DIVERSIFICATION STRATEGY AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University

…… ……

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This research project has been submitted for examination with my approval as University Supervisor

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DEDICATION

I dedicate this work to my family for their encouragement and support in my studies.

LIST OF ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machines
CBK	Central Bank of Kenya
ICT	Information and Communications Technology
KBA	Kenya bankers association
FDI	Foreign Direct Investment
SCP	Structure Conduct Performance
RTGS	Real Time Gross Settlement

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ABSTRACT

Strategy has been a game which has been put forth by banks to ensure they are ahead of the pack. Diversification as a strategy has meant that organizations make use of existing resources to expand the business into new frontiers and expand the profitability of the organization in leaps and bounds. This study sought to investigate the use of diversification strategy by commercial banks in Kenya as a means of gaining sustainable competitive advantage. The study utilized theoretical approaches from three theories mainly resource based theory, game throaty and industrial organizational theory. The study adopted cross sectional survey design and census survey. The study targeted 42 commercial banks in Kenya The study also used a questionnaire to collect data and descriptive and inferential statistics to analysis collected data. The paper established that achieving competitive advantage is possible whenever banks roll out new products and services. However, sustaining competitive advantage called for the banks to ensure their diversified products were well thought out. The study further revealed that the decisions made and resources employed to arrive at these products and services were unique, rare and are not easily replicated by competition. The study further revealed that innovative ventures arrived at by banks through the use of technology especially when building key alternate channels of business would last and were likely to result into better and more guaranteed return on investments. This study concluded that charging lower interest rates led to an increase in the number of customer and that the downscoping of services improved profitability in areas of focus. Also, the study concluded that strategic alliances played a vital role in the gaining of a competitive advantage. The study inferred that there was an influence in the use of diversification strategy on the competitive advantage of commercial banks in Kenya. Therefore, the study recommended that there's needed continuous technological innovation in order to enhance their service delivery and utilize diversification strategy through technology inclusions on existing products.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

This chapter seeks to introduce the diversification strategy and competitive advantage concepts, state the research problem alongside the key research objective and also provide the value of the study. Strategy application is significant for the growing and institutions in need of growth of their reach. The competitiveness of the institutions includes many factors. The banking sector is a service based and products offered are in specific target of the customers banking with the commercial banks and other financial institutions (Kings, 2013). Commercial Banks evolve in each period of service with leadership in asset or sectorial strength and innovation controls as the key indicators of performance and excellence (Randeniya, 2010).

Diversification over time has had varied meanings in contextual usage and application. Kings (2013) defines diversification as the variation in extra value inclusion of the existing services rather similar service in a differentiated means or way of provision. Chandler (1962) defined diversification as the alternative procedural provision of services and goods to meeting the customer preferences or increasing the consumption of the products and services. However, with the definitions providing a similarity in meaning, in the banking sector, diversification is perceived as the change in the performance in portfolio or stimulant to the increase in growth of the services provided (Kings, 2013). Products and other services in the market by the provider are in deemed competitively advantageous when they realize a high margin in the performance than the other providers alongside sustaining the leadership in provision.

The resource based theory offers clear in depth view of the diversification and the competitive advantage relations. In the market mix with development and standardizing the products and services provided to sustain the competitive advantage in the market, commercial banks like other business have to employ resources as well calculated strategies. In the current dimension where technology enhances the efficiency and productivity, the inclusion in the products and services is significant. Industrial Organizational Theory clears presents the manner in which players in the same industry fair and compete for the existence and processes involvement in creating an advantage or equilibrium. Commercial banks in Kenya belong to the service industry and are subjected to the industrial forces of demand and supply thus sustainability for the going concern includes the staying at par and inclusivity processes. Porters (1985) presented the five forces that accommodate the diversification strategy and competitive advantage concepts clearly in entry, exit, dominance and change of track.

1.1.1 Diversification Strategy

In market dominance, profitability and growth of the business composition, the diversification strategy is significant. This would be in either increase in sales magnitude, operational expansiveness (Randeniya, 2010). Diversification strategy in most cases is internally based and pushed to achieve the attributes of the strategy. New markets and products would easily induce diversification strategy from the existing form to match otherwise mitigate the new entry thus providing new competitiveness in the market.

Kings (2013) opines the strategies may include diversification, costing, differentiation and leadership focus to compete well in the market. Deliberate take overs or

acquisitions are meant to pool the ability in competing with other players in the market thus presence of complimentary players and minimal competition pressures. Diversifying the strategies is necessitated with the need to increase the wealth maximization by the stakeholders despite the challenges that involve the processing procedures of the strategy (Randeniya, 2010). In developing a working strategy reliable for diversification, there is need to assess the industry environment in order to determine a strategy that can the performance and increase the spectrum of the strategy reach (Kings, 2013).

Resource availability is necessity to driving the strategic diversification into course. The capitalization of the opportunities requires adequate resources and enabling operational environment for the success of a given strategy (Barret, Linney and Pratt, 2012). Barret et al (2012) further note that the volume in success by the diversification in place is anchored by the commitment fast-tracked in allocation of resources. The allocation of the resources requires uniqueness to the extent of creating entry barriers (Kings, 2013).

1.1.2 Competitive Advantage

Kings (2013) defines competitive advantage as the added value in operational circumstance by competing firms or institutions. Competitive advantage may occur in financial stability, asset accumulation, innovativeness and development, or the client support and retention ability. Companies with higher competitive advantage are known to employ progressive strategies to sustain the lead in a given market. Commercial banks which are customer and deposit led employ varied strategies (operational, business or financial) in ensuring the scale of sustainability is at par in the market.

Financial and services sector industry is volatile with unchecked liquidity levels and speculative inclusions in the industry, the firms competing may develop strategies to mitigate the consequences and volatility. The tangible the resources in the industry the sustainable the competitive advantage would be in the industry. The innovation and technological advancement are in direct relation to the competitive advantage in the industry (Mnjala, 2014). The banking sector has occasioned drastic transformation with increase in the technological innovations that have increased the profitability and influenced the competitive advantage of the leading financial institutions (Jegede, 2014).

Inclusion of technologies is an agent of competitive advantage (Randeniya, 2010). Randeniya (2010) further posits that it eases in operationalization and processing facilitated by the technologies that boost the performance of the banks thus higher growth of the clientele. Kings (2013) argues that customer delivery in the banks is essential factor in sustaining the competitive advantage of a bank. Commercial banks that are deposit centred require effective and proper adherence to high standards of customer service (Alhakimi & Alhariry, 2014). Alhakimi & Alhariy (2014) further posit that this requires a clear SWOT analysis understanding of the market.

1.1.3 Commercial Banks in Kenya

Kenyan banking industry in the recent times has been occasioned with development and technological growth inclusion. With a 43 established banks both conventional and Islamic banks, the sector are endowed with high liquidity and asset possession by major banks. The banks in Kenya are regulated by the Central Bank of Kenya. Further, the

CBK also regulates the Deposit Taking Microfinances. In these, 28 banks are privately owned with others publicly owned and listed in the Nairobi Stock Exchange and others with Government of Kenya shareholding.

