STRATEGIC RESPONSES ADOPTED BY KCB BANK KENYA LTD TOWARDS SMALL AND MICRO ENTERPRISES TO GAIN COMPETITIVE ADVANTAGE IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for an award 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

This study is dedicated to my mother Angeline Mwikali, my husband Barnard Mutie, my sons Mulu and Mumo and my daughter Hope Mutie for giving me inspiration through my study.

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ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
ATMIA	ATM Industry Association
AVR	Automated Voice Responses
CBK	Central Bank of Kenya
CDO	Collateralized Debt Obligations
CRM	Consumer Relations Management+
EFT	Electronic Funds Transfer
ROA	Return on Assets
SCA	Sustainable Competitive Advantage
US	United States
ECRM	Electronic Customer Relationship Management

ABSTRACT

There is a notable growth and development of the banking industry in terms of revenues, deposits, as well as the profits; a move that has brought about increased competition. This project investigated the strategic responses adopted by KCB Bank Limited towards SMEs to gain competitive advantage. The project adopted the case study design approach to answering the research question How does a strategic response adopted by KCB Bank Kenya Ltd influence small and micro enterprises banking in Kenya? Interviews were used in the collection of data for this study; and used 5 respondents who comprised of the head of departments as follows, 2 Head of SME, 2 head of customer service, and 1 head of marketing making a total of 5 respondents. The interview process was guided by the pre-prepared questionnaires to facilitate the in-depth coverage of the strategic responses adopted by KCB banking on SMEs. All the received questionnaires were checked for consistency and completeness. Thereafter, emerging themes formed the basis of data categorization. The data collected was analyzed qualitatively with respect to the strategic responses variables highlighted. Content analysis was used in analyzing the in-depth qualitative data that was collected. The findings of the study were; the strategic responses adopted by KCB towards SMEs to gain competitive advantage are product innovation whereby the bank as innovated the following products in the last three months: Business unsecured loans, invoice discounting, Internet banking, and KCB pay bill numbers. The study found out that the bank had fully embraced customer relationship management system which led high level of customer retention in addition to recruitment of new customers. The bank had also diversified in other lines like insurance, unsecured facilities to public and private learning institutions. Digital financial services had come up with new products like internet banking, KCB-Mpesa, Pay Bill and Mobi Loan. There was no restructuring in the last three years and customer feedback was obtained by filling forms as well as face to face interaction. There is a need for banks to come up with a variety of affordable products to make it easy for customers to access to more opportunities and hence, grow the customer base of the banks. Moreover, the study recommends more studies similar to this one, to be carried out but with the focus on other banks for a more generalized and a universal understanding of the needs of the customers. Further studies should be done on strategic responses adopted towards corporate institutions, personal banking to gain competitive advantage within the bank. Additionally, more research is needed to give a glimpse of the future expectations of the banking industry and its dynamics.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Strategic responses are defined with reference to the term ‘strategy’ in whose framework the nature and direction of an organization are made (Pride, Hughes & Kapoor, 2011). Organizations formulate strategic responses to counteract the turbulence in their operation surrounding as well as matching the activities of a firm to the operating environment. In an organization, it is difficult to formulate a strategy and make it work (Hrebiniak, 2006). According to Noble (1999), strategic responses safeguards an organization from the impact of current and future environmental drives as well as considering the best of dealing with the internal weaknesses and external threats facing an organization. Competencies in firms can initiate internal new venturing to enter a new business area so as to have the needed competitive advantage. According to Hill and Jones (2004), firms can initiate internal new venturing as a strategy especially in a case where there are valued abilities that exist and which, can be used successfully in a different business area. A strategy can enable a company to enter and compete in a new business segment or an emerging market without established players. These responses, moreover, endeavor to create a platform through which organizations can find solutions to problems experienced in the dynamic markets.

Managers should assess key competencies as well as come up with the right strategies to compete effectively (Bradley *et al,* 2003). As Johnson and Scholes (2002) noted; it is possible to achieve a competitive advantage via an effective arrangement of organizational resources in line with the needs of a dynamic environment.

Kenya commercial bank stands out in the provision of a variety of banking services including Advantage Banking Corporate Banking products, Mortgage products, as well as Retail Banking products. Each of these products is tailored to different markets i.e. Small and Medium Enterprise market, retail customers, microenterprise market, and corporate market. The KCB Bank is known to have the numerous banking outlets including more than 220 branches. Moreover, each of the branches has a section for normal bank services, mortgage, and advantage category.

The foundation of this study is the Negativity and Dissonance theory. In this theory, the proponent argued that consumers compare services or even products based on their perception of how the products will perform. Thus, any inconsistency in the productivity from the expected results can lead to the disruption of the individual hence, the generation of negative energy. The liking of a service or even a product has an inverse proportional relationship with the results brought about by the discrepancy. The primary aim of this research is to explore the responses strategies adopted by KCB Bank Kenya Ltd towards Small and Micro Enterprises Banking in Kenya.

Strategic responses can be formulated and implemented in the five-stage model (Abdallah and Albadri, 2010). The first phase involves gathering and analysis of information on which strategic decisions are based and ascertain whether they are relevant. The second stage is where the strategy is formulated to get strategic profile and vision. In the third stage, the strategy implementation is developed in order to align the organization structure with the strategy. The fourth stage is where all the proposed actions are taken into consideration for modification of the master plan before implementation. In the last stage monitoring, review and updating are done to help determine whether there any success in the overall strategic responses (Griffin, 2010).

1.1.1 Strategic Responses

A strategy is defined as a pattern of decisions that serve to unify as well as integrate certain elements of an organization to align with the available resources and set goals and implementation plan (Rigito, 2010). A strategy helps a firm to select the business type, opportunities and the surrounding threats, organizational weaknesses and its strengths.

The firm's operating environment leads to the formulation of strategic responses to take care of the drastic or gradual changes that occur in an organization (Langabeer & Napiewocki, 2000). The formulation is done because, in an event where a firm finds itself operating in an unfavorable territory, it should revise its strategy to be safe. The main idea is to find a solution to challenges of an organization which they can be either reactive or active depending on the level of preparedness of an organization.

Strategic responses help in matching the activities of a firm with the operating environment to take care of changes that occur in a firm's operating environment and are important in considering the best way to deal with the internal weaknesses and avoid external threats facing an organization (Langabeer & Napiewocki, 2000).

1.1.2 Competitive Advantage

Competitive advantage refers to the capacity of an organization to make high rates of returns in comparison to other players in the industry (Porter, 1985). Achieving such competitiveness depends on the strategies adopted by an organization. Often, the right strategies ought to create value for the organization. However, the adopted strategies ought to be able to make the activities of the company sustainable in the face of the changing business environment. Assets are considered the best avenue towards sustained competitive advantage. To achieve the sustained competitive advantage, a firm needs to control as well as use its assets in the formulation and implementation of efficient strategies (Barney, 1991).

