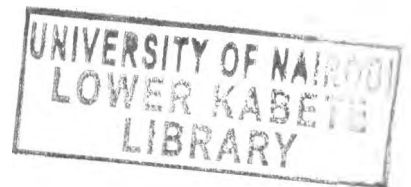


**STRATEGIC RESPONSES ADOPTED BY KENYA
COMMERCIAL BANK TO COPE WITH THE
COMPETITION IN THE BANKING INDUSTRY**

BY

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**A RESEARCH PROJECT STUDY SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI**

AUGUST, 2011

Declaration

This is my original work and has not been presented for examination in any other University.

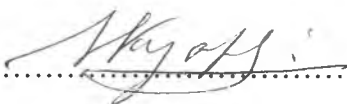
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This project has been submitted for examination with my approval as University Supervisor

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Acknowledgment

I am indebted to thank my good God for having brought me this far. His grace has instilled me throughout the MBA project and has also cultivated in me profound hope and faith that my prayers will be answered at last.

I acknowledge my family for being with me all the way. Your support and encouragement has seen me this far. I acknowledge my supervisor Dr. John Yabs who guided me throughout the research period together with my moderator Mr. E. O. Mududa who guided me throughout the research period. The University at large for the facilities at large.

Dedication

This project is dedicated to my parents Mr. and Mrs. Wambugu for their encouragement and support throughout my studies. My family and friends in general for the encouragement and support they have given me throughout this period.

Abstract

This study sought to establish the strategic responses adopted by Kenya Commercial bank to cope with the competition in the banking industry having seen different banks emerge literally opposite each other in major towns with the need to capture a large market share having seen retail banking more lucrative over the years.

The study was a case study of Kenya Commercial bank being one of the key players in the banking industry over the years and having emerged as one of the best seeing it tow with the business goals of survival, growth and continuity. Response was received from the head of retail banking, head of marketing and public relations department with the help of the operations manager as these departments hold influencing positions that have direct response or ripple effect to what is brought out from the organization to the market and that which still monitor the response from the market.

From the study we realize that Kenya Commercial bank strategies are in full concentration with their resources and thus tend more to use the inside-out approach in which they use their strength and maximize this synergy to attract different individuals to bank with them. We see the bank maximize with relationship marketing aspect which focuses on improving current customers rather than acquiring new ones which is much cheaper.

They are also dependant on their public image and enhance their branding image which depicts how aggressive and tiger competitors they are as they compete throughout the

year and maximize on market intelligence and aggressively use advertising as their key element of competition.

Finally the study shows the different types of competitors that emerge from industry competition and depicts how porter's theory of five force models still plays a major role in shaping competition in industries. This study also gives a glimpse of how the banking industry has emerged in Kenya and how it will distinctively have different studies emerge from the growth of the industry.

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List of Abbreviation

CBK:	Central Bank of Kenya
KCB:	Kenya Commercial Bank
ICT:	Information and Communication Technology

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Banks play a major role in increasing the rate of economic development and it does this by facilitating settlements of transactions, mobilize savings and provide loans for upcoming investors or for borrowers. This is practically seen in the Kenyan banking industry as retail banking provides over 90% of total customer deposits making it the foundation of banking in Kenya.

Thus the banking industry has been attractive and there have been a number of players that have been seen to come up and thus bring about stiff competition and that which has forced banks to look at the banking industry differently.

Thus we have seen increased different moves by different banks to attract different individuals so as to bank with them with the main focus being on retail as corporate customers prefer to invest their money in lucrative investments, therefore their money hardly stays on their bank accounts while retail customers on the other hand are interested in safe keeping of their money on banks accounts. With these a rise in the retail strategies have been seen to increase in the market as each bank uses its own market intelligence to tow with the business goals of growth, innovation, survival and continuity.

This study therefore will establish the importance of strategies as it proves to show that any organization is fully dependent on the strategies in order to cope or fight with the competition. Case in point being Kenya Commercial Bank which is the subject of this study.

1.1.1 Concept of strategy response

Strategy prescribes the direction for an organization over a long period of time and is meant to provide the organization with specific advantages within a changing environment. This is achieved through the organization configuration of its resources and competencies with the aim of achieving stakeholder's expectations. With this general description of strategy we find that different scholars have come up with various definitions inclining to the same concept such as,

Quinn (1980) who describes strategy as a plan that puts together an organization's major goals, processes and action sequences. A well formulated strategy enables an organization marshal and allocates its resources on a unique way on the bases of a relative external competences o and limitations, expected changes on the environment and contingent actions by competitors. It can also be deferred as the establishment of the long term goals and objectives of an organization including the taking of actions and allocation of resources for achieving these goals. Due to scarcity of resources, the strategy that is chosen should be one that optimizes these resources on the pursuit of the organizational goals and objectives (Chandler 1962).

Strategic response can either be outside-in approach also known as market led approach as the firm is looking at where the market is going as a cue to what it should do. Alternatively the firm might use an inside-out approach in which the firm searches for opportunities to exploit its strength, whichever is used will depend on the culture of the firm, the experience of decision makers within it, its goals and whether its environment

tends to be turbulent or stable. To deal with all that affects the ability of a company to grow profitably, strategic management processes are designed to facilitate the optimal positioning of the firm in its competitive environment (Pearce and Robinson 1999).

