INFLUENCE OF COMPETITIVE STRATEGIES ON THE PERFORMANCE OF KENYA COMMERCIAL BANK

BY

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DECLARATION

I declare that this is my original work and has not been presented for examination in any other University.

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DEDICATION

This project is dedicated to parents who inspired me to acquire my academic potential and supporting me throughout my MBA. I highly cherish your love, encouragement, support, and guidance throughout all these years. May the Almighty God bless you.

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ABBREVIATIONS AND ACRONYMS

SME's: Small and medium sized enterprises

R&D: Research and Development

SWOT: Strengths, Weaknesses, Opportunities and Threats

PESTEL: Political, Economic, Social, Technological and Legal

RBV: Resource Based View

KSH: Kenya Shilling

ATM: Automated Teller Machine

CBK: Central Bank of Kenya

KCB: Kenya Commercial Bank

ROA: Return on Assets

ROE: Return on Equity

ABSTRACT

Modern banking sector operates in a dynamic and turbulent environment faced with a variety of challenges brought about by competition in the sector. The competition in banking sector has various consequences both positive and negative where firms need to strive to survive, grow and increase market share. Organizations therefore formulate and implement various competitive strategies, extensively evaluate them to yield high firm performance. Competitive strategies developed after carrying out environmental scanning and optimally application of organization core competences well implemented and extensively evaluated yields high firm performance. Competitive strategies leads to competitive advantage which needs to be reviewed via environmental scanning to have sustainable competitive advantage. The objective of study was to investigate the influence of competitive strategies on the performance of KCB. A case study research design was used to handle this research problem. The study involved both primary and secondary data. The researcher used interview guide in data collection. Data was qualitative in nature which was analyzed using content analysis. The study found out that KCB limited adopts different competitive strategies like cost leadership strategy, differentiation strategy, focus strategy, mergers and acquisition, strategic alliance, diversification, globalization strategy, innovation and invention strategies and other strategies to outcompete rivals. The research concluded that Porter's generic competitive strategies which include cost leadership, differentiation and focus strategy are mostly applied in KCB to yield high firm performance. The researcher found out those competitive strategies had high influence on firm performance at KCB. Positive influence includes banks high quality services, increase in market share, growth and sustainable competitive edge through competitive strategies like diversification strategies where KCB had expanded its branches both locally and internationally.

High investment in R&D, adoption of technological advancement, inventions and innovations had high cost to organization. The study concluded that KCB had invested a lot in technological advancement, inventions and innovations and R&D. Such strengths may be anchored on quality service, firm's image, and firms Intense investment in R&D, technological advancement, and customer satisfaction level. The study also noted that opportunities also affected banks performance in terms of competence thus bank needs to take advantage of available opportunities in order to outcompete competitors.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Strategy is the major determinant of an organizations performance.Strategy can be termed as the positional advantage that an organization has that gives it a competitive edge against its competitors. The strategy chosen is dependent on a firm's internal and external environments. Much focus however is on the internal processes of a company.In a bid to establish the key drivers to a firm's competitive strategy, a number of studies have been developed and these could cut across almost all businesses.

Various studies have been done in order to establish the major drivers to a competitive strategy.Of all the studies Miles and Snow (1978) and Porters (1980) generic strategies studies were the most prevalent. Miles and Snows (1978) typology emphasized on defender, reactor, analyzer and prospector approaches. They explicit the following features.

Defenders are firms whose main aim of existence is to better effectiveness of their operations,besides they have a few lines of products.A major focus on cost by firmsleads to low probabilities of various firms to introducing products. Prospectors are companies which have broader product lines compared to defenders.Their coexistence is on the issues to do with innovating new products and market opportunities. This sales orientation causesinefficient in their operations.These firms prefer creativity over efficiency.

Analyzers are firms which carry out their operations in more than one market areas, which can have variations or explicit high stability.There is much focus on efficiency in stable areas and focus on innovation in the variable areas. There is emphasizing of efficiency and effectiveness in the areas which are variable areas, innovation is emphasized. Reactors refer to those companies which lack a strong consistent relationship with their structure .There exists poor reactions topressures from the environment due to the piecemeal changes.

Porter (1980) dwelled on differentiation, cost leadership and focus strategies. The cost leadership strategy requires minimization of expenses on advertisements, delivery of services criteria and research and development. Differentiation helps firm to compete through the creation of unique products and services. This could be in terms of delivery mode, packaging and pricing. These strategies could create new demand or increase the existing demand.

Porter (1980) also advanced a five force model as an analysis tool for a firm's competitive position and performance.He attributes taking a defensive position so as to counter these forces in an industry. To this end the generic strategies could be used singly or in combination to outperform a competitor in the market.

Several theories explain the performance of a firm for instance,the resource-based viewlooks atuse of available resources to the organizationsto gain good performance. In order to attain lasting competitive advantage, companies needheterogeneous and immobile facilities to convert a short period competitive advantage to a sustained one. With this, it results to high value products which cannot be imitatedand be useful with no great effort (Barney, 1991). Besides, through consistent operations, there are higher levels of differentiation of individual abilities due to the availability of mutual reinforcement.

1.1.1 Internal Resource Conditions of a Firm

Internal strengths and internal weaknesses refer to an organization's activities which can be controlled and are done in a poor or good manner.

According to Barney (1991), advantage-creating resources need to satisfy four conditions which include: value, rareness, imitable and non-substitutability. Recognizing, evaluatinga firm's abilities together with their limitations which are explicated in a business's functional areas is major requirement as anactivity instrategic management.Firms work hard in order to implement capitalization of their internal strengths and better their internal limitations.

