

**KEY SUCCESS FACTORS IN THE BANKING INDUSTRY: A CASE
STUDY OF MAJOR COMMERCIAL BANKS IN KENYA**

By
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**A management research project report submitted in partial fulfillment of the
requirements for the award of the degree of Master of Business
Administration of the University of Nairobi
School of Business**

October 2006

DECLARATION

This research project is my original work and has not been presented for a degree or any other examination in any university.

Signed  Date 16/11/2006

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This research project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

To my beloved children; Kigen, Kimutai and Cherotich – you are the wind beneath my
wings

ACKNOWLEDGEMENTS

During the period of my studies I benefited immensely from the support of my supervisor, family and friends to whom I am greatly indebted.

I wish to acknowledge my supervisor Dr Martin Ogutu for his keen intellect and experience which guided his criticism of my research work, and for raising the level of my vision.

My family was very gracious, and I wish to acknowledge my husband, Wilson for his goodwill and understanding throughout my study period; Michael, Philip and Nicole for their loving patience; Zippora and Caro for their kindness and unwavering dependability; and my parents, Esther and Morogo for building the foundation of my life.

I wish to thank all my friends who encouraged me along the way, especially Fardouse and Edna for helping with data collection.

Last but not least, my gratitude to God for His abundant blessings and unending mercies which are new every morning.

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ABSTRACT

The banking industry is characterized by intense competition and changes in customer awareness and demands. This study was carried out in Nairobi, Kenya in September, 2006 with an objective to determine the key success factors in the banking industry. In understanding key success factors banks can gain sustainable competitive advantage by devoting their resources in the desired direction; and effectively developing an edge that will significantly impact on their operational performance.

The case study focused on five leading banks which have in the last three years accounted for 70% of profits in the industry, in order to find out what factors would be attributed to their success. The necessary data was gathered through self administered questionnaires among the customers of these banks, and secondary data from Central Bank and websites of the selected banks. Descriptive statistics were used to analyse the data

The findings of this study are in agreement with empirical studies from the developed world and available theoretical literature which postulates that the key success factors in the banking industry are mainly employment of modern technology, convenience size and distribution system, wide product range, packaging and image, quality service delivery, reasonable cost of services and sound corporate governance.

It was noted that twenty four hour access to banking services is an opportunity to be exploited as most customers ranked this convenience as most important. Cost of services was also a found to be a critical factor that bank customers use to determine their bank of

preference. In recognizing this, banks have the potential to increase turnover by charging favourable interest rates for services thereby attracting and maintaining a large number of customers. Other important factors were found to be banks proximity to customer's place of work, personalized service and improved E-banking facilities.

The Central Bank of Kenya, commercial banks and academicians will benefit from the findings of this study. Banks will be able to capitalise on key success factors in the banking industry to improve their competitive position. The findings of the study will also assist bank customers in making rational, informed decisions on choosing banks in order to maximise the rate of return on their deposits and investments.

CHAPTER 1: INTRODUCTION

1.1 Background

Kenya's banking industry is evolving fast. In the early to mid 1990s the sector was weak and turbulent. The declining economy and continuing political uncertainty resulted in high interest rates which turned banking into a very risky business. The high interest rates precipitated the problem of non-performing loans, eventually leading to the collapse of several banks (Market Intelligence, Banking Survey, 2004).

The rapid inflationary increase in the money supply during this period accompanied the widespread fragility through non-performing loans and fraud in the sector. Under pressure from the World Bank and International Monetary Fund to correct the anomaly, Central Bank of Kenya put sixteen (16) financial banks under liquidation in the period of 1993 – 1994, while re-capitalizing others.

To avert a crisis in the industry and the national economy, the Central Bank of Kenya stepped in by enforcing regulations that were already in place, and over the past ten years the banking industry has gone through some sweeping changes. These changes have seen the banking industry evolve steadily into a sustainable and formidable sector. The regulatory environment has improved through consistent and enhanced prudential management. Banks are now required by law to publish their financial statements, allowing for greater scrutiny which in turn has made banks focus more on results to gain

confidence of the public and their customers. Currently there are 43 commercial banks represented in the Central Bank Clearing House.

1.2 Industry key success factors

An industry's success key success factors are the strategy-related actions, approaches, competitive capabilities, and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to be competitively and financially successful (Thompson & Strickland, 1995). Key success factors are business aspects all firms in the industry must pay close attention to – the specific outcomes crucial to market success (or failure) and the competencies and competitive capabilities with the most direct bearing on company profitability.

By identifying key success factors, managers are able to envision the ideal strategy for building competitive edge in the industry. Key success factors are therefore an integral part of a company's strategy. Frequently, a company 'with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding at these factors (Thompson & Strickland, 1995).

During the late 1980s and early 1990s, interest in the role of strategy in building competitive advantage resulted in a shift of interest towards the internal aspects of the firm. Developments in the resource-based view of the firm and organizational competencies and capabilities pointed to the firm's resources and capabilities as the primary source of its profitability and the basis for formulating its long-term strategy. The

focus upon internal resources and capabilities has emphasized the differences between companies and their need to exploit these differences in order to establish unique positions of competitive advantage. Michael Porter points out that competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1996).

In Kenya, the growth of the economy in the last three years has brought about increasing competition in the banking industry. Kenyan banks are growing fast and outpace the economy. In 2005 and 2004 the industry grew by 11% and 17.6% while the economy managed 5% and 4.3% over the same period. The assets of the banking sector increased to Ksh. 449.9 billion at the end of July 2002 from KShs. 431.1 billion at the end of July 2001. As at end of 2005 total assets in the banking sector stood at KShs. 648billion. Banks profit margins have increased over the last three years from 26.3% in 2003 to 28.1% in 2004 and 30.2% in 2005. At KShs. 19.4 billion in 2005, profits before tax increased by 24% from 2004.

A closer look at the industry shows these earnings are concentrated in the top 5 banks. Over the last three years, the top 5 earned 69.47%, approximately 70% of industry leaving the remaining 38 banks to the remaining 30%. The majority of the banks outside the top 5 on average will earn profits before tax not exceeding 1% of industry profits. Barclays and Standard Chartered over the last three years pulled in a combined 52.58% of total industry profits before tax, earning more than the rest of the industry combined.

The evermore demanding customers are forcing banks to rethink their product offerings and distribution channels. Many banks are changing their product mix to shift earnings to higher value added products and services, migrating their margins upwards. How does a bank choose what changes to make and, more importantly, how do they go about implementing these changes?

1.3 Statement of the problem

That the top 5 banks account for about 70 per cent of the total sector profit before tax raises a fundamental question as to what constitutes their dominant position. There may be a number of things which they do right or which others are not doing that would explain this state of affairs. Put together, the rest of the banks may match or exceed the sizes of the top 5 banks in many aspects.

