STRATEGIES ADOPTED BY COMMERCIAL BANKS IN KENYA'S COMPETITIVE BUSINESS ENVIRONMENT

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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D61/77112/2015

This Research Project has been submitted for examination with my approval as the Student's University Supervisor.

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DEDICATION

I dedicate this project to most of all, to the Almighty God who gives me strength and good health and my supervisors at Consolidated Bank for the support for their great moral and also their enormous encouragement throughout my studies.

My study is dedicated to the following:my father Peter Kavali, my loving mother Claviah Mutua, my dear uncle Jonathan Mutua , my aunt Beatrice Maingi and my siblings for their time, prayers, support and patience as well as the encouragement during the entire period of my study.

May God Bless and Grant them a long and healthy life.

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ABSTRACT

The objective of this study was to investigate the strategies adopted by commercial banks in Kenya's competitive business environment. The research adopted a descriptive research design. The population of interest was the 43 commercial banks in Kenya. Since the population was small, the study adopted a census design. The study collected primary data. Questionnaires were administered to the heads of operations department or their equivalents. The researcher used the Statistical Package for Social Sciences (SPSS V.22) to key in both quantitative and qualitative data and analyze data using descriptive statistics. The data were then presented in form of frequency tables, mean scores, standard deviations, percentages, pie charts, bar graphs among others for easier interpretation and deduction. The study concluded that market forces (power of suppliers, power of buyers, threat of substitutes and rivalry in the industry) only dominate the industry to a moderate extent while barriers to entry dominate to a great extent. It also concluded that banks have different characteristics gaining them competitive edge with the most used one being focus on market segment. This allows the bank to develop very specific focused marketing messages and services that will likely appeal far more strongly than a broad general messaging. It was further concluded that challenges in strategy implementation in the banking industry are; complexity in customer needs, frequent changes by regulators, rise in the cost of borrowing, high implementation cost, lack of commitment to implement and lack of skilled labour all to a moderate extent.On the opportunities enabling banks to compete favourably, it was concluded that increasing bank resources, mergers and strategic alliances, qualified human resource, lowering interest rates, highly differentiated services, and reduced capital requirement moderately enable banks to compete favourably. Reduction in government regulations on the other hand greatly enables favourable completion by commercial banks. The research recommends that commercial banks formulate and implement strategies that will enable them gain competitive edge over others. The banking industry remains competitive and banks can only stay competitive through developing competitive strategies.The study further recommends the formulation of favourable policies and regulations governing the banking industry. Regulations in the industry play a big role in ensuring favourable competition.

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ABBREVIATIONS AND ACRONYMS

BBG	Barclays Bank of Ghana
CBK	Central Bank of Kenya
CRB	Credit Reference Bureaus
DCT	Dynamic Capabilities Theory
DTM	Deposit-Taking Microfinance Institutions
IO	Industrial Organization
IT	Information technology
MFC	Mortgage Finance Company
NSE	Nairobi Stock Exchange
VRIO	Valuable, Rare, Inimitable Resources And Organization
SPSS	Statistical Package For Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations around the world are increasingly being faced with an infinite variety of pressures, in today's turbulent, often chaotic, global environment, commercial success depends on the effective strategic placement of the organizational.The-increasing pace of global, economic and technological development has made strategic approaches an inevitable feature of an organization's life (Fedor & Herold, 2015). With the market environment becoming more competitive, companies have had to think of better competitive strategies (Pearce & Robinson, 2001). Keddy (2001) define competition is the process of striving against others or rivalry between two or more economic group to win or achieve something especially profit. Freedman (2013) define strategy as a plan formulated to enable an entity achieve its long term plans through adoption and allocation of resources necessary for achieving these goals. There is, therefore, need to evaluate the competition in the environment and to match the strategies to the level of turbulence in the environment.

This study was anchored on the theory of dynamic capabilities and resource-based view model. The dynamic capabilities theory, which states that the fit between a business strategy and its environment has significant implications for its competitiveness. This theory also stipulates that to adjust short-term competitive advantage, key capabilities should be used (Chilton, 2013). This study will also factor in resource-based theory which states that firms should look at the resources within the company to gain competitive advantage (Barney, 1991). A firm's resources or strategic capabilities should be rare, valuable, non-substitutable and imperfectly imitable. The resource-based theory provides a rationale for competitive strategic approaches that enhance firm's competitiveness.

Commercial banks in Kenya have had an enabling environment for their operations, hence significant in the last two decades. Yet still, there is an outbursting number of challenges facing the industry with the environment becoming deregulated (Omondi, 2014). According to Kungu (2014), commercial banks in Kenya are faced with tough competition, which calls for the creation of better strategies to guarantee their performance by reducing cost structures, differentiating existing products and implementing strategies aimed at retaining customers.

In line with this increased competition in the banking industry, more and more companies are adopting competitive strategies. Financial institutions in Kenya companies have not been left behind in terms of embracing competitive strategies. Competitive strategies takes the organization away from its current markets or product or competencies. The banking industry in Kenya has been strategic in its operations and thus has some players within the industry implement the competitive strategies for various reasons. Despite the adoption of these strategies, a number of companies that have adopted competitive strategies still have challenges with regard to performance hence the need to establish whether commercial banks establishing competitive business strategies will lead to improved business performance.

1.1.1 The Concept of Strategy

A Strategy is a long-term direction, which is adopted by management in order to gain a competitive advantage in the ever-changing business environment. Cetinkaya (2011) pointed out that strategy determines the organization's overall direction in terms of its goals, vision, ethical perspectives not only on the corporate identity but also, social environment, not forgetting the business scope. Consequently, the development of strategies by banks must indicate the relationship between the environments faced with the company goals. Such a strategy is fundamental in responding to customers, suppliers, government authorities, and suppliers that the market presents. Consider Hines (2014) insistence on the need to comprehend the different strategies that can make a bank successful. Henceforth, it is the role of the particular bank to decide the strategy that works best for them depending on strategies put forth.

Through strategic approaches, management is able to systematically define strategy or direction in response to the changing environment. An effective strategic planning enables an organization to know where it currently stands, where it is going, where it wants to go and how it will get there (vision). Globally, the strategic response has been found to be essential for the comprehension of the forces of competition that make me firm successfully over another in the same industry, adjusting their competitive strategies to suit the competition (Hill & Jones, 2007).

