GROWTH STRATEGIES ADOPTED BY COOPERATIVE BANK AS AN OPERATIONAL ORIENTATION

BY

Susan Wangechi Muchiri

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

NOVEMBER, 2012
DECLARATION

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

Signature………………………… Date………………………………

Susan Wangechi Muchiri

REG. NO. D61/72947/2009

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

Signature………………………… Date………………………………

Supervisor: Caren Angima
DEDICATION

This research project is dedicated to my father who inspired me to attain my academic potential and also to my mother for her patience and encouragement throughout the period of my research writing. For this I say thank you all and God bless.
ACKNOWLEDGMENT

I thank the almighty God for seeing me through my entire Masters Degree Course. It is indeed God’s providence and unfailing mercy that has made this possible.

I wish to acknowledge the University of Nairobi for the support accorded to me during the entire course. I am indeed grateful to my supervisor Caren Angima for her support, guidance and constructive criticism which shaped this work.
ABSTRACT

Modern businesses operate in a turbulent environment faced with a variety of new challenges brought about by globalization and trade liberalization. Its impact typically remains hidden within the normal fluctuations in performance. Businesses therefore engage in growth and expansion strategies that will enable them to respond to the environmental challenges in order to gain competitive advantage over their competitors, increase market share and indeed for continued survival in the market. Firms adopt various strategies based on the goals and objectives. The different strategies have different costs and related benefits that influence adoption.

This study adopted a descriptive design with main focus on qualitative and quantitative data. The study population focused on senior employees of Cooperative Bank (Coop Bank) that are involved in strategy formulation. The study utilized both primary and secondary data. The researcher used face to face interviews to collect information. Qualitative data was analyzed using content analysis.

The study found that Coop Bank uses both local market and international market strategies as a growth and operational orientation. Coop Bank’s local markets strategies include Branch Banking, Agent Banking and M-banking among others while the international strategies include the Diaspora account, Money transfer services and foreign investment. However, the local market forms the major share of the bank’s income.

The study recommends that the bank comes up with product differentiation strategies by segmenting the customers based on their needs, size and type of business and designing products. The study further recommends that agency banking be marketed more as it’s an area with great growth potential as it uses the already established private enterprises and saves the bank huge capital outlays of opening a branch.
# TABLE OF CONTENTS

DECLARATION.................................................................................................................................................. ii

DEDICATION.................................................................................................................................................. iii

ACKNOWLEDGMENT .................................................................................................................................. iv

ABSTRACT..................................................................................................................................................... v

ACRONYMS AND ABBREVIATIONS .............................................................................................................. ix

CHAPTER ONE : INTRODUCTION .................................................................................................................. 1

1.1: Background of the Study .......................................................................................................................... 1

1.1.1: Growth Strategy as an Operational Orientation ................................................................................. 3

1.1.2: The Banking Industry in Kenya ........................................................................................................ 5

1.1.3: The Cooperative Bank of Kenya ....................................................................................................... 6

1.2: Research problem .................................................................................................................................... 7

1.3: Research Objectives .................................................................................................................................. 9

1.4: Value of the study ..................................................................................................................................... 9

CHAPTER TWO : LITERATURE REVIEW ...................................................................................................... 10

2.0: Introduction ............................................................................................................................................. 10

2.1: Growth Orientation ................................................................................................................................. 10

2.1.1: Factors that drive Business Enterprises toward Growth .................................................................... 10

2.1.2: Types of Growth Strategy adopted by Firms .................................................................................... 12

2.2: Internal Growth Strategy ......................................................................................................................... 13

2.2.1: Expansion Strategy ........................................................................................................................... 13

2.2.3: Technological Innovation Strategy .................................................................................................. 16

2.3: External Growth Strategy ......................................................................................................................... 17

2.3.1: Merger and Acquisition Strategy ..................................................................................................... 17

2.3.2: Joint Venture Operational Strategy ................................................................................................ 18

2.3.3: International Markets Venturing Strategies .................................................................................... 19

2.4: Challenges facing growth of firms ........................................................................................................ 20
<table>
<thead>
<tr>
<th>CHAPTER THREE : RESEARCH METHODOLOGY</th>
<th>.......................................................... 22</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1: Introduction</td>
<td>.......................................................................................... 22</td>
</tr>
<tr>
<td>3.2: Research Design</td>
<td>.......................................................................................... 22</td>
</tr>
<tr>
<td>3.3: Data Collection</td>
<td>.......................................................................................... 22</td>
</tr>
<tr>
<td>3.4: Data Analysis</td>
<td>.......................................................................................... 23</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER FOUR : DATA ANALYSIS, RESULTS AND DISCUSSION</th>
<th>.................................................. 24</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Introduction</td>
<td>.......................................................................................... 24</td>
</tr>
<tr>
<td>4.1.1 Response Rate</td>
<td>.......................................................................................... 24</td>
</tr>
<tr>
<td>4.1.2 Demographic Information</td>
<td>.......................................................................................... 24</td>
</tr>
<tr>
<td>4.2 Growth Strategies adopted by Co op Bank</td>
<td>.......................................................................................... 25</td>
</tr>
<tr>
<td>4.2.1 International Market Strategies</td>
<td>.......................................................................................... 25</td>
</tr>
<tr>
<td>4.2.2 Local Market Strategies</td>
<td>.......................................................................................... 26</td>
</tr>
<tr>
<td>4.2.3 Factors that guide the choice of Strategy in Coop Bank</td>
<td>.................................................................................. 26</td>
</tr>
<tr>
<td>4.2.4 Opportunities for future growth</td>
<td>.......................................................................................... 28</td>
</tr>
<tr>
<td>4.3 Contribution of Growth Strategy to the performance of Coop Bank</td>
<td>.................................................................................. 29</td>
</tr>
<tr>
<td>4.3.1 Branch Network Expansion</td>
<td>.......................................................................................... 29</td>
</tr>
<tr>
<td>4.3.2 Technological Innovations</td>
<td>.......................................................................................... 30</td>
</tr>
<tr>
<td>4.3.3 Joint Ventures Strategy</td>
<td>.......................................................................................... 32</td>
</tr>
<tr>
<td>4.3.4 Agency Banking</td>
<td>.......................................................................................... 33</td>
</tr>
<tr>
<td>4.3.5 International Market Strategies</td>
<td>.......................................................................................... 34</td>
</tr>
<tr>
<td>4.4 Future development opportunities</td>
<td>.......................................................................................... 35</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMENDATION</th>
<th>.................................................. 37</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Introduction</td>
<td>.......................................................................................... 37</td>
</tr>
<tr>
<td>5.2 Summary of Findings</td>
<td>.......................................................................................... 37</td>
</tr>
<tr>
<td>5.2.1 Growth Strategies adopted by Coop Bank</td>
<td>.......................................................................................... 37</td>
</tr>
<tr>
<td>5.2.2 The Contribution of the Growth Strategies to the Performance of Coop Bank</td>
<td>.................................................................................. 38</td>
</tr>
<tr>
<td>5.3 Conclusions</td>
<td>.......................................................................................... 39</td>
</tr>
<tr>
<td>5.4 Recommendations</td>
<td>.......................................................................................... 40</td>
</tr>
<tr>
<td>5.5 Recommendations for further Research</td>
<td>.......................................................................................... 41</td>
</tr>
</tbody>
</table>

| REFERENCE                                            | .......................................................................................... 42 |
APPENDICES

