

**COMPETITIVE STRATEGIES ADOPTED BY KENYA
COMMERCIAL BANK LIMITED IN RETAIL BANKING**

BY

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DECLARATION

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

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

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DEDICATION

I dedicate this project to my late Dad Julius Mutuku, late Brother John Suvi, my loving Brother Fredrick Mutuku, Mum Florence Kamanthe Julius, Sister Agnes Nduku, true friend Tillysons David Ayuel and my Son Ryan Garnet Musyoka: thank you for filling my life with love and laughter and for your support, inspiration, peace and patience and for when most of the time was in school and at work; I wouldn't have made it this far without you and Above all, I thank the Almighty God for giving me good health; and to my friends, and colleagues for your motivation, support, encouragement and understanding throughout the research period. I truly cherish you all for your unwavering moral and financial support.

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ABSTRACT

Over the years there have been changes in the Kenyan economy and banks have not been spared from the impact of these changes. The aim of this study was to establish strategies used by Kenya Commercial Bank (KCB) to gain competitive advantage in the retail banking. To satisfy these objective data was collected from the senior management, of Kenya commercial bank who were targeted as the principal respondents. A self administered questionnaire was used as major tool of data collection. The aim of the questionnaire was to capture data on strategic responses adopted by Kenya commercial bank and managers' opinion on what should be done on ensuring that competitive advantage is attained.

Descriptive research design was preferred for the presentation of findings. In this case data was evaluated and presented in form of textual/content analysis. The study established that Kenya commercial bank had put some strategies in place to cater for any challenges and threats to the banking industry. In this study, expansion coverage, information technology system of T24 and training of workforce appeared to be a strategic move by the KCB to lay a basis for offering satisfactory services to their customers and this was geared towards facilitating emerging trends in banking industry.

The results of this study established that the commercial banks are in competition and their products and services differential is quite narrow hence need for restructuring. The study also revealed that a number of strategic marketing variables are manipulated by banks to respond to a competitive intensity in the banking sector. These include; developing new products,

market development and market focus. It was concluded that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change. The study recommended for a further research to be carried out in other commercial banks on other responses that KCB has made in order to attain competitive advantage. This will then allow banking industry generalization.

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LIST OF ACRONYMS

CBK	-	Central Bank of Kenya
KBA	-	Kenya Bankers Association
ATM	-	Automated Teller Machine
IT	-	Information Technology
ERP	-	Enterprise Resource Planning
SACCOs	-	Savings and Credit Cooperative societies
CSR	-	Corporate Social Responsibility
NCR	-	National Corporate Responsibility
KPL	-	Kenya Power and Lighting

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The issue of distribution of retail financial services has received growing attention in the academic and professional literature as it has been hailed as an increasingly important factor in determining whether a company competes effectively in its chosen markets (Chandler et al., 1984). In an increasingly competitive and deregulated environment, superior distribution strategies concerned with how to communicate with and deliver products to the consumer most effectively (Howcroft and Lavis, 1986), can provide institutions with competitive advantage in the marketplace. In effect, distribution provides the basis for differentiation rather than the core service itself.

The appropriate mix of delivery systems for financial services institutions is determined by a number of factors on both the supply and demand sides of the market. On the supply side, factors such as regulation, technology and the resultant changes in market structure will influence the chosen methods of delivery for financial services firms, while on the demand side consumer preferences and expectations are obviously of prime importance (McGoldrick and Greenland, 1994).

1.1.1 The Concept of Competition

Organizations have found themselves in a position where they not only have to address competition changes but actually anticipate them. Liberalization and globalization have further opened up the market to environmental forces. Coping with the increasingly

competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

Rapid technological changes have created a new business environment where innovation has become a top competitive strategy. Ansoff and McDonnell (1990), describe a market environment where no organization can hope to stay afloat if it fails to come up with proper strategies to counter competition. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become routine for survival means.

Competitive edge can be through changes in the firm's strategic behaviors to assure success in the transforming future environment (Ansoff and McDonnell, 1990). Pearce and Robinson (1997) saw strategies as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Thus strategic responses are a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of larger organizations. Hence operational issues are mostly concerned with certain broad policies for utilizing the resources of a firm to best support its long term competitive strategy.

1.1.2 The Competitive Strategies

Competitive advantage is crucial for earning and sustaining superior performance. The level of performance is in turn directly related to the strategies the organization adopts and its implementation of the same. Thompson (1999) asserted that any business strategy capable of success must be grounded in competitive advantage wherever it has an edge over its rivals in securing customers and defending itself against competitive forces (Thompson & Stickland, 2002). Johnson et al. 2008 further argued that an organization can only achieve competitive advantage over others if it has capabilities that the others do not have or have difficulty in obtaining. These include powerful brands, prime location, intellectual capital, a particular outcrop of minerals among others.

In order to maximize its capabilities and organization must effectively exploit its core competencies. Organizations must also focus on achieving competitive advantage that can be preserved over a long period of time. This is because a company's prosperity is dependent on how powerful and enduring its competitive advantages are (Tilson, 2000).

Varadarajan and Jarachandran, (1999) agreed that the fundamental basis of long run success of a firm is the achievement and maintenance of a sustainable competitive advantage. As Barney (1991) argued, a firm can only attain competitive advantage when it implements a value creating activity not being simultaneously implemented by other competitors and when other firms are unable to duplicate the benefits of this strategy. The importance of strategic intent cannot therefore be overlooked.

