STRATEGIC RESPONSES OF KENYA COMMERCIAL BANK LIMITED TO CHANGES IN THE KENYAN BANKING INDUSTRY

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DECLARATION

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

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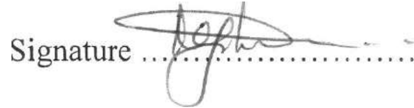
Signature  Date 11/11/2009

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ti/Dr. Martin Ogutu

DEDICATION

This work is dedicated to my parents for having given me the purpose and reason to pursue further education and to Mumbi my fiancee for the great support that she has given me throughout the course.

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First and foremost Glory be to God for giving for giving me the energy, health and resources to pursue MBA and write this project. I am greatly indebted and thankful to my supervisor, Dr. Ogutu who tirelessly advised, guided and encouraged me even when in times when 1 seemed stuck. Thank you very much and God bless you. I heavily thank my parents, for being my very first teachers and showing me how good education is.

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LIST OF ABBREVIATIONS

Central Bank of Kenya

Kenya Commercial Bank

Automated Teller Machines

ABSTRACT

The objective of the study was to establish strategic responses of KCB to changes in the Kenyan banking industry as well as determine the effectiveness of these strategies. In order to meet this objective, the pertinent primary and secondary data was collected. Primary data was obtained from personal interviews with the respondents who were responsible for developing the strategic responses by KCB to changes in the banking industry. Secondary data was collected from various sources including the strategic planning manuals, annual reports and periodic bulletins of the bank. The data was then analysed qualitatively.

The study established that the competitive forces in the banking industry have been countered by strategic responses by KCB. The challenges that were raised arose from the interplay and presence of all porter's five forces in the banking industry. This forces are the threat of new entrants, threat of substitutes products, rivalry within the industry, the bargaining power of suppliers and the bargaining power of buyers.

According to the research findings, KCB has responded to the competitive forces through restructuring, information technology, product innovation and wide range of product, customer care and branch expansion, and aggressive sales and marketing. Most of the respondents felt that KCB had responded well to the changes and the strategic responses were effective in competing in the changing banking industry.

The study was based on the strategic responses of KCB to changes in the Kenyan banking industry. Alternatively a cross sectional survey covering the whole industry can be undertaken. This will allow for industry generalization to be made. A comparative study between indigenous banks like KCB and multinational banks like Barclays bank can be carried out to see if there exist any differences in their response strategies to competitive forces in the banking industry

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Over the past few decades a major shift is believed to have occurred in the way organizations cope with their environments. Researchers assert that many companies have increasingly adopted strategic planning due to the increasing turbulent environment. Pearce and Robinson (1997) observe that all organizations inevitably have to interact with a dynamic environment that is constantly changing. They have to establish a match between themselves and the environment in which they have to survive.

To deal effectively with everything that affects the growth and profitability of a firm, executives employ management processes that they feel will position their firm optimally in their competitive environment by maximizing the anticipation of environmental changes and of unexpected competitive demands.

1.1.1 Changes in the Kenyan Banking Industry

The Banking Sector is composed of the Central Bank of Kenya, as the regulatory authority and the regulated; Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. The CBK which falls under the Minister of Finance docket is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banking sector was liberalized in 1995 and exchange controls lifted.

In the past the central bank of Kenya controlled the lending rates of commercial banks; with the liberalization of the economy the banking sector was also liberalized. The liberalization of the banking sector of Kenya in 1995 meant that commercial banks had a free hand to price their products, which led to increase in lending rates. The conversion of 20 non-banking financial institutions into commercial banks brought the total number of banks in Kenya to 42 in 1995. This meant that there was increased competition in the industry. Competition for survival and growth within the industry is extremely intense. This poses a challenge owing to the poor performance of the economy in the recent past and declines in the inflow of investment and shrinkage of profits (Central Bank of Kenya, 2007).

A number of mergers and acquisitions have taken place this include Paramount Bank and Universal Bank, Southern Credit Banking Corporation Ltd and Bullion Bank Ltd merged to form Southern Credit Banking Corporation Ltd, Kenya Commercial Bank Ltd (KCB) acquired the operations of its subsidiary Kenya Commercial Finance Company Ltd (KCFC) Citibank N.A. acquired most of the assets and liabilities of ABN AMRO Bank. One of the most recent mergers was between CFC and Stanbic bank to become CFC Stanbic Bank. Kenya Commercial Bank Limited also merged with its mortgage subsidiary S&L. (Central Bank of Kenya, 2009).

The increasingly advanced levels of information technology embraced by banks have had a positive impact in the sector. The new and dynamic information systems adopted by most banks have enabled them to process data faster and efficiently. This, coupled with increased use of Automated Teller Machines (ATMs) and on-line banking, has freed bank staff from the mundane manual processing tasks. Banks have also expanded their networks to include on-line customer service which is a process that enables major bank clients to be connected to the banks. Initially only the big banks had installed the ATMs in their various branches but this has since changed whereby also small banks managed to come together and have a common network of ATMs through the Kenswitch but some of those banks have since managed to install their own ATMs.

Institutions have also continued to invest in ICT infrastructure with the objective of improving quality of customer service through offering alternative ICT based products and delivery channels. Some of the new developments in this area include introduction of E-Banking and SMS-Banking Softwares by a number of institutions.

Mainstream commercial banks are also undertaking microfinance business in Kenya, namely: The number of commercial banks involved in microfinance is growing and the current ones are increasing their microfinance portfolio rapidly. Several commercial banks have shown a lot of interest in the microfinance sector and a number of them are down-streaming.

Banking sector is facing a number of challenges today this may include new regulations for instance, the Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, its hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may

be forced to merge in order to comply. The global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Declining interest margins is also a challenge facing the banking industry.

1.1.2 The concept of strategic responses

Businesses of all sizes practice some form of strategic management in response to competition for its survival and sustained profitability. Business use strategic management to formulate as well as implement strategy in order to compete successfully. Lawrence and Lorsch (1967) noted that strategic management is applied for the purpose of molding, directing and relating an organization directly to its environment. Furthermore Murray (1988) considered strategic management as the most critical elements of the management of organizations because it explains success and survival to a large extent.

Much of research on strategic management that focuses on business strategies, environment and organizational performance suggest business strategy can influence organizational performance. Strategic management is a managerial function that helps corporations identify, analyze and respond to social and political concerns that can significantly affect them (Miles & Snow, 1978).

Ansoff and McDonnel (1990) notes that strategic responses involve changes in the firms' strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic response as the set of decisions and actions that results in the formalization and implementation of plan designed to achieve a firms objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Porter (1998) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

In the 1990's many companies have acknowledged the critical importance of being customer oriented, customers pay attention to after sales services and responsiveness of employers (Kotler,

1997). Hamel and Prahalad (1989), noted that restructuring and re-engineering - "while both are legitimate and important tasks, they have more to do with building tomorrow's industry".

According to Aarker (1989), long-term success involves creating managing and exploiting assets and skills that competitors find difficult to match or counter. This involves three steps:

i) Identify relevant skills and assets by observing successful and unsuccessful firms, key customer motivations, large value added items and mobility barriers.

ii) Selecting those skills and assets that will provide an advantage over competitors, will be relevant and appropriate for the future and will be feasible, sustainable and appropriate for the future and

iii) Develop and maintain skills and assets that provide an advantage over those of competitors. He further observed that there are three basic ways to compete, namely on the basis of delivery, quality and price.