Over the past decades, researchers have investigated the effects of formal strategic planning on financial performance in small firms (Robinson & Pearce, 1983). However most of these studies have tended to focus on the rigid strategic planning that these companies pursued in trying to link strategic planning with performance. Empirical studies in small firms have generally employed single dimension measures such as the presence or absence of planning or its degree of formality to explain variations in organizational performance. However more needs to be done to move from studying formal strategic planning to the determination of key success factors and their effects on the performance of firms in commercial banking sector. Most of the available literature

on key success factors relate to studies in developed countries with different consumer cultures.

Locally, an attempt has been made to study the relationship between the banks' strategic planning and profitability. Kiptugen (2003) studied the strategic responses to a changing competitive environment as a case study of Kenya Commercial Bank, while Goro (2003) examined the strategic responses of commercial banks to the threat of substitute products. Ndungu (2003) further investigated the determinants of commercial banks profitability in Kenya.

However, these studies and many others have not addressed the relationship between key success factors and effects on performance of banks. This is the gap that this research seeks to fill by answering the question: what are the key success factors in the commercial banking sector in Kenya?

1.4 Objective of the study

The objective of this study is to determine the key success factors of commercial banks in Kenya.

1.5 Importance of the Study

Understanding the success factors in the banking industry is critical for senior management in the banking sector as it would potentially help them improve their strategic planning process.

CHAPTER 2: LITERATURE REVIEW

2.1 The Role of Strategy in Industry Success

Theoretical studies have demonstrated an emerging trend over time on what constitutes key success factors for service and other organizations. Most of these studies tend to argue that strategy, whether formal or not, is the starting point for success.

Mintzberg (1994) argues that strategy is about winning, and in business and as in the military, strategy bridges the gap between policy and tactics. Together, strategy and tactics bridge the gap between the end and the means. It is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization (Ansoff, 1988). The role of strategy in success is critical, as successful organizations are seldom the outcome of a purely random process. Strategy is about having clear goals, understanding the competitive environment, resource appraisal and effective implementation.

Organisations plan and execute a corporate strategy to provide direction and focus in uncertain operating environments and also set objectives, define the business, policies, means, and actions to be implemented over the short and long term period. Business strategies give direction and purpose, deploy resources in the most effective manner, and coordinate the stream of decisions being made by different members of the organization.

Quinn, Doorley and Paquette (1991) demonstrate that successful organisations build their strategies “around deep knowledge of a few highly developed core service skills”. Such organisations keep a lean structure. strip themselves to the essentials necessary to deliver

to customers the greatest possible value from their core skills and outsource non core activities as much as possible.

2.3 Independent Rating as a Success Indicator

One of the key success indicators of any organization is the rating it receives from independent agencies or other customers for the effective and efficient delivery of services (Market Intelligence, 2002). There have been notable industry ratings such as *Standard and Poor, Euro-Money Award, Best Airline Award, Financial Times rating of various industry organizations, and locally, The Market Intelligence (MI) Banking Survey or Kenya Institute of Management's Company of the Year Award* which the various participants have recognized as an indicator of success. The publicity of the winners of the various awards is perceived as one of the key image building of the particular organization (Market Intelligence, 2002). It is noteworthy that most of the ratings are based on some objective criteria one of which is the profitability for commercial organizations (Market Intelligence, 2002, 2003, 2004, 2005).

2.4 Key Success Factors

2.4.1 Technology

Key success factors vary from industry to industry but across industries a number of common factors have been observed including capacity of technology adopted and the availability of expertise to use and maintain the technology. Technology also extends to the product innovation capability (Market Intelligence, 2003); Thompson and Strickland (1995) and Frei, Harker and Hunter (1995) argue that a bank's performance is "strongly

influenced by the predisposition of management to not only develop innovative solutions for the future, but also to create the milieu for their successful implementation.” According to Mullins (2002), well-designed and implemented computer-based communication networks spreading across functions enables employees to gain greater awareness of the organisation and other employees, changes in the nature of jobs and work practices and also empower employees. This assertion is supported by the observed behaviour of tellers taking charge and being full responsible for various transactions in the front offices of banks.

Technology in banking is a key resource in terms of magnitude and importance (Quinn, Doorley & Paquette 1991). The investment in advanced technology is aimed at integration of front and back office systems into a seamless service delivery process therefore bringing quality and convenience to the customer. The application of computer systems will provide flexibility and on-line capabilities to better serve customers and increase the capacity of customer service employees. Technology in the banking sector including the use of automated teller machines and over-the-counter services have created such conveniences that give competitive edge as to make every bank strive to go the *e-way* in all or most their activities (Market Intelligence, 2003). Customers choose a bank because of the conveniences it provides (Market Intelligence, 2002).

From a business strategy point of view, technology can change the basis of competition from low-cost to product differentiation to specialisation or vice versa. Technology changes the way business firms compete or do business (McFarlan, 1991). The creative

use of technological capabilities is therefore one of the key success factors among organisations.

2.4.2 Business Location, Size of an Organization and Distribution System

Key success factors come in a variety of different patterns depending on the industry including size of plant or human resource; business location, and distribution system. Some of the factors are less tangible and less obvious but are just as important, for example quality of services offered, location, employees attitude, cost control (Thompson and Strickland, 1995)

The size of the firm in terms of asset base, presence in many areas of a country or region, revenues it is able to generate, number and quality of human resources and capacity to dominate in its industry and other factors considered to make a company big, often influence the perception of the customer of the organization (Kibera and Waruingi, 1988).

2.4.3 Product Range, Packaging and Image

A KPMG (1998) study of banking industry in Hong Kong found that the main key success factors for the banking industry included the ability to deliver product lines, strong focus on consumer business, advanced technology and delivery systems. Customers prefer an organisation with a product or products that meet their different and changing needs. Successful organisations have strong brand differentiation. They position their products to present a positive image that would go a long way in keeping the customer loyal to the product. (Quinn, Doorley and Paquette 1991, KPMG, 1998).

2.4.4 Service Delivery

Behind the success of every organisation lies the quality of service. Investment in efficient processes, human resource training and development, redesign of customer service areas together with management of inbound and outbound logistics (value chain) are or should all be geared towards making service delivery efficient and effective (Quinn, Doorley and Paquette 1991, Porter, 1985). Managing operational fundamentals which involve efficient scheduling, organisation and planning, among others, ensure operational soundness which in turn leads to high levels of service (Denton, 1989, KPMG, 1998; Frei, Harker & Hunter, 1995).

Customers expect quality in the delivery of financial services and products. Quality suggests high standards of attention to the customer including error-free statements, correct cheque printing, and the operational soundness of all delivery channels. Banks committed to quality and accuracy will anticipate problems and facilitate a friendly, fast and easy resolution process. Banks may require higher levels of precision than their non bank competitors; therefore one source of advantage over other kinds of organizations lies in the trust consumers place in banks to handle their assets effectively. Mistakes in this process may drive consumers to search for other financial providers (Frei, Harker & Hunter, 1995).