1.1.3 Kenyan Banking Industry

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK) Act and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six(46) banking and mortgage institutions, fifteen(15) micro finance institutions and one hundred and nine(109) foreign exchange bureaus (PWC Kenya, Industries: Banking Industry 2011).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region. Secondly is the automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC Kenya, Industries: Banking Industry 2011).

1.1.4 Kenya Commercial Bank Limited

KCB is the largest financial service organization in East Africa, with an estimated asset base in excess of US\$2.49 billion, as at November 2011. KCB Group has the widest network of banking outlets comprising of over 200 branches and over 280 ATM machines in Kenya, Rwanda, Southern Sudan, Tanzania and Uganda. The bank has a wide network of correspondent's relationships totaling to over 200 banks across the globe for a seamless facilitation of their international trade requirement. The banks vision is to be the preferred financial solution provider in Africa with global reach. Its mission is to grow its existing business whilst building the platform to be the preferred financial solution provider in Africa with Global reach (KCB Booklet, 2011).

The History of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa eight years later in 1904, the bank extended its operation to Nairobi, which had become the head quarter of expanding railway line in Uganda. The next major change in the banks industry came in 1958. Grindlays bank merged with the national bank of India to form the National and Grindlays Bank. Upon independence in 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970 the government of Kenya acquired 100% ownership of the bank's share to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. The government has reduced its shareholding in KCB to 23% as of December 2008. In 1972, savings & Loan (Kenya) limited was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) limited

was incorporated in Dar-es-salaam, Tanzania to provide banking services and promote cross border trading.

In May 2006, KCB extended its operations to southern Sudan following licensing by the bank of Southern Sudan. The subsidiary has six branches. In November 2007, the first branch of KCB Uganda Limited opened in Kampala, Uganda. The subsidiary has eleven branches. In 2008, KCB expanded to Rwanda, where the first branch was opened in Kigali in December 2008. Currently the branch has nine operational branches. A subsidiary will be opened in Burundi in 2012. KCB has 222 branches though out Kenya and East African region, making it the largest banking network in the region. It has the largest banking network in the region. It has the largest number of own branded ATM's In Kenya. Since 2004, all the branches in Kenya have been rebranded as part of a wider corporate branding exercise. KCB has partnered with Pesa-Point to increase the number of ATM points customers can access their funds.

Owing to its popularity in the Market and unique position as the regional bank, KCB has experienced immense growth in both infrastructure and business volumes in the recent past. The bank serves close to one million customers spread across the region and boasts of the largest balance sheet of any indigenous commercial bank in the region (Over USD 2.4). The bank provides a wide range of banking services; from corporate banking and trade finance products through propositions for small and medium enterprises and individual clients, to Mortgage finance and credit facilities. The bank is planning to increase further its regional foot print to ensure increase in reach and convenience for its customers. It plans to open 50

new branches across East Africa outside Kenya and also install a commensurate of ATMs. It also reviews its products and services to tailor them to specific customer needs and add variety to their offering. As a regional bank, it is committed to working with other stakeholders to boost the region's capacity to conduct trade among members. The bank has already provided an improved Information Technology (IT) platform that facilitates online-real time one branch banking, fast transmission of payments and easy access to funds wherever their customers may be in the region. The bank's ultimate dream is to be a Pan-African Bank, supporting growth and development for a majority of people in Africa into the foreseeable future.

1.1.5 Concept of Retail Banking

Many innovations have recently modified the concept of retail banking, due to new forms of commercialization and distribution of financial services, as well as to the evaluation of twenty – first century consumers (Sweeney and Morrison, 2004). Its importance is based on relationship marketing, service quality and consumer satisfaction as key elements for the success of financial businesses facing increasing competition and recent market changes.

Banking is one of the many service industries, characterized by high customer contact with individually customized service solutions, where customer satisfaction has been an increasing focus (Levesque and McDougall, 1996). Although past studies provide knowledge regarding the nature and importance of retail banking from a customer viewpoint (O'Loughlin, 2004), some questions remain unanswered. Nowadays most financial service providers trust that a conscientious customer service will be more important for consumer

satisfaction than lower prices in those activities where there is a direct rapport between banks and consumer in particular.

1.2 Research Problem

When operating in a turbulent environment firms usually have difficulty in coming up with the appropriate strategy that will ensure success in their entry mode and operations. Ansoff and MC Donnell(1990) state that successful environment serving organization are open systems in that continued organization survival depends on its ability to secure rewards from the environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy. They further argue that a major escalation of the environment turbulence in the 1990s has meant a change from familiar world of marketing and production to unfamiliar world of new technologies, new consumer's attitudes and new dimensions of social control.

KCB as any other business venture has faced and will still face various challenges as a result of environmental changes. External challenges in terms of technological changes, economic changes, legislation and social-cultural changes among others have made KCB adopt various strategies that counter these challenges.

There are a number of local studies that have been done to find out how various organizations have responded to environmental challenges. Gitonga (2008) studied response strategies of Equity bank to competition in the banking industry. He observed that Equity bank restructured its corporate operations with an aim of separating its retail and corporate

businesses. He also noted that there were marketing and promotional activities that were used as a response to counter competition. He observed that the management had a challenge of explaining to both the shareholders and small scale customers that the bank was not incorporating corporate business at the expense of retail customers who were the core market segment. His observation were few and limited, there are a number of factors which firms can respond to for example change in culture, hiring new employees, seeking consultancy and guidance.