1.1.3 Nature of Industry Competition

According to Hunger and Wheelen (1999) the environment consists of variables that form the context within which the firm exists. As Pearce and Robinson (2000) noted, an environment can be divided into two main subset internal and external environments. They point out that the internal environment comprises factors such as the organizations competitive capabilities and both tangible and intangible resources that affect the firms' abilities to meet its objectives. This includes the organizations' culture, structure and resources (Hunger and Wheelen, 1996).

A firm's competitive environment is embedded in the broader environment within which it operates. A firm's external environment includes three interrelated broad factors which determine the nature of opportunities and threats and constraints that the firm faces. The remote environment has factors originating beyond the firm and is usually irrespective of any single firm's operating situation economic, social, political, technological and ecological (Pearce and Robinson, 2003).

The environment also has factors that more directly influence a firm's prospects and this originate in the environment of its industry and include entry barriers, competitive rivalry, the

availability of close substitutes and the bargaining power of buyers and suppliers. The operating environment on the other hand is the competitive environment of the firm. These factors therefore influence a firm's immediate competitive situation, competitive position, customer profiles, suppliers, creditors and the labor market.

Competition arises out of the need for market share and involves not only players fighting for the market share but also routed in the industry's underlying economics and competitive forces include this customers, suppliers, potential entrants and substitute goods are all competitors in one way or the other. The collective strength of these 5 forces (Porter 2001) therefore, determines the profit potential of the industry (Pearce and Robinson 2003). The companies managers must therefore find a place for the firm in the industry where the firm can best defend itself against these forces or influence them in its favor. The firm has to assess the sources of bompetition before coming up with the correct responses. For example, the firm must find out what makes the industry vulnerable to entry and what determines the bargaining power of suppliers so as .to seal the loopholes thus discovered. The sources of competitive pressure highlights the strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify areas where strategic changes may yield the greatest pay off, and highlight the places where the industry trends promise to hold the greatest significance in terms of threats and opportunities.

1.1.4 The Banking Industry in Kenya

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

The Banking Sector is composed of the Central Bank of Kenya, as the regulatory authority and the regulated; Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. The CBK which falls under the Minister of Finance docket is responsible for formulating and

implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banking sector was liberalized in 1995 and exchange controls lifted.

In the past the central bank of Kenya controlled the lending rates of commercial banks; with the liberalization of the economy the banking sector was also liberalized. The liberalization of the banking sector of Kenya in 1993 meant that commercial banks had a free hand to price their products, which led to increase in lending rates. The conversion of 20 non-banking financial institutions into commercial banks brought the total number of banks in Kenya to 42 in 1995. This meant that there was increased competition in the industry. Competition for survival and growth within the industry is extremely intense. This poses a challenge owing to the poor performance of the economy in the recent past and declines in the inflow of investment and shrinkage of profits.

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As at 31st December 2008 the banking sector comprised 45 institutions, 43 of which were Commercial banks and 2 mortgage finance companies, and 120 Foreign Exchange Bureaus. Commercial banks and mortgage finance companies are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations issued there under. Foreign Exchange Bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491 and Foreign Exchange Bureaus Guidelines issued there under (Central Bank of Kenya, 2009).

The banking sector continued on its' growth trajectory in 2008 not withstanding local turbulences arising principally from the post election crisis and the unprecedented Safaricom IPO. The sector also emerged unscathed from the first round effects of the global financial crisis as it was not exposed to the "exotic" assets that fuelled the crisis. The sectors' profit before tax increased by 21.6% from Ksh. 35.6 billion in December 2007 to Ksh. 43.3 billion in 2008. The enhanced profitability was underpinned by strong levels of revenue streams supported by high credit growth (Central Bank of Kenya, 2009).

A vast segment of Kenya's populace continues to be underserved or even unserved by the formal banking sector. The Government has therefore continued to create an enabling environment to extend the outreach of affordable financial services. The Central Bank, in conjunction with other players, formulated Microfinance Regulations which took effect on May 2nd 2008. The

Regulations operationalized the Microfinance Act of 2006 paving the way for the licensing of Deposit Taking Microfinance Institutions. These institutions are expected to play a pivotal role in serving the peri urban and rural areas of Kenya.

Kenya's banking sector in 2008 continued to be vibrant and dynamic in embracing changes amidst local and global turbulences. On the ICT front, banks continued to embrace new technology by upgrading and replacing their core banking systems. There was also an increased uptake in the use of mobile phone technology as a service delivery channel. Therefore, in this regard, a number of new products were introduced by financial institutions that leverage on ICT particularly mobile phone technology (Central Bank of Kenya, 2009).

Stiff competition in the banking industry has seen bank business managers embark on business strategies biased towards increased business volumes. Increased consumer awareness has led to customers demanding efficient services at affordable cost. Therefore, to optimize the bank's objective function, and faced with the constraint of providing efficient and affordable services, the only feasible solution is to invest in good ICT infrastructure. It is now apparent that any bank embarking on business growth strategy has to consider whether its ICT platform is adequate and robust enough to support its business model. Any mismatch between business growth and IT infrastructure could lead to unmanageable operational risks. The most notable impact of development in ICT on the banking sector has been improved efficiency. As more and more banking business processes are automated, banks are in a position to offer services to many customers using reduced human resources.

1.1.5 Kenya Commercial Bank Ltd.

The KCB group is the largest financial services group in EAST Africa, with an asset base estimated at over US$2.5 billion. Since 2004, all of the branches in Kenya have been rebranded as part of a wider corporate branding exercise. KCB has partnered with Pesa Point to increase the number of ATM points customers can access their funds. As at 30th July 2009 KCB had 183 outlets with Kenya running 156 branches, Tanzania 9, Uganda 11, Sudan 5 and Rwanda has one. The bank has over 220 proprietary automated teller machines and has arranged access to an additional 110 units owned by PesaPoint for its customers.

The history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa eight years later in 1904, the bank extended its operations to Nairobi, which had become the head quarters of expanding railway line to Uganda. The next major change in the bank's history came in 1958. Grindlays Bank merged with the national bank of India to form the National and Grindlays Bank. Upon independence in 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the government of Kenya acquired 100% ownership of the bank's share to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. The government of Kenya progressively reduced its shareholding in KCB to 80% in 1988, 70% in 1990, 60% in 1996 and 35% inl998. The government further offloaded 9% holding by renouncing its rights in a rights issue. The government of Kenya again sold its rights in the open market and reduced its shareholding to 23% in June 2008.

In 1972, Savings & Loan (Kenya) limited was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross border trading. In pursuance of the vision "To be the Best Bank in the Region" in May 2006, KCB extended its operations to Southern Sudan following licensing by the Bank of Southern Sudan. In November 2007, the first branch of KCB Uganda limited opened in Kampala, Uganda following licensing by the Bank of Uganda. In 2008, KCB expanded to Rwanda, where the first branch opened in Kigali in December 2008. A subsidiary is expected to be opened in Burundi during 2009.

The bank in early 2009 changed its vision from "to be the best bank in the region" to "to be the preferred financial solutions provider in Africa with a global reach by 2013." Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach of 2013. In 2008 KCB launched its new core banking system which put the business on the desired one-branch banking network. This new core banking system will enhance efficiency due to increased automation of the operations, ensuring optimal revenue collection and management. The T24 system will also enable KCB to offer online real-time banking services to all customers in Kenya and will also enable the bank to consolidate a number of functions currently offered separately. However the system experienced

some challenges in the first half of 2009 that impacted negatively on the customer service but has since stabilized and service offering has greatly improved.

