incentive schemes, just to mention but a few (Bondt & Ckhove, 2004).

2.4 The Relational View of Strategy

According to Dyer and Singh, in addition to focusing on the market or industry and the tangible resources, a firm also needs to focus on their network processes and routines, as this is crucial in understanding and gaining competitive advantage. A firm's resources are not just those owned by a single firm but they may extend outward. As opposed to a firm or company working by itself, the relational view suggests that firms should seek to acquire linkages as a source of relational rent.

Relational rent refers to the profit jointly generated in a merger or exchange relationship that cannot be otherwise generated by a firm working in isolation and can solely be attributed to the joint distinctive contributions from the partners involved in the alliance. This profit can be in relation-specific assets, complementary capabilities and resources, knowledge-sharing routines and effective governance that lower transaction costs (Dyer & Singh, 1998). Relational view argues that one firm may not be solely able to face the challenges brought about by global competition; especially when working towards penetrating the international market (De Man, 2004). In the banking industry in Kenya, mergers and alliances have been formed between banks in a bid to increase their competitive advantage. Banks in the lower tiers have merged with those from tier one where both seek to benefit by either increase in capital, better technological infrastructure, better processes of operation; just to mention but a few. An example of these mergers includes CFC and Stanbic who merged to form CFC-Stanbic,

From the theories discussed above, it is clear that there are various ways in which banks gain competitive advantage in the industry and be able to venture into various markets within and outside its borders.

The chapter above gives the literature review of the study. It begins with the theoretical foundations of the subject being studied and elaborates on the Five-force model by Porter, the Structure-conduct-Performance model by Bain and the Resource-based view of competitive advantage. In conclusion, the chapter gives various empirical studies that already exist in the subject of strategy and competitive advantage and existing gaps. The following chapter provides the research methodology that will be used in undertaking the study.

2.5 Organizational Strategies and Competitive Advantage

Corporate or organizational strategy is the overall plan that a company or organization puts in place. The main purpose of organizational strategy is to diversify in order to stand out in terms of the product or service provided or the problem solved in order to gain competitive advantage. Organizational strategies primarily serve two purposes; one of which is competitive advantage as mentioned above. The other reason that companies strategize is to decide what businesses they should maintain or cut off and how they should be managed, which is also aimed at gaining competitive advantage by keeping the businesses that meet more client needs while bringing in more revenue (Porter, 2016 (1987)). An example is the Nation Media Group in Kenya, which closed some of its television and radio stations as part of implementation of new strategies citing changing trends in the consumption of their products (Africa News, 2016).

The various organizational strategies used by banks include differentiation, low cost, pricing, distribution, promotion and mergers and acquisition. Differentiation involves offering products and services that are unique and not being offered by the competition. The challenge with this strategy is coming up with a product that is not easy to imitate. Another strategy that banks use is low cost focus with a focus on a specific market niche to which the product or service is provided at a cheaper rate than that being offered by other players in the industry. Pricing is the third strategy where products and/or services are offered at a cheaper rate. For instance a bank may offer lower interest rates on loans or higher interest rates for fixed deposit accounts in order to attract more lucrative business. This strategy works better for bigger companies because they have the advantage of economies of scale (Arbuckle, 2016).

Promotion is another competitive strategy that is quite common in the banking industry in Kenya. It means communicating about the availability of a product or service to the target market and ensuring that the message has been received. Promotion entails advertising through mass media, having good public relations by minimizing negative situations as much as possible, having sales promotions where a product or service is offered at a subsidized rate for a specific period with the aim of creating short term increase in sales, meeting consumers where they are and selling to them one on one, internet marketing, social media, among others (Karakaya, Badur, & Aytekin, 2011). The final competitive strategy used in the corporate world is mergers and acquisitions. There is no formula of handling mergers and acquisitions as each company uses the strategic logic they deem most suitable for them. However, whatever rationale is chosen falls under one of the following five categories or archetypes: to improve the performance of the target company, to create access to the product in the market, to remove excess capacity, to acquire technology and skill faster and at a cost lower than it would be to have one built in-house, and to pick players in the industry that have been identified as winners and help them develop their business. An acquisition can incorporate more than one of these archetypes; however, if it fails to meet any of them, it is unlikely to create value and therefore not likely to create competitive advantage (Goedhart, Koller, & Wessels, 2010).