A firm determines its strengths and weaknesses compared to itscompetitors. Strengths and weaknesses should be determined and matched to the objectives of the organization.High inventory turnover are weakness to companies that desire never to run out of stock.Core competencies arevarious broad capabilities needed to enable a company to perform well and facilitates its ability to penetrate the various product markets.

In most cases the various competencies are usually unique, and hence hard to imitate.There are a number of ways in which internal factors can be arrived at, that is computing ratios, measuring performance, and comparison to previous performancesand variousaverages of the industry, to examine various internal factors developed for example,employee morale, production efficiency, advertising effectiveness, and customer loyalty.

1.1.2 External Resource Conditions of a Firm

According to Porters five force model (1980), firm's sources of market power explain its performance.Its main focus is on thestrategies' external environmentwhich facilitates a company's ability to evaluate various forces in an industry which results to opportunities and threats.

External opportunities and threats are economic, social, cultural, demographic, environmental, political, governmental, technological, and competitive trends and events which benefits or harm a firm in future. These opportunities and threatsto a great extentcannot be controlled by a single firm but two or more firms resulting to the term external. These various forms of changes result to creation of anew customer with new demands for a variety of products, services, plusstrategies. Strengths by competitors may be threats to other firms in the same market. Besides, issues like increased interest rates or war against drugs may be termed as an opportunity or a threat.

In order to facilitate a company's ability to take advantageof external opportunities, it needs to come up with strategies. There is need for identification,close supervision, and analyzing of opportunities and threats in the external environment to facilitate improved performance.

1.1.3 Competitive Strategies

The mosteffective businessstrategies mainly focus on creating very unique and distinct competenciesin main focus areas which are determinants of strategies achievement then implementing them with an objective of being efficient and effective as compared to rivals. Unique competencies results to new varieties of products introduced,improved mastering of a technological procedures, specialized marketing know-how, higher abilities of the e-commerce and improved ways of serving customers, or other issues which contributes competitive strength in creating, producing, distributing, or marketing the company's product or service (Thompson & Strickland, 2004).Implementation of a business strategyfocuses on ensuring there is coordination between its strategies and activities inside the organization which contributes to enhanced effectiveness and superior performance. Miles and Snow (1978) came up withcomprehensive background which states other means in which a firm defines then approaches their products' domains. It formulatesand developsstructures to facilitate achievement of success in the various domains.

According to them, there are four firm types which are: prospectors, analyzers, defenders, and reactors. Typologies are the dominant framework of business strategy in strategic management literatures. Company's level of adaptation to the competitive environment is adeterminantof strategic types. (Chandler, 1962) addressed strategy as a way of managing firms. His book on"Structure follows Strategy" made major contributions in this school of thought.

1.1.4 Organizational Performance

Competitive strategies cause great effect on company's performance. Both the financial (objective) and non-financial (subjective) measures such as customer satisfaction are used in measuring firm performance, Kaplan and Norton (1996:2008). Organizational performance is an implication of the various strategies' that have been adopted by a firm.Some of the most common metrics used in measuring firm performance are sales growth, return on asset, and return on investment, market share and profit margin.

Strategy evaluation and monitoring in the strategic management process can also facilitate measurement of an organization's performance by comparing long term objectives against what has been achieved.

1.1.5 Banking Industry in Kenya

The banking industry in Kenya has rapidly grown in the past decade to facilitate satisfaction of demands from theestimated 30 percent of Kenyans who are unable to get financial services (www.kenyabureauofstatistics.com). Despite of demandbeing high, the industry is only able to meet 20 percent out of total demandbecause of inability to assess risk and process loans. This is majorly due to the currency instability, inflation levels and the most current capping of interest rates. The financial journey in Kenya dates back to the colonial times. In the 19th century Kenya involved in trading activities and there wasneed for use of currency.

There has been tremendous growth in the banking sector in the last decade leading to expansion to East African region. The banking industry has evolved in terms of automation, transformation to better meet the growing complex needs of their customer and globalization problems from the traditional practices.These developments have facilitated development of a monetary system inthe banking sector leading to an imperative system which is necessary to store money. These changes are associated to the fast developments in technology.

Good performance of banks is attributed to its ability to balance inflows versus outflows of their cash and the amounts earnedon each sale. Due to these fact, banks need to issue out loans at higher interest rate than the interest being paid to depositors. The main challenge however is the new regulation passed by the Central bank of Kenya that needs financial institutions to create the least capital requirement to Kenya shillings one billion. The Central bank of Kenya ensures the right functionality of the financial system in Kenya, liquidity and solvency of the Kenyan shilling. CBK also has a duty of formulation and implementation of monetary and fiscal policies, being a banker to all banks and the lender of the last resort.

Kenyan banks are all under a common umbrella known as the Kenya bankers association that addresses the issues facing the banking industry in Kenya.

1.1.6 Kenya Commercial Bank

KCB originated in the 1896 as aresult of its parent company KCB Group was developed asa branch of the National Bank of India in Mombasa. KCB bank Kenya was incorporated in 2015 resulting from a corporate restructure of KCB Group, of which previously was not only a licensed bank but also a holding company for its subsidiaries KCBGL (2015 April 22). It would then be able to sell its Kenyan banking business, assets and liabilities to customers.

This restructuring converted the KCB group Limited into a non-trading holding company which owns not only the banking firms but also the non-banking subsidiary companies. KCB Group's shares are listed on the Nairobi, Dar es salaam, Rwanda and Uganda stock exchange. By December 2015, KCB was the largest banking network inKenya with over two hundred and fifty branches countrywide.These branches serve over 6 million account holders in the country.