During the first half of 2009 the bank recorded a profit before tax of Kshs. 3.64 billion, which was 4% higher than the performance of the same period in 2008 although operating profits increased by 29%. Assets increased by 4% to top ksh. 177.8 billion compared to ksh. 171.4 billion over the same period in 2008, indicating KCB's position as one of the largest banks in the region in that respect. In the month of July 2009 KCB was voted the best bank in Kenya by Euromoney Magazine which is recognition that takes into account the strong fundamentals and the predictability of bright future. Currently the bank is second in terms of profit but is facing stiff competition from other indigenous banks like Equity bank and multi nationals like Barclays Bank of Kenya Ltd. and Standard Chartered Bank. (KCB booklet, 2009)

1.2 Research problem

Given the current uncertainty and surprising environmental turbulence in the global context, especially in Kenya, there is need to institutionalize flexibility and dynamism in planning and implementation of projects. No longer can any enterprise depend on historical trends or projected trend without critically observing, analyzing and evaluating "surprising events and issues" which affect the known trend-be it external or internal (David, 1998).

The Kenyan banking sector is an important sector in improving the economy of the country. Over the past years, the banking sector has witnessed phenomenal growth in asset base attributed to the increase in deposits and injections of capital as well as retention of profits by industry players. To maximize on market opportunities, most banks have been flexible and reacted to the market signals. With 45 banking and non-banking financial institutions in Kenya, competition is raging. Competition has been very intense leading to most banks employing different strategies in order to remain competitive.

In Kenya various studies have been conducted on how firms respond to different challenges Kombo (1997) studied strategic responses by firms facing changed environmental conditions where he focused on the motor vehicle franchise holders in Kenya. Kandie (2001) studied strategic responses adopted by Telekom Kenya ltd. in a competitive environment. Ramona

(2008) studied strategic responses to competition by Barclays Bank of Kenya Limited while Chege (2008) did a study on competitive strategies adopted by Equity bank limited. As much as the banking industry is facing enormous challenges in Kenya, available literature indicates that no study has been conducted to analyze the strategic responses of KCB Ltd. to changes in the Kenyan banking industry. The bank competes intensively amongst other powerful bigger firms and is likely to adopt appropriate strategic responses. It is in view of this necessity that this study seeks to determine the type of strategic responses KCB ltd. has undertaken. Therefore the research questions that will be addressed are:

i. Does KCB Ltd respond strategically to changes in the Kenyan banking industry?
ii. How effective are the strategic responses of KCB to the changes in the Kenyan banking industry?

1.3 Research Objective

i. To establish the strategic responses of KCB to changes in the Kenyan banking industry.
ii. To determine the effectiveness of the strategic responses of KCB Ltd. to the changes affecting the banking industry in Kenya.

1.4 Importance of the study

The study will be of great significance to various groups of people the first one being the management of KCB Ltd. The management could use the findings of this research to identify the strategic gaps in their responses to competition and the effectiveness and limitations of the responses. The research will provide information on the competitive strategies adopted by KCB in its endeavors and how they influence performance and long term success of the organization.

The second group of beneficiaries will be the current and potential investors. The study findings will help potential investors understand the nature of competition in the industry and therefore make decisions on investments in the industry. The findings of the research project report will also be crucial to the current investors such as shareholders in making decisions on additional investments in the KCB business.

The study will also be of use to competitors. The research findings shall be of great help to competitors whose eyes shall be open on the current strategies being applied by KCB Ltd. against competition. The research will provide competitor benchmarking and increased competition to the advantage of the consumer.

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CHAPTER TWO

LITARATURE REVIEW

2.1 Nature of Industry Competition

Competition is the act of trying to be the best among the competitors in the market. It is the act of seeking or endeavoring to gain what another is endeavoring to gain at the same time. It is common strife for the same objects or superiority. It entails rivalry for a prize. Competition in business is about two or more parties aiming at winning the same customer. Each party will want to impress the customer most. Competition becomes the basis of protection to the consumer in that manufacturers/suppliers are forced to give the best to the customer in order to be competitive in the market. Competition is born out of demand for a certain product. The higher the demand the lower the competition and vice versa. It is therefore important to research competition by identifying existing levels of demand and supply before one goes into production.

Competition gives incentives for self-improvement. Sometimes internal competition is introduced within a company with the aim of improving the company's competitiveness. Alfred Sloan, at General Motors, first introduced the idea in the 1920's. Sloan deliberately created areas of overlap between divisions of the company so that each division would be competing with other divisions. For example, the Chevy division would compete with the Pontiac division for some market segments. Also, in 1931, Procter and Gamble initiated a deliberate system of internal brand versus brand rivalry. The company was organized around different brands with each brand allocated resources including a dedicated group of employees willing to champion the brand. Each brand manager was given responsibility for the success or failure of the brand and was compensated accordingly. This form of competition thus pitted a brand against another brand. Finally, most businesses also encourage competition between individual employees. An example of this is a contest between sales representatives. The sales representatives with the highest sales (or the best improvement in sales) over a period of time would gain benefits from the employer (Wikipendia, 2008)

Competition may exist at different sizes and levels. It may be between two members of a species or can involve the entire species. For example competition between two small stores would be considered small compared to competition between several mega-giants. As a result, the

consequences of the competition would also vary in that the larger the competition, the larger the effect. In addition, the level of competition can also vary. At some level, competition can be informal and low keyed while other competitions can be extreme and bitter (Wikipwndia, 2008).

Competition takes different forms. These are performance, head-to-head and predatory. In the performance competition, each competitor is judged on how well he or she does. Knowledge of opponents can affect the performance. In a head-to-head competition, each goes on both offence and defense trying to score while at the same time deterring the opponent. In predatory competition, one side attacks while the other tries to stave off the attack (Clarkn, 2007).

According to Porter (1980) competitor analysis in strategic management is an assessment of the strengths and weaknesses of current and potential competitors in an industry. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats in the environment. Given that competitor analysis is an essential component of corporate strategy. Porter (1998) states that most firms do not conduct this type of analysis systematically enough. Instead many enterprises operate on what he calls "informal impressions, conjectures and intuition gained through the tidbits of information about competitors every manager continually receives." As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis (Porter, 1998).

Porter (1980) placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of competitive strategy. He presented the possibility of selecting a strategy based on a well-defined position in the economic market backed-up by analysis rather than 'prescription'. Thompson (1997) asserts that despite all the discussions on competition, it has proved to be a very broad and complex concept because a whole range of factors account for it. He contends that perspectives in various disciplines reveal that competition is a multi-faceted concept.

Waheeduzzan and Ryans (1996) asserts that we can regard the notion of competition as associated with four major group of thought. The four major groups are: advantage and/or price competitiveness perspective; strategy and management perspective; historical and social cultural perspective; and development of indicators of national competitiveness. Pearce & Robinson

(1997) asserts that a further complexity of competition arises due to the limit of analysis and perspective of the analyst. They alluded to the fact that politicians are interested in the competitiveness of the economy (national, regional or local), industries or trade associations confine their interests to their own industry, and business owners and managers worry about the ability of their own firms to compete in specific areas.