The sector has seen an immense growth in the customer retention and deposits made to the commercial banks and recently the entry of the Sharia compliant banks. This is twofold increases in the branch numbers as compared to the last decade (SoftKenya, 2012). This is indifferent from other East African countries that face minimal competition. Direct sales and mobile technology are the most effective methods applicable in transactions by the customers and the commercial banks in Kenya. Kenya banking industry is currently technology driven with each bank competing for available customers. Customer retention levels in Kenyan banks have dropped with an increase in Saccos and Deposit Taking Microfinance Institutions. This has widened the financial operations area leading to growth in financial deepening levels.

Currently, customers can easily transact with the bank owing to the inflow and development of mobile financial innovations. The ease of bank accessibility through mobile banking and enabling platforms has improved profitability and deposit levels for Kenyan banks (KBA, 2014). However, in light of increased customer transactions, intake of credit by the customers has reduced with entry of interest rate capping laws and regulations (CBK, 2017). This has further reduced profitability levels for banks. KBA (2016) argues interest capping is insufficient match with motivation for fair banking business or environment.

1.2 Research Problem

Institutions employ different strategies to stay at par or ahead of their competitors (Waweru & Kalani, 2009). Waweru and Kalani (2009) posit that this would require competitive advantage analysis and harmonization on the abilities to compete with others regardless of the competition magnitude. Banks compete in such markets that include dependence on financial instruments, clients and their deposits, service delivery among other services (Kings, 2013). 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).

Studies have explored 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 study findings were that to increase market penetration, there is needed 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 information technology infrastructure, staff training, decongesting banking halls and streamlining loan application processes. King (2013) conducted a study on why the

current banking is no longer where you go but something you do. His study indicates that alternate channels are a sure way of diversifying banking products for competitive advantage however, the context is American.

In Kenya, Kathuni and Mugenda (2012) in their study that sought to find out how the direct sales model creates the competitive advantage. The study found out that the method was effective in improving the market share and competitive advantage considering a market mix of foreign owned and locally owned banks. The study recommended an increase in the branch size countrywide to increase the deposits, credit facilitation and increase the revenue spread as it will increase the market presence. Njeri (2010) conducted a study to analyse the effectiveness of customer retention strategies in Equity bank. Her results showed how Equity bank employed that low cost strategy to retain its clients. Wasike (2010) conducted a study on competitive strategies adopted by Barclays bank of Kenya in counteracting industry competition. In light of this, commercial banks have chosen to have a mutual collaboration to accommodate the competition in the market. 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). Thus, this study is motivated to answer the question: does diversification strategy and competitive advantage affect commercial banks in Kenya?

1.3 Research Objective

The study sought to establish the effect of diversification strategy on competitive advantage of commercial banks in Kenya.

1.4 Value of Study

The study will benefit the banking players and stakeholders. This includes the staff in charge of decision making and developing the strategies for the banks. In addition, the study will benefit the employees of the banks and the staff in charge of innovations and progressive business solutions. The study also will benefit the Central Bank of Kenya and other regulators in particular to the market share and providing a levelled playground for all financial institutions in particular the commercial banks. This is inclusive of the Competition Authority of Kenya in charge of competition analysis and regulation in all industries.

The study also will benefit the Government of Kenya in terms of policy structuring and realizing the developments and economic inflows and leakages by the strategies employed by the banks and how to facilitate the business environment for most banks. Different policies from Government and other regulatory institutions play a critical role in the performance of strategies and diversification needs presented by the Private Sector players.

The study will be used as a scholarly text and contributory to the area of study. The study will further provide insights to financial sector entrants on the environment currently and how they can adopt the findings of the study for execution and further performance. By determination of the diversification strategy and competitive advantage correlation and findings of the study, the study will clearly recommend further areas for the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter outlines the theories relevant to the study, in depth review of the Diversification strategy and competitive advantage and the relationship existence of the two variables with a summary of the review and the knowledge gaps observed in the study review.

2.2 Theoretical Foundation

Theories are basis for which the applicable knowledge and study investigations are founded. This section sought to discuss theories that are relevant to the study. The study sought to discuss the resource based theory, the Porter's Five Forces of Competitive Advantage and the Industrial Organizational Theory with relevance of the theories to the study.

2.2.1 Resource Based Theory

Banking enterprises interested in the expansion of their businesses through the strategies have the application of the economic theories including the resource based view presented by Dunning and McQueen (2006). Performance of business enterprises is noted to show high growth in the superiority depending on the magnitude of the resources they possess (Mintzberg, 2008). Firms have the ability to utilize the resources they are in possession to increase the superiority in the market performance including the advancement in the classification levels (Dunning & McQueen, 2006). Authors have presented questionable thoughts about the processes and the overall contents of the classical expansion strategies in theory (Mintzberg,

2008). The scholars have argued further at par increase in the performance of the modern resource theory as compared to the traditional theories (Corner, 2009).

Institutions value their value creation approaches with the expected net value of the applied strategies. Like the banking institutions, their strategies are resource based including time in the implementation for the going concern (Mintzberg, 2008). The organizational learning and the resource based theory have a distinction in terms of the time expenditure and the strategic value generation during the implementation of a strategy. With increased competitive advantage, there is needed compliance to the cornerstones that bind it including the imperfection mobility of the resources in strategy implementation, the ex-ante limits to the asset competition and the ex-post limits to competition which leads to the existence of economic rents (Dierickx & Cool, 2009). This study adopts the theory as relevant as the banking institutions are in search to have close interaction with their environmental operation area and the inside structural bases in the performance optimization and excellence.

2.2.2 Game Theory

Game theory aim at providing a formal language to describe conscious, goal-oriented, decision making processes involving one or more players and the decisions which are made out of the process of conscious choice based on the multiple options existing (Ogot, 2011). The solutions derived from game-theory may be thought of as normative or descriptive views of multi-person decision-making. Camerer (1991) posit game theory as the analysis of rational behaviour in situations involving interdependence of outcomes.

Kockesen, (2011) noted that game theory studies strategic interactions within a group of individuals in order to come up with solutions which are a thought process emanating from multiple options. The theory believes that actions of each individual firm have various and multiple effect on the outcome of other firms. Each firm is therefore aware of that fact that their competition are also rational and have objectives over the set of possible outcomes and are therefore ready to pursue the best available strategy to counter their competitors.

This theory is the choice of this study mainly because commercial banks make strategies aimed at diversifying their market portfolio for growth. Diversification is significant in service based firms, with how a decision is made, implemented and monitored is critical in success of diversification strategy. Commercial banks have less depended on customer deposits in the recent times opting for value addition products and engaging in other financial based products that are risky with high returns. For instance, banks have gained entry into the insurance sector and research and development areas mainly to increase the growth of profitability levels.

2.2.3 Industrial Organization Theory

Industrial organization theory looks at how both individuals and markets work in competition. Shy (1996) opines that industrial organizational theory is a formation of the theory of the markets and their individual structure. In these two theories, the firm is a competing player viewed as such in the specific industry. Theories of the firm and market structure focus on the industry and the specifics of a given individual firm. It seeks to create a difference why specific transactions and operations are undertaken in larger markets and others are undertaken within a firm. Bondt & Ckhove (2004)

opine that banks under supervision of a Central Bank do undertake an in-depth look at their size, profitability and customer retention. By this, the banks examine themselves in the context of firms in the same market to which they may collude, create competition and share the market.

