

**EFFECTS OF DIRECT SALES STRATEGY AS A STRATEGIC RESPONSE TO
THE PERFORMANCE OF COMMERCIAL BANKS IN A CHANGING
COMPETITIVE ENVIRONMENT IN KENYA**

BY

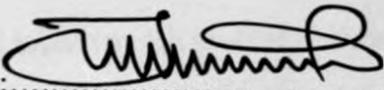
JACKSON M.MUENDO

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DECLARATION

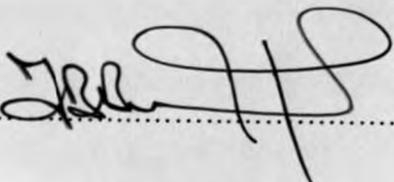
This research project is my original work and has not been submitted for another degree of this or any other University or Institution of learning.

Signed:  Date: 5/11/2011

JACKSON MUTINDA MUENDO

D61/70671/2008

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

Signed:  Date: 5/11/2011

DR. ZACK B. AWINO, PhD

SENIOR LECTURER: DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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DEDICATION

To my dear wife Fridah and our two Daughters Michelle and Kelsey, you inspire me with your energy and give me the courage to achieve my dreams. To my Dad Jonathan and Mum Phyllis, your hard work, determination, hope and prayers are my pillar of strength.

ABSTRACT

The purpose of this study is to examine effects of direct sales strategy as a strategic response to the changing and competitive banking environment in Kenya, hence the findings from this study can be used by other firms and not necessarily banks to enhance their strategic responses in the environment they are operating. The study provide a review on concept of strategy, direct sales strategy, the role of direct sale as a strategic response and general strategic response to competition in relation to contributions of respective authors in the field of business. The study undertook a descriptive research design while the population of this study consisted of all commercial banks operating in Kenya. Primary data was collected by the use of structured questionnaires. It was observed that majority of the banks have 10 – 20 branches country wide indexed by 44.4%, where as those with 20 and above branches indexed 40.7% and finally those with fewer branches at 14.8%. This clearly depicts the competition pressure within this industry. The study measured direct sales strategy as a strategic response on the competitive environment in building trust with customers and where majority of the agreed to all of the indicators i.e. customer loyalty, complaint management, customer complementary and customer referrals as key performance indicators brought about by direct sales strategy. It was concluded that consumers benefit from direct selling because of the convenience and service it provides including personal demonstration and explanation of products, home delivery and getting service at your convenience. Direct selling enhances the retail distribution infrastructure of the bank and serves consumers with a convenient source of quality products. Successful management of firm growth is a major goal of the strategic planning process. Success in growth markets is influenced by

many factors. Generally, these factors evolve around making the right decisions in exploiting market opportunities and avoiding risks inherent in rapid product-market expansion. Growth via direct sales strategy has become imperative for many firms, and the existence of competitive edge management. The study strongly advocates that direct sales management in banks should be broadened in response to changes in business environment. Performance measures in social network type of environment should be re-evaluated based on the social networking ICT infrastructure as key indicators towards reaching customer in direct sales initiatives.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The purpose of this study is to examine effects of direct sales strategy as a strategic response to the changing and competitive banking environment in Kenya. The banking sector registered good performance in 2009 notwithstanding local and global turbulence. Going forward, the sector's growth trajectory is expected to increase in the backdrop of new opportunities in the domestic and regional markets. On the domestic arena, new opportunities are expected to be created by the adoption of agent banking, credit information sharing and mobile phone technology innovations. Institutions are also expected to explore and venture into regional markets as regional integration initiatives intensify (CBK, Bank Supervision Annual Report 2009). Players in the banking industry have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. As competition among the various banks in Kenya increase, the various industry players have resulted into strategies that will enhance their survival and competitiveness. The various banks have adopted the direct sales strategy by employing teams of sales personnel to market their products and services.

1.1.1 Direct Sales Strategy

Strategy in general can be defined as the establishment of the long term goals and objectives of an organization including the taking of actions and allocations of resources for achieving these goals (Chandler, 1962) Strategy not only focuses on the goals and

objectives of organization and the means of achieving them but also gives an indication of the company and its business both in present and in the long run. A direct sales strategy is marketing and selling products, direct to consumers away from a fixed retail location. Sales are typically made through party plan, one to one demonstrations, and other personal contact arrangements. Prior to the industrial revolution, marketing and selling problems were handled on a part-time basis by managers in other departments away from marketing and sales division Still et al (1988). With the industrial revolution, large-scale manufacturing made it increasingly necessary for enterprises to develop new markets.

In order to handle the larger and more complex organizations, separate functional departments were established. However, sales departments were set up only after a company had established manufacturing and financial departments. Distribution channels were developed when manufacturers shifted parts of their marketing function to middlemen, which resulted in manufacturers' sales functions becoming increasingly removed from end customers. Such developments made it more difficult to maintain contact with the final customers and for manufacturing firms to be in control of the conditions under which their products were sold. As marketing grew more complex, one solution was to divide the marketing function (ibid.). New departments were organized for the performance of specialized marketing tasks (Still et al., 1988), and after World War II, a rapid growth in sales forces took place (Sheth & Sharma, 2008). Despite the fragmentation of marketing functions, the sales department still maintained a strategically important role (Still et al., 1988). The sales department is the income-producing function of a company, and companies continued to rely on this department for revenue

generation. Thus, it is the sales department that has the fundamental but critical responsibility for making sales (ibid.). According to Donaldsson (1998), selling reflects the same approach as marketing management, but at the individual customer level. In other words, the salesperson is a marketing manager dealing on an individual customer level (ibid.).

1.1.2 Strategic Response

Much research has been conducted on strategic responses to competitive environment, both conceptual (Porter 1980, 1985) and empirical (Campbell-Hunt, 2000). When facing competition scholars have pointed out that market incumbents need to carefully analyze their new rivals, identify their source of competitive strength, and adapt their strategies accordingly (Kumar, 2006).

Strategic response is the search for a sustainable strategy towards an increasing changing external environment in an industry. Strategic response just like competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. It aims to establish a profitable and sustainable position against the forces that determine industry competition. According to (Porter, 1980), developing a competitive or a strategic response a broad formula encompassing how a business is going to compete, what its goals should be and what policies would be needed to carry out these goals. He looked at competitive strategy as a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.

The drivers of change are for the most part external to the firm. As the global economy entered the new century, changes were taking place on multiple fronts at a very fast pace.

Some of these changes made traditional business models and tools outdated, changing the rules for existing competitors and challenging the assumptions of others, both new and old. In this chapter we review some approaches that can guide us as we wrestle with the challenges of developing strategy in this fast-changing environment.

In the contemporary business world only thing that seems to be constant is change and the nature of the competition is such that companies need to leverage on the way they manage change to gain a competitive advantage. Moreover, the types of changes the companies experience vary in nature as well, for instance, as industries consolidate, there are increasing number of mergers and acquisitions, the pressures on organisation to compete in a more global arena are leading to different competitive pressures and more strategic alliances. Furthermore, rapid technological changes are forcing organisations to embrace new technologies and change the way they work and interface with suppliers and customers (Balogun and Hailey, 2004). However, the phenomenon is not new and has seen a series of management fads like cultural change programmes, total quality management, business process re-engineering. Unfortunately most of the change programs launched within the organisations are below par, evident in the figure of around 70% failure (Balogun and Hailey, 2004). Hence, strategic change is becoming a highly sought after managerial competence.

1.1.3 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: Financial performance (profits, return on assets, return on investment); Product market performance (sales, market share); and Shareholder return (total shareholder return, economic value added). Organizational performance is probably the most widely used dependent variable in organizational research today yet at the same time it remains one of the most vague and loosely defined constructs.

Performance in the banking industry has improved tremendously as banks continue to report very good returns in their annual financial statements. This is as a result of the fact that in the recent past, the economy has enjoyed a favourable macroeconomic environment consistent with low and stable interest rates, strengthening shilling exchange rate and falling inflation. The stability of the sector is attributed to the stable macroeconomic environment and improved supervisory oversight. The general outlook of the sector is positive in view of the adequate capitalization, sound risk management systems, strong asset quality and profitability, (CBK, Bank Supervision Annual Report 2009).

During the period ended 31st December 2009, the Kenyan Banking Sector registered a significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered high capital adequacy and liquidity ratios and a decline in the level of non-performing loans compared to 2008. The overall

performance of the banking sector was rated strong in December 2009; a similar rating was attained in December 2008. The Total net assets grew by 14.3%, customer deposits increased by 16.4% and profit before tax rose by 12.9% compared to performance in 2008. Institutions maintained capital adequacy ratios above the minimum requirements of 12.0%. However, return on equity dropped to 24.9% from 26.1% registered in December 2008 occasioned by an increase in equity at a higher rate than increase in income. The overall performance of the banking sector rated strong in December 2009, a similar rating attained in December 2008, (CBK, Bank Supervision Annual Report 2009).

The Central Bank of Kenya (as the regulatory authority), applies the CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity. In its market share analysis, institutions were classified into the following three peer groups based on asset size: Large with assets above Kshs. 15 billion, medium with assets valued at between Kshs. 5 billion and Kshs. 15 billion and Small with assets valued at less than Kshs. 5 billion. Nineteen (19) financial institutions were classified as large, fourteen (14) institutions were medium and twelve (12) institutions were small. Going forward, the sector's growth trajectory is expected to increase on the backdrop of new opportunities in the domestic and regional markets. On the domestic arena, new opportunities are expected to be created by the adoption of agent banking, credit information sharing and mobile phone technology innovations. Institutions are also expected to explore and venture into regional markets as regional integration initiatives intensify, (CBK, Bank Supervision Annual Report 2009).

The Central Bank of Kenya has made it mandatory for Commercial banks to publish their quarterly financial statements in a newspaper of nationwide circulation. It stipulates a format to be adopted by all the players in the industry. Under the disclosure section of the financial statements, one is able to derive the non-performing loans & advances, insider loans & advances, off-balance sheet items, capital strength as well as the liquidity levels as presented using ratios. The interested parties may also derive from the main accounts the performance levels by checking the levels of growth in assets, deposits and profitability. Noting that eight of the major banks in Kenya have been listed in the Nairobi Stock Exchange (NSE), its shareholders may want to measure their return through use of ratios. A high Price Earnings ratio (P/E) ratio for instance would be an indication of strong investor confidence in a firm's outlook and earnings growth. The dividend yield on the other hand measures the return that shareholders receive from dividends.