2.6 Empirical Studies and Research Gaps

Sultan (2007) did a study on the competitive advantage of small and medium-sized enterprises (SMEs). The study was done at Jordan's Natural Stone Industry and the main objective of the study was to discuss the factors of competitive advantage of the SMEs in the natural stone sector in Jordan as well as those that require an upgrade in order to enhance their competitive advantage. The research also sought to find out the role of IT in increasing competitiveness of SMEs. From a population of 2,864, a sample size of 726 respondents was selected for the study and questionnaires were used to collect data.

Results showed that there are no significant differences in the competitive factors that SMEs in the Jordan natural stone sector face. Owners prefer to work individually or as partners rather than register as companies. The study also showed that there was a significant difference between those SMEs that employed IT as a major competitive tool than those that did not (Sultan, 2007). An evaluation of this study is that it had quite a large sample from only one subsector yet with that sample size results could have been enriched if more sub-sectors of the natural stone industry were covered.

Another study was done on the effects of generic strategies on sustainable competitive advantage with emphasis on food and beverage firms in Kenya (Mutunga & Minja, 2014). The objective of the study was to find out the strategies employed by companies in order to create above average performance. The study population consisted of 138 food and beverage-manufacturing firms in Kenya and the sample size was 32. The study found that more than 50% of these manufacturing firms employed the dual strategies of cost leadership and product differentiation in order to create and maintain competitive advantage, with one firm following neither strategy and about 20% following either cost leadership or product differentiation. The researcher's recommendation is for the firms that employ differentiation to derive ways to make it cost effective so as to be able to compete effectively in the industry as other players are.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an outline of how the study was conducted. It covers the research design and population that was used in the study. It also discusses the modes data collection and analysis.

3.2 Research Design

This study adopted a descriptive study design which describes the what, how and when phenomenon. It studies the relationship between variables as they occur in the environment and draws inferences from that (Knupfer & McLellan, 1994). It was appropriate for this study because the research entailed observing conditions that are already in existence namely strategies that banks have put in place; and the resultant performance of the banks with regards to gaining competitive advantage.

3.3 Population of the Study

The banking industry has a population of 44 financial institutions – 43 commercial banks and one mortgage financial institution (Central Bank of Kenya, 2016). This research utilized the population because it is a significantly small number and choosing a sample size may compromise the information received. Therefore the study was a census.

3.4 Data Collection

Primary data for this study was collected using questionnaires, which had both open-ended and closed-ended questions. Open-ended questions are useful for gathering qualitative data, as a respondent is able to give more detailed information. The respondent is also able to communicate from their point of view because they are not only being provided with check boxes containing already prepared information for them to either agree or disagree with. On the other hand, with their structured responses, closed-ended questions will be used to test certain attributes and concepts in order to offer tangible recommendations. The questionnaires were given to Corporate Managers, Risk and Compliance Managers, Finance Managers, Human Resource Managers, Senior Branch Managers, Operations Managers and Assistant Managers of the various banks, as they are more involved in policy-making and strategic planning in the companies where they work. They are therefore more likely to provide useful information that will inform this study.

3.5 Data Analysis

Upon completion of data collection, the completed questionnaires were cleaned and edited for completeness. They were then coded and analyzed using the SPSS data analysis software. Descriptive statistics such as means, standard deviations and percentages were used to analyze the data. The results were presented in form of tables, charts and graphs. Content analysis was used to analyze qualitative data from the open-ended questions. This offers a qualitative as well as quantitative description of the objectives of the study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter analyzes the data that was gathered from employees of the various banks operating in Kenya and registered under the Central Bank of Kenya. The objective of the study was to determine the strategies used by commercial banks in Kenya to gain competitive advantage in the market. Before data was collected, the significance and purpose of the study were explained to the respondents both verbally when the questionnaire was presented and in written form at the beginning of the questionnaire. The respondents were assured of anonymity and confidentiality, which was important because it assured them that the information they provided would not jeopardize them or their employer (bank).