Variety of theories approaches, and perspectives have explained strategic planning. The models of strategic approaches include conventional strategic planning, issue-based strategic approaches of the theory of alignment model, strategic planning, and organic strategic planning (Hines (2014). However, the most common theory is the conventional strategic approach because of its resources that are sufficient in the creation of goals, and visions that are stable, even in the external environment. Organic strategic approaches model is appropriate for firms with limited resources and little success with achieving ambitious goals. Alignment model of strategic approaches makes sure that firms are internally strong in order to ensure the overall goal is achieved. Depending on the how a firm operates, its size, structure, and complexity, a firm creates its strategic plan.

1.1.2 Competitive Business Environment

A competitive environment entails the capacity of firms to function and compete in the vast external environment. The more the number of firms offering the same product or service, the more competitive the business environment (Baldauf, 2014). Manthri (2015) suggested that a company must think long-term and beyond the limitations of its company for it to be consistently and sustainably successful.

Grant (2008) found that a firm cannot ignore what the competitors are doing or how competitors will react to a strategic change by the firm. for resource-based theory, a company's competitive advantage is based on the internal resources available in the company (Mahoney & Pandian, 2012). Thus, what defines an entity is the wealth of resources that distinguish it from other firms, which must be rare, difficult to substitute, valuable and hard to imitate (Barney, 2012). In banking management, Storey (2014) suggested that with the high competition in the commercial banking system, strategies applied must be unique, which requires the use of resources that are critical so as to achieve and maintain the desired competitive advantage. The firms, therefore, formulate and implement strategic responses of focusing on the competencies to respond to the changing forces in the environment.

1.1.3 Commercial Banks in Kenya

The Central Bank of Kenya become the regulatory authority for the banking sector on 31 December 2016, forty-three banking institutions i.e forty-two commercial banks and one mortgage finance company (MFC) (CBK, 2016). Thirty-one of the forty-three institutions of banking are locally owned and among the banking sectors that foreigners own, eight are incorporated between being foreign and locally owned with twelve being foreign owned. Kenya has created laws that ensure the formulation and management of banks such as banking act, appropriation act, Barclays of Kenya Limited act, banking act, cheque act, general loans, central depositories act, stock act, and capital markets among others (www.cbk.co.ke).

Over the last decades, there has been an outburst of unprecedented growth in the banking industry with an eye-catching performance. Despite the poor economic performance and the 2008 crisis, the sector has remained consistently profitable. Furthermore, the 2008 global financial crisis continues to affect the economy did not affect the banking institution (Kamau & Were, 2013). However, increasing innovation from new players and new advanced markets have increased banking competition contemporarily, which calls for relevant strategies that will make the banking institutions to remain relevant sustainably.

1.2 Research Problem

Business firms are required to adequately and promptly respond to changes in the environment they operate. They are environment dependent in terms of resources and discharging their products and services. Competition in banking consists of providing the clients with the most customized services in order to better meet their needs. There is need to evaluate the competitiveness in the environment and to formulate matching strategic responses (Liang & Chang, 2011). Firms counter competition in the business environment by creating strategies, which are used to manage strategic repositioning. Pearce and Robinson (2005) state that strategy can be seen as a way of building defenses against competition and finding positions in the industry where competition is weak. It is important for managers in any organization have a grasp of the competitive force in operation in their firm in the same industry, which will enable them to make relevant strategies that respond precisely to the new competition (Pagell & Wu, 2009).

In Kenya, the growth of commercial banks has been rapid in the last ten years because of the growing middle class, changing lifestyles, urbanization, growing the economy and market liberalization. However, Kenya's commercial banking industry is currently experiencing turbulent times. Since the implementation of the banking act 2016 in which among other things controls the lending rates and sets a minimum interest rate on customer deposit, the banking industry players have been concerned on diminishing profit margins. Large commercial banks are for the first time closing a number of branches, implementing salary cuts, laying off a significant number of staff, automation of processes, making of strategic alliances and partnership programs.

Studies have been undertaken on strategies and competitive business environment. Globally, Rosli (2012) did a study on competitive strategies of Malaysian small and medium enterprises. He found out that these firms placed high emphasis on firm management, marketing and human resource and moderate emphasis on innovation strategy. Bierly and Chakrabarti (2014) did a study on generic knowledge strategies in the United States of Americas' pharmaceutical Industry. They observed that pharmaceutical firms in the U.S. that were more resourced tend to be more profitable than firms that were uprising and not well equipped.

In Kenya, Wairegi (2004) did a study on competitive strategies adopted by life insurance companies in Kenya. The study found out that life insurance companies responded through such initiatives such as new product development, development of new distribution channels, restructuring, investment in human resource development and computerization of the core business process. Ramona (2008) conducted a study on strategic responses adopted by Barclays Bank of Kenya. He concluded that Kenya's Barclays Bank can only remain competitive if their strategic responses are dynamic in that they have an extensive product and services range, which inculcates staff that are highly skilled and receiving consistent training, business processes that make use of the current technology, used of advertisements, outsourcing support, publicity avoidance and reducing operating staff. Mutile (2013) looked into how Kenya Tourism Government Agencies adjust to the external environment changes with appropriate strategies that are in line with the Kenya Vision 2030. The study found that the agencies have managed to adopt strategies which include new product development, new markets development, product and market diversification, product and brand differentiation, rebranding and repositioning, strategic partnering and co-operative marketing, research and development and increased destination awareness. Otuya (2016) assessed how effective strategic responses of companies are on Kenya's paint manufacturing firms in an environment that is changing and highly competitive.

Findings from previous studies show that for firms to remain competitive in the market, they must create strategies that are superior to their competitors. These studies, however, fail to focus on commercial banks in Kenya. There is also scarce empirical literature on the relationship between the competitive environment and the strategic approaches. As such, this study will seek to address and bridge this gap by focusing on strategies adopted in a competitive business environment by commercial banks. The study will address this knowledge gap by the research question: what are the strategies adopted by commercial banks in Kenya, in a competitive business environment?

1.3 Objective of the Study

The objective of this study was to find out the strategies adopted by commercial banks' in Kenya's competitive business environment.

1.4 Value of the Study

The study findings was of value to top-level management in that they will understand the value of crafting innovative strategies for the survival of the business despite the competitive nature of the business environment. Top management will allocate resources to implement strategies that will attract and retain customers. New product development and quality service delivery will promote customer loyalty and long-term relations thus mutual trust between the banks and customers.