1.1.4 Competitive Environment

The external environment faced by the firm and its business units affects the strategy of the firm, the value of the strategy, and thus the firm's performance. The old competitive strategies of invention and mass production no longer work in an increasingly turbulent business environment. Environmental analysis is therefore not a passive exercise, but rather an active and essential input to strategy development, helping the firm and its business units identify attractive opportunities and make decisions on where and how to compete. Managers of firms must assess their firms current competitive position, build a vision for where they must be in future and craft transformation strategy to turn that

future vision into reality. Understanding the key forces at work in the competitive environment and identifying the underlying forces in the macro environment that are driving the competitive forces are critical for the success of the firms operating in that industry.

Competitive environments within which most of the service firms operate today require the service firm to reconfigure their competitive capabilities for the continued delivery of superior services. The literature suggests that competitive environments in general are characterized with rapidly changing structural factors including consumer preference and competitor response changes. In addition, the ease of competitive imitation of service innovations forces service firms to pursue continuous innovation. However, the literature on new service development that has grown in significance over the last decade has primarily focused on the factors leading to success of firms and respective processes. The interface between the competitive environment and the direct selling as a strategic response has received scant attention. In particular, research has not satisfactorily progressed in establishing a meaningful link between the direct sale and strategic response to competitive environment in organizations.

1.1.5 Banking Industry in Kenya

A commercial bank is a financial institution that accepts demand deposits and makes loans and provides other services for the public, provides checking and savings accounts.

The roles of the commercial banks are considered as a back bone to the survival of the economy in the country. They are the main players in the financial system and the most

active sector in the economy. Some objectives of commercial banks such as a commercial bank's are to make a profit by intermediating between depositors (savers) and borrowers (investors). In achieving this goal banks requires a good management team to enable them to segregate between different level of liquidity, maturity, and risk preferences. As such, the commercial banks must be able to evaluate a borrower's creditworthiness and monitor performance if they are to stay in profit.

However, bank could not escape form moral hazard and the risks of contagion effect that sometimes constrain their ability to make profit and banks also exist in a much regulated environment that are controlling the economic activity, interest rates, and risk in order to best manage their depositors' money from the public funds. Besides above, commercial banks have payment role by which they conduct payments on behalf of customers. On the other hand, the central bank manages monetary system in the country by controlling commercial banks and non-banking financial institutions.

Over the recent years, the financial sector plays an important role in the African region where number of banks moved towards higher sustainability and reengineered their business operation to provide more conducive environmental, social and better governance considerations. However, the privately-owned financial institutions still lagged behind for long-term sustainability as a result from globalization because the sector does not have a significant and clear guideline in terms of social or environmental factors. According to Brownbridge and Harvey (1998), most of the countries in sub-Saharan Africa liberalized their financial sectors in the late 1980s or 1990s in order to increase financial efficiency. Among policy reforms that had taken place includes

removal of interest rate controls, removal of requirements on banks to lend to specific sectors, privatization of state-owned banks, easier entry by private sector banks and non-bank financial institutions (NBFIs), as well as the encouragement of foreign ownership in the banking sector. In addition, the region's government had moved towards promoting sound banking system and helps to protect the depositors. Financial reforms were introduced in order to strengthen prudential regulation and supervision of banks by improving banking laws and expanding supervisory capacities.

The banking industry comprised the Central Bank of Kenya, Commercial Banks, Non-Banking Financial Institutions, Forex Bureaus and Deposit-taking Microfinance Institutions as the regulated entities. As at 31st December 2009, the banking sector was composed of 46 institutions, 44 of which were commercial banks and 2 mortgage finance companies. In addition, there was 1 licensed deposit-taking microfinance institution and 130 foreign exchange bureaus. Out of the 46 institutions, 33 were locally owned and 13 were foreign owned. The locally owned financial institutions comprised 3 banks with public shareholding, 28 privately owned commercial banks and 2 mortgage finance companies. The foreign owned financial institutions comprised 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks (CBK Report on Bank Performance, 2009). Established in 1966 through an Act of Parliament, the CBK, acting as the overseer of the other financial institutions has the objective of formulating and implementing the monetary policies directed to achieving & maintaining stability in the general level of prices; fostering liquidity, solvency and proper functioning of a stable market-based financial system; and licensing and supervising authorized dealers in the money market.

Commercial banks have also sort to massively increase their range of services. For instance, most major banks have begun providing mortgage services and investment banking services. In the recently held Safaricom initial public offering (IPO), most banks were involved and were especially keen to offer loans to the investors. Leading the pack was the Equity bank who mobilized applications worth Kshs 37 Billion representing 45% of those allowable for local investors. This led to opening of a lot of new accounts to the benefit of the bank.

Through product-service innovation, banks are attempting to achieve a finer degree of control over financial risks and thus minimizing any impending losses. Most major banks have introduced 'check off' unsecured personal loans, which lend directly to employees of large institutions with loan deductions coming directly from the employer. Some have even introduced a cheaper deposit account with a single tariff.

In order to effectively compete, a number of mergers and acquisitions have taken place especially among the smaller industry players, the most recent acquisition being that of Southern Credit Banking Corporation by Equatorial Commercial Bank towards the end of June 2010. Most of these were occasioned by the need to meet the increasing minimum core capital requirements and to enhance the institutions' market share in the local banking environment.

The market share of large banks has been growing and is expected to increase. However, there is an indication that our economy is maintaining a strong and active sector of the smaller community banks meeting the needs of households and small businesses. Possible curtailment of credit to small businesses as the banking industry becomes more

concentrated is of concern but studies indicate that small banks often fill the voids left by their larger counterparts. The commercial banks and some non-banking commercial institutions have come together under the Kenya Bankers' Association (KBA) which serves as a lobby for the banks' interests and also addresses issues affecting its members. The key issues affecting the industry are: changes in the regulatory framework where liberalization exists but the market still continues to be restrictive; declining interest margins due to customer pressure; increased demand for non-traditional players who now offer financial services products.

1.2 Research Problem

In a dynamic environment, industry players must be innovative in their strategies, and ensure proper implementation of the strategies in order to achieve their objectives. Excellently formulated strategies will not succeed if they are not properly implemented. Formulating strategy is difficult. Making strategy work- executing and implementing it throughout the organization is even more difficult (Thompson and Strickland 2006).

Much research has been conducted on strategic responses to competitive environment, both conceptual (Porter 1980, 1985) and empirical (Campbell-Hunt, 2000). When facing competition scholars have pointed out that market incumbents need to carefully analyze their new rivals, identify their source of competitive strength, and adapt their strategies accordingly (Kumar, 2006). Strategic response is the search for a sustainable strategy towards an increasing changing external environment in an industry. Strategic response is concerned with how a company can gain a competitive advantage through a distinctive way of competing. It aims to establish a profitable and sustainable position against the

forces that determine industry competition. According to (Porter, 1980), developing a competitive or a strategic response a broad formula encompassing how a business is going to compete, what its goals should be and what policies would be needed to carry out these goals.

Organizations are operating in very stiff environment and more so when selling products or services which are almost similar as well as targeting the same group of customers. Environmental forces largely influence competition within an industry. Increased sales volumes are the main impetus to establish any business and banks are not an exception. Banks have traditionally operated in a relatively stable environment for decades, however today the industry is facing a dramatically aggressive competition in a new liberalized environment. Those banks not considering the impact of increased competition and protect their competitive position are likely to become victims of industry competition. By knowing the effect of direct sales strategy as a strategic response to the competitive business environment in enhancing bank's profit, the bank's management can concentrate their efforts to optimize their direct sales strategies to increase banks performance.

Effective strategic response is realized based on four pillars the firm's environmental scan competence; formulated strategies; implementation of these strategies; and the effective monitoring and evaluation (Berger, 2005). An important component of a firm's strategy is the relationship with the overall performance of that organization. Continuous strategic response framework in the banking industry is essential especially in the developing countries since they serve as the nerve for overall financial development in terms of economic growth at the macro level (Andersen and Trap, 2003).

The increase in the number of banks has seen an equal increase in the number of banking products and services from the various industry players. The banking products have become so similar in features and similarity which has left the customers torn between the various banks. This in turn has made the banks adopt aggressive differentiation and marketing strategies to be able to out-smart their competitors.

Among the strategies banks pursue towards meeting their broad goals and objectives is the adoption of direct sales strategy. In this strategy, banks employ a large sales force which is charged with the responsibility of selling the various bank products and services. The banks have formed formidable direct sales teams whose supervision is done by the sales managers and are divided as per the various product lines the bank wants to drive in the market.

Locally, various studies have been conducted on strategies adopted by various companies. Mungai (2008), studied choice of strategy in a competitive environment – case of Equity bank where the external environment dictated the strategy development process; Muhindi (2007), studied response strategies to increased competition by insurance companies, where insurance firm performance was on the decline as a result of slow response to customer need; Shikanga (2006), Mukule (2006) looked at retail marketing strategies adopted by commercial banks in Kenya, where retail as a strategic response was able to fuel small banks performance in Kenya-. Mwarey (2008) looked at strategic responses to competition by Barclays Bank of Kenya, the concentration was generalized as in all spheres of operation.; Maina (2006) looked at Key success factors in the banking industry-a case of major commercial banks in Kenya, where ICT and branch

network recorded the highest mean in the study. None of these studies assessed the effects of direct sales strategy as strategic response to the changing and competitive banking environment in Kenya.

The study will seek to answer the following:

- i. What are effects of direct sales strategy as a strategic response to the changing and competitive banking environment in Kenya?
- ii. How has adoption of Direct Sales strategy affected performance of banks in the competitive banking environment in Kenya?

1.3 Research Objective

The objective of this study was to establish the effects of direct sales strategy as a strategic response to the performance of commercial banks in a changing competitive environment in Kenya.

1.4 Value of the Study

To begin with the government and other institutions (like the Central Bank of Kenya) involved in policy formulation will find the findings of this research useful since it will contribute towards the formulation of positive fiscal policies that are relevant to the forces influencing the banking industry's performance in Kenya.

Secondly on the area relating to banks' direct sales as a strategic option especially in Kenya is still suffering from a deficiency of information since there are few studies that have adequately discussed this issue. This study is expected to contribute to the literature

in existence and will go a long way to facilitate further understanding into the area. It can be used by policy makers in commercial banks to evaluate the viability of direct sales as strategy in their institutions.

The findings from this study can be used by other firms and not necessarily banks to enhance their strategic responses in the environment they are operating. The Direct sales strategy have been adopted by many other firms namely insurance companies, FMCG companies, pharmaceutical companies, media houses-all these firms have employed competent sales personnel charged with the responsibility of driving sales volumes and creating product awareness.

