

// RESPONSES OF MORTGAGE COMPANIES IN KENYA TO
THREATS OF NEW ENTRANTS: THE CASE STUDY OF
SAVINGS AND LOAN (KENYA) LIMITED //

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DECLARATION

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

Signed 

Date 16/12/04

Millicent A Omondi

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

Signed 

Date 16/12/2004

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DEDICATION

To my husband George

My daughters Angie, Lulu and Tasha

My Parents

And to the Lord God Almighty

ACKNOWLEDGEMENTS

My heartfelt gratitude to all the people who in their special ways have made this study a success.

I would wish to thank my supervisor, Dr. Ogutu whose guidance, encouragement and immense patience made this dream a reality.

To the respondents who, despite their busy schedules sacrificed their time to complete the questionnaire.

My Special thanks to Wangui Ngatia, the MD Savings and Loan (K) Ltd: My boss, my mentor and friend.

To my colleagues Alphonse, John and Grace; Your moral support kept me going.

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Mum, Dad and Wilson for believing in me.

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Most of all to the Lord, without whom I would not have made it-your faithfulness is everlasting.

ABSTRACT

The mortgage market has in the recent past experienced exponential growth with commercial banks and insurance companies treading on grounds hitherto the preserve of mortgage companies. As the cost of rent pushes up with inflation, more and more people are seeing the logic in paying a monthly mortgage fee instead of rent. The property market has never been more vibrant, and so is the competition between the mortgage companies. The bid to have more people sign up for the mortgage schemes has seen the mortgage companies turn to unconventional, creative ways of marketing to reach clients.

The main players in the mortgage industry namely: Housing Finance, Savings and Loan (K) Limited and East Africa Building Society have in the past three years found themselves being bombarded by an influx of new players in the market. This study seeks to investigate the strategic as well as operational responses by these companies to threats of new entrants in the industry. It is based on a case study of Savings and Loan (K) Limited, the oldest and second leading mortgage company in Kenya. The two objectives of the study were to identify the challenges that faced Savings and Loan (K) Limited in the context of new entrants in the mortgage industry and to determine the responses the company adopted to counter these threats.

In order to meet these objectives pertinent primary and secondary data was obtained through personal interviews with respondents who were responsible for developing the strategic and operational responses to these threats. The interviewees have been overseeing the implementation of these responses. Secondary data was collected mainly from *The Cascade*, the KCB Newsletter. The data was thereafter analysed qualitatively.

The changing competitive environment in which the mortgage industry operates has presented some challenges to Savings and Loan. These challenges arose from the changes in the business environment in terms of legislative changes, liberalization, technological advancements and increasing levels of education. The forces of threats of new entrants, bargaining power of buyers, bargaining power of sellers, threats of substitute products have made these changes the more difficult. Porter (1980)

Savings and Loan, according to the research findings has addressed its changing competitive situation through restructuring, marketing, Information Technology and culture changes among other responses. These have made Savings and Loan more competitive and able to deal with the threats of new entrants but have not adequately enabled the company to fully deal with these threats. It was felt that savings and Loan should undertake a more proactive rather than reactive responses in dealing with the intense competition in the mortgage market brought about by new entrants into the industry. Generally, however, the findings indicate

that Savings and Loan does possess the necessary capability to adopt strategies that can enable it to compete effectively with the new entrants into the industry. The company, being a subsidiary of Kenya Commercial Bank has the added advantage of a wide branch network and a large customer base. The company therefore needs to maximize on this competitive strength by developing strategies based on the already existing advantages.

TABLE OF CONTENTS

	PAGE
Declaration.....	i
Dedication	ii
Acknowledgement.....	iii
Abstract.....	iv
 CHAPTER ONE: INTRODUCTION	
1.1. Background.....	1
1.1.1 The context within which mortgage finance operate.....	3
1.1.2 The mortgage industry in Kenya.....	5
1.2. Statement of the problem.....	9
1.3 Objectives of the study.....	11
1.4. Importance of the study.....	11
 CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction.....	13
2.2 The Five Forces of competition.....	15
2.2.1 Bargaining power of suppliers.....	17
2.2.2 Bargaining power of buyers.....	17
2.2.3 Rivalry among competing sellers.....	17
2.2.4 Threat of substitute products.....	18
2.2.5 Threat of new entrants.....	18
2.2.6 Interpreting industry analysis.....	20