The study findings was of value to the policymakers and the government, who will apply the data in the creation of relevant policies guidelines that respond strategically in the public sector and parastatals turn increasing productivity in these sectors.

The study will also add to the empirical literature available. It is observed that there is insignificant research work done in this area of study. The findings will, therefore, be useful to future researchers and scholars as the information will form a basis for their literature review.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, there are theoretical literature reviews that offer the literature with a critical analysis, in addition to studies summary that showcases the problem under investigation and emerging research gaps.

2.2 Theoretical Review

In the study of strategic management, there are several theories that attempt to explain the concept of business strategic approaches and its role in enhancing business competitiveness. Among these theories are the industrial organization (IO) and the Resource-based theory.

2.2.1 Resource Dependence Theory

Resource dependency theory highlights the effects of a firm's resources to the company performance. Basically, the model asserts that entities rely on their resources. The environment is constantly changing and hence need for constant strategic evaluations and strategic approaches to adapt to the constantly changing environment.The resource-based theory hence provides a rationale for strategic planning. Business strategic approaches are essential as they can ensure that resources in an enterprise meet the expected criteria (Armstrong, 2010).

In the resource-based approach, resources or capabilities like specialized human capital, technological knowledge or managerial expertise have the potential to create value when the strategy is matched with such resources (Miller, 2006). Consequently, resource-based model integrates analogies in the strategic management (Barney, 1991) and firms' economic (Penrose, 1959). According to the theory, a company's economic value as a result of products and services produced same or greater benefits to the firm at low cost compared to competitors.

2.2.2 Dynamic Capabilities Theory

The theory of dynamic capabilities was pioneered by David Teece in 1989 (Teece, Pisano &Shuen, 1997). "Dynamic Capabilities and Strategic Management". Strategic Management Journal. 18 (7): 509–533. A dynamic capability a firm's capacity to deliberately create, modify or build its resource base in terms of the environment that are swiftly changing (Pisano & Shuen, 1997). Successful companies in the international market place achieve competitive advantage by having a timely response to market dynamics and speedy service or product innovation (Teece, 1997).

With this approach, three factors are fundamental i.e processes, positions and paths. Essentially, a firms process is associated with the competitive advantage accumulation and DC, assets are associated with positions and lastly, paths entails the firm's past and the future (Teece, 1997). Véronique and Bowman (2009) approach to the position is based on two dimensions; external and internal. While the external assets are associated with a company's present position as the markets assets and firms' utilized boundaries and are associated with the institutional and external environment, the internal position entails assets whether financial, technological, institutional, reputational, structural and complementary ones.

2.3 Analysis of the Competitive Business Environment

This section reviews the competitive forces within the business environment using the five forces model developed by Porter (2008). Porter's model approach insists on the need for a company's strategy to operate based on the threats and opportunities presented to the firm externally, identifying five competitive forces responsible for shaping the entire market and industry.

2.3.1 New Entrants' Threats

New entrants threats are based on the idea that new markets come up with a better strategy that nullifies the existing ones, which is highly influenced by the entry barriers and how other competitors react to the new competition. With high barriers to entry for the new competition, the threat is diminished (Porter, 2008). Such barriers include brand identification and patents (Bateman & Snell, 2014).

The biggest threats new entry business contain is their better expense use, investments rates and prices with their aspirations and their new capability to acquire market share (Livingstone & Tigert, 2008). This is dangerous to competitors as it can overturn the markets, influencing the cash flows and current capacities. However, Lal and Rao (2012) noted that existing businesses should capitalize on the barriers that new entrants employ and treat them as the advantages. They include the anticipated retaliation, customer switching costs, demand-side benefits of scale, capital necessities, uneven success to allocation channels, supply-side of scale, incumbency benefits irrespective of size and limiting government policy.

2.3.2 Rivalry between Existing Players

The competitors in existence can also pose threats to each other through exerting pressure over each other or restricting the profit prospectives its competitors come up with. Rivalry especially occurs in the banking system where the institutions restrain each other from gaining market (Hill & Jones, 2007). Tactics employed by the banks entail products introduction, battles in the advertisements, price competition, increased customer warranties or services or quality competition (Pearce & Robinson, 2005). Here, the competitive environment ensures the competitor encounters the competition first (Bateman & Snell, 2014).

There are several components that are determined in a business sector with the competitive rivalry. Elms (2010) contains that the number of competitors is the first element, where high competition means high rivalry in the market. Secondly, a competition of an equal amount of market size or share makes competition stiffer. Thirdly, is id the market's growth rate, where slow growth means that competition stays intense. The price cost is another vital element, where if there is a wide range of pricing of a specific product, the amount of competition increase, with a fixed pricing, there is little to no competition. Also, product differentiation affects the rate of competition with product undifferentiation intensifying competition. Lastly, customer's brand loyalty and switching costs of the buyers can affect competitiveness among rivals.

2.3.3 Threat from Substitutes

Substitute's products and services can adversely affect competitiveness. A substitute good or service is that product or service that another firm can offer similar benefits to the original one. Such is a huge threat as it shapes the direction of competition and can highly affect the business competitive atmosphere and ultimately, the profit margin (Davis, 2015). The influence of substitute goods on profit is usually great because it influences consumers to change their minds about a particular product for another as they serve the same purpose. This can, in turn, overturn business competitiveness, lowing the profit margins at large. On the other hand, a lack of substitutes is good for business as it reduces competition.

To establish the existence of a substitute good, several factors are considered according to Smith (2014). The first factor is the switching cost capacity of the buyer, where a low buyer switching cost means that a customer can opt for the alternative good. This implies that the possibility of choosing the substitute good is high, which is not good for competition. Another factor highly relevant is the price of the substitute, a slight decrease in the price of the substitute could shift a buyer's interest in a good or service for its substitute, such is called a ceiling creation in the market. Moreover, the quality of the substitute will depend on buyers interest to change their buying strategies. If the substitute is better or of equal quality, buyers are most probably going to shift to the product and that is a threat to the main product. Lastly, a substitute is a huge threat to the main product when its elements, functions, components perform greatly, and consequently, affecting the profitability of the main product (Dobbs, 2014).