Finally, other researchers & banking institutions willing to highlight the role of direct sales as a strategy in the banking industry while describing its relevance in the developing countries will also find this study resourceful.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, previous studies related to the topic are reviewed. The chapter begins with literature on concept of strategy, direct sales strategy, the role of direct sale as a strategic response and general strategic response to competition is also discussed.

2.2 Concept of Strategy

Strategy is about winning (Grant, 1980). While there is no dispute regarding the importance of strategy in business management there does not appear to be any agreement as to what exactly is strategy or how exactly the winning is achieved. There are many approaches to strategy but none are universally accepted (Stacey, 2003). Burnes, (2004) argues that rather than managers being prisoners of mathematical models and rational approaches to strategy development, they have considerable freedom of action and a wide range of options to choose from. He further argues that managers can exert some influence over strategic constrains and at least they can select the approach to strategy that best suits their preferences.

One of the environmental threats to business arises from competition. Increased competition threatens the attractiveness of an industry and reducing its profitability. It exerts pressure on firms to practice and formulate successful strategies that facilitate proactive response to anticipated and actual changes in competitive environment. Organizations respond to competition in different ways where some may opt for product

improvement, diversification, and entry in new markets or aggressive marketing with dedicated teams. Porter (1985) postulates that, the essence of strategy formulation is coping with commotion. Ansoff (1987) noted that the environment is constantly changing and so it makes it imperative for organizations to continuously adapt their activities to succeed. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with emerging environmental challenges.

2.3 Direct Sales Strategy

Direct selling is the sale of a consumer product or service person to person away from a fixed retail location. Depending on the company the sales people may be called representatives, consultants, customer advisor, distributors or other titles. A direct sales strategy means going head to head, feature for feature against your competitors. It's a hard way to sell unless you have clear superiority over your competition (Brown, 2009). These approach allows an organization to focus resources like sales managers and give them rewards based on achievable and measurable goals. It involves large sales team with sales managers to focus them. They are normally paid a retainer for achieving a specific target and commission for sales above target. Direct selling offers an alternative to traditional employment for those who desire flexible income earning opportunity to supplement income (Brown, 2009).

Consumers benefit from direct selling because of the convenience and service it provides including personal demonstration and explanation of products, home delivery and getting service at your convenience. Direct selling enhances the retail distribution infrastructure of the economy and serves consumers with a convenient source of quality products.

Several authors have pointed toward a trend in which team selling is used while the model of the individual salesperson has become obsolete (Moon & Armstrong, 1994). According to Deeter-Schmelz and Ramsey (1995), selling teams are poorly understood; thus, a need exists to develop an understanding of who are in the teams and why these people are involved.

In an attempt to better understand selling teams, Moon and Armstrong (1994) developed a theoretical framework, defining two types of teams: the core selling team and the selling center. The most important distinction between these two groups is that a core selling team is customer focused, with the primary goal of establishing and maintaining strong customer relationships. The selling center, on the other hand, is transaction focused, with a goal of successfully completing each specific sales opportunity that it has been formed to pursue. It is important to note that, in practice, there may be an overlap between the two teams, and no clear-cut boundary exists between the two (Moon & Armstrong, 1994). Most professionals and researchers understand that sales jobs today differ from those of the past (Marshall et al., 1999). The problem is that the true scope and specificity of such differences is not well understood. Selling activities form the root of performance evaluation; thus, the failure to understand selling activities can lead sales managers to make costly mistakes (ibid.).

In a comparison between the work of Deeter-Schmeltz and Ramsey (1995) and Moon and Armstrong (1994), it is evident that Deeter-Schmeltz and Ramsey (1995) are outlining different roles for the core selling team, but not the extended selling team. Moon and Armstrong (1994), on the contrary, discuss different roles for the selling center, but not for the core selling team.

2.4 Role of Direct Sales Strategy as Strategic Response

Direct Sales Builds Partnering-Personal selling plays a key role in the partnering especially in buyer-seller relationships (Weitz and Bradford, 1999). The focus of personal selling shifts from influencing buyer behavior to a management of conflict inherent in the buyer-seller relationships. Conflict management approaches include that of avoidance, accommodation, confrontation, compromise and collaboration. The approaches indicate commitment (high or low) through signaling and have low to high levels of exchanging information. The approaches vary in their levels of assertiveness and cooperation.

Direct Sales fosters external partnerships that cater to the mega-marketing needs of a business. Direct Sales fosters external partnerships through networks (individual relations); collaborations (organizational relations) including alliances. These sets of external relations bring together market elements synergistically. The management of the set of external decisions to the firm customer relationship is called as mega-marketing or market externalities. The deep personal, social contacts fostered under the umbrella of relation building help solves the external decisions to a firm-customer relationship.

The role of a salesperson is more of a value creator than a persuader or problem solver. Attempts are made through specific investments to build competitive advantages for the buyer seller dyad over competing dyads. There is the development of a sales team headed by relationship managers to interface with the buy center. The sales team is more customer-centered than product centered. Relationship Managers are to have knowledge, skills and abilities to perform their jobs. Much of their knowledge comes from on-job learning. Some of the skills used by relationship managers include creative problem solving, innovativeness, cross-functional interaction, and conflict management; build trust, planning and project management and leading teams. Relationship managers are in a way akin to brand managers. Relationship managers in assessing performance give importance to relationship quality. Some of the constructs used for relationship quality include trust, commitment, satisfaction, ethical conduct, customer orientation, minimal opportunism, willingness to invest, expectations of continuity, share of customer and growth in customer value (Weitz and Bradford, 1999).

Direct Sales to Improve Profitability - The return on direct sales (Gummesson, 1999) suggests that good relationships with customers to good quality and good customer satisfaction. Good quality arises as internal relationships / employee relationships are fostered. Good customer satisfaction arises as specific customer needs and wants are understood better and served better. Good quality and customer satisfaction leads to customer retention and consequent improved profitability.

Direct sales play an important role in protecting emotional well being of customer. Deep dissatisfactions are avoided, customers are made to feel important, private information of customers are handled fairly well, long run supply security is provided, customer care is maximized, sudden spikes in demand are managed. Care should be taken to preserve the prestige and well being of the customer. The customer in turn transfers greater responsibility of the supply to the seller. The seller can increase his service and maximize his profitability.

Build Trust with Customer - Relationship marketing is built on the foundation of trust, as research demonstrates (Morgan and Hunt, 1994). Trust is a 'willingness to rely on an exchange partner in whom one has confidence' (Moorman, Deshpande and Zaltman, 1993). Trust ensures that the relational exchange is mutually beneficial, as the good intentions of partners are not in doubt. Customers buying black box services (automobile repair), are specially benefited by the existence and development of trust (Berry, 1995). Much of relationship marketing progresses on the trust the customer places with the firm.

Direct sales helps the company to understand consumer psyche and shifts in psyche, owing to long association and close bonding that the company enjoys with the buyer. The company becomes a sort of consumer specialist in selected areas that the company operates. Information gaps with the customer are considerably reduced and it is quite likely that the company acquires information advantages with respect to competition. It is very important to note that it takes 'two' to form a relationship. As such, if a firm has ongoing relationship strategies with its stakeholders (customers, suppliers, employees, government), then implementation of competitive marketing strategies (be it a pricing

policy or a positioning change) becomes smoother. This is because in forming a relationship, the stakeholder has come to appreciate the objectives and the strategies of the firm to an extent. To this extent, employee care on customers is very important. In relationship marketing, this is accomplished by reducing expenses on advertising and increasing expenses on customer care. Buy in of customer (attention) is also made possible by developing long term engagements with customers.

2.5 Strategic Responses to Competition

The idea that competition as one environmental factor affects strategic behavior is as old as the strategy field itself (Andrews, 1971; Schendel and Hofer, 1979). Research at the industry level suggests that, as competition increases, price-cost margins are negatively effected (Katics and Petersen, 1994; Siotis, 2003), productivity levels rise as weak firms exit (Bernard et al., 2003; MacDonald, 1994), and wages face downward pressure (Revenge, 1992).

When a new entrant reduces average profit margins within an industry, companies respond by differentiating their products, cutting prices, or doing both at the time (Spanos, Zaralis, and Lioukas, 2004). However, low-cost-new entrant competition differs significantly to the new industry competition in at least two aspects. First, replicating the cost structure of a low-cost-firm rival is in many cases impossible to achieve for an incumbent located in a high-cost country. High labor costs, tight national regulations, and rigid organizational structures reduce the flexibility and choice of strategic responses to low-cost-industry competition. Second, and potentially even more important, low-cost-industry competition embodies a dimension of ambiguity and lack of available

information that fundamentally differentiates it from low-cost pressure. Imitating the competitive advantage of new low-cost-country rivals becomes more difficult as they operate out of distant markets where reliable information is harder to obtain. Consequently the set and correlations of strategic choices with low-cost competition is likely to be different in the international case.

Strategic responses to low-cost competitor differ from those triggered by international competition in general. Low-cost countries are characterized by lower factor costs, especially wages for less skilled workers. These factor costs are low even after adjusting for the lower productivity typically found in emerging markets (The Boston Consulting Group, 2004). Market incumbents in the advanced economies face unique challenges in responding to low-cost competitive pressure as standard strategies based on cost reduction are not typically viable.

Cost Efficiency Strategies - One of Porters generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1987, 1996). In order to achieve low cost advantage, a firm must have a low cost leadership strategy, low cost manufacturing and a workforce committed to the low cost strategy (Malburg, 2000). The underlying rationale of a cost efficiency strategy is to outperform competitors in the same market segment by lowering prices. This strategy is only possible if the costs are kept as low as possible (Porter, 1985). The very nature of low-cost-country competition, however, is based on lower costs due to the comparative advantage of lower labor costs in final assembly and as well as in upstream component suppliers. The resource-based theory posits if domestic companies try to

compete with low-cost-country competitors on price they have to offset the competitive advantage of LCCs, which is only possible if they build upon other resources that substitute for labor, e.g. capital for automation (de Meyer, 1986). But such a substitution is limited to those segments only where product changes are rare and sufficient economies of scales are achievable. Therefore, a pure cost-reduction strategy alone seems to be of limited effectiveness when overseas suppliers have a substantial cost advantage (Grant, 1989). Nevertheless, studies on foreign competition have consistently shown that import competition negatively affects price-cost margins, thus increasing the pressure on market incumbents to further shed costs.