A sound microeconomic, political, legal and social context creates the potential for competitiveness but is not sufficient. Competition ultimately depends on improving the microeconomic capability of the economy and the sophistication of local companies, in both their operations and strategy. Furthermore, Porter (1998) states that it is firms and not nations that compete in international markets. He states that one must understand how firms create and sustain competitive advantage in order to explain what role the nation plays in the process. Porter (1998) asserts that the basic unit for understanding competition is the industry. According to Porter (1996), at the level of individual firms, competitiveness is the ability of a firm to survive and prosper, given the competition of other firms for the same profits.

The competitiveness of a firm is the result of a competitive advantage relative to other firms. Porter (1996) defines competitive advantage as the ability of a company to make products that provide more value to the customer than rival products, leading to higher sales and higher profits for that company. Porter (2004) asserts that perspective of a firm's competitive success can be viewed as either internal or external. Internal, because the competitive advantage resides inside a company or industry, and that the competitive success depends primarily on company choices. External, because the competitive advantage resides partly on the location at which the company's business units are based and the cluster participation is an important contributor to competitiveness. Subsidiaries of advanced country multinationals will be closer the leading edge of competition through technology and experience, while domestic firms, such as state owned enterprises, may be at the low end of experience, quality and product advantage (Hallack and Scott, 2005). For domestic firms facing global competition, industry imports impose an additional competitive challenge that differs from purely domestic competition (Ghoshal, 1987).

2.1.1 Porter's Five Force Model

Porter's (1980) five forces model identify the basic sources of competition at the organization and product level. The Five Forces include three forces from the 'horizontal' competition which are threat of new entrants, threat of substitute products, the rivalry within the industry; and two forces from 'vertical' competition which are the bargaining power of suppliers and the bargaining power of buyers (Porter, 1980).

2.1.1.1 Threat of new entrant

Profitable markets that yield high returns will draw firms. The result is many new entrants, will effectively decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rates will fall towards a competitive level. The easier it is for new companies to enter the industry, the more cut throat competitive there will be. The possibility of new firms entering an industry impacts competition. The most attractive segments has high entry barriers and low exit barriers (Porter, 1980).

Birecree (1994) states that although any firm should be able to enter and exit a market, each industry often presents varying levels of difficulty, commonly driven by economics. Manufacturing based industries are more difficult to enter than many service based-industries. The definable characteristics of each industry protect profitable areas for firms and inhibit additional rivals from entering the market. Porter (1980) refers to these inhibitive are referred to as barriers to entry. He contends that both potential and existing competitors influence average industry profitability and that the threat of new entrants is usually based on the market entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. Entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position (Porter, 1980). The most common form of entry barriers, except intrinsic physical or legal obstacles are economies of scale, high cost of entry, major investment into technology, Government legislations, and highly differentiated products (Grant, 2005).

2.1.1.2 Bargaining power of suppliers

Also described as market of inputs, suppliers of raw materials, components, and services (such as expertise) to the firm can be a source of power over the firm. He asserts that suppliers may refuse to work with the firm, or charge excessively high prices for unique resources. This is how much pressure the suppliers can place on a business. Porter (1980) contends that if one supplier has a large enough impact to affect a company's margin and volumes, then they hold substantial power.

As a result, the analysis of supplier power typically focuses on the relative size and concentration of suppliers relative to industry participants and on the degree of differentiation in the inputs supplied (Porter, 1980). Porter (1985) alludes that bargaining power of suppliers also exists where the switching costs are high, there is high power of brands, possibility of forward integration of suppliers (e.g. breweries buying bars), fragmentation of customers with a limited bargaining power (e.g. Gas/Petrol stations in remote places). The ability to charge customers different prices in line with differences in value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1998).

2.1.1.3 Bargaining power of buyers

Also described as the market of outputs, this is the ability of customers or buyers to put the firm under pressure (Arthur, 1992). He contends that the bargaining power of buyers also affects the customer's sensitivity to price changes. Porter (1980) asserts that if one customer has a large enough impact to affect a company's margins and volumes, then they hold substantial power. The most important determinant of buyer power is the size and the concentration of customers. Other factors are the extent to which the buyers are informed and the concentration of the competitors (Porter, 1980).

Pearce & Robinson (1997) states that this force is relatively high where there a few large players in the market, for example, as it is the case with retailers in grocery stores. It is also present where there are a large number of undifferentiated, small suppliers, such as small farming businesses supplying large grocery companies. However, he states that it is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power.

2.1.1.4 Threat of availability of substitutes

Porter (1980) refers to substitute products as those products that are available in other industries that meet an identical or similar need for the end users. The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases. As more substitutes become available and affordable, the demand of the product(s) becomes more elastic since customers have more alternatives. Birecree (1994) indicates that if the cost of switching is low, then this poses to be a serious threat. Thus, there will be a high likelihood that someone will switch to a substitute product or service. Birecree (1994) describes switching costs as the costs in areas such as retaining and redesigning that are incurred when a customer switches to a different type of product or service. Porter (1985) contends that substitute) contends that substitute products may limit the ability of firms within an industry to raise price and improve margins. Porter (1985) further states that the threat that substitute products pose to an industry's profitability depends on the relative price-to-performance ratios of the different types of products or services to which customer can turn to satisfy the same basic need.

2.1.1.5 Rivalry within the Industry

This describes the intensity of competition between existing firms in an industry. For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation and marketing (Porter, 1980). Porter (1985) asserts that highly competitive industries generally earn low returns and therefore firms strive to secure a competitive advantage over their rivals. According to Miller (1992), the intensity of rivalry varies within each industry and these differences can be important in the development of strategy. He further states that the intensity of rivalry, which is the most obvious of the five forces in an industry; helps determine the extent to which the value created by an industry will be dissipated through head-to-head competition. Porter (1985) also states that this force is most likely to be high in those industries where there is a threat of substitute products and existing power of suppliers and buyers in the market.

2.1.2 Challenges of Industry Competition

Firms face various challenges due to competition. Such challenges include identifying competitors and understanding them and creating competitive strategies to fight competition.

Normally, identifying competitors would seem a simple task. A company can define its competitors as other companies offering similar products and services to the same customers at similar prices (Kotler and Amstrong, 2008). To plan effective marketing strategies the company needs to find out all it can about its competitors. It must constantly compare its marketing strategies, product, prices, channels and promotions with those of close competitors. In this way the company can find areas of potential competitive advantage and disadvantage. In order to understand their competitors the company must know their market well. The company can profile their direct and indirect competitors by mapping steps buyers take in obtaining and using the product (Johnson and Scholes, 2001).

After identifying the competitors, the next challenge is to understand them. This is in terms of their objectives in the market place, their strategy, their strengths and weaknesses and how they will react to actions that the company might take. Some of the objectives that company's have include profitability, market share growth, cash flow, technological leadership, service leadership and others. Its' only after knowing the competitors mix of objectives that the company can judge whether the competitor is satisfied with their current situation and how they might react to different competitive action. Knowledge of competitor's strategy is important because the level of competition between two firms is influenced by the resemblance of their strategies. The more the resemblance the more competition (Kotler and Armstrong, 2008).