2.3.4 Bargaining Power of Buyers and Strategic Response

Buyers also have the capability to influence the market through their bargaining powers. Often buyers exert pressure on business on the market which influences changes in price to benefit the buyer. However, this is manageable with proper business strategies that cause consumers to be loyal consumers for instance through creating a loyalty program. Yet, buyers capacity to influence a price can still be dominant especially in an environment where they have a large influence over what is sold (Solomon & Rabolt, 2012). There are also the influential clients who must be watched over for their say in price matters, especially when the price does not coincide with the expected quality, causing the price to fall regardless of productivity (Smith, 2014). Furthermore, if customers are business participants, their bargaining power is high, they can force a fall of price with their power, however, the price change could be highly varied among clients (Solomon & Rabolt, 2012).

Wan and Beil (2010) adds that the number of customers available for a particular product or service can influence prices. For instance, if the consumers are few and buy in terms or wholesale or a bunch, the price comparison with the one that buys an item at a time highly differs. This is most significant where businesses operate at a high fixed cost, such as offshore drilling, apparatus of telecommunication and mass chemicals. Though decreasing prices, high-cost good scan balance competition and sustain their capacity (West, 2009). Certainly, the higher the bargaining power of the buyer, the more it affects the business's profitability as the buyers determine the prices of goods or services (Smith, 2014). Ensuring a great consumer buyer and seller relationship forces sellers into considering the buyer's determined price.

2.3.5 Bargaining Power of Suppliers

Suppliers also can exert pressure on buyers. As for the buyers, for the suppliers to have the utmost power to influence price, they must offer products and services of high distinctiveness and of quality. When the quality is restrictive, they make themselves indispensable to the buyers and hence they become the determinants of the prices put in place. A number of other ways suppliers can exert bargaining power are through altering the number of cost to the buyer, highly beneficial pricing or lowering the profit of the buyer. While sometimes suppliers increase prices, other times they maintain the normal price but reduce the quality of the product. The suppliers can also squeeze the banks profitability as far as possible to hinder a recovery of the prices of raw materials, machinery, labor, services or equipment. Examples of suppliers include Automated Vending Machine suppliers, IT consultants, cleaning services, labor force supply, trade unions, marketing agents or consultants (Hamel, 2012).

The more powerful a supplier is the more they can create value for their products and services transferring their cost to other participants, influencing quality and prices charged (Bonanno & Lopez, 2012). For instance, Microsoft has largely contributed to profitability erosion amongst manufacturers of the personal computer by raising prices of their operating systems. Personal computers manufacturers, competing aggressively for customers who can easily switch to their competitors, have limited freedom to increase their prices accordingly (Nair, 2011). A supplier group has more power if it is more concentrated than the industry, which is the buyer. The monopoly of Microsoft in operating systems exemplifies this situation, particularly when with the PC assemblers' fragmentation (Renko, 2011).

2.4 Empirical Review and Research Gap

Dwamena (2011) sought to identify the strategies adopted by Barclays Bank of Ghana (BBG) and also to highlight competitive areas in the banking sector. Both qualitative and quantitative methods of research were employed. The study found out that the BBG finds itself in competitive environments and thrives in their services, pricing and mobilization of assets. The study recommendation was that BBG ought to invest in better self-differentiation ways through strategic direction change.

Okoye (2012) examined the association of bank performance and marketing strategies in the Nigeria consolidated industry. The study used fifteen of the twenty consolidated banks in Nigeria using both quantitative and qualitative data was employed.The study findings were that the entire essence of the adopted marketing variables even though variables in the market are compared with the performance in the bank separately to other variables. The study recommended that for better performance, marketing strategies and techniques must be adequately combined.

Thuranira (2012) strived to identify which response strategies commercial banks in Kenya have adopted due to changes in the economic environment. The study analyzed all the commercial banks in Kenya. The study found out that Commercial banks in Kenya respond to environmental changes through retrenchment and investment strategies. The study recommended that for Commercial banks to stay competitive, they ought to scan the environment and speed implementation strategies.

Chege (2013) sought to determine the strategies adopted in Kenya to quality management service for customers and to establish the effectiveness of the strategies used by Commercial Banks in Kenya to manage customer service quality. The study analyzed 43 commercial Banks that operated Kenya using descriptive study. The study concluded that many strategies used by Commercial banks in Kenya are costly making it difficult for commercial Banks to apply them frequently. The study also found out that a number of strategies are applied without adequate knowledge of the target market.

Gitonga (2015) examined the strategies used by commercial banks listed on NSE to gain competitive advantage. Descriptive survey design and a population of 11 commercial banks listed on the Nairobi Stock Exchange was used for the study. In an analysis of this data, both qualitative and quantitative data was utilized. The study concluded that the banks listed on the NSE used product differentiation and diversification strategy largely in gaining competitive advantage in the market. The study recommended that banks need to provide excellent and unexpected customer experiences that will give them a competitive edge in the market.

Mburung'a (2016) studied on strategies employed by commercial banks in Nyeri County. The research employed descriptive survey research design.All the employees of the commercial banks in Nyeri County formed part of the target population. The study found out that a number of banks pursued cost reduction strategy. This is done by mostly focusing on pricing their products below competitors and emphasizing on cost-cutting and internal efficiency program.Product differentiation strategy was also found to be used with significant emphasis put on innovation in marketing techniques and related methods.

From the empirical evidence, it is evident that the studies have not payed much attention to strategies adopted by commercial banks in Kenya as whole. Gitonga (2015) focused on only commercial banks listed in NSE while Mburung’a focused on only commercial banks in Nyeri County. Due to this, it is ovbvious that strategy responses adopted by commercial banks in Kenya competitive business environment has not been completely exhausted.

2.5 Chapter Summary

The chapter introduces the theoretical framework by explaining the effect of competitive environment on strategic responses of firms. The theoretical framework was developed by reviewing Porter’s five forces model on competitiveness. Through assessing the previous studies it's evident that an explanation of large performance variance in the banking industry has not been fully exhausted.The core inspiration behind this study is the desire for the factors of competition that catapults a firms' need for responsive strategies with the aim of gaining and maintaining a competitive edge and hence drive the profitability of a firm. This study, therefore, seeks to unveil the possible reasons for the competitiveness such that strategic responses are sought for, identifying the necessary measures that can influence the success of adopted strategies by the Kenya Commercial Banks.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, how the study was carried out was the main concern. Aside from covering the adopted research design, the study population, data collection methods, analysis, and reporting are a part of the chapter.