In understanding the performance and structural connection, industrial organization theory is explained well with paradigm Structure-Conduct-Performance (SCP) (Bain, 1956 & Mason, 1939). Industry to which the firms belong to has to be viewed as an organizational structure which facilitates competitive markets for the firms in it. Structural analysis of an industry facilitates understanding of the industry Porter (1980). Porter (1980) argued further that there's need to understand the external market which the firm operates beyond the internal operationalization.

This theory is choice of this study as it explains the structural embodiment of the banking industry and the manner in which a bank would gain competitiveness through diversification strategy. Banks are service based sector players and an industrial or sector wave would destabilize market operations for one firm to another. For instance, diversification into technology and insurance based products in the insurance sector would take long to gain penetration as compared to sector players with quite an experience. Technology adds efficiency and would create a market disruption based on external intrusion such as cybercrimes.

2.3 Diversification Strategy

Diversification strategy is well with competitive advantage of the market as each induces the performance of the other (Randeniya, 2010). For an enabling sustainable

business leadership environment to an organization, a chain of strategies aim at realizing, maintaining or creating a competitive advantage over the other players (Randeniya, 2010). In banking, such is critical in the strengthening of operational spectrum and goal orientation in particular the inducement of new innovations and services to cater for the market needs. A well sustained competitive advantage in the industry is evidenced with varied strategies under implementation. The volume of outcome is significant in realizing the effectiveness of the strategies (Kings, 2013).

A diversification strategy could take the form of related diversification or unrelated diversification. A related diversification is which a firm escapes the pressure from other competitors by the adoption of a technology. Unrelated diversification is a situation whereby a business is void of any restrictions in the market of choice where it seeks to expand.

Diversification in management is noted to add value and increasers the growth of a firms' share (Daniel, 2013). Daniel (2013) argues that this limits a competitive advantage as it is a source of competition deficiency. Diversification is time consuming and costly requiring proper management in in order to succeed. Diversification has no urgency in the roll out even though firms' aim at maximizing the opportunities and capitalizing on the profitability growth (Thompson and Strickland, 2005). A possibility of diversification would occur where a firm faces product substitution and alternative technologies (Barney and Hesterl, 2008). This signals the need for diversification as the company in no time becomes unprofitable, unattractive and its prospects set for downward plunge. In such a situation when the single and core business of the company encounters diminishing market opportunities

and stagnating sales then diversifying is necessary from a reactive point of view to save the company (Ackermann, Brown and Eden 2008).

On the other hand a firm may seek to diversify but from a proactive approach (Tavana, 2014). This occurs in situations where the present business models are compatible with spotted opportunities a firm would execute for gains, technological growth and advancement would present arise in a diversification of a strategy leading to the expansiveness of business. Tavana (2014) adds that proactive approach has the ability to leverage the current capabilities whilst expanding into other avenues leading to creating a strong brand name for a firm. Upon the successful analysis and drawing of conclusions, the decision to diversify leaves the company with wide-open possibilities. It can diversify into a closely related business or move into a completely new business that is not related to the current operations (Schindler and Cooper, 2008). However, diversification must do more for a firm rather than simply to spread its business risks across various industries. In principle, diversification is considered a success when it adds to shareholder value (Maurice and Thomas, 2011). Daft (2010) insinuated that, in line with the principle of success for diversification, a move by any firm to diversify must pass three tests.

2.4 Competitive Advantage

In the banking sector or industry, other factors in exceptional of products and services provide determine the sustainability of the competitive advantage. The performance and excellence in operations and provision of services, introduction of new performing products is the competitive advantage possessed by a firm. In the banking sector, customer concerns are significant in gaining competitive advantage (Kings,

2013). Ransdeniya (2010) argues that customer preferences and shareholding with research and development would lead to an effective competitive advantage. In addition, the pricing of services and products and overall product standardization is an essential embodiment to gaining competitive advantage.

Banks are grown by the customer deposits which enable credit creation thus the growth in productivity and profitability. The deposits further provide support in leveraging the financial liquidity risks and bringing the performance gaps in the industry. The banking sector is mainly driven by economies of scale. Product and services that present high customer utility favour a bank over others thus creating growth in competitive advantage over others (Kings, 2013). Most industrial players have been able to employ competitive strategies that are not necessarily applicable in banking or may not have as much impact.

The differentiation of the service delivery is one of the strategies in particular to the airline industry to accommodate the needs of the persons with disabilities (PWDs). In a study by Rahman (2011), it indicated that Asian Airlines were on the rise with realization of the need to accommodate the needs of the persons with physical challenges and provide an ample appealing environment for such. This is in line to sustain their market destinations and also catch up with other market competitors in the Asia, Europe and Americas regions.

Enterprises possessing intangible valuables mostly the competencies and resources are significant for gaining of competitive advantage. The institution manpower, skills and reputation are critical in creating a competitive advantage. Competitive advantage

is grounded on the available resources and abilities an institution in addition to available products in the markets. This presents competitors inability to imitate or substitute. This would further result in having the company products and services in the right market segment as well as have a cost advantage over the rivals (Hamel & Prahalad, 1990).

Barnley (1991) establish that understanding source of competitive advantage is pertinent in business today. Resources within the organization form the basis of sustainable competitive advantage. Porter (1985) says that sustainable competitive advantage is reached when a firm identifies its opportunities and threats and goes ahead to exploit these opportunities as well as cushions itself against the emerging threats. Achieving sustainable competitive advantage calls for a firm to pursue internal capabilities which are rare, not easily imitated by competition, are not easily substituted and above all are very valuable (Rumelt, 1984). The source of the internal capabilities is found by interrogating firm competencies and resources (Andrews, 1971). This then leads to formulation of strategies which can propel an organization to achieve sustained competitive advantage if its resources are above the industry match.

Thomson et al. (2012) note that achieving sustainable competitive advantage is not an easy task as managers are required to first build on the company capabilities by deliberately building the internal development of the organization. This process can take months and years and it must be done proactively in stages to ensure that at any one time, the company grows internally on its capabilities. Secondly is the need to acquire new capabilities through mergers and acquisition. Refreshing a company's capabilities is the guarantee that a firm will challenge competition even when it arises.

Companies must therefore refresh and be renewed capabilities wise to meet the ever changing customer expectation. Consequently, achieving sustained competitive advantage calls for consciously assessing capabilities through collaborative partnerships with other firms. Achieving sustainable competitive advantage calls for employment of various strategies to remain on ahead of the pack.

2.5 Diversification Strategy and Competitive Advantage

Companies and financial institutions depend on the moves by the competitors in realizing their strength and next moves. Such is considered as the strategies taken to compete with other firms and stay at par. With superiority and reasonable command of the market share and leadership in pricing of the services, a company can boost to be having an existing competitive advantage (Porte, 2008). Porter (2008) further posits that this adds to the applicability of the strategies considering the target market. In realizing a proper competitive advantage, it requires significant competitive strategies in order to gain the competitive edge.

The rates by the competing players need to be favourable and will accommodate high purchasing power by inclusion of differentiation in the industry. Thirdly, the narrow niche in the share market requires a cut through to succeed in strategy. Strategies diversification is an inclusive decision making which will include possible effective or ineffective leads that will offer preferred or differentiated outcomes (Porter, 1980).Randeniya (2010) notes that the market leadership and sectorial leadership may constitute the wealth creation, customer retention and the products service intake by the consumers. The innovation controls may include the technological application and

infrastructure availability alongside the research and development in harnessing the global dynamic changes that dictate the market performance (Randeniya, 2010).