Machu (2009) studied strategies adopted by Commercial Banks in Kenya to environmental changes, he observed that Kenyan Banking industry has seen a paradigm shift in the last couple of years with intensified competition and entry of new established players, changing regulatory provisions and prudential guidelines, financial sector deepening process, changing consumer tastes and preferences and technological advancements. These changes in the business environment lead to the question, how do commercial banks in Kenya respond to the changes in the retail banking? Which strategies are adopted by the bank in response to the competition in the retail banking? On the basic of extensive literature review this study sought to answer the following question. What competitive strategies are used by Kenya commercial Bank Limited in retail banking?

1.3 Research Objective

The objective of the study was to:

- a) To establish strategies used by Kenya commercial bank to gain competitive advantage in the retail banking.

1.4 Value of the study

The study will make managers of KCB have a better understanding and appreciation of the retail banking strategies that relate to the industry. The study will also assist other bank managers make appropriate decisions following the sample strategies that have been implemented by KCB to have a competitive advantage in the retail banking.

The study will assist users understand the prospects of development in the banking industry and appreciate them. This is important because any cost implication, employment of human resources which may be imposed by KCB will be accepted. The users will also be able predict the future of KCB and prepare to conform. The study has avail material for reference by future researchers and academicians on the topic of strategies used to gain competitive advantage in retail banking. The study sought to add to the body of knowledge in the field of competitive advantage hence will be useful to scholars in areas of strategic management who may want to do a further study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on the competitive strategies and changes in the environment. This facet of this chapter includes the external environment and the organization, concept of strategy, strategic management, relationship between the environment strategy and internal capability and strategies of gaining competitive edge.

2.2 Organization and Strategy

The environment changes and is more complex for some organizations than others .How this affects the organization could include an understanding of historical and environmental effects, as well as expected or potential changes in the environment. Pearce and Robinson (1997) describes external environment as all conditions that affect strategic option but which are beyond the firms control. Forces at work in external environment are dynamic and include economic, political, technological and social factors (Kotler and Armstrong, 1991). The external factors influence an organizations choice of direction and action and constitute the external environment which can be categorized as remote, Industrial and operational environment.

All organizations regardless of the nature of their business are always in constant interaction with the environment. The organizations depend on the environment for their continued survival, this means that an organization operates in an open system. At the very basic level of these interactions that organization derives their inputs from the environment. The inputs

are usually in form of raw materials, labor, skills and capital. The banks then engage internal processes to convert their inputs to outputs which are fed back to the environment.

2.3 The Concept of Strategy

Strategic management and environments are important for any organization. All organizations operate within an environment, understanding the environment and issues emerging from it are important as it determines the nature of the organization response in order to secure its long term survival by fulfilling stakeholders' expectation.

In 1965, Professor Ansoff looked at strategy as the common thread among the organizations activities and product, markets that define the essential nature of business that the organization was planned to be in future. Igor Ansoff et al. (1990) saw strategy as unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved.

Johnson and schools (1997) define strategy as the direction and scope of an organization over the long term, which ideally matches resources to its changing environment and its particular markets so as to meet stake holder's expectations. This definition identifies three key components of strategy. First, the need to define the scope and range of an organization's activities within the specific environment it faces. Second, the needs of customers and markets are matched against resource capability to determine long-term direction; and third, the roles of stakeholders have on the strategy articulation because of their influence over the values, beliefs and principles which govern organizational behavior and business conduct.

2.4 Competitive Strategies.

There are various strategies that a firm can adopt in order to achieve competitive advantage. These include the competitive approach, the collaborative approach, the grand as well as the resource based strategies.

2.4.1 Competitive Strategy.

Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Stickland 2002). Competitive strategy therefore earns competitive advantage by establishing a favorable and sustainable position against the forces that determine industry competition (Porter, 1985).

Porter (1980) defined competitive strategy in terms of the three generic strategies of cost leadership, differentiation and focus. Through cost leadership, a firm aims to achieve overall lower costs than its competitors without reducing the products comparable quality. This strategy requires “ Aggressive construction of efficient scale facilities , vigorous pursuit of cost reduction from experience, right cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas such as research and development, service sales force, and adverts” (Porter, 1980). A firm seeking to achieve industry wide recognition and superior products and services may adopt the differentiation approach whenever buyer’s needs and preference are too diverse to be fully satisfied by standardized products or by sellers with identical capabilities. As Hunger and Wheelen, (2003) pointed out,

differentiation is a viable strategy for earning above average returns because the resulting brand loyalty lowers customers sensitivity to price.

The basis for competitive advantage in focus strategy is through lower costs achieved by choosing to serve a niche only to the exclusion of others. Porter (1980) asserts the target segment must either have buyers with unusual needs or else, the production and delivery system that best serves target market must differ from that of the other industry segment". Firms may also choose to use a combination of these strategies, the price based or the no-frills strategy. In hyper competitive markets, market stability is threatened by short life and product design cycles (D' Aven, 1994). Competitive advantage can only therefore be maintained through continuous series of multiple short term initiatives aimed at replacing firms current successful products with the next generation of products before other firms can do so.

2.4.2 Collaborative Strategy

In this strategy, firms gain competitive advantage by working with rather than working against each other (Hunger and Wheelen, 2003). Yoshino and Rangan, (1995) observed that alliances are part of the global competition game, they are critical to win on a global basis. The least attractive way to try and win on a global basis is to think that you can take the world all by yourself. Collaboration between potential competitors, buyers or sellers is likely to be an advantageous when combined costs of sale transactions are lower through collaborations then the cost of operating alone.

