

**AN INVESTIGATION OF FACTORS THAT INFLUENCE ORGANIZATIONAL
TRANSFORMATION WITHIN THE COMMERCIAL BANKING SECTOR IN KENYA**

By

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DECLARATION

I declare that this is my original work and has not been submitted anywhere for a degree or qualification of the same in any other university or institute of higher learning.

Signed 

Date 05/11/2009

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This research paper has been submitted for examination with my approval as the University supervisor.

Signed 

Date 7/11/2009

Dr. Zack Awino, PhD

DEDICATION

I dedicate this project to my parents, for without their patience, understanding, support and most of all Love, the completion of this work would not have been possible.

ACKNOWLEDGEMENT

I wish to express my heartfelt appreciation to those who have contributed to the success of this project both explicitly and implicitly. I express my deep sense of gratitude to my supervisor Dr. Zack Awino who provided me with his valuable comments and suggestions. I wish to thank him too for guiding me throughout while writing the project. I am heartfully thankful to my dear friend Caroline, who strongly supported me and gave me a lot of encouragement during the whole period of writing this project. I am also grateful to my dear parents for their financial and moral support in my studies. Finally I am grateful to the whole University fraternity particularly the School of Business for granting me the opportunity to write this project.

ABSTRACT

The study sought to establish the factors that influence organizational transformation in commercial banks in Kenya. The study was guided by the following specific objectives:- to determine the effect of changing customer preferences on organizational transformation in the commercial banks in Kenya; to determine the effect of competition on organizational transformation in the commercial banks in Kenya; and to determine the effect of technology on organizational transformation in the commercial banks in Kenya. A census was used to undertake the current research. The population of interest in this study was all the commercial banks in Kenya, whose number stood at 42 as at 30th June 2008. A census was considered for the study owing to the fact that all the commercial banks have their head offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were the heads of corporate planning or their equivalent. The survey method was used to collect data. The questionnaires were pilot tested on six randomly selected respondents before they were administered so as to ensure that the questionnaires were understood in their correct perspective, in order to meet the research objectives. The procedure that was used in collecting data was through distribution of the questionnaires by dropping and picking them from the respondents at their most convenient time that was agreeable to both parties. The data was analyzed by employing descriptive statistics. For purposes of presentation, frequency tables, percentages, standard deviations and mean scores were used. The study findings show that the factors that influence organizational transformation are customer preferences, competition and technological changes.

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ABBREVIATIONS AND ACCRONNYMS

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
IS	Information Systems
IT	Information Technology
SPSS	Statistical Package for Social Sciences
US	United States

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The Financial services industry has undergone significant changes in the last two decades, and the forces of dynamic changes are even more aggressively challenging today's financial institutions (Strieter *et al.*, 2004). First, rapidly changing electronic technology has reshaped how consumers interact with their financial institutions (Kimball *et al.*, 2004). Second, deregulation has made competition border-less, allowing not only intrastate branching, which has encouraged consolidation, but also entry of foreign financial institutions into the US market (Krishnan *et al.*, 2003; Orlow *et al.*, 2004). Most recently, financial liberalization intensified competition not only within banking institutions such as commercial banks, savings and loans, and credit unions, but also with other non-banking financial firms.

Competition is escalating, both from traditional players and new entrants, owing to deregulation. Changing consumer behaviour and needs, globalization, deregulation, disintermediation and the emergence of new financial service models are all dynamics in the financial services industry. Information technology is also having its impact (Chorafas, 1987; Scarborough and Lannon, 1988; Chen, 1999; Park, 1999).

The focus of this study was to establish the influence of the factors affecting organizational transformation that were identified by Orlow, *et al*, 2004, namely: competition; technological changes; and changes in customer preferences. Understanding the factors that influence the transformation in the organizations could help the implementers of organizational transformation develop rational strategies to effectively respond. This research project looked at the factors that stimulate organizational transformation within the commercial banking sector in Kenya.

1.1.1 Factors that influence organizational transformation

The commercial banking sector in Kenya is currently faced with multiple challenges both internal and external due to changes in the environment. First is the ever changing competitive environment brought about by a myriad of factors key among them being the high number of new entrants. Secondly, the urge for high quality services coupled with the value for money has brought with it a new challenge that banks cannot evade. Thirdly, the ever changing global environment has brought changes in all sectors of the economy with the commercial banking sector not spared. This study will focus on three major factors being; competition, technological changes and changes in customer preferences.

Changes in Customer Preferences

Changes in customer preferences brought about by a variation in behaviour have imposed challenges in decisions relating to offered services. The services are expected to be of high quality in order to satisfy today's demanding clients (Meidan, 2005). The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction. Since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings (Orlow and Radecki, 2004). However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers.

In order to face the challenges of the external environment successfully, Bank's must focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu and Whinston, 2004). According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that banks can create the appropriate marketing strategy. Retail Banking constitutes the sector that has had the largest increase in the last years. The great fall of interest rates along with the offering of new, more flexible and attractive products has led to an increase in demand relating

to retail banking products (Eaglesham, 2005). Thus, most of today's banking institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

Globalized competition

Globalized competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantage. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the perceived service quality, the more satisfied and loyal the customers (Petruzzellis, D'Uggento and Romanazzi, 2006).

Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences (Morgan and Wyman, 2004). Nowadays, great attention is paid to all the bank-customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables (satisfaction and loyalty).

In the past, customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential for survival (McDonald and Keasay, 2003). Indeed, the relationship between the customers and the banks seems to be built around two different types of factors: social bonds, namely relational components that result in direct relationships, and structural bonds, namely structural components which provide knowledge about the parties involved.

The services market is becoming ever more competitive, as price competition intensifies and the shifting of loyalty becomes an acceptable practice. Many industries have already experienced a rearrangement of marketing budgets in order to devote more resources to defensive marketing, namely; customer retention (Patterson and Spreng, 2003). Several initiatives have been undertaken to improve retention, including value chain analysis, customer satisfaction and loyalty programmes (Gummerson, 2004).

Technological changes

Since the 1980s, commercial banking has continuously innovated through technology-enhanced products and services, such as multi-function ATM, tele-banking, electronic transfers, and electronic cash cards. Over the past decade, the Internet has clearly played a critical role in providing online services and giving rise to a completely new channel. In the Internet age, the extension of commercial banking to the cyberspace is an inevitable development (Liao and Cheung, 2003). Both researchers and practitioners in the financial sector have highlighted the need for banks to broaden their branch-based delivery channels by embracing technological changes in their approach to retail banking.

The use of information technology in retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet. While it offers new opportunities to banks, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu and Whinston, 2004; Liao and Cheung, 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and Westwood, 2004).

However, to successfully cope with the challenge of the Information Technology innovation in retail banking, the incumbent banks must understand the nature of the change and capability barriers that it presents (Southard and Siau, 2004). Without this understanding, attempts to migrate to e-banking may be doomed to failure. Banks that are equipped with a good grasp of the e-banking phenomenon will be more able to make informed decisions on how to transform them

into e-banks and to exploit the e-banking to survive in the new economy (Southard and Siau, 2004). Given that e-banking is a financial innovation, Liao and Cheung (2003), the change may render the organizational capabilities of the traditional banks obsolete. From the resource-based view, Grant (2003), Mahoney and Pandian (2005), in such a context, the banks must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the banks redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

1.1.2 Commercial Banks in Kenya

There were 42 commercial Banks in Kenya as at June, 2008 (Central Bank of Kenya, 2008). These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the minister of finance through the central bank of Kenya. The companies Act, the Banking Act and the Central Bank of Kenya, govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally, financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. (Banking Act Cap 488, pp 6, 10-12).