Appendix I: Introduction Letter
Appendix 2: Interview Guide
# ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>CCK</td>
<td>Communication Commission of Kenya</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CIC</td>
<td>Corporate Insurance Company</td>
</tr>
<tr>
<td>CO-OP Bank</td>
<td>Co-operative Bank of Kenya</td>
</tr>
<tr>
<td>FOSA`</td>
<td>Front Office Services Activities</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>M-Banking</td>
<td>Mobile Banking</td>
</tr>
<tr>
<td>MD</td>
<td>Managing Director</td>
</tr>
<tr>
<td>NCBD</td>
<td>Nairobi Central Business District</td>
</tr>
<tr>
<td>SACCO</td>
<td>Saving and Credit Co-operative Societies</td>
</tr>
<tr>
<td>YEA</td>
<td>Young Innovators Account</td>
</tr>
</tbody>
</table>
CHAPTER ONE:

INTRODUCTION

1.1: Background of the Study

Strategy is depicted as a set of beliefs on how a firm can achieve success (Woods and Joyce, 2003). Arguably strategy is the main route to attain corporate goals and objectives, leading to enhanced long-term performance. That is to say, strategy is much more than beliefs and encompasses a deliberate search for a plan of action that will develop a business's competitive advantage and compound it (Henderson, 1999). Strategies are the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm’s objectives (Pearce and Robinson, 2005). Therefore it is a reaction to what is happening in the economic environment of organizations. Porter, 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.

According to (Ross, 1996) the firm has to learn, adopt and reorient themselves to the changing environment. Most importantly, when discontinuity begins to affect a firm in a turbulent environment, faced with variety of pressures of new challenges brought about by globalization and trade liberalization, its impact, typically remains hidden within the normal fluctuations in performance. Firms therefore, should proactively engage themselves in strategies that will enable them to respond to the environmental challenges in order to gain competitive advantage over
their competitors besides the firm’s success, and, indeed, even for its continued survival in the market. Ansoff and McDonnell (1990) noted that strategies involve changes in the firm’s strategic behaviors to assure success in transforming future environment.

Strategic management, on the other hand, is a field that deals with the major initiatives taken by an organization’s top leadership acting on behalf of the shareholders, involving utilization of resources, to enhance the performance of firms in their external environments. It entails specifying the organization’s mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations (Nag et al., 2007).

Most organizations, including banks, are involved in strategic planning to achieve a sustainable competitive advantage in the ever-changing business environment. Sustainable competitive advantage is possible only through performing different activities from rivals or performing similar activities in different ways. Companies need to develop unique, internally consistent, and difficult to imitate activity systems that can provide sustained competitive advantage and is possible through forward planning (Dess, 2005).

A company can use a number of business strategies, depending on its situation. For example, new companies may face different challenges than companies that are more established. Therefore, the business strategies they implement may be different from those of key
competitors. There are different types of business strategies that a firm can employ in planning which include the growth strategy, product differentiation strategy, price skimming strategy, entry strategy, exit strategy, marketing strategy and acquisition strategy among others (Rhonda, 2010).

Commercial banks also apply different strategies depending on the stage of objectives and stage of development; these strategies play important roles in positioning the bank as well as achievement of their mission and goals. This may include capital formation, investment in new enterprises, promotion of trade and industry, development of agriculture sector among others (Dess, 2005).

1.1.1: Growth Strategy as an Operational Orientation

To achieve the growth objectives the banks use different strategies amongst which are growth strategies to expand to different regions and to diversify their investments. A growth strategy entails introducing new products or adding new features to existing products. The firms may adopt include merger or amalgamation which may take different forms such as merger through absorption or merger through consolidation. Company merger may be in the form of one or more companies being merged into an existing company or a new company may be formed to merge two or more existing companies. Acquisition is also an expansion strategy common used by firms. An acquisition, also known as a takeover or a buyout, is the buying of one company by another. It is an act of acquiring control over management of other companies (Ansoff and McDonnell, 1990).
Companies will often use a product differentiation strategy when they have a competitive advantage, such as superior quality or service. Obviously, companies use a product differentiation strategy to set themselves apart from key competitors. However, a product differentiation strategy can also help a company build brand loyalty. In addition, a company may use branch network to spread its goods and services to a wide network (Naidu, 2003).

According to Birch and Young (1997) the rapid advancement in Information and Communication Technology (ICT) has had a profound impact on the banking industry and the wider financial sector over the last two decades and it has now become a tool that facilitates banks’ organizational structures, business strategies, customer services and other related functions. The recent “IT revolution” has exerted far-reaching impacts on economies, in general, and the financial services industry, in particular. Within the financial services industry, the banking sector was one of the first to embrace rapid globalization and benefit significantly from IT development (Birch & Young, 1997).

The technological revolution in banking started in the 1950s, with the installation of the first automated bookkeeping machines at banks. This was well before the other industries became IT savvy. Automation in banking became widespread over the next few decades as bankers quickly realized that much of their labor-intensive information-handling processes could be automated with the use of computers. The advent of ATMs helped both to improve customer convenience and reduce costs, as before ATMs, withdrawing funds, accounts inquiries and transferring funds between accounts required face-to-face interaction between bank staff and customers (Llewellyn, 2001).
1.1.2: The Banking Industry in Kenya

Kenya’s banking sector has for many years been credited for its size and diversification. Kenya has a variety of financial institutions and markets – banks, insurance companies, stock and bond markets - that provide an array of financial products. Notwithstanding this relative advantage, Kenya’s financial system has previously failed to provide adequate access to banking services to the bulk of the population. While the larger proportion of savings comes from small depositors, lending is skewed in favor of large private and public enterprises in urban areas. Financial services are expensive, as evidenced by high interest rates and account fees (Beck, 2009).