4.2 Response Rate

The data was collected from 38 banks (90.4%) with each bank filling out one questionnaire. The initial target was the 44 banks registered to operate in Kenya but some of the banks were not open to taking part in the study or giving information about the company in spite of assured anonymity. The population intended for this study was therefore not realized, which reduces the study sample and may therefore affect the overall results of the study. It limits the diversity of information and may interfere with the accuracy of results. It also means that the sample achieved for this study is not the intended population, which was supposed to be the whole population.

The researcher presented one questionnaire to each of the 38 banks that agreed to take part in the study. Each questionnaire comprised of 27 questions of which 17 were close-ended and the other ten were open-ended. The results are presented in form of graphs and tables with explanations of what the data represents.

The respondents selected primarily held managerial positions at the middle level or higher. This was because they were more likely to be privy to the information that this study required. The demographic information of the respondents is presented in the tables below:

Position at the bank	**Respondents**	**Percentage**
Assistant Manager	5	13.2
Business consultant	3	7.9
Client coverage Manager	2	5.3
Executive Assistant	4	10.5
Middle-level management	5	13.2
Operations Officer	7	18.5
Relationship Manager	6	15.7
Senior Project Manager	6	15.7
	38	100

Table 4.1: Positions of Respondents at the Company

4.3 Demographic Profiles

The first part of the questionnaire was a series of questions seeking to find out the demographics of the respondents. Demographic information is important as there are certain attributes and capacities of the respondents that may affect the responses they provide, which may in turn tilt the study in a certain direction. One major assumption is that the longer the duration a person spends working at a particular company – a bank in this particular case – the more information they are likely to have acquired regarding the strategies they use in operations, the challenges the company has had to go through and what their placement in the industry has been over time.