Product Differentiation Strategies - Product differentiations strategies strive to create unique products that are not easily be matched by other competitors and thereby alleviate cost pressure on the firm (Porter, 1985). Companies can develop resources and competences that are difficult for their rivals to imitate. Increased competition drives increased use of product differentiation strategies in terms of innovation, speed, and offered services to the customer for a variety of reasons.

Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. By stressing the attribute above other product qualities, the firm attempts to build customer loyalty and as a result such loyalty translates into a firm's ability to charge a premium price for its products. Product differentiation fulfills a customer's need and involves tailoring the product or service to the customer. This allows firms to charge a premium price to capture market share. The differentiation strategy is effectively

implemented when business provides unique or superior value to the customer through product quality, features or after sale support. The quality may be real or perceived based on fashion, brand name or image. The key step in devising a differentiation strategy is to determine what makes a company different from competitors (Mc Cracken, 2002). Factors including market sector, quality of work, the size of the firm, the image, involvement in client organizations, product delivery system and marketing approach have been suggested to differentiate a firm.(Mc Cracken;Davidson,2001). When using differentiation, firms must be prepared to add a premium to a cost (Hyatt, 2001). Since customers perceive the product or service as unique, they are loyal and willing to pay the higher prices for its products.

Focus Strategy - In these strategy a firm targets a specific segment of the market (Davidson,2001; Porter,1979,1987). The firm can choose to focus on a select customer group, product range, geographical area or service line (Anon, 1998). Focus aim at growing market share through operating in a niche market or in markets either not attractive or overlooked by competitors. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies.

Avoidance Strategies - Another strategy focused on environmental change aims to raise market entry costs. In the case of increasing LCC competition, this may take the form of lobbying for tariffs or quotas, a dramatic build-up of capacity, or aggressive pricing. An

entry deterrence strategy built upon aggressive pricing and over-capacity may require companies to forgo short-term profitability in the hopes that they may maintain a long term market presence (Porter, 1985). Alternatively companies may attempt to prevent higher levels of LCC competition by calling for national regulation and protectionism through the government (Schuler, Rehbein, and Cramer, 2002).

2.6 Competitive Strategy

The purpose of competitive strategy is to achieve a sustainable competitive advantage (SCA) and thereby enhance a business performance (Bharadwaj, 2003). One of the major objectives of competitive strategy management is to enhance the long-term financial performance of a firm. As such organizational competitive strategies serve to improve organizational performance of the firm through the route of sustainable competitive advantages. There are four essential requirements for a resource/ skill to be a source of SCA (Barney, 1991). It must be valuable; it must be rare among competitors; it must be imperfectly imitable; there must not be any strategically equivalent substitutes for this resource skill. Sources of SCA lead to positional competitive advantage (differentiation and low cost). Sustainability of positional advantages leads to superior long-term market and financial performance. Formulating competitive strategies also involves, recognizing relationships between elements of the organization structure, policies and procedures as well as assessing the impact of competitive strategy s onto the future of the organization.

All organizations have a strategy, even if the strategy only evolves from day-to-day operations, and there is therefore a need for organizations to use strategic management concepts and tools. Strategic management is concerned about the organization's ability to

identify its strengths and weaknesses and strengthening its own capabilities. The organization's ability to identify the critical environmental factors and adapt to them in an appropriate way is also of great importance. The fundamental issue of effective strategic management is based on that employees' at all organizational levels are fully informed about internal and external factors affecting the organization. When managers and employees are informed and understand where the organization is today, where it is heading and which factors are affecting it, they become more involved and committed. This is especially true when employees also understand linkages between their own daily operations and the organization's performance (Denis 2006).

Competitive strategy refers to how a company competes in a particular business. Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. There has been an imbalance between the internal and the external perspectives within the history of strategic management research. During the 1980s, Michael Porter, one of the most prominent strategic management researchers, and his Five Forces model focused strictly on the external competitive environment (Mintzberg, Ahlstrand & Lampel, 1998).

Further, in the 1990s, the focus shifted from external to internal perspectives along with Jay Barney's development of the resource based theory in 1991 (Barney, 1991). This imbalance between the two perspectives excludes one or the other. This is therefore not as beneficial as when the two different perspectives are combined. This issue has now started to be acknowledged and researchers today are striving to develop models integrating both perspectives. However, theoretical models existing today that combine

the two perspectives are complex and hard for managers to apply in practice within the business world. Porter (1980) noted that competitive advantage is the ability of the firm to out perform rivals on the primary performance goal profitability. He also argues that there is essence in business to create competitive advantage that comes in a number of ways such as low-cost production or market differentiation.

Berry (1995) identified three elements that collectively lead to competitive advantage that creates value and they have called these elements the corporate strategic triangle; resources (company assets, skills and capabilities), strategic business units and other key segments of the society (structure, systems and processes). They argue that these three sides of vision, goal and objectives produce competitive advantage that could lead to value creation. Bennet (1995) also emphasized the importance of improving a company's image and pointed out that the first step in doing this was finding out where one currently is; which can be done by determining the target audience, especially the employees.

Today's organizations have to deal with dynamic and uncertain environments. In order to be successful, organizations must be strategically aware. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers. Managers operating in organizations perform a number of activities including planning and organizing the work of their subordinates, motivating them, controlling what happens and evaluating results. Decisions by managers have a strategic impact and

contribute to strategic change. The organization is shown as one of a number of competitors in an industry; and to a greater or lesser degree these competitors will be affected by the decisions, competitive strategies and innovation of the others. These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction. To succeed long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers (Hitt 2001).

Strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful entrepreneur has this business self-awareness and every successful business seems to have this clarity of vision, even though it does not arise from a formal planning process. Managers who made long-range plans generally assumed that better times lay ahead. Future plans were merely extensions of where the organization had been in the past. But a number of environmental shocks undermined this approach to strategic planning: rapid technological developments, the maturing or stagnation of certain markets, increased international competition. These changes forced managers to develop a systematic means of analyzing the environment, assessing their organization's strengths and weaknesses, and identifying opportunities for competitive advantage, (Hitt 2001).

Market intelligence (MI), according to Cornish 2007, is “the process of acquiring and analyzing information in order to understand the market (both existing and potential customers); to determine the current and future needs and preferences, attitudes and behavior of the market; and to assess changes in the business environment that may affect the size and nature of the market in the future. If an organization wants to be close to the market it needs to fully understand it, including the roles that the competitors and customers play there. Market Intelligence (MI) is the information relevant to a company’s markets gathered and analyzed specifically for the purpose of accurate and confident decision-making in determining market opportunity, market penetration strategy and market development metrics. Competitive Intelligence describes the broader discipline of researching, analyzing and formulating data and information from the entire competitive environment of any organization. Business Intelligence of any kind may also be their responsibility, in tandem with (or solely performed by) the Finance department, for measuring market share and setting growth targets, the Mergers & Acquisition group for exploring acquisition opportunities, the Legal department to protect the organization’s assets or Research and development (R&D) for cross-company comparison of innovation trends and the discovery of opportunities through innovative differentiation (Cornish, 2007).

Market intelligence helps in Market and customer orientation to promote external focus, identification of new opportunities so as to identify new trends in our markets and competitors; one is able to get early warning of competitor moves. This enable counter measures thus minimizing investment risks by detecting threats and trends early, better customer interaction – inherit intensified customer market view better market selection

& positioning – understand where your offer fits and discover untapped or under-served potential market, more efficient and cost-effective information – avoid duplication of report acquisitions and expensive consultant work. Market Intelligence is about providing a company with a view of a market using existing sources of information to understand what is happening in a market place, what the issues are and what the likely market potential is. Market Intelligence can be divided into two spheres that is Market Intelligence based on external data and Market Intelligence based on internal data (Cornish, 2007).

According to Gupta, (2007), the objectives of promotions are to attract new customers, to make existing customer loyal, reward loyal customers, and increase the market size by stimulating the use of an entire product category and to reinforce other communication tools. The further the product progress through its life cycle, the more managers tend to allocate more budgets to sales promotion. It is the same case for lower priced brands; moreover retailers have high influence on the final price and use of promotion. Nearly all companies need to use promotions as either offensive and/or defensive tools in the battle for market share. As a consequence, the consumer's brand choice is influenced by the sales promotion campaigns. Prior to making a decision, the typical consumers will take into account whether or not a promotion exists. They may also buy something they had not planned or buy something in a greater quantity because there is a promotion. Sales promotion can in fact create an impulse purchase, when the need has been created or revealed in-store.

According to Hartley and Cross (1998), Sales promotions cover a wide scope of marketing activity ranging from trade, sales force and consumer programs. Specifically, sales promotion encompasses such activities as discounts, incentive plans, coupons, sweepstakes and value-added promotions. These programs have continually been studied in terms of their impact upon brand loyalty. Marketing managers are becoming more concerned about the productive use of promotional funds and controlling spending on trade promotion. As a result, trade-offs among advertising, consumer promotion and trade promotion are an important, though perplexing aspect of the budgeting process. Although the importance of sales promotion has increased dramatically, it has remained little understood beyond the objective of delivering short-term results and successfully introducing new products into the consumer market.

According to Gupta (2007), Sales promotion is exclusively concerned with a prize or gift given to consumers. This is consistent with a number of sales promotion activities for brands. When the type of sales promotion is a prize, the relationship between influence to take a brand and sales promotion becomes clearer. A premium or prize can serve as an unconditional stimulus, which elicits excitement or emotion. When the type of sales promotion is a prize or a gift, there is a relationship with effect. Relationships have demonstrated that individuals, in whom positive perception on a brand has been evoked through receiving a gift, are more likely to be risk taking when the probability of benefiting from the purchase of a brand is high but risk-averse when the probability of benefiting is low. Such research is essential in developing an understanding of how advertising and promotional strategies can be used to influence consumers' brand perception and selection behavior.

A Strategic Alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise or intellectual property. The alliance is cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk one of the fastest growing trends for business today is the increasing number of strategic alliances.

According to Yoshino and Rangan, Michael Y. and U. Srinivasa (1995), strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliance.

For small businesses, strategic alliances are a way to work together with others towards a common goal while not losing their individuality. Alliances are a way of reaping the rewards of team effort - and the gains from forming strategic alliances appear to be substantial. Companies participating in alliances report that at much as 18 percent of their revenues come from their alliances. But it isn't just profit that is motivating this increase in alliances. Other factors include an increasing intensity of competition, a growing need to operate on a global scale, a fast changing marketplace and industry convergence in

many markets (for example, in the financial services industry, banks, investment firms, and insurance companies are overlapping more and more in the products they supply). Especially in a time when growing international marketing is becoming the norm, these partnerships can leverage your growth through alliances with international partners. Rather than take on the risk and expense that international expansion can demand, one can enter international markets by finding an appropriate alliance with a business operating in the marketplace you desire to enter (David C. Mowery 1999).