Kenya’s financial system, however, continues to face challenges. The banking system is still fragmented, with many small banks serving specific niches, but also contributing to competition in the sector. The outreach of the banking system is still limited with a wide population being either under banked or unbanked. In 2007, GOK published “Kenya’s Vision 2030” as a long term development plan for the country which puts provision of financial services at the centre of the planned economic growth trajectory through the year 2030. The main objectives that were articulated in Vision 2030 for the financial sector were; to improve stability, enhance efficiency in the delivery of credit and other financial services, and improve access to financial services and products for a much larger number of Kenyan households. Delivery of these objectives requires implementation of policies that would contribute to stable macro and fiscal positions aimed at lower inflation and financial sector stability (Vision 2030).
1.1.3: The Cooperative Bank of Kenya

The Co-operative Bank (Coop Bank) opened doors for business on 10th January 1968 as the government’s initiative to bring about a more efficient and effective co-ordination of both internal and external assistance in addition to providing relevant financial services to the co-operative movement in Kenya. The bank started with a modest capital base of Kes 469,000 against the required minimum capital of Kes 2 million stipulated by the banking act. The Government granted an exemption and offered a grace period within which the required capital was to be raised (Co-op bank, 2010).

In 1994 the Bank converted to become a fully-fledged commercial bank offering the complete range of financial services beyond the captive Co-operative sector to include personal, corporate and institutional customers. The bank listing followed later in 2008 by a public offer of 701.3 million shares at Kshs 9.50 which achieved an 81% subscription to raise Kshs 5.4 billion in additional capital on top of the existing Kshs 7.4 billion (Muriuki, 2010).
1.2: Research problem

The banking sector has experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. The sector has witnessed entrance of many banks, micro finance and other non banks in the provision of financial services to the unbanked and under banked population mainly in the rural areas. Mobile phone companies in various countries have started new mobile phone-based payment and money transfer services such as M-pesa, Airtel money and Yu cash, an area which used to be a traditional role of the bank. These services have spread quickly, and have become the most successful mobile phone-based financial services in the developing world. For instance M-pesa in Kenya had registered about 7.7 million M-PESA accounts, which was higher than all banks accounts in the country in just two years since inception(Mas and Morawczynski, 2009; CCK, 2010).

The situation points out that most of the banks are pursuing similar expansion strategies to reach the unbanked and underbanked. They have embarked on aggressive branch network expansion throughout the country to increase their market. According to Kenya bankers association (2011), there are 1,072 retail bank branches in countries, up from 534 in 2005. Internet banking has been adopted by most of the banks. Specifically cooperative bank has gone into branch expansion strategy with the bank intending to open 100 retail branches by the year 2012. Cooperative bank has over 3000 agent banking providers with its brand name ‘coop kwa jirani’. The bank has M banking which enable its customers to transact at the comfort of their homes. This has lead to some of the branches reporting low profitability while other have recorded very low daily
transactions thus affecting the institution overall performance (Jayawardhena and Foley, 2000; Co op 2010).

Several scholars have carried out extensive studies in the area of banking in Kenya and especially on competitive strategy. For instance, Warucu (2001) in his research, found out that focus and product differentiation are some of the major strategies that the banks have employed in their quest to outdo each other. Similarly Kiptugen (2003) looked at the strategic responses to a changing competitive environment in the case study of Kenya Commercial Bank, he established that proactive rather than reactive strategies such as research on changing customer needs and preferences forms the basis of its strategic planning. Mbwayo (2005) focused on the strategies applied by commercial banks in Kenya in anti money laundering compliance programs. He concluded that strict adherence procedures and standards have been implemented to ensure that money laundering is contained in Kenya. None of these studies though has touched on the contribution of the growth strategies.

There is limited literature though on whether these strategies are effective and whether they will be sustainable in the long run. This study therefore critically examined the growth strategies specifically employed by Co op Bank with a view of evaluating their contribution. It sought to answer the following questions:

i. What are the growth strategies adopted by co-op bank?

ii. What is the contribution of the growth strategies adopted by co-op bank?
1.3: Research Objectives

The objectives of this study were the following:

i. To Examine the growth strategies adopted by cooperative bank of Kenya

ii. To establish the contribution of the strategies to the growth of Co op Bank

1.4: Value of the study

The findings of this study will be of significance to the following groups:

Coop bank and more so, the business growth department It may use the study findings to evaluate the contribution of the growth strategies and it has adopted with an aim of strategically positioning itself in the market leadership.

The entire banking industry is directly affected by the dynamic business environment and competition locally and internationally. Other banks therefore may use the study findings to compare their growth strategies with others in the banking industry.

Scholars may use the findings to identify the information gap that need further research. The research provides a view of the current state of growth strategies and their limitations in the ever changing business environment in Kenya.
CHAPTER TWO:

LITERATURE REVIEW

2.0: Introduction

This chapter brings out the literature review related to the objectives of the study. It identifies the factors that drive businesses towards growth, the types of growth strategies adopted by firms as well as the challenges facing expansion of firms. It explores the growth orientation in businesses with special emphasis on the banking sector.

2.1: Growth Orientation

Business growth refers to an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output. As a matter of fact, growth is precondition for the survival of a business firm. An enterprise that does not grow may in course of time have to be closed down because of its obsolete products. The market is full of examples of very popular products disappearing from the scene for lack of growth plans. For example, pagers vanished from the market because better technology product i.e. cell phones were introduced Dollinger (2006).

2.1.1: Factors that drive Business Enterprises toward Growth

Businesses adopt growth as a survival strategy. In a competitive market businesses work hard to outperform others through direct or indirect competition. Direct competition comes from other
firms manufacturing the same product while indirect competition may come from availability of cheaper substitutes. To survive the competition the business has to continuously bring new versions of basic product to maintain an edge over its competitors. Severe competition forces a firm to grow and gain competitive strength. A growing concern will be an innovator and can easily face the risk of competition. Thus growth is means of survival in a competitive and challenging environment (Saxena, 2005).

Growth enables the economies of Scale. Growth of a firm may provide several economies in production, purchasing, marketing, finance, management etc. A growing firm enjoys the advantages of bulk purchase of materials, increased bargaining power, spreading of overheads, expert management etc. This leads to low cost of production and higher margin of profit. The owners of a company get the ultimate benefit of growth in the form of higher profits. Capable management may on its own like to take carefully calculated risk and expand the size of the company (Saxena, 2005).

Expansion of the market can also provide growth in that Increase in demand for goods and services leads business firms to increase the supply also. Population explosion and transportation led to increase in the size of markets which in turn resulted in mass production. Business firms grow to meet the increasing demand. The more the size of the business firm increase the more is the prestige and power of the firm. Businessmen satisfy their urge for power by increasing the size of their business firm (Rhonda, 2010).
Government policy in a planned economy like Kenya, business firms operate under a large number of rules and restrictions. The banking sector in Kenya is regulated by the Central Bank of Kenya Act, Banking Act, the Companies Act among other guidelines issued by the Central Bank of Kenya (CBK). Banking industry in Kenya was liberalized back in 1995 when exchange controls were revoked since then the banking sector has witnessed tremendous growth both in number of customers and deposit. The banking sector in Kenya has over the past few year enjoyed exponential growth in deposits, assets, profitability and products offering, mainly attributed to automation of services and branch network expansion both locally and regionally (CBK, 2010).