Commercial banks are therefore in challenge to strategizing the manner to take over the market and lead in the service provision. This requires diversification in products and services offered and to sustain the leadership and strength in the market, it would require a tightly checked competitive advantage over the other players in the banking sector. Kings (2013) argues that each bank employs unique strategies that would present a competitive advantage over other competitors in the same market. Competitive advantage of banks may vary from the product and services offered the marketing, rewarding and the costing towards the consumers of the banking products against their competitors in the industry. The diversification strategy influence on the competitive advantage of the institution is a concern for banking industry and financial sector players.

A sustainable competitive advantage facilitates growth of businesses. The ability to gain more customers and defend any emerging competing forces by a business would imply the business to have a firm competitive advantage (Coyne, 2000). Management literature indicates that there are many competitive advantage sources. Production of high end quality products, providing high standard of customer service and incurring low expenditures as compared to rivals presents top sources of competitive advantage. Business location and location decisions, creative branding and durability of a product add to sources of competitive advantage. Customers have the preferences for higher valued products thus a means for a firm to ensuring all the services and products have superiority in order to have a strong competitive advantage.

The matching of corporate objectives and resources owned or at disposal for use by the organization is a combined strategy. Allocation of resources and reconciliation of business goals by managers constitutes the development of a strategy (Porter, 2004). The purpose of an organization and goals determine the means of allocating resources by the managers in charge (Hannagan & Bennett, 2008). According to Drucker (2001) who notes that a strategy is sequence of organizational statements and plans and the manner in which they are applied to meeting the expected outcomes.

Over the past decades, the world has occasioned transformation in the operationalization and objective implementation in the financial services area. A change in regulation, intermediation, development of new innovations and technologies has cemented a solid ground for diversity and competition in the sector. As by this situation, banks have resorted to diversification and changes in the strategy implementation making most change their model of business development in order to create customer retention, increase their profitability levels and widen the investment avenues (Lepetit, 2005).

The uneven situation banks face in the financial sector is limited by diversification. Banks undertake innovation of innovate products, set geographical zones for their businesses, capitalize on economies of scale and adopt new technologies in order to create a competitive advantage. Diversification is a risky move for any business enterprise and therefore requiring intensive mobilization of capital. Banks diversify in their product base and spread in risky high return based products such as securities, merchandise, insurance and investment banking in order to gain a competitive

advantage and harness market share. Acharya, et al, (2002) notes that banks do undertake diversification for economic, managerial and value creation and market share growth and risk and capital spread motives, classify the banks' motive to diversify as synergy (or economic) motive, managerial motive, value maximization motive, increased market power motive, capital strength and risk diversification motives.

Mergers and acquisition of businesses is common within the banking sector. This mainly is aimed to diversify and marshal strength and control in the industry. In need to gain competitive advantage, business in particular the large ones and broaden their market strength. Financial institutions and insurance companies are common with the mergers and acquisition of business enterprises (Willman, 2000). Income generated, innovation and creativeness in services and products, economic situations and geographical areas are key in determining the particular diversification type to adapt (Tabak et al., 2011; Pennathur et al., 2012).

2.6 Summary of the Literature and Knowledge Gaps

In the review, strategies that have been on roll out by various institutions have shown significant increase in the output and overall performance. Institutions depend on the performance outcome in assessment of the strategies and the inclusivity of the overall contributory to the success of the strategies. The competition in the banking sector is intensive and the sustainability is dependent on the alternative strategies in diversification applied. The study reviewed independently address the strategy implementation and competitive advantage with limited focus on the integral diversification and the attributes towards the effectiveness of a strategy.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents four areas mainly the research design, study population for examination, data collection and data analysis.

3.2 Research Design

Research design is a set of composition elements categorised in varied itemization providing an illustration on how a given study is to be undertaken (Mugenda & Mugenda, 2003). The choice of design provides the plan and manner in which the study was conducted. This study made use of cross sectional survey design to establish how commercial banks in Kenya use diversification strategy to gain a competitive advantage. A survey was the most appropriate design to make this investigation as it takes place at one point in time.

The banking industry has 42 banks which can better be studied through a survey design. This design considered all objectives enlisted in the study for the observation. This study was conducted in Nairobi City County mainly because it has the headquarters of all the registered Commercial Banks in Kenya. The design encompassed a structured questionnaire for primary data collection as this study also used published reports for secondary data collection.

3.3 Study Population

This study population is the summed composition of observable leads into determining the subject effect onto the area of focus (Kothari, 2003). A study

population contains units, individuals, places or fauna and flora depending on the focus of the study subject. Kothari (2014) notes that population studies offer a cumulative view of the happenings, situations, expectations and characteristics or evolvements within the population.

The study relied on a census survey by looking at the entire 42 commercial banks in Kenya. The study sought to conduct the study on the entire population (42 banks). A complete listing of all banks was availed in appendix III. The study sought to get responses from all the banks. To do this, it was necessary to establish a pool of respondents who provided responses which were used for analysis. This study was well aware that not all the 42 commercial banks that responded due to the normal research constrains but aimed to achieve the highest possible response. This required that about one respondent be targeted from each bank. In addition, the study sought to gather data from key people of the banks who are relevant in the senior management levels in charge of strategy of the organization.

3.4 Data Collection

A questionnaire is an important instrument for research subjects as it does in composition capture the study elements for observation that are to be analysed when collected (Kothari, 2003). This study required adequate data for analysis. Collection of data involved covering the areas of target, the respondents for sufficient data mining that was capable of providing adequate outcomes of the study subject.

This study used a questionnaire with developed questions to capture this study's objectives. The questions further were likert scale based for measuring the extents in

various statements. The questionnaire was divided into three sections. Section A covered demographic information, Section B covered the Diversification strategy and Section C covered Competitive Advantage in the banking industry. This study used pick and drop method in distributing questionnaires.

3.6 Data Analysis

Data processing is an important component in coming up with realized facts of a given study's objectives and questions mainly through the analysis of the data collected (Kothari, 2003). This leads to an understanding of this study subject through realized findings and outcomes. This study used content analysis to analyze the data collected from the respondents.

The study sought to collate gathered data and turn the views and opinions gathered from the questionnaire into quantitative alternative making it easy for analysis. Hsieh and Shannon (2005), observe that content analysis was preferred for analysing subjective interpretation of data through systematic classification, coding and identifying themes and patterns. The use of tables, graphs and charts was employed to relate data gathered as well as come up with percentages to relate the data to facts on the ground.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysed data from the field and results based on the analysis. It also discusses the research findings. Further, the chapter illustrates, tabulates and clearly presents the research findings in charts, figures or table forms.

4.2 Response Rate

The researcher sought out to find the study response rate from questionnaires distributed to respondents from all 42 commercial banks. Out of 42 questionnaires distributed, 40 were successfully returned and fully filled therefore, accepted for data mining, coding and use in analysis as explained and illustrated in subsequent sections. This is 95.24% response rate in line Mugenda and Mugenda (2008) submissions that responses above 75% provide a clear view of the subject under investigation.