Reaction to strategy is highly dependent on the degree of turbulence in the environment this can be measured by different measures such as changeability degree to which the environment is likely to change, predictability degree to which such changes can be predicted, complexity degree to which organizations environment is affected by factors such as internationalization and technological, social and political complications. Novelty degree to which the environment presents the organization with new situations, rate of change whether slow or fast and visibility of the future. All these can be analyzed using the pestel or scenario based analysis, a company's strategy can be partly proactive or reactive.

Pestel analyses are analysis focusing on political, economical, social, technology, environment and legal factors that are surrounding the organization at the larger macro environment. A scenario based analysis is a model of a possible future environment for the organization whose strategic implications can then be investigated, taking current situation and extrapolating it forward. These analyses then help an organization to know how to respond to the environment whether aggressively or not.

1.1.2 Typical Strategic responses

Strategic response means reacting to competition that has been advanced to an organization. Organizational vision, mission, objectives and course to achieve the best objectives that can be able to counter or cope with changing environment to ensure survival, growth and continuity. Response to competition in an organization basically starts from within the organization this makes new concepts like business re-engineering come about and that which has made strategic competition to be seen as a positive move which organizations proactively seek to consider.

Existing research indicate that organizations adopt appropriate strategies to cope with changing environment. Hence we find that for every dynamic change in the environment there is usually a strategic response which can be able to counter or tow in line with the change, this can either have a positive or negative effect and that which can have a ripple effect in the future of a company.

This can be seen evidently as organizations are now forced to be aware of the environment around them and to know how they are affecting them positively and negatively. That is why we see different responses from organizations such as rise in market intelligence departments developed to be eye openers and watch dogs of what is happening in the external environment.

Different moves have been evidently seen such as reserves being made for financing the marketing intelligence and other departments such as the product and developments departments together with the public relations and advertising departments who are

responsible to enlighten consumers of the developments of the upcoming products and resources. This response has made organizations restructure departments to merge those that tend to duplicate roles or those that tend to co-exist with each other this then tends to reduce cost and improve synergy and synchronization and harmony in the firm.

Other responses are relaxation of policies in the firms that give room for the clients to look at the organization as a different partner and gives more opinions and suggestions as to how they would like to partner with the firm in the future. We can see generally banks have reduced borrowing rates, mortgage rates that were usually higher. We also find that they have eased on the processes of accessing loans for sme's this has had the effect of increasing clientele thus maximizing the market share which in turn increases profits and ensures sustainability of the banks.

Another major response is the improving of communication with employees that is more from bottom to top as this gives room for more ideologies on the ground as employees are the ones who see eye to eye with the clientele. This can be seen evidently by the reports from the sales agents who come up with the real figures, views of the population who ideally give the real situation on the ground.

1.1.3 Banking industry in Kenya

The most central function of bank from the point of view of society and the economy as the role on the payment system. They supply the accounts through which payment transactions are made. They are specialists at assessing and monitoring credit risk due to their long term relationships with customers. Banks also contribute to the supply of liquidity on the economy as deposit can be converted very quickly into cash or used for payments. The economy as a whole cannot afford easily the costs of disruptions on these services (Market Intelligence 2006).

Government throughout the world, through their respective central bank do regulate their banking sectors on one way or another to ensure flexibility on the financial system. The centrality of commercial banks to confidence on the financial system and their essential role in supporting economic activity led to strong regulatory regime everyone world wide right from the 1930s (Gilbert 1984). in Kenya the CBK or is entrusted with the supervision of commercial bank in order to ensure sufficient and sound financial system, on the interest of depositors and the economy as a whole. It also provides commercial banks with clearing facilities in order to promote the smooth operation of payments, clearing and settlement systems (CBK 2006).

The Kenyan banking industry was made up of 41 commercial banks as at December 2006. The total industry assesses and customer's deposits were kshs. 755 million and 597 billion respectively. The total industry profitability was 27 billion for the year ended December 2006. Four banks accounted for 47% of the total industry's assets and

customer deposits. They also accounted for 555 of the total industry profitability. These banks were Barclays bank of Kenya, commercial Bank, standard chartered bank and co-operative bank of Kenya (CBK 2006).

The part the CBK controlled the lending rates of commercial banks, with the liberalization of the economy the banking sectors was also liberalized. The liberalization of the banking sector of Kenya in 1993 meant that commercial bank had a free hand to price their products which led to increase in lending rates.

The average lending rate of commercial banks on December 1991 was 17.87% on December 1993 it was 31.64% (CBK 2006). These high lending rates after the liberalization of the industry in 1993 meant that a number of organizations are unable to serve their debt, which led to a high non performing loans portfolio on the banking industry.

This scenario led commercial banks to place that excess funds in government paper namely treasury bills and more recently treasury bonds at the expense of lending the private sector. This government paper provided banks with low risk and high return rate for the last decade and constituted a major component of banks profits. Standard chartered investment on government paper accounted for 63% of their banks advances compared to customer loans which accounted for 37% on the year 2002).