2.3 Environment, strategy and organizational capability.....	22
2.4 Strategic and operational responses.....	24
2.4.1 Restructuring.....	25
2.4.2 Marketing.....	26
2.4.3 Information Technology.....	27
2.4.4 Culture change.....	28

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design.....	30
3.2 Data collection.....	30
3.2.1 Secondary data.....	30
3.2.2 Primary data.....	31
3.3 Data Analysis.....	32

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 The Respondents' Profile.....	33
4.2 Challenges Facing Savings and Loan.....	34
4.3 Responses of Savings and Loan to threats of New entrants.....	35
4.3.1 Restructuring	35
4.3.2 Marketing.....	36
4.3.3 Information technology.....	36
4.3.4 Culture Change.....	38
4.4. Strategic Fit.....	39

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Summary of Findings.....	40
5.1.1 Challenges Posed by the New Entrants into the industry...40	
5.1.2 Responses of Savings and Loan to Threats of New Entrants.....	41
5.2 Recommendations.....	43
5.3 Limitations of the Study.....	44
5.4 Suggestions for further Research.....	45
References.....	46

APPENDICES

Appendix 1 Letter of Reference

Appendix 2 Questionnaire

CHAPTER ONE

INTRODUCTION

1.1 Background

Mortgage companies, like all organizations, operate within an environment, and are environment dependent (Ansoff and McDonnell, 1990). The organization's environment consists of the conditions and forces that affect its strategic options and define its competitive situation (Pearce and Robinson, 1997). Organizations, in order to survive, have to pay close attention to the external environment. Failure to do so will affect the future survival of the organization.

Over the last 5 years the banking industry, like all industries in the country have been faced with various challenges arising from changes in the environment such as liberalization, a turbulent economy and government policies such as that enabling financial institutions to acquire bank status while retaining their other functions (Banking Act of Kenya, 1994).

Liberalization of the mortgage industry in 2002 also meant that commercial banks, which had traditionally concentrated on short term lending were now free to enter the hitherto restricted mortgage market. Oloo (2004), in his description of a mortgage bank asserts that

“A mortgage finance company is a type of bank lending which gives loans for purposes of purchase or construction of a home”

Porter (1980) describes strategy as creating a fit between the external characteristics and internal organizational conditions to solve a strategic problem. The problem occurs when there is a mismatch between the internal characteristics of an organization and the opportunities existing in the external environment.

Strategic responses, according to Pearce and Robinson (1991) are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are a reaction to what is happening in the environment of the organization. Porter (1980) observes that the knowledge of the underlying sources of competitive pressure provides the groundwork for strategic agenda in action. When organizations are faced with unfamiliar changes, they should revise their strategies to match the turbulence level (Ansoff and McDonnell, 1990). New technologies, new competition, new dimensions of social control and above all an unprecedented questioning of the organization's role in the society define the unfamiliar world.

Pearce and Robinson (1997) assert that the degree of competitiveness is manifested not only in other players, but rather other competitive forces exist that go well beyond the established combatants in any particular industry. Porter (1980) identifies five forces that affect the level of competition in an industry. He states that the rules of competition are embodied in the entry of

new competitors, the threat of substitutes, the bargaining power of supplies and the rivalry among the existing competitors. Gathoga (2001) identified the key competitive factors affecting commercial banks in Kenya as increasing competition and the threat of substitutes. According to Pearce and Robinson (1991), 'a serious concern of any business is the threat of new entrants'. Mortgage companies therefore have to reposition themselves to counter the threat of new entrants. This will require a strategic as well as an operational approach in order to ensure their survival and continued profitability.

M'bijiwe (2004), the head of consumer banking at Standard Chartered Bank observed that the ability of people to pay for the mortgage product is what compelled the bank to enter into the business of mortgage financing. "For almost 30 years there has been a need for mortgage products in Kenya and the economic conditions prevailing at that time were not conducive", she explains.