Baysinger and Hasskinsson, (1989) noted that merged firms increase their market power. Suppliers collaborate to build close links with customers to jointly design new quality products hence increase selling power. Organizations are also making arrangements to tie suppliers to their Enterprise Resource Planning (ERP) system, the result of which is coordinated buying power. (Johnson et al.2008). Through research and development, merges promote industry generic features so as to overcome substitution. Kautz (2000) argued that competitive advantage in merges emanate from getting better prices for goods to seeking business with an aim of minimizing risks and maximizing company leverage. Chaundhuri and Tabrizz, (1999) saw mergers and acquisition as critical tools for growth in a new economy.

Organizations seek to develop beyond their traditional boundaries collaborative to gain entry into new arenas and to reduce operational costs. Channon, (1990) agreed that firms form strategic alliances so as to achieve certain strategic goals. According to Doz and Hamel (1998), alliances make it possible for a firm to reduce investment risks, share resources and improve efficiency. Other types of alliances include joint venture, mutual service consortium, and value chain partnerships. As Kenter (1997) pointed out, strategic alliances are a fact of life in business today irrespective of duration and objective of the business alliance. Successful strategic relationships however require seasoned entrepreneurial skills in order to innovatively develop requisite competitive capabilities from each other and combine them for the advantage of all involved (Barasa 2008).

2.4.3 Grand Strategy

Grand strategies are the basis of coordinated and sustained efforts directed towards achieving long term business objectives. They are useful for guiding a firm's major action. Firms involved with multiple industries, businesses, product lines or customer groups usually combine several grand strategies (Pearce and Robinson, 1997). According to Hunger and Wheelen, (2003), a firm's grand strategies comprise of growth, stability and retrenchment strategies.

Grundy (1995) argued that growth strategies involve exploring business opportunities for both financial and competitive advantage. Concentration which comprises vertical and horizontal integration is useful where a company's product lines have real growth potential. "Through vertical growth, a firm in effect, builds its distinctive competence in an industry in order to gain great competitive advantage by expanding along the industry value chain" (Hunger and Wheelen, 2003). Diversification on the other hand involves directions of development which take the organization away from its present to new markets and products (Johnson Scholes, 1999). The rationale behind diversification is that a firm can gain competitive advantage if it has skills or resources that it can transfer into new markets, (Porter, 1997).

A firm that faces an uncertain future may have no option but to continue with their current operations without any significant change in direction. Useful strategies in such circumstances would be the pause, the no change and the profit strategy. When a company competitive position is weak, it can opt to use retrenchment strategies to stimulate growth

and improve performance. This includes turnaround, captive company strategy, divestment and sell out strategies (Hunger and Wheelen, 2003).

2.4.4 Resource Based Strategy

A company's resources generally comprise physical, financial, human and intellectual capital (Johnson et al 2008). A company is positioned to succeed if it has the best and most appropriate stock of the resources relevant for its business and its strategy. According to Thompson et. al (2007), each firm should develop competencies from its resources and when these are developed well, they become the source of the firm's competitive advantage. Hamel and Prahalad (1994) agreed that the distinctive competences of a firm must have customer value, extendibility, and must be competitor unique for them to attain maximum benefits for the firm. Availability of resources however is not enough. A company's competitive advantage is derived from its ability to assemble and exploit its resources and capabilities in synergistic combinations. There is therefore need for a good fit between the external market and the firm's internal capabilities. This view of achieving competitive advantage is grounded on the premise that a firm's internal environment is more critical to determination of strategic actions than is the external environment. Competencies must therefore be rightly matched in order for a firm to reap benefits from its strategic capability. According to Johnson et al (2008), strategic capabilities earn sustainable competitive advantage if they are rare, robust, non- substitutable and dynamic. Operational excellence is a strategic approach to production and delivery of products and services and lead to product innovation and development which a firm uses to continuously produce state of the art products and services (Pearson and Johnson, 2007).

Embracing research and development, a firm becomes the technological leader hence becomes the pioneer low cost product design and benefits are achieved from the experience curve. The firm also benefits from financial planning which results to a good balance between equity and debt financing. Human resource and attitude adopted towards handling customers determine repeat buys from customers. Customer knowledge is combined with operational excellence and flexibility to create customer loyalty. Employees in customer intimate companies strive to ensure customer satisfaction by continuously customizing products and services as well as customer needs, (Chege, 2008). Superior skills also earn a firm competitive advantage. They comprise staff capability, systems and marketing savvy that are not available to the competition. These result to improved quality and productivity.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section deals with the methodology used in carrying out the research. It highlights the research design, data collection and data analysis procedures.

3.2 Research Design

The research problem presented was conducted through a case study design. This method gave an in-depth and comprehensive inquiry to determine strategies used by Kenya commercial bank to gain competitive advantage in the retail banking. The case study design provided very focused and valuable insights to phenomena that may be vaguely known or understood.

Kothari (2004) defined a case study as a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit is a person, a family, an institution, a cultural group or the entire community. A case study design deals with the processes that take place and their relationships.

3.3 Data Collection

Data was collected from top level directors of Kenya Commercial Bank. To achieve the objectives of this study, eleven respondents were targeted. These Included: Divisional Director- Human resources, Divisional Director- Credit, Divisional Director- Finance and Strategy, Divisional Director Marketing and Research, Divisional Director-Audit, Divisional

Director – Retail Banking, Divisional Director- Operations, Divisional Director- Treasury, Divisional director Corporate Banking, Divisional Director-Information Technology, Head of Public Affairs and communication. These respondents were resourceful in providing the data required.