The conservation of 20 non-banking financial institutions into commercial banks brought the total number of banks on Kenya to 42 on 1995. This meant that there was increased competition on the industry.

However, the Treasury bill return rate has been on a steady decline over the years. The return on the 91 day Treasury bill on December 1993 was 43.52% compared to 6.22% on December 2006 (CBK). This meant the return on the Treasury bill was dropping and commercial banks were funding not less attractive. This posed a dilemma for the commercial banks, on the one hand they were faced with the threat of declining earnings of government paper which constituted a large part of their reverse and on the other hand the risk avoidance attitude generally adopted by the banks towards private sector lending still existed.

1.1.4 Kenya Commercial Bank

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda.

The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank.

In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance.

In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. Since then, the subsidiary has 11 branches. In pursuit of its Vision: To be the preferred financial solutions provider in Africa with a global reach by 2013, in May 2006 KCB extended its operations to Southern Sudan to provide conventional banking services. The subsidiary has 11 branches.

The latest addition into the KCB Family came in November, 2007 with the opening of KCB Bank Uganda Limited which has 13 branches. In December 2008 KCB Rwanda began operations with one branch at Kigali. There are currently 9 branches spread out in the country. The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank.

In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1% after raising additional capital for kshs 5.5billion.

The bank conducted the third Rights Issue exercise in 2010, in which the Government further reduced its shareholding to 17.74% after raising additional capital of Kshs 12.5billion. In 2010 S&L was merged with KCB providing access to mortgage finance through the bank's wide branch network. Thus we find that KCB has thus seen the need to come up with retail banking as one of its vital surviving concepts in the strive to

compete with other banks in the Kenyan economy .This can be seen with the different products such as:

Personal banking which holds KCB's wide range of Personal products includes savings accounts, current accounts and credit facilities. The KCB Group is also one of the leading international providers of Visa and MasterCard Credit and Prepaid cards with its headquarters in Kenya i.e. The Serena MasterCard, Visa Gold and International Cards, Visa General Purpose Card– prepaid. The biashara Club is designed to provide a range of value adding services to Small and Medium sized business aimed at growing business further.KCB Micro Banking Services is basically tailored to suit the needs of any Micro and Small Entrepreneurs. Thus we find that they have well trained and experienced Micro Finance officers available to attend to the needs of small business entrepreneurs.

1.2 Statement of the problem

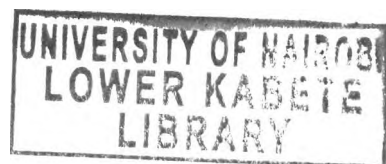
Ansoff strategies success formula emphasizes that there is a linkage between organizations and the external environment. Organizations depend on the external environment for procurements of resources and also depend on the external environment to accept their products or value. Therefore, according to the strategy and internal capability to match the new requirements on the external environment (Ansoff and McDonnell 1990). During the 1990s Kenyan banking industry faced challenges on the external environment. The liberalization of the economy and therefore liberalization of the banking industry in 1993 brought on new challenges. E.g. the liberalization of the lending rate regime meant banks could charge lending rates according to market forces

the lending rate charged therefore raises from 17.8% on December 1991 – 31.64 on December 1993 (CBK of Kenya 2006). These high lending rates meant a number of organizations were unable to service their debt; the challenge for the banks was thus a huge non performing loan portfolio.

The adoption of universal banking policy by the government of Kenya whereby both non banking financial institutions and commercial banks were placed under the same regulation, led to the conversion of 20 non banking financial institutions on to commercial banks. This brought the total number of commercial banks on Kenya to 42 in 1995, which meant increased competition on the industry.

In addition, during the period 2003-2006 the government reduced its previous heavy borrowing from the money market as result of improved economies performance and consequent increased revenue collection. The result was a decline in the interest rates of the 91 day Treasury bill from 43.5% on December 1993 – 6.22% December 2006 (CBK 2006). This meant that one of the commercial banks major sources of income, the Treasury bill was no longer profitable. This coupled with increased competition for corporate customers by the large number of commercial banks; most banks resulted to retail banking for survival.

Thus this paper sought to establish the strategic responses adopted by Kenya Commercial Bank to cope with the competition in the banking industry having seen the evolution of banking to retail thinking with the high vibrancy of the economy to invest and push



money to other avenues of money making options. This has been coupled by other studies done in banking which have since left this gap such as:

Ochago (2004) who looked at the at the strategies responses of commercial banks in Kenya to changes in the environment. He noted that on a fast changing environment, consistent and frequent environmental analysis provides the means of matching or fitting the organization to its environment. Commercial banks of Kenya need to take the process of environmental analysis more seriously of good and relevant strategies are to be formulated.

The value chain and competitive advantage on the corporate banking industry highlights case of Citi bank Kenya noting that competitive advantage in banking might be accomplished by lending service offering by reducing the complexity of service delivery process or by lending service support. Odero (2006)

The application of Porters generic strategies by commercial banks in Kenya concluded that 60% of the commercial bank use Porter's generic strategies. Njoroge (2006). Although research has been done on commercial banks none seem to have focused on a survey of the strategies adopted by commercial banks on Kenya on their retail banking. This has left a study gap, which warrants research.

This study sought to answer the following questions.