The success in serving customers with differing levels of interaction to the banking process depends on a bank's ability to provide a responsive service which contributes to

the success or ease of the process. Process redesigns (Hammer and Champy, 1993) are meant to address the needs of various consumer constituencies through alternative delivery options, some of which, such as automated teller machines allow customers to transact essentially at their own time (Frei, Harker and Hunter, 1995).

2.4.5 Customer Convenience

Frei, Harker and Hunter (1995) observed that consumers chose financial services based largely on availability and location. The concept of convenience has however extended beyond availability and location due to advances in technology and innovation to include a wide range of products and services available at any time, from any place. The development of automated teller machines, computer banking, and the ability to engage in almost any transaction through these channels is evidence of commitment of the industry to provide customers with whatever they want, whenever they want it.

Customers are persuaded by rapid turnaround time to carry out transactions whether it is standing in the teller line, filling out a loan application, or coming to the branch for an account closing. Convenience is a value *perceived* by the customer. Different customers perceive this value differently. Therefore the success of an organization depends on how well it identifies and satisfies the conveniences of different customers (Frei, Harker and Hunter (1995). According to a survey carried out by the Canadian Bankers Association, convenience drive consumer banking activity (CBA, 2004)

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2.4.6 Cost of Services

The Central Bank of Kenya periodically publishes the charges levied by various banks in the country as a service to the public. Literature available indicates that the various charges together constitute a significant level of financial costs to the consumers and is one of the factors for choosing or not choosing a bank (Market Intelligence, 2002). Banks with minimal cost structures and are able to pass on the benefits to the consumers in form of low charges for various services are likely to have higher profitability than those which levy high charges to cover inefficiencies (Frei, Harker and Hunter, 1995).

2.4.7 Robust Human Resource Management

All services are driven by human resources. A robust human resource management which involves best practice in compensation , hiring and selection, staffing, training and development, performance management as well as employee involvement and empowerment is critical for the success of an organization's service delivery strategy. A robust human resource management contributes to the performance of the firm in two ways: skills and competence, and good practices that drive desirable behaviour and attitude of employees. Generally, firms with practices which build competence and reinforce role behaviour consistent with customer demands are likely to be successful. Consistency across practices is as important as individual employee practices (Frei, Harker and Hunter, 1995).

Employees need not only to be held accountable for certain activities, but also for the necessary control over, and autonomy and authority to discharge that responsibility (Mullins, 2002). Getting it right internally with employee empowerment is crucial as it is the employee who delivers the services to the customer. If the customer has a bad experience with the employee, all external effort in marketing is lost. Durkin & Bennet (1996) argue that high levels of internalized commitment are essential for the successful implementation of the emerging relationship banking strategy and are key to the success of a firm in establishing competitive advantage.

2.4.8 Corporate Governance

The best run companies have structures for accountability at all levels of management to prevent crippling frauds, scandals or loss-making and value-diminishing activities as has been witnessed in the Bank of Credit and Commerce International scandal (Kochan and Whittington, 1991), the Barrings Bank (Rawnsley, 1995) and more recently at American companies-Enron and WorldCom- and the Italian milk giant, Parmalat, which have all collapsed (Ferrarini and Giudici, 2005).

Corporate governance entails objectively electing independent, educated, professional Board of Directors, and assigning them defined roles. Their role would include requiring a corporate strategy from the management, reviewing it periodically for its validity, using it as a point of reference for all other Board decisions and sharing with the management the risks associated with its adoption (Andrews, 1991). In addition, the Board would evaluate, define or redefine the business of the organisation and select, monitor and hold

responsible managers entrusted with day to day responsibilities to ensure optimisation of value to the stakeholders (Mills, 1988). Effective governance require structures for accountability, independent audits, monitoring and reporting put in place to check both the board members and management. Measures to discourage unprofessional practice including commitment to an ethical code of conduct, and immediate censure for misdemeanours by any employee or even board members are part of the company policy in large well run organisations (Bennis, 2003; Mills, 1988). Kenya's smaller banks have collapsed in the past and some of these experiences have been attributed to bad governance. Corporate governance is a key component of risk management which is considered a critical success factor in all leading organisations (Private sector Corporate Governance Trust, 2002)

2.4.9 Role of Leadership

Literature provides a consensus on the role of leadership in facilitating institution building, process review, championing technological adoption, creating a culture that embraces quality, customer focus, teamwork, employee motivation, performance measurement, accountability and the practice of good governance (Kotter, 1990; Hammer and Stanton 1996 Peters and Austin, 1985 Kanter, 1984; Mullins, 2002).

The leadership would champion the corporate change and redesign practices aforementioned. Leaders innovate, initiate and manage change (Senge, 1990; Kanter, 1984; Kotter, 1990). Equally important is the role of leadership in managing external interference and factors that affect the performance of the organisation (Hammer and Stanton, 1996; Peters and Austin, 1985; Drucker, 1993; Kotter, 1999).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

This was a descriptive study aimed at finding out the key success factors in the banking industry in Kenya. It set out to describe how the factors contributed to the performance of banks in Kenya. The research adopted the causal model where the study sought to establish the key success factors in the commercial banks (the what, which and how). The cause of success in these banks was examined while highlighting the elements of achievement in the sample banks. The study comprised of five banks that had been rated top in terms of profitability in the last three years.

3.2 Data Collection Methods

The data for the study was gathered through both primary and secondary sources. The primary data was gathered through interviews using self administered questionnaires. To ensure reasonable response, the researcher gave each respondent a questionnaire and requested that it is filled there and then and handed back. The customers were interviewed in branches of the five commercial banks within Nairobi. At least two branches of each of the top banks were purposively selected and at least five customers interviewed by the researcher. The target number of respondents was 50. Interviews were expected to take about ten minutes each. The secondary data was collected from the Central Bank of Kenya and selected commercial bank websites, including financial reports and market surveys.