Competitors need to assess each other's strengths and weaknesses in order to predict the reaction that the opponent is likely to take in retaliation to competition in the market. This knowledge will assist the company to identify which competitors to attack and which to avoid. A firm may try to destroy a weak competitor only for the weak competitor to sell out to a larger firm that may end up posing a serious challenge in the market. A company should therefore choose wisely how and when to fight a competitor. One big challenge that firms face in understanding their competitors is gathering information about them. Information must be collected, interpreted, distributed and used. This involves cost in terms of money and time. The company must therefore design its competitive intelligence system in a cost effective way so as to ensure that the whole process is not counter productive (Miles & Snow, 1978).

Formulation of suitable competitive strategies is a challenge imposed on firms by competition. After identifying and evaluating its major competitors, the company needs to design competitive

strategies by which it can gain competitive advantage through superior customer value. For a firm to formulate suitable competitive strategy it must consider its position in the industry, its objectives, opportunities and resources.

Competition in the market has various consequences. One consequence is on the quality of the products. Competition may affect quality either negatively or positively. In order to win customers, a competitor in the market may choose to improve on the quality of the product. This is the use of product leadership strategy (Kotler and Armstrong, 2008). However unscrupulous competitors may choose to cut costs by compromising on the quality of the product so as to survive in the competition.

Competition has an impact on prices. A high level of competition will tend to force the competitor to lower the prices so as to attract demand. This way the consumer benefits from relatively affordable prices. On the other hand competition leads to reduced profits for companies. This may however not be the case where competitors choose to collaborate.

2.2The concept of strategic responses

Businesses of all sizes practice some form of strategic management in response to competition for its survival and sustained profitability. Business use strategic management to formulate as well as implement strategy in order to compete successfully. Lawrence and Lorsch (1967) stressed that strategic management is applied for the purpose of molding, directing and relating an organization directly to its environment. Furthermore Murray (1988) considered strategic management as the most critical elements of the management of organizations because it explains success and survival to a large extent.

Much of research on strategic management that focuses on business strategies, environment and organizational performance suggest business strategy can influence organizational performance (Karemu, 1993). Strategic management is a managerial function that helps corporations identify, analyze and respond to social and political concerns that can significantly affect them (Miles & Snow, 1978).

Ansoff and McDonnel (1990) noted that strategic responses involve changes in the firms' strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic response as the set of decisions and actions that results in the formalization and implementation of plan designed to achieve a firms objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Porter (1998) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

In the 1990's many companies have acknowledged the critical importance of being customer oriented, customers pay attention to after sales services and responsiveness of employers (Kotler, 1997). Hamel and Prahalad (1989), noted that restructuring and re-engineering - "while both are legitimate and important tasks, they have more to do with building tomorrow's industry".

According to Aarker (1989), long-term success involves creating managing and exploiting assets and skills that competitors find difficult to match or counter. This involves three steps:

iv) Identify relevant skills and assets by observing successful and unsuccessful firms, key customer motivations, large value added items and mobility barriers.

v) Selecting those skills and assets that will provide an advantage over competitors, will be relevant and appropriate for the future and will be feasible, sustainable and appropriate for the future and

vi) Develop and maintain skills and assets that provide an advantage over those of competitors. He further observed that there are three basic ways to compete, namely on the basis of delivery, quality and price.

Response strategies are strategy related decisions and actions that are taken to respond to the firm's immediate and remote external environment. The immediate external environment includes competitors, suppliers, increasingly scarce resources, government agencies and other numerous regulations and customers whose preferences often shift inexplicably. The remote

external environment comprises economic and social conditions, political priorities and technological developments, all of which must be anticipated, monitored, assessed and incorporated into the executive's decision making. Response strategies are part of the firm's strategic management. Strategic management involves the planning, directing, organizing, and controlling of a company's strategy related decisions and actions (Pearce and Robinson, 1997).

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage in the industry. He brings forward the five forces driving industry competition which are threat of new entrants, bargaining power of buyers, bargaining power suppliers, threat from substitute products or services and rivalry among existing firms. Porter (1980) believes that once these five forces have been identified clearly in a particular industry, a SWOT analysis of the firm should be done to determine the firm's competitive position in the industry. This will then enable the firm to decide which strategies to apply in order to combat competition.

Johnson and Scholes (2001) postulate that the organizational strategies exist at three levels: corporate level, business or competitive level and operating level. Corporate level strategies involve the overall structural scope of the organization while business level strategies use strategic business units (SBU's) to compete successfully. Operational level strategies deal with internal procedures and standards. The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, Porter (1980) points out that a diversification strategy stands apart from the other three strategies.

The first three strategies are usually pursued with the same technical, financial and merchandising resources used for the original product line, whereas diversification usually requires a company to come up with new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volumes obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business level it is most likely to expand into a new segment of an industry in which the business is

already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit (Ansoff, 1980).

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage and the business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of the owners or major stakeholders and add value to different parts of the enterprise. This included issues of geographical coverage, diversification of products/services or business units and how resources are to be allocated between the different parts of the organization.

Porter.prescribed three generic competitive strategies. These are cost leadership, differentiation and focus. Cost leadership aims at being efficient in production and operations to reduce costs by having controls to this effect. Differentiation means targeting different market segments and catering for each individually to gain maximum value. Focus involves concentrating on one particular market niche to position oneself in the market.

Hill and Jones (2001), state that focus strategy concentrates on serving a particular market niche, which can be defined geographically or through the type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovative product that a customer can not do without. The company has enormous opportunity to develop its own niche and compete against low cost and differentiated enterprises which tend to be larger.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and the business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, material management, research and development and human resources. Even though strategies may be focused on a given function, more often than not they embrace the two or more functions and

require close co-operation among functions to attain companywide efficiency, quality innovation and customer responsiveness goals.

In order to make the most suitable response strategy to adopt the firm must determine the source of the threat, whether it is emanating from the firm or from the environment. Strategic problems are hard to pin-point and they require special attention. Unless specific provisions are made for concern with strategy, the firm may misplace its effort in pursuit of operating responses at a time when attention should be to strategic responses. The balance of management attention to strategic and operating responses is ultimately determined by the firm's environment. Strategic responses are adopted more when there is turbulence in the operating environment with regards to diminishing demand, unstable technology and rapid change in customer demands and preferences. On the other hand a firm can comfortably remain focused on operational responses if the demand in the firm's market is growing, technology is stable and customer demands and preferences change slowly. Under such circumstances the firm may let its products, markets and competitive strategies evolve slowly and incrementally (Pearce and Robinson, 1997).

2.3 Strategic Responses

Strategic responses are concerned with reacting to threat to the long term direction of an organization by changes in the operating environment. They are meant to cushion the firm against any threats emanating from the environment. Ansoff (1980) asserts that when a firm fails to respond to threat, the losses that result continue to accumulate. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that results in formalization and implementation of plans designed to achieve a firms objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Strategic responses is about restructuring by adopting new strategies that match the challenges from the environment. Some of the strategies that have been used for restructuring are re-engineering, downsizing, self management and out sourcing. According to Ansoff and McDonnel (1990), the management system used by a firm is a determining component of the firm's responsiveness to environmental changes because it determines the way that management perceives the environment, diagnosis its impact on the firm, decides what to do and implements the decisions. The strength of a firm's strategic responses capabilities is determined by flexibility

in market, production and competition. Market flexibility deals with the organizations ability to have a high market share. Production flexibility arises from a firm spreading its value creation activities in those markets where it has a major market share, while competitive flexibility of an organization arises from its ability to coordinate its competitive moves.