Technological innovations are key divers of growth in the modern society. Some business firms invest in research and development activities to create new products and new techniques, while others try to acquire latest technology from the market. Rationalization and automation results in more efficient use of resources and a firm may grow to obtain them. Through technology firms can grow to become self sufficient in terms of marketing of raw material or marketing of products and services.

2.1.2: Types of Growth Strategy adopted by Firms

Growth Strategy’ refers to a strategic plan formulated and implemented for expanding firm’s business. For smaller businesses, growth plans are especially important because these businesses get easily affected even by smallest changes in the marketplace. Changes in customers, new moves by competitors, or fluctuations in the overall business environment can negatively impact their cash flow in a very short time frame. Negative impact on cash flow, if not projected and
adjusted for, can force them to shut down. That is why they need to plan for their future (Rhonda, 2010).

In many developing countries, consistent economic growth over the past decade has brought new wealth and demand for financial services while liberalization has led to increased competition in retail financial services in many places. As a result, the reach and coverage of the formal financial sector has grown (World Bank, 2008). According to Saxena (2005), there are different type of growth strategies are available each having advantage and disadvantage of its own. A firm can adopt different strategies at different points of time. Every firm has to develop its own growth strategy according to its own characteristics and environment.

2.2: Internal Growth Strategy

Internal growth is growth from within. It is planned and slow increase in the size and resources of the firm. A firm can grow internally by ploughing back of its profits into the business every year. This leads to the growth of production and sales turnover of the business. Internal growth may take place either through increase in the sales of existing products or by adding new products. Internal growth is slow and involves comparatively little change in the existing organization structure. It can be planned and managed easily as it is slow (Ghosh, 2000).

2.2.1: Expansion Strategy

Expansion also called intensive growth strategy involves raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is
called internal growth strategy. It is a good strategy for firms with a smaller share of the market because the growth is slow and natural and therefore, it can be handled easily. Capital required for expansion can be taken from the firm's own funds and existing resources better utilized. The growing firm is in a better position to face competition in the market with only a few changes being required in the organization and management systems of business. Firm’s expansion therefore provides economics of large-scale operations (Rhonda, 2010).

Three alternative strategies are available in this regard. These are: Market Penetration – This strategy aims at increasing the sale of present product and services in the presented market through aggressive promotion. The firm penetrates deeper into the market to capture a larger share of the market. Market Development – It implies increasing sales by selling present products in the new markets. Market development leads to increase in sale of existing products in unexplained markets. Product Development: In this, the firm tries to grow by developing improved products for the present market (Rhonda, 2010).

2.2.2: Diversification Strategy

Beyond a certain point, it is no longer possible for a firm to expand in the basic product market. So the firm seeks increased sales by developing new products for new markets. This strategy towards growth is called diversification. The diversification does not simply involve adding variety in a product but adding entirely different types of products. Products added may be complementary. Diversification is a much talked about and widely used strategy for growth. Many companies have opted for this. For example, State Bank of India diversified into
merchant banking and mutual funds. A firm may choose diversification strategy when it promises greater profitability than expansion or when the firm cannot attain its growth target by the strategy of expansion alone (Ghosh, 2000).

Concentric diversification means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. It also seems to increase its market share to launch a new product that helps the particular company to earn profit. The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers. This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profits (Lambin, 1996).

In horizontal diversification the company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. In a competitive environment, this form of diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity and instability. In other words, this strategy tends to increase the firm's dependence on certain market segments. For example, a company that was making notebooks earlier may also enter the pen market with its new product (Lambin, 1996). According to Lehman and Winer (2005) many financial institutions has focused on differentiation while maintaining low-cost products and services. Clients are also beginning to demand a greater variety of products and services, especially as markets mature.
2.2.3: Technological Innovation Strategy

A firm may use the strategy of modernization to achieve growth. Modernization basically involves upgradation of technology to increase production, to improve quality and to reduce wastages and cost of production. The worn-out and obsolete machines and equipment are replaced by the modern machines and equipment. Modernization improves the productivity and efficiency of the firm resulting in a better quality products and services to the customers. The profitability of the firm goes up because of increased efficiency and reduced wastages, as the firm becomes more competitive in the long-run because of modernization. The workers acquire modern skills because of which their wages go up (Gupta, 2001).

Most industries have been influenced in different ways by ecommerce (Foxall et al. 2003) and that the banking industry has been subject to this technological change (Bradley and Stewart 2003). It is evident that banks and other financial institutions in developed and emerging markets are embracing e-banking. For example, in Kenya, a recent survey indicates that there is steady increase in use of e-banking technologies such as automated teller machine (ATM), mobile and Internet (online) banking, electronic funds transfer, direct bill payments and credit card (CBK 2008).

ATM banking is one of the earliest and widely adopted retail e-banking services in Kenya (Nyangosi et al. 2009). However, according to an annual report by Central Bank of Kenya (CBK), its adoption and usage has been surpassed by mobile banking (M-banking) in the last few years (CBK 2008). Currently, there are about 8 million users of M-banking services compared to 4 million people who hold accounts in conventional financial institutions in Kenya (CBK 2008).
The tremendous increase in number of people adopting M-banking has been attributed to ease of use and high number of mobile phone users. This is consistent with the theory of consumer choice and demand as conceptualized in Au and Kauffman (2008) in relation to mobile payments. Based on their observation, customers can choose to adopt a particular banking technology such as M-banking, perceived to offer such advantages as ease of use.

2.3: External Growth Strategy

External growth involves growth through external means such a merger and joint venture. A firm may acquire another firm or firms may combine together resources to improve their market competitive strength.

2.3.1: Merger and Acquisition Strategy

Merger is an external growth strategy derived when different companies combine together into new corporate organizations. Merger can occur in two ways namely: Acquisition of takeover and amalgamation. Takeover or acquisition takes place when a company offers cash or securities in exchange for the majority shares of another company. It involves one company taking over control of another. Amalgamation takes place when two or more companies of equal size or strength formally submerge their corporate identities into a single one in a friendly atmosphere. The mergers take place with a number of motivations such as provision of economies of large-scale operations, better utilization of funds, more efficient use of resources. Through mergers sick firms can be rehabilitated by merging them with strong and efficient concerns since it often cheaper to acquire an existing unit than to set up a new one. Mergers therefore allow quick entry
into new lines of business (McLaughlin, 1996).