More specifically, increased competition, technological developments, changes in customer preferences and the growth of the various institutions have significantly altered the environment in which banks operate (Orlow and Wenninger, 2004). At the same time, many banking activities are now performed by non-banking institutions. In reality, banking institutions in developed countries have started to lose their market shares, while technology has minimized transaction costs and the number of competitors is continuously increasing (Avery *et al*, 2003). Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations (Krishnan *et al*, 2003).

1.2 Statement of the Problem

Today, commercial banks are competing not just on a national arena, but increasingly at international and global level. With 42 commercial banks operating in Kenya, the market for banking services seem oversupplied and margins for the companies are being depressed in a highly competitive market place¹. Profitability will be determined by the extent to which organizations develop appropriate strategies to 'combat' the growing competitive forces. Among the alternative ways that commercial banks have adopted in pursuit of their broad goals and objectives is the adoption of strategies that would best address the changing customer preferences. The banks are trying to woo individual customers and also meet their expectations with an aim of retaining them through quality service and fair charges.

Studies undertaken in Kenya focusing on the banking sector include the following:- Ngesa (1989), a comparative study of the perceptions of bank customers and bank management of the importance of retail commercial banking attributes; Bii (1992), the extent to which commercial banks in Kenya use the promotion mix elements to market their services; Nzyoka (1994), market segmentation in Kenya; A case of Commercial banks; Ndegwa (1996), analysis of customer service offered by Kenya commercial banks; Ochieng (1998), analysis of factors considered important in the successful implementation of information systems: A case study of commercial banks in Kenya; Ouma (1999), factors considered important in successful usage of an advertising program: A case study of the commercial banks in Kenya; Thuo (1999), an investigation of the state of relationship marketing strategy in the Kenyan banking sector; Nyambati (2001), Information Technology planning practices in Kenyan banks; Onduso (2001), a survey of ethical issues in Information Technology among commercial banks in Kenya; Gathogu (2001), Competitive strategies employed by commercial banks; Kandie (2002), an investigation of customer's perception and expectation of quality service: the case of selected banks in Kenya; Kimani (2003), product strategy in the marketing of financial services: a survey of the commercial banking sector in Kenya; Kiptugen (2003), strategic responses to a changing competitive environment: the case of Kenya Commercial Bank; Mbote (2003), influence of IT on marketing: the case of commercial banks in Kenya; Onyango (2004), adoption and usage of ATMs installed by banks in Kenya; Adoyo (2005), responses to changes in the external

¹ CBK, June 2008

environment: case study of Postbank; Otieno (2006), an investigation into Internet banking technology adoption among Kenyan commercial banks; and Mutugi (2006), strategic responses of Barclays Bank to changes in retail banking in Kenya.

All the above studies did not pay attention to the linkages between dependent variable being organizational transformation and independent variables of this study being changing customer preferences, competition and technological changes. The study therefore sought to establish the following:- (i) the influence of changing customer preferences on organizational transformations in the commercial banking sector; (ii) the influence of competition on organizational transformations in the commercial banking sector; and (iii) the influence of technological changes on organizational transformations in the commercial banking sector. That is the gap in knowledge that this study sought to fill.

1.3 Research Questions

The study sought answers to the following research questions:-

- (i) What is the effect of changing customer preferences on organizational transformation in the commercial banks in Kenya?
- (ii) What is the effect of competition on organizational transformation in the commercial banks in Kenya?
- (iii) What is the effect of technology on organizational transformation in the commercial banks in Kenya?

1.4 Research Objectives

The study was guided by both the general and the specific objectives.

1.4.1 General Objective

The general objective of the study was to establish the factors that influence organizational transformation in commercial banks in Kenya.

1.4.2 Specific Objectives

- (i) To determine the effect of changing customer preferences on organizational transformation in the commercial banks in Kenya
- (ii) To determine the effect of competition on organizational transformation in the commercial banks in Kenya
- (iii) To determine the effect of technology on organizational transformation in the commercial banks in Kenya

1.5 Significance of the Study

It is hoped that the findings of the current study will be beneficial to various stakeholders in different sectors of the economy. Some of the stakeholders taken into account in this report include the financial services and the academic sectors respectively.

The study will make managerial contributions for players in the financial services sector to better understand the factors that influence organizational transformations and use the information to identify the shortcomings of their response mechanisms and improve on them. In addition, this study is important because it updates and expands previous survey-based research on organizational transformations and provides new evidence for managers and investors. The study will further make a significant contribution to the growing body of research on organizational transformations. The findings may also be used as a source of reference by research scholars.

As a result of the developments discussed above, the attractiveness of this sector to a wide range of potential new entrants has increased. The cost of entry to the banking sector is low, returns seem very promising and the risks manageable. As a result, there has been a flurry of new entrants (Gandy, 1998a; Mols, 1998). Non-bank entrants are exploiting the unique capabilities of electronic networks and leveraging their own resources through Web-based strategies. New technologies, like smart cards and software cryptography, are also lowering entry barriers to the banking business, enabling non-banking competitors to take away more and more of the profitable elements of the banking business (Hagel *et al.*, 1997).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

2.2 The Influence of Changing Customer Preferences on Organizational transformation

According to Bonoma (2005), customer needs are one of several powerful forces for change in the demand for, and delivery of, financial services. Bonoma further argued that the key developments causing customer needs to change include: demographics; work patterns; increasing financial assets and liabilities of households; increasing awareness of value; and willingness to adopt to new technology.

According to Peppers and Rogers (2003), changes to consumer lifestyles, improved living standards and the trend towards diversification of product requirements means that customer demand for products that conform to individual tastes is increasing day by day. One-on-one marketing has emerged as a result and this trend has encouraged the commercial banks to turn its attention to the development of a plethora of “individualized services”. Among these developments is the use of e-business implementation by the banking industry to integrate, filter, organize and analyze data collected from policy sales, appraisals, and claim settlements (Ford, 2004). This further assists personnel to obtain these data on demand for use in satisfying customer requirements and providing individualized services. Organizations operating in the banking industry are faced with working in an environment that is rapidly changing and increasing in its complexity (Bonoma, 2005). New market entrants, changing customer preferences and market erosion across product lines demand creative approaches to product development, and a willingness to keep up with the rapid changes in technology.

Meidan (2005) argued that changes in customer behavior have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients. The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction. Orlow and Radecki, (2004) asserted that since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantage and, as a consequence, earnings. However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers. Marla Royne Stafford (2005) stated that demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers. Even if other types of segmentation variables are used, a marketer must know and understand demographics to assess the size, reach and efficiency of the market. The general conclusion of this study was that there is a significant relationship between demographics characteristics and the service quality perception.

Harrison (2005) concludes that the traditional segmentation variables of age, stage in the family life cycle and social class have provided little insight into the financial services customer behavior. In order to take full advantage of the factors which could affect take-up and usage of financial services, Harrison develops a multi-dimensional model. The analysis has suggested four customer segments for financial services on the basis of customers' own perceived knowledge, confidence and interest in financial maturity, defined by the type and complexity of financial services currently in use. Each of the four segments is distinct in terms of the financial objectives exhibited, motivations for financial services usage and attitudes and behavior towards financial services.

Machauer and Morgner (2005) prefer segmentation by expected benefits and attitudes could enhance an organization's ability to address the conflict between individual service and cost-saving standardization. Lee and Marlowe (2003) investigate how consumers choose a financial institution for their checking accounts. It was found that, although most customers' value convenience as one of the most important decision-making criteria, their definitions of convenience varies across consumers. Another important finding of the study was that the

participants facing new financial needs start their search process from the institution where they have their checking accounts.