1.1.1 The context within which mortgage finance operates

Mortgage lending is merely a special type of bank lending. Loans to finance house purchase can be financed by retail deposits or wholesale funds, and the banks have as their business the raising of such funds, Oloo (2004). It is therefore unwise to exclude the banks from the housing finance system. In most countries, the banks are the most significant lenders, (Boleat 2003). For example, in Britain, specialist retail banks most of which were formerly called

building societies account for well over half of the total house purchase lending with most of the remainder being accounted for by the multi purpose banks. In France, the Credit Agricole is the largest lender. In Germany, the Savings banks are the biggest lenders and, in America, the commercial banks,, directly or indirectly, are among the biggest lenders. In countries where lending is done by specialist mortgage banks, these are often owned by the commercial banks or are heavily funded, directly or indirectly, by the commercial banks.

An effective housing finance mechanism depends on a number of factors in order to function effectively. Housing finance necessarily involves long term loans and making long term loans in a sound way for both the lending institution and the borrower is far from easy when interest rates are high and volatile. Similarly, general economic stability is important. People will be less inclined to invest in housing if they believe, based on past experience, that their future is uncertain. There is also need to be a trust in financial institutions and formal methods of finance. A final general point is that individuals and market participants must be confident that they are not at risk from future regulatory and political changes. For example, in Britain for many years it proved impossible to change the laws that had wrecked the market for private rented accommodation because potential landlords believed that an incoming government would retrospectively impose security of tenure and rent restrictions.

Mokua (2004) explains that the mortgage product is a rather technical one and therefore it is important to understand the details. A potential borrower must carefully evaluate the interest rate regime, the interest payable, fixed or variable rate, exit provisions, default charges, tax incentives and foreclosure rules before making decisions. It makes sense to shop wisely for the best mortgage, since it will probably be the biggest financial decision the borrower will ever make in his life.

There are 2 important features that a borrower needs to be aware of. One is the loan term and the other is the option of fixed or variable interest rate. The term of the loan is the number of years the borrower proposes to pay the loan. The longer the period, the more interest the borrower ends up paying. The other important aspect of mortgage is the option of a fixed or variable rate. Each has interest advantages and disadvantages. Fixed rate mortgages set the interest on the loan at a level agreed at the outset of the loan. The borrower is fully aware of how much he has to pay on a monthly basis and will be insulated from any rise in the base rate and cannot be caught out with sudden increases in payment. If interest rates rise above the fixed rate, the borrower ends up saving. However, if interest rates drop, the real cost of the mortgage increases.

1.1.2 The Mortgage Industry in Kenya

Oloo (2004) asserts that Kenya's banking sector has, in the past 7 years transformed from a weak and potentially explosive financial base into a

formidable and sustainable sector. Seven years ago, he reiterates, Kenya was an economy on a suicidal plunge. The consequences of a declining economy, bad governance and the continuing political uncertainty resulted in high interest rates which made banking a very precarious business. The upsurge in interest rates exacerbated the already phenomenal problem of non-performing loans. The Central Bank had to step in to avert a major crisis by firmly enforcing regulations. The introduction of the Donde bill in 1999 was intended to check the high interest charges that banks were levying on loans. Just as the Donde bill was putting pressure on banks the benchmark 91-day treasury bill rates started coming down drastically.

Mokua (2004) explains that lack of international capital in Kenya and failure to embrace non-traditional financial instruments remain significant barriers to the accessibility of mortgage products by the majority of interested parties. Mortgage finance still remains unaffordable to potential homeowners, regardless of its recognized economic and social importance. Most housing finance mechanisms in Kenya serve the conventional market but do not respond to the needs of a large segment of the population.

As a matter of fact, Mokua adds, Kenya's mortgage market remains limited. All the mortgage products target high and middle-income earners who constitute a paltry percentage of the salaried people within the private sector. He assesses that it is just below 5% of Kenyans who can access conventional housing finance. That one is in salaried employment is not sufficient for one

to access a mortgage product. The high cost of local capital beside lack of an effective implementation of regulations that is often hampered by corrupt practices, unnecessary, cumbersome and inefficient administration has significantly increased the cost of housing. Cumulatively, these constraints make home ownership out of the reach of a majority of Kenyans, especially for middle-income earners.