3.3 Data Analysis

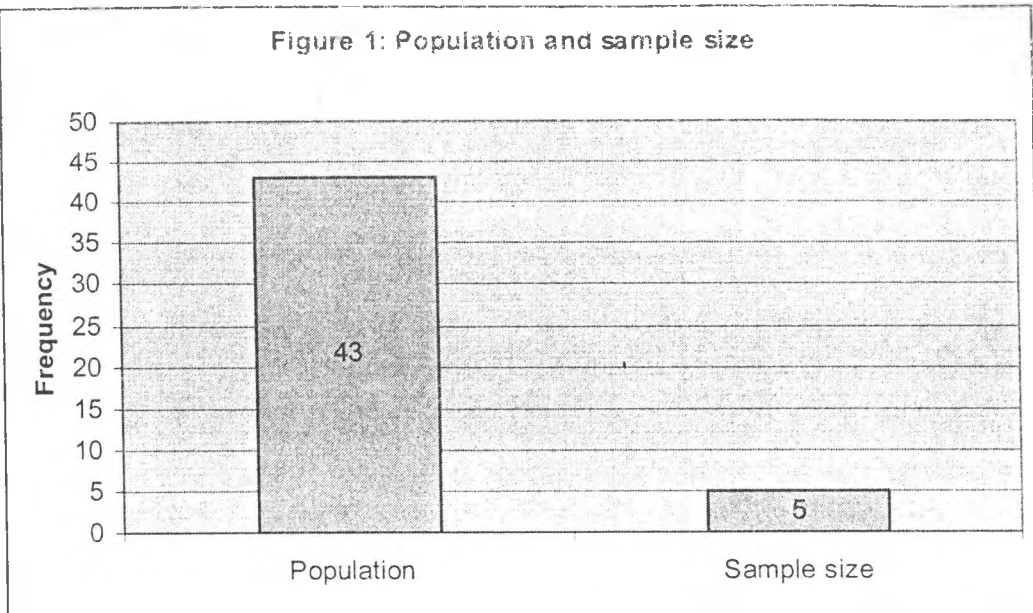
On receiving the questionnaires, the data collected was thoroughly checked to ensure completeness, consistency, accuracy and uniformity. The data was labelled; coded and keyed into Microsoft Excel for analysis using descriptive statistics techniques. To meet the objective of the study, the data collected went through content analysis using descriptive statistic tools like frequencies, mean and standard deviation. The ranking type questions were analyzed by calculating their weighted average responses. This was calculated as the sum of the products of the number of respondents and their weight and each corresponding rank divided by the total number of respondents in each category. To facilitate conceptualization of the research findings, the data was examined through further content analysis and the results presented in tables, bar-graphs and pie charts.

4.1 Introduction

Five major banks were sampled for the study out of which fifty bank customers were selected to participate in the research activity. Only thirty three responded representing a response rate of 66%. Such a response is high for this kind of study considering the confidentiality attached to customer banking information. Seventeen bank customers did not participate in this research as they did not want to participate in any form of business research. Other banks were also hesitant to allow the researcher interview customers in their bank premises as this contravened with their bank policies. This could probably be a safety precaution to ensure that vital information provided in research does not leak to competitors.

The names of responding banks and customers are withheld in this document because of confidentiality of information given. This research endeavoured to ascertain the key success factors of commercial banks in Kenya. Figure 1 represents the population and sample size while Figure 2 represents the response rate.

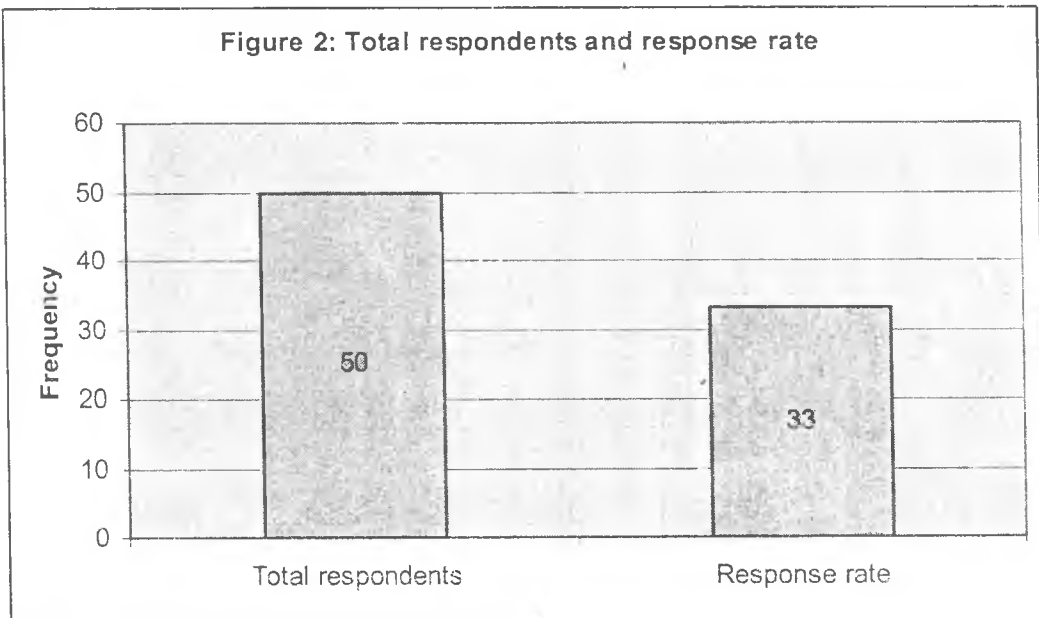
Figure 1: Population and sample size



Source: Case data

The population of commercial banks in Kenya is 43 as at 31st December 2005. The sample size was made up of 5 leading banks.

Figure 2: Total respondents and response rate



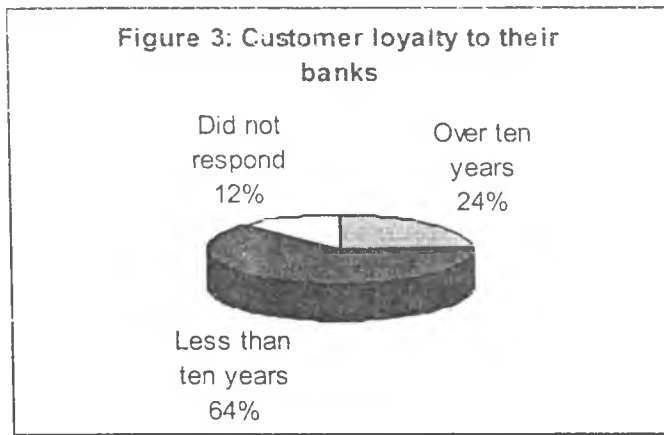
Source: Case data

The total target respondents was 50 customers 2 branches were selected from each of the 5 leading banks and 5 customers were interviewed in each branch. The response rate was 33 out of 50 respondents.

4.2 Personal details.

Personal detail information was solicited to establish key features of customers in the banking industry. According to Thompson & Strickland (1995:84) a company with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding on these factors. The evermore demanding customers are forcing banks to rethink their product offerings and distribution channels. Many banks are changing their product mix to shift earnings to higher value added products and services, migrating their margins upwards.