1.2 Research Problem

The focus on external industry characteristics is on the role of external conditions in identifying firm strategy and performance while the focus on the internal organizational conditions focuses onrolesplayed by resources and capabilities developed inside the firm.However Powell (1996) observed that improved performance of a firm would be attributed to not only external conditions but also internal conditions faced by the firm. Consequently, researchers have experienced a number of challenges in differentiating the duties of these theories in expounding on an organization's performance. Financial institutions have been in operation in the country for a long time now and improvements in the saving culture have been notably evident.

A positive relationship is observed betweenstrategy and firm performance according to many studies done (Seiler&Sapp). Other studies have reported a native relationship, (Fulmer& Rue, 1980)whereas others have no relationship at all (Robinson & Pearce, 1987).

Musyoka (2012) found out that those commercial banks that employ strategic planning achieve operational excellence and effectiveness. Commercial banks are in competition and their products and services need to be differentiated through effective planning that involves strategic management.

The most commonly used approach for strategy development is the resource based view (RBV) (Wernerfelt, 1984; Barney, 1991). Mona (2003) and Grant (1991) observed that RBV becomes predominant in explaining firm performance when the firm is facing turbulent conditions. A resource-based view of a company elaborates on itsability achieve high competitive advantage with proper management of resources in that their outputs can't be copied by competitors, which in the end creates a competitive barrier (Mahoney &Pandian, 1992). A company's sustainable competitive advantage is achieved through availability of scarce resourcesexplicating features of being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific (Barney, 1999). Not allowing other organizations compete on a similar level predetermines the sustainability of a winning edge.Any time competition becomes active, competitive advantage becomes ineffective, due to the fact that ifmore than two companies start operating at superior level, leading evasion of the possibility of a firm's dominance resulting to a company's competitive advantage (Peteraf, 1993).

Commercial banks have greatly grown in number over the last decade and their operations in Kenya have greatly increased. However, these banks have programs that are duplicated by others while most of their strategic practices do not have a fit with their operating environment which is highly dynamic.

The key question the research sought to address was, "what are the relative roles played by internal resource conditions and external conditions, in influencing industry strategies and performance of an organization. Thus the purpose of this research was to examine how competitive strategies of KCB influence its performance.

1.3 Objective of the study

i. To determine the influence of competitive strategies adopted by Kenya Commercial Bank on its performance.

1.4 Value of the study

The findings of these studies will add value to the existing body of knowledge and current academic practices which will be of benefit to researchers, practitioners and scholars. The study could also solve new variables as well as contribute to the gaps in related studies that have been previously done.

The study will be of importance to strategic management students in finding out the relationship between firm strategy and the business environment with the firms' performance.

The research findings will be of benefit to the management and staff of KCB who will gain insight on how the organization could effectively use strategic planning to improve on the firm's performance. This information could be equally significant for those interested in setting up financial institutions in the country.

This study is also significant to policy makers to help them design programs that will stimulate the growth and sustainability of the financial sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Here literature from a number of sources will be reviewed on the issue of competitive strategies. This will be followed by a theoretical literature review of Michael Porters five forces which forms the basis of this study.

2.2 Theories on firm strategies

Research identifies two main sources for corporate performance, an external one where performance is linked to the industry and aninternal one where it is linked to skills and resources.Many competing theories in the strategyliterature have been used to expound on the reason behind better performance of some firms compared to others.

The Resource-Based View (RBV) which is termed as an economic tool in strategic management, is used in the determination of the strategic resources that is used for various purposes. In order to achieve sustainable competitive advantage firms make use of these resources. Porter's Five Forces Framework on the other hand acts as a tool for analyzing competition of a business. A firm that draws all its available profits from normal profits is termed as one that is the most unattractive industry and hence it is one that approaches "pure competition",.

2.2.1 Resource based view theory

It is a model which takes view of resources as key to superior firm performance. Resources that present good features have high ability of enabling the firms to attain a long lasting competitive advantage. It was first introduced in the 1980 and is used as a major approach in attainment of competitive advantage .It came about after the publishing done by Wernerfelt. (“The Resource-Based View of the Firm”), Prahalad and Hamel ("The Core Competence of The Corporation"), Barney, J. ("Firm resources and sustained competitive advantage") and others. It adds that for firms to attain good performance, there is need for them to get the sources of competitive advantage in the external environment of the firm, rather than in the external competitive environment .It uses resources in the urge of attaining improved performance.

Skills and resources are composed of the entire assets (tangible and intangible) associated in a permanent manner to a firm (Barney, 1991). The skills and resources approach stipulates that the implementation of a firm's skills and resources results to a sustainable competitive advantage,and consequently, to higher performance. Thus, according to this approach, a competitive advantage based on skills and resources is contingent on the existence of three characteristics: the strategic value of a firm's skills and resources (Barney, 1991; Grant, 1991), the rarity of the skills and resources (Barney, 1991; Collis & Montgomery, 1995) and skills and resources that can't be imitated or substituted (Dierickx, Cool & Barney, 1989). Rarity refers to the situation where skills and resources are distributed heterogeneously among an industry's firms. When resources are shared between several competing firms, this situation does not result in steady competitive advantages. Resources should be owned by a restricted number of firms - one, ideally, according to Barney (1991). Moreover, a skill or a resource should be difficult to imitate perfectly and hard to substitute (Barney, 1991).