Which Strategic responses are adopted by Kenya commercial bank so as to cope with the competition in the banking industry? Having seen retail banking as the kind of banking that directly deals with consumers rather than corporations or other banks.

1.3 Research objective

This research sought to establish the Strategic responses adopted by Kenya commercial bank to cope with the competition in the banking industry and also sought to highlight the competitive nature of KCB looking at the revolution of the banking industry to retail thinking.

1.4 Value of the study

This study seeks to give banks a challenge to embrace the high demand of the population backed by the global village which has similar demands and tastes and preferences of goods and services provided and also to help them be innovative and become consumer centric. With this we can be able to see customers enjoying a wide variety of quality goods and services which in turn ensures survival, growth and expansion of financial institutions because it shows an interdependence system.

Thus from this study we can see an emergence of different beneficiaries from this study. Some of the beneficiaries of them being, the Kenya Commercial Bank itself which will focus to be creative enough in the strategies they uphold to ensure survival as it will help in the continuity of the bank in the near future and that will also help them on how to

cope with the different dynamic changes that are spontaneous and that demand paradigm shifts.

Those who are working in the banks know their vital importance in the economy and thus help them focus on quality services to customers that help in the retaining of customers as it helps increase the market share of the bank and ensure sustainability and eventually has the ripple effect of creating a never ending culture that ensure sustainability of jobs and creating other windows to their career paths as they expand to be consumer centric.

The Government on the other hand will focus on the different policies it seeks to keep, relax or bring on board as it will also foresee whether we need to borrow any funds from the different countries that we usually seek to borrow from which will eventually increase the economic development of the country and improve independence in terms of funds which will eventually trickle to reserves that can help bring a paradigm shift from borrowing to lending to other countries.

The Academia will also gain as they strive to brainstorm scholars to come up with new methods of banking in relation to the competition experienced as they will eventually come through to the market and as they come up with different competitive strategies that can be embraced in different organizations scenario to suit their needs.

This will also help archive information that will show the transformation of banking in Kenya which will be useful in stating the history of banking and marking the loopholes

that have been consistently being reviewed and that which will help solve different problems that can be of the same nature in the near future as the projections of the same can be made to get through other opportunities that can be apparent and viable.

This study will also help the new entrants who will be interested to go the banking way as different consumers emerge with different preferences to manage, diffuse their finances in the hope to become the best organization to offer banking services and products. This can be seen of late with the different banks emerging up literally opposite each other in different towns scattered in the country and also penetrating in estates making banking much easier.

CHAPTER TWO: LITERATURE REVIEW

2.0 Industry competition

An industry is a group of firms who produce products that offer close substitutes to one another and these substitute products are described as products that have high cross elasticity of demand for example price and quantity changes.

Competition is defined as a contest between individuals, groups, animals, companies etc for territory, a niche or a location of resources. It arises whenever two or more parties strive for a goal which cannot be shared.

2.1 Nature of industry competition

Industry competition is faced with certain factors well defined by the definition of an industry, a group of firms who produce products that offer close substitutes to one another and these substitute products are described as products that have high cross elasticity of demand for example price and quantity changes. This brings its competition level to factors that determine the industry attractiveness. Thus some of these factors are segment rivalry, threat of substitute products, and threat of new entrants, increase in buyers and sellers bargaining power, basically known as the five force model. (Porter 1985).

Rivalry, in the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences. When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

Threat of substitutes, in Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. To the manufacturer of automobile tires, tire retreads are a substitute. While the threat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes.

Buyer power, the power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers.

Supplier power, the power of suppliers is the impact that suppliers have on a producing industry. It requires raw materials such as labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

Threat of new entrants and barriers, it is not only rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are barriers to entry but if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-detering pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage.

2.2 Behaviors of different competitors

Thus we find organizations having to critically analyze who they are competing with in order to create survival for themselves and know who to avoid or attack. The selection criteria thus goes further to distinguish competitors as good or bad this is generally going with the rule attack the bad and support the good competitor or close versus distant where you attack the competitors who resemble you to avoid distant competitors thus reducing on cost.

With competition clearly defined we get to see different behaviors emerging from competitor's some of them being, Laid back competitor, these are the competitors who are slow to response, they take their time to react to the competition and thus this helps them to assess the competition loop holes .They usually have a dormant perspective of instant reaction however they get to see the problems of other competitors as they make their moves.(Kotler 13th edition)

Selective competitors, these are the competitors who react to certain moves and not others, these help them know their direct competitors as well as their strengths and weaknesses thus managing their resources to the right channels reducing excessive costs

and expenses. They are glued more to their direct competitors who offer the same products and services and who also concentrate with the same niche of consumers.

Stochastic competitors, these are spontaneous and have no predictable way of reacting they usually react especially where they consider they can gain easily with no much effort. They maximize with their marketing intelligence to offer their spontaneous effect and thus cause a ripple effect in the market. They end up getting profits at different levels of the year as they distribute their risks favorably. (Kotler 13th edition)

Tiger competitors, these are the competitors who are swift, violent in its reaction and send the signal they will fight to the end and never cross terrain. This is usually experienced by firms which are few and operate in the form of cartels. They extensively compete throughout the year and maximize on market intelligence and aggressively use advertising their key element of competition. (Kotler 13th edition)

Thus we find different approaches have thus been used to deal with competition in the banking industry. The firm's relationship with its external environment thus defines the products the firm will develop, where and to whom the products are to be sold and how. The firm will gain advantage over competitors. This set of rules is called the product market or bank strategy. Thus we see a focused/market niche based on differentiation (Ansoff and McDonnell 1990)..