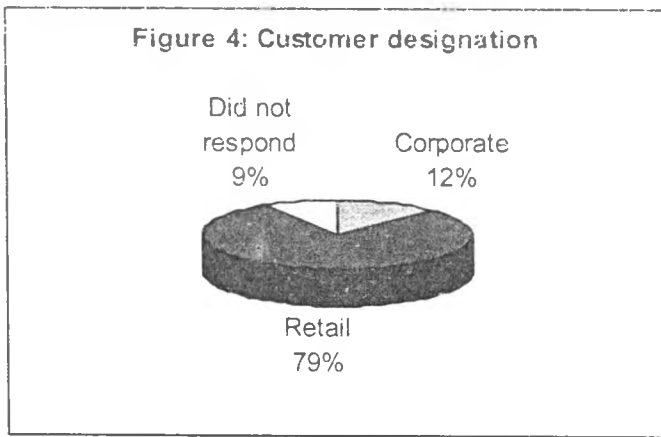
Respondents were asked to indicate the number of years they had been customers at their respective banks. This was necessary to establish important aspects like customer loyalty in the ever-changing global and competitive banking industry environment. High customer loyalty is positively correlated to factors like favourable interest on loans, availability of E-banking facilities and good customer relations. Twenty one respondents indicated to have been customers with their respective banks for less than ten years while eight indicated to have been customers for more than ten years. Four did not indicate the period of time they had been loyal to their bank. This could have probably been as a result of the confidentiality attached to this kind of research question. This is represented in Figure 3.



Source: Case data

From the above findings it can be inferred that a majority of the respondents had not been very loyal to their bank for a number of reasons: increased inflation and fluctuation in interest rates could lead other comparable banks to offer competitive interest and bank charges, offer products that meet various customer needs and offer personalized service. Due to the variation in service delivery, bank customers constantly shifted to banks that met their current demands.

It was also necessary to establish the respondent's designation. Respondents were asked to indicate whether they were retail or corporate. Thirty respondents responded to this question: twenty six indicated to be retail while four were corporate. Three respondents did not respond to this question. This is represented in Figure 4.



Source: Case data

From the above findings one can deduce that a majority of bankers in Kenya are retail bankers thus banks should design various products to meet the various needs of its retail customers as well as maintain their corporate customers for optimum profitability. It can also be established from the findings that corporate customers preferred banking their money with big banks, banks with international affiliations, banks with safe facilities and banks with comfortable banking halls with adequate space, seating facilities and private banking cubicles.

4.3 Banking relationship

According to Quinn, Doorley and Paquette (1991), the success of every organization lies the quality of service. Investment in efficient processes, human resource training and development, redesign of customer service areas together with management of inbound and outbound logistics (value chain) are or should all be geared towards making service delivery efficient and effective. A KPMG (1998) study of banking industry in Hong

Kong found that the major key success factors for the banking industry included the ability to deliver product lines, strong focus on consumer business, advanced technology and delivery systems.

Respondents were asked to rate the extent to which the factor listed was determinant in their choice of their bank as opposed to other banks. They rated the extent of applicability on a scale of 5 (most determinant) to 1 (least determinant). Weighted average means were then calculated to gauge the responses. Table 1 gives a summary of the responses and means while a detailed analysis of the responses is presented in the subsequent paragraphs.

Table 1: Factors affecting customer's choice of a bank.

FACTOR	Number (n)	MEAN SCORE	STANDARD DEVIATION
Bank near my work place	30	2.93	1.62
It's a large bank	31	3.65	1.31
The customer service staff are efficient- they have and give you information and services fast	31	3.87	1.09
I know the bank manager	29	2.03	1.67
Access of funds through ATM	31	3.52	1.69
Enquiries can be made via text messages or internet	30	2.83	1.68
The bank has been rated highly by independent agencies and other customers	31	3.68	1.42
The bank has products that meet my various needs	28	4.00	1.02
Employer banks with this particular bank and makes it easy to get salary and other payments	33	3.24	1.58
It has branches everywhere which facilitates transactions countrywide.	30	3.73	1.60
It is a relatively small bank with international affiliations to back it up and the services are highly personalized.	28	3.19	1.66
GRAND MEAN		3.27	

Source: Case data

Table 1 has an average mean score of 3.27 indicating that all the factors are critical in the success of any bank. The statement relating to the bank having various products that meet various customer needs was ranked first by respondents and had a mean of 4.00 and a standard deviation of 1.02. A lower standard deviation implied that the response was not varied and skewed to a higher rating. It can be inferred here that successful organisations have strong brand differentiation. They position their products to present a positive image that would go a long way in keeping the customer loyal to the product. (Quinn, Doorley and Paquette 1991, KPMG, 1998).

Service delivery was ranked second with a mean score of 3.87 and standard deviation of 1.09. The findings show that most respondents preferred banks that took less time to serve its bank customers, had enough tellers during peak hours, and offered personalized services. Managing operational fundamentals which involve efficient scheduling, organization and planning, among others, ensure operational soundness which in turn leads to high levels of service (Denton, 1989; KPMG, 1998; Frei, Harker & Hunter, 1995).

Location and bank distribution system was also a very important factor to customers on the choice of their bank. It had a mean score of 3.73 and standard deviation of 1.60 and was ranked the third. It can be deduced here that a bank with branches countrywide assist customers by availing services closer to them at their own convenience. According to Kibera and Waruingi (1988) the size of the firm in terms of asset base, presence in many areas of a country or region, revenues it is able to generate, number and quality of human

resources and capacity to dominate in its industry and other factors considered to make a company big, often influence the perception of the customer of the organization.

Bank rating was also an important factor in the choice of a bank by customers. The bank that was rated highly by independent agencies and other customers tends to have increased customer confidence which is reflected by deposits in the bank's financial statements. This statement was ranked fourth with a mean score of 3.68 and standard deviations of 1.42. There have been notable industry ratings such as Standard and Poor, Euro-Money Award and Best Airline Award. Barclays and Standard Chartered over the last three years pulled in a combined 52.58% of total industry profits before tax, earning more than the rest of the industry combined.

Size of the bank was also another very critical factor in the choice of their bank of preference. From the findings all the corporate customers indicated it as a major determinant in the choice of the bank they wished to transact with. They preferred to deal with banks that invested its assets in a portfolio with an aim of reducing and spreading the total risk. This greatly reduced losses resulting from risks of default and bank collapse. The statement had a mean score of 3.65 and a lower standard deviation of 1.31.

However customers' preferring a bank because they know the bank manager was ranked last with a mean score of 2.03 and a higher standard deviation of 1.68. They preferred best run banks that had structures for accountability at all levels of management to prevent crippling frauds, scandals or loss-making and value-diminishing activities.

Respondents were asked to rate the extent to which the conveniences listed were determinants in their choice of the bank as opposed to other banks. They rated the extent of applicability on a scale of 5 (Most determinant) to 1 (Least determinant). Weighted average means were then calculated to gauge the responses. Table 2 gives a summary of the responses and means while a detailed analysis of the responses is presented in the subsequent paragraphs.

Table 2: Aspects of convenience as determinants of choice of banks by bank customers.