Concepts of non-imitation and non-substitution of skills and resources (Dierickx, Cool & Barney, 1989) indicate that a firm's skills and resources are immobile (cannot be imitated or substituted by a firm's competition) either because obtaining a competitive advantage is ambiguous, or the application of skills and resources requires complex interactions within a firm. With regards to imitation, skills or resources must be hard to imitate, thereby keeping the competition from imitating a firm's strategy (Dierickx, Cool & Barney, 1989). In general, a firm's production processes are hard to imitate when the factors that enable superior performance are not easily identifiable and of factors of production is imperfect because certain specific assets are associated with either implicit know-how or exclusive property rights (Barney, 1991). In the same vein, if a skill or a resource is to maintain its strategic value, it must be hard to substitute (Barney 1991; Collis & Montgomery, 1995).

The resource-based has its foundation on the notion that the source of an organization's competitive advantageis based on resources internal to the firm, as opposed to their position in the external environment, which involvesfinding out the opportunities in the external environment and challenges in business operation, competitive advantage isdependenton availabilityof very rare resources and capabilities that a firm possesses (Barney, 1995). This approach of an organization asserts that some types of resources owned and controlled by organization possess high ability to produce competitive advantage and good organizational performance.

2.2.2 Porter's Five Forces

Organizations today operate in turbulent environments compared to the past years. Methods of evaluating the implications of these changes and coming up with ways to tackle them are referred to as business strategy. Therefore any strategy adopted by an organization need to be foused on an understanding of the external environment.

(Porter, 1979) came up with a five force analysis which predetermined how attractive a market is in the long run as a result of its external environment.

The five forces are: competitive rivalry, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of customers. Part of them is termed to be horizontal competition based on the fact that each one of them operates in the same manner in the market. The other forces are termed as vertical competition due to the fact that their implementation is done across a supply chain.

An organization needs to understand its competitor's market strategies and actions. The level of existence of competitive rivalry differs from one industry to another between industries. The knowledge of competitors actions is key to developing an organizations own strategy. A large number of competitors in the market attract greater rivalry due to the common customers they are sharing. In circumstances where a customer is able to switch products between competitors', rivalry is bound to be high. These competitive forces change with the environment and advances in technology.

Threat of new entrants in a market is another key factor. Markets that require high initial investments and expertise are much harder for new entrants. The same applies for markets that require acquisition of patents. New rivals also find it hard to break into and challenge existing competitors when brand loyalty is high.

A competitive environment is affected by threat of substitution and the ability to achieve profit by influencing consumers' choice between substitute products. These factor constraints competitors against raising their prices. When the power of distribution rests with the suppliers, it becomes a major contributor to decide cost of products and their availability.

Increased pressure on market demand, quality or prices is highly attributed to contribute to the extent to which customers have a strong position in terms of bargaining .The total population of customers in a market and their significance in terms of income earned is highly affected by the extent to which customers can influence the market .Customers have high ability to bargain in markets that find it easy to transfer among more than one type of products at no costs. High bargaining power is highly attributed to by the amount of knowledge a customer has. Porter's five forces facilitate quick assessment of the environment by managers which is a requirement in the formulation of a firm's strategy.

2.3 Determinants of firm performance

Performance explains the success achieved in running a business in addition to achieving business objectives. In the past, companies used annual sales and firm size as a measure of performance. Traditionally firms used various performance measures like annual sales together with firm size. To be inclusive totally, other current dimensions like use of inputs, quality, new product introduction, and quality of work life are considered as performance criteria, and the idea of what is termed as very successful and effective performance has been widened. In evaluation, all aspects like ways in which employees leading performance in the market and product, and public responsibility should all be included.

In so doing, there is that aspect of comparison of anticipated results to the results actually achieved. Here, not only the long-term objectives are used but also annual objectives. Methods used in evaluation of strategies need to be measurable and easily verifiable. Various criteria used in prediction of what has already happened is less important compared to on those used in prediction of results. Good forecasting is predetermined by correct forecasting. Inability to implement satisfactory progress in meeting objectives of a firm needs a corrective action. An unsatisfactory progress towards attainment of goals of a firm is highly contributed to by various factors like: unreasonable policies, among others. Challenges are highly caused by ineffectiveness or inefficiency. In firms, a decline in performance is caused by human factors.

New dimensions like utilization of inputs, quality, innovation were developed in the 2000s .Due to these innovations, there has been improving performance because quality of life has been added (Koçoğlu, 2010). The major contributors to sustainable good performance could therefore be summarized as creation of knowledge in firms, controlling of knowledge in competitive environment, controlling environmental uncertainty, generating organizational awareness, creation of knowledge by firms and managing the supply chain.

2.3.1 Strategies of a firm

A strategyis defined as ways inwhich goals of a firm are met. Strategies in the business world include: geographic expansion, diversification, acquisition, among others. Strategies can also be defined as the various courses of actions that require top management decisions together with substantial resources from an organization.

In addition to that, it has effect on an organization’s long term goals.Strategiespossess multifunctional or multidivisional effects whichneed first priority of not only the external factors of an organization but also on the internal ones too. In efforts to cope up and counter competition, responses are used as strategies by firms in such situations Irelant et al (2009) . Environmental changes strategic and tactical responses are the broad two categories of responses in strategic management (Dess, Lumpkin & Eisner, 2008; Ireland, Hokinson & Hitt, 2009). A move based on the market representing a high levels of commitment to specific and distinctive organization resources is what is defined as a strategic response (Dess, et al, 2008). There is need for firms to ensure that strategies adopted by firms are in line with the responses and the environment (Ansoff& McDonnell, 1990) .Fine tuning of strategies is done by tactical responses which are easy to adopt in the firm (Juma, 2007). Cutting prices, improving gaps in service are various forms of tactical responses which usually have immediate impact on the activities of the firms (Juma, 2007).