2.3 Strategic responses to industry competition

Competitive strategy is concerned with the basis on which a business unit might achieve competitive advantages in its market. Therefore different strategic responses have been brought about to define industry competition some of them being,

The low price strategy is concerned with the basis on which a business unit might achieve competitive advantage on strategy. Seeks to achieve a lower price than competitors whilst trying to maintain similar perceived product or service benefits to those offered by competitors. Sustaining low price strategy can be achieved through accepting reduced margins, win a price war, reduce costs or focus on specific segments. This is however exercised by firms that have more economies of scale. Clark (2002)

The next opinion is a broad differentiation strategy which seeks to provide products or services that offer benefits different from those of competitors and that are widely valued by buyers. The aim is to achieve competitive advantage by offering better products or services at the same price or enhancing margins by pricing slightly higher. Sustaining a differentiation strategy can be achieved by creating difficulties of imitation or achieve imperfect mobility of resources and competences.

A hybrid strategy seeks simultaneously to achieve differentiation and a price lower than that of competitors. Here the success of the strategy depends on the ability to deliver enhanced benefits to customers together with low prices whilst achieving sufficient margins for reinvestment to maintain and develop the bases of differentiation.

A focused differentiation strategy seeks to provide high perceived product benefits justifying a substantial price premium usually to a selected segment. In many markets those are described as premium products and are usually heavily branded (Johnson, Scholes and Whittington 2005).

The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the potential source of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors (Porter 1985).

When the different markets of the firm are all growing and are not turbulent, the future prospects can be determined through extrapolation of historical trends. But when the growth prospects are mixed and turbulent, before future prospects can be narrated, it becomes necessary to segment the firm's environment into distinctive areas of trends, threats and opportunities which are called strategic business areas. It further becomes necessary to identify units within the firm, which are to be responsible for the strategic development of the respective business areas, which are called strategic business units (Ansoff and McDonnell 1990).

Competitive strategy is the strategy adopted by a company to secure competitive advantage under particular industry conditions. It is common to distinguish generic types of competitive strategy, such as those resting on cost minimization, quality enhancement and product innovation. The assumption is that firms can or must respond to competition

by choosing strategies that enable them to gain an advantage within their chosen product market. It is commonly recommended that human resource strategy should be developed to support competitive strategy, with techniques and policies being selected that will generate employee attitudes and behavior, which are congruent with a particular route to competitive advantage (Dictionary of Human Resource Management 2001).

Resource based view has become a significant approach to strategies management highlighting how a department using unique organizational resources can sustain superior performance (Werenerfelt 1984). Firms can obtain advantages by analyzing and re-assessing information about the assets they already control, of these assets are not controlled by a significant number of competitors. A resource based view of the firm is a key for the strategic thinking on mature industries (Navawo 1988). Resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by the firm that enable the firm to conceive of and implement strategies that improve the efficiency and effectiveness (Barney 1991). The resource based approach proposes that the four empirical indicators of the potential of the firm's resources to generate competitive advantage are value, rareness, immutability and sustainability.

The Geovert manufacturing survey shows that companies basing their competitive strategies on the development of innovative products or processes enjoy higher return on sales, pay better wages and have less fear about outsourcing than do manufacturers relying on other competitive strategy. Innovation whether in products or processes

organizations or one of the main paths. Through which manufacturers can become more distinctive, secure product premiums satisfy customers, expand sales, regard workers and improve their bottom line (Georgia manufacturing survey 2006).

Liberalization of supply chain management strategies have an implicit adjective of gaining an advantage over ones business arena partners, whether they be competition or supply chain partners. Four bases of strategies competition are cost based, resources based, time based and knowledge based upon which a supply chain management derived competitive advantage might be built. An effective supply chain management program influences key success drivers for example expenses, asset utilization and process cycle time, available to it on a manner that maximizes the forms competitive position given its chosen strategy (Ibidan and Kennedy 2001).

Business mangers evaluate and choose strategies that they think will make their business successful. Business becomes successful because they process some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business cost structure and from one or both of these sources usually experience above average profitability within the industry. Business that lack a cost or differentiation advantage usually experience average or below average profitability (Pearce and Robinson 1997)

While Porter (1996) viewed strategy as the process of creating a unique and valuable position with means of a set of activities in a way that creates synergistic pursuit of the objectives of a firm. Mintzberg (1990) suggests that the term strategy is used to mean a plan, a ploy, a pattern, a position or a perspective the 5 Ps. Mintzberg defines strategy in terms of a process. Since strategy has almost inevitably been conceived in terms of what the leaders of an organization plan to do in the future, strategy formation has, not surprisingly, tended to be treated as an analytic process for establishing long-range goals and action plans for an organization, that is, as one of formulation followed by implementation.

Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry which forces are weakest (Pearce & Robinson, 1997). Porter (1980) also noted that strategy is all about competitions and trying to gain competitive advantage. Batemant (1990) suggested that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the External Environment. Jauch (1988) argued that decisions and actions taken will lead to the development of an effective strategy which will help to achieve organizational objectives.

Meeting these challenges requires new business and marketing strategies that boost revenues, improve operational efficiency, cut costs, and enhance the overall management of business.

Today, banks are looking beyond traditional practices to new tactics and tools that analysts and thought leaders have identified as the best for the industry.

We also find that they have segmented their market to suit different groups of clientele. A service organization cannot serve an entire market for a particular service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segment consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes (Kotler, 1999). With this we find that the company comes to question what market they are going to concentrate on leading to market development.

Service Positioning (service blueprinting and physical evidence) will impact the image of the service in the consumers mind (Ziethmal et al, 1996). A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings.

This research will seek to bring out the gap and bring out the importance of retail banking in the economy as opposed to the stringent ideologies of banking thus bringing into light major strategic responses so far embraced by the banks to cope with the demands and preferences of consumers as they seek new ways of dealing with change.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter provides information on the research design, population, data collection and data analysis techniques that were applied on the study. It also seeks to raise the challenges met when collecting data and the costs incurred while doing the research.

3.1 Research design

The research design that was used was a case study, due to the fact that one bank was being focused on. Its aim was to identify the strategic responses adopted by Kenya Commercial bank to cope with the competition in the banking industry. It also sought to define what kind of a competitor Kenya Commercial bank is and how it regards its responses and their effectiveness. This method gave an in-depth and comprehensive inquiry of how they consider competition in the banking industry and what perceptions they hold over time and whether they are positive or negative.

3.2 Data collection

A personal interview guide was used to help collect the necessary information that was able to give insights that helped analyze the strategic responses that have been employed. It was facilitated by booking of appointments and exhaustively questioning the respective respondents in the hope of getting the strategic responses they used and still use and how effective they find them.

The respondents targeted were the head of retail banking, the head of marketing department and public relations department of the bank. These three departments were

notably chosen as they deal with the products and services that are released to the customers and they will be also able to shed more light on the stiff competition of the banking industry and how it is felt and how it drastically changes and to what extent it affects them as a bank well renowned to have survived in the industry for a number of years. Both primary and secondary sources of data were used to obtain information for the study. The primary data was obtained through an interview guide with open ended questions. Secondary data supplemented primary data such as existing reports of audited financial report, updated monthly newsletters and the CBK annual report on commercial bank performances.

3.3 Data analysis

On receiving the feedback the personal interview guide data was analyzed using content analysis and descriptive analysis. A strategic planning gap was also brought into light to focus on the responses they seek to use in the future to ensure survival and growth. It gave insights of how the company's should view competition and adversely distinguished visible competition and the non visible competition of the bank.

It also revealed the category of the industry that is oligopolistic and the type of competition that is cutthroat competition leaving Kenya Commercial Bank a tiger kind of competitor and that supports the responses used by the bank to counter the competition. Therefore it also was able to help bring out conclusions of the general strategic responses used by Kenya Commercial Bank.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 INTRODUCTION

This chapter presents the analysis and findings of the study as set out in the research methodology. The method of data collection was done through an interview guide that was developed in line with the objective of the study. The research objective was to determine the strategic responses adopted by Kenya Commercial Bank to cope with the competition in the banking industry.

Primary data was collected from KCB's top management team which included retail banking manager, the head of marketing department and public relations department of the bank. To achieve the objective of the study the interview guide was broken into two general information and specific information. General information sought to find out the banks general information while specific information sought to find data on strategic responses adopted by Kenya Commercial Bank to cope with the competition in the banking industry.

4.2 Respondents profile

The study sought data on key respondents who were targeted as they hold influencing positions and Departments that are highly affected by the competition in the banking industry. Seeking such information was considered necessary in laying the basis of obtaining pertinent information on the strategic responses adopted by KCB.

4.3 Challenges faced

The respondents felt that though the bank had created a strong niche of its own kind of market that is mainly composed of retail and corporate as well as institutional market it has been experiencing a lot of competition from other commercial banks for the same market .Other banks are also targeting the corporate and institutional markets thus forcing KCB, to aggressively compete to retain its market share and also attract another target market.

The research sought to find out how competition from other non bank financial institution which offers similar services affect the bank, these include the micro finance institutions and the telecommunications industry which also is taking up some services that were previously offered by financial institutions only for instance money transfers through mpesa a service offered by Safaricom.

The data showed that this poses a threat to the banks as the services are readily available and more convenient to the non bank population.

The study sought to find out how advancement in modern information communication technology (ICT) affected banks performance,

The respondents agreed that KCB has had to reevaluate the ICT system every now and then to accommodate the new developments. This implies that technological changes have had impact on KCB's operating environment and the bank had to respond to these changes in order to remain competitive in the dynamic environment.

The respondents were asked whether changing customer preference and increased levels of awareness had influenced business performance. The bank has been faced by a

challenge of meeting its customers changing expectations and at the same time maintaining or meeting its targeted financial objectives.