The home loans market is a market that has hitherto been served by mortgage finance companies and ignored by the big commercial banks when treasury bills were a better investment. Commercial banks are now attempting to increase their lending portfolios by assertively entering the home loan market and challenging the traditional players. The commercial banks are even offering to buy out mortgage loans from traditional players. These banks are willing to entice the borrowers by offering to meet the mortgage transfer costs including the legal fees, valuation and commitment fees, which amount constitutes a large proportion of the total mortgage amount. There is too much money chasing too few qualified people according to Mokuia and the mortgage institutions and commercial banks are outdoing themselves wooing the few Kenyans who form a limited mortgage market.

Mokuia (2004) continues to explain that Kenya being a virgin mortgage market, it is quite easy for potential customers to get lost in the advertising wars over the fixed and variable interest rates. This is a new development in the industry as previously all mortgage loans were borrowed at variable rates.

A prospective borrower needs to do his homework to determine the product that best suits his needs.

The main players in the mortgage industry namely: Housing Finance, Savings and Loan (K) Limited and East Africa Building Society have in the past two years found themselves being bombarded by an influx of new players in the market. This study seeks to investigate the strategic responses by these companies to threats of new entrants in the industry. It is based on a case study of Savings and Loan (K) Limited, the oldest and second leading mortgage company in Kenya.

Savings and Loan is the oldest housing finance institution in the country, having been in business in one form or another since 1949. It started off as a building society and changed to a limited liability company in 1962. It was acquired by Kenya Commercial Bank Group in 1972 with a clear objective of business diversification to cater for the mortgage finance needs of its customers. Over the years Savings and Loan has grown steadily and at one time was the largest mortgage company in the country in terms of lending and branch outlets. Due to intense competition and aggressive promotion by competitors, its market share has declined substantially particularly in the period between 1999 and 2002. During this period, total lending decreased from Sh2.8 billion in 1999 to Sh2.4 billion in 2002. Deposits also decreased from Sh3.2 billion to Sh2.6 billion respectively. It is against this background that Savings and Loan finds itself having to grapple with new developments in

the industry in the form of threats of new entrants. Other than Housing Finance and East Africa Building Society, other traditional competitors include cooperative societies, building societies, private development companies like National Housing Corporation (NHC) and National Social Security Fund (NSSF).

1.2 Statement of the Problem

In spite of the important role that mortgage companies are playing in the economy, new entrants now threaten their survival. Threat of new entrants emerged due to the change in the regulatory framework that defined the operations of commercial banks that restricted their term loans at five years or less. In addition the drastic drop in returns offered by Treasury bills resulted in commercial banks seeking alternative lending avenues. The drop in interest rates therefore increased the demand for home loans, Mokuu (2004). There has been interest among researchers on the subject of responses by organizations to relevant environmental changes. Most of the studies in strategic responses have, however been in industries other than banking. Only a few studies were concerned with the banking industry. Gathoga (2001) set out to identify the strategies that commercial banks have applied to respond to changes in the environment. Kiptugen (2003) undertook a study on strategic responses of commercial banks to a changing competitive environment. However, there appears to be no response study that has so far been undertaken in the mortgage industry. The only study undertaken on the

mortgage industry had nothing to do with responses of any kind. Murugu (2003) undertook a study on perceived quality of service in the mortgage industry citing Housing Finance as her case study.

A few studies have been undertaken using Porters Five Forces Model. Goro (2003) undertook a strategic response study of commercial banks to threats of substitute products. Isaboke (2001) undertook an investigation of the strategic responses by major oil companies in Kenya to threats of new entrants. The point of departure between Isaboke's study and this proposed study is twofold. Isaboke conducted a general survey on the threat of new entrants in the oil industry. This study however, is specific and is an in depth analysis using one of the competitors in the mortgage industry as a case. The other difference is the industry studied. Issues on threats of new entrants in the oil industry are markedly different from the mortgage industry in that the former is a consumer goods industry and the proposed study targets a service industry. Responses in the oil industry are unlikely to reflect responses in the service industry.