ASPECTS OF CONVENIENCE	Number (n)	MEAN SCORE	STANDARD DEVIATION
Access to funds 24 hours a day	31	4.42	0.81
Comfortable banking halls – with adequate space, seating facilities, private banking cubicles	29	3.72	1.41
Payment of my creditors	27	2.96	1.37
E-banking facilities	32	3.13	1.72
Personalized service	31	3.58	1.47
Long banking hours including Saturdays	30	3.27	1.41
Unsecured facilities	30	3.47	1.52
Funds collection from premises	30	2.53	1.53
Safe facilities	33	3.21	1.58
Proximity to my place of work	28	3.61	1.34
Bank charges are reasonable	30	3.87	0.94
GRAND MEAN		3.43	

Source: Case data

From Table 2, it can be observed that the mentioned conveniences had an average mean score of 3.45 implying that they were key determinants most bank customers consider in choosing one bank over the other. A bank could improve its competitive position and earnings by improving on the aforementioned conveniences as they are very critical factors in the banking industry in Kenya.

It can be noted that giving customers access to their funds twenty four hours a day was ranked first with a mean score of 4.42 and a lower standard deviation of 0.81. This was a very high mean score and it can be inferred that to be successful banks should increase banking hours, increase tellers during peak hours and also increase the number of branches to serve a wide range of clientele in attempt to give their customers full access to their funds.

A competitive bank charge was ranked second with a mean score of 3.87 and a standard deviation of 0.94. According to Frei, Harker and Hunter (1995) banks with minimal cost structures and are able to pass on the benefits to the consumers in form of low charges for various services are likely to have higher profitability than those which levy high charges to cover inefficiencies.

A comfortable banking hall with adequate space, sitting facilities and private banking cubicles was ranked third with a mean score of 3.72 and a higher standard deviation of 1.41. It was ranked lowly by corporate customers but highly by retail customers. Since the majority of bank customers in Kenya are retailers, it would be important to realize

that most customers prefer banking with banks that have executive banking environments. This could be one indication as to why most big banks with adequate facilities record very high earnings from retail bank customers.

Banks proximity to customer's place of work was ranked as the fourth convenience with a mean score of 3.61 and standard deviation of 1.34. It can be observed from the findings that all corporate customers ranked it highly and most retail customers found it an important factor. Most respondents preferred banking near their work places to reduce time spent in getting to the bank and thus banks with distributed branch systems were likely to benefit from this opportunity as it brought services closer to its customers.

Personalized service was ranked fifth with a mean score of 3.58 with a standard deviation of 1.43. This clearly shows that customers expect quality in the delivery of financial services and products. Quality suggests high standards of attention to the customer including error-free statements, correct cheque printing, and the operational soundness of all delivery channels. Banks committed to quality and accuracy will anticipate problems and facilitate a friendly, fast and easy resolution process.

Funds collection from premises was ranked last with a mean score of 2.53 and a high standard deviation of 1.53. From the findings it can be observed that most corporate customers ranked it highly while almost all retail customers ranked it low. This is a clear indication that to be successful, banks should strategise their operations in such a way that they offer products that meet the needs of both their corporate and retail clientele.

Durkin & Bennet (1996) argue that high levels of internalised commitment are essential for the successful implementation of the emerging relationship banking strategy and are key to the success of a firm is establishing competitive advantage.

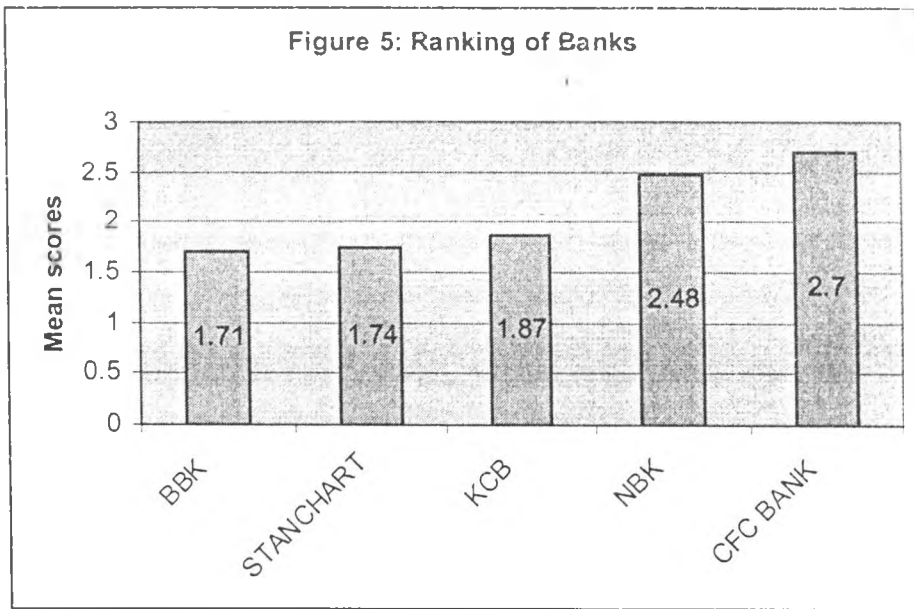
Respondents were also asked to indicate the ranking of banks as their preferred bank. They rated the extent of applicability on a scale of 5 (least preferred bank) to 1 (most preferred bank). Weighted average means were then calculated to gauge the responses. Table 3 gives a summary of the responses and means while a detailed analysis of the responses is presented in the subsequent paragraphs.

Table 3: Ranking of banks as customer preferred bank

BANK	Number (n)	MEAN SCORE	STANDARD DEVIATION
CFC Bank	27	2.70	1.41
Standard Chartered Bank	31	1.74	0.93
NIC Bank	27	2.85	1.26
Barclays Bank	31	1.71	0.90
Kenya Commercial Bank	31	1.87	0.85
Commercial Bank of Africa	29	2.66	1.34
Citi Bank	27	3.48	1.39
Cooperative Bank	29	3.58	1.15
Stanbic Bank	27	4.07	0.83
National Bank of Kenya	29	2.48	1.43
Grand Mean		2.71	

Source: Case data

Table 3 gives a summary of respondent's rankings of banks as their preferred bank. The findings are similar to those of Market Intelligence (2002, 2003, 2004, 2005) which rated banks based on some objective criteria one of which is profitability among commercial organisations. From Table 3, a lower mean score indicates that a particular bank is preferred over another bank with a higher mean score. It can be observed that Barclays Bank of Kenya was rated the most preferred bank by bank customers with a mean score of 1.71 and a lower standard deviation of 0.90. Standard Chartered Bank was rated the second with a mean score of 1.74 and a standard deviation of 0.93 while Kenya Commercial Bank was rated the third with a mean score of 1.87 and a standard deviation of 1.34. National Bank of Kenya with a mean score of 2.48 and a standard deviation of 1.43 was rated fourth while CFC bank was rated fifth with a mean of 2.70 and a standard deviation of 1.41. However NIC Bank, Citi Bank, Cooperative Bank and Stanbic Bank were rated lower with mean scores of 2.85, 3.48, 3.58 and 4.07 respectively. The ranking of the top five banks is represented in Figure 5.