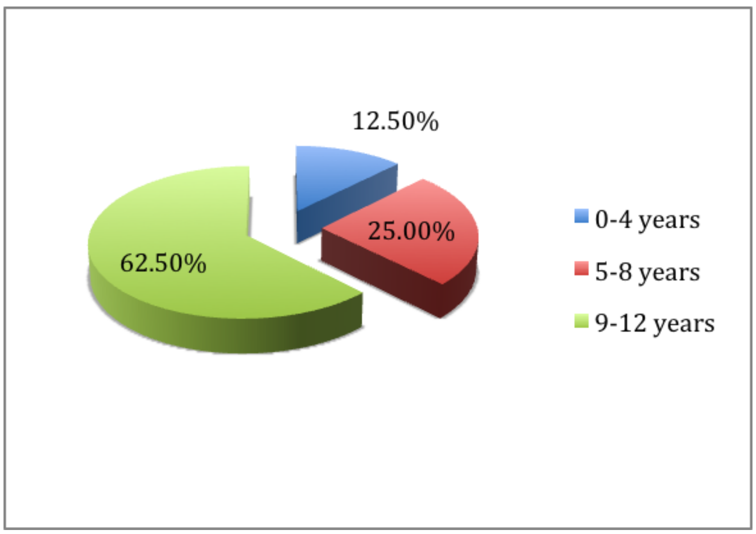

Figure 4.1: Duration that Respondents have worked at the Bank

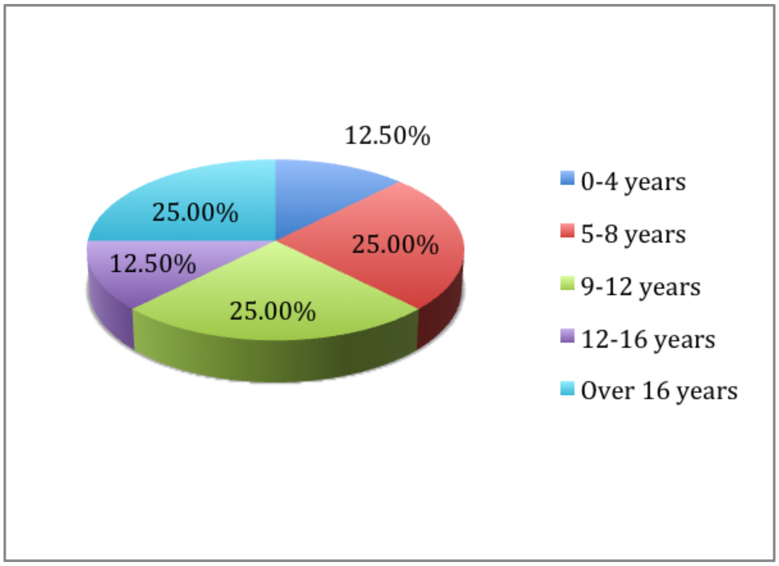

Figure 4.2: Duration that Respondents have worked in the Banking Industry

Figure 4.1 and 4.2 present the duration of the respondents as employees at their current banks and in the industry. Majority of the respondents of the study (62.5%) have worked for their current employer for more than 8 years with 25% having been in the banking industry for more than 12 years. They were therefore well versed with how the company they work for operates and the strategies they implement in their operations, as well as the banking industry in general, which increases the validity of the results.

4.4 Company Strategies and Competitive Advantage

Of the 38 banks that took part in the study, three were locally owned and 35 were internationally owned with three of them reporting to have been operating in Kenya for more than forty years and up to a century. The two major strategies that internationally owned banks have used in market entry were licensing and partnering/strategic alliance. Other strategies that respondents agreed unanimously to have worked include decentralization of services such that customers no longer have to visit the bank branch where they opened their account in order to get information; but could access it anywhere countrywide. Aside from one bank which is still working on upgrading their IT systems and advancing technologically in order to be able to roll out this plan successfully, the other 37 banks agreed that this move had increased their reliability and accessibility to their customers.

Another aspect of strategy that banks use was provision of foreign currency accounts. Currently, only six out of the 38 respondents provide the option of having foreign currency accounts for their customers as the other 32 reported that they only dealt with local currency and foreign exchange but not foreign currency accounts. This gave the former competitive advantage over their competitors with customers who travelled often, lived abroad or received salaries in foreign currency. The respondents reported that technological effectiveness and advancement had played a major role in ensuring that internet banking made it possible for customers to transfer funds effectively either to or from their bank. This differentiation of products and services by these banks ensured that they were able to curve a niche for themselves with a specific target market even as they continued to provide services to the wider market.

Using technology effectively is another strategy that respondents agreed unanimously as having increased customer effectiveness, and therefore retention.

Digitizing services where customers do not have to always visit the bank for such services as withdrawal of large amounts of money or payment for purchases has made the banks more effective and freed up time which can be spent in innovation for continued competitive advantage. The reasons given for choosing technological advancement include efficient management of customer information, easier access to banking services, to give the bank competitive edge and relieve employees of some extraneous duties that were previously performed manually. The information above is summarized in the table below.

Item	**Respondents**	**Mean**	**Standard Deviation**
Decentralization of services nationwide	34	3.88	.835
Providing accounts for foreign currency	38	4	1.000
Lower interests on loans	38	3.33	.866
Using technology effectively	38	4.67	.707
Differentiation of products and services	38	4.44	.726
Effective utilization of resources	38	4.44	.726

Table 4.2: Summary of Strategies Implemented by Banks

From the table above, the mean indicates where the majority of the responses lay. Effective use of technology, which comes with having the right technological infrastructure, seems to be the most popularly used strategy that commercial banks are using. Differentiation of products and services as well as effective use of resources were also presented as common strategies used by banks to increase their competitiveness. Lower interest on loans was the lowest ranking effective competitive strategy. The table also shows the standard deviation of the scores, none of which ranked higher than 1. This indicates that the responses only deviated slightly from the mean and the responses were therefore fairly similar.