Threat of new entrants is one of the main challenges facing organizations in the present competitive environment. It is evident that no study has yet been done on threats of new entrants in the mortgage industry. This constitutes a knowledge gap that needs to be addressed. In addition most response studies done have dwelt on strategic responses. This study will however, discuss both the strategic as well as operational responses of the mortgage

companies to threats of new entrants. Firms are more likely to have more operational responses than strategic responses because operational responses have to do with the day to day activities of the organization. These are responses that do not involve the whole organization and involve fewer resources and are relatively easier to implement and reverse, Kotler (1999). Grant (2000) states that strategic responses, on the other hand are long term decisions that are usually made at higher levels in the organization. They involve a significant commitment of an organization' s resources and are more difficult to implement and reverse. Therefore a study that focuses only on strategic responses does not provide a full spectrum of how organizations react when faced with threats of new entrants

1. 3 Objectives of the study

1. To find out the challenges facing Savings and Loan (k) Limited in the light of new entrants into the industry.
2. To determine the responses that Savings and Loan have adopted to counter the threat of new entrants.

1. 4 Importance of the study

This study is expected to benefit mortgage companies as it is expected to establish the adequacy of their responses, both strategic and operational, in the face of increasing competition from commercial banks entering an industry that was previously the preserve of three major players namely

Housing Finance, savings and Loan and East Africa building Society. The study will also interest government agencies and policy makers in the housing sector in the development of housing policy framework. It is also expected to generate interest in the academic circles leading to other researches on dynamic areas of strategic and operational responses to intense competitive pressure from new entrants in other areas in the financial sector and other sectors of the economy. It will additionally contribute to the existing body of knowledge on strategic responses in the face of competitive challenges in various industries

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of some of the relevant literature published on the subject of study. The review opens with an overview of competition. The main part of the literature looks at the five forces of competition with a special emphasis on threat of new entrants, the subject of this study. The study is derived from Michael Porter's Five Forces Model. The review also discusses the environment in which firms operate, strategy and organizational capability. It also covers the different strategic and operational responses of organizations to competition, threats of new entrants being a form of competition. Though some research has been done on strategic responses to competition in the banking industry in general, no research has focused on the threat of entrants either in the banking sector or the mortgage industry specifically.

Hill (1995) observed that in many industries competition could be viewed as a process driven by innovation. Competition among the mortgage companies in Kenya has intensified in the last 3 years. Prior to liberalization, the government set the conditions within which commercial banks would operate. The banking act forbade commercial banks from giving loans spanning more than 5 years. Based on this, commercial banks found themselves locked out

of the mortgage market whose lending terms are long term ranging between 5 to 25 years. Commercial banks like KCB, wanting to venture into this hitherto restricted market acquired Savings & Loan to cater for homebuyers.