The implication of the above statement is that an organization's technology, its economies of scale, or the available natural resources are not the only measures of competitive advantage in a company. The existence of all these alongside the adoption of resources that are hard to copy and valuable at the same time can guarantee an organization a competitive advantage (Stiles and Kulvisaechana, 2004). The type of assets that are responsible for an organization's competitive advantage is referred to as the invisible assets.

1.1.3 Small and Micro Enterprises (SME)

Small and micro enterprise (SME's) refers to any enterprise with maximum assets of less than Ksh 1 million and with the number of staff employed less than or equal to 10 (International Finance Corporation (IFC) publications (2001). SME's plays a major role when it comes to improving the economy of a Country (Lee, 2007). SMEs account for the greatest percentage of business activities (90%) in the world (Lin, 1998). A report by the Economic survey in 2006, indicated that 50% of the new jobs in 2005 were contributed by SME.

It is now recognized that the Small and micro enterprises (SMEs) have a large role to take in the national economy –both its development and growth. Specifically, these enterprises alleviate poverty and create employment and wealth. Resultantly, the majority of the developed countries like USA, Europe, and Britain among others worldwide give much focus to SMEs, as they understand their role in developing and strengthening the economy (Okech, 2006).

According to Ocha (2011), in Kenya "Micro-enterprises" comprises of 10 or fewer employees while Small enterprises comprise 11-50 workers. SMEs are defined as an entity with employees ranging from 1-50. This is as per the 1999 National Micro and Small Enterprise Baseline Survey (Republic of Kenya Sessional Paper No.2, 2005).

The Small and Medium-sized enterprises (SMEs) are considered as the power driving many countries' economies. It is arguable that the SMEs form a greater percentage of most economies around the world, and any government cannot afford to ignore the sector (Ayyagari et al, 2007). The primary reason why the SMEs are needed in the growth and development of the economy is the fact that they are risk-tolerant and have the ability to make high profits in any given niche markets.

1.1.4 Commercial Banks in Kenya

In Kenya, Foreign Exchange Bureaus, Non-Bank Financial Institutions, Commercial Banks and Central Bank of Kenya form the Banking Sector. Only 43 licensed commercial banks were registered by 2012 as well as 1 mortgage finance company (www.centralbank.go.ke/). Among these, only 31 are locally owned and 13 were foreign banks.

Like other organizations who have open systems operating in a turbulent environment, banks are not exceptional; their continued survival is determined by the ability to be at par with the environment (Pearce and Robinson 1997, Thompson and Strickland, 1996). In the last one decade, visible developments in the structure of the Kenyan financial services sector have been witnessed. Until the early 1990s functional differentiation was rampant and this came alongside numerous restrictions as well as poor economic growth. This led to lack of competition both domestically and internationally. Resultantly, there was no much pressure on the banking industry to innovate and hence, they relied extremely on the traditional approach of retail banking where the delivery of banking services was done through the traditional branches (CBK, 2008).

Banking in Kenya has improved in terms of the assets, profits, deposits, technology, and products. These changes have led to the opening of more branches and networking them in the East African countries as well as product diversification. Competition among banks has created increasing innovation (CBK, 2008).

1.1.5 KCB Bank Kenya Ltd

Kenya Commercial Bank Limited began in 1896 following the opening of a branch in Mombasa by the then National Bank of India (NBI). NBI merged with Grindlays Bank Limited in the year 1958. Kenya Government took over the National Grindlays Bank Limited in 1970 and changed its name to Kenya Commercial Bank Limited. The Kenyan government owned 60% shareholding of the National and Grindlays Bank.

The government aimed at taking banking facilities closer to the majority of Kenyans. Later in the same year, the government increased its shareholding percent to 100 and it became the owner of the largest commercial bank in Kenya. The government acquired Savings & Loan (K) Ltd in 1972 to help the customers on mortgage financing. KCB is among the major financial institution in East and Central Africa.

It operates all over the region with branches in big towns and remote areas. In January 2016, KCB changed its brand name to KCB Bank Kenya Ltd to refer its subsidiary in Kenya since it also operates in other countries such as Tanzania, Uganda, Southern Sudan, Rwanda and very recently, Burundi. The bank has various divisions to facilitate on easy of banking services to customers which are not limited to treasury division, Retail Banking division, Corporate Banking division, a mortgage division and the recent digital financial division which has been brought by technology advancement. Each division is designed to meet unique market niche. KCB has over 220 branches in the entire network /regions that it has operations.

Kenya has many SMEs, which include sole proprietorship, partnership, and companies of which many do close down within three years due to lack of enough capital, poor management, and business duplication. The lack of capital has been associated with poor banking. The KCB Bank Kenya Ltd through its several branches has been in the forefront to sensitize the SMEs on banking to improve their capital base. This has been made possible by opening KCB Mtaani that has enabled the SMEs to bank their money anytime.

1.2 Research Problem

Many organizations develop strategic responses in line with the needs of the market. According to Langabeer and Napiewocki (2000), a gradual or drastic change within an organization's area of operation determines the need to formulate certain strategic responses. Ansoff and McDonnel (1990) views align with this statement and add that in an event where a firm finds itself operating in unfamiliar environments, revising its strategies is the only way to remain relevant in the market. These responses are directed at finding long-term, medium term, or short-term solution to challenges of an organization.

Accordingly, they can be either reactive or active depending on the level of preparedness of an organization. Central bank rules and regulations notwithstanding new technology and changing consumer behavior have led to fierce competition in the banking industry. This stiff competition has contributed to a number of banks launching non-bank financial services, such as insurance business, which is run concurrently with the banking services in the branches and other financial institutions such as Saccos and micro finances companies opening banks.

Some research studies have been conducted on financial innovations. Foreign studies include; Henderson and Pearson (2011) who conducted a study to establish the dark side (setbacks) of financial innovation in commercial banks. They concluded that financial innovation significantly influences the performance of commercial banks. Another study was conducted by Frame and White (2009) to investigate how technological change and financial innovations are diffused in banks and concluded that all the banks have currently integrated technology in their operation.

Another study conducted by Brunnermeier, (2009) on financial innovation concluded that innovation in the financial systems is to blame for the occurrence of the past Global Financial Crisis which is a challenge to banks growth. From these studies, it's clear that globalization all over the world has brought competition to the doorsteps of most companies in every industry. The vast world has been merged to global village whereby, people interact and business transact with the help of advancement in technology.

A gap exists on the strategic responses measures that a financial institution operating locally should take to counter the challenges of SMEs banking without necessarily trading in the international market. This study sought to fill this knowledge gap. Several local studies have been done on banking. A study by Ndug'u (2012) was done on competition from customers. The study concluded that the battle for the customers can be well fought through new electronic distribution channels. However, Kenya commercial banks have applied this methodology hence creating more competition and need for strategic responses for gaining a competitive advantage. The earlier method proposed by Ndug'u was not specific to particular clients thus creating a gap for coming up with strategic responses applied on the SMEs so as to gain competitive advantage.