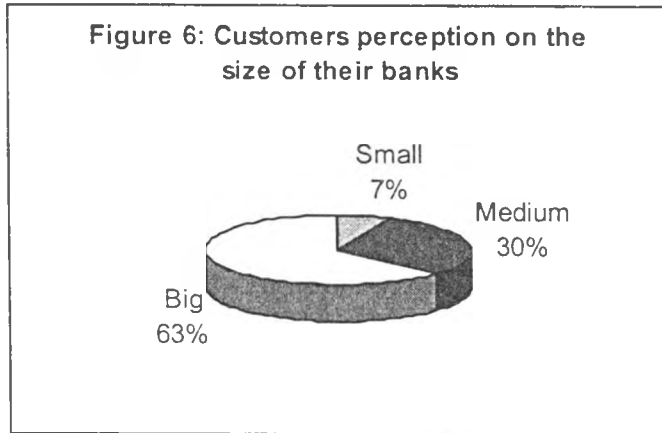


Source: Case data

It can be inferred from the above findings that most customers prefer big banks with international affiliations. Size comes with many advantages like improved technology, increased distribution systems, improved service delivery and good corporate governance. A closer look at the industry shows these earnings are concentrated in the top 5 banks. Over the last three years, the top 5 earned 69.47% approximately 70% of industry leaving the remaining 38 banks to the remaining 30%. The majority of the banks outside the top 5 on average earned profits before tax not exceeding 1% of industry profits.

Respondents were also asked to indicate whether their bank was small, medium or big. Thirty one bank customers responded to this question. Sixty three percent said that their bank was big; thirty percent indicated it was medium while seven percent indicated that their bank was small. This is in support of Kibera and Waruingi (1988) who asserted that

the size of the firm in terms of asset base, presence in many areas of a country or region, revenues it is able to generate, number and quality of human resources and capacity to dominate in its industry and other factors considered to make a company big, often influence the perception of the customer of the organization. This is represented in Figure 6.



Source: Case data

Bank customers were asked to indicate if their banks had international affiliations and if this factor influenced their decision to bank with it. Ninety three percent indicated that their Banks had international affiliations while seven percent indicated the contrary. A majority of respondents stated that having an international affiliation was an important factor that contributed to them banking with their banks. The findings are presented in Figure 7.

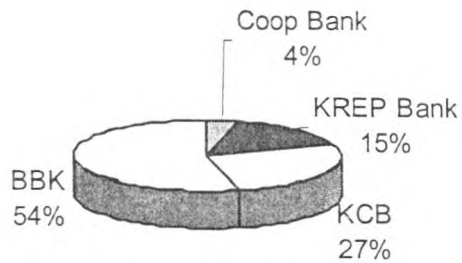
Figure 7: Banks with international affiliations



Source: Case data

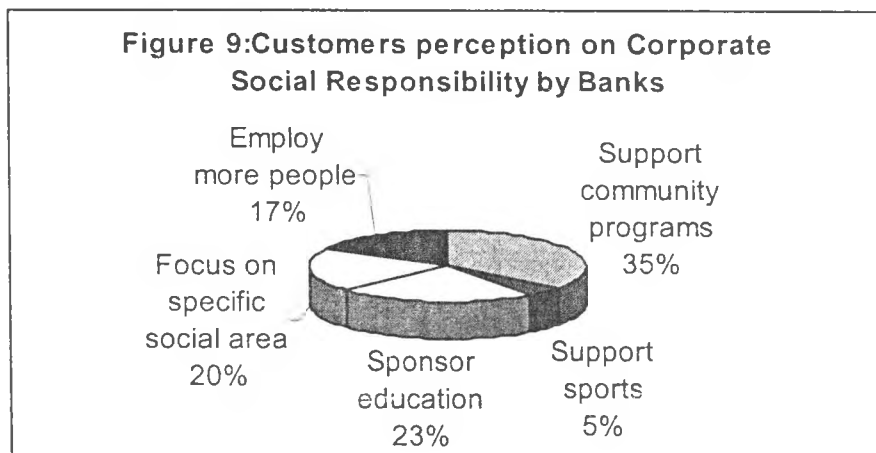
It was also necessary to establish the respondent's perception on which banks frequented on the media. Their response was so interesting in the sense that both big and small banks advertised in the media. This is because any bank irrespective of its size is expected to constantly remind its clientele of its product range, packaging and image to compete favourably in the banking industry. The responses are summarized in Figure 8.

Figure 8: Banks and media advertising



Source: Case data

Respondents were also asked to indicate what they wished their banks would do in line with offering banking services. Twenty three customers indicated support towards community program's while eleven wanted the bank to employ more people. Fifteen showed support to have their banks sponsor education while thirteen preferred banks to focus on specific social area. Only three bank customers indicated that banks should support sports. The varying responses are an indication of the perception bank customers have towards their banks in support of the rule of corporate social responsibility. A summary of the responses is presented in Figure 9.



Source: Case data

Responded were also asked to indicate what they would like their bank to improve on. Their responses were varied and depended on how customers perceived service delivery at their respective banks. A summary of their responses is presented in Table 4.

Table 4: Factors that customers wish their banks would improve on.

1	Reduce bank charges
2	Increase banking hours
3	Improve on corporate relations- personalized services
4	Offer favourable interest to loans on customers
5	Train staff to be efficient in order to deliver services faster
6	Improve on E- banking facilities
7	Increase funds for Corporate Social Responsibility
8	Open more branches countrywide
9	Increase the number of tellers during peak hours

Source: Case data

The above responses are industry key success factors and therefore opportunities banks can improve on and maximize their potential on service delivery. Thompson and Strickland (1995) supports this notion by documenting that a company 'with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding on these factors.

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CHAPTER 5: CONCLUSION

5.1 Summary, Discussions and Conclusions

The objective of the study was to determine the key success factors in the banking industry in Kenya. The response rate was sixty six percent and is presented in Figure 2. The results of the findings in Table 3 and Table 4 indicate that sixty four percent of the respondents had been bank customers for a period of less than ten years while seventy percent of bank customers were retail bankers. Table one summarized the factors affecting customers choice of a Bank and it was deduced from the findings that most bank customers preferred banks that had products that met their various needs and ranked the statement first with a mean score of 4.00 and a standard deviation of 1.02. Other convenience success factors were analyzed in Table 2 and it was observed that most customers preferred banks that offered them access to their funds and also charged reasonable charges for services. Table 6 and Table 7 clearly demonstrate that sixty three percent of the banks operating in Kenya are big in terms of total asset value while ninety three percent have international affiliations to spread and reduce total risks.