Devlin (2004) investigates the relative importance of choice criteria according to consumers and also analyses differences in the importance of choice criteria with respect to a number of demographic and related factors. The study shows that choosing a home loan institution on the basis of professional advice is the most frequently cited choice criterion, closely followed by interest rates. Differences in the importance of choice criteria with respect to gender, class, household income, educational attainment, ethnicity and financial maturity are apparent.

Organizations, in order to face the challenges of the external environment successfully focus on market-driven products in their effort to satisfy their clients' needs (Saatcioglu and Whinston, 2004). According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy. Most of today's financial institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

According to Orlow and Radecki (2004), clients communicate with other clients, study brochures and receive information from television and the Internet. Therefore, clients are more influenced than in the past by organizations' pricing policies and seek low costs for the provision of services. Today's clients turn easily towards the services of another organization than in the past, especially when they only find little and insignificant differences among the various products and services.

According to Kaufman and Mote (2004), financial institutions, for example, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of the clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products (Anderson and Narus, 2003).

2.3 Influence of Competition on Organizational Transformation

The link between customer satisfaction and retention has received more attention among marketing and management practitioners and academics. Customer satisfaction has long been regarded as a “proxy” for firm success since it is inextricably linked to customer loyalty and retention. Several authors (Bloemer and Lemmink, 2003; Bloemer and Kasper, 2003; Sharma and Patterson, 2004) highlighted, however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Fournier and Mick, 2003).

Satisfaction has a significant impact on customer loyalty (Sharma and Patterson, 2004) and, as a direct antecedent, leads to commitment in business relationships (Burnham et al., 2003), thus greatly influencing customer repurchase intention (Morgan and Hunt, 2004). Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment. However, customer commitment cannot be dependent only on satisfaction (Burnham *et al.*, 2003). Relational switching costs, which consist of personal relationship loss and brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds (Burnham *et al.*, 2003), have a moderating effect on the satisfaction – commitment link (Sharma and Patterson, 2004). Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with suppliers who do not care for the satisfaction created in the relationship. On the other hand, customer satisfaction is usually the key element in securing repeat patronage; this outcome may be dependent on switching barriers in the context of service provision (Jones *et al.*, 2003).

Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other. Consequently, they may gradually increase their

commitment through investments in products, processes, or people dedicated to that particular relationship. Moreover, a switch in suppliers involves set-up costs and termination costs; the former include the cost of finding another supplier who can provide the same or better performance than the current supplier or the opportunity cost of foregoing exchange with the incumbent, while the latter include the relationship specific idiosyncratic investments made by the customer that have no value outside the relationship (Dwyer *et al.*, 2004). The extreme competition and saturation in the financial services markets and the growing demand of products and services through new media, such as the Internet and mobile phone have forced organizations to quickly respond to the new changes and challenges with new and different business models (Methlie and Nysveen, 2003; Jun and Cai, 2001; Bradley and Stewart, 2003).

In the financial services industry, a long term relationship with customers (Grönroos, 2003; Berry, 2004) is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the banks. The extended portfolio does not only offer benefits to customers, but also to organizations. The organizations have now the opportunity to capitalize on the beneficial characteristics of the various products and channels, for example while electronic channels help to reduce the costs of interaction with the customer by substituting labor intensive operations with automated sales processes, the interactivity of a face to face consultation provides various cross-sell opportunities (Clemons *et al.*, 2003).

The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new “product” (Eastlick and Liu, 2004), that is its adoption depends on the value the “product” can provide to a customer. Such a value is identified by: the “product” service quality (Montoya-Weiss *et al.*, 2003), the convenience it offers (Black *et al.*, 2004; Devlin and Yeung, 2003), the risk involved in conducting transactions through the “product” (Black *et al.*, 2004; Grewal, Levy, and Marshall, 2004; Reardon and McCorkle, 2004), and the costs of conducting business through it (Devlin, 2004; Fader, Hardie and Lee, 2003). Moreover, the organizational attributes such as perceived convenience, service quality and price (Bhatnagar and Ratchford, 2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 2003).

Hence, the importance of an organizational attribute for the choice decision might vary for different situations and customers.

Therefore, consistently with the literature, it is possible to distinguish two loyalty dimensions: A past loyalty (Zins, 2003) which associates more to the consumer's behavioral loyalty (Snehota and Söderlund, 2004; Chaudhuri and Holbrook, 2003) and represents the relative importance of a specific organization's service in the previous customer's transactions decisions; and A cognitive loyalty, defined as the behavioral intention of using the organization's service in future (Methlie and Nysveen, 2003; Van Rail et al., 2004). The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Organizations should assure a high quality in the services offered to be able to survive in the highly competitive markets and to achieve a sustainable advantage in the long term (Mefford, 2003; Jun and Cai, 2004).

In conclusion, the customer involvement in the production has evolved from servuction (Eiglier and Langeard, 2003) to prosumption (Sigala, 2005), which has two dimensions, namely the willingness to be involved and the competences to take part in designing and projecting the service output. Its obvious consequence is customer satisfaction (Cermak and Prince, 2004), and it takes place together, or interacting, with other customers (Kelley, Skinner and Donnelly, 2003). Moreover, customer inputs and their co-production performance considerably affect productivity, added value and efficiency of the provider.

2.4 Influence of Technology on organizational transformation

In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction (Gilbert et al., 2004; Glynn, 2004). Organizations that do not learn and adapt to changing technology can face painful competition, but integrating technology can require substantial re-thinking of the exact nature of customer relationships (Zineldin, 2003). For high-level financial services, it is frequently difficult to separate technology from the relationship between firms and their customers. Some technology implementations may reduce interaction across the employee – customer interfaces

(Quinn, 2005). However, customer satisfaction in many services depends strongly on the service encounter (Jones and Suh, 2005). For technology to enhance competitiveness, it must deliver real value to customers in the service interaction, and customers must like it. Thus, the impact of technology on customer satisfaction in the service interaction is a critical area of research.

The use of information technology in service offering creates unprecedented opportunities for organizations in the ways they organize their product development, delivery, and marketing via the Internet. While it offers new opportunities to organizations, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu *et al.* 2004, Liao and Cheung 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and Westwood 2004).

However, to successfully cope with the challenge of the Information Technology innovation in organizations, the nature of the change and capability barriers that it presents must be understood by the organizations (Southard and Siau, 2004). Without this understanding, attempts to transform organizations may be doomed to failure. Organizations that are equipped with a good grasp of the e-business phenomenon will be more able to make informed decisions on how to transform them into e-companies and to exploit the e-business to survive in the new economy (Southard and Siau 2004). From the resource-based view (Grant 2003, Mahoney and Pandian 2005), in such a context, the organizations must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the organizations redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want. Zwass (2003) argues that in order to comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully. Abernathy and Clark's (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities

of the adopting firm. Accordingly, the innovation encompasses a set of aspects: IT, customer, finance, marketing, and strategy.

A firm's ability to embrace and exploit an innovation is a function of the extent to which the innovation renders the firm's existing capabilities obsolete (Afuah 2003). The foregoing discussions show that e-business is a disruptive innovation that will render the incumbent organizations' established capabilities obsolete. In facing the change, the incumbent commercial needs to undergo business transformation in order to exploit e-business. To do this, organizations have to change their conventional mindsets and reconfigure their capabilities around the needs of e-business. It requires careful coordination with the development of core capabilities in order to successfully respond to the technological and business changes (Wheeler 2004, Daniel and Wilson 2003).