A study by Manani (2013) sought to determine the strategic responses by KCB Bank Kenya Ltd to environmental challenges in Kenya. The study concluded that KCB Bank Kenya Ltd should review technology needs, have an in-house group and individual training, improve on a learning culture and reward and implement innovations. Another study by Kiptugen (2003) focused on strategic responses to a changing competitive environment in KCB Bank Kenya Ltd. He concluded that the changing competitive situation in the Kenyan banking industry has posed some challenges to KCB Bank Kenya Ltd. These challenges arose from the changes in the business environment in terms of economic decline, liberalization, legislative changes, increasing level of education, and technological advancements.

Another study by (Nandi, 2011) focused on exploring the strategic responses aimed at dealing with competition in the banking industry as adopted by the Barclays bank of Kenya limited in the Credit Card issuing business. He concluded that the strategic responses adopted by Barclays Bank of Kenya in the credit card issuing business are working but are to reach the optimum level. There are concerns that a knowledge gap exists in most of the emerging economies such as in the case of Kenya, whereby there is a limit in the empirical and theoretical view of the KCB Bank Kenya Ltd small and micro enterprises banking.

While SMEs creates employment and wealth, the majority of these SMEs in Kenya do not grow vertically, creating in the gap between SMEs and the large enterprises (Moturi, 2006). This stagnation is attributed to lack of enough capital to expand which is an issue of not understanding the bank products which can help the SMEs to improve their businesses. It is important for organizations to adopt strategic responses aimed at improving the processes within an organization. Considering the significance of implementing strategic response processes, this research sought to fill the gap-guided by the following research question: How does a strategic response adopted by KCB Bank Kenya Ltd influence small and micro enterprises banking in Kenya?

1.3 Research Objective

This study sought to investigate the strategic responses adopted by KCB towards SMEs to gain competitive advantage.

1.4 Significance of the Study

On policy, the results from this research will be critical and useful to strategic management policymakers in establishing how strategic responses implementation influences organizational performance. There are many cases when organizations adopt certain strategies but fail because of challenges in the implementation process. Findings from this study will be useful in providing insights on the part that different stakeholders have in strategic responses and SMEs banking.

The study will contribute to the body of knowledge which will benefits scholars and researchers simulating further research in this field of strategic responses in SMEs banking. This was done through the research findings for this study which can be extended by the other scholars. In practice, the study is important to all commercial banks in Kenya and SMEs in assisting them to understand how strategic responses implementation can influence banking. It will help potential investors in the industry in getting useful information on the critical success of the SMEs banking.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the research discusses the theories used to inform the strategic responses that a firm, especially in the banking sector, ought to put in place to effectively and efficiently deal with the small and micro enterprises banking as well as the response strategies discussed by other authors.

2.2 Theoretical Background of the Study

The research was founded on three theories which include the Dissonance Theory, Negativity Theory and Innovative Theory. The Dissonance Theory was proposed by Festinger's (1957). Dissonance theory suggests that the perception that consumers of certain products have on is based on the comparison between the performance of the product, and the consumer's expectations regarding the product. In the light of this theory, consumers look to shun dissonance by changing views with regards to a certain product to make substantial alignment in accordance with the prospects.

Customers as well, decrease the pressure that can come from an inconsistency between product prospects as well as the performance of the actual product by altering outlooks so that they correspond with professed product performance or by increasing the level of satisfaction by abating the relative importance of the disconfirmation experienced. In the event that there is a mismatch between the expectations that the consumers have and the way, the product performs in actual sense the consumer experiences a certain degree of pressure. However, the tension is not long lasting since the consumer has to adjust themselves in terms of either their perception or expectations of the product.

This theory is appropriate in this study since it deals with the response strategies which are made to meet the consumer expectations in the provision of bank products. Through the bank products, consumers look to avoid dissonance by changing perceptions about a particular product to make substantial alignment in accordance with the expectations.

Carlsmith and Aronson (1963) put the Negativity theory forth. According to this theory, the occurrence of a slight change in the normal operations and expectations of an organization or individual can lead to the production of “negative energy.” As such, affective feelings toward a product or service is likely to have an inverse relationship with respect to the magnitude of the discrepancy. The theory is relevant to this research as the study focuses on the strategies employed by Kenya commercial bank to improve banking of SMEs. It is, therefore, the responsibility of the bank to ensure that they meet the SMEs expectation to enable them to do banking hence increasing their profits.

Merton (1990) also provides a valuable rationale for financial innovation. According to the views of Merton (1990), the need to have an effective market and better social welfare is what drives financial innovations. According to Rene (2000), the financial economists have a tendency to speculate on the flow of funds and use such avenue to make best of any available investment opportunities. As such, financial innovations account for the efficiency in markets, as well as the sharing of risks and the enhancement of economic growth. According to the opinions of many economists, capital flows and financial innovations lead to instability, crashes as well as other disasters especially the 1987 crash and the derivative disasters in the 1990‟s but Merton did not agree to the view that the financial innovation was responsible for the crashes. According to Merton (1990), there are various motivations behind innovations in organizations. Such motivations include the ability to create better financial structures with the platform to share, pool, and hedge risks; the ability to transfer resources; and the capacity to improve the economic efficiency, liquidity, and reduction of agency costs within an organization.

2.3 Strategic Response

There has been much interest among researchers on the subject of responses by organizations to relevant environmental changes. A number of academicians have carried out such studies. Johnson and Scholes (2002) note that strategic responses should be medium to long-term since the challenges for which they are formulated can be enduring and an organization must facilitate competitive advantage despite the turbulence. By wisely using its resources to adapt to the changing environment, an organization would be able to meet the needs of markets, as well as meet the stakeholders' expectations (Jones & Scholes, 2002).

According to Ohmae, (1993), the purpose of strategic response is to empower an organization to gain a sustainable competitive edge over its competitors. Hill and Jones (2004) conclude that the strategies that are adopted by any given organization play a significant role in determining its performance with respect to its competitors. Moreover, such strategies account for the company's ability to achieve a sustainable competitive advantage.

Bett (1995) found that, because of the on-going economic reforms in Kenya, firms in the dairy industry have made substantial adjustments to their strategies. The variables targeted for adaptation included branding, pricing, and value propositions. Kombo (1997) noted that the firms in the motor vehicle industry, in the light of the changing competitive situation were constantly adapting their strategies to fit with the environmental shifts. The strategic responses were mainly based on new technologies, product differentiation, and the marketing mix elements. Njau (2000) established that East African Breweries Limited undertook substantial adjustments in various strategic response variables in order to fight off competition. The adaptations included the manipulation of the marketing mix elements, cost-effective control measures and the setting up of foreign market distribution centers.