Businesses use strategic alliances to: achieve advantages of scale, scope and speed, increase market penetration, enhance competitiveness in domestic and/or global markets, enhance product development, develop new business opportunities through new products and services, expand market development, increase exports, diversify, create new businesses and reduce costs. Strategic alliances are becoming a more and more common tool for expanding the reach of a company without committing to expensive internal expansions beyond an organizations core business (David C. Mowery 1996). The primary factor that determines the level of demand for internet banking services is number of people connected to the internet. This number can be extremely difficult to estimate, because of the dispersed nature of the users. Furthermore, for each Internet subscriber registration there may be more than one user. Based on a recent report in the local newspaper, the estimate number of internet subscribers until March 2000 was 1.3 million people which are approximately 7 percent of the Malaysian population (Taylor 2000).

According to Cooper (1997) and Daniel (1999) another important factor affecting the acceptance and adoption of new innovation is the level of security or risk associated with

it. Even in countries where Internet banking has long been established, one of the most important factors slowing progress of this new innovation is the consumers concern for security of financial transactions over the Internet. An empirical survey conducted by Sathye (1999) on Australian consumers confirmed this fact. In addition, Internet bank customers would also be curious to find out how the banks would generally deal with erroneous transactions occurring in online transactions. Will the burden of proof be on the customers or the banks would be willing to settle the issue up front and investigate the problem later. The element of trust in this context would determine the security of transacting for consumers generally and determine the acceptability rate of this alternative delivery channel in the long run. On this issue, Stewart (1999) claimed that the failure of the Internet as a retail distribution channel has been attributed to the lack of trust consumers have in the electronic channel and in the web merchants.

Technology adoption is the most common phenomenon driving the evolution of industries along the industry lifecycle. After expanding new uses of resources they end with exhausting the efficiency of those processes, producing gains that are first easier and larger over time then exhaustingly more difficult, as the technology matures. Had technological change and innovation proceeded at today's rate in fifteenth century Europe; when printing technology was introduced, one can only speculate on the economic and political effects that its adoption and diffusion might have had on that era and subsequent history. And, if Internet technology is the "printing" technology of today, its potential effects on modern society might be compared to those of that centuries-old innovation; that is, momentous, but difficult to foresee. Fortunately, we now know more about the adoption/diffusion process. Internet technology actually embodies a number of

technologies - e-mail, databases, chat rooms and information and education resources, among others. Additionally, the Internet exhibits many elements that constitute a culture or community-language, symbols, rituals, interaction and other elements of communication. It thus essentially becomes an environment into which users enter (December, 1993; North, 1995). "Visionary" innovation and "pragmatic" application can begin with grass-roots enthusiasts who enter this environment. Viewed as a culture or community, however, the Internet can be perceived as a threatening competitor to the established norms of an existing culture or community, such as an academic department or some other institutional entity.

Industry structure and positioning within the industry are the basis for models of competitive strategy promoted by Michael Porter. The "Five Forces" diagram captures the main idea of Porter's theory of competitive advantage. The Five Forces define the rules of competition in any industry. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. Porter claims, "The ultimate aim of competitive strategy is to cope with and, ideally, to change those rules in the firm's behavior." (Porter, 1985). The five forces determine industry profitability, and some industries may be more attractive than others. The crucial question in determining profitability is how much value firms can create for their buyers, and how much of this value will be captured or competed away. Industry structure determines who will capture the value. But a firm is not a complete prisoner of industry structure - firms can influence the five forces through their own strategies. The five-force framework highlights what is important, and directs manager's towards those aspects most important to long-term advantage.

The model in itself does not provide specific strategies; instead it establishes the nature of the competitive environment which is supposed to determine the strategies to be adopted by the marketer. It highlights five forces which should be understood so as to determine the appropriate marketing strategies. These include:

Threat of potential entry: - In a competitive market, many companies would prefer to entry and do business due to the perceived benefits. Such companies will always threaten the survival and the operation of the organization. Appropriate strategies should be determined in order to scale down the level of potential entry (Porter 1985).

Bargaining power of suppliers: - In a competitive market, supplier bargaining power is always high. When the levels of power are predetermined, it becomes possible to identify strategies like backward, forward and horizontal integration.

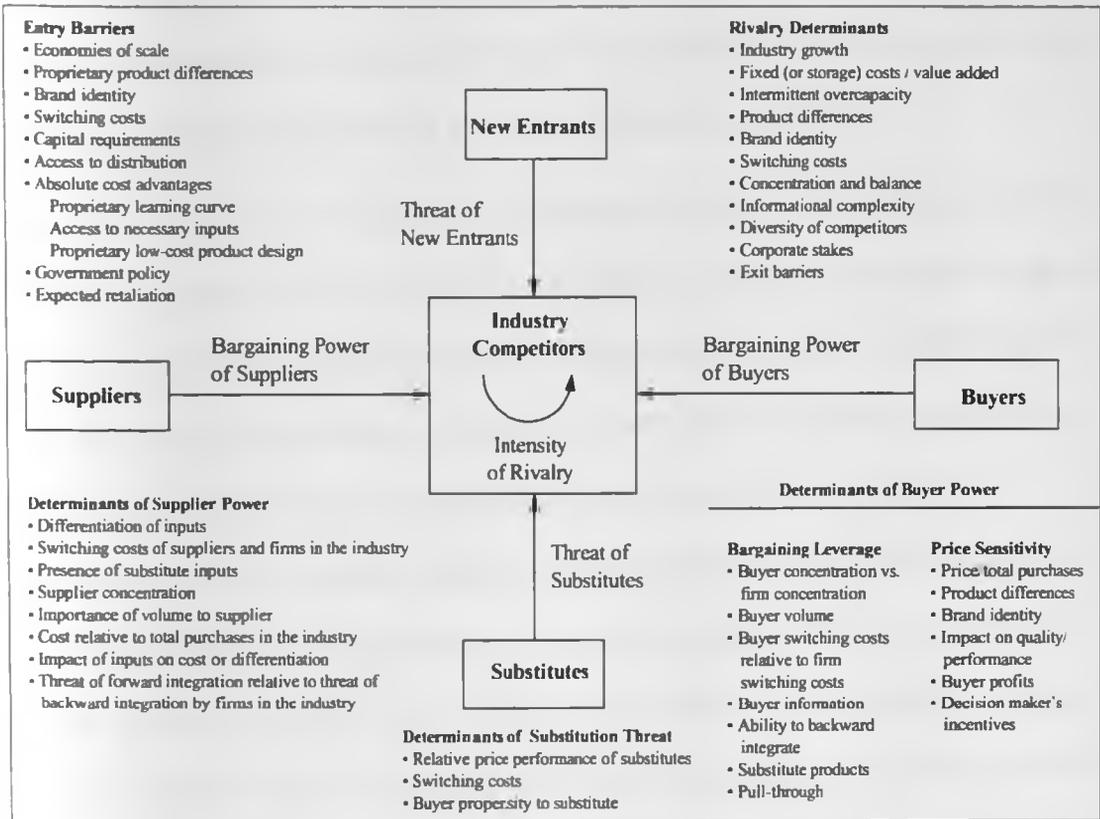
Product substitution: - The level of substitution in a competitive market is always high. Product should be developed at a high quality value so as to encourage the customer to buy from the company as opposed to the competitor.

Bargaining power of the customer: - In the modern market, customers are characterized by high powers in their purchases. In some economies like USA consumers' has characterized the nature of operations. To overcome these forces, segmentation and targeting strategies must always be implemented for the company survival. Rivalry

position: - This is the position which the company occupies when it manages to fight all the forces. To establish this position, the company keeps on jostling from location to

location until when it occupies a strategic ground to fight all the forces. This is an internal force which brings about rivalry (Porter 1985).

Fig 2.1 Porter's 5 Forces - Elements of Industry Structure



(Source: Porter, 1985)

2.7. CONCLUSION

A firm requires to carry out industry analysis so as to match its strategy to the industry conditions. They should identify opportunities and threats posed by the state of the industry. The degree of competition in an industry will depend on how a firm will analyse and adopt the Porter's five basic forces of industry structure. Due to the increased

competition in the banking industry, banks have had to come up with strategies to attract and retain customers. Some have adopted Direct Sales strategy where a large sales force is sent out in the field to serve customers at convenience of their offices. This strategic response helps to build partnering with customers, builds trust with customers as it plays a big role in protecting emotional well being of the customer. This makes customers loyal leading to increased customer base hence improvement in profitability.

According to Ansoff and McDonnell, it is through strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought by changing environment. Aosa (1992) noted that industries are responding to customer's demands by becoming more innovative in their ways of approaching the changed environment. According to Ansoff and McDonnell (1990), increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviour to assure success in transforming future environment. External environment is significant in management of organization and to remain successful a firm has to remain defensive and offensive. Organizations are environment dependent and environment serving hence constant interaction, constant adjustment and innovations are vital for success.

In conclusion the industry belongs to the best and market leader today might not be a leader tomorrow hence the need for firms to continually adopt strategic responses to the changes in the industry to remain competitive.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains research methodology used for the study. Research methodology gives details regarding the procedures used in conducting the study. The research design, population, data collection and analysis methods are elaborated.

3.2 Research Design

The study was carried out through a cross-sectional survey. This research design is of descriptive nature because of the nature of data collected. According to Sekaran (2003), a descriptive study is undertaken in order to ascertain and to be able to describe the characteristics of the variable of interest in a situation.

3.3 Population of the Study

The population of this study consisted of all commercial banks operating in Kenya. According to the Central Bank of Kenya, there were 44 commercial banks in operation as at 31st December 2009 (See Appendix I).

According to Cooper & Schindler (2003), a census survey is where data is collected from all members of the population. Census survey is appropriate for this study because of the number of commercial banks is relatively small and as such, sampling is not necessary.

3.4 Data Collection

Primary data was collected by use of structured questionnaires (See Appendix II). The structured questionnaire is an efficient data collection mechanism particularly in

quantitative analysis since each respondent is asked to respond to the same set of questions. The target respondents would be the corporate strategy managers (or Sales Managers) of the banks because of their role and position which gives them the ability to effectively respond to most of the questions.