2.5 Conceptual Framework

The conceptual framework below presents the factors influencing organizational transformation, identified by Orlow, D.K *et al* (2004), namely, competition; technological changes; and changes in customer preferences. Figure 2.1 shows the conceptual framework.

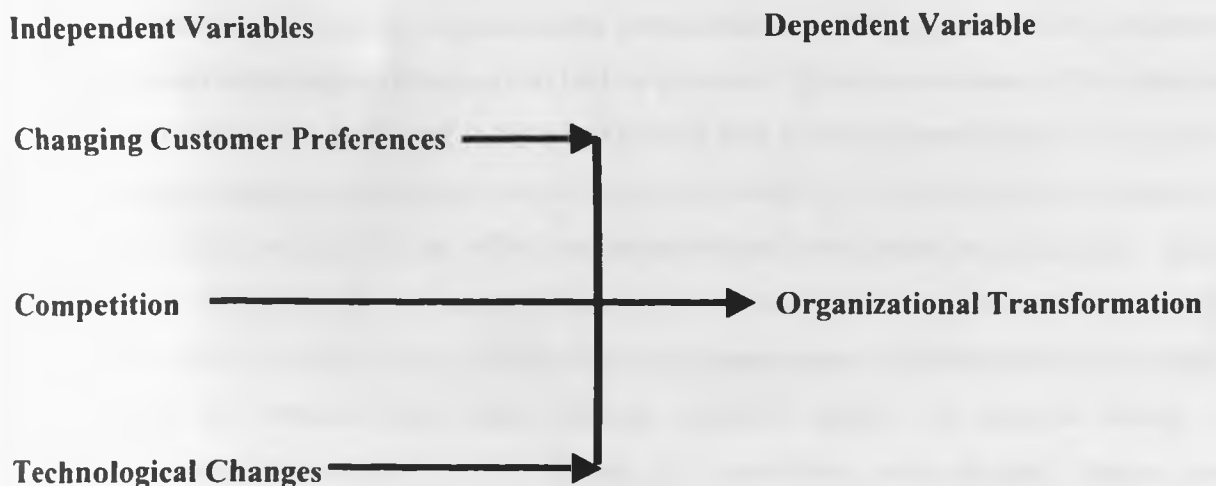


Figure 2.1: Conceptual Framework

2.5.1 Changing customer preferences

Changing customer preferences influence the following organizational transformations:- product diversification; market differentiation; personal selling; offering products and services online; and establishment of customer care centers.

2.5.2 Competition

Competition in the banking industry influences the following organizational transformations:- product diversification, personal selling of organizations products and services, increased branch networks, establishment of customer care desks/centers and reduction of premium costs and related charges.

2.5.3 Technological Changes

Technological changes influence the following organizational transformations:- product diversification, personal selling of organizations products and services, offering products and services online, increased branch networks and reduction of premium costs and related charges.

The inter-relationship between organizational transformation, changing customer preference, competition and technological changes can best be explained by the co-existence of the variables through their effect on a number of interrelated factors; first product diversification is as a result of changing customer preferences and is also as a result of competition and changes in technology which in turn has an effect on organizational transformation, secondly, market differentiation which also is as a result of changing customer preference, competitive pressures and technological changes has an after effect on organizational transformation and lastly, establishment of customer care desks, offering products online and personal selling of organizations products which are all affected by competition, technological changes and changing customer preference reveals their role in explaining their effect in organizational transformation.

2.6 Summary

The review of literature reveals that the recent surge of interest in organizational transformation raises a number of questions for the future structure and performance of the commercial banks. Perhaps the most significant is whether the widespread focus on technological innovations and the related investment in infrastructure - principally, branches - is justified and sustainable. The factors influencing organizational transformation were also addressed in this chapter, the most outstanding factors being, increased competition, advanced technological changes and the changing customer needs and preferences.

The contribution of organizational transformation towards sustainable competitive advantage has also been examined in this chapter, it leads to cost leadership position and differentiation opportunities, it also helps the organization evaluate market focus. The challenge that lies ahead for banks is fourfold. First, they need to satisfy customer needs that are complex and difficult to manage. Second, they need to face up to increased competition from within the sector and from new entrants coming into the financial services market. Third, they need to address the demands placed upon the supply chain. Finally, they must continually invent new products and services in light of the changes described above. Central to these challenges are delivery strategies of banking services.

It is possible that banks are only offering and publicizing their services in a limited way because of uncertainty. They are uncertain that a fully robust service can be provided and technological problems overcome. It is possible that in the future when the shortcomings highlighted in this paper have been addressed a fully robust and customer friendly service is available that banks will advertise the benefits of their services more actively.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter covers a description of the study design, target population, sample design, data collection methods, research Procedures and data analysis and presentation.

3.2 Research design

Research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the project, which include the samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions (Brown *et al*, 2003). A census was used to undertake the current research. A census involves collecting empirical data, generally from all members of the population. It usually provides rich detail about each member of the population, of a predominantly qualitative nature (Yin, 2004).

3.3 Population of the Study

The population of interest in this study was all the commercial banks in Kenya. According to the Central Bank of Kenya report as at 30th June, 2008 there were 42 commercial banks in Kenya (see appendix I). A census was considered for the study owing to the fact that all the commercial banks have their head offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were heads of corporate planning, business development managers, marketing managers and operation managers.

3.4 Data Collection

The survey method was used to collect data. The semi-structured questionnaire consisted of two sections, Section I and section II (Appendix II). Section I covered items pertaining to the general background of the study while section II covered items pertaining to the objectives of the study. The questionnaires were pilot tested on six randomly selected respondents who responded well to the questions. The aim was to ensure that they were understood in their correct perspective before they are administered in order to meet the research objectives. The procedure that was

Used in collecting data was through distribution of the questionnaires by dropping and picking them from the respondents at their most convenient time that had been agreed upon by both parties. A letter of introduction from the university, stating the purpose of the study, was attached to each questionnaire. In addition, the researcher made telephone calls to the respective respondents to make a follow up on the questionnaires that had been delivered to the respondents. Once completed, the researcher personally collected the questionnaires.

3.5 Data analysis and presentation

The data was analyzed by employing descriptive statistics. Descriptive statistics is used to describe the basic features of the data in a study. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics help us to simplify large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary.

The findings pertaining to the three objectives of the study were presented in form of percentages. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis and more specifically in relating the dependent and independent variables of the study. The researcher prefers SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis. For purposes of presentation, frequency tables, charts and bar graphs were used.

3.6 Operationalization framework

Operationalization is the process of defining a fuzzy concept so as to it measurable in form of variables consisting of specific observations. Operationalization is often used in the social sciences as part of the scientific method and psychometrics. For example, a researcher may wish to measure "anger." Its presence, and the depth of the emotion, cannot be directly measured by an outside observer because anger is intangible. Rather, other measures are used by outside observers, such as facial expression, choice of vocabulary, loudness and tone of voice. The dependent and independent variables can be operationalized as below:-

Table 3.1: Operationalization Framework

	Variable	Operational Definition
Independent Variables	Changing Customer Preference	Extent of trend - see Question 9
	Competition	Extent of trend - see Question 10
	Technological Changes	Extent of trend - see Question 11
Dependent Variable	The extent of trend for this variable can be deduced from the results of the independent variables mentioned above.	

3.7 Summary

A research methodology defines what the activity of research is, how to proceed, how to measure progress, and what constitutes success. It helps summarize the data obtained and make it easy for the reader to digest and comprehend. This will help the reader understand the contents of this report at a glimpse. It shows in short the methods used to analyze the data and provide clear and concise interpretations.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

The current study sought to establish the factors that influence organizational transformation in commercial banks in Kenya. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 42 questionnaires that were sent out, 32 were returned completed (76% response rate). The researcher made concerted efforts to contact each of the prospective respondents that had received the study questionnaire. The demographic data of the respondents was analyzed using descriptive statistics. The data was presented using percentages, frequencies, mean scores and standard deviations. The information is presented and discussed as per the research objectives of the study.