Kandie (2001) undertook a study on the strategic responses to competition by Telkom Kenya that was previously a monopoly in the telecommunications industry. The researcher found out that the organization had made some strategic adaptations in its products, markets, and technology as well as making strategic alliances in response to the drastic competitive changes in the country's telecommunications industry. The contributors to the Business Trend Review (1992) noted that the recession has made competition in the Kenyan marketplace stiffer. As a result, companies have had to respond to the increased competition by taking various actions including layoffs, cutting costs, adjusting target markets, diversification, developing new products, and making price cuts.

Product innovations are viewed as the "engine" driving the fiscal system towards attaining its goal of enhancing the "real economy" performance (Merton (1992). Merton (1992), in his study, found out that there are some countries that have adopted innovation to gain and improve the social welfare of the citizens. In addition, this study found out that the majority of the areas where innovation has had a great impact include the growth of mutual fund, the development of international markets for financial derivatives, national mortgage market, and investment industries. According to Merton (1995), the expansion of opportunities within an organization is a significant approach towards improving efficiency in an organization and it can be achieved through product innovations involving derivatives. Some of the opportunities that can be expanded through innovation include reduction of an asymmetric information and agency costs, lowering transaction costs and risk sharing (Merton, 1995). Product innovations promote economic growth by allocating capital where it can be most productive.

Mwangi (2007) pointed out that innovations allow markets to come up with contracts that are unique for a mortgage as well as focus on transferring risks. Product innovations have clearly benefited consumers by driving down costs. The author pointed out that since 1985, there has been a decrease in the starting fees associated with mortgage loans. The decrease has been notable by 2.0%. Additionally, a combination of legal as well as product innovations has led to an increase in a number of people using mortgages such as rating agencies, underwriters, and brokers. Another advantage noted by the author was a choice. In the past few decades, there were cases in which individuals could get one or even two different types of mortgages. Nowadays, people have the choice to get a number of instruments as well as payback structures. Lastly, customers gain from faster loans decisions.

ATMs service is one of the product innovations, and the following benefits were associated with the ATM. It creates convenience to the community through the provision of cardholders within 24-hour for any cash safe in the bank, increases in retail purchase outside banking hours, such as cash from ATMs have extended shopping hours offering chance for more sales, greater convenience, greater employment opportunities as well as alternative channels of banking for present’s highly free citizens.

Kihumba (2008) did a study on determinants of product innovations and its effect on banks performance in Kenya. He found that increase in customer service, market expansion, and increased banks revenue were the most benefits derived from product innovations. Others included a reduction in the number of clients in the banking hall, reduction in operational costs and geographical expansion of banks.

The merged services that take into consideration the automated, as well as human tellers, implying that there will be an increased level of performance especially during banking hours. ATMs enhance SMEs banking as well as ensuring that the customers use less time to deliver service as an alternative to making queues in the bank halls, enabling them to invest such time saved into other productive activities. In addition, ATMs are considered cost-effective especially considering the need to serve more people. Generally, ATMs are more productive when compared to human tellers. Moreover, as the ATMs continue to be existence and the human tellers are faced out, there is a high probability that the banks will become highly productive as individuals can access money even after the usual working hours.

Telephone Banking is a new strategy in the banking industry that results from innovation that is aimed at ensuring the success of banking even through virtual means. It can be seen as a way of providing banking services to individuals using telecommunication devices. Here, the clients can execute their retail banking activities at the comfort of their houses on a touch-tone telephone or on their communication gadget like the mobile phones, which is effectively connected with their accounts in the bank via the use of the Automated Voice Response (AVR) technology (Carter, 2010). Users of telebanking services, both banks, and clients, enjoy several benefits.

With respect to the banking clients, this innovation is highly convenient for clients and banks and ensures that customers have a wide access, as well as substantially saving time. However, considering the other aspect of the institution's view, they incur reduced the cost to deliver the telephone-based services to the clients. According to Anyasi and Otubu (2009), the idea of Internet Banking is to ensure that the banks offer their clients the ability to make any transactions with their accounts without having to go to the banking halls. It is a form of banking platform where customers make bank transactions over the internet. In a more natural form, internet banking gives the customer a type of flexibility and convenience that they were not used to in the traditional banking.

Such a banking approach ensures that the customers have absolute control over the accounts all through –during the day, as well as at night. It has in time proven to be one of the leading cost-effective technological methods of achieving high productivity. In addition, such a banking platform makes it possible to do away with the issues regarding the geographical barriers such as time and distance and hence, ensures that there is continuous production of the banks even at a time when the customers cannot access the banking halls.

Another trend in the banking industry is the branch networking. It is considered to be the process that involves the computerizing and inter-connecting bank branches that are in different geographical locations, into a unified system through the use of a Wide Area Network (WAN) or Enterprise Network (EN) for the creation and sharing of consolidated customer information/records (Sadeghi, and Hanzaee, 2010). It offers a quicker rate of inter-branch transactions as the consequence of distance and time are eliminated. This type of service ensures that the banks have an increased productivity with respect to a certain period. The reason behind this is the fact that division of labor becomes useful and effective in all the involved branches. Such an approach also is ideal for small and medium enterprises as they do not have to worry about the cost of traveling to various banking halls for certain services. Branching networking not only ensures interconnection of bank branches but also makes sure that customers have reduced costs of banking.

On the other hand, banks have adopted the Electronic Funds Transfer application that is located at the Point of Sale. It is an effective product of innovation used in ensuring that customers have the platform to make transactions across different geographic locations instantly from their accounts to the accounts of the merchants when they are purchasing goods and services (Berger, 2010).

Diversification is a primary strategic response that is used whenever a change in the features of an organization’s product line or market is needed to help in achieving a competitive advantage (Ansoff & McDonnel, 1990). Nevertheless, for diversification to work, an organization needs to adopt new facilities, techniques, and skills. Accordingly, it is possible for a strategic response founded on diversification to lead to a complete change in the business structure of an organization (Ansoff & McDonnel, 1990).

The SMEs banking needs are always influx and therefore it becomes necessary for an organization to either improvise or sometimes overhaul its product line to align with the changing needs of customers. According to Blenkhom and Fleisher (2005), the market can be unforgiving for a firm that does not gather intelligence on the requirements of the market and hence fails to respond to it. Indeed, a number of researchers agree to the findings in the above examples regarding diversification. For example, a study carried out by Ndoro

(2007) found out that organizations diversify for compensating for technological obsolescence. Agreeing to this assertion, Bessis (2011) added that organizational diversification is done to distribute risks, while Furrer (2010) noted that it can lead to the utilization of excess productive capacity; among other reasons.