3.2 Research Design

A research design entails a framework that highlights how research is conducted, the data collection strategy, how it is measured, and analyzed in a blueprint (Kothari, 2011). The study adopted a descriptive research design. This is the most appropriate when conducting comparative research and is used to determine the relationship between two or more variables under study, in this case, competitive environment, and strategic responses.

This study was a census study is applicable for this study since the researcher aims to use it in collection of data from all the Commerical Banks in Kenya (Appendix II) to identify the strategies adopted in a competitive business environment. The study will collect primary data by use of a self-administered questionnaire.

3.3 Population of the Study

Kothari (2011) defines a population as the sum of people with certain characteristics and who the researcher has interest in. The population of interest was the 43 commercial banks in Kenya (Appendix II). Since the population was small the study was a census study.

3.4 Data Collection

This comprised an initial visit to the 43 Commercial Bank's headquarters offices with an introductory letter and the Researcher did an explanation of the intended research. questionnaires were then administered to the head of operations department or their equivalents.The questionnaires included closed and open-ended questions formulated in line with the objectives of the study. The questionnaire was divided into three sections. The first section aimed to capture information on the organization profile whereas second aimed to gather data about strategies applied by commercial banks in Kenya based in response to the competitive environment.The third section captured the various strategic responses that have been elicited by the competitive environment.

The closed and open-ended questions facilitated the collection of information to aid in analyzing the data. A five-point Likert type scale was used to measure the output of each item ranging from 1 – Not all to 5 – To a very large extent. The questionaires were personally delivered to the respondents by the researcher and later on collected back, through the drop and pick later method. This will ensure the capturing of all the issues required and ensure high response rates.

3.5 Data Analysis

Data analysis involves examination of the collected information (data) in an experiment or survey, and then makes conclusions and inferences. The completed questionnaires was checked and edited for completeness and consistency before processing the responses. The data was then be appropriately coded and categorized in groups.

The researcher used the Statistical Package for Social Sciences (SPSS V.22) to enter both quantitative and qualitative data and analyze data using descriptive statistics to generate frequencies and percentages. The data was then be presented in form of frequency tables, mean scores, standard deviations, percentages, pie charts, bar graphs among others for easier interpretation and deduction.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents findings and analysis of the study as set out in the research methodology.The study findings are presented to determine the strategies employed by commercial banks in Kenya. The data was gathered exclusively from the questionnaire as a research instrument. The findings are presented in narrative form, tables and charts and quantitative data analysed using SPSS.

4.2 Respondents' Demographic Characteristics

The demographic data obtained from individual respondents and their background is examined in this segment. Doing this will enable the researcher comprehend the respondents setting and their capability to provide useful data.

4.2.1 Response Rate

The study targeted 43 respondents from 43 different commercial banks in collecting data with regard to the strategies employed in each bank. From the target population, 37 respondents filled-in and returned the questionnaires making a response rate of 84%. Mugenda and Mugenda (1999) indicated that a response percentage of more than 70 is to be considered good enough for examination and reporting.

Table 4.1 Response Rate

Target Population	43
Reponses	37
Response Rate	84%

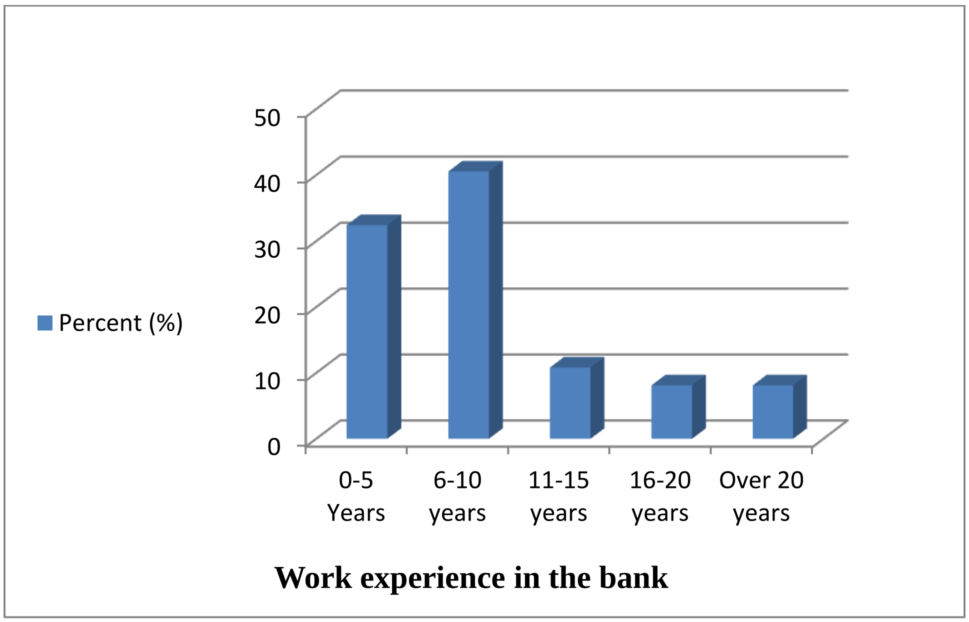
Source: Primary data

Table 4.1 presents the number of banks that responded to the questionnaires presented. Out of the 43 target respondents (commercial banks in Kenya) only 37 responded to the questionnaire which makes the response a 84%.

4.2.2 Respondents' Work Experience in the Bank

The respondents were requested to indicate their level of experience in regard to the periods given of 0-5 years, 5-10 years, 10-15 years, 15-20 years and above 20 years. The results are presented in the figure 4.1

Figure: 4.1 Working Experience

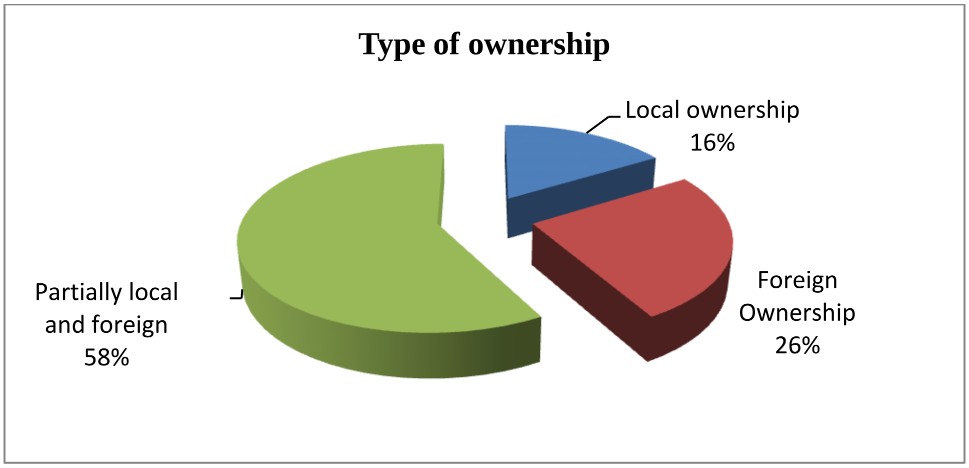


From the findings, majority of the respondents had a working experience of the period between 5-10 years representing 40.54% of the respondents.32.43% had a working experience of between 0-5 years, followed by 10-15years at 10.81% and finally 15-20years and over 20 years period had 8.11% each.