The study brought to the fore the fact that the banking industry in Kenya generally needs to invest more on professional training of its staff if the efficiency chain is to be complete. Respondents also reported that Senior Management showed commitment to strategic planning and management as some banks reported having had more than three strategic plans with two reporting having had more than five and another four reporting to have had “many” strategic plans. Thirty-three respondents reported that their banks reviewed their strategies annually with four indicating that they reviewed their strategic plan every three years and one reporting having five-year strategic plans. The research revealed that in general terms, banks that were previously implementing the cost leadership strategy have been challenged by the new legislature to cap interest rates which in some way dictates interest rates on loans and other products and services offered by the banks. The differentiation strategy is therefore becoming increasingly adopted as banks seek to curve out niches that are lucrative. A couple of banks are focusing on construction workers and IPFs as their target market with regards to loans, some banks are tailoring their product to appeal more to the upper-middle and upper socio-economic status whereas others are seeking to reach people working in blue-collar jobs and SMEs.

86.8% of the respondents indicated that the strategic plans that the banks had implemented had positively impacted their general performance; with the other 13.2% reporting that their strategic plans had impacted performance “very positively”. These strategies had enhanced productivity, improved customer access and increased profits. When asked to indicate whether or not the respondents have seen an increase in competitive advantage in the industry, all the respondents thought their bank had increased competitive advantage but with differences in the detail of their responses. There are those for whom competitive advantage came in the area of digital channeling as a result of internet and mobile banking, there are those who felt they had increased competitive advantage in their tier and there are others (12.5%) who felt that their growth in competitive advantage was not commensurate to the efforts and investments injected in strategic planning. Those who indicated that the bank enjoys a competitive advantage had their sources as 74.3% for digitizing and technological advancement, 12.4% for differentiation of product, 6% for distribution strategy and extensive branch network, 6.3% for promotion strategy and 1% or target market.

4.5 Challenges in Implementation of Strategy

The respondents prioritized their challenges as presented in the table below:

Challenge	Respondents	Percentage
Technological challenges	4	10.5%
Bargaining power of clients	10	26.3
Bargaining power of rival banks	15	39.5
Threats of new entrants	2	5.3
Threat of substitute products	7	18.4%

Table 4.3: Challenges in Implementation of Strategy

Bargaining power of rival banks was the biggest challenge reported as being experienced by banks. The larger banks or those with a larger market share and more industrial muscle are better placed to adjust prices and product costs, for example, because of the advantage of economies of scale.

Recommendations from respondents that they felt their banks could incorporate in order to increase competitive advantage include providing a better customer service experience to their clients, promotion and extension of branch networks especially for banks that are not accessible in certain towns apart from the Automated Teller Machine (ATM) service, more improvement and investments in technological infrastructure to make the online and mobile services more efficient and therefore reliable and lastly, to invest more on promotions and advertisements.

4.6 Discussion

The results revealed that commercial banks operating in Kenya use various strategies to gain competitive advantage. These strategies include effective use of technology (mean score 4.67), differentiation of products and services as well as effective use of resources (mean score 4.44), having foreign currency accounts available for the market that used foreign currency regularly (mean score 4.0), decentralization of services and availing them at the grass root level (mean score 3.88) and lastly, lower interests on loans (3.33). Banks are not mandated to adopt particular strategies and they select those that are in line with their mission and vision as well as the resources they have, the clientele they seek to reach and what their particular banking and finance needs are (Harrison & St. John, 2004). This explains why differentiation of products and services scored highly in this study as a competitive strategy as it is significant in sales and marketing.

The findings also indicated that strategic planning was a major aspect of the banking industry as most banks reviewed their strategies annually; with some having three-year and five-year reviews and making adjustments where necessary. This showed that competitive advantage is deliberate. It is as a result of having strategies that favor or benefit one's target market that competitive advantage.