In recent years, a number of mergers and acquisitions have taken place in the banking sector. Some of the mergers have been triggered by the need to meet the increasing minimum core capital requirements, and also to enhance institutions’ market share in the highly competitive local banking environment through the resulting synergies. For instance Eco bank acquired east African building society in the years 2007(CBK, 2010).

2.3.2: Joint Venture Operational Strategy.

When two or more firms mutually decide to establish a new enterprise by participating in equity capital and in business operations, it is known as joint venture. A joint venture is a business partnership between two or more companies for a specific business operation. Joint venture can be with a firm in the same country or a foreign country (McLaughlin, 1996).

A strategic alliance which is also a growth mechanism is an organizational partnership where each party’s core business model remains separate and intact. It is an agreement between two or more separate companies in which there is shared risk, returns, and control, as well as some operational integration and mutual dependence. A bank can seek to achieve market leadership through a strategy of differentiation by building upon its core competencies. Examples of such competencies include customer insight, brand reputation, decentralized (McLaughlin, 1996).
Alliances give organizations the ability to differentiate without reinventing the wheel; institutions can move forward relatively quickly and can be more flexible and easier to implement in comparison to mergers and acquisitions. Shared control mitigates risk: A partner can exit a strategic alliance and fewer resources are needed including less cash. Institutions have the opportunity to learn more about key processes/new industries/new geographies.

Ability to leverage brand name: Organizations can focus on their strengths (McLaughlin, 1996).

2.3.3: International Markets Venturing Strategies

Companies can enhance market penetration by venturing into other markets, and this can be done through franchising. This is a continuing relationship, in which the franchisor provides a license to the franchisee to do business. It also offers assistance in organizing, training, merchandising, marketing, and managing in return for a franchising fee. The organization is "cloned" by licensing the brand name and providing ongoing business support to the franchisee, which owns and operates the business outlet. An organization typically engages in franchising in order to grow quickly and leverage its brand and business model. Franchising offers a means to expand without much upfront financing and tends to occur in industries with standardized products (McLaughlin, 1996).

However, while franchising frequently occurs in the private sector, there is little franchising in banking sector. Franchising as it occurs in the private sector, with the same brand, strict checks on quality control and standardization, does not currently occur in bank. Even in the financial services industry within the private sector, franchising is less common because it seems to work
better with a standardized product than it does with a service. Additionally, franchising is rare in this industry because of the high skill and capital needed. For instance, there is an inherent risk for someone with little financial experience to open up a bank franchise branch, no matter how straightforward or standardized the franchise package is (McLaughlin, 1996).

Notably though a form of franchising does exist in microfinance, through replication of business processes and a credit franchise package. Examples of replication include the establishment of Bandhan, which was based on the ASA model. The Grameen methodology has also been replicated by numerous banks. These forms of franchising tend to be more of a mentor-mentee relationship, in which advice is offered but not imposed. Brand equity is not emphasized, as replicated organizations have different names and are different legal entities (McLaughlin, 1996).

2.4: Challenges facing growth of firms

Finance is major hinderance to growth strategies. Growth, especially external growth, requires additional capital investment which is sometimes difficult for a firm to arrange. Many financial institutions acquire fund through initial public offers. This allows members of the public to invest in the dynamic and fast growing sector in anticipation of good returns (Rhonda, 2010).

Human Relations Problems are also major challenges which arise when firm, management lose personal touch with employees and customers. Motivation and morale tend to be low resulting in inefficiency. Growth increases the functions and complexities of operations. As the number of functions and departments increase, coordination and control become very difficult. If the organization and management structure is not capable of accommodating them, growth may be
harmful (Rhonda, 2010).

Under conglomerate growth, a firm enters new industries and new markets about which the managers know little. Managers find it difficult to find and develop people who can quickly handle new units and improve their earning potential against heavy odds. From social point of view also big firms may be undesirable as they may lead to concentration of economic power and creation of monopolies which may exploit consumers. In their desire for growth firms indulge in combative advertising. The quickening growth creates a cultural gap when society finds it difficult to cope with technological change (Rhonda, 2010).
CHAPTER THREE:

RESEARCH METHODOLOGY

3.1: Introduction

This chapter outlines the research methodology that was followed in completing the study. Specifically the following subsections are included; research design, data collection and data analysis.

3.2: Research Design

This research adopted a case study approach. A case study enables the researcher to have an in-depth understanding of the expansion behavior pattern of cooperative bank. According to Kothari (1990) a case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. He refers a case study as a powerful form of qualitative analysis that involves a careful and complete observation of a social unit. It’s a method that drills down, rather than cast wide.

3.3: Data Collection

Both primary and secondary data were used, primary data was collected using self-administered interview guide while secondary data was collected by reading through the bank’s published reports, brochures, journals and periodicals. The target sample of this study was 15 senior staff (Chief and Senior Managers) involved in strategy formulation in the Cooperative Bank of Kenya
representing various departments and subsidiary companies and were based in the bank’s head office. The interview guide consisted of open-ended questions. This enabled a better understanding and an insightful interpretation of the results from the study.

3.4: Data Analysis

After field work, all the data from the interview schedules were sorted, coded and analysed. Quantitative data was analysed through the use of a combination of descriptive statistics particularly frequency distributions and percentages. The qualitative data was analyzed using content analysis which is the best suited method of analyzing secondary data. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study existing information in order to determine factors that explain a specific phenomenon.
CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study as set out in the research methodology. The study findings aimed at establishing the contribution of growth strategies adapted by Coop Bank to the general performance of the bank. The data was gathered exclusively from the senior staff involved in the strategies formulation in various department of the bank. A self administered interview guide was used as the research instrument. The guide was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted the 15 senior staff, who included chief and senior managers across all departments working in Co-op Bank. However, a total of 12 managers were actually interviewed and this made an 80% response rate.

4.1.2 Demographic Information

The findings show that Majority (60%) of the respondents were female while 40% of the respondents were male. The findings also show that majority (80%) of the respondents have been in the bank for more than ten years and have a working experience of more than five years in the current department. This shows that most of the respondents were experienced in their area of operations.
The findings also show that various departments are charged with specific roles in growth orientation of the bank. The departments therefore formulate strategies that go with their formation purpose. The senior staff further conducts strategy evaluation to monitor on their appropriateness and contribution of the strategy towards the bank performance. Majority (70%) of the departments review their strategies every three years thus allowing for enough time for the implementation and evaluation. New strategies are formulated to replace the outdated strategies while modification is done to the old but viable strategies with an aim of keeping up with growing competition in the banking sector.

4.2 Growth Strategies adopted by Co op Bank

The findings revealed that the bank has adopted several growth strategies to gain a wide market share and cope with the ever increasing competition in the banking industry. The bank targets both local and international markets.