Talloo (2007) describes horizontal diversification as the strategy that introduces new products that, although rarely contributes to the present product line in any way, are responsible for certain organizational missions in line with its expertise and experience in marketing, finance, and technology. On the other hand, lateral diversification includes going past the limits of a certain industry including the introduction of overly new service or product to the market (Talloo, 2007).

Compensation strategy is also instrumental in mitigating the banking of SMEs. In spite of this, only a small percentage of the organizations have adopted this strategy. The HR function has been concerned with the constant training of employees to equip them with new methods of doing things courtesy of SMEs (Khanna & Bhasin, 2011). Inventions and discoveries of simple and efficient ways of operations happen regularly and are disseminated across the globe and therefore it is imperative that staff is trained on these noble methods of operations constraints (Khanna & Bhasin, 2011). In so doing, the function enables an organization to counter some of the challenges posed by banking.

According to Wilson and Rosenfeld (1990), organizational structure refers to the type of pattern that an organization establishes and creates a link among all organizational components for the purposes of ensuring effective communication and control of all activities. Such a structure ensures that each component of the organization is differentiated and delineated. A study carried out by Drucker (1989) found out that the best organizational structure ought to comprise of very few structural levels. The advantage of having few levels within the organizational structure is that many levels can lead to a lot of challenges especially to understand the various communication process as well as objectives of the organization as dictated by the provided hierarchy. Re-engineering the business process is one of the primary activities of restructuring. According to Hammer (1996), customers are the key elements through which companies can achieve efficiency. However, this is only possible if integrated with the right processes which are aimed at value creation. As such, the interplay between value-creating processes and customer-based strategies can lead to an organization's competitive advantage.

Outsourcing, for example, is considered to be an effective way through which an organization puts much consideration on its primary business, whereas at the same time getting benefits associated with efficiencies in cost of operation by engaging the best outsourcing companies. Thus, it is possible for organizations to form their strategies with respect to the processes of the outsourcing companies. This can be achieved, for instance, through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets.

According to Quinn (1992), enterprises can achieve strategic advantage if they invest in the cost units that have a room for replication. In addition, if they lower the cost of overheads significantly through cost-cutting efforts, the organization can achieve strategic advantage as the low costs are passed over to the customers in the form of low cost of products and services.

A study carried out by Thompson (1997) found out that radical re-engineering of a firm is important in that it is possible for organizations to be more productive. Such an approach involves the rethinking of the process of certain tasks in an organization. This is achieved through a breakdown of the individual and functional job boundaries to align with the available structures in the organization. Grundy (1995), however, cautions that speeding activities up without detriment to quality, and without increasing costs, demands more effective learning and feedback in the management process. Accelerating processes, with continual and open learning, avoids costly errors.

Perreault and McCarthy (2002) describe customer relationship management (CRM) as a strategy in which the marketing efforts are based on the needs of customers. As such, CRM is used in the attempts to ensure that customers get the value and benefits that they need as opposed to the interests of the organization. The success of any CRM strategy is founded on the principles of lifetime value, loyalty, and personalization. The understanding that customers need equal treatment is what drives an organization to the successful implementation of reliable strategies.

According to Philip Kotler and Sidney (2000), CRM aims at the identification of the customer, engaging and interacting with the customer; differentiation; and personalization. As such, it is important for the organization to have a clear understanding of their customers as well as what they need. Effective customer relationship management refers to the process of improving the marketing efforts of an organization and the creation of information about their customers' needs (Perreault & McCarthy, 2002). According to Eisingerich and Bell (2006), CRM creates a platform through which the customer and the organization interact and lead to the growth of profit and revenue acceleration. Utilizing

CRM to ensure that an organization meets the needs of the customers gives the companies a chance to ensuring the creation of long-term relationships and loyalty between the involved parties for mutual benefits. As such, CRM is an important element in the banking industry in that it creates a platform for effective interaction, as well as customized communications.

The relationship bankers can use CRM systems in the provision of profiles that are detailed and specific for each customer. The CRM remains to be one of the effective customer information systems that banks and other organizations can adopt for ensuring a long-lasting relationship between the banks and their clients. The availability of data made available through CRM makes it possible for banks to adopt an effective relationship banking. According to Cram (2001), relationship banking and CRM work in handy to ensure high productivity in banking activities. Often, the CRM is not able to achieve high customer loyalty alone, but it is necessary for the identification of the important information regarding customers that can be used in strategy adoption and implementation.

As such, CRM offers the required support to the relationship banking aspect in any bank to make it possible to draw clients closer. In addition, a number of techniques founded on CRM are important in supporting communication as well as in promoting consistency of businesses activities (Lovewell, 2005). Evidently, the CRM system serves the role of storing information about customers and then sharing such information with the organization for the purpose of improving the organizational operations. According to Fournier (1988), it is advisable for banks to make wise use of any confidential information they have about their customers.

2.4 Empirical Studies and Research Gaps

Merton, (1995) did a study on product innovation in commercial banks. He argued that product innovations involving derivatives can improve efficiency by expanding opportunities for risk sharing, lowering transaction costs and reducing asymmetric information and agency costs. Therefore, product innovations promote economic growth by allocating capital where it can be most productive. However, this study did not address the innovation as a strategic response in relation to SMEs to gain a competitive advantage which remains a gap to be filled by this study. Another study by Furrer (2010) indicated that diversification strategy is another strategic response with respect to the features of the given change in an organization's line of the product as well as its market. He further argued that for an organization to achieve diversification it needs to acquire new facilities, techniques, and skills. Accordingly, diversification is important in that it works towards achieving organizational and physical changes that account for the difference between an organization's past and its present business activities (Ansoff & McDonnel, 1990).

A study by Wilson and Rosenfeld (1990) on organization structure indicated that organizational structure is responsible for the establishment of a successful relationship between organization's components that is founded on patterns. Such relationship is important in authority patterns, control, and communication. Getting services from outside the company is a necessary component which can assist businesses in restructuring and change its culture. This is because the firms which outsource will gain from the new strategies by improving the borrowed strategies leading to improved customer services. This study, however, did not talk about restructuring as a strategic response which up to now is a gap to be filled by this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

Research methodology refers to the process of collecting, analyzing data for making inferences on a certain study phenomenon. This chapter presents the research design, collection, and analysis of data, and the target population.

3.2 Research Design

A research design refers to a scheme in which a researcher outlines and plans the course of a study for generating answers to certain research problem (Orodho, 2003). This study used a case study design to answer the research question that how the strategic responses adopted by KCB Bank Kenya Ltd influence small and micro enterprises banking in Kenya.

A case study based research is used to offer more insights into a given sophisticated study issue. It is a significant method of research that not only explores a given subject, but also provides further grounds for a deeper understanding of the subject. The majority of research studies done in social studies use the case study method for its ability to deeply investigate the given research subject. It is applied in education, sociology, as well as in studies involving community-based problems (Gulsecen & Kubat, 2006; Grassel & Schirmer, 2006; Johnson, 2006).