The study sought to know how the products and services offered by KCB are preferred to other commercial banks offering similar products and services. This implies both existing and potential customers are very particular when choosing a preferred bank. Kenya Commercial Bank has been faced with a huge task of pleasing, retaining and attracting customers with varied preferences and tastes to keep up with competition and the same time meet its stakeholder's expectations of profitability.

4.3 General Information

From the interview conducted the general information brought into light the stiff

Competition in the banking industry and also showed the challenge of developing new products and services thus emanating the general challenge of countering competition.

4.4 Specific Information

The respondents were asked some of the challenges facing KCB and how the challenges have impacted on the bank, the study sought to find out how changes in the regulation framework, competition, rapid development in ICT and an increase in demand for investment options has affected business performance in KCB. Further findings indicated that the increase in number of cooperative societies with front office banking and micro finance institutions that provide alternative sources of funds for loans also pose challenge to KCB.

4.5 Strategic responses adopted by KCB

The study sought to find answers on which responses KCB has been using in a bid to attract customers and maintain loyalty in the highly competitive industry, majority of the respondents felt that the bank had come up with different marketing and management strategies such as taking up competitive advantage through focus, differentiation and cost leadership so as to maintain their market share and remain competitive in the industry.

4.5.1 Research and development

The study found that the strategic responses undertaken by KCB included new product development which involved replacing the existing products with new ones through innovation and product improvement. The data obtained indicated some of the new products that had been launched by KCB included bankika and jiihue account. The respondents agreed that improving products has helped the organization to concentrate on particular segment of the market which is relatively strong thus acquiring new clientele and retaining existing ones as the product introduced are tailored to a wider spectrum of customers.

This study sought to establish the aim of research and development which was found to come up with new and innovative products and services that meet customers' expectations and attract new customers to the bank. In the last 3 years KCB has created a research and development team composed of various personnel from different

departments which fall in a newly created department known as project department whose key role is coordination of various projects to be implemented in the bank.

Through research and development Kenya Commercial Bank has been able to come up with new products (accounts) to replace its traditional savings and current accounts. The bank's management decided that in order to come up with excellent and very best ideas to improve on overall efficiency and effectiveness there was a great need to encourage best brains of its staff to contribute.

4.5.2 Human resource management

The study sought to find out whether there had been changes in the human resource policy, data obtained showed that KCB has been hiring qualified and highly skilled and experienced personnel to ensure that it remains strength in the organization. Further findings indicated how KCB is helping its employees grow by enhancing training and development, talent proposition, promoting health and well being of employees and rewarding excellent performance by giving incentives to employees who met the set targets thus increasing motivation.

According to the respondents KCB has been hiring very qualified and highly skilled people to ensure that its investment in human resource remains one of its biggest strengths. Majority of the respondents were of the view that KCB was the best choice of employer for those who wanted to build a career in banking.

Talent management

4.5.3 Information and communication technology

The study set to establish the changes that ICT development had brought in KCB, the data revealed that the bank had adapted modern information and technology system to increase efficiency and effectiveness in its operations. The findings show that through good ICT the bank has been able to achieve one branch network banking through interconnectivity and decentralization of its core banking system. This has made the banks customers receive excellent and best service at any branch of KCB regardless of where the customer opened his/her account. Further data obtained indicated that in the year 2008 the bank spent a huge sum of money in acquisition of new and modern banking system T24 which is internet based and is more efficient compared to older system of micro banker the bank had used for almost a decade.

Respondents were of the idea that the bank is still in the process of improving its IT systems in various areas with an aim of offering the best service to the customer and at the same time roll out some IT based products and services that will ensure the bank creates a very competitive edge in the industry.

4.5.4 Marketing development strategy

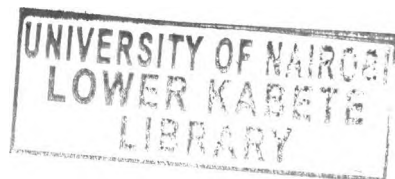
KCB has therefore done so with evident products being produced for different segments such as personal banking, biashara banking, advantage banking, kcb micro banking and KCB cards. With a small scope you will find in brief the above products explained briefly as below:

Personal banking- Whatever your banking needs, KCB has the answer. With over 140 branches in Kenya (and still growing), we take out the hassle of your day to day banking by bringing our financial services closer to you. KCB's wide range of Personal products includes savings accounts, current accounts and credit facilities.

KCB cards-The KCB Group is one of the leading international providers of Visa and MasterCard Credit and Prepaid cards with its headquarters in Kenya. They include The Serena MasterCard, Visa Gold and International Cards, Visa General Purpose Card—prepaid

Biashara banking-KCB has launched Biashara Club, designed to provide a range of value adding services to Small and Medium sized business aimed at growing your business even further. By joining KCB's Biashara club you will take advantage of valuable opportunities that can take your business to a higher level.

Advantage banking- KCB's Advantage banking is coupled with other benefits to make your experience even more worthwhile such as Overdraft buffer , KCB Serena or KCB Gold credit card with pre-scored limit, Preferential interest rates on Asset facilities, Discounted processing fees on mortgage financing product, Flexibility to set up Housing Deposit Bonds with S&L (HDB) ,Access to offshore investments via our international connections, KCB Exclusive banking quick serve card which will identify you as an Advantage member.