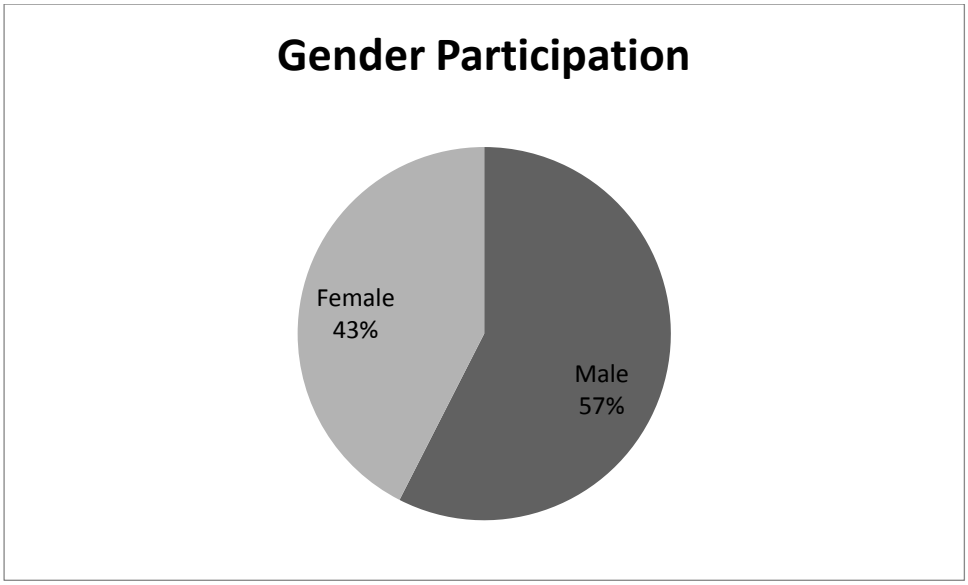
4.3 Demographic Information

This section provides demographic information collected from the field, analysed and interpreted in accordance with this study objective. This section provides gender participation, level of education, years of work experience of respondents based on their responses. The section further illustrates and presents results in table and chart forms.

4.3.1 Gender Participation

The study sought out to find the gender participation in this research report.

Figure 4. 1 Gender of Respondents



Source: Research Findings (2017).

Figure 4.1 tabulates 57% male and 43% female responses. This implies that the responses were gender inclusive.

4.3.2 Age Bracket of Respondents

The researcher sought out to find the age group of the respondents.

Table 4. 1 Age Bracket of Respondents

Age Bracket	Frequency	Percentage
20-25 Years	4	10.00
26-35 Years	12	30.00
36-45 Years	15	37.50
46-55 Years	8	20.00
Above 55 Years	1	2.50
Total	**40**	**100.00**
Mean	**8**	
SD	**5.70**	

Source: Research Findings (2017).

The results tabulated in Table 4.1 indicate that majority of the respondents are in the ages of 36-45 Years. This implies that Kenyan banks' staff involved with decision making, strategy execution and rolling out virtual banking on customers are in the ages of 36-45 Years presenting a mean of 8 and standard deviation of 5.70.

4.3.3 Education Level

The researcher sought out to find the highest level of education of interviewed respondents.

Table 4. 2 Education Level

Education Level	Frequency	Percentage
Diploma Level	5	12.50
Bachelor Degree Level	18	45.00
Postgraduate Degree Level	17	42.50
Others	0	0.00
Total	**40**	**100.00**
Mean	**10.00**	
SD	**16.40**	

Source: Research Findings (2017).

The research findings in table 4.2 indicate majority respondents hold a bachelor's degree at 45%. This implies that majority of Kenyan banks' staff are well knowledgeable capable of executing strategies related to competitive advantage in the banking industry.

4.3.4 Years of Experience

The researcher sought out to find the number of years majority respondents have served in their respective banks.

Table 4. 3 Years of Experience

Years of Experience	Frequency	Percentage
1 Year or less	2	5.00
2-5 Years	16	40.00
6-10 Years	8	20.00
11-15 Years	5	12.50
15 Years and Above	9	22.50
Total	**40**	**100.00**
Mean	**8.00**	
SD	**5.24**	

Source: Research Findings (2017).

The research findings indicated on table 4.3 show 40% of the respondents have 2-5 years of work experience in their respective banks. This implies that they have enabling experience capable of diversifying strategies that would lead to high competitive advantage.

4.4 Information about the Bank

4.4.1 Respondent's Position Held at the Bank

The researcher sought to find out the position level respondents hold in their respective banks.

Table 4. 4 Respondent's Position Held at the Bank

Position at the Bank	Frequency	Percentage
Clerical	19	47.50
Supervisor	13	32.50
Managerial	8	20.00
Total	**40**	**100.00**
Mean	**13.33**	
SD	**5.51**	

Source: Research Findings (2017).

The study findings reported on table 4.4 indicate majority are in the clerical level at 47.50% and fewer in managerial level at 20% with 32.50% representing those in supervisorial level. This implies that majority staffs working in Kenyan banks do hold

clerical level positions thus responsible for implementation for diversification of strategies in order to gain a competitive advantage.

4.4.2 Duration of Bank Establishment

In order to understand the operational experience banks have had in the Kenyan banking industry, the researcher sought out to find the period of establishment.

Table 4. 5 Duration of Bank Establishment

Year of Establishment	Frequency	Percentage
1800-1900	2	5.00
1901-1950	12	30.00
1951-2001	21	52.50
2001 onwards	5	12.50
Total	**40**	**100.00**
Mean	**10.00**	
SD	**8.45**	

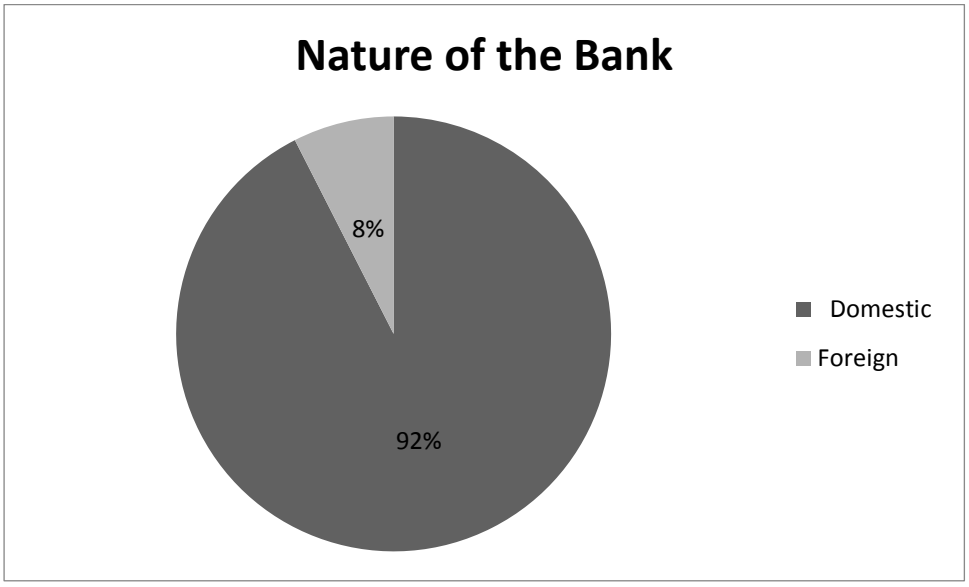
Source: Research Findings (2017).