According to Porter (1980) low cost leadership are decisions by firms to provide goods or services as per customer needs. Ansoff (1990) asserted that responding to the environmental issues can be achieved to a great extent by formulation of matrixes by the organizations.

Restructuring is the coming up with a new firm’s structure with an aim of focusing and empowering activities which are very critical to the organization’s strategy to operate very effectively Pearce and Robinson (2008). Sadler (2004), asserted that situations when two or more companies reach an agreement to share knowledge or resources to their mutual benefit is what is termed as collaboration .It is usually in the form of strategic alliances, mergers, among others (Juma, 2007).

2.3.2 External Environment of a Firm

According to generic management together with public management literatures, organizational performance is influenced by the external environment (Boyne & Meier, 2009). According to Boyne's (2003) "sources of public service improvement" PESTEL analysis then becomes important and a requirement to all businesses that wants to survive the environmental changes (Pearce & Robinson, 2008).

Economic environment is defined as an organization's nature and direction of the economy (Chua &Tsiaplias, 2011; Pearce & Robinson, 2009). Ireland et al (2013) states that firms mostly desire operate in stable economies which have high abilities to grow. There is need for firms to put in consideration economic trends which might affect them based on the changing consumption patterns in the industry (Ireland, et al, 2013; Pearce & Robinson, 2009). Credit availability, disposable income level, propensity of the people to spend levels, rates of inflation, and patterns of growth in the gross national product are the various factors that need to be put in consideration by management only at national level but also at the domestic level.

Societal factors which has influence on the organization's activities includes beliefs, perceptions, views person's lifestyles .in the firm's external environment (Ireland, et al, 2013; Pearce & Robinson, 2009). In regard to the technological factors, a firm needs to have information on the changes in technology which could influence its markets (Pearce & Robinson, 2008; Euchner, 2011; Sinha & Noble, 2008). Ireland et al (2013) says that the benefits of having information at all times supported by various results of researches done by earliest users of technology mostly attain wider markets leading to greater profitability.

2.4 Empirical Literature Review

Kariuki, Awino and Ogutu (2011) asserts that corporate strategy is directly affected by environments internal to the firm. To sum up this notion, Mason (2007); Babatunde and Adebisi (2012) found out that a number of firms possess a better conditions in their internal environment than others. Besides, these findings further reveal that many of those firms adopt new strategies when their internal environments improve.

The Heckscher-Ohlin model brings out the fact that there exists a direct relationship between corporate strategies and environmental factors internal to a country (Bernhofen& Brown, 2011). For example, firms in a country which have a higher number of workforces tend to be advantaged in things to do with corporate strategy in relation to those firms in a country with a lower number of workforces less abundant work force (Forman &Lancioni, 2002). Internal issues of a firm have a substantial contribution to influencing a corporate strategy chosen.

According to (Grant et al, 1988) asserted that effect of corporate strategy in firm performance usually is evidenced in accounting profit than in stock price. This ensures that investors' expectation about future profits are well communicated to. Krager and Parnell (1996) in his study concluded that indicators of firm performance are both financial superiority elements and organizational ability to adapt to changes that are occurring in its environment

2.5 Summary of the Literature Review

Formulation and implementation of strategies is what strategic management entails. To be able to remain competitive in the ever changing environment, firms need to choose the right strategies. According to reviews of various previous studies done by many researchers, one or two factors influencing strategic choice only one or two factors have been studied. There exists a gap in knowledge on the linkage of various factors, strategies and business environment on firm performance. Return on investment is the only measure of Performance that has been used in previous studies, however there is need to adopt use of qualitative performance measures to determine variations under the different strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents aspects of research methodology to makeinto use in the proposed study. Specifically, it comprises philosophies and design, methods of collecting data, and data analysis of the research findings.

3.2 Research Design

Various ways of determining the general research approach or strategy adopted of the particular project is what is termed as research design according to Cooper and Schindler (2008). The researcher adopted a descriptive research design for the case study which based on the study objectives.(Shajahan, 2008).

The design was preferred because it involves answering questions such as whom, how, what, which, when and how much of the phenomena being studied: the effect of strategy and business environment on firm performance (Cooper & Schindler, 2008). Variables that exist in a given situation are well described and the relationship that exists between these variables in order to provide a picture of a particular phenomenon are well explained by use of descriptive stastics Cooper and Schindler (2008).The chosen design is also deemed appropriate for this study because levels of accuracy of the research are improved by generalizing findings as it involves detailed study of a unit.

3.3 Data Specification

The data used for this study was the strategies employed by Kenya Commercial Bank of Kenya since its inception.

3.4 Data Collection

The data was collected from primary sources. Collection of data that is unique to the specific research and that has never been used by others before is what is termed as Cooper and Schindler (2008). The researcher in this case used a structured interview guide.

3.5 Data Analysis

The researcher used content analysis as a data analysis method. This is a technique for systematically describing written, spoken or visual communication to make valid inferences. It provides qualitative data.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study based on research objectives and research methodology. The objective of the study was to investigate the influence of competitive strategies on the performance of Equity bank limited. Besides, chapter four illustrates data collection and response, data discussion and the conclusion of the chapter. The results were presented on competitive strategies and performance of Kenya Commercial Bank. The data was collected using a structured interview guide and response was captured for more detailed content analysis. Results of this study were presented inform of paragraphs and sentences, and discussion done appropriately.