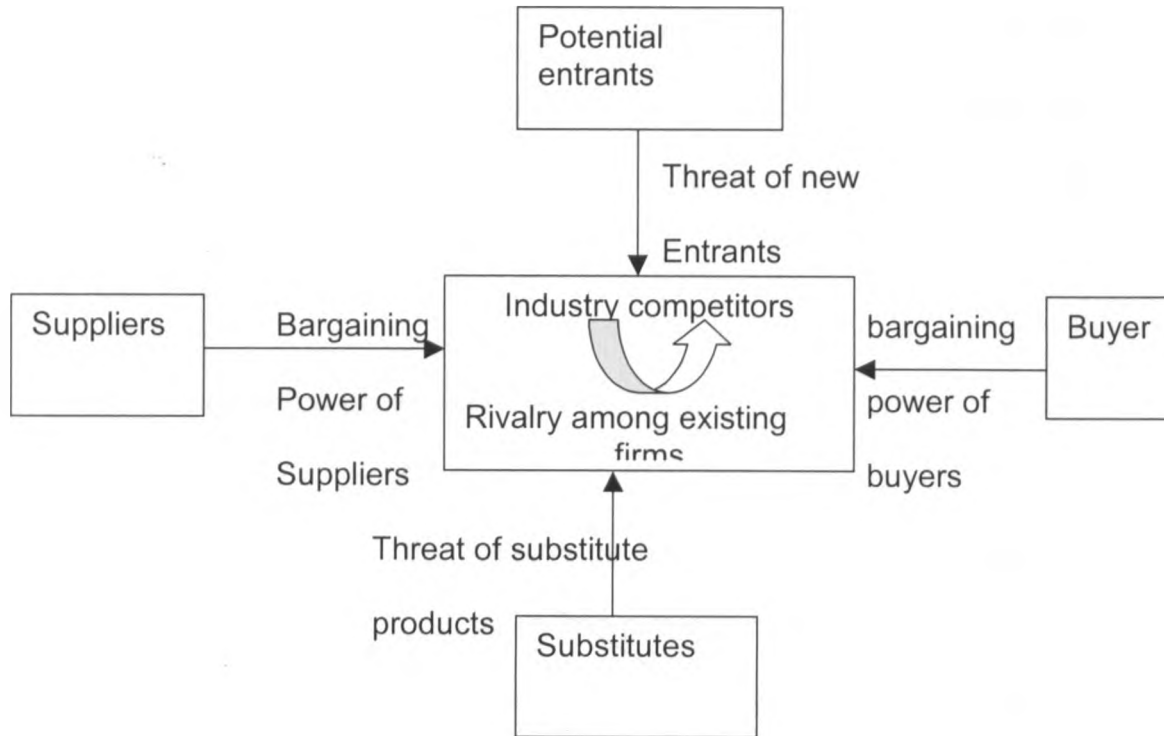
Kombo (1997), in his study on strategic response by Motor Vehicle Franchise Holders in Kenya facing changed environmental conditions, found that for firms to be effective and hence successful, they should adapt appropriately to the changes that occur in their respective environments. Such adaptations may be referred to as strategic responses, (Schendel and Hofer, 1979). Day (1999), found that a firm's orientation to its present and prospective markets is subject to two pressures. On one side are the centripetal influences that induce the company to look inward for guidance on decisions and become remote from customers and unresponsive to competitive challenges. This influence is accentuated by a "liability of success" where good performance leads to arrogance, overconfidence, and a technology orientation that condones the belief that "we know better than the market." Compounding the problems are the centrifugal effects of the market, technology and competitive change that continually pull the business out of alignment with its markets and erode its advantages. The interplay of these forces leads to one more of the following triggers for change: Market disruptions that threaten the business model; Continuing erosion of alignment with the market that puts the firm at a disadvantage with the market driven competitors; Strategic necessity and intolerable opportunity costs, Day(1999)

Aosa (1992) found that companies used strategy to develop competitive edge over their rivals. As complexity increased, companies reacted differently in trying to develop and maintain their edge over competitors.

2.2 The five force model of competition

Porter's five forces of competition can be used to gain insight into competitive dynamics in an industry. It offers a richer view of the competition by capitalizing on the interrelationships of five powerful and dynamic forces. The five forces are: potential entry, the power of buyers, the power of suppliers, substitutes, and rivalry among existing competitors, (Porter, 1980; Pearce and Robinson, 1994); Thompson and Strickland, 1987; and Byars, et al, 1996). Aosa (1992) found that for the competitive strategy model to be applicable to Kenya, it required the inclusion of additional strategic forces when compared to similar models put forward in developed country contexts. This new model had the following forces; customers, suppliers, competitors, logistics, power play and government. The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes (Porter, 1980).

The state of competition in an industry depends on five competitive forces as shown in figure below:



Forces Driving Industry Competition; Source Porter M.E Competition Strategy (New York; Free Press, 1980).

All five competitive forces jointly determine the intensity of industry competition and profitability and the strongest force or forces are governing and become crucial from the point of view for strategy formulation. Different forces take on prominence in shaping competition in each industry. While the research focuses on the threat of entry of new and potential competitors, we shall briefly examine how each of the forces has influenced the level of competition in the mortgage industry in Kenya.

2.2.1 Bargaining power of suppliers

Porter (1980) asserts that suppliers can exert bargaining power over participants in an industry by threatening to raise price or reduce quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own process.