It was appropriate to use the case study approach in this study because it allows the researcher to not only examine the quantitative statistical results but also offer a platform where it is possible to understand the outcomes of a given situations by examining the perspectives of the actors based on certain behavioral conditions.

The adoption of quantitative as well as the qualitative data in this study made it possible for the case study to offer a room for the explanation of the study phenomenon's outcome and the associated processes. Tellis (1997) pointed out that such achievement is possible through various aspects such as observing, reconstructing, and analyzing the provided case study to draw meaningful inferences.

3.3 Data Collection

The researcher collected the primary data by individually interviewing the 5 respondents. The interview process was guided by interview guide to facilitate the in-depth coverage of the strategic responses by KCB banking on SMEs. An interview as a data collection method takes consideration of the verbal stimuli or even the verbal presentation of responses from study participants (Kothari, 2011).

Interview method provides in-depth and qualitative data as it presents an opportunity to explain the purpose of the study. The researcher organized an informal meeting with some of the departmental heads who provided relevant information that confirmed that the rest of the management shared the views of both the executive directors and the senior managers. The head of departments included; 2 Head of SME, 2 head of customer service, and 1 head of marketing making a total of 5 respondents.

3.4 Data Analysis

Orodho (2008), in his study, pointed out that the process of analyzing data in a study involves putting the collected data into groups and categorizing the groups based on certain aspects before the computation of various elements of the collected data. Upon the receipt of the issued questionnaires, the responses were subjected to a process of editing to ensure that they are complete and consistent with the study requirements. Afterwards, the data was categorized as per the emerging themes

The data obtained from this process was analyzed qualitatively based on the responses strategic variables identified. Content analysis was used in analyzing the in-depth qualitative data that was collected. This kind of approach in data analysis had been used in past studies based on the similar phenomenon of investigation such as in the case of Bett (1995), Kombo (1997), Njau (2000), and Kandie (2001).

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the results of the data collected and further discusses the findings of this study. It tackles qualitative data analysis corresponding with the themes established from the interview report. The study applied content analysis in data analysis since the data was collected using interview guide to achieve the general objective of the study which was to investigate the strategic responses adopted by KCB Bank Kenya Ltd towards SMEs to gain competitive advantage. The interview schedules were used as the main research instruments. The researcher organized informal meetings with some of the departmental heads who provided relevant information. The researcher was able to interview all the 5 head of departments who included; 2 Head of SME, 2 head of customer service, and 1 head of marketing making a total of 5 interviewees. It was established that the departmental heads had been in their current office for a period of between 5 and 11 years. This implies that they were in a position to give the current information about the response strategies adopted by Kenya Commercial Banks (KCB).

4.2 Theme Emerging from the Data

This part describes the major themes that emerged from the information collected from the interviewee. The themes which emerged were; product innovation response, diversification response strategy, restructuring response strategy and customer management response strategy. The analysis was therefore based on these themes.

4.3 Product innovation

From the answers given by the interviewee, one of the themes which emerged was the product innovation which was adopted by KCB as strategic responses towards SMEs to gain competitive advantage. In any given financial system, it is possible for innovations to happen with respect to changes in technology, and as a result of certain approaches taken as a result of new regulations, or even high risks. The departmental heads reported that the major products provided by KCB for SMEs were; overdrafts, business unsecured loans, insurance premiums finance, invoice discounting, business accounts, asset-based financing, mobile banking and contract loans.

These technological innovations had helped the banks in carrying out business activities more effectively and efficiently among the SMEs. Moreover, financial innovations had contributed to improved performance as it facilitated business transactions past the usual banking hours leading to a 24-hour economy. The customer has round the clock access to their funds. This was evidenced by the trend in terms of growth for the last five years since the bank adopted the financial innovation strategy.

The interviewees were also asked how the innovation had improved the SMEs performance. One of the interviewees said, "since the time we started pay bill numbers, most of our customers save a lot of time which could have been used to come to the bank to make certain transactions" he went on and said that the use of pay bill numbers also save transport cost for the customers, thus increasing their profit and consequently business growth.

This implies that the pay bill number was a very good innovative strategy and embraced by most SMEs. Another interviewee said, “Innovation has improved customer convenience in the management of their financial matters and this has helped many SMEs increase their deposits.” Further, the researcher sought to know the current innovation in KCB for SMEs. It was reported that the current innovation was the mobile-based products which include; mobi cash, bill payments, internet banking, mobile banking, and KCB-Mpesa. It was also reported that unsecured business loans were also new innovation strategies. These strategies were reported to have improved the performance and efficiency which has enabled the bank to adopt technology and infrastructure as a risk mitigation strategy.

When the interviewees were asked why innovation was necessary, one interviewee said, “Most banks have adopted current technology in their operations, if we do not change with time we will be out of business”. This simply means that the innovation was occasioned by the changing technology in the banking sector. Therefore, to safeguard business and assist the SMEs to grow faster, innovation was inevitable. The bank also innovated to give value to their customers through the convenience of 24/7 banking transactions across the industry at lower costs.

It was reported that innovation was a challenge to some customers including the SMEs. This was because some customers were not willing to use the technology for fear of making errors during the transaction. This was because occasionally some customers were making errors and it would take a long process to correct it. These errors ranged from writing wrong pay bill number, entering wrong account numbers and sometimes sending more or even less money than intended.

These errors ended up discouraging some customers leading to some opting to travel long distances to their branches. According to some of the interviewee, customers do not always embrace new products and services. In the case of E-banking, customers at first were not interested in the product because they did not understand how it operates; they deemed it insecure and expensive. However, with time they came to understand and accept it. Though all the efforts have borne fruits, the bank constantly educates his customers through various customer engagements.

The interviewee was also asked to state which product innovation strategy had the greatest impact on SMEs performance. It was reported that the pay bill innovation strategy had the greatest impact on the performance of the SMEs and the bank efficiency in general. Many SMEs had adopted the technology and were using it in most of their transactions.

It can be concluded that adoption of these financial innovations had improved commercial banks growth and further improved their operations and earnings. The financial innovations are not only adopted to increase the KCB market coverage among the SMEs but also to improve the bank liquidity and also help the bank to remain competitive in the market in the current turbulent business environment. Also, pay bill number naturally gives individuals a chance to enjoy more flexible and convenient banking services. Moreover, customers are able to have maximum control of their banking activities. It has in time proven to be one of the leading technology-based methods that are cost-effective and offers a platform for improved productivity. Moreover, it is very effective in the elimination of issues regarding the geographical barriers such as time, distance, as well as the need to achieve continuous productivity of the banks since customers in different parts of the world can make transactions even when they cannot access the banking halls.

4.5 Diversification Response Strategy

There are different plans that make up the diversification strategy of a company, and these might include the process of developing new products, taking a license for the adoption and implementation of new strategies, as well as the process of combining any of these plans as required.