The study findings on table 4.5 indicate that many of the Kenyan banks were established between 1951-2001 at 53.50% with fewer established between 1800-1900 at 5% implying that they have enabling experience and ground to diversify various strategies and gain market competitive advantage.

4.4.3 Nature of the Bank

Formation of banks may be by the local citizens or international investors, therefore, the researcher sought out to find the nature of bank ownership in the Kenyan industry.

Figure 4. 2 Nature of the Bank



Source: Research Findings (2017).

The findings illustrated on Figure 4.2 indicate majority are owned domestically at 92% with 8% representing those owned by foreign investors. This implies majority banks in Kenya are owned locally showing they have an upper hand in competing and gaining advantage over the foreign banks.

4.4.4 Operational Bank Branches

A bank's branch network aids its growth and market spread, therefore, the researcher sought to find out the number of branches that each Kenyan commercial bank has on average.

Table 4. 6 Operational Commercial Bank Branches

Operational Branches	Frequency	Percentage
Less than 5	2	5.00
6-10 Branches	9	22.50
11-15 Branches	11	27.50
16-20 Branches	9	22.50
Above 20 Branches	9	22.50
Total	**40**	**100.00**
Mean	**8.00**	
SD	**3.46**	

Source: Research Findings (2017).

Based on result findings on table 4.6, the study reveals that majority banks have27.50% of branch network that comprises of 11-15 branches. This implies that many of the Kenyan banks have at least more than 10 branches capable of spreading their diversity in strategy execution, implementation and reliably gain a clear competitive advantage.

4.4.5 Annual Turnover/Profit

Existence in the market requires proper performance and profitability gains as the researcher sought out to find the average annual turnover reports by Kenyan banks.

Table 4. 7 Annual Turnover/Profit

Annual Turnover/Profit	Frequency	Percentage
KES 50 Million or Less	1	0.03
KES 51-100,000 Million	5	0.13
KES 101,000-250, 000 Million	8	0.20
KES 251,000-500,000 Million	7	0.18
KES 501,000 Million and Above	19	0.48
Total	**40**	**1.00**
Mean	**8.00**	
SD	**6.71**	

Source: Research Findings (2017).

Based on reported findings on table 4.17, many banks make an annual turnover of KES 501,000 Million and above presenting a 48% of the total earnings. This implies that Kenyan banks have an increasingly annual performance in terms of returns from their operations.

4.5 Diversification Strategy

4.5.1 Type of Strategy Adoption

The researcher sought out to find the type of strategy adopted by Kenyan banks.

Table 4. 8 Type of Strategy Adoption

Statements	MEAN	SD
Product differentiation	3.44	4.42
Cost differentiation	3.53	3.74
Strategic alliance	3.50	5.02
Joint ventures	3.08	3.42
Mergers	3.21	4.51
Diversification strategy	4.33	6.70

Source: Research Findings (2017).

Based on reported findings on table 4.8, diversification strategy ranks highly as one of the adopted strategies in the banking industry. This implies that majority banks in Kenya prefer diversification strategy as compared to Product differentiation, cost differentiation, strategic alliance, Joint ventures and Merger strategies in gaining a competitive advantage.

4.5.2 Restructuring Strategies

Strategies are meant to aid performance and enhance growth levels in areas of application. Therefore, the researcher sought to find out the applied restructuring strategies in the banking industry.

Table 4. 9 Restructuring Strategies

Restructuring	MEAN	SD
Downsizing	3.37	4.55
Downscoping	3.15	4.31
Leveraged buyouts	3.29	3.51

Source: Research Findings (2017).

Based on study findings in table 4.9, majority of the banks' restructuring strategies are geared on downscoping as compared to downsizing and leveraged buyouts. This

implies that majority banks operating in the Kenyan banking industry undertake downscoping in order to maximize the selling or performing business operations or services.

4.5.3 Extent of Diversification Strategies

The influence of diversified strategies in Kenyan banks is one of the means for growth and gaining market share strength.

Table 4. 10 Extent of Diversification Strategies

Statements	MEAN	SD
Your bank uses credit diversification where loans are given to people in different sectors of the economy	1.62	3.18
Your bank uses bank loan portfolio diversification to suit different customer needs	2.08	7.85
Your bank geographically is diversified in terms of distribution thus increasing its market share	3.75	4.09
Your bank offers lower charges on client services making it attractive for many customers	3.94	5.39
Your bank charges lower interests on loans making it attractive to customers	3.10	5.62
The operation costs for your bank is lower due to elimination of unnecessary cost thus improving its performance	3.34	3.81
Your bank forms strategic alliances with other organizations to gain competitive advantage in the market	3.15	3.44
Your bank joins strategic alliances to form collaborations which seize the growth opportunity thus gaining competitive advantage	2.45	5.26
Joint ventures leads to the formation of strategic alliances making banks gain competitive advantage	3.26	5.61
Mergers helps banks in reducing the cost of operation	3.24	4.59
Mergers helps banks to expand its coverage geographically thus increasing competitive advantage	3.47	4.62
Banks diversify in different products making them gain competitive advantage in the market	3.16	3.82
Our bank has introduced new products based on the customers demand	3.42	4.97

Source: Research Findings (2017).

Based on table 4.10 study findings, many of the Kenyan banks to a great extent agree that usage of credit diversification where loans are given to people in different sectors of the economy, charging of lower interests on loans making it attractive to customers, banks' formation of strategic alliances with other organizations to gain competitive advantage in the market and a bank joining strategic alliances to form

collaborations which seize the growth opportunity thus gaining competitive advantage as well as joint venturing which leads to the formation of strategic alliances making banks gain competitive advantage as some of the effective means of diversifying strategies.

4.6 Competitive Advantage

4.6.1 Competitive Advantage Techniques

Each bank has an individual technique they use to gain a competitive advantage over others using a scale of 1- Strongly disagree, 2- Disagree, 3-Neither agree nor disagree, 4- Agree and 5- Strongly agree, the researcher sought responses on the Competitive Advantage Techniques used.

Table 4. 11 Competitive Advantage Techniques

Statements	MEAN	SD
Your bank rewards customers for their loyalty	2.78	3.73
Your bank uses recent technologies to increase customer service delivery	3.55	6.57
Your bank has discounted the cost of banking with its' clients	3.46	6.66
Your bank has improved the quality of customer service delivery	3.95	8.05
Your bank has increased innovation of products and services	3.66	8.14
Your bank conducts product research and development	3.24	6.42
Your bank actively conducts product diversification	3.32	5.49
Your bank has increased branch and regional operations	2.60	4.93

Source: Research Findings (2017).

Based on the findings reported in table 4.11, agree to a large extent that banks do conduct product research and development and also are actively involved in product diversification. This implies that many of the Kenyan banks undertake regular research and development to ascertain the growth trends and performance of a given product. In addition, the findings reveal that banks do diversify their products. This is a common strategy applicable in sustaining and gaining an extra market share or dominance.