The structured questionnaire is organized into two parts where, Part A focuses on the general organizational bio-data and Part B focuses on establishing the extent effect of direct sales strategy as a strategic response (Builds partnering, improve profitability and build trust with customer). The questionnaires will be administered through drop and pick method.

3.5 Data Analysis

Data was analyzed by use of various descriptive statistics such as mean, variance and standard deviation. The data analysis involved the initial steps of coding, editing and tabulation as a basis for further analysis. It was presented using frequency tables and charts

CHAPTER FOUR: DATA ANALYSIS, AND INTERPRETATION OF RESULTS

4.1 Introduction

In this section focus is on the analysis and report of the results of the study. The main issues covered are response rate and quantitative data analysis.

4.2 Response Rate

The data for this study was collected within two months (June – July 2011) using a questionnaire. The questionnaire was administered to all commercial banks in Nairobi. In total, 300 questionnaires were distributed to the individuals working in the 44 commercial banks identified. Of these 161 questionnaires were successfully completed and returned to the researcher by respondents from 27 commercial banks, giving a response rate of 54%, a percentage considered substantially sufficient for the study.

4.3 Quantitative Data Analysis

These are scientifically expressed responses based on the information provided from the closed ended questionnaires. The analysis is presented in the form of frequency distribution tables expressed in terms of percentages, bar charts and interpretation to that effect.

4.3.1 Branch Network

The study aimed at assessing the geographical branch network, the network of the 27 banks under review in this study is presented in Figure 4.1, below. Majority of these

banks have 10 – 20 branches country wide indexed by 44.4%, where as those with 20 and above branches indexed 40.7% and finally those with fewer branches at 14.8%. This clearly depicts the competition pressure within this industry.

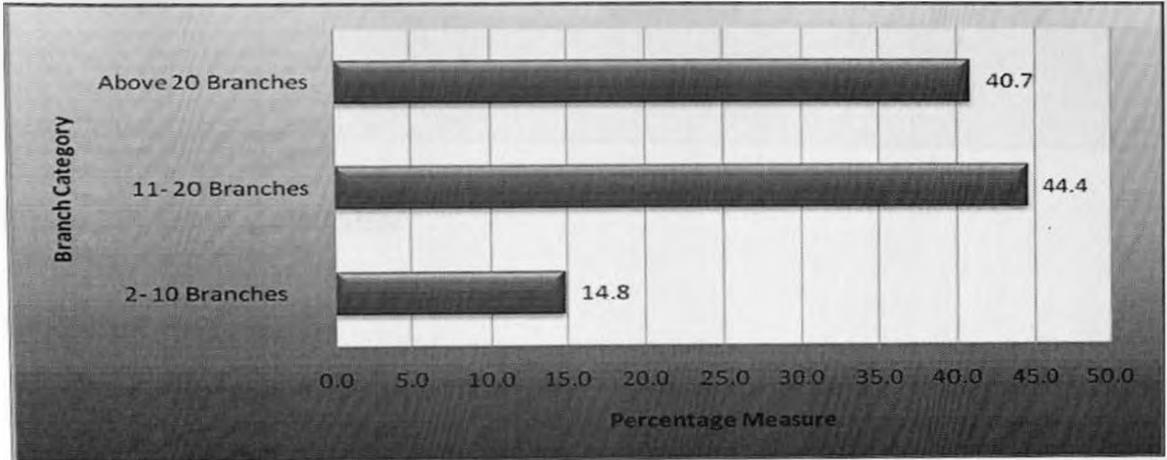


Figure 4.1: Branch Network

4.3.2 Years of Operation

16 or 58.0% of the 27 branches have been in operation for a period between 0 – 10 years, 9 or 32.0% have been in operation between 11 – 20 years. While 3 or 10% have been in operation for 20 years and above. This indicates that majority of the banks have not operated more a decade and there macroeconomic experience in the financial sector is in cycles of three years.

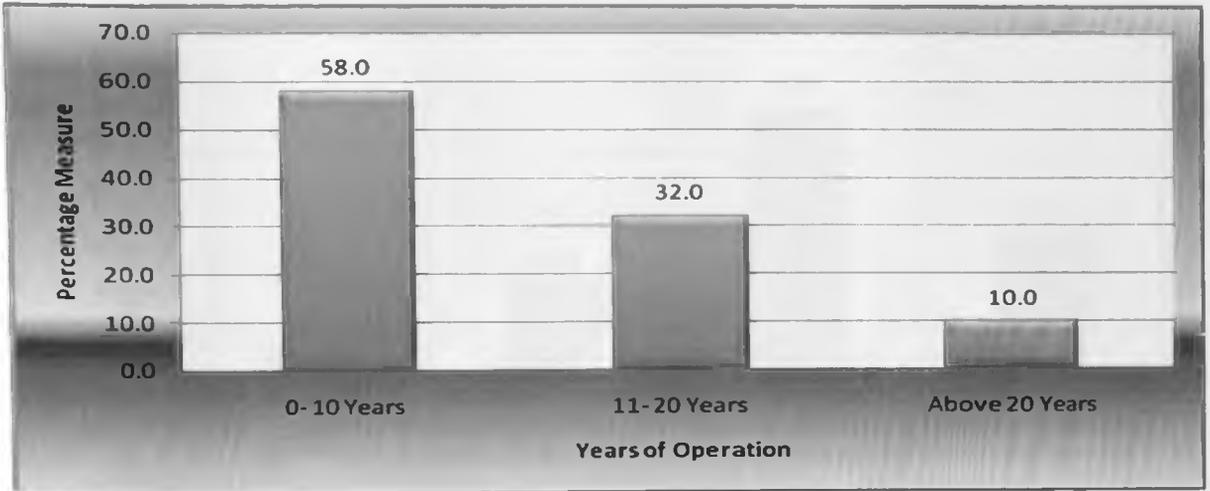


Figure 4.2: Years of Operation

4.3.3 Customer Base

The study was able to establish to approximate the average customer for banks under the survey. The highest customer base was evidenced in 13 banks a percentage of 48.1% of the responses where a customer base between 100,001 – 500,000. Customer base of more than 500,000 registered 25.9% being 7 banks. Banks with customer base less than 10, 000 and those with between.10, 001 and Kes.100,000 recorded 18.5 and 7.4 percent respectively. Figure 4.3 illustrates more on this measure below.

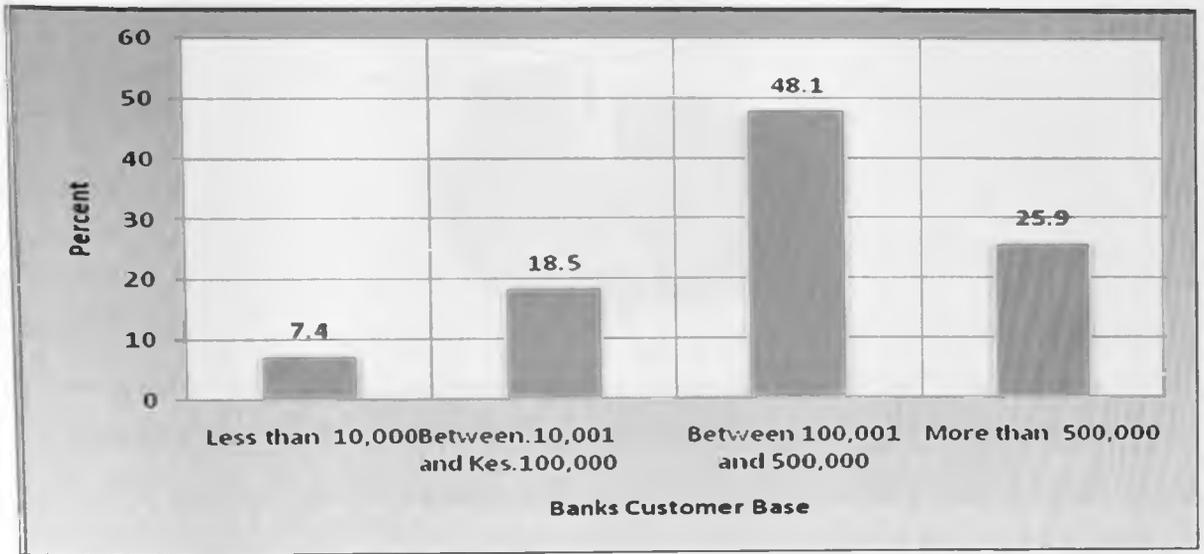


Figure 4.3: Banks Customer Base

4.3.4 Staff Establishment

The size of the banks in terms staff establishment was measured, majority of the banks had a staff establishment of less than 1,500 indexed by 86.3%. This indicates that most banks in Kenya are not labour intensive institution. In fact most banks embrace technology as a competitive strategy leaving less room for human capital. However direct selling is an art of human capital and cannot be substituted by machines.

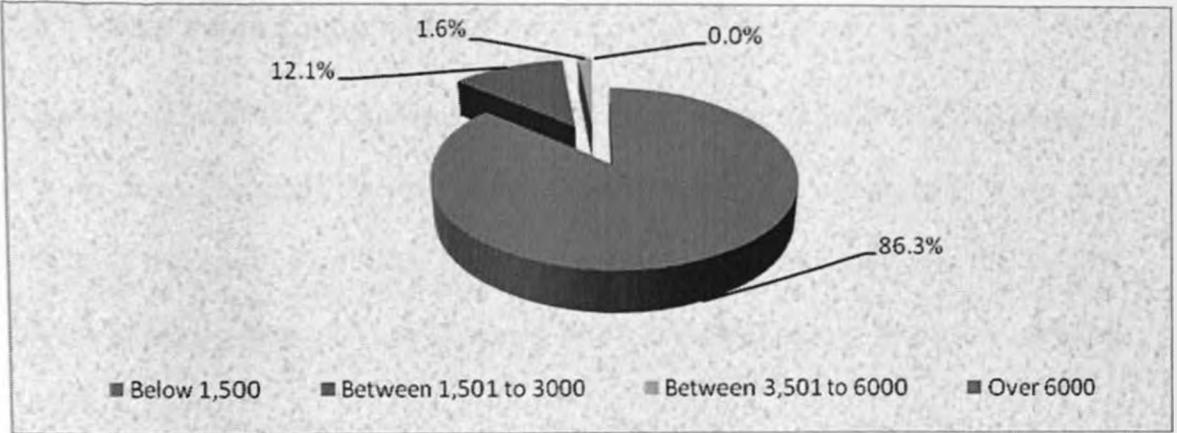


Figure 4.4: Staff Establishment

4.3.5 Sales Department Head

It was important to establish the autonomy in terms of power and coordination of the banks sales department. To arrive at this respondent were asked to give the title of the head of the department. General Manager was the highest score at 55.2%, followed by Retail Sales manager at 32.7%. Some banks had Sales managers as head of sales unit indexed at 7.6% and other titles at 4.5%.