4.2.3 Type of Ownership of the Commercial Banks

The researcher sought to know the type of ownership of the commercial banks in Kenya. The respondents indicated the type of ownership of their banks and the results are presented in figure 4.2.

Figure 4.2 Type of Ownership of the commercial banks



Source: Primary data

From figure 4.2, 58% of respondents indicated that their banks are partially local and foreign owned, 26% of the banks were foreign owned, while 16% were locally owned.

4.3 Strategies Adopted by Commercial Banks

An organization may choose to employ one or more strategies to enable it achieve its set goals and compete well in the competitive business environment. The choice of strategy depends on several factors and the organization must ensure that they employ a mix of strategies which give them an upper hand over their competitors.

4.3.1 Severity of Competitive Forces in the Banking Industry

Banking industry in emerging and developing economies are characterised by higher market power, corruption in their financial systems barriers to entry among other challenges. Respondents were requested to indicate severity of the following forces in the banking industry, with respect to their banks, in a Likert scale of 1-4 where 1= greatly,2=moderately, 3=little extent and 4=not at all. Table 4.2 below provides descriptive statistics for the mean and standard deviation for the severity of competitive forces in the banking industry from the findings.

Table 4.2 Severity of the competitive forces to the banking industry

Statements	**N**	**Mean Score**	**Std. Deviation**	**Coefficient of Variation(%)**
Power of suppliers	37	2.65	1.136	42.87
Power of buyers/customers	37	2.22	1.004	45.23
Threat of substitutes	37	2.16	0.834	38.61
Rivalry in the industry	37	2.05	0.575	28.05
Barriers to entry	37	1.65	0.753	45.64
Average Mean score			**2.15**	40.08

Source: Primary data

The findings, the respondents agreed that there was power of suppliers as a competitive force in the banking industry to a little extent with a mean of 2.65 and a standard deviation of 1.136. Respondents further indicated that there was moderate power of buyers/customers with a mean of 2.22 and a standard deviation of 1.004, threat of substitute with a mean of 2.16 and a standard deviation of 0.834 and rivalry in the industry scoring a mean of 2.05 and a standard deviation of 0.575.Notably, the respondents indicated that there was barriers to entry in the banking industry to a greatly extent scoring a mean of 1.65 and a standard deviation of 0.753.

4.4 Competitive Edge over other Banks

Competitive edge occurs when two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit. The respondents were requested to indicate the extent to which the following strategies give their banks a competitive edge over other banks. The results were presented in the table 4.3 below.

Table 4.3 competitive edge over other banks

Statements	**N**	**Mean Score**	**Std. Deviation**	**Coefficient of Variation(%)**
Flexible and fast in dealing with changes in the market environment	37	2.49	0.768	30.84
Internal resources owned by banks	37	2.35	0.857	36.47
Qualified human resource	37	2.11	0.906	42.94
Differentiation of services	37	2.11	1.075	50.95
Lower interests costs	37	2.08	0.795	38.22
Market segment Focus	37	2.05	0.911	44.44
Average Mean score		**2.2**		**40.64**

Source: Primary data

From the findings,the respondents indicated that flexibility in dealing with changes in the market environment gave them a competitive advantage over the other banks to a moderate extent with a mean of 2.49 and a standard deviation of 0.768. They further showed that internal resources owned by the bank contributed to a moderate extent to competitive advantage over the other banks with a mean of 2.35 and a standard deviation of 0.857. Qualified human resource scored a mean of 2.11 and a standard deviation of 0.906, differentiation of services had a mean of 2.11 and a standard deviation of 1.075, Lower interest costs scored a mean of 2.08 with a standard deviation of 0.795 and market segment focus scored a mean of 2.05 and a standard deviation of 0.911.

4.5 Challenges Faced in Competitive Strategies Implementation

The process of strategy implementation is very critical to the success of both public and private organizations' undertaking and can pose several challenges. The challenges arise from both internal and external sources of the organization and will depend on the type of strategy, type of organization and the prevailing conditions. This part of study, the researcher sought to know the extent to which the challenges in competitive strategies implementation are severe in a Likert scale of 1-4 where 1= greatly, 2=moderately, 3=little extent and 4=not at all. The results analysed are presented in table 4.4.

Table 4.4 Challenges faced in implementing the competitive strategies

Statements	N	Mean score	Std. Deviation	Coefficient of Variation(%)
Complexity in needs of customers	37	2.38	1.163	48.87
Frequent changes by regulators	37	2.38	0.893	37.52
Rise in the cost of borrowing	37	2.3	0.878	38.17
High implementation costs	37	2.19	0.995	45.43
Lack of commitment to implement	37	2.05	0.911	44.44
Lack of skilled people to implement	37	2.03	0.986	48.57
Average Mean score		**2.22**		**43.83**

Source: Primary data

From the table 4.4, there was a complexity in needs of customers to a moderate extent with a mean score of 2.38 and a standard deviation of 1.163.Frequent changes by regulators had a mean score of 2.38 and a standard deviation of 0.893.Rise in the cost of borrowing had a mean score of 2.30 and a standard deviation of 0.878 followed by high implementation cost with a mean score of 2.19 and a standard deviation of 0.995.Lack of commitment to implement had a mean score of 2.05 and a standard deviation of 0.911 and lack of skilled labour scored a mean score of 2.03 and a standard deviation of 0.986

4.6 Opportunities Enabling bank to Compete Favourably

In this section, the researcher requested the respondents to indicate the availability of opportunities enabling the banks to compete favourably, in a Likert scale of 1-4 where 1= greatly, 2=moderately, 3=little extent and 4=not at all. The results of the analysed data were presented in the table 4.5.