4.2.1 International Market Strategies

The findings indicated that coop bank has spread its banking operations outside their home market through strategic alliance strategy. The recent alliance between Coop Bank and the government of Southern Sudan is one of such strategy. The bank intends to offer SACCO’s financing services to the emerging SACCO’s in that country. It therefore intends to open five branches in entire southern Sudan to be located in the major towns.

The findings further indicated that in line with spreading its wings to the foreign market Coop Bank introduced a Diaspora account which can be in terms of dollar or Kenya shillings. According to the head of international relations, the account targets Kenyans leaving outside the
country and provides them with an opportunity to save and remit their earnings back to their country while they continue working and staying in the foreign land. In addition introduction of internet banking enables customers in the Diaspora to access their accounts and perform business transactions such as money transfer, payment of bills etc without physical presence. The internet banking is done on a trunkard platform which is reliable banking software.

4.2.2 Local Market Strategies

The findings indicate that local market is the Co op Bank major sources revenue. According to the bank’s managing director the local market contribute more than 70% of the bank’s revenue. The bank has therefore, made heavy investments to strengthen the market share and consolidating on the gains made this far.

The local market growth strategies adopted by the bank include branch network, agency banking, internet banking, merger and acquisition, joint venture operation, mobile banking and FOSA’s. The strategies have enabled Coop Bank to gain a favourable market share in Kenya and be ranked the fourth best performing bank in profits announced in the year 2011.

4.2.3 Factors that guide the choice of Strategy in Coop Bank

The findings show that the choice of local and international strategies is usually guided by factors such as availability of viable business opportunity, cost benefit analysis and annual returns on investment. The findings further show that the strategies and expansion programs are guided by the Banking Act in the constitution. They must comply with the rules and regulations as stipulated by the Central Bank of Kenya which is the regulating body and also foreign policies that guides foreign investment.
4.2.3.1 Viability of a Business Opportunity

The findings indicate that Co op Bank usually conducts a feasibility study of the available business ideas before selecting the most viable business opportunity. Business viability not only reflects the likelihood of the business venture succeeding but also its ability to deliver on the Bank objectives such as creation of wealth and proper utilization of resources. The research manager further indicated that the steps in bank’s business viability analysis are not rigid and are constantly modified to best fit the business situation being assessed.

4.2.3.2 Cost Benefit Analysis

The findings indicate that the bank conducts Cost-Benefit Analysis to estimates and totals up the equivalent money value of the benefits and costs of strategies to establish whether they are worthwhile. In order to reach a conclusion as to the desirability of a strategy all aspects, positive and negative, must be expressed in terms of a common unit. The most convenient common unit is money. This means that all benefits and costs are measured in terms of their equivalent money value. The bank usually adopts the strategy that maximizes income while minimizing costs.

4.2.3.3 Return on Investment

Findings show that Co op Bank estimates the rate of returns on every opportunity before adopting a strategy. This enables the bank to estimate the ratio of money gained or lost on an investment relative to the amount of money invested whether realized or unrealized. The amount of money gained or lost is referred to as interest, profit/loss, gain/loss, or net income/loss while
money invested is referred to as the asset, capital, principal, or the cost basis of the investment. According to the findings Co op Bank adopt the strategy with the highest rate of returns.

**4.2.4 Opportunities for future growth**

According to the Marketing and Research Manager, coop bank undertakes regular and comprehensive market research to ascertain the magnitude of the opportunities and threats in the target market as well as the entire banking environment. According to the Manager, the bank undertakes ventures with the highest pay offs. The bank has identified mobile money transfer as a major opportunity that needs to be tapped due to its convenience and wide spread of the supporting mobile phone services. Agency banking has also been identified as a very potential strategy for the mass market.

The findings show that profitability of the ventures determines the banks priorities as well as the amount of investment. According to the head of business planning department, both viability and potential cash flows are carefully analyzed before committing the shareholders fund into a project. According to business development manager, branch banking contributes the highest returns on investments through loan book performance and the transactional charges. The branch network strategy accounted for 70% of the profits in the previous financial year.

The marketing manager reported a spirited campaign aimed at promoting bank’s products and services. The bank has mostly used media such as the television and radios that have a wide coverage, newspapers and billboards to create awareness of its services. The Sacco’s shareholding has provided a good advocacy to the various regions and well as core capital contribution. The bank’s marketing slogan” We are you” seeks to strategically position the bank
as the people’s bank. The bank according to the head of public relations has enjoyed a good public relations that has facilitated the bank growth.

4.3 Contribution of Growth Strategy to the performance of Coop Bank

4.3.1 Branch Network Expansion

The findings show that coop banks biggest share of revenue comes from local branch network. According to the head retail banking the bank has increased its branch network to 100 branches by the year 2012. The wide branch network is aimed at taking services closer to the people and increasing customer base.

Majority (95%) of the respondents remarked that branches are costly to establish and maintain in Kenya. A branch requires a substantive customer base to be profitable and to maintain its working force which is apportioned to the specific branch. On average most branch networks in coop bank require one to two years to break even. The respondents noted that poor location of a branch can be an expensive mistake and therefore care is taken when opening a branch network. Specifically branch opening is guided by availability of un tapped customers, diversification of markets for example up market and down market. Sometimes coop bank is motivated by the need to take services closer to the people. This explains why the bank opens more branches to an area with existing branches like Nairobi central business district (NCBD).

The findings show that the major parameters used to measure branch performance in coop bank includes: branch profitability, customer service standards, loan book port folio as well as staff productivity. The bank issues targets and bench marks to increase the branch efforts and performance. According to head Human Resource the bank hires highly qualified staff, offers
competitive remuneration and conducts on job training to improve staff productivity and retention.

To increase customer base, Coop bank through the managing director initiated an account opening campaign in the year 2010, dubbed “MD liability campaign”. This has been an aggressive campaign that aims at using existing staff to create bank awareness and referring customers to the bank. The campaign was automated to keep track of each and every staff referrals irrespective of the branch in which the account is based. A reward and punishment system is used to reward those who excel and punish those who underperform. The staffs therefore make concerted efforts to market the bank in their free time and in social gatherings to avoid punishment and get a reward. This campaign has helped in increasing the number of accounts opened from 3 million in 2010 to over 4.5 million customers in 2012.

4.3.2 Technological Innovations

Mobile banking and internet services provide convenience to the account holders as they can access their bank without physical attendance to the branch. According to the head of ICT, the use of mobile hand set has broken distance barrier because one can perform many transactions while still at work or resting at home. This has improved real time payments of electricity bill, house rents and loans repayments as well as fund transfer to M Pesa services. Technological innovations such as mobile money transfers have spread very fast in the country and coupled with increased products it poses a major challenge to the banking sectors and especially the branch network.
The bank has embarked on expansive Automated Teller Machines (ATM) network, where the bank has installed over 150 automated machines in the country. The machines are aimed at offering cash dispensing services to the customers. In addition some ATMs are enabled to accept deposits and this provides secure method of delivering cash when branches are closed. The ATMs are also used in the payment of bills as well as enquires. These machines therefore help in decongesting the banking halls and provide revenue to the banks in form of transactional charges.