Both Primary and secondary sources of data was used to obtain information for the study. Primary data was obtained through an interview guide with open-ended questions. The interview guide was used to facilitate personal interviews with the target respondents with a view to obtaining in-depth comprehensive data regarding the variables of the research study. Secondary data supplemented primary data. Existing reports such as audited financial reports, updated banks policy hand books, existing and previous strategic plans, the banks monthly newsletter and the CBKs annual report on commercial banks performance was much useful in extracting secondary data.

3.4 Data Analysis

Content analysis was used to analyze the responses obtained from the interviews. Kothari, (2004) argues that content analysis is a central activity whenever one is concerned with the study of the nature of the verbal materials.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter covers data analysis, findings and discussions on data gathered from the field. The collected data was analyzed interpreted in line with the aim of the study namely, to establish strategies used by Kenya commercial bank to gain competitive advantage in the retail banking. The respondents were the senior management, middle management and low-level management ("team leadership") of Kenya commercial bank.

4.1 KCB Background Information

This section covers the state of ownership of KCB, number of years in operation and types of products and services offered at Kenya commercial bank.

4.1.1 Ownership of KCB

Kenya Commercial Bank is a member of the KCB Group of companies. The study sought to establish the ownership of the bank. It was revealed that the institutional and private investors owned a larger share of Kenya Commercial Bank while the remaining lesser shares are owned by the Government of Kenya. This is an indication that KCB has partnered with institutional and private identities and cultures in ensuring companies successful operation as compared to government. Thus, can enable the management of KCB to determine the appropriate growth and exit strategy including public offerings, to maximize the value of the investment for all of the stakeholders.

4.1.2 Number of years in operation

In the question of years of operation it was disclosed that the history of Kenya Commercial Bank dates back to 1896 where this translates to 116 years ago. Therefore from the outcomes, it can be understood that KCB has been in operation for quite a long time. The number of years a bank has been in operation determines the experience of the bank in responding to its environment. It also determines one's ability to evaluate an old response, when changing to a new strategic arena. Hence this enabled the study to establish the insight of the subject matter.

4.1.3 Types of products and services offered at KCB

In order to find out precisely what products and services Kenya commercial bank offers, the respondents cited a variety of products and services offered and the responses included general banking services which emerged out to be the most common services offered at KCB followed by loans/credit facilities, money transfer services, mortgage services while the least products/services listed were wealth management services, foreign currency exchange, and customers' service. This gave an indication that KCB offers more of regular services like account opening, cheque clearing, deposits and withdrawals and has enhanced money transfer and mortgage services to enable customers to have much more user-friendly offers. The number of products and services offered in the bank is an issue of capacity to hold better competitive advantage. This is because the variety of products and services offered by a bank gives customers a wide range of alternatives in making choices on type of services they prefer.

4.2 Strategies for Achieving Competitive Advantage

The following aspects relate to the strategies used by Kenya commercial bank to gain competitive advantage in the retail banking as the concept objective of this study. They are discussed as shown in the sections listed.

4.2.1 KCB adoption of formal strategies for achieving its objectives

The responses from respondents showed that Kenya commercial bank had adopted some strategies for achieving its objectives. The most responses mentioned were branch networks as a formal strategy for achieving bank's objectives, people's pillars, while government backing, bank's goals, customer preference, and through media got lesser margin of responses. The outcomes indicate that KCB has adopted a wider corporate coverage across the country and beyond, customers, and community development enables the achieving of the bank's overall objectives. Therefore it is easy for KCB to extend their products and services to a larger range of clients within their coverage.

4.2.2 Formulation and implementation of KCB's strategies

In providing feedback on who was responsible in initiation and implementation of strategies at Kenya commercial bank, majority of the respondents reported that the formulation and implementation of KCB's strategies was done mostly by board of director, and senior management. To a lesser extent, regional business managers, human resource management, and shareholders participated in the formulation and implementation of these strategies.

4.2.3 Whether strategies are geared towards earning competitive advantage

When asked whether the strategies of Kenya commercial bank are geared towards earning competitive advantage, majority concurred with this idea by revealing that these strategies earned them competitive advantage on market shares and robust strategies, while the rest felt that the strategies were not strong to earn KCB a competitive advantage.

4.3 Competitive Strategy

There are many possible strategies which can be used by commercial banks and this study sought to establish strategies used by Kenya commercial bank to gain competitive advantage in the retail banking. Investigation considers the extent of competition both internally and externally.

4.3.1 Whether KCB compete head on for market share in the banking industry

It was found that KCB compete head on for market mainly by holding seminars and training their resource people on the new markets, marketing of their products and services which helped the bank to compete well in the banking industry while the remaining less used are reaching more places and customer services respectively. Therefore, an indication that when a bank invest in creating conducive environment which enables their resource people to get more skills and knowledge, it confidently have great chances of gaining more returns in the competitive markets as they learn new ideas and new way of running businesses.

4.3.2 Competitors of KCB

Considering the environment under which banking industries operate and their structures, there is need for them to respond to their environment in order to remain competitive in offering their banking services. The responses on some of KCB's competitors were ascertained to be; stiff competition from other banks, competition from microfinance organizations, while mobile banking and SACCOs offered slightest competition against Kenya Commercial Bank. This is an indication that other banks and microfinance organizations pose a great challenge to Kenya commercial bank. Due regard needs to be paid on mobile banking services and SACCOs considering their margins and range of customers/client.