Table 4.5: Opportunities enabling your bank compete favourably

Statements	**N**	**Mean score**	**Std. Deviation**	**Coefficient of Variation(%)**
Increasing banks resources(assets)	37	2.51	1.017	40.52
Mergers and strategic alliance	37	2.51	0.961	38.29
Qualified human resource	37	2.43	0.899	37.00
Lowering the cost of interest rates	37	2.43	0.929	38.23
Highly differentiated services	37	2.35	1.006	42.81
Reduced capital requirement	37	2.05	0.78	38.05
Reduced government regulations	37	1.95	1.079	55.33
Average Mean score		**2.32**		**41.46**

Source: Primary data

The results from the respondents indicated that to a moderate extent, increasing banks resources(assets) enabled the banks to compete favourably in the banking industry with a mean score of 2.51 and a standard deviation of 1.017.Mergers and strategic alliance scored a mean score of 2.51 and a standard deviation of 0.961, qualified human resource scored a mean score of 2.43 and a standard deviation of 0.899.Lowering the cost of interest rates scored a mean score of 2.43 and a standard deviation of 0.929, while highly differentiated services had a mean score of 2.35 and a standard deviation of 1.006. Reduced capital requirement had a mean score of 2.05 and a standard deviation of 0.780 and reduced government regulations had a mean of 1.95 with a standard deviation of 1.079.

4.7 Discussion

The objective of this study was to establish the types of strategies adopted by commercial banks in a competitive business environment in Kenya. Porter (1980) defines strategy as a vehicle for achieving competitive advantage. Strategies are employed by organisations in order to help them achieve their goals and therefore enhance its profitability. This section discusses the findings of the study.

It was noted that the commercial banks in Kenya have employed several strategies aiming to achieve the set goals and gaining a competitive edge over the other banks. However to a moderate extent competitive forces dominate the industry hence the need to identify the most effective strategies to resolve the challenges faced. Barriers to entry turns out to be the major competitive force the banking industry is facing.

The study also established that banks have different characteristics gaining them competitive edge. From the study, the most used one among the banks is focus on market segment where the bank targets the people that it suspects represent the potential buyers. This allows the bank to develop very specific focused marketing messages and services that will likely appeal far more strongly than a broad general messaging. This also allows the banks to decide what product features to build next, as they was driven to complete those needed to fully satisfy that one segment.

The major challenge faced in implementation of competitive strategies in the banking system is the complexity in needs of the customers. Consumers are different in terms of their value and the needs from the organization.It is complicated to predict customers' needs because it involves projecting previous habits of transactions into the future, and making educated guesses about things the organization can never fully know. The main opportunity existing for the banks to compete favourably is reduced government regulations. Regulatory burden leaves businesses with less time and money for their actual business activities. That is why the government is taking the action to ease the burden.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the findings of the study, and the conclusions and recommendations drawn. Limitations of the study and suggestions for further research are also outlined. The findings are summarized in line with the objective which was to establish the types of strategies adopted by commercial banks in a competitive business environment in Kenya. The summary given is drawn from the various aspects covered in the questionnaire that is; Respondents' demographic characteristics, strategies adopted by commercial banks, competitive edge over other banks, challenges faced in competitive strategies' implementation, and opportunities enabling banks to compete favourably.

5.2 Summary

The study aimed at establishing the types of strategies adopted by commercial banks in a competitive business environment, competitive edge over other banks, challenges faced in competitive strategies' implementation, and opportunities enabling banks to compete favourably. The data was collected using questionnaires administered to the target population of 43. However, 36 filled questionnaires were obtained representing a response rate of 84 percent. Of the respondents, a majority had a working experience of the period between 5-10 years representing, followed by those with working experience of between 0-5 years then 10-15 years, 15-20 years and the least percentage had over 20 years period. All the respondents indicated that their banks are owned locally.

On the severity of competitive forces in the industry, the respondents agreed that there was power of suppliers as a competitive force in the banking industry to a little extent with a mean of 2.65 and a standard deviation of 1.136. Respondents further indicated that there was moderate power of buyers/customers with a mean of 2.22 and a standard deviation of 1.004, threat of substitute with a mean of 2.16 and a standard deviation of 0.834 and rivalry in the industry scoring a mean of 2.05 and a standard deviation of 0.575. Notably, the respondents indicated that there was barriers to entry in the banking industry to a greatly extent scoring a mean of 1.65 and a standard deviation of 0.753.

From the findings on competitive edge over others in the industry, the respondents indicated that flexibility in dealing with changes in the market environment gave them a competitive advantage over the other banks to a moderate extent with a mean of 2.49 and a standard deviation of 0.768. They further showed that internal resources owned by the bank contributed to a moderate extent to competitive advantage over the other banks with a mean of 2.35 and a standard deviation of 0.857. Qualified human resource scored a mean of 2.11 and a standard deviation of 0.906, differentiation of services had a mean of 2.11 and a standard deviation of 1.075, Lower interest costs scored a mean of 2.08 with a standard deviation of 0.795 and market segment focus scored a mean of 2.05 and a standard deviation of 0.911.

On challenges faced in implementation of strategies, the study found there was a complexity in needs of customers to a moderate extent with a mean of 2.38 and a standard deviation of 1.163. Frequent changes by regulators had a mean of 2.38 and a standard deviation of 0.893. Rise in the cost of borrowing had a mean of 2.30 and a standard deviation of 0.878 followed by high implementation cost with a mean of 2.19 and a standard deviation of 0.995. Lack of commitment to implement had a mean of 2.05 and a standard deviation of 0.911 and lack of skilled labour scored a mean of 2.03 and a standard deviation of 0.986

The results from the respondents on opportunities enabling banks to compete favourably indicated that to a moderate extent, increasing banks resources (assets) enabled the banks to compete favourably in the banking industry with a mean of 2.51 and a standard deviation of 1.017. Mergers and strategic alliance scored a mean of 2.51 and a standard deviation of 0.961, qualified human resource scored a mean of 2.43 and a standard deviation of 0.899. Lowering the cost of interest rates scored a mean of 2.43 and a standard deviation of 0.929, while highly differentiated services had a mean of 2.35 and a standard deviation of 1.006. Reduced capital requirement had a mean of 2.05 and a standard deviation of 0.780 and reduced government regulations had a mean of 1.95 with a standard deviation of 1.079.