4.2 Data Collection and Response

The study employed a case study research design to bring a clear and in depth understanding of the objectives. Personal interview and probing were used to get full and accurate facts while administering interview guide amongst six KCBmanagers from different departments. The study managed to achieve 80% valid response rate which was significant enough to provide valid and reliable conclusion to demonstrate competitive strategies and performance of KCB. The commendable response rate was due to the personal initiative done on face to face with Equity bank personnel. Majority of the heads are bachelor degree holders with more than five years of experience in the banking industry. The valid academic background and long years of experience in the banking sector was an asset to the bank in terms of creativity, quality customer service, proper management, inventions and innovation. The knowledge and experience was beneficial tothe study asthe relationship between competitive strategies and firm performance was established by the researcher.

4.3 Data Analysis

The responses achieved were organized and classified according to the pattern given by the respondents and their homogeneity. Content analysis was used in data analysis to describe and reflect the situation as it occurred at KCB.

KCB used a number of different competitive strategies in offering their banking services in order to effectively and efficiently outcompete their rivals in banking sector in Kenya which led to high firm performance and sustainable competitive edge. Some of competitive strategies include cost leadership strategy, differentiation strategy, focus strategy, diversification, globalization, mergers and acquisition, strategic alliances, market development and product penetration strategy which aided the bank to gain competitive advantage like quality products and services , increase market share, survival, profitability and growth.

KCB segments its market target on the niche which has low earning individuals in rural and urban areas. Many banks in the country have opened so many other banks across borders due to drastic changes in the business .This has resulted in the increase of competition the banking sector globally. Stiff competition has been experienced by Commercial banks in Kenya within the banking sector resulted to the design of competitive strategies to guarantee their performance. Superior performance and sustainable competitive advantage has been achieved due to adoption of successful strategies (Porter, 2004

In Globalization strategy the bank had gone global by establishing various subsidiaries across borders like in Kenya, Uganda, Tanzania, Rwanda, South Sudan, and Democratic Republic of Congo. Mergers and acquisition, the bank has acquired many microfinance institutions and merged with other established firms. Strategic alliance strategy where bank has had different alliance with other firms like partnership between Safaricom and KCB developing a bank based model for borrowing loans.

KCB satisfied their customers better than their rivals to gain sustainable competitive advantage which was done by adding value to their services to meet and exceed customers' needs. Some of the essential elements used to add value to banks products and services includes: commitment to quality, speedy reaction to competitors opportunities and threats, benchmarking of rivals, understanding customers' needs, their taste and preferences, attending to customers' complaints among others.

The choice of competitive strategies used by the bank was determined by environmental factors, which included both internal and external factors. Environmental scanning was initially done to determine the factors, internal factors was done with aid of SWOT analysis which concluded with strength and weakness of the bank. External factors were determined using PESTEL and SWOT analysis. PESTEL analysis gave the bank political, economic, social-cultural, technological, ecological and legal factors that affect firm performance. SWOT analysis externally gave the bank opportunities and threats affecting its performance.

After environmental scanning was done environmental factors were discovered which would affect firm performance both positively or negatively, KCB developed competitive strategies that would favour and lead to the bank achieving it goals and objectives. It was noted that KCB does environmental scanning often like quarterly a year, which was due to vulnerability of firm performance to its environment,which helps invent and innovate competitive strategies for survival, growth and gain sustainable competitive edge.

The findings shown that KCB had a number of strengths that make it survive, grow and outshine it competitors in banking service which included strong capital base, thus better financial position to run the bank, high quality services which helped to woo customers in their services.

Low cost leadership, compared with other banks KCB offered lowest interest loans, no minimum balance, low withdrawal charges. KCB had gone global by extending its branches across the region by opening up branches in Tanzania, Uganda, Southern Sudan, Rwanda and Democratic Republic of Congo, which helped increase its market share, growth and profitability. The bank had widespread branches and agents in country both in rural and urban areas. Results shown that KCB had highly invested in creativity and innovation. The bank took advantage of the various technology solutions in order to enable customer to transact at their convenience. It was among the first bank to use agency banking model.

The findings shown that there were many opportunities that favoured the bank in competing in banking sector which includes increase in market size, which earned high market share as compared to its rivals. Favourable government policies helped bank to operate it business comfortably creating competitive edge over it rivals. Improvement in the economy placed the business at a better chance to growth due to high flow of finance among business sector and individual sector. The study shows that the bank's business strategy was well utilized to gain sustainable competitive advantage.

Strategic implementation was more challenging and delicate task than strategic formulation. Strategic implementation was a more sensitive and risky task in resource allocation to match firm goals and objective. Strategic formulation and evaluation only involves corporate strategic management, whereas strategic implementation involves entire organization. KCB limited had faced various challenges in implementing competitive strategies to improve its firm performance. The challenges were both internal and external, directly or indirectly affecting the firm.

Some of the challenges the bank faced includes the following:

Stiff competition, customers' demand for goods and services were ever changing and increasing which led to increase in number of banks and their branches competing for same customers. Stiff competition in the banking industry led to banks formulating and adopting competitive strategies to cope with the pressure, which led to more investment in R&D, inventions and innovations that cost huge amount of finance.

Unskilled labour, most of labourthe found in rural areas where KCB targets to reach low earning individuals was computer illiterate and low level of education. This made the bank to train and develop the employees which was quite expensive.

Employee flight, it was critical to retain and develop most talented employee at KCB since employees were poached by competitors who offer better payments and allowances. This posed challenge to the bank since was forced to recruit new individuals and do training and development. At times the the bank increased the employee salaries to match the standard gauge in the market.