4.3.3 Nature of competition that KCB faces

The study sought to establish the nature of competition that challenges Kenya commercial bank and most of the responses indicated that there was solid competition on market share, competitive rates, credit facilities/loans and pricing of service. But to a small extent, personal accounts, new opportunities, and cost of opening new branches created less competitive environment to KCB. This is an indication that most participants in the banking industry fight for more market shares and giving reasonable rates to their clients.

4.3.4 Specific strategies taken by KCB to withstand competition

On the matter of specific strategies put in place by KCB to withstand competition the realized that two major strategies are used by KCB to withstand competition and these are

expansion strategy, and new products/service strategy, seconded by excellent customer services, modernization T24 system, and Check-off systems. On the other hand sales promotion, collaboration, Corporate Social Responsibility (CSR), low interest rates, and focused market are less applied in withstanding competition from KCB's competitors. This is an indication that KCB enjoys more of its wide area network coverage within and outside borders as well as being innovative by coming up with unique products and services like bankika, and Jaza ujazike among others. Excellent customer service enabled the bank to retain their customers, KCB improves their services through modern technology of T24 system, and they also have good conditions on check-off systems. This is because the aftermath of the financial crisis has produced a tectonic shift across all core retail banking strategies.

4.3.5 Strategies contribution towards achieving competitive advantage

The question on how strategies have contributed towards achieving competitive advantage was elicited almost similar sentiments but stated differently by the responses from the respondents. Most of the responses indicated that these strategies had increased their chances of achieving more customers; the strategies also enabled KCB to gain regional presence as well as improving their services through these strategies. Customer consistence deposits, creation of strong IT platform services (T 24), sharing profits and low costs were among the benefits that KCB had gained through these strategies. This is an indication that many of KCB's customers are satisfied with the services they get from their bank. The bank had also gained regional presence and therefore the image of the bank has been enhanced resulting into an increased market share. Improved services ensures an increase in customer loyalty

which can lead to sustained customer base and a conducive environment for business operation as well as a healthy and wealthy society thus, the bank's long term existence is guaranteed.

4.4 Collaborative Strategy

In order to find out the collaborative strategy for KCB the respondents were asked to state some of the banks collaborators, the nature of collaboration strategies used in collaboration and the contribution of these strategies towards competitive advantage.

4.4.1 Kenya commercial bank collaborators

The study sought to establish some of the partners that Kenya commercial bank collaborates with. The responses indicated that Kenya commercial bank partners majorly with mobile phone services providers, VISA, Kenswitch, Western Union and Money Gram. Foreign exchange bureaus and insurance companies were found to have an inadequately associated with Kenya commercial bank. Thus, from the responses given one can determine that mobile phone service providers, Visa together with Western union and money gram, seem to have a strong impact on the KCB's banking services as compared to other collaborators listed. This might be so since most of mobile phone service providers have ventured into offering banking services, not forgetting to mention that many banks avail their customers with visa cards and also allow the transmittal of money to and from their clients.

4.4.2 Nature of collaboration

The feedback on the nature of collaboration that KCB have with other associates, the responses given indicated that Kenya commercial bank partners with western union & money gram for money transfer services, mobile phone service providers for mobile banking services, other partner for efficiency of customer services, Visa collaborates with KCB specifically for branding debit cards and networking with other banks, Kenswitch necessitate Automated Teller Machines (ATM) networking with other banks associated with them, NCR plays a role of provision and maintenance of ATM machines while Kenya bankers association (KBA) and Central Bank of Kenya (CBK) assist in administration of banks. These responses suggest that KCB made it a priority to involve other collaborators to be able to navigate through the competitive banking world.

4.4.3 Specific strategies used in collaboration

When addressing "strategic" issues, a bank is being proactive in positioning itself for the future. Strategic issues are those fundamental policy choices or critical challenges that must be addressed for an organization to achieve its vision. The results given indicated that Kenya commercial bank have strategies put in place to enable them work together with other players in banking industry. These strategies are: more training on KCB policies, involvement of international and local banks for services like RTGs & Swifts, engaging Kenya bankers association for cheque truncations, assisting KPL & Water companies in payment of utility bills, easy access to customers over and above low cost strategy.

4.4.4 Strategies contribution towards achieving KCB competitive advantage

The study sought to ascertain level of contribution that the strategies have towards competitive advantage. There were some contributions made by the banks strategies of collaboration and these were found to be; elimination of loan defaulters and money launderer, enhancement of KCB brand name through its foundation, facilitation of clients in accessing their accounts easily, attraction of more customers, lowering interest rates as well as expansion of executive banking services.

4.5 Grand Strategy

The study find it fit to access strategic actions coordinated to achieve KCB's main objectives combined into one purpose. This section highlights the means which can be used to achieve short, medium, and long-term objectives of the bank as it entails actions and strategies that Kenya commercial bank applies for its operation.

4.5.1 Direction of the KCB's major actions

On the determination of the tools that guide the major actions of Kenya commercial bank's operations. The main issues raised was that the major actions are directed by the organization's vision and mission which had an impact on the actions taken by bank in the operation, while the rest of other tools directed major actions to a lesser extent. This indicates that other than vision and mission there are other instruments used to guide KCB's major actions. These tools were referred to as the five pillars namely customer service, technology, risk management, shareholders, and financial implications. Thus, it can be assumed that the

bank has strong vision and mission that allows the bank to compete well in banking environment.

4.5.2 The Nature of Actions

On the issue of the nature of actions taken by Kenya commercial bank, the responses indicated that the bank had taken these actions by exploring new opportunities, setting approachable plans, embracing team work, exploring new technologies, expanding to new regions, employing new staffs and growing business. This is an indication that Kenya commercial bank management has put some acts in place which facilitates the bank to have a healthy competition in the banking industry.