The second theme which appeared to be common among the responses was the diversification strategy. This was occasioned by the fact that the banking industry has undergone tremendous changes over the years. For that reason, the researcher sought to get information about diversification as a response strategy adopted by KCB towards SMEs to gain competitive advantage.

Responding to the interview question about the current performance of KCB in Kenya, one interviewee noted that “KCB is currently the pacesetter in the financial sector of Kenya.” He continues and said, “The level of diversification in KCB is relatively higher and with great impact compared to other financial institutions”. It was reported that the diversification includes new products which were; internet baking, KCB pay bill, agribusiness loans on phones and business insurance. It was also reported that KCB had excellent performance compared to other banks due to its diversification. This was explained by the observed increase of SMEs deposits in the last three years which is an indication of good performance.

The researcher further asked about the major products offered by KCB today for the SMEs. It was reported that the major products offered by KCB to SMEs was the business loan. It was reported that this was a popular product among most SMEs because it helped them to increase their capital base leading to more stock and increased profits. Other products included liability and asset products. When the interviewee was asked whether there has been any diversification in the last three years, all of the interviewees indicated that there has been diversification.

It was reported that the new products included; internet baking, KCB pay bill, agribusiness loans on phones, Short-term accommodation loans, and business insurance. All the interviewee gave this answer. When the interviewees were asked how the SMEs responded to diversification products, one of the interviewees said, "The diversification has increased the number of our customers because it is very good, and most customers find our products convenient and easy to operate". Other interviewee reported that the customers like the products very much because they have made them to increase their profits.

Responding to the question on how diversification has improved the banking of SMEs, one of the interviewee reported that, "diversification has brought in products which meet the needs of the different levels of customers leading to increased number of SME customers". It was reported that the customers also have increased their deposits as well as their loan requests an indication of good business.

However, the product had a challenge in that some SMEs would get big loans which sometimes were not able to repay leading to auctioning off their businesses. Others had to close down their business as a result of an inability to repay their loans. To curb this problem, the bank was scrutinizing the SMEs keenly before giving them loans to ensure that they were in a position to repay. The bank was also getting securities from customers which acted as a fallback in case of default.

4.6 Restructuring Response Strategy

The third theme that emerged from the responses of the interview schedule was the restructuring response strategy. The interviewees were asked whether there has been restructuring in KCB in the last three years.

According to all the interviewees, there has not been any restructuring in KCB in the last three years. This was because restructuring is a stage in strategy where organizational managers attempt to recast their organizational structure, leadership, and culture and reward system. Restructuring is therefore aimed at reorganizing the organizations from its current state which is viewed to be inefficient to one which is not only cost-effective but also has a competitive advantage. It was reported in the last three years the bank has been on track and there was no need for restructuring. There was a behavioral challenge on the side of the customers since they kept comparing product across banks. However, the bank has heavily invested in technology infrastructure which has greatly addressed the customer challenges. It was evident that the restructuring in KCB had not been done in the last three years because it was not necessary.

4.7 Customer Relations Management Strategy

The last theme which appeared from the responses for this study was the customer relations management strategies for SMEs. The interviewees reported that customer relationship management (CRM) strategy combines organizational strategy, information systems, with technology with the focus being to provide better customer service. The main objective of CRM is to acquire new customers, ensure that the current customers are retained, as well as nurture a favorable relationship with the existing customers. It was reported that CRM strategy as a methodology had succeeded in the creation as well as the evolution of firms in the marketplace. Such changes happen at a time when organizations are gaining positive perceptions from a large number of customers. The CRM was reported to have led to educated SMEs on business thus making them better informed. This was because informed customers have more purchasing power and hence, more demanding in the products and services they buy.

Through CRM strategy, Kenya Commercial Bank has managed to weather business competition and to stand out as one of the successful Kenyan businesses today. The interviewees were asked to indicate the customer relations management strategies for SMEs they use in their bank. It was reported by all the interviewees that customer relations management (CRM) strategies for SMEs used was the electronic customer relationship management system strategy (ECRM).

This strategy aimed at providing the customers with the benefits and values from their point of view and not based on what the bank wants to over. It was also reported that the primary principles of associated with the adoption and implementation of CRM include lifetime value, loyalty, and personalization. The implication of this is the fact that there is a need for customers to receive individual treatment, while at the same time organizations should be acquiring and retaining customer loyalty using personal relationship. To achieve certain milestones, the base of the selection should be the lifetime value where the focus should be on the good customers.

The interviewees reported that the most recent management strategies regarding SMEs were customer feedback, face to face interaction and use of social media. These strategies were successful since it was easy to reach all the customers at the same time using social media. The researcher further sought to establish how the bankers were obtaining feedback from the SMEs customers. One of the interviewees said, “We always give customers some forms to fill, so that we can know how satisfied they are with our services” another interviewee said, “sometimes we call customers to get feedback from them directly”.

When the interviewees were asked about the primary rules for customer relationship management strategy, one interviewee said, “The bank uses the customer management system to manage and analyze customer interrelations and data throughout the customer lifecycle” Other strategies reported included; regular customer visits and very short turnaround time. Through the CRM strategies, it was reported that there was a very good relationship with the customers. This was because the banks were addressing their needs adequately.

When the interviewees were asked whether customer relations strategy had improved the banking of SMEs, it was reported that it indeed improved. One interviewee said, “CRM improves the performance of SMEs since it makes the bank to be close to the customers and being close to your customers has undoubtedly been one of the key successes of relationship management”. The researcher lastly sought to know how the banks were collecting data from the customers. It was reported that data was collected through filling feedback forms, social media, customer interactions and customer visits.

The challenge with this strategy was that some customers were not willing to fill the feedback forms since they thought it was taking their time which should have been used in attending their business. Others filled the forms in such a hurry thus giving information which was not useful in improving the bank's performance.

From these results, it can be concluded that marketing resources may be better spent on keeping existing customers than acquiring new ones. This was based on the assumption that existing customers cost less to keep than to replace. Firms, therefore, have to be aware of the stability of not just their products but also their customers. Contrary to its belief, the KCB bank found that it's independent financial advice and the sale of associated investment products contributed to the high expense levels associated with staff time.

4.8 Discussion of the Findings

The researcher compared the findings of this study with the literature to determine whether there was agreement or disagreement with the current study. The results of innovation strategy agree with Turfano (2003) who argued that financial innovation is the continuous development of new products, services, and technology to deliver services and products. Research has indicated that the evolving financial services are as a result of innovations in the financial systems. In addition, such innovation accounts for changes in the financial system's structure, the operating policies, institutions, and the changes in certain instruments. The results also agreed with McConnel and Shwarch (1992) who argued that the innovations take the form of new products and services, new organizational forms, and new delivery systems. Financial innovation can change, the bank features leading to an increase in customers and profits (Gitonga, 2003). The diversification results agree with a study by Furrer (2010) who argued that diversification strategy is another strategic response associated with a change in the characteristics of an organization's product line and/or market.