4.2 Profile of respondents

This category took into account general information about the respondents. It tries to establish the period the organizations have been in operation in Kenya, the ownership of the organizations, the number of full time employees, the number of years the respondents had worked in the organizations and the number of branches the respondent banks own in Kenya.

4.2.1 Period of Operation in Kenya

The respondents were asked to indicate the time period which their respective banks had been in operation in Kenya. The longer a bank operated in a given environment, the more experience it had in as far as environmental forces were concerned and the higher the ability to respond appropriately. The findings indicate that out of the 32 commercial banks that participated in the study, 44% of them had been in operation in Kenya for at least 16 years, 38% had been in operation in Kenya for between 11 and 15 years, 12% had been in operation for between 6 and 10 years, 6% had been in operation for between 1 and 5 years. Further probing revealed that some of the banks recorded to have operated in Kenya for between 1 and 10 years had actually been in operation for longer periods of time but had changed names as a result of mergers and acquisitions. The responses are summarized and presented in Figure 4.1.

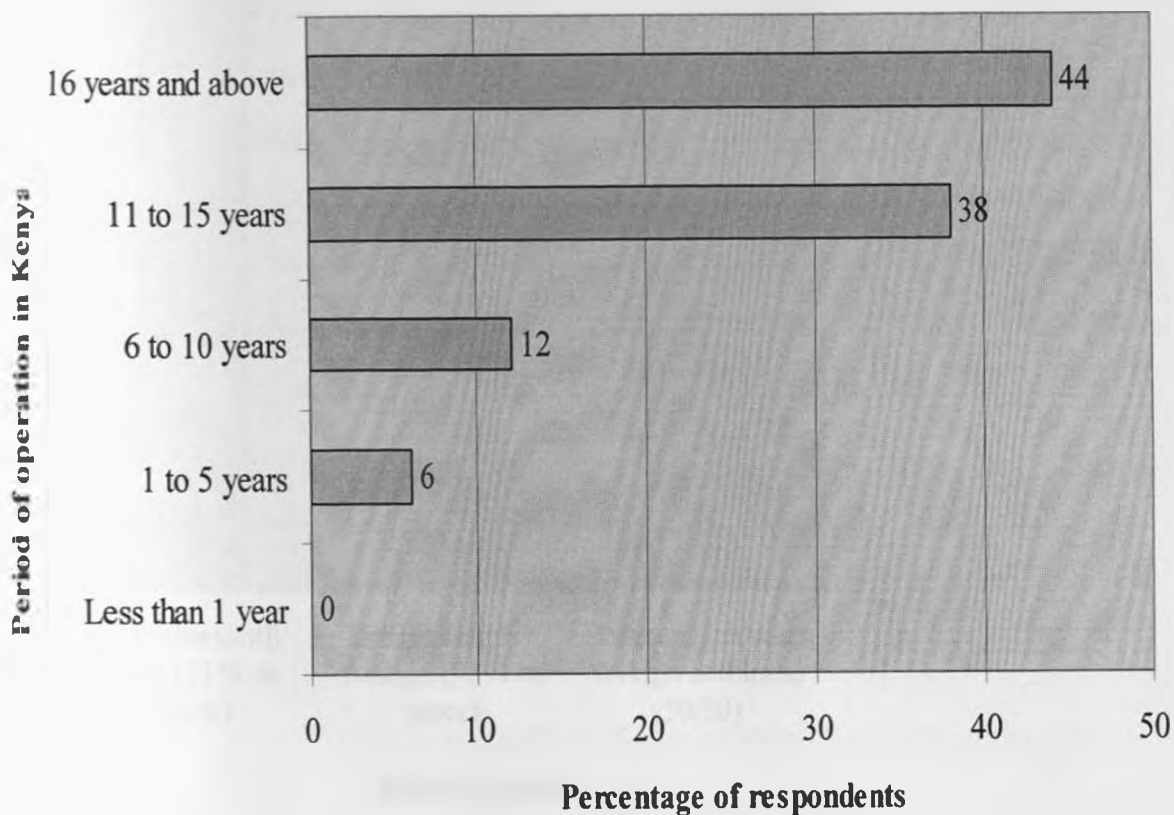


Figure 4.1: Period of Operation in Kenya

4.2.2 Bank Ownership

The respondents were asked to indicate ownership of their respective banks. The responses are summarized and presented in Figure 4.2.

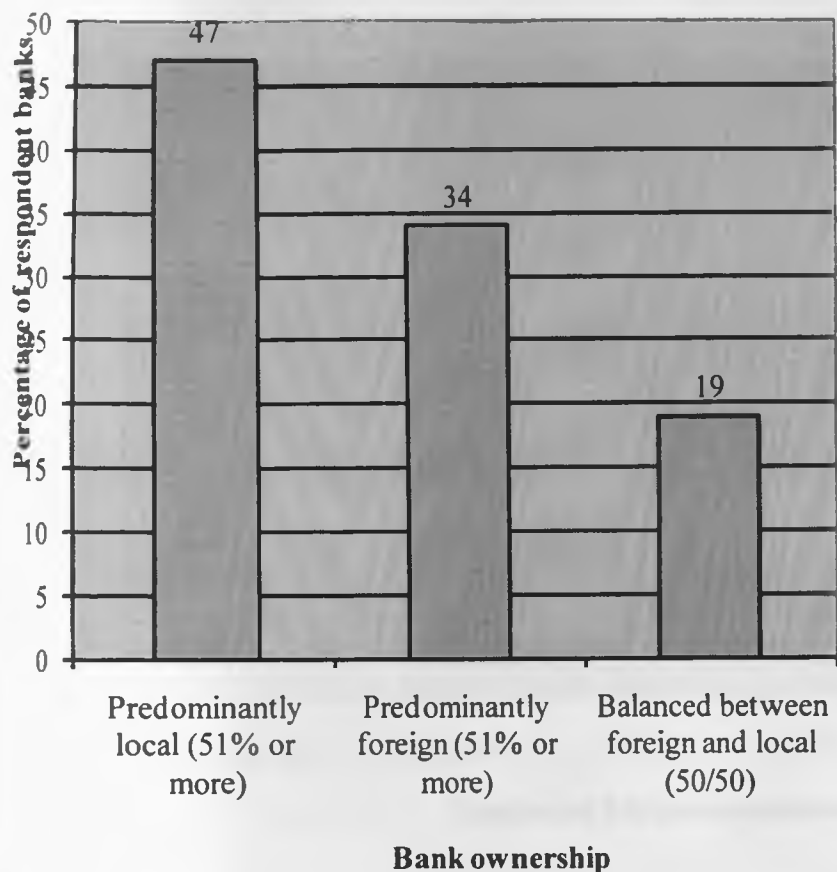


Figure 4.2: Bank Ownership

The findings show that 47% of the respondent banks were predominantly local, 34% were predominantly foreign while only 19% were balanced between foreign and local.

4.2.3 Number of Full Time Employees

The researcher sought to determine the size of the banks by establishing the number of full time employees. The higher the number, considering that all commercial banks are now automated, the more the operations and hence the bigger the size of the bank. The responses are summarized and presented in Figure 4.3.