Unfavourable government policies. Government changed its policies which most of times they were unfavourable to business operations like hike in taxes, and the recent cap on interest rates. The bank had no control over government policies and it had to adjust and suit to policies demands in order for their survival.

Political interferences. Politicians and other key stake holders in government interfered with implementation of certain strategies by imposing regulations against such strategies.

Dynamic customers taste and preferences. Customers' needs and wants were constantly changing due to change in environment, financial status, technological development, living standards and other determinants. The bank had to provide customers services which suit their demands and at the same time gave them sustainable competitive advantage.

Change in technology. The technological advancement was dynamic and every organization had to adjust for it survival and growth. For instance people no longer carry bulky cash in their pockets but rather transact using technological service offered by banks. Technological advancements brought inventions and innovations, though it was expensive to maintain.

Rigidity in organization. Some organization members resisted change in operations. Competitive strategy implementation involves change in organization operation to differentiate itself from competitors. Rigidity in the organization became a challenge when internally members are against implementation of certain competitive strategies. A case in point was the old, experienced with moderate education wanted to retain their positions while young, creative, innovative and high educated with low or no experience wanted to take up the positions.

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4.4 Data Discussion

The findings of the study shown that competitive strategies and firm performance have a great correlation in KCB's operations. Well formulated competitive strategies after carrying out environmental scanning, optimally implemented and extensively evaluated yield high firm performance.

The study was able to answer all questions in the interview guide thus attaining objectives of study, since respondents were basically the bank's departmental heads. The personal interview conducted among the bank managers was of great assistance due to their long experience in banking sector and appropriate academic background. KCB managers were from corporate strategic level responsible for decision making and strategic planning hence information got which constituted the findings was from areliable source.

The major source of competition in banking industry was the external environment. There had been a high growth in the number of banks in Kenya, some were existing banks expanding their branches, and few were emerging financial institutions like microfinance, whilea big number were foreign banks.

The long queues at the bank for services was now a thing of the past due to the dynamism in technology whereby customers can access financial services through mobile banking.

The study found out that competitive strategies accompanied by modern technology, creativity and innovation had great effects on bank's performance. A case in point was Porter's (1980) generic competitive strategies which were being applied by KCB. The bank being one of the lowest cost providers in operations had attracted the largest number of customers.

Benefits of strategy were not duplicated by the bank's competitors due to existence of sustainable competitive advantage which was the key focal point (Barney, 1991). Sustainable superior performance was attained due to Sustainable competitive advantage Porter (1980) argued generic strategies can be adopted by firms in order to faccilitate superior performance could be achieved.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter introduces summary of findings, recommendations and further study. The summary of findings was made basing research response in accordance with research objectives. Recommendation was highlighted to address the value of the study.

5.2 Summary of findings

The objective of the study was to investigate the influence of competitive strategies on the performance of Kenya Commercial Bank. The data collected was analyzed and results were presented in form of paragraphs and sentences and discussed appropriately to ensure information gathered was clearly understood.

Stiff competition had compelled KCB to formulate and implement competitive strategies which hada great impact on firm performance. KCB had survived comfortably in market, had high growth rate and sustainable competitive advantage over it rivals. KCB had diversified it branches within and across borders, currently 175 branches in Kenya, 14 branches in Uganda, 20 branches in South Sudan, 11 branches in Rwanda, 2 branches in Burundi and 11 branches in Tanzania. The many branches indicate increase in market size and market share. Different competitive strategies had been formulated and applied in the course of the bank's operations which include cost leadership, differentiation, focus strategy, diversification, globalization, mergers and acquisition, strategic alliance, market development, and many others, which had demonstrated great impact on firm performance.

The study revealed that KCB had extensive branch networks which enabled it to capture more customers than those with fewer branches. According to the respondents, technological advancement in the bank led to introducing more than 450 ATMs as part of branchless development strategy measure.

The study shows that KCB had strong competitive strategies which were clear to various departments' heads and the entire organization. The essence of competitive strategies was survival, growth and to have sustainable competitive edge, which had been demonstrated by high firm performance, great achievements, widespread branches and large market share. KCB in its operations to gain high performance had various creative and innovative products and services offered to their customers both at local and international level. The bank's products included accounts, loans, digital banking and card services.

The bank's accounts' include:-

Personal Current account which has no minimum operating balance but has Ksh5, 000 account opening balance and access to cheque book and internet banking. It has Ksh300 monthly maintenance fee and ksh300 ledger fees for account balances less than Ksh50, 000. The account has salary advances and personal loans of up to Ksh3M.

Mapato Account which comes with a free Quick serve ATM Card and no monthly charges for balances over Ksh50, 000. Salary advances for up to 50% of salary. Has a minimum operating balance of Ksh500 and Ksh300 for balances below Ksh50, 000.

Jiinue Account has a low opening and operational balance of Ksh100.Interest earned on balances over Ksh20, 000 and access to bank loan.

Bankika Personal Account is targeted at the youth and has no monthly charges or minimum operating balance. Has no monthly maintenance fee. Quick serve ATM card at Ksh400.

KCB Student Account is suitable for college and university students. Opening and operating balance of Ksh100.Quickserve ATM card at Ksh400 with no monthly maintenance balance. HELB loans can be directly deposited into your account.

KCB Cub Account is targeted at children under the age of 18years. Has an opening balance of Ksh1000 with no monthly maintenance charges. Free bankers cheque for every school term. You can also enjoy discounts at partner outlets e.g Textbook Centre.