4.6.2 Extent of Agreement of Competitive Advantage

Banks embrace competitive advantage strategies in order to increase their market share and profitability levels. The study findings in table 4.12 indicate various extents of agreement of Competitive Advantage using a scale of 1- Strongly disagree, 2- Disagree, 3-Neither agree nor disagree, 4- Agree and 5- Strongly agree.

Table 4. 12 Extent of Agreement of Competitive Advantage

Statements	MEAN	SD
Competition erodes profitability in your bank	3.53	5.21
Competitive strategy enables your bank compete successfully hence securing a competitive advantage over rivals	3.80	5.55
Your bank offers the same services at a lower cost	3.00	2.53
The operational banking industry in Kenya is highly competitive	3.65	7.36
Your bank has been expanding to new geographic locations in the last three years	3.48	4.09
Your bank has a differentiation advantage due to its superior and cheaper products/services	3.40	6.55
Your bank concentrates its marketing efforts on a narrow market segment	2.93	5.08

Source: Research Findings (2017).

Based on the findings in table 4.12, majority agree that competitive strategy employed enables banks to compete successfully hence securing a competitive advantage over rivals and banks has been on an expansion for the last three years to a greater extent. This implies that many banks operating in Kenya, positively respond well with the competitive strategy adopted by the bank and with expansion to various places, banks are capable of maximizing their market share strength.

4.7 Relationship between Diversification Strategy and Competitive Advantage

Business institutions are eager for high-performance outcomes and widen market share. Based on these study findings, banks employ different strategies with an aim of

gaining a competitive advantage and also to strategically have a lengthened going concern in business. Whereas product differentiation, cost differentiation, strategic alliance, joint ventures and mergers are some of the applicable market strategies, these study findings reveal majority banks in Kenya employ diversification strategy as a mark of competitive advantage excellence.

Diversification strategy encompasses factor consideration in order to achieve a strong competitive advantage in the market. Pricing review, customer-oriented focus, technology inclusion and product attribute developments are critical for a successful diversification strategy. However, based on the findings of this study, credit creation and reduced rates of credit lending are useful for implementing a diversification strategy. This is in tandem with gained competitive advantage as the majority of the banks experience sudden growth in customer retention rates, loyalty and ease with penetrating new market niches.

Use of credit diversification to stimulate competitive advantage of a bank is as important as an affordable price tag on particular credit products. Therefore, product diversification encompassing additional attributes would provide a strong competitive advantage to banks using it as a diversification strategy as conversely is true. In addition, from the findings, banks in Kenya are highly involved in research and development for their products. This is important to instil product performance and sustainability in the market. Gaining a competitive advantage through research and development would imply a properly implemented diversification strategy.

Product differentiation with Kenyan banks are never exceptional in gaining a competitive advantage based on the research findings that revealed by a mean of 4.33. Banks form alliances to succeed in a given market niche or to steer performance of a sector-perhaps with high portfolio growth and profitability. For instance, based on the findings, downscoping is adopted by Kenyan banks netting a mean score of 3.37 and SD of 4.45, would reveal that Kenyan banks gain competitive advantage through strategies that are less costly with a high market performance impact. Clearly, based on the study findings diversification strategy, when properly rolled out and fully implemented (with individual preferences) would lead to a high competitive advantage.

4.8 Discussions

These study findings reveal that in order to gain a wider market share and competitive advantage, banks are required to diversify in strategy and develop existing products while also conducting research on their performance. In the thoughts of Amici et al. (2012) who specifically focused on the market impact of banking firms in Europe and the US on both strategic diversification of their existing products and continuity in investment of research and development programs.. In addition to the result of a positive correlation between the announcements and firm value, they also suggest that joint ventures generate more value when there are nonbanking financial partners involved in the case.

In line with these findings, Gari (1999) found that complementary business level strategic alliance, especially vertical ones, have the greatest probability of creating a sustainable competitive advantage. Chiou and White (2005) suggest that the strategic

alliance announcements contribute to a positive increase for the firm value in Japanese financial services industry.

Geographical and location decisions are critical in strategy. Based on above findings, most banks on a mean score of 3.65 rely on the branch network spread in gaining a competitive advantage. As Wheelock and Wilson (2004) found out, that that merger activity in US banking is positively related to geographical location of banks, management rating, bank size, and competitive position and negatively related to market concentration.

The overriding motivation by banks in Kenya is to remain competitive going by the way they attempt to diversify. It is also evident from the study that banks are leaning towards downscoping thus concentrating on performing business portfolios. The reliance on technology is aimed at saving cost while reaching a wider customer base without opening additional branches or expanding staff numbers.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarized the findings based on the objective of the study. The purpose of the study was to establish the effect of diversification strategy on competitive advantage of commercial banks in Kenya.

5.2 Summary of Research Findings

The study findings reveal many banks make over KES 501 Million as an annual turnover. This implies that bank's profitability levels in Kenya are significantly high despite stiff competition. In addition, this study reveals many banks are into downscoping implying banks are focusing on profit led business portfolio. Further, the study findings reveal many banks in Kenya are domestically owned as well as most have been in operation for over 50 years since formation. This implicates that many Kenyan banks have the ability to compete in a healthy way and that their diversification strategies lead to gaining a competitive advantage in the market.

The study reveals that branch networking summed at 11-15 branches by Kenyan banks is an enabling step to capturing many customers. Increasing customers in the banking sector requires bank's easier accessibility thus many branches would imply increase in deposits and branch customer retention rates. The study also revealed

fewer banks do reward their customers for loyalty as however, they have maintained high customer retention levels.

Banks in the last three years have improved on expansion targeting key performing markets as revealed by this study finding. Study findings hold that many banks in Kenya in employing restructuring strategies, downscoping of operations is preferred as compared to downsizing and leveraged buyouts.

5.3 Conclusion

This study concludes that downscoping operational services improve performance of Kenyan commercial bank. In addition, those majority Kenyan banks employ diversification strategy in gaining their competitive advantage. The study also concludes that use of credit diversification increases profitability as banks concentrate on performing sectors therefore, gaining higher competitive advantage.

The study concludes that charging lower interests on loans attracts customers therefore increasing credit sales in the banking industry and number of customers retained by banks. In addition, the study concludes that banks that do form strategic alliances with other organizations do gain competitive advantage in the market as well as banks joining strategic alliances to form collaborations which would seize the growth opportunity thus gaining competitive advantage.

The study also concludes that joint venturing leads to formation of strategic alliances that make Kenyan banks gain a clear competitive advantage. The study further concludes that Kenyan banks are product sensitive as many of them conduct research and development while also diversifying the existing products.

5.4 Recommendations

This study recommends that commercial banks as an industry should keep innovating to ensure that it maintain the competitive advantage. The banking industry should not shy away from designing new products but do so in a pace which resonates well with expectations of the market and clients. This is to prevent launching products which are not well researched and the ones which do not relate to customer requirements.

Commercial banks that rely on technology to launch their diversification strategy stand a better chance of success than banks which make use of banking products. To remain competitive, banks must ensure they make proper use of partnerships and their product research and rollout is seamless. This way, the industry cannot go wrong especially when competition is purely performance based.

The pace at which innovative products are launched, also needs to be planned and a proper user acceptance testing is used so that the desired impact of the products rolled out is achieved without the need to further waste time trying to perfect a system which is already in the market. Banks need to also stress-test the system so that any financial risk, both to the banks and customers, is lowered.