5.3 Conclusion

The following conclusions are drawn from the summary of findings:The study concludes that market forces (power of suppliers, power of buyers, threat of substitutes and rivalry in the industry) only dominate the industry to a moderate extent while barriers to entry dominate to a great extent.

The study also concludes that banks have different characteristics gaining them competitive edge with the most used one among the banks being focus on market segment where the bank targets the people that it suspects represent the potential buyers.

This allows the bank to develop very specific focused marketing messages and services that will likely appeal far more strongly than a broad general messaging.

The study further concludes that challenges in strategy implementation in the banking industry are; complexity in customer needs, frequent changes by regulators, rise in the cost of borrowing, high implementation cost, lack of commitment to implement and lack of skilled labour all to a moderate extent.

On the opportunities enabling banks to compete favourably, the study concludes that increasing bank resources, mergers and strategic alliances, qualified human resource, lowering interest rates, highly differentiated services, and reduced capital requirement moderately enable banks to compete favourably. Reduction in government regulations on the other hand greatly enables favourable completion by commercial banks.

5.4 Limitations of the Study

The study's limitations included reluctance by respondents to offer information for fear that the information would be used against them. The researcher handled the problem by carrying an introductory letter from the university and assuring the respondents of treating any obtained information confidentially and purely for academic purposes.

The study also faced the limitation of the limited time set aside for the research and the limited scope. This limitation was overcome by starting the research early in the period set aside. This ensured the maximum amount of time possible was spent in the research and last minute rush avoided.

5.5 Recommendations

The following recommendations were made based on the summary and conclusions of the study: The study recommends that commercial banks formulate and implement strategies that will enable them gain competitive edge over others. From the study the banking industry remains competitive and banks can only stay competitive through developing competitive strategies.

The study further recommends the formulation of favourable policies and regulations governing the banking industry. From the study, regulations in the industry play a big role in ensuring favourable competition.

5.6 Suggestions for Further Research

The limitations of this study provide areas for further research, which include a similar study whose objective would be to reaffirm the findings of this study on the strategies that enable banks build a sustainable competitive advantage, the challenges in strategy implementation, and opportunities that enable favourable competition for banks.

Further research could also be done increasing the scope of this study to examine other factors that result in competitive advantage for banks. This would enable banks increase the range of base from which to develop the competitive advantage building strategies.

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APPENDICES

APPENDIX I: Introductory Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

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

P.O. Box 30197
Nairobi, Kenya

DATE 31/10/17

TO WHOM IT MAY CONCERN

The bearer of this letter FLORENCE MUTUA

Registration No. D61/77112/2015

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
31 OCT 2017
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: Research Questionnaire

The information given on this questionnaire was held with strict confidence and will be used only for the purpose of the study**.** Please supply the required data by filling in the blanks where space is provided or by ticking [√] against the most appropriate answer.

SECTION A: GENERAL INFORMATION

1. Name of Bank (optional) ___________________________________

2. Position/ Department in the Bank ______________________________________

3. Work experience in the Bank

0-5 Years [ ]

6-10 Years [ ]

11-15Years [ ]

16-20 Years [ ]

Over 20 years [ ]

4. The type of ownership of the commercial bank

Local ownership [ ]

Foreign ownership [ ]

Partially local and foreign [ ]

Section B: Strategies adopted by Commercial Banks in competitive business environment

Use a 4 point scale where 1=Greatly, 2=Moderately, 3=Little extent, 4= Not at all.

5. To what extreme is the severity of the competitive forces to the banking industry operation (forces in the industry)?

Statement		1	2	3	4
(a)	Barriers to Entry				
(b)	Rivalry in the industry				
(c)	Threat of substitutes				
(d)	Power of buyers/customers				
(e)	Power of suppliers				

6. **What gives your bank a competitive edge over other banks?**

Statement		1	2	3	4
(a)	Differentiation of services				
(b)	Lower interest costs				
(c)	Focusing on market segment				
(d)	Qualified human resource				
(e)	Internal resources owned by banks				
(f)	Flexible and fast in dealing Changes in the market environment				

7. Challenges faced in implementing the competitive strategies

Statement		1	2	3	4
(a)	Lack of skilled people to implement				
(b)	High implementation costs				
(c)	Rise in the cost of borrowing				
(d)	Frequent changes by regulators				
(e)	Lack of commitment to implement				
(f)	Complexity in needs of customers				

8. Opportunities to enable your bank to compete favorably against other banks in future

Statement		1	2	3	4
(a)	Reduced government regulations				
(b)	Reduced capital requirement				
(c)	Highly differentiated services				
(d)	Qualified human resource				
(e)	Lowering the costs of interest rates				
(f)	Increasing banks resources (assets)				
(g)	Mergers and strategic alliance				

APPENDIX II: List of Commercial Banks In Kenya

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. Charterhouse Bank Ltd.
7. Chase Bank (K) Ltd.
8. Citibank N.A Kenya
9. Commercial Bank of Africa Ltd.
10. Consolidated Bank of Kenya Ltd.
11. Co-operative Bank of Kenya
12. Credit Bank Ltd
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank Kenya Ltd.
15. DIB Bank Kenya Ltd.
16. Ecobank Kenya Ltd
17. Equity Bank Kenya Ltd.
18. Family Bank Ltd
19. First Community Bank Limited
20. Guaranty Trust Bank Ltd
21. Guardian Bank Ltd
22. Gulf African Bank Limited
23. Habib Bank A.G Zurich
24. I & M Bank Ltd
25. Imperial Bank Limited
26. Jamii Bank Ltd
27. KCB Bank Kenya Ltd.
28. Mayfair Bank Ltd
29. Middle East Bank (K) Ltd
30. M-Oriental Bank Limited.
31. National Bank of Kenya Ltd
32. NIC Bank Ltd
33. Paramount Bank (K) Ltd
34. Prime Bank Ltd
35. SBM Bank Kenya Ltd
36. Sidian Bank Ltd
37. Spire Bank Ltd
38. Stanbic Bank Kenya Ltd
39. Standard Chartered Bank
40. Trans-National Bank Ltd
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Ltd
43. Housing Finance Ltd

Source: (CBK, 2017)