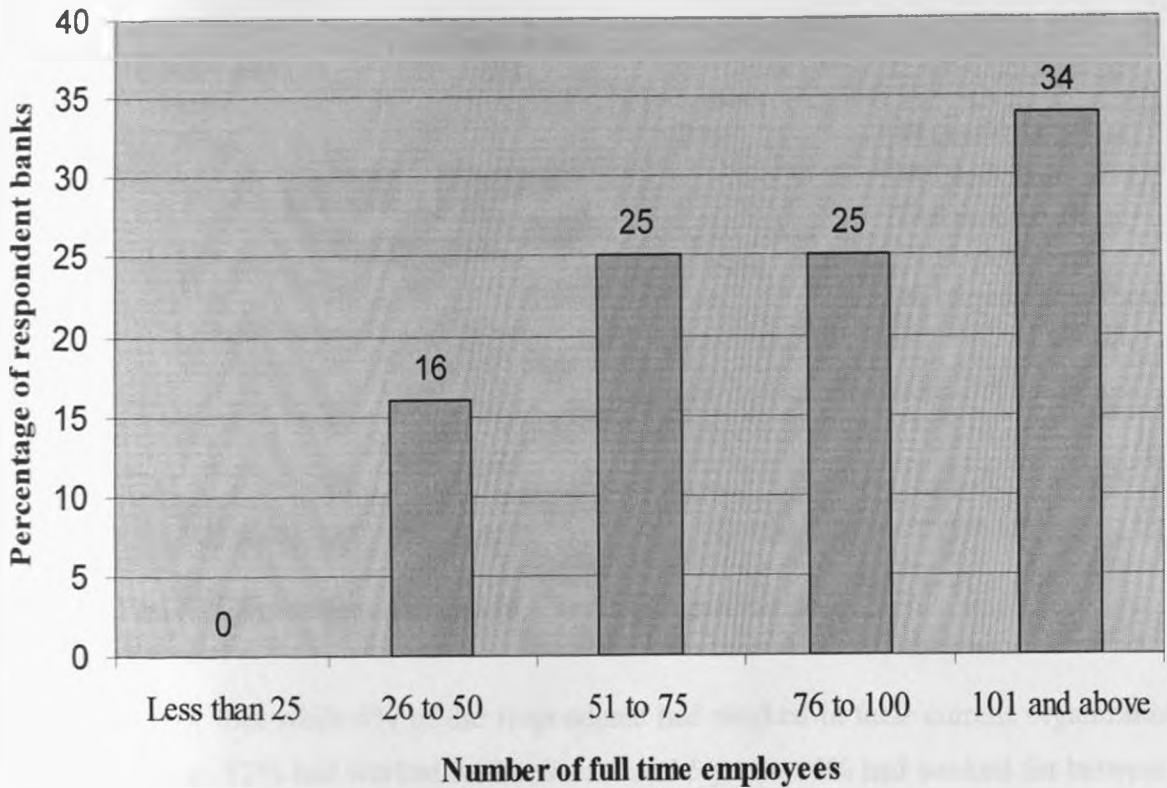


Figure 4.3: Number of Full Time Employees

The findings show that none of the respondent banks had less than 25 full time employees in their establishments. The findings also show that 16% of the respondent banks had between 26 and 50 employees, 25% of the banks had between 51 and 75 employees, 25% had been 76 and 100 employees and 34% of the banks had more than 100 full time employees.

4.2.4 Period Respondent Worked in Current Organization

The respondents were asked to indicate the period of time they had worked in their current organizations. The longer one worked in an organization, the more conversant they became with the strategies and operations of the organization, hence the more objective the responses were expected to be. The responses are summarized and presented in Figure 4.4.

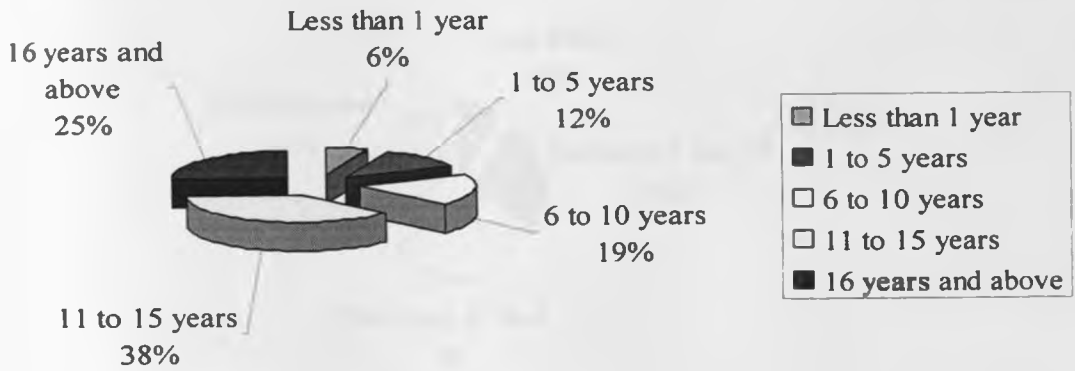
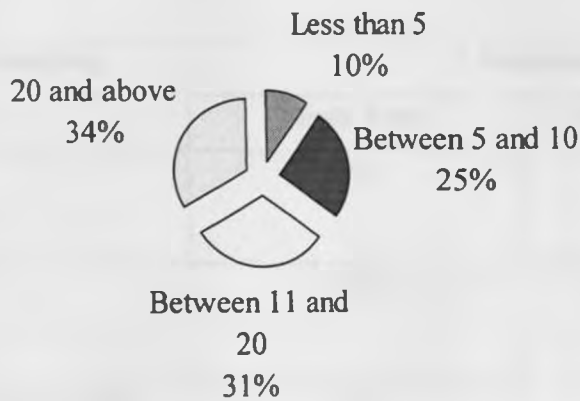


Figure 4.4: Period Respondent worked in Current Organization

The findings show that while 6% of the respondents had worked in their current organizations for less than 1 year, 12% had worked for between 1 and 5 years, 19% had worked for between 6 and 10 years, 38% had worked for between 11 and 15 years and 25% had worked for more than 16 years. It can be concluded that the respondents had worked in their respective banks for a period long enough to understand operations of the banks. Their responses would thus be objective.

4.2.5 Number of Branches

The number of branches a bank has is a pointer to the size of the bank and area of coverage in the country. The wider the branch network, the wider the area of coverage. The responses are summarized and presented in terms of numbers and percentages in Figure 4.5. The findings show that while 10% of the respondent banks had less than 5 branches, 25% of the respondent banks had between 5 and 10 branches, 31% of the respondent banks had between 11 and 20 employees and 34% had more than 20 branches.



■ Less than 5 ■ Between 5 and 10 □ Between 11 and 20 □ 20 and above

Figure 4.5: Number of Branches

4.3 Factors that influence organizational transformation

There are various factors that influence organizational transformation. For purposes of this report, we are considering three factors being the effect of changing customer preferences on organizational transformation, the effect of competition on organizational transformation and the effect of changes in technology on organizational transformation.

4.3.1 Effect of changing customer preferences on organizational transformation within the commercial banking sector in Kenya

In order to meet the first objective of the study, the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in Table 4.1.

Table 4.1: Extent to which changing customer preferences have influenced organizational transformation

Practices as a result of changing customer preferences	Response	
	Mean Score	Standard deviation
Product Diversification	2.07	4.14
Market differentiation	2.28	4.56
Offering products and services online	2.41	4.82
Establishment of customer care centers	2.36	4.72
Personal selling of organizations products and services	2.77	5.54
N-32		

Findings in Table 4.1 show that product diversification is one of the practices that had been adopted by commercial banks as a result of changing customers' preference. From the analysis it can thus be concluded that personal selling of organizational products and services influence organizational transformation the most with reference to changing customer preferences as shown by a mean of 2.77, while product diversification influenced the least with a mean of 2.07. This is further supported by the standard deviation of 5.54 for personal selling of organizations products and services against a score of 4.14 for product diversification. It is imperative that banks direct more resources to personal selling of its products and services when addressing the challenges brought about by changing customer preferences.