5.5 Limitations of the Study

This study was limited to the banking industry something which limited the scope of the study. The study recommends for future researches to incorporate players such as telecommunication companies or FMCGs industrial companies, among others to widen the scope. In addition, the use of case study to carry out this study can provide very outstanding and more precise response to the problem at hand.

5.6 Implication of the Study on Policy, Theory and Practice

By highlighting on the strategies used by banks in gaining competitive advantage in the market, the findings of the study would inform policy makers in regulating strategies used by banks to prevent unhealthy competition. Banks can use the findings of the study to make decisions of the best strategies they can use to gain competitive advantage in the market. This will help them compete favourably in the market thus improving their performance.

The findings of this study contribute to the existing knowledge on diversification strategies for gaining competitive advantage by commercial banks. The study revealed the extent to which diversification strategies are used by commercial banks to gain a competitive advantage in the market.

5.7 Suggestions for Further Research

This study suggests that similar studies be carried out on all the key channels players extending the study beyond commercial banks. This will ensure the findings are compared to see if the outcome is similar. This will cover a wider ground something which this study might have omitted.

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APPENDICES

APPENDIX I: UNIVERSITY RESEARCH LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 17/10/2017

TO WHOM IT MAY CONCERN

The bearer of this letter DHONDE LILLIANNE ATIENO

Registration No. D61/77627/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
17 OCT 2017
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: LETTER OF INTRODUCTION

TO WHOM IT MAY CONCERN.

Dear Sir/Madam,

RE: RESEARCH ASSISTANCE

I **LILLIANNE OHONDE: D61/77627/2015,** a postgraduate Master of Business (Strategic Management) student at the University of Nairobi conducting a research. The study is titled **"*Diversification strategy and Competitive Advantage of Commercial Banks in Kenya*"** do hereby request for your assistance in the filling of the questionnaire to facilitate the study conclusion.

Thank you for your consideration.

Sincerely,

Lillianne Ohonde: D61/77627/2015

Supervisor's Name

Prof. Martin Ogutu

APPENDIX III: QUESTIONNAIRE

SECTION A: DEMOGRAPHIC INFORMATION

What is your gender?

a) Male [ ]

b) Female [ ]

What is your age?

a) 20-25 Years [ ]

b) 26-35 Years [ ]

c) 36-45 Years [ ]

d) 46-55 Years [ ]

e) Above 55 Years [ ]

What is your level of education?

a) Diploma Level [ ]

b) Bachelor Degree Level [ ]

c) Postgraduate Degree Level [ ]

d) Others (specify)…….

How many years have you served in your bank?

a) 1 Year or less [ ]

b) 2-5 Years [ ]

c) 6-10 Years [ ]

d) 11-15 Years [ ]

e) 15 Years and Above [ ]

What is your position at the bank? ……

SECTION B: INFORMATION ABOUT THE BANK

When was your bank established in Kenya? .....

What is the nature of your bank?

a) Domestic [ ]

b) Foreign [ ]

How many operational branches do you have? .....

What is the annual turnover/profit of your bank?

a) KES 50 Million or Less [ ]

b) KES 51-100,000 Million [ ]

c) KES 101,000-250, 000 Million [ ]

d) KES 251,000-500,000 Million [ ]

e) KES 501,000 Million and Above [ ]

SECTION C: DIVERSIFICATION STRATEGY

To what extent are the following strategies used by your bank? Use the scale 1-

No extent at all 2- Small extent 3-Moderate 4- Large extent 5- Very large extent?

Strategy	**1**	**2**	**3**	**4**	**5**
Product differentiation					
Cost differentiation					
Strategic alliance					
Joint ventures					
Mergers					
Diversification strategy					

To what extent are the following restructuring strategies applied by your bank? Use the scale of 1- No extent at all 2- Small extent 3-Neutral 4- Large extent 5- Very large extent?

Restructuring	**1**	**2**	**3**	**4**	**5**
Downsizing					
Downscoping					
Leveraged buyouts					

To what extent are the following statements valid? Use the scale of 1- Strongly disagree 2- Disagree 3-Neither agree nor disagree 4- Agree 5- Strongly agree.

Statement	**1**	**2**	**3**	**4**	**5**
Diversification strategy					
Your bank uses credit diversification where loans are given to people in different sectors of the economy					
Your bank uses bank loan portfolio diversification to suit different customer needs					
Your bank geographically is diversified in terms of distribution thus increasing its market share					
Cost differentiation					
Your bank offers lower charges on client services making it attractive for many customers					
Your bank charges lower interests on loans making it attractive to customers					
The operation costs for your bank is lower due to elimination of unnecessary cost thus improving its performance					
Strategic alliance					
Your bank forms strategic alliances with other organizations to gain competitive advantage in the market					
Your bank joins strategic alliances to form collaborations which seize the growth opportunity thus gaining competitive advantage					
Joint ventures leads to the formation of strategic alliances making banks gain competitive advantage					
Mergers					
Mergers helps banks in reducing the cost of operation					
Mergers helps banks to expand its coverage geographically thus increasing competitive advantage					
Product differentiation					
Banks diversify in different products making them gain competitive advantage in the market					

Our bank has introduced new products based on the customers demand					

What other strategies has your bank adopted to gain competitive advantage in the market (please specify)? ……

SECTION D: COMPETITIVE ADVANTAGE

To what extent are the following competitive advantage techniques used by your bank? Use the scale 1- No extent at all 2- Small extent 3-Moderate 4- Large extent 5- Very large extent?

Competitive Advantage Techniques	**1**	**2**	**3**	**4**	**5**
Your bank rewards customers for their loyalty					
Your bank uses recent technologies to increase customer service delivery					
Your bank has discounted the cost of banking with its' clients					
Your bank has improved the quality of customer service delivery					
Your bank has increased innovation of products and services					
Your bank conducts product research and development					
Your bank actively conducts product diversification					
Your bank has increased branch and regional operations					

To what extent are the following statements valid? Use the scale of 1- Strongly disagree 2- Disagree 3-Neither agree nor disagree 4- Agree 5- Strongly agree.

Statements	**1**	**2**	**3**	**4**	**5**
Competition erodes profitability in your bank					
Competitive strategy enables your bank compete successfully hence securing a competitive advantage over rivals					
Your bank offers the same services at a lower cost					
The operational banking industry in Kenya is highly competitive					
Your bank has been expanding to new geographic locations in the last three years					
Your bank has a differentiation advantage due to its superior and cheaper products/services					
Your bank concentrates its marketing efforts on a narrow market segment					

Thank You.

APPENDIX IV: LIST OF KENYAN 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. I & M Bank Limited
29. Imperial Bank of Kenya (In receivership)
30. Jamii Bora Bank Limited
31. Kenya Commercial Bank Kenya Limited
32. Middle East Bank Kenya Limited
33. M-Oriental Commercial Bank Limited
34. National Bank of Kenya Limited
35. NIC Bank Limited
36. Paramount Bank Limited
37. Prime Bank Limited
38. Sidian Bank Limited
39. Standard Chartered Bank Kenya Limited
40. Trans-National Bank Limited
41. United Bank for Africa Kenya Limited
42. Victoria Commercial Bank Limited

Source: Central Bank of Kenya (2017).