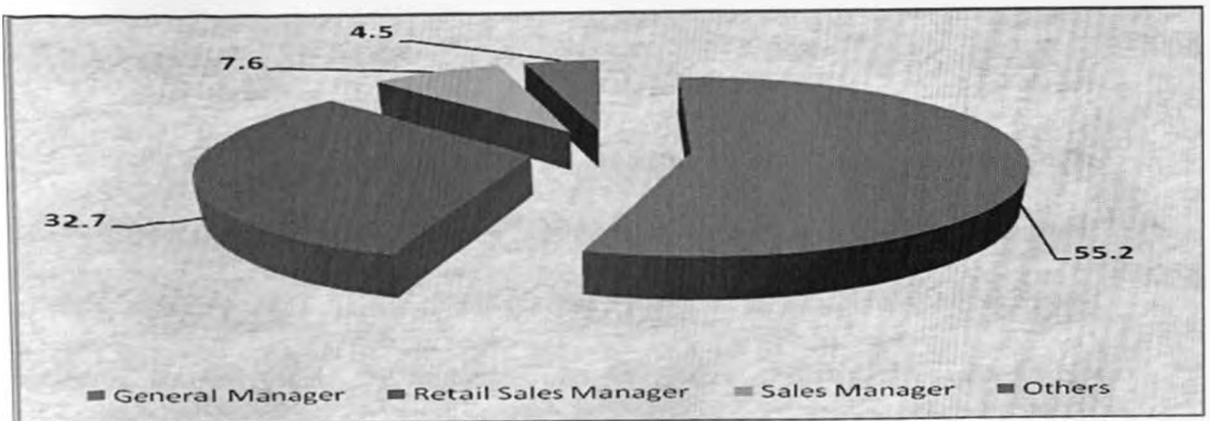


Figure 4.5: Sales Department Head

4.3.6 Sales Team Composition

In the execution of sales in the banking environment, one of the most effective strategies is team work. The study therefore aimed at understanding the composition of the sales groups as managed by the bank. Notably groups of lesser individual were the majority 65.5%, whereas groups of 11 to 15 scored 24.2% and finally above 16 persons recorded 10.3%.

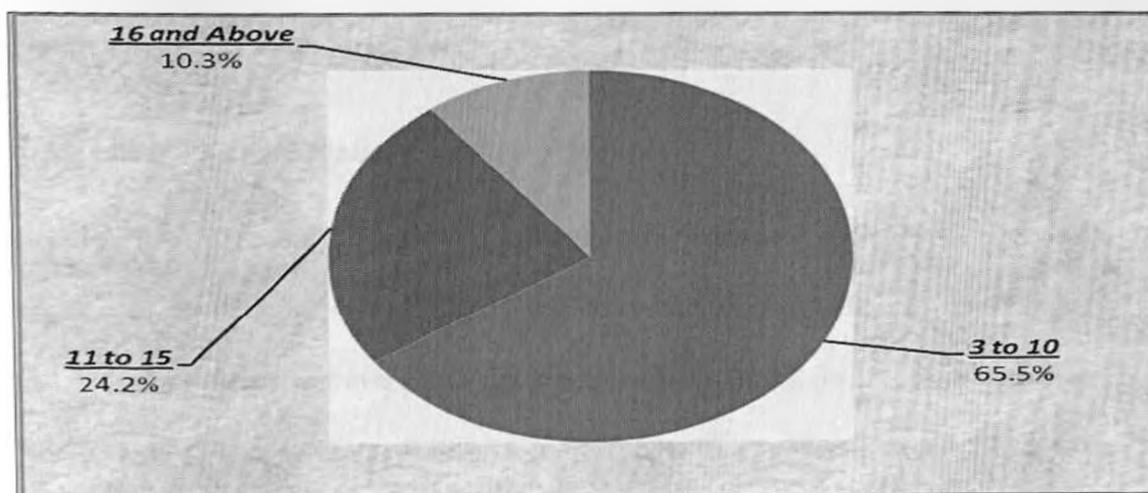


Figure 4.6: Sales Team Composition

4.3.7 Direct Sales Strategy

A direct sales strategy is marketing and selling products, direct to consumers away from a fixed retail location. With this definition in mind the study sought to evaluate on the basis of YES, NO and NOT SURE if a bank has such a strategy documented, executed monitored and evaluated. The responses were interesting in that 67.3% agreed while 32.7% did not agree. The scale of NOT SURE did not get any response

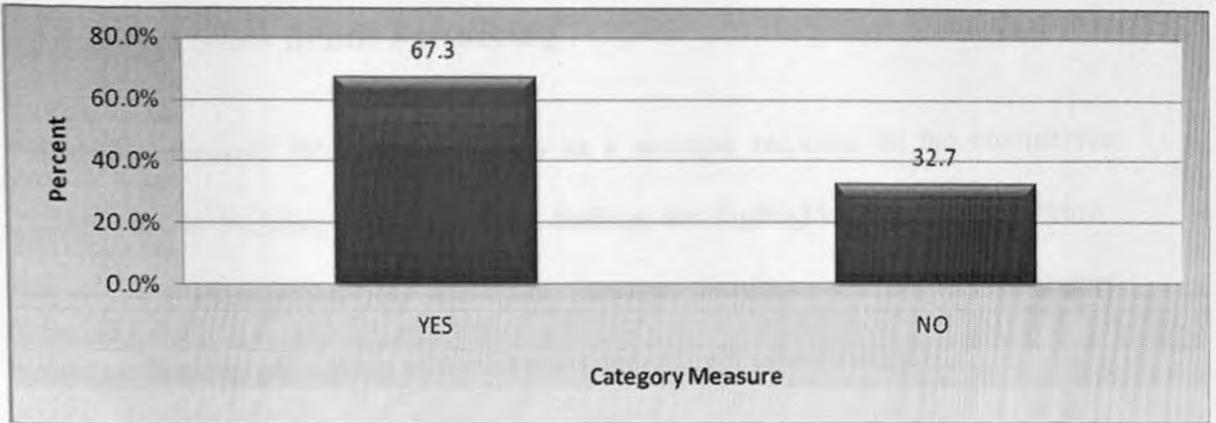


Figure 4.7: Direct Sales Strategy

4.3.8 Direct Sales Strategy Competitiveness

Based on the YES count of 67.3% in 4.2.7 under, the respondent under this category were asked to assess the effectiveness of their banks direct sales strategy. Majority 45.1% agreed that the sales strategy was to a very large extent competitive, While 22.1 % accorded to a large extent. Lower percentages were recorded under to a moderate extent 12.1%, to a large extent 11.6% and to a very large extent 9.1%.

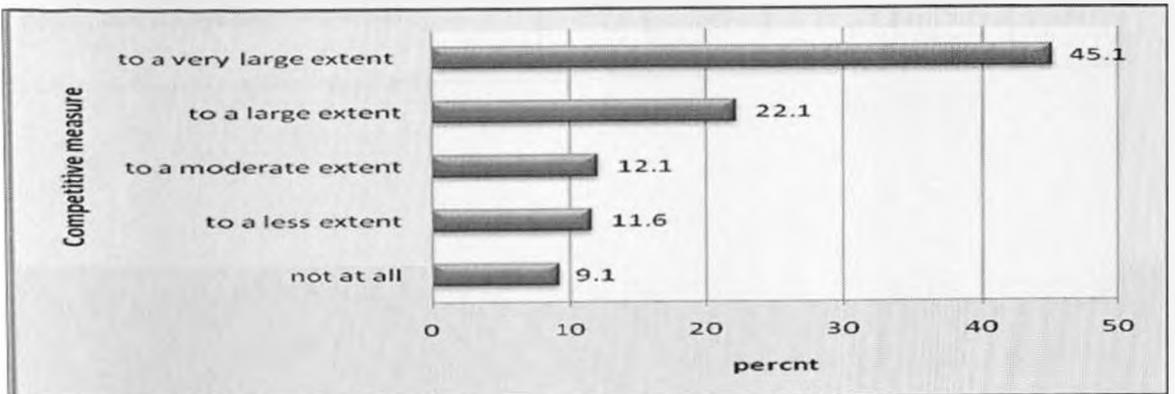


Figure 4.8: Direct Sales Strategy Competitiveness

4.3.9 Direct Sales Builds Partnering

The study measured direct sales strategy as a strategic response on the competitive environment in building partnership and findings are highlighted in table 4.1 below. Develop a Customer Database and Joint Customer Forums were the key indicators towards enhancing partnership with customers under direct sales strategy.

Table 4.1: Direct Sales Builds Partnering

Building Partnering Indicators	Not at all	To less extent	To a moderate extent	To a large extent	To a very large extent
Develop a Customer Database	0%	0%	0%	18%	82%
Develop Customer Club	19%	27%	54%	0%	0%
Joint Customer Forums	0%	0%	20%	69%	11%
Participated in Customer Ceremonies	11%	0%	12%	47%	30%

4.3.10 Direct Sales to Improve Profitability

The study measured direct sales strategy as a strategic response on the competitive environment in improving profitability and findings are highlighted in table 4.2 below. In terms of profitability it was clear that direct sales enhance market share and development of new products based on customer needs. However under cost management the response did not show any relationship.

Table 4.2: Direct Sales to Improve Profitability

Improving Profitability Indicators	Not at all	To less extent	To a moderate extent	To a large extent	To a very large extent
Increased Market Share	0%	0%	10%	56%	34%
Initiated new products based on customers needs	1%	0%	52%	27%	20%
Enhanced cost management	67%	20%	11%	2%	0%

4.3.11 Build Trust with Customer

The study measured direct sales strategy as a strategic response on the competitive environment in building trust with customers and findings are highlighted in table 4.3 below. Majority of the respondents agreed to all of the indicators i.e. customer loyalty,

complaint management, customer complementary and customer referrals as key performance indicators brought about by direct sales strategy.