Up to 86.8% of respondents indicate that strategic planning impacts general performance positively by enhancing productivity and increasing profits and customer service. According to the structure-conduct-performance model, performance is determined by its value addition in the industry that sets it apart from other players (Bain, 1968). A key component that determines the mileage a company attains over other players is the attitude that a company has towards risk and diversifying into waters yet to be chartered by the competition, such as the first bank to partner with mobile service providers to provide mobile banking to the Kenyan population. Whereas the mobile money transfer service presented competition for the banks, partnering gave both parties competitive advantage as they were able to capitalize on each other's resources instead of having to duplicate them; thus saving on cost.

The biggest challenge faced by banks in seeking to gain a competitive edge is competition and rivalry (39.5%). With 44 commercial banks and close to 30 Micro-finance institutions, clients have more bargaining power because of the myriad of existing options. It is particularly more difficult for banks with a smaller market share as they cannot capitalize on economies of scale. Competition is in line with Porter's five-force model whose view is that the external environment of a company or organization influences how the company operates and performs (Ogori, 2010). Competition is therefore inevitable in an industry where monopoly is not evident and in the banking industry it is particularly high and competitive superiority requires a lot of innovation in order to come up with strategies that deliver the most value to the client while ensuring optimum profits.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This is the final chapter of this study and it gives an overview of the study in its entirety. It gives a summary of the objectives of the study, the findings, and provides recommendations for future studies.

5.2 Summary of the Study

The growth of the banking industry has had tremendous effects on the trend that the industry is taking. There has been intense competition not only in the Kenyan market where banks are competing to stay afloat; but also in the international market where Kenya's banking industry is working towards putting itself in the map as an equal global player. Banks have therefore had to be innovative in order to remain relevant, grow their customer base and resultantly profitability as well as maintain their current clientele while enhancing service delivery.

Competitive advantage has been defined as a prolonged benefit resulting from implementation of strategies that create and add value. These strategies can be internal organizational resources, such as human resource, for example, or external. This study sought to study the banking industry in Kenya and the strategies they have adopted in order to gain competitive advantage in the Kenyan market. It looked at the current strategies, their sustainability and how often they are reviewed, their impact on performance and gaining advantage as well as the challenges that the banking industry has experienced in implementation or otherwise.

It was established that with the exponential growth in the industry, competition between rivals was a major challenge towards gaining competitive advantage for banks. One of the strategies that banks have adopted, therefore, is making sure that they are close as possible to the consumers of their products. Most of the banks have ensured a large geographical presence by opening branch networks countrywide to make themselves accessible by offering a range of services at the grass-root level. Cost leadership is another strategy that banks reported using to increase competitive advantage. Larger banks with wider networks enjoyed having economies of scale in their favor from having a variety of networks across the country. Growing technological infrastructure has also been a useful tool in improving efficiency and centralizing services across networks, hence increasing efficiency, management of customer information and ease of accessibility to services in order to gain competitive advantage. In addition to centralization of information, online and mobile banking has put majority of banks that have chosen to embrace it in a strategic position that has given them a competitive edge not only in banking but also in other aspects of the financial market.

One of the challenges that customers have had is accessibility to and affordability of loans. From lacking collateral to irregular incomes, many had challenges with accessing loans from banks. Some banks therefore chose to use this opportunity to make loans more accessible and affordable by hastening its application process and adjusting rates, which has lured some of the clients. Customer service was also reported to have improved with service delivery faster than it used to be.

5.3 Recommendations and conclusion

One recommendation would be for banks to have more staff trainings targeting specific aspects of strategy so that information can be passed down efficiently. One of the challenges that the researcher had when collecting data was that some managers did not feel adequately equipped to take part in the study despite having managerial positions. This poses a challenge because if the employees are unaware of company strategies then they cannot adequately implement them appropriately and this may hinder the company from having competitive edge over its rivals.