BoreshaBiashara Account is targeted at small scale traders looking to finance their business. Interest earned at balances more than Ksh20, 000.

Bankika Business Account is targeted at young upcoming business people seeking a low cost maintenance account for daily operations. Minimum balance Ksh100 with interest earned on account balances over Ksh20, 000.

KCB loans included, Masomo loan which is a personal loan given to an individual to fund higher education. The loan limit amount is Ksh300, 000 payable in two years.

Secured Loans are individual loans with a repayment period of up to 5 years. A form of security has to be deposited with the bank e.g. title deeds, log books or share certificates.

Unsecured Check off Loans is for salaried individuals working in institutions that have a check off agreement with KCB. Loans range from Ksh10, 000 to Ksh4M.

Secured loans are non-secured loans for salaried individuals or self-employed with regular steady income. Loans range from Ksh20, 000 to Ksh3M with repayment periods of up to 48 months.

Salary Advance is open to salaried individuals with KCB accounts. An individual can get up to 1.5 times their salary with no security required.

Home Loan is a mortgage that allows one to construct their own house or purchase a plot with a repayment period of up to 25years for construction and 5 years for plots. Repaying ability can be calculated using spouse or sibling income. This facility has retrenchment and social covers peril.

Commercial Loan is targeted at individual or companies who want to finance construction for income generating houses, financingup to 80% of the property value with a repayment period of up to 20 years.

Investment Group Loans are suitable for investment groups looking for straight purchase or construction of property, with up to 80% financing of the property with a repayment period of up to 10 years.

The relationship between competitive strategies and performance of KCB had been clearly evaluated in the study. Where, competitive strategies directly affect firm's performance in its survival, growth and sustainable competitive edge over rivals. Competitive strategies show impacts on KCB performance rated against competitors both in country and across borders it had done in cost reduction, high growth rate, increased market share via increase in market size as result of branch and regional expansion among banks achievement. Jouirou and Kalika (2004) subjective way including cost reduction, customer satisfaction, improvement production and the ability to innovate was how performance was measured .Wu (2001) adopted use of efficiency, sale performance, among other development to measure of firm's performance.

KCB had built its niche market greatly throughout the country and across borders, some of it niche markets includes microfinance, insurance, business investments, and local community. The bank had heavily invested in R&D, training and development of employees, technological advancement, improvement quality management, branch and regional expansion, diversification among others which had earned them high profitability, growth and increased market share.

Through the KCB Foundation, the bank has committed Sh50 billion over the next five years which will be used to roll out new programs such as 2jiajiri, an initiative that is aimed at bridging the unemployment gap by providing the youth with entrepreneurship opportunities.
Besides 2jiajiri, the lender also has the Mifugoni Mali initiative which is a livestock value chain improvement program in the arid and semi-arid counties in Kenya.

5.3 Recommendation

The study recommended that KCB needs to invest heavily in R&D to improve current strategies and develop new competitive strategies to outcompete rivals. The study also recommended the bank also to invest in technology which was constantly changing, which helps in attracting and retaining customers while improving quality of service, a case in point, system where customer can be informed on any changes that has affected their accounts in bank like any deposits or withdraws and they can have choice to allow or reject such transactions directly on their phone. The study recommends that Kenya commercial bank should invest in price strategy which would avoid over or under pricing, where bank will have minimum charges and maximum charges in terms of interests in different volumes of loan acquired, and minimum and maximum withdrawal charges over account and at ATM.

The study also recommended that the government should improve the policies to suit business operations like financial policies on tax, tariffs which help business to take advantage of available opportunities and turn them in to competitive edge. Banks strength could include high differentiated products and services, economies of scale, high investment in R&D which could extensively utilize available resources, opportunities and curb threats like of stiff competition. KCB should invest more in corporate social responsibility to attract and retain customers.

The researcher recommended the bank to consider contribution of environmental factors in firm performance. Environmental factors comprises of both internal and external factors which affects organizational operations. Internal factors are based on firm's capability, strengths and weakness which are within control of the firm whereas external factors are forces above control of the firm which includes political, economic, socio-cultural, technology, ecology and legal factors. The firm in order to comfortably compete in the industry and attain a better position in the market must adapt to changes in external environment. Firms should adapt to external environmental factors by using their strengths which involve strategic abilities to exploit their opportunities, curb threats and transform their weaknesses into strengths.

Environmental scanning should be done for the firm to successfully adapt to environmental factors which involves application of strategic tools like SWOT analysis, balanced scorecard, five Porter's forces, strategic planning, PESTEL among others.

The researcher recommended involvement of the entire organization in the implementation process of competitive strategies. This avoids resistance among implementation of certain competitive strategies. The researcher also recommended use of brands, trademark, and patent rights to avoid their competitive strategies being copied by competitors. By being distinct from competitor, KCB would give customers career exposure and chance to realize their maximum potential which would be accomplished through meeting and exceeding customers' needs.

5.4 Limitations of the study

The researcher experienced a considerable non response rate due to the fact that the respondents were reluctant to give too much information regarding their competitive strategies. This could be attributed to the stiff competition in the banking industry and poaching of staff, a risk that they were not willing to take.

5.5 Suggestions for further research

The researcher recommended further research on factors affecting shift of customers from one bank to another and how to curb it.

There was scope of future research to examine the effects of environmental factors to firm performance. Environmental factors should be analyzed both internal and external factors and their impacts to firm performance. Further research is also recommended on contribution of Porter's value chain analysis to firm performance.

The conceptual model of value chain analysis being the independent variable while firm performance being dependent variable.

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