The use of technological innovation has been motivated by the ever changing needs of the customers. Emergence of informed and high value customers who don’t have time to visit branches has necessitated the use of ATM as an alternative banking outlet. Lack of branches in some remote areas has called for offsite ATMs which are managed and serviced by the nearest branch. This strategy therefore has contributed to more customer retention because they have access to their cash in every corner of the country. This increases the place utility of money

The findings record both positive and negative effects of technological innovations to the branch network expansion. Majority (83%) of the respondents view technology as a way of life in the modern world. They noted that any organization that does not embrace technology risks closure.

In Coop Bank technological innovation like integrated banking system help the bank to offer one stop services to its customers. The customers receive many services, faster and under one roof. The bank employees have better working environment hence more productivity. However, the findings note that improved technology enables the customer to acquire banking services without visiting the branches, this in essence negate the purposes of big banking halls.
The findings also noted that customer’s resistance to adopt new technology and more often prefer playing safe and sticking with the old methods of banking. The respondents also noted lack of products knowledge on the side of the staff and this contributes to poor dissemination of the information to the customers. This hinders the full utilization of these strategies which target mass usage to any significant return on investment. The implication is that efforts should be taken to train staff on the use of technological innovation before rolling over because staff are in contact with the customers and are the source of advice. Findings noted that customers have less resistance when a technology is well illustrated to them for instance M-Pesa has recorded high penetration even in the remote areas which has high illiteracy levels.

Generally the findings indicate a tremendous contribution of ICT to the growth of Co op Bank in terms of market share and revenue generating. The bank has benefited from increased transactions as customers can assess their account anytime. The ICT has broken the geographic barriers in reaching the under banked and the unbanked population. The findings further show future potentials in the use of ICT innovations in the banking industry.

4.3.3 Joint Ventures Strategy

The findings indicate that through Coop Bank and SACCO’s alliances many Front Office Services Activities (FOSAs) have been established in the country. These are deposit taking Sacco’s that have been allowed to offer limited saving services to the general public. The FOSAs offer financial services which includes deposit, withdrawal and loan services to both their members and other general public both in the rural and urban areas. The FOSAs customers are therefore integrated into the bank platform through the use of an integrated ATM card known as
SACCO link. This strategy has brought new customers to the bank customer base who would otherwise have no account with bank.

The findings also show that the bank has diversified its investment, products and services in the recent past. In 2008 the bank acquired Bob Mathews Company to form a subsidiary investment company called Kingdom Securities. This has enabled the bank to offer brokerage services hence diversifying into the investment sector. In 2011, the bank bought shares in the Cooperative Insurance Company (CIC) hence becoming the major share holder in the company. In addition the Coop Bank offers banking services to these subsidiary companies and this according to the head of corporate affairs has increased the bank deposit levels which are used to lend to its customers and to other financial institution at an interest. This translates to high profitability for the bank.

4.3.4 Agency Banking

Agency banking as introduced in the year 2010 aimed at supplementing the branch network and reaching the unbanked and under banked at a lower cost. The agency banking manager hails the immense potential in the agency banking with utilizes the existing resources in the private sector to spread the banks services to the nation. The strategy has seen recruitment of over 3000 agents in two years since inceptions. The services are based on a franchising program and income sharing between the agent and the bank. The appointment of agents is dependent on the business location and registration requirements as stipulated by the bank. The bank provides the supporting system to allow agents direct access to the bank’s database and perform authorised services.
However, according to the Quality Assurance Manager there exists variation in the provision of services among the agents with no clear standards maintained. The customers are sceptical about the security of their money and therefore perform few and small valued transactions while many still prefer actual banks which have security measures in place. The findings therefore indicate that the full potential has not been achieved.

The implication is that there should be more awareness campaigns done on agency banking especially through mass media and cross selling within the bank. The services should be enhanced to cater for all customers needs with services as such account opening, loan application and loan repayment being franchised and fully performed by the agents. The respondents further felt that agents required more training on the bank products and banking practices as such as customer service and office etiquette. This can enable the agents offer seamless services similar to the actual branch network. Agents should be sensitized on security measures to reduce the risks of handling cash.

The head of the ICT department further indicated that ICT capability should be enhanced to handle more agency services and with immediate accounts updates. The ICT is an important component in handling and executing business transactions as well keeping records. The banking systems have varied capacity and require regular upgrading or complete changeovers to handle the increased customer base.

4.3.5 International Market Strategies

The findings show that coop bank has adopted many methods of remitting money to and from abroad for both customers and non customers. These methods include Western Union, Swift
Money, Express Money and Money Gram. Majority (79%) of the respondents report Money Gram as the most successful method of sending money in Co op Bank. The respondents rated the method as ten times faster than other methods. According to the head international business, the bank initially had a sole right of the product when it was introduced in the country. This enabled the bank to market money gram as one of its product and this accounts to its contribution in revenue generation despite being offered by other competitors.

Diaspora accounts which are opened either in the foreign country or here at home and franchised through selected banks abroad have played key roles in the deposit mobilization. According to the head of international relations, the account targets Kenyans in the Diaspora and gives them an opportunity of safely remitting money to their loved ones at home. The account holder can further apply for loans through the accounts while still away. In addition introduction of internet banking enabled customers in the Diaspora to access their accounts and perform business transactions such as money transfer, payment of bills, repayment of loans etc without physical presence.

The international market strategies have enabled the bank to increase its market share and well as acquiring foreign exchange to be used in the local money market. In return the bank profitability has been positively affected.

4.4 Future development opportunities

The findings further indicated that coop bank intends to open branches in the entire East African region so as to widen its market share. This is aimed at strategically placing the bank as a regional financial institution.
The bank further aims at targeting special markets like group accounts for ‘chammas’ which have been hailed for their saving and members guaranteeing abilities. This can enable the bank to increase the customer base and reaching the unbanked in the remote areas.

The bank has started strategies targeting the youth population. For example the Young and Ennovative Account (YEH) were reported to have grown over the years. The bank aims at targeting more youths who are becoming more and more creative, career progressive and heavy spenders. The bank intends to mobilize the youth to open more accounts and this would contribute to a bigger customer base.
5.1 Introduction

This chapter presents the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research objective which was to establish the contribution of growth strategies in Cooperative Bank of Kenya.

5.2 Summary of Findings

5.2.1 Growth Strategies adopted by Coop Bank

The study revealed that Coop Bank has employed various methods to maintain the market share and to increase its earnings in the highly saturated banking sector. The bank targets both the local and international market for growth. It strives to reach the unbanked and under banked population in the country and venture in the international markets.