1.3.2 Effect of competition on organizational transformation in the commercial banks in Kenya

In order to meet the second objective of the study, the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in Table 4.2.

Table 4.2: Extent to which competition has influenced organizational transformation

Practices as a result of competition	Response	
	Mean Score	Standard deviation
Product Diversification	1.92	3.84
Personal selling of organizations products and services	2.01	4.03
Increased branch networks	2.25	4.50
Establishment of customer care centers	2.07	4.15
Reduction of premium costs and charges	2.19	4.39
N-32		

The findings show that increased branch network influence organizational transformation the most in regard to competition with a mean score of 2.25, while product diversification influence organizational transformation the least with a mean score of 1.92. The performance is also supported by the results depicted by a standard deviation of 4.50 for increased branch network and 3.84 for product diversification. It is prudent for banks to direct more resources to establishment of more branches in an effort to address the looming threat of competitors.

4.3.3 Effect of changes in technology on organizational transformation in the commercial banks in Kenya

In order to meet the third objective of the study, the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in Table 4.3.

Table 4.3: Extent to which changes in technology has influenced organizational transformation

Practices as a result of changes in technology	Response	
	Mean Score	Standard deviation
Product Diversification	2.01	4.03
Personal selling of organizations products and services	1.52	3.04
Increased branch networks	.83	1.67
Offering products and services online	2.77	5.54
Reduction of premium costs and related charges	2.13	4.27
N-32		

From the findings, it can be concluded that offering products and services online as an element of technology influence organizational transformation the most as shown by a mean score of 2.77, whereas increased branch networks influenced organizational transformation the least in regard to technology with a mean score of 0.83. The results were further emphasized by the standard deviation results depicting a high score for offering products and services online with the highest score against increased branch network with the lowest standard deviation score. Banks should thus direct more resources in offering products online in an effort to address the effect of technology in their day to day operations.

4.4 Summary

This chapter has presented a summary of the key findings of the study, focusing on the effect of changing customer preferences on organizational transformation in the commercial banks in Kenya; the effect of competition on organizational transformation; and the effect of technology on organizational transformation. Factors that influence organizational transformations are presented in this sub section. The factors that influence organizational transformation are changing customer preferences; competition and technological changes.

Findings of the study indicate that changing customer preferences had resulted to the organizations adopting product diversification, market differentiation, personal selling of organizations products and services, offering products and services online and establishment of customer care centers. The findings also show that competition in the banking industry has resulted to the organizations adopting product diversification, personal selling of organizations products and services, increased branch networks, establishment of customers care centers and reduction of premiums costs and related charges. Further, the findings show that technological changes had resulted to the organizations adopting product diversification, personal selling of organizations products and services, offering products and services online, increased branch networks and reduction of premium costs and related charges.

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This chapter presents conclusions drawn from the research findings and the recommendations for practice and for further studies. It further vividly gives the limitations of the study based on the challenges faced during the time of collecting data.

5.2 Summary, Discussions and conclusions

The study findings show that the factors that influence organizational transformation are customer preferences, competition and technological changes, which confirms the findings by Orlow, D.K *et al* (2004). The findings indicate that changing customer preferences had greatly influenced transformations in the banking industry like product diversification, market differentiation, personal selling, offering products and services online, and establishment of customer care centers, which corroborate the literature review findings. According to Bonoma (2005), customer needs are one of several powerful forces for change in the demand for, and delivery of financial services. Bonoma further argued that the key developments causing customer needs to change include; changing demographics, changing work patterns, increasing financial assets and liabilities of households, increasing awareness of value, and willingness to adopt technology.

According to Peppers and Rogers (2003), changes to consumer lifestyles, improved living standards and the trend towards a diversification of product requirements means that customer demand for products that conform to individual tastes is increasing day by day. One-on-one marketing has emerged as a result and this trend has encouraged the banking industry to turn its attention to the development of a plethora of “individualized services”. Organizations, in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients’ needs (Saatcioglu and Whinston, 2004). According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy.

According to Kaufman and Mote (2004), financial institutions, for example, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of the clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products (Anderson and Narus, 2003).

The findings indicate that competition in the banking industry had greatly influenced the adoption of transformations like product diversification, personal selling of organizations products and services, increased branch networks, establishment of customers care desks/centers and reduction of premiums costs and related charges. The findings from primary data corroborate findings from the desk study. Petruzzellis *et al* (2006) noted that Globalized competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantage. Petruzzellis *et al* further assert that the higher the (perceived) service quality, the more satisfied and loyal the customers. According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy. Most of today's financial institutions pay great attention to service delivery by promoting and advertising more and offering more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

According to McDonald and Keasay (2003), in the past, customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival. Orlow and Radecki, (2004) asserted that since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings.

The findings indicate that technological changes had resulted to the organizations adopting transformations like product diversification, personal selling of organizations products and services, offering products and services online, increased branch networks and reduction of premiums costs and related charges. According to Zineldin (2003), organizations that do not learn and adapt to changing technology can face painful competition, but integrating technology can require substantial re-thinking of the exact nature of customer relationships. In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction (Gilbert *et al.*, 2004; Glynn, 2004). According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want. Zwass (2003) argues that in order to comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully. Abernathy and Clark's (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities of the adopting firm. Accordingly, innovation encompasses a set of aspects: IT, customers, finance, marketing, and strategy.

5.3 Limitations of the Study

The scope of the study could be a limiting factor in that only 32 commercial banks participated in the study out of a total of 42. The findings may thus not be representative of the whole population of the commercial banks. However, the sampling technique used ensured that each commercial bank had a non-zero chance of being selected to participate in the study. Though the researcher was determined to undertake the study to completion within the given time frame, various constraints were encountered as earlier envisaged. The time allocated for data collection may not have been sufficient to enable the respondents complete the questionnaires as accurately as possible, considering that they were at the same time carrying out their daily duties and priority was of essence.

The researcher preferred to administer the data collection tools to only the Heads of Business development, however, this was practically not possible as some of them delegated this request since they were either too busy or were away on official duties. The competitive nature of the banking sector in Kenya also meant that some of the information sought was of confidential in

nature and could not be divulged for fear of giving a potential competitor an upper hand. The respondents were however re-assured that all information provided would be treated confidentially and used only for academic purposes.

5.4 Recommendations for further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future research. The following areas are thus suggested: Whereas the current study focused on selected factors that influence organizational transformation in the commercial banks in Kenya, Future studies should seek to establish whether the same factors influence transformations in the other sectors of the economy. Further studies should also focus on what factors to consider for effective implementation of the transformation process.

5.5 Implications for policy and practice

Changes in customer preferences affect decisions related to the development of products and services and the markets to serve by commercial banks. In view of the findings of the study, the following recommendations are made:- In response to changing customer preferences, the commercial banks should adopt market differentiation strategies, in which specific needs of the various market segments should be identified and addressed accordingly. The companies should, through product diversification, develop products that address the specific needs of the market segments identified. The companies should not only involve the customers in the product development process to ensure that their needs are addressed adequately, but also invest in research and development activities.

In response to changing customer preferences, it is recommended that commercial banks adopt personal selling practices. This will only be effective if adequate investment is made through availability of the necessary resources in terms of personnel, equipment and facilities. The offering of products online is highly advised as it supplements the efforts of the sales force and it enhances ability to reach many customers in a short time and is cost effective. In order to provide more accurate information to the customers and enhance customer care and relations, it is advisable that the commercial banks establish customer care desks.