Business of all sizes practice some form of strategic management in response to competition for its survival and sustained profitability. Business use strategic management to formulate as well as implement strategy in order to compete successfully. Johnson and Scholes (2002), stressed that strategic management is applied for the purpose of molding, directing and relating an organization effectively to its environment. Furthermore Murray (1988) considered strategic management as the most critical element of the management of organizations because it explains success and survival to a large extent.

Much of the research on strategic management that focuses on business strategies, environment and organizational performance suggest business strategy can influence organizational performance (Karemu, 1993). Strategic management is a managerial function that helps corporations identify, analyze and respond to social and political concerns that can significantly affect them (Miles and Snow, 1978).Ansoff and McDonnel (1990) noted that strategic responses involve changes in the firms strategic behaviors to assure success in transforming future environment.

Pearce and Robinson (1991) define strategic response as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Mpungu (2005) sees it as a reaction to what is happening to the environment of the organization. When firms are faced with unfamiliar changes, they should revise their strategies to match the turbulence level (Ansoff and McDonnel, 1990). Some of the strategic responses a firm uses in different competitive situations are the generic strategies reviewed below.

2.3.1 Generic Strategies

Pearce and Robinson (1991) have outlined three generic strategies that firms usually employ in order to compete effectively in the market. These are overall cost leadership, differentiation and focus. Overall cost leadership aims at achieving overall cost leadership in an industry through a

set of functional policies aimed at this basic objective. It requires aggressive construction of efficient scale facilities, vigorous pursuit of cost control, avoidance of marginal customer accounts and cost minimization in areas like research and development, service, sales force advertising and so on. Differentiation involves differentiating the product or service offering of the firm, creating something that is perceived industry wide as being unique. Focus, on the other hand, involves focusing on a particular buyer group, segment, segment of the product line, or geographic market. Focus strategy is build around serving a particular target very well and each functional policy is developed with this in mind.

A firm that fails to develop its strategy in at least one of the three directions mentioned above is said to be 'stuck in the middle'. According to porter, such a firm will be in an extremely poor strategic position in that it lacks the market share, capital investment and resolve to play the low cost game, the industry wide differentiation necessary to obviate the need for leadership cost position or the focus to create differentiation or a low cost position in a more limited sphere.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research was conducted through a case study design. The method is appropriate as it involved an in - depth understanding of the strategic responses of Kenya Commercial Bank Limited to changes in competitive environment. It enabled the researcher to get an in depth understanding of how effective the strategic responses of KCB to changes in the competitive environment are. The design was valuable for an in-depth contextual analysis. This method had been successfully used by Adoyo (2006).

3.2 Data Collection

The study uses primary data. Interview guide was used for data collection which consisted of open ended questions. Pertinent data was collected from the top management of the bank at the headquarters. The people interviewed were the head of Personal banking, head of Micro, head of SME, head of corporate banking, head of human resources, head of Islamic banking, head of retail banking.

The study was carried in Nairobi where the headquarters of KCB is located and the target respondent based. The respondent comprised those who have been involved in formulation of the strategic response variable that were studied and the heads of major departments who are also charged with responsibility of overseeing the implementation of strategy in KCB.

Personal interviews were conducted by the researcher himself. The questionnaire was basically open ended to enable the respondent to give as much information as possible without any form of limitation. This also helped in probing for more information and seeking further clarification. See appendix II for the interview guide.

3.3 Data Analysis

The data analysis sought to establish the response strategies of KCB to changes in the Kenyan banking industry and the effectiveness of the strategies. Data was analysed using the content analysis. Content analysis enables detailed descriptions of observation objects and other variables that comprise a study. Thus the data collected was analysed using content analysis which involved logical grouping of the information gathered to enable the researcher to apply qualitative analysis, compiling results and interpretations.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the analysis of data collected and its interpretation. The study focused on two major objectives which were to establish the strategic responses of KCB Ltd. to changes in the Kenyan banking industry and to determine the effectiveness of the strategic responses. Personal interviews which were conducted with senior managers of KCB Ltd. selected from various departments of the company enabled collection of primary data. An interview guide was designed for purpose of the interview. The interview guide used comprised mainly open-ended questions.

The data was mainly analysed by content analysis, which sought the objective, systematic and qualitative description of a manifest content between the researcher and representatives of the organization under the study, and the results are provided. Various issues regarding changes in the banking industry have been analysed which include changes in the firms objectives, mission statement, vision, goals and corporate plans in response to the changes in the banking industry. Effectiveness of the strategic responses to the changes has also been analysed.

4.2 Competitive Forces in the Banking Industry

Porter's five forces influence the competitive situation in any industry. These forces are barriers to entry, rivalry in the industry, threat of substitutes, bargaining power of buyers and the bargaining power of suppliers (Porter, 1980). The respondents stated that all these forces are at play in the banking industry in Kenya. According to the respondents, there have been a number of changes in the banking industry in Kenya within the last 5 years that have resulted in the increase in intensity of competitive forces, which have posed various challenges to KCB Ltd.

1.2.1 Bargaining Power of Customers

rhe increasing level of technological advancement, education and awareness among customers las led to the emergence of a more informed, demanding and sophisticated clientele. The •espondent saw that this is as increasing the bargaining power of customers. The market place is ncreasingly becoming customer oriented and with rising levels of competition customers are spoilt for choice. According to the respondent, losing a single corporate or institutional customer would have adverse effects on the bank's bottom line. Service therefore must be of high quality >o as to build and maintain customer satisfaction and loyalty. The bank has put in place systems >f obtaining customer feedback, which they use to improve their customer service.

n addition, the respondent stated that KCB has to undertake market segmentation and the ievelopment of a variety of products to cope with and satisfy the constantly changing needs of :he customers. The ongoing installation of ATMs by the bank in various delivery points ncluding supermarkets and.also partnering with Pesa point, has been driven by customers' need for convenience banking 2 hours a day. The respondents felt that the delivery of quality customer service is what people value in a bank. They stated that the bank is enabling excellent customer service by inculcating the following core values in service delivery; putting the customer first, working together as team, being professional in everything, willingness to change and caring for ;he community.

According to the respondents, since the customers' taste and preferences are becoming more sophisticated, the bank has to move from their more traditional role of a financier to one of financial relationships. This way, the bank is now visiting their customers, especially the high net worth customers. The bank has had to change their way of doing business to suite these new :ustomer orientations. The bank is also working towards satisfying the specific customer needs and changing behavior by treating them as individuals. For instance the bank is now opening for longer hours and has some branches that are opening the whole day on Saturdays.

4.2.2 Rivalry within the Banking Industry

Rivalry amongst the banks was considered very high amongst the respondents. Competition is ever increasing in the banking industry. Banks are coming up with new innovative products to outdo their competitors. Kenya's population is over 33 million and out of which only 4 million

people have bank accounts with savings at less than 10% of Gross Domestic Product. Clearly this indicates the banking industry has a lot of room for growth. This has made the rivalry very intense.

According to the respondents the bank is coming up with different financial incentives and products to outdo the competition. These include; credit cards with reduced interest rates on transferred balances and above-market interest rates on savings deposits. Technological advancement by the bank has resulted in the concept of branchless banking whereby customers can be served in any branch regardless of where they opened their account. However the respondents also felt that the technological innovations are not only expensive to adopt, but also involve a high rate of obsolescence.