Table 4.3: Build Trust with Customer

Building Trust with Customer Indicators	Not at all	To less extent	To a moderate extent	To a large extent	To a very large extent
Loyal Customer to the Bank	0%	0%	10%	77%	13%
Customer Complaint Management	0%	0%	67%	15%	18%
Customer Compliments to the Bank	0%	0%	3%	4%	93%
Customer Referrals and Repeat Business	1%	3%	16%	30%	50%

4.4 SUMMARY OF THE RESULTS

The study undertook a descriptive research design while the population of this study consisted of all commercial banks operating in Kenya. Primary data was collected by the use of structured questionnaires. It was observed that majority of the banks have 10 – 20 branches country wide indexed by 44.4%, where as those with 20 and above branches indexed 40.7% and finally those with fewer branches at 14.8%. This clearly depicts the competition pressure within this industry. The study measured direct sales strategy as a strategic response on the competitive environment in building trust with customers and

where majority of the agreed to all of the indicators i.e. customer loyalty, complaint management, customer complementary and customer referrals as key performance indicators brought about by direct sales strategy. It was concluded that consumers benefit from direct selling because of the convenience and service it provides including personal demonstration and explanation of products, home delivery and getting service at your convenience. Direct selling enhances the retail distribution infrastructure of the bank and serves consumers with a convenient source of quality products. Successful management of firm growth is a major goal of the strategic planning process. Success in growth markets is influenced by many factors. Generally, these factors evolve around making the right decisions in exploiting market opportunities and avoiding risks inherent in rapid product-market expansion. Growth via direct sales strategy has become imperative for many firms, and the existence of competitive edge management.

The study findings under profitability and building customer trust are in line with Peterson and Wotruba (1996) who suggested that direct selling is an especially effective strategy for products and services with high personal selling elasticity and easy procrastination in purchasing and for those where personal attention to individual .

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This section focuses on the meaning of findings of the study. First, it deals with the summary of the findings as guided by the objectives of the study. Secondly, a conclusion is drawn and provides study recommendation. Finally it highlights the challenges faced during the study and implications of policy theory and practice of the study.

5.2 Conclusion

The study findings has shown that consumers benefit from direct selling because of the convenience and service it provides including personal demonstration and explanation of products, home delivery and getting service at your convenience. Direct selling enhances the retail distribution infrastructure of the bank and serves consumers with a convenient source of quality products. Direct Selling helps banks to improve service at branch by outsourcing the sales function, thus leaving employees at branches free to handle service and queries.

The study findings under profitability and building customer trust are in line with Peterson and Wotruba (1996) who suggested that direct selling is an especially effective strategy for products and services with high personal selling elasticity and easy procrastination in purchasing and for those where personal attention to individual differences and desires of customers is critical. Direct sales involves engagement of employees in large numbers who can be on contractual basis hence lower costs to the

organizations as they maximise revenues for the organization. They are highly motivated as they are paid on commission basis and payment is only paid where value is realized and the banks resources are fully utilized. Additionally, direct selling in international markets provides growth opportunities for companies faced with saturated demand in the domestic market (Miller 1998).

The study supports other research findings such as Schuler, Rehbein, and Cramer, (2002), that direct sales helps the company to understand consumer psyche and shifts in psyche, owing to long association and close bonding that the company enjoys with the buyer. The company becomes a sort of consumer specialist in selected areas that the company operates. Information gaps with the customer are considerably reduced and it is quite likely that the company acquires information advantages with respect to competition. It is very important to note that it takes 'two' to form a relationship. Hence the company is in a position to respond strategically to its environment.

As a key finding in this paper direct sales play an important role in protecting emotional well being of customer. Deep dissatisfactions are avoided, customers are made to feel important, private information of customers are handled fairly well, long run supply security is provided, customer care is maximized, sudden spikes in demand are managed. Therefore the bank can increase its service and maximize its profitability and market share.

The study was able to establish in support of Weitz and Bradford, (1999) contest that personal selling plays a key role in the partnering especially in buyer-seller relationships, the focus of personal selling shifts from influencing buyer behavior to a management of

conflict inherent in the buyer-seller relationships. Conflict management approaches include that of avoidance, accommodation, confrontation, compromise and collaboration.

Successful management of firm growth is a major goal of the strategic planning process. Success in growth markets is influenced by many factors. Generally, these factors evolve around making the right decisions in exploiting market opportunities and avoiding risks inherent in rapid product-market expansion. Growth via direct sales strategy has become imperative for many firms, and the existence of competitive edge management. The future of banks lies in expanding retail banking business which depends on thousands of new customers hence banks have to move fast to maximize their advantage and simultaneously change the way they think about their business.

5.3 Recommendations

The study strongly advocates that direct sales management in banks should be broadened in response to changes in business environment. Performance measures in social network type of environment should be re-evaluated based on the social networking ICT infrastructure as key indicators towards reaching customer in direct sales initiatives.

As a consequence of this study, its recommended sales managers be trained and equipped with skills to deal with variety of new challenges. One of the key challenges is to redefine the criteria for excellent sales person performance in the banking sector.

5.4 Limitations of the Study

Banking as a business sector is very busy and sensitive to interruptions. As a result, the researcher anticipated the major limitation being response rate. This is because the target population was employees who are in most cases very busy carrying out transactions during the day such that getting some time for an interview may prove challenging and difficult. Hence getting the correct feedback from the respondent hampered the study. In addition due to competition among banks, employees were not willing to give sensitive information on their bank operations; this also affected the response planned for the study.

5.5 Implication on Policy, Theory and Practice

Banking industry in Kenya operate within a similar regulatory environment. The primary regulator of banks, The Central Bank of Kenya, can implement policies that are supportive of strategy implementation in commercial banks operating in Kenya. These policies and guidelines can include favorable interest rate indicators, regulation on liquidity levels and an innovative approach to new products in the market. Separately, banks can individually adopt strategic responses that will enhance their growth and make them market leaders .It includes monitoring of economic environment and competitor strategies, and instituting enabling internal policies as well as supportive policies on technology to enhance customer satisfaction hence improve on profitability.

The government and other institutions involved in the country's policy formulation can not overlook banking sector as one of the major contributor to the country's GDP. The findings from this study are therefore of importance because they provide the capacity of

being used to formulate positive fiscal policies which are relevant and sensitive to the forces influencing the banking sector performance in Kenya. Realization that Financial Services is one of the highly competitive business sectors globally calls for players to adopt properly formulated marketing strategies for success.

To the small banking institutions in the country, this study findings is of great importance because through them, these institutions will be better positioned to gauge their performance and make improvements where necessary to boost their market performance and overall ranking in the industry.

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC-Stanbic Bank
7. Chase Bank
8. Citibank
9. City Finance Bank
10. Co-operative Bank of Kenya
11. Commercial Bank of Africa
12. Consolidated Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank

16. Dubai Bank
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank A.G Zurich
28. Habib Bank
29. Habib Bank A.G.Zurich
30. Imperial Bank
31. Investment & Mortgages Bank
32. Kenya Commercial Bank
33. K-Rep Bank

34. Middle East Bank
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank
40. Southern Credit Banking Corporation
41. Standard Chartered Bank
42. Trans-National Bank
43. United Bank for Africa
44. Victoria Commercial Bank

Source: Central Bank of Kenya, (2010).

APPENDIX II: LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

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

P.O. Box 30197
Nairobi, Kenya

DATE JUNE/ July 2011

TO WHOM IT MAY CONCERN

The bearer of this letter JACSON MUIINDA MUENDO

Registration No: D61/70671/2008

is a Master of Business Administration (MBA) student of the University of Nairobi.

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

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

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

APPENDIX III: QUESTIONNAIRE

Part A: Organizational Bio- data

1. Name of your bank _____

2. Size of the bank (Tick as appropriate)

a) 2-10 branches

b) Between 11 to 20 branches

c) Above 20 branches

3. What is your bank's customer base?

a) Less than 10,000

b) Between 10,001 and Kes.100,000

c) Between 100,001 and 500,000

d) More than 500,000

4. Year of incorporation _____

a) Less than 10 years ago

b) Between 11 to 20 years ago

c) Over 20 years ago

5. Size of the bank in terms of number of employees (Tick as appropriate)

- a) Below 1,500 []
- b) Between 1,501 to 3,000 []
- c) Between 3,001 to 6,000 []
- d) Over 6,000 []

6. Sales Department Head (Tick as appropriate)

- a) General Manager []
- b) Retail Sales Manager []
- c) Sales Manager []

7. Composing of the sales teams

- a) 3 -10 []
- b) 11 - 15 []
- c) 16 and Above []

Use the Key below to tick as appropriate

[1] – NOT AT ALL; [2] – TO A LESS EXTENT; [3] – TO A MODERATE EXTENT; [4] – TO A LARGE EXTENT; [5] – TO A VERY LARGE EXTENT.

8. Does your bank have a Direct Sales Team

Yes

No

If YES do you think it's competitive

[1] – not at all

[2] – to a less extent

[3] – to a moderate extent

[4] – to a large extent

[5] – to a very large extent

Part B: Direct Sales as a Strategic Response

These questions intend to measure the effect of direct sales strategy as strategic response to the performance of commercial banks in a competitive environment i.e. Building Partnering, Improving Profitability/performance and Trust with Customer.

Use the Key below to tick as appropriate.

[1] – NOT AT ALL; [2] – TO A LESS EXTENT; [3] – TO A MODERATE EXTENT; [4] – TO A LARGE EXTENT; [5] – TO A VERY LARGE EXTENT.

To what extent has your bank sales team been able to establish through direct sales strategies?

9. Building Partnership:

- | | | | | | | |
|------|---|-----|-----|-----|-----|-----|
| i. | Develop a customer database? | [1] | [2] | [3] | [4] | [5] |
| ii. | Developed customer club? | [1] | [2] | [3] | [4] | [5] |
| iii. | Joint customer forum or customer open days? | [1] | [2] | [3] | [4] | [5] |
| iv. | Participated in customers ceremonies? | [1] | [2] | [3] | [4] | [5] |

10. Improving Profitability/Performance:

- | | | | | | | |
|------|--|-----|-----|-----|-----|-----|
| i. | Increased market share? | [1] | [2] | [3] | [4] | [5] |
| ii. | Initiated new unique products and based on customer needs? | [1] | [2] | [3] | [4] | [5] |
| iii. | Developed cost cutting strategies? | [1] | [2] | [3] | [4] | [5] |

11. Trust with Customer:

- | | | | | | | |
|------|---|-----|-----|-----|-----|-----|
| i. | Loyal Customer to the bank? | [1] | [2] | [3] | [4] | [5] |
| ii. | Customer complaint management? | [1] | [2] | [3] | [4] | [5] |
| iii. | Customer complements to the banks? | [1] | [2] | [3] | [4] | [5] |
| iv. | Customer referrals and repeat business? | [1] | [2] | [3] | [4] | [5] |

Thank you for your cooperation