These results also agree with Ansoff & McDonnel (1990) who argued that, diversification brings new skills, new techniques and new facilities to be realized and that it invariably leads to physical and organizational changes in the structure of the business that represents a distinct break with past business experience and high profits. On restructuring, the responses were contrary to a study by Wilson and Rosenfeld (1990) on organization structure which indicated that organizational restructuring establishes a pattern of relationships between component parts of an organization outlining communication, control and authority patterns. Restructuring enables an organization to get services from outside the company a necessary component which can assist businesses changing its culture. This is because the firms which outsource will gain from the new strategies by improving the borrowed strategies leading to improved customer services. This was however not the case for the KCB for the last 3 years.

The results about the customer relationship management strategy agree with Reichheld (1996) who suggested that feedback enables banks to search for the root causes of customer departures and identify business practices that need fixing thus winning the customer's confidence and re-establishing the relationship firmly. The study also agrees with Bhote (1996) who argued that the bonds of trust that build up between a company and its core customers are based mainly on the close and personal relationship between the relationship banker and customers. This close relationship does not refer to any friendship or favoritism, but rather to a partnership or relationship that brings mutual benefit.

Successful institutions are those which manage to turn their customers into clients (Berry & Parasuraman, 1991) and from prospects into partners (Peck et al., 1999). Others such as Vandermerwe (1996) have pointed out that successful institutions are those that “own‟ their customers and pursue ongoing values for them.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings; the conclusion and the recommendations of the study.

5.2 Summary of the Findings

This study sought to investigate the strategic responses adopted by KCB towards SMEs to gain competitive advantage. The findings of the study were that the innovations offered by the Kenya commercial banks to the SMEs were; business unsecured loans, invoice discounting, Internet banking, pay bill numbers, private school facilities, and mobi cash. It was also established that diversification in KCB products included, internet baking, KCB pay bill, agribusiness loans on phones and business insurance.

It was also established that there has not been any restructuring in KCB in the last three years. It was finally established that the customer relations management (CRM) strategies for SMEs used was the electronic customer relationship management system strategy which involved; use of customer feedback forms, face to face interaction and social media

5.3 Conclusions of the Study

It can be concluded that the strategic responses adopted by KCB towards SMEs to gain competitive advantage are product innovation were the bank has innovated on financial products like business unsecured loans, invoice discounting, Internet banking, pay bill numbers. These strategies have improved SMEs operations and earnings.

The financial innovations are not only adopted to increase their market coverage but also to improve the liquidity and also remain competitive in the market in the current turbulent business environment. This means that commercial banks in Kenya have vested their resources especially in introducing or innovation of new products and technological innovations. The technological innovations had helped the banks in carrying out business activities more effectively and efficiently.

Moreover, financial innovations contribute to improved performance as observed by the trend in terms of growth for the last three years since the banks adopted the financial innovations. It was however concluded that there has not been restructuring in KCB in the last three years. The customer relations management (CRM) strategies for SMEs used was the electronic customer relationship management system strategy which included getting data from the customers through the filling of feedback forms and direct interaction.

5.4 Recommendations of the Study

According to the results of this research, it is evident that there is a need for banks to come up with a variety of products that customers can afford. Such an approach would ensure that unbanked individuals can get access to more opportunities and hence, grow the customer base of the banks. One of the critical determinants of specific products that are favorable to customers is the cost of the services.

5.5 Suggestions for Further Research

The study explored the strategic responses adopted by KCB towards SMEs to gain competitive advantage. As such, there is a need for more studies similar to this one, to be carried out but with the focus on other banks. The findings from such studies would be used in comparing as well as allowing the findings to be generalized such that they can be adopted in the entire banking sector. Such an approach will ensure that there is a universal understanding of the needs of the customers and hence, the banks will establish services and products aimed at meeting the expectations of the customers.

The present study was instrumental in shedding light on the various changes and diversities witnessed in the banking industry over the past years. However, considering the lack of enough studies on this subject, more research is needed to give a glimpse of the future expectations of the banking industry and its dynamics. Considerably, this study is the base for similar studies in the future.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

The following are the interview schedules for different head of departments

1. How long have you been in this office?
2. What are the major products for SMES in KCB?
3. What new products has KCB innovated in the last 3 years for SMES?
4. How has the innovation improved the SMEs performance?
5. Which product innovation strategy do you think has the greatest impact on SMEs performance?
6. What is the most current innovation in your bank for the SMEs?
7. Why was such innovation necessary?
8. Did the innovation have any impact in the banking of SMEs?
9. How would you explain the current performance of KCB in Kenya?
10. What are the major products offered by KCB today for the SMEs?
11. Has there been any diversification in the last three years?
12. What are your new products for the SMEs?
13. How did SMEs respond to them?
14. How has this diversification improved the banking of SMEs?
15. Has there been restructuring in KCB in the last three years?
16. What SMEs needs necessitated the restructuring?
17. How was the restructuring done?
18. What is the impact of the restructuring on the banking of SMEs?
19. What are your future restructuring plans for SMEs?

20. What customer relations management strategies for SMEs do you use in your bank?

21. What are the most recent management strategies regarding SMEs?

22. How do you obtain feedback from the SMEs customers?

23. What are the primary rules for customer relationship management strategy?

24. How is the bank relationship with the SMEs?

25. Do you think the customer relations strategy has improved the banking of SMEs?

26. How do you collect data from the customers?

APPENDIX II: LIST OF BANKS IN KENYA

African Banking Corporation Ltd

Bank of Africa K Ltd

Bank of Baroda Kenya

Bank of India Ltd

Barclays Bank of K Ltd

Chase Bank Kenya Ltd

Citibank N. A

City Finance Bank Ltd

Commercial Bank of Africa Ltd

Consolidated Bank

Co-operative Bank of Kenya

Credit Bank Ltd

Credit Finance C Bank Ltd

Development Bank of Kenya

Diamond Trust Bank

Dubai Bank Ltd

EABs

Equatorial Commercial Bank Ltd

Equity Bank

Family Finance Bank

Fidelity Commercial Bank Ltd

FINA Bank Ltd

Giro Commercial Bank

Gurdian Bank Ltd

Habib Bank A.G Zurich

Habib Bank Ltd

Imperial Bank Ltd

Investments and Mortgages

KCB Bank Ltd

K-Rep Bank Ltd

Middle East Bank

National Bank of Kenya

National Industrial Credit Bank Ltd

Orient Commercial Bank Ltd

Paramount Universal Bank Ltd

Prime Bank Ltd

South Credit Banking Corporation

Stanbic Bank Kenya Ltd

Standard Chartered Bank of Kenya

Trans-National Bank

Victoria Commercial Bank Ltd