The respondents indicated that the method of marketing and selling the bank's products keeps undergoing change due to the increased rivalry. Today the bank will approach the customer and not the other way round as was the previous case. The bank is actually making it possible for customers to open a bank account without stepping into the banking hall by visiting them in their offices. The bank is also attracting customers by aggressively reaching out into the streets and shopping malls. However, the respondents felt that the bank needs to be more innovative at all times since it takes the other banks a very short time to copy and improve on new products.

4.2.3 Threat of new entrants

On the basis of the responses, it was evident that barriers to entry into the banking industry are quite high. Therefore, the threat of new entrants is very minimal. The minimum capital adequacy/requirement is currently at Kshs. 1 billion for commercial banks. The respondents added that this was one of the reasons for the increase in the number of non-bank financial institutions such as micro-finance and cooperative societies, which offer the products that, are good substitutions to those offered by banks.

According to the respondents, government legislation has a huge impact on the banking industry because banks must comply with government regulations. For example, the raising of capital adequacy requirement to 1 billion shillings impacts the industry by making the smaller banks go into mergers, strategic alliances and acquisitions. The respondents felt that even though this is a welcome barrier to new entrants, it has the effect of strengthening the smaller players in the

industry. The respondents were also of the opinion that the reduced government borrowing from the public has lowered interest earnings from treasury bills thus resulting in reduced earning for the bank in the investment in treasury bills. Consequently, the bank has had to look for other avenues of earning e.g. revenue from commissions.

In addition, the respondents stated that over the years customers have expressed concerns regarding the high charges imposed by the banks for the provision of services. In response to the concerns, the central bank publishes on weekly basis, selected banks charges levied by all financial institutions so as to foster transparency and enhance competitiveness in the industry. The government can also enforce rules such as maximum interest rate chargeable on borrowed funds thereby affecting the margins banks would make. The government is therefore a force in the industry that cannot be ignored.

4.2.4 Bargaining power of suppliers

Most of the bank's ICT systems, which are the major inputs of the bank, were pre-packaged. As a result the respondents noted that there was a heavy reliance by the bank on the vendor support, thus making the bargaining power of the supplier quite high. In response to the foregoing force, according to the respondent, the bank has been reviewing its contractual relationships with the ICT vendors. This has enabled the bank to have some of the terms of the service adjusted for more flexibility. In addition, KCB has invested heavily in training of its IT staff and in the acquisition of expertise from outside the bank. The staffs are able to develop and service some systems internally and this has thus eased the heavy reliance on vendor support.

4.2.5 Threat of substitute goods

According to the respondents banks not only face competition from other banks but also from micro-finance organizations, forex bureaus and other investment banks. These two offer very competitive rates on loans and savings packages respectively. The respondent also felt that cooperative saving societies posed a major competition through their Front Office Services which are similar to banking activities. The capital markets are also offering alternative and more lucrative avenues on investment rather than keeping money in the bank accounts. The respondents also stated Safaricom mobile telephony company which has introduced the M-pesa

method of sending and receiving money is a major substitute for banking products especially in the rural areas.

4.3. Other Strategic responses

KCB has been responding viciously to the competitive forces in the banking industry that have influenced its competitive situation. Some of the strategic responses include ICT, restructuring, marketing and customer care.

4.3.1 Sales and Marketing

There have been strategic changes in marketing at KCB in response to changing competitive forces in the industry. Market segments have been redefined and marketing functions being reorganized into retail and corporate divisions. The bank is putting a lot of emphasis on improving customer service they have even dedicated a whole week as customer week. The bank has also made its presence known through increased advertisements through both electronic and print media. They have also used sports as platform to create awareness of the bank the most notable being the safari rally which the bank has sponsored and continues to create a lot of visibility for KCB.

KCB in 2006 introduced a direct sales team which was supposed to go out in the market and sell the organizations products. The team comprised of 10 sales managers and 16 sales representatives. The team has grown to around 25 sales managers and 750 sales representatives. The introduction of the sales team was very effective as the team was able to recruit new customers both for liabilities and assets. KCB is now segmenting its market and carefully selecting its customers. The idea is to select target customers and give them high quality service. Some banks are moving up-market to target corporate customers and high net worth individuals while others are focusing on small and/or medium savers. The bank target group cuts across the market they even recently started advantage banking this is banking for the high net worth customers whereby they get specialized services at a flat rate and with longer banking hours. Through the aggressive sales team the bank will now approach the customers and not the other way as previously was.

4.3.2 Restructuring

Over the last five years, KCB has undertaken restructuring with the process being enhanced in the last three years. Both internal and external expertise has been used in the restructuring process. The restructuring process has mainly been in the form of cost cutting and control through automation, modernization, reorganization and staff retrenchments, removal of redundant jobs and the recruitment of skilled and well trained staff to improve on efficiency and effectiveness.

The introduction of cultural change programs to develop sales and profit oriented culture necessitated by the banks culture of inefficiency and lack of customer service. Around 2006 and 2007 a planned rationalization program was complete when a number of employees of all cadres left the bank under special retirement scheme including voluntary early retirements. The restructuring also involved training of staff in the retail network to front office delivery skills and for the head office support staff in product design; assessing training effectiveness in relation to business objectives in a competitive environment. Automation of back and front office processes to avoid duplication and enhance efficiency.

Outsourcing of non core services such as system maintenance and courier services. The bank also reviewed tarrifs to make its products competitive and avoid over reliance on interest income. There was also need to change the banks image from an "old fashioned, government" bank to a more customer focused entity this was done through rebranding of all the KCB branches in the country. In addition the bank's goal of becoming more customer-focused necessitated the provision of faster and better services while maintaining a workforce that is not only efficient but also lean.

According to the respondents, these forms of restructuring were chosen because they were considered appropriate for attainment of appropriate responses to the competitive forces in the industry. The staff rationalization was aimed at reducing the cost of salaried staff and generally reducing the overhead costs of the bank. This was achieved through scrutinized procurement procedures of all tenders on the bank; reduce waste through avoiding unnecessary purchasing in all bank branches and the headquarters. The strategy was effective as it went along way in reducing costs and boosted the bank's competitive advantage.

4.3.3 Customer Care and branch expansion

KCB is also aggressively improving its services to customers. Some activities adopted to improve customer service include: developing and improving customer service departments and desks/counters; increased use of new information technology; appointment of vibrant professional marketing team and direct sales representatives; continuous training of staff; continuous market research and surveys; refurbishment in the of its banking hall to attract customers; introduction of new customer tailored products e.g. unsecured personal check off loans. In a bid to ensure that the bank has the ability to transfer money quickly from several collection points and from different geographical locations the bank has responded through branchless banking. The bank has also increased the total braches it has to almost 200 branches. This has made it easier for customers to reach the bank and it's currently the leading bank with the highest number of branches. KCB is therefore able to collect deposits from as many different geographical locations as possible.

4.3.4 Information Technology

Modernization of the computer systems designed to cut costs, improve delivery to customers. The entire KCB network has been fully computerized. KCB has been making changes in its IT system in response to the changing customer needs and technology trends. KCB recently acquired and installed a new core banking system in October 2008. The respondents noted the use of technology has greatly improved and is used in mobile phones and internet banking customers.