4.5.3 The Specific strategies put in place by KCB to achieve competitive advantage

There are many strategies use by banking business process management. The respondents were also asked to give the specific strategies that enabled the bank to achieve its competitive advantage. They indicated that KCB had expansion strategies, unique human resource recruitment, promoted voluntary retirement, set good financial plans, KCB ensures skilled resource people through trainings of their staff, setting accessible customer care centres and improving in information technology systems like T24.

4.5.4 Contribution of these strategies towards achieving a competitive advantage

Viable strategies can have greater impact on the operation and performance of any business. The study sought to establish the contribution made by KCB strategies towards achieving competitive advantage and the responses indicated included, strategies had contributed to an increase in bank's profit margin, had improved employee performance, grown market share through new products to satisfy customer needs, guidance and direction on achievement of the organization, minimized customer complaints by reducing credit risks as well as reduced chances of commission omission.

4.6 Resource Based Strategy

Resources are the inputs or the factors available to a bank which helps in performance its operations or carry out its activities and is a basis for a competitive advantage of a firm lying primarily in the application of the group of valuable resources at the firm's disposal. Therefore this section looks into the resource based strategy used by Kenya commercial bank in its effort to gain competitive market advantage.

4.6.1 Resources and capabilities owned by KCB

On the subject of resources and capabilities owned by Kenya commercial bank, the responses showed that the bank had resources and capabilities that enabled the firm to compete well in the banking industry. The responses given pointed out that KCB owned some assets; the firm has financial resources; strong human resource; advanced technological system T24, and viable policies and procedures.

4.6.2 Nature of resources and capabilities

The opinion on the nature of these resources and capabilities owned by Kenya commercial bank, the responses cited showed that KCB had resources and capabilities inform of; housing, well trained resource people, unique brand name, steadfast financial resource where they indicated that Kenya commercial bank had profits of 15 billion in 2011, the bank also have shares, innovative products and advanced technological system.

4.6.3 Specific strategies used exploit resources and capabilities

The study sought to know if there were specific strategies put in place by Kenya commercial bank to exploit its resources and capabilities to its advantage. The responses revealed that KCB had automated T24 system to recover commissions, an expansion of more branches across Eastern African region, leasing out assets for office spaces and social events, training human resource, Corporate Social Responsibility (CSR) through KCB foundation, promotion, strong vision and mission as well as increasing more loans facilities and overdraft.

4.6.4 Strategy contribution towards achieving competitive advantage

A well set and viable strategy can contribute more towards the achievement of an organization. The study sought to establish the magnitude of contribution brought about by resource based strategy that necessitated KCB to achieve its competitive advantage. The answers specified that this strategies had benefited KCB by gaining an improved banking systems/good performance, KCB had come up with foundation programmes like community development, sponsoring Safari rally which enabled them to build its brand name,

experiencing an improved customer base, created easy accessibility by having more bank branches, embracing training and development of staff to reduce staff turnover, created a branchless banking environment, experience good collaboration with other banks, and enabling proper use of T24 system which has enhanced good performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the scrutiny of data collected, the following discussions, conclusions and recommendations were made. The analysis was based on the objective of the study.

5.2 Summary

The summary was drawn from the results and findings of the study. It is based on objective of the research on the strategies used by Kenya Commercial Bank to gain competitive edge in the retail banking. On the adoption of formal strategies for achieving the bank's objectives, the results indicate that KCB had adopted a wider corporate coverage across the country and beyond, customers, and community development enabled the achieving of the bank's overall objectives. Therefore it is easy for KCB to extend their products and services to a larger range of clients within their coverage. On the implementation and the development of the strategies a majority indicated that this is done by the board of directors. This indicates some positivity since it means that the banks strategies are backed by the top management and therefore they are likely to succeed in the long run. There is a suggestion that Kenya Commercial Bank has adopted some strategies geared towards bank's progress. This is because majority of the responses indicated that these strategies earned them competitive advantage on market shares and robust accomplishments.

On competitive strategy of KCB, majority of the responses indicated that the bank compete head on for market by holding seminars and training their resource people on the new markets. This enables their resource people to get more skills and knowledge; it confidently has great chances of gaining more returns in the competitive markets as they learn new ideas and new way of running businesses. This enables KCB to have a competitive advantage over their competitors who are mainly other banks. The nature of competition faced by the bank is mainly for market share as indicated by a majority of the respondents. The specific strategy which has been employed by KCB to withstand competition is expansion; this strategy assists KCB to maintain a larger market share in comparison with its competitors. The bank has several collaborators the main one being mobile phone service providers who assist the bank in mobile banking services. The collaborators are trained on the banks policies which make the relationship to be beneficial to both parties. Some contributions made by the banks strategies of collaboration and these were found to be; the strategies have enabled the bank to eliminate loan defaulters and money launderers, enhanced KCB brand name through its foundation, facilitate clients in accessing their accounts easily, attracting more customers, lowering interest rates as well as expansion of executive banking services.