4.5.5 Branding

This study sought to establish the role of branding which has also been a key aspect to Kenya commercial bank with the outstanding brand name 'making a difference' which has seen the Kenya Commercial Bank re-engineer their business products and services to bring closer some of these services to their clients. We see that banking has been "brought to the neighborhoods" which back then was never considered thus defending their brand of making a difference. This justifies the whole concept of retail banking which states that it executes transactions directly with consumers, rather than corporations or other banks bringing the banks potential to a higher level. This has seen mobile banking service been enhanced which enables customers to have a much more user friendly offering due to the ease and simplicity. It also brought into light the picture of branding that reflected domination by the tiger kind of competitor by exclusively showing dominance by the lion in the branding picture of KCB thus justifying their aggressiveness.

4.5.6 Relationship marketing

Relationship marketing is philosophy of doing business that focuses on keeping and improving current customers rather than on acquiring new ones which is much cheaper. Service companies must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality, service and innovation (Lovelock et al, 1996). When we look at KCB they just had a phase where they were

offering scholarships to students who perform well but are needy in terms of financial handicaps. This strives to see the current consumer well thought of as most do have families who also have students who can benefit from the scheme leading to loyalties and sustainability of customers. Thus these are some of the strategies that KCB has resulted to focus on and they form part of the responses.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations from findings. The overall purpose of the study was to identify the strategic responses adopted by Kenya Commercial Bank to cope with the competition in the banking industry. From the findings it was observed that KCB has adopted various strategic responses to cope with the competition.

5.2 Summary

The responses included improvement in human resource management, establish research and development department to create and review products and services in order to achieve customer expectation and also attract new customers with an improved marketing system. In process of creating these strategic responses a number of challenges encountered included a lot of financial expenditure like in case of acquisition of new and modern information system.

5.3 Conclusions

The objective of the study was to establish the strategic responses adopted by KCB to cope with competition in the banking industry as well as identify what type of competitor KCB is. The two objectives of the study sought were achieved. It's evident from the

study KCB has experienced various challenges in the banking industry and it has taken varying strategic responses to counter the challenges experienced.

Further the study indicated that there is still need for more strategic actions by KCB to enable the bank to fully match the competition in the industry in which it operates including executing services with speed, simplicity and certainty developing and motivating its employees through training.

5.4 Recommendations

Based on findings it may be recommended that KCB should not only concentrate on targeting new customers but also emphasize on relationship marketing as it's much cheaper to retain customers than acquire new ones so as to gain a competitive edge in the market.

It should also develop extensive distribution channels in order to gain enhance its brand image and ensure survival and growth in retail banking and thus sustainability in the market.

It should also continue improving on ICT sector as customers have resulted to preferring simplicity and speed.

5.5 Limitations of the study

The study focused mainly on the Kenyan banking industry and although the industry may be similar internationally there are specific factors such as industry life cycle and the competitor environment which may not be universally applicable in all countries.

It was limited to Kenya Commercial bank therefore not relating to the strategic response undertaken by all banks in the country.

Respondents were given a few minutes of time due to their very tight time budgets.

5.6 Suggestions for further studies

This was a case study of KCB however this study can be conducted in different industries which are facing similar challenges.

A study can be done on the life cycle of the industry shedding more light on the general challenges faced by the market.

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Appendices
Introduction Letter

Appendix i

To,

Whom it may concern

In order to facilitate more ideologies and to support theories of business as we expound them.

I would like to give you personal interview guide that will contribute to the global business and put through more efficient windows that people can put through to support new changes in the banking industry as we look forward to go to the global world economy standards.

Kindly find it in your interest to be one of the banks that have to contribute to the above needs of the economy.

I as a student representative and the University board wish to thank you in advance as I look forward to meet you in person.

Yours faithfully,

Supervisor,

Beatrice Wambugu.

Dr. John Yabs

Appendix ii

Interview Guide

QUESTIONS

Specific Questions

1. What are the major challenges that you are facing in regard to the current market trends in the banking industry?

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2. What are the strategic responses that you have sought to use to deal with these challenges generally?

.....

3. How has branding and public relations impacted Kenya commercial bank as a whole?

.....

4. What difficulties are you facing with the strategies you have currently launched?

.....

5. With definite competition arising from the banking industry how has it affected your intelligent market inclining to the basic business objectives of survival ,growth, maturity and sustainability in that industry?

.....

6. What type of competitor do you consider yourself to be with the strategies you have put to front?

.....

General Questions

7. What can you advise of new entrants who would like to emerge and join in the main stream of banking?

.....

8. Which economic models do you usually seek to follow and that which you feel have a positive impact in the market?

.....

9. How are you finding the market responding to other competitors strategies?

.....

10. With the growing similar needs of the market do you find it a challenge to develop new products and services?

.....

11. With the new regulations for instance the finance act 2008 which took effect on 1st January 2009 requires banks and mortgage firms to build a minimum core capital of kshs.1 billion by December 2012.This requirement it's hoped will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Do you as a bank feel the challenge and what response are you looking to take to counter the challenge?

.....