Academic literature postulates that an industry's key success factors are the strategy-related action approaches, competitive capabilities, and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to be competitively and financially successfully (Thomson & Strickland, 1995). The findings of this study are in agreement with academic literature and clearly outline the key success factors banks can utilize to increase their market share and total earnings. Available

literature recommends the use of modern technology, improved location, size and distribution system, offering high product range, packaging and image, good service delivery, reduced cost of services and good corporate governance. All the aforementioned key success factors have been supported by the findings of this study.

It was also necessary to establish whether the results of this study were similar to the empirical and theoretical literature related to studies carried out in developed countries. The results were found to be similar and points out same key success factors. The results of this study points out that most customers preferred banks that offered a wider product range, packaging and image. Other key success factors were service delivery, location, highly rated banks by independent agencies and size of the bank which were rated with mean scores of 3.87, 3.68, 3.73, 3.68 and 3.65 respectively as shown in Table 1. Factors of convenience were also critical in determining customer's choice of bank. It was noted that allowing bank customers twenty four hours access to their money was an opportunity to be exploited as most of them ranked this convenience first with a mean of 4.42 and standard deviation of 0.81. Bank charges were also a very critical factor bank customers use to determine their bank of preference. A bank could increase its turnover by charging favourable interest rates and maintaining a good number of clientele. Other important convenience factors were; banks proximity to customer's place of work, offering personalised service and improved E-banking facilities.

The findings of this study were in agreement with the ratings of Market Intelligence (2002, 2003, 2004, and 2005). A majority of the respondents ranked their top five priority

banks in a similar order to that of Market Intelligence. Their preference was Barclays Bank of Kenya, Standard Chartered Bank, Kenya Commercial Bank, National Bank of Kenya and CFC Bank with mean scores of 1.71, 1.74, 1.87, 2.48 and 2.70 respectively. This is presented in Table 3 and figure 5.

From the foregoing findings, it can be concluded that companies today operate within a global, competitive and integrated world economy and can only ignore this fact at their own peril. A bank 'with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding on these factors. The key success factors in the banking industry in Kenya are; good service delivery, low cost of services, robust human resource management, offering a wide product range, use of modern technology and good corporate governance.

5.2 Limitations of the study

Due to the busy schedule of respondents a great deal of time was spent convincing customers to fill in the questionnaires. In most cases they filled them hurriedly in the presence of the researcher and thus this could have negatively affected the quality of responses. Some bank officials were adamant in allowing the researcher to have questionnaires filled within the bank premises because their company policies did not allow them to participate in any form of business research.

Other respondents were semi illiterate and thus were not fully conversant with some salient terms in the questionnaire. Clarification of some questions was therefore necessary. Since questionnaires were used as the data collection technique, there was little room for such clarifications as some never bothered to ask for explanations. This affected the quality of responses.

Thirty four percent of the respondents declined to fill in the questionnaires and claimed that they were not willing to disclose any information to do with their respective banks. Others did not answer some questions and claimed that they were confidential. This had an adverse impact on the conclusions and achievement of the research objective. Generalization of the research findings could have been more authentic had the thirty four percent participated.

5.3 Recommendations for policy and practice

The Central Bank of Kenya, commercial banks and academicians will benefit from the findings of this study. Banks will be able to capitalise on key success factors in the banking industry to improve on their competitive position. The Central Bank of Kenya will also be in a position to appreciate the role played by banks in fostering a strong financial market and thus intervene to by facilitating an enabling environment as well as in counteracting any risks that could result in spill over effects leading to bank runs in the financial market.

Academicians will be able to critic the findings of this study and compare them to other empirical studies in other parts of the world in order to gauge the level of appreciation of key success factors in the banking industry in Kenya. They will give further recommendations on other key success factors that were not adequately analysed by this study. Considering the limitations of this study, some questions designed to capture the objective of the study could not be answered comprehensively: academicians should therefore strive to fill such gaps. The findings of the study will also assist bank customers in making rational, informed decisions on the banks to maximise the rate of return on their deposits and investments.

5.4 Suggestions for further research

From the findings of this study it is imperative that technology plays a significant role in providing convenience to the customers of banks. Technology enables them access their funds and carry out transactions regardless of whether bank doors are open or not.

Suggestions are made to future researchers to carry out further research to determine the role of technology and e-banking in enhancing competitive advantage in the banking industry.

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APPENDIX 1: LIST OF COMMERCIAL BANKS STUDIED

1. Barclays Bank of Kenya
2. Standard Chartered Bank
3. Kenya Commercial Bank
4. CFC Bank
5. National Bank of Kenya

APPENDIX II: QUESTIONNAIRE

1.0 Personal Details

1.1 Name of your bank-----Branch-----

Number of years as a customer-----

Customer Designation (Retail or corporate) -----

2.0 Banking Relationship

2.1 In each of the following, rate the extent to which the factor listed was determinant in your choice of the bank as opposed to other banks: 1 is least determinant and 5 is the most determinant (Tick as appropriate)

Factor	Rating				
	1	2	3	4	5
Near my work place					
It's a large bank					
The customer service staff are efficient- they have and give you information and services fast					
I know the bank manager					
I can access my funds through ATM					
I can make enquiries via text messages or internet					
The bank has been rated highly by independent agencies and other customers					
The bank has products that meet my various needs					
My employer banks with this particular bank and makes it easy for me to get salary and other payments					
It has branches everywhere which facilitates my transactions wherever I am in Kenya					
It is a relatively small bank with international affiliations to back it up and the services are highly personalized					
Other---					

2.2 Rate the following conveniences as determinants of choice of your bank as opposed to other banks: 1 is least determinant and 5 is the most determinant (Tick as appropriate)

Convenience	Rating				
	1	2	3	4	5
Access to funds 24 hours a day					
Comfortable banking halls – with adequate space, seating facilities, private banking cubicles					
Payment of my creditors					
E-banking facilities					
Personalized service					
Long banking hours including Saturdays					
Unsecured facilities					
Funds collection from premises					
Safe facilities					
Proximity to my place of work					
Single charge for bank expenses					
Other---					

2.3 Indicate the ranking of the banks as your priority bank. Rank 1 being your priority bank and rank 5 being the least priority (Tick as appropriate)

Bank	Rank
CFC Bank	
Standard Chartered Bank	
NIC Bank	
Barclays Bank	
Kenya Commercial Bank	
Commercial Bank of Africa	
Citi Bank	
Cooperative Bank	
Stanbic Bank	
National Bank of Kenya	
Others (Please specify)	

2.4 Would you rank your bank as small, medium or big? -----

2.5 Does your bank have international affiliation? -----

If yes, does this influence your decision to stick with it? -----

2.6 Which bank do you see appearing most frequently on the media? -----

2.7 Other than banking services what would you like to see the banks do? (Tick as appropriate)

- Support community programs
- Support sports
- Sponsor business students
- Focus on specific social area and consistently support that area
- Employ more people

2.8 What would you like your bank to improve on?

Thank you for your time