The grand strategies which KCB has adopted are directed by the organizations vision and mission. The strategies include exploring new opportunities, setting approachable plans, embracing team work, exploring new technologies, expanding to new regions, employing new staff and growing business. These facilitate the bank to have a healthy competition in the banking industry. The specific strategies adopted by KCB include unique human resource recruitment, promoting voluntary retirement, setting good financial plans, having skilled

resource people through trainings of their staff, setting accessible customer care centres and improving in information technology systems like T24. These have enabled to have an increase in profit margin, improved employee performance, growing market share through new products to satisfy customer needs, guidance and direction on achievement of the organization, reduction of customer complaints by reducing credit risks and lastly these strategies reduced chances of commission omission. KCB has asset resources like housing, personnel unique brands among others which it uses to improve its performance and also in coming up with KCB foundation programmes like community development and other Corporate Social Responsibilities.

5.3 Conclusion

The study established that Kenya commercial bank had put some strategies in place to cater for any challenges and threats to the banking industry. In this study, expansion to more coverage, Information Technology (T24) and training of workforce appear to be a strategic move by the KCB to lay a basis for offering services geared towards facilitating emerging trends in banking industry. The results of this study tally with the findings of Gathoga (2001) that the commercial banks are in competition and their products and services differential is quite thin hence need for restructuring. The study also revealed that a number of strategic marketing variables are manipulated by banks to respond to a competitive intensity in the banking sector. These include; developing new products, market development and market focus. Schein (1985) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

5.4 Recommendations

From the discussions and findings it is quite clear that the issue of strategies is not a new concept in Kenya Commercial Bank. There is need for KCB to differentiate itself from the competitor if it is to remain relevant in terms of the products which the bank offers, Kenya Commercial Bank history dates back to 1896 where this translates to 116 years ago. The number of years a bank has been in operation determines the experience of the bank in responding to its environment. KCB could offer more of wealth management services to its customer because it seems to have gained a large piece of the market share through its vast experience in the banking industry.

There is also the need to involve the entire team of stake holder and all other parties concerned in the formulation and implementation of KCB's strategies other than tying this role to the top management. KCB has a number of competitors who are mainly other banks, therefore, there is need to have strategies geared towards reducing the number of competitors to a few of them, this can be done by having unique products from what the competitors are offering. This can also be achieved by investing in newer technologies which will assist in offering exceptional services to its customers.

The collaboration strategy being used by KCB should be aimed at building relationships with the partners they already have. This will promote sharing of information which can be beneficial to KCB and also help in the development of partner. This can assist KCB in its endeavours to gain competitive edge over its opponents.

5.5 Suggestions for Further Research

When operating in a turbulent environment firms usually have difficulty in coming up with the appropriate strategy that will ensure success in their entry mode and operations. A similar study can be done in other banks or the Kenya Banking industry to establish if the finding will be similar. The respondents should also be broadened to cover a larger sample so that the researcher can have confidence in the results.

5.6 Limitations of the study

Due to limited resources the number of respondents represented is relatively small this was caused by low target in response rate. There were difficulties in getting respondents to fill the questionnaire because of the busy schedule. On the other hand some of the respondents thought that the researcher was doing the research on behalf of other banks.

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APPENDICES

APPENDIX I

Julius Leonard Musyoka
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Nairobi Kenya
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Cell: +254720936156

Dear Respondent,

I am Julius Leonard Musyoka an Executive Masters of Business Administration student at University of Nairobi (UoN). I am required to undertake a reaearch study on competitive strategies adopted by Kenya Commercial Bank Limited in retail banking as a fulfillment to my couse requirements. I would be grateful if you could spare a few minutes of your time to provide your input by answering the questions in this guide. The research is purely for academic purposes. Your responcees will be treated with extreme confidentiality. Thank you for agreeing to participtae in the study.

Julius Leonard Musyoka
D61/61777/2010

Dr. John Yabs
Supervisor



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DATE: 23/05/2012

TO WHOM IT MAY CONCERN

The bearer of this letter..... Julius Leonard Musyoka.....

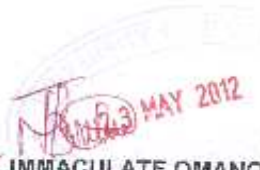
Registration No. D61/61777/2010.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her course 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 your assistance to enable him/her collect data in your organization.

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

Thank you.


IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

APPENDIX II

INTERVIEW GUIDE

Section A: KCB Background Information

- (i) How is KCB owned?
- (ii) How long has it been in operation?
- (iii) What services and products does KCB offer?

Section B: Strategies for Achieving Competitive Advantage

- (i) Has KCB adopted any formal strategies for achieving its objectives?
- (ii) Who is responsible for formulation and implementation of such strategies?
- (iii) Do you think such strategies are geared towards earning competitive advantage?

1. Competitive strategy

- (i) Does the bank compete head on for market share in the banking industry?
- (ii) Who are the KCB competitors?
- (iii) What is the nature of competition that KCB faces?
- (iv) What specific strategies has the bank put in place to withstand such competition?
- (v) How have these strategies contributed towards achieving competitive advantage?

2. Collaborative Strategy

- (i) With whom does the bank collaborate with in the banking industry
- (ii) What is the nature of the collaboration?
- (iii) What specific strategies has the bank put in place to work together with other players in the banking industry
- (iv) How have these strategies contributed towards achieving competitive advantage?

3. Grand Strategy

- (i) What guides the bank's major action?
- (ii) What is the nature of these actions?
- (iii) What specific strategy has the Bank put in place to achieve such?
- (iv) How have these strategies contributed towards achieving a competitive advantage?

4. Resource based strategy

- (i) Does the bank own any resources and capabilities?
- (ii) What is the nature of these resources and capabilities?
- (iii) What specific strategies has the bank put in place to exploit such resources and capabilities to its advantage?
- (iv) How have these strategies contributed towards achieving competitive advantage?