In conclusion, this study showed that the banking industry has various strategies all geared towards one goal: providing efficient service in order to yield and increase profitability. The study explored extensively the commercial banks operating in Kenya and anticipates that the information provided will be useful for stakeholders in the industry.

5.4 Limitation of the Study

The only limitation of this study was getting the whole target population to take part in the study as was intended. As already aforementioned, the data was going to be collected from 44 banks but ultimately only 38 banks agreed to take part in the study. Having a larger sample size would have made the results more reliable and definitive.

5.5 Suggestions for Further Research

A suggestion for further research would be to compare locally owned and internationally owned banks in order to find out the similarities and differences with regards to their strategy choices and how they affect their competitive advantage in the industry. Future research can also seek to find out the reason why some banks have chosen to maintain a smaller number of branches whereas others are continually expanding to the grass root level and the competitive advantage achieved by the specific choices.

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APPENDICES

Appendix 1: Letter of introduction

My name is Maureen Kimotho, a graduate student at the University of Nairobi. I am undertaking a research as partial fulfillment of my requirements in my pursuit of a Masters Degree in Business Administration. The purpose of this study is to determine the strategies adopted by commercial banks in Kenya in order to gain competitive advantage; as well as the challenges associated with these strategies. The responses you provide to help with the study will be highly appreciated and will be used solely for the purpose of this study. You are assured of utmost confidentiality and anonymity.

Thank you in advance.

Maureen Kimotho

M.B.A. Student (Researcher)

University of Nairobi

Appendix 2: Questionnaire

The following questionnaire seeks to determine the strategies adopted by Commercial Banks in Kenya in a bid to gain competitive advantage. The responses provided will be used solely for the purpose of the study and will be treated with the highest confidentiality. Kindly answer the questions by ticking the most appropriate answer in the brackets alongside it.

Part 1: Demographics

1. Gender:
    a. Male ( )
    b. Female ( )
2. What is your age bracket?
    a. 21-30 years ( )
    b. 31-40 years ( )
    c. 41-50 years ( )
    d. Above 50 years ( )
3. What is your current position at the bank? ___________________________
4. How long have you worked with this bank?
    a. 0-4 years ( )
    b. 5-8 years ( )
    c. 9-12 years ( )
    d. 12-16 years ( )
    e. Over 16 years (Kindly specify) ( ) ___________________________

5. How long have you been working in the banking industry?
    a. 0-4 years (   )
    b. 5-8 years (   )
    c. 9-12 years (   )
    d. 12-16 years (   )
    e. Over 16 years (Kindly specify) (   ) ___________________________
6. For how long has this bank been in existence overall?
    a. Below 20 years (   )
    b. 20-30 years (   )
    c. 31-40 years (   )
    d. 41-50 years (   )
    e. More than 50 years (Please specify) (   ) _________________________
7. If your bank is internationally owned, for how long has it been operational in Kenya?
    a. Below ten years (   )
    b. 10-20 years (   )
    c. 21-30 years (   )
    d. 31-40 years (   )
    e. More than 40 years (Please specify) (   ) __________________________

Part 2: Company Strategies

8. If your bank is internationally owned, what strategy did the company use in market entry in Kenya?

a. Licensing ( )

b. Pricing ( )

c. Partnering/Strategic alliance ( )

d. Other (specify) ( ) ____________________________

Explain your answer:

9. To what extent have the following strategies been effective in gaining competitive advantage in the industry? Kindly tick in the appropriate box based on whether you agree or disagree with the following statements.

	Item	**5** **Strongly Agree**	**4** **Agree**	**3** **Neutral**	**2** **Disagree**	**1** **Strongly Disagree**
(a)	Decentralization of its services nationwide					
(b)	Providing accounts in foreign currency					
(c)	Lower interest rates on loans					
(d)	Using technology effectively					
(e)	Differentiation of					

	products and services					
(f)	Effective utilization of resources					

10. What informs the type of strategy adopted?

11. How has the strategy/strategies adopted affected performance?

12. How has this strategy/strategies adopted affected the interests of various stakeholders:

    a. Shareholders:

    b. Employees:

    c. Customers:

    d. The government:

13. In the following table, tick in the appropriate box based on whether you agree or disagree with the following statements.