The local growth strategies adopted include: mobile banking, agency banking, internet banking, wide branch network and FOSAs. The bank is also planning offer SACCO services as well to open five branches in southern Sudan by December 2012.
5.2.2 The Contribution of the Growth Strategies to the Performance of Coop Bank

The wide branch network has helped the bank to reach many people and increase the customer base to over four million accounts by 2011. The bank has branches in many rural areas where most unbanked population lives.

The bank in conjunction with private enterprises has adopted agency banking which is a franchising and revenue sharing program. The bank has established over 3000 agencies since inception. This move has helped the bank to increase on transactional revenue as well as the mass deposit- simply referred to as cheap deposit. Using the grameen model banking, coop bank in return lends the money to those who need loans at an interest. The bank recorded an interest of 5 billion in the year ending 2011 and targets 10 billion by the end of 2012.

Co op Bank has adopted money transfer services which enable customers and non customers to send and receive money from abroad. The services include: Moneygram services, Western union and also the safaricom money transfer service M-Pesa. While all these services contribute to the bank growth in revenue, Money gram contributes the biggest share because of its popularity and number of daily transactions.

Coop Bank has diversified its products and services to reduce the risk. By acquiring Bob Mathew’s stock brokers in 2008, coop bank started trading in securities through its subsidiary company called kingdom security. This has enabled the bank to offer investment services to the
customers. In conjunction with cooperative insurance company the bank has started offering bankassurance to its customers.

5.3 Conclusions

The study concludes that coop bank has adopted several growth strategies to achieve both internal growth and external growth. These include: branch network, Joint Ventures, mobile and internet banking, franchising in terms of agency banking used by Coop bank to increase its market share in the local market and also survive in the competitive banking sector.

The study concludes that emergence of many competitors and changing customer profiles are threatening the future growth of the bank. The bank is therefore faced with the challenges of abandoning the tradition methods of banking and embracing the modern technology and innovations.

The study concludes that coop bank has plans to enter in another markets to exploit the international markets. The decision was made at the high management level by the senior managers who reached an agreement to open 5 branches in southern Sudan by the end of 2012. The strategy implementation is at advance stage with physical branch near completion and hiring of branch personnel conducted so far.
5.4 Recommendations

From the discussions and conclusions in this chapter, the researcher recommends the bank to employ modern growth strategies that would make it a bank of choice to bank customers. The bank needs more public awareness on its products and services that can enable it to be the market leader.

The study recommends the bank to come up with product differentiation strategies by segmenting the customers based on their needs, size and type of business and designing products that meet the unique needs of these customer segments and also creating a pricing strategy for each segment. The study recommends that the bank to consider more products and services which can appeal to the youth. The youth comprises of 42% of the population in Kenya and have different tastes from the rest of the population. There is an upcoming niche of young generation who are economically powerful and require a financial institution that can best meet their needs. Targeting this niche therefore will enable the bank to broaden its customer base.

The study further recommends that agency banking should be given advertised more as its an area with great growth potential. Agency banking uses the already established private enterprises and saves the bank huge capital outlays of opening a branch.

The study further recommends that CBK needs to assist Kenyan banks with favourable operating environment. Prohibitive policies regarding international markets entry should be changed to encourage banks depending on the capital base to decide whether to enter international market or not.
5.5 Recommendations for further Research

The researcher recommends that a study be done in the banking industry so as to find out the different strategies adopted by commercial banks while responding to competition in the industry.

The study recommends that other studies be done to evaluate the sustainability of wide branch network in this branchless and agency banking phenomena

A study should also be conducted to evaluate the contribution of international markets in the future growth of banking sector in Kenya
REFERENCE

hall Cambridge, UK.

stakeholder issues for an emerging financial technology application. Electronic

for the financial services industry?”, Internet research: Electronic networking
applications and policy, vol.7,n.2, pp. 120-128.

Management, 19, 10, 1087–1109.


the year 2003, Kenya.

CBK, (2007), Payment systems in Kenya. Central bank of Kenya annual financial report for the
year 2007, Kenya.

year 2008, Kenya,


Cooperative Bank goes public (2008), Bank Prospectus for Initial Public Offer


Kiptugen E.J (2003), Strategic responses to a changing competitive environment. A Case study of KCB, Unpublished MBA project, University of Nairobi.


Lambin, J.J (1996), Strategic Marketing Management, Tata McGraw Hill. New Delhi:


NAMAC trust, "best practice manual for franchising"

Muriuki, G.(2010). Cooperative bank end of year results; The managing director speech.


APPENDICES

Appendix I: Introduction Letter

To whom it may concern

Dear Sir/Madam,

Request for participation in a research study on the Growth Strategies adopted by Co-operative Bank as operational Orientation

I am Susan Muchiri an MBA student at the University of Nairobi. My area of specialization is strategic management. I am currently undertaking a research on “the Growth Strategies adopted by Co-operative Bank as operational Orientation”.

I would be grateful if you could spare some time from your busy schedule and participate in providing the required information. All the information provided will be used purely for academic purposes only and will be treated with utmost confidentiality. Kindly contact me in case of any queries or clarification on any of the questions.

Thank you for your cooperation.

Yours faithfully

Susan Muchiri
Appendix 2: Interview Guide

PART A: Demographic and Operational Characteristics

1. Name of the interviewee (Optional)?
2. What is your gender?
3. Name of the branch/department/section?
4. How long have you worked in co operative bank?
5. Position held in the organization?
6. How many years have you served in the department?
7. How often is Strategy formulation process in your department?

PART B: Identification of the growth strategies and factor that influence these Strategies

1. What specific strategies does your organization use to move into international markets:
2. What specific strategies does your organization use to expand into the local market
3. What factors guide your choice of growth strategies used in the local market?
4. What are developmental opportunities available for your organization in the future?
5. Agency banking is a form of franchising growth strategy aimed at reaching the under banked and unbanked. Has agency banking achieved this objective this far?
6. If No what measure are taken to boost its popularity?
7. What is the average break even period for a new branch in your organization?
8. What are the guiding principles when locating a new branch in your organization?
9. How does technological innovation affect branch network expansion in your organization?
10. What are the challenges faced by the bank while offering internet banking?

11. What is the key measurement tool used to evaluate the branches performance?

12. Cooperative bank has adopted several methods of remitting fund to and from abroad. Explain which one has recorded the highest volume in the last five years?

13. What is the contribution of mobile banking to the number of banking transactions?

14. How has the Diaspora account contributed to the deposit mobilization?

15. How has the MD liability campaign contributed to bank customer base?

16. How has acquisition contributed to the company products diversification?