Competition poses a challenge to the organization to change and enhance their service delivery in order to remain competitive. In view of the findings of the study, the following recommendations are made:- When faced with competition, it is highly recommended that the Commercial banks scan the environment to identify the strengths and weaknesses of the competitors. Adoption of personal selling becomes handy in that a face to face interaction is an effective source of market information. In order to supplement the efforts of the sales force, it is also recommended that customer care desks be established, from where customer complaints and other needs can be adequately addressed. In addition, expansion of branch network would lead to services being taken closer to the customers and an expanded geographical area of coverage. The Commercial banks, in response to competition in the industry, should strive to develop their products and services cost-effectively so as to price them competitively. There is also need to undertake market surveys and establish the prevailing market prices for similar products and services.

In order to spread risks as a result of industry competition, it is advisable that the Commercial banks adopt product diversification. Technology not only acts as the channel of interaction and communication among the Commercial banks, but also changes the way an organization works and practices. When faced with technological changes, it is highly advisable that Commercial banks take advantage and invest in such technologies as developing websites, from which products and services can be offered online, leading to reduced operational costs. Technology too enhances the effectiveness of the sales force when used as a communication tool.

Since technological changes lead to reduced costs of products and services development, it is advisable that the Commercial banks adapt the new technologies in products and service development, which enhances product diversification. As a result of reduced product and service development costs, the Commercial banks will be able to reduce premium costs and related charges and remain competitive. Owing to changes in technology, it is recommended that the Commercial banks expand their branch network and interlink them so that the customers can be served from any branch in the same way they would have been served in the head office.

5.6 Summary

The chapter has presented conclusions and recommendations of the study pertaining to the three objectives. In view of the findings, the following recommendations are made in order to cope with changes in customer preferences: - the commercial banks should adopt market differentiation strategies, in which specific needs of the various market segments should be identified and addressed accordingly; the banks should develop products that address the specific needs of the market segments; there is need to invest in research and development activities.

As a result of competition, it is recommended that commercial banks scan the environment to identify the strengths and weaknesses of the competitors. There is also need to undertake market surveys and establish the prevailing market prices for similar products and services. When faced with technological changes, it is advisable that commercial banks take advantage and invest in such technologies as developing websites, from which products and services can be offered online, leading to reduced operational costs. Technology too enhances the effectiveness of the sales force when used as a communication tool.

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APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA

1.	African Banking Corporation Ltd
2.	Bank of Africa Ltd
3.	Bank of Baroda Kenya Ltd
4.	Bank of India Ltd, Nairobi
5.	Barclays Bank of Kenya Ltd, Nairobi
6.	CFC Stanbic Bank Ltd, Nairobi (listed on NSE)
7.	Charterhouse Bank Ltd, Nairobi
8.	Chase Bank Ltd, Nairobi
9.	Citibank, Nairobi (foreign owned)
10.	City Finance Bank Ltd, Nairobi
11.	Commercial Bank of Africa Ltd
12.	Consolidated Bank of Kenya Ltd, Nairobi
13.	Co-operative Bank of Kenya Ltd, Nairobi
14.	Credit bank Ltd
15.	Development Bank of Kenya Ltd, Nairobi
16.	Diamond Trust Bank Kenya Ltd, Nairobi
17.	Dubai Bank Kenya Ltd, Nairobi
18.	Equatorial Commercial Bank Ltd, Nairobi
19.	EABS Bank/Ecobank Ltd
20.	Equity Bank Ltd
21.	Family Bank Ltd
22.	Fidelity Commercial Bank Ltd, Nairobi
23.	Fina Bank Ltd, Nairobi
24.	Giro Commercial Bank Ltd, Nairobi
25.	Gulf African Bank Ltd
26.	Guardian Bank Ltd, Nairobi
27.	Habib Bank A.G. Zurich, Nairobi
28.	Habib Bank Ltd, Nairobi (foreign owned)
29.	Imperial Bank Ltd, Nairobi

30.	Investment & Mortgages Bank Ltd, Nairobi
31.	Kenya Commercial Bank Ltd, Nairobi
32.	K-Rep Bank Ltd, Nairobi
33.	Middle East Bank Ltd, Nairobi
34.	National Bank of Kenya Ltd, Nairobi
35.	National Industrial Credit Bank Ltd, Nairobi
36.	Oriental Commercial Bank Ltd, Nairobi
37.	Paramount Universal Bank Ltd, Nairobi
38.	Prime Bank Ltd, Nairobi
39.	Southern Credit Banking Corporation Ltd, Nairobi
40.	Standard Chartered Bank Ltd, Nairobi
41.	Trans-National Bank Ltd, Nairobi
42.	Victoria Commercial Bank Ltd, Nairobi

Source: CBK, June 2008

APPENDIX II: QUESTIONNAIRE

This questionnaire has been designed to collect information from selected staff of commercial banks in Kenya and is meant for academic purposes only. The questionnaire is divided into two sections. Section I seeks to capture the profile of respondents while section II will capture issues pertaining to the area of study. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: BACKGROUND INFORMATION

1. For how long has this organization been in operation in Kenya? (Please tick as appropriate).
 - a. Less than 1 year
 - b. 1 to 5 years
 - c. 6 to 10 years
 - d. 11 to 15 Years
 - e. 16 years and above

2. Please indicate the ownership of the organization using the categories below (please tick one).
 - a. Predominantly local (51% or more)
 - b. Predominantly foreign (51% or more)
 - c. Balanced between foreign and local (50/50)

3. How many full time employees does the organization have? (Please tick as appropriate).
 - a. Less than 25
 - b. 26 to 50
 - c. 51 to 75
 - d. 76 to 100
 - e. 101 employees and above

4. For how long have you worked in the organization? (Please tick as appropriate).

- a. Less than 1 year
- b. Between 1 and 5 years
- c. Between 6 and 10 years
- d. Between 11 and 15 years
- e. 16 years and above

5. Using the categories below, please indicate the number of branches you have in Kenya.

- a. Less than 5
- b. Between 5-10
- c. Between 11-20
- d. Above 20

SECTION II: ORGANIZATIONAL TRANSFORMATION PRACTICES

6. Please indicate the extent to which your organization has adopted the following practices as a result of changing customer preferences (Tick as appropriate):-

Practices as a result of changing customer preferences	Response				
	Not at all (1)	A little extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)
Product Diversification					
Market differentiation					
Offering products and services online					
Establishment of customer care centers					
Personal selling of organizations products and services					
Other (s), specify 1. 2. 3.					

7. Please indicate the extent to which your organization has adopted the following practices as a result of competition (Tick as appropriate):-

Practices as a result of competition	Response				
	Not at all (1)	A little extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)
Product Diversification					
Personal selling of organizations products and services					
Increased branch networks					
Establishment of customer care centers					
Reduction of premium costs and charges					
Other (s), specify					
1.					
2.					
3.					

8. Please indicate the extent to which your organization has adopted the following practices as a result of changes in technology (Tick as appropriate):-

Practices as a result of changes in technology	Response				
	Not at all (1)	A little extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)
Product Diversification					
Personal selling of organizations products and services					
Increased branch networks					
Offering products and services online					
Reduction of premium costs and related charges					
Other (s), specify 1. 2. 3.					



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DATE 17/06/2009.....

TO WHOM IT MAY CONCERN

The bearer of this letter CHRISPIUS MAQHANGA MWIANDEMBE

Registration No: DG11 8332/06.....

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.

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