	Item	5 Strongly Agree	4 Agree	3 Neutral	2 Disagree	1 Strongly Disagree
(a)	Our bank provides accurate and timely statements of account to clients					
(b)	Our IT team ensures accurate tracking and repayment of loans					
(c)	Our bank offices are networked nationwide					
(d)	Our bank sends notices to clients electronically.					

Part 3: Competitive Advantage

14. Does your bank have professional planning staff?

a. Yes

b. No

15. How many strategic plans has your bank implemented since its inception in Kenya? ____________________

16. How often does your bank review its strategy?

    a. Monthly ( )
    b. Quarterly ( )
    c. Semi-annually ( )
    d. Annually ( )
    e. Every three years ( )

17. Which strategy is your bank implementing currently? ____________________

18. How has your bank's strategic planning affected its performance?

    a. Very positively ( )
    b. Very negatively ( )
    c. Neutral ( )
    d. Positively ( )
    e. Negatively ( )

Please explain your response

19. To what extent does your bank enjoy competitive advantage over other players? ____

20. What would you say is the source of their competitive advantage?

    a. Pricing ( )
    b. Promotion ( )
    c. Distribution ( )
    d. Target ( )

e. Other ( ) (Please specify)

21. In the table below, please rank the strategies in order of importance based on their contribution to your bank's competitive advantage. Assign numbers with 1 being the most important.

	Strategy	**Rank**
22 (a)	Extensive branch network	
22 (b)	Large customer base	
22 (c)	Easy access to loans	
22 (d)	Customer service	
22 (e)	Crucial accounts held within the bank	
22 (f)	Low bank charges	

22. Would you say your current strategy is sustainable?

a. Yes ( )

b. No ( )

Part 4: Challenges

23. What challenges have you experienced as a bank in implementing strategies that you have set out to?

a. Technological challenges ( )

b. Bargaining power of clients ( )

c. Bargaining power of rival banks ( )

d. Threats of new entrants ( )

e. Threat of substitute products ( )

f. Other (Please specify) ( ) ______________________________

Please explain your answer above

24. What measures has the bank taken in curbing these challenges?

25. What aspects of the current strategy need improvement?

26. What steps do you think your bank can take in order to improve its strategic competitive advantage?

27. What recommendation would you give to your bank in terms of strategy that can help the bank gain competitive advantage over its competitors?

Thank you for your time.

Appendix 3: List of Commercial Banks

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited (Under statutory management)
8. Chase Bank (K) Limited (In receivership)
9. Citibank N. A. Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya
12. Co-operative Bank of Kenya
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank Kenya Limited
16. Ecobank Kenya Limited
17. Equatorial Commercial Bank Limited
18. Equity Bank Kenya Limited
19. Family Bank Limited
20. Fidelity Commercial Bank Limited
21. First Community Bank Limited
22. Giro Commercial Bank Limited

23. Guaranty Trust Bank (K) Limited
24. Guardian Bank Limited
25. Gulf African Bank Limited
26. Habib Bank Limited
27. Habib Bank A.G. Zurich
28. Housing Finance Company of Kenya
29. I & M Bank Limited
30. Imperial Bank of Kenya (In receivership)
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Kenya Limited
33. Middle East Bank Kenya Limited
34. M -Oriental Commercial Bank Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Paramount Bank Limited
38. Prime Bank Limited
39. Sidian Bank Limited
40. Standard Chartered Bank Kenya Limited
41. Trans-National Bank Limited
42. United Bank for Africa Kenya Limited
43. Victoria Commercial Bank Limited
44. HFC Limited (Mortgage finance institution)

(Central Bank of Kenya, 2016)