There was increased installation of AMs in various delivery points, including supermarkets, linkage with international money sending and receiving services i.e. Moneygram and Western union money transfer services. According to the respondents the above changes were aimed at achieving an objective of the need to improve customer service through a more convenient and faster access to bank services. According to the respondents, ICT changes involve a substantial cost in terms of software, hardware and qualified personnel. Technological innovations rely on telecommunication efficiency, however the existing communication infrastructure in Kenya his still poor and thus it hampers the full realization of the benefits of technological improvements. The respondents added that the field of information technology is highly dynamic and the bank needs to keep up with the latest technological trends in its operations. The adoption of the new

technology has been very effective with KCB where the bank is now able to collect more fees with the new T24 system, the system can now accommodate a large customer base, the system can run very good accurate reports which can be used for decision making and accurate comparisons.

4.3.5 Product Innovation and wide range of products

The respondents saw the new product development as a very significant response strategy especially to the rivalry of the industry. The bank has embarked on developing new products to lure and retain customers. For example the bank introduced the advantage accounts which target the high end clientele in the market, they also introduced Boresha account which targets the low end of small scale enterprises and which has no monthly ledger fees. Other new products would include insurance on mortgage products incase one leaves employment, Jiinue accounts for salaried employees but with no ledger fees, refinancing for check off loans, cub account which was revamped and is targeted towards children. Islamic products including accounts and loan facilities targeted at Muslims. Even though the product development has been effective in competing with other banks the respondents said that the process of introducing a new product is too bureaucratic and takes too long. A case in point is KCB sales centers which were a good idea to have them but they were introduced almost 2 years after they were suggested.

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CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

5.1.1 Responses of KCB to the changes in the Kenyan banking industry

KCB has addressed the competitive forces in order to enhance its competitive advantage by formulating and implementing the strategic responses that include restructuring, sales and marketing, product innovation, customer care and information technology. However, the study indicated that there is still need for more strategic action that need to be undertaken by KCB in order to enable the bank to fully appreciate the impact of the five forces on its operations and bottofh line. Further, the study also established that KCB has the necessary resources and capability to adopt the strategies that would facilitate effective responses by the bank to the competitive forces.

5.1.2 Effectiveness of the strategic responses of KCB to changes in the Kenyan banking industry

There is intense competition in the banking industry, a wide availability of substitute product, the constant threat of new entrants as well as the bargaining power of buyers and suppliers. As a result KCB has had to undertake strategic responses to counter the impact of these forces. The study indicates that the strategies adopted are very effective though it notes that there is still need to do more in order for the strategies to be very effective. Bureaucracy in new product development thereby causing delays in rolling out new products or even speed of executing a strategy was seen as some hindrances to the effectiveness of strategic responses. There is need therefore for KCB to improve on its processes in order to have very effective strategic responses.

5.2 Conclusion

From the study, the researcher concluded for KCB to remain competitive in the market, it adopted some strategies which are increased branch network, Product innovation and wide range of products, customer care, information technology, restructuring and sales and marketing. The strategies applied were quite effective and enabled the bank to not only be among the top three

most profitable banks in Kenya but to also to be the second most profitable bank in Kenya in 2008.

5.3Limitation of the study

One limitation was that the respondents targeted head of departments in head office whose working schedules were very tight because of the nature of their work. The researcher had to take a long time to get an appointment with them. While collecting data some respondents were at first reluctant to be interviewed this was however overcome by clearly explaining the core objectives of the study. Given that the study was a case study it could not give a general view of how other banks are responding to competitive forces in the banking industry.

5.4 Recommendation for policy and practice

Not only must managers be aware of environmental forces, they must also manage the organization's resources tatake advantage of opportunities and counter threats. If an organization fully understands the nature of the five industry forces, and particularly appreciates which one is the most important, it will be in a stronger position to defend itself against any threats and to influence the forces with its strategy (Porter, 1980).

In view of the above, I suggest that the bank should reduce on it expansion program outside the country and improve on the processes and procedures in the bank if it wants to compete well within the industry. The bank should focus on branches that are not performing well with the intention of improving their performance. These will ensure that the current branches are not only profitable but cost effective and serve customers efficiently.

The bank should continue investing in technology for improved efficiency and effectiveness of its systems. This will also improve on speed of work and enable the employees to do much more and accomplish much more at the end of the day. The bank should continue to aggressively market its products and services through the print and electronic media as well as sponsor event in order to create awareness among consumers as well as attract and retain them.

The marketing department should continue conducting market research surveys in order to establish, for example, what are the new products by competitors, what are their charges, new

entrants into the market. This will enable the bank to become proactive and enable it to develop new products to ensure the bank is ahead of competition at all times.

Staff training and development should take centre stage with the focus being to enhance exemplary service delivery to the customer's satisfaction. The image each bank has in the market has a strong bearing on how effective it will be in drawing the desired target section of banks customers. Therefore the effort that the bank put in rebranding the bank and its branches was welcomed and they should ensure that the right image of the bank is reflected in peoples mind through advertisements, sponsorships, promotions and also through it employees by motivating them well.

Competition in the banking sector is stiff and thus KCB should continue to concentrate on the various market segments that it focuses on. Since the bank targets different classes of the market the different clientele should however be headed by different heads of department to avoid any confusions i.e. head of high end customers should different from the head of low end customers.

5.5 Suggestion for further research

The study recommends further research of companies to competitive forces in other industries. Also a cross sectional survey covering the whole industry can be undertaken. This will allow for industry generalization to be made.

Alternatively a comparative study between indigenous banks like KCB and multinational banks like Barclays bank can be carried out to see if there exist any differences in their response strategies to competitive forces in the banking industry.

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APPENDICES

APPENDIX Is INTRODUCTION LETTER TO THE RESPONDENT

University of Nairobi

School of Business

P.o Box 30197

Nairobi

Dear Respondent

I am a postgraduate student in the school of Business, University of Nairobi; I am conducting a management research project titled strategic responses of KCB Ltd to competition in the Kenyan environment. This is in partial fulfillment of the requirement of masters of Business Administration.

Kindly fill the attached questionnaire. The information you give is for purely academic research and will be treated with strict confidence. A copy of the final report can be made available to you on request.

Your assistance will be highly appreciated. Thank you in advance

N. N Njihia   Dr. Martin Ogutu

MBA student   University Supervisor

APENDIXII: INTERVIEW GUIDE

STRATEGIC RESPONSES AND EFFECTIVENESS

1) How would you describe the state of competition in the banking industry in Kenya?
2) How has the rate of new entrants in the banking industry changed?
3) What strategies have you put in place to cope with the new entrants?
4) How effective are these strategies?
5) What kind of techniques are your rivals applying in the industry to compete?
6) What strategies have you put in place to cope with these techniques?
7) How effective are these strategies?
8) What are the challenges that you are facing from your rivals in the industry?
9) What strategies have you put in place to deal with the challenges of rivalry in the industry?
10) How effective are these strategies?
11) Are there substitutes of your products in the market and if so what are some of the substitutes?
12) What strategies have you put in place to deal with such substitutes?
13) How effective are these strategies?
14) Are you experiencing any changes in the nature of consumers of your product? If so please describe the kind of changes
15) What strategies have you put in place to deal with such changes in the nature of consumers?
16) How effective are these strategies?
17) If the strategic responses are not effective what would you do differently?
18) Any other comments

THANK YOU