2.2.2 Bargaining power of buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or ore services and playing competitors against each other – all at the expense of industry profitability. The power of each of the industry's important buyer groups depend on a number of characteristics of its market situation and on the relative importance of its purchase from the industry compared with its overall business, (Porter, 1980).

2.2.3 Rivalry among competing sellers

(Porter 1985) indicates that the strongest of the five competitive forces is usually the jockeying for position and buyer favour that goes on among rival firms.

2.2.4 Threat of Substitute products

Porter (1980) continues to assert that all firms in an industry are competing, in a broad sense, with industries producing substitute products. Substitutes limit the potential return of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits. Identifying substitute product is a matter of searching for other products that can perform the same function as the product of the industry. Porter (1980)

2.2.5 Threat of new entrants

Porter(1980) states that new entrants to an industry can threaten existing competitors by bringing additional production capacity. Unless product demand is increasing, additional capacity will hold consumers' costs down, resulting in less sales revenue and lower returns for all firms in the industry. Often, new entrants have substantial resources and a keen interest in gaining a large market share. As such, new competitors may force existing firms to be more effective and efficient and to learn how to compete on new dimensions. The likelihood that firms will enter an industry is a function of two factors: barriers to entry and the retaliation expected from current industry participants. When

firms find entry into a new industry difficult or when firms are at a competitive disadvantage entering a new industry, entry barriers exist.

Porter (1980), explains that existing competition usually try to develop barriers to market entry. The absence of entry barriers increases the probability that a new entrant can operate profitably in an industry. There are several potentially significant entry barriers including;

Product differentiation: Over time customers may come to believe that an existing firm's product is unique. This belief can result from service to the customer, effective advertising campaign, or the firm being the first to market a particular product. Many firms such as Coca Cola, Unilever spend a significant amount of money on advertising to convince a potential customer of the distinctiveness of their products. The belief that a firm's product is unique results in loyal customer having strong brand identification, Kotler (1980). Typically, new entrants must allocate significant resources over a period of time to overcome existing customer loyalties. To combat the perception of uniqueness, new entrants frequently offer products at lower prices. However, this can result in lower profitability or even a loss for the new entrant. Switching costs are the one-time costs customers incur when buying from a different supplier. The cost of buying new equipment and of restraining employees and even the psychic costs of ending a relationship may be incurred in switching to a new supplier or to a competitor's product. Another area is in expected retaliation: Decision

makers will also anticipate existing competitors' reactions to a new entrant. If retaliation is expected to be swift and vigorous, a decision could be reached against entry. Porter (1980) identifies another barrier as cost disadvantages independent of scale. In some instances, established competitors have cost advantages that new entrants cannot duplicate. Firms can avoid entry barriers by searching out market niches that are not being served by the primary competition.

2.2.6 Interpreting industry analysis

In general, Porter (1980) explains, the stronger the competitive forces, the lower the profit potential for firms in an industry. An unattractive industry has low entry barriers, suppliers and buyers with strong bargaining positions, strong competitive threats from product substitutes and intense rivalry among competing firms. These industry attributes makes it very difficult for firms to achieve strategic competitiveness and earn above-average returns. Alternatively, an attractive industry has high entry barriers, suppliers and buyers with little bargaining power few competitive threats from substitute products and relatively moderate rivalry (Porter 1996). Porter reiterates that the success of any one firm's strategy hinges partly on what offensive and defensive maneuvers its rivals employ and the resources rivals are willing and able to put behind their strategic efforts. Whenever one

firm makes a strategic move, its rivals often retaliate with offensive or defensive countermoves.

According to Nyoike and Okech, (1999) supports the conventional economic theory which stipulates that an otherwise non-competitive market protected by high barriers to entry becomes more competitive as such barriers are lowered and new entrants join the market. Njuguna (1996) found that deregulation meant the relaxation and elimination of governmental controls over the oil industry. Lack of new and clear policy guidelines to govern the industry's operations in a deregulated environment, was cited as a major issue that remained unresolved. In the light of the prevailing uncertainty, new entrants would take advantage and penetrate the market unfairly. Peters (1987) thought that strategy is about outflanking competitors with big plays that yield a sustainable advantage. This sustainability could be the acid test for new entrants. The new entrants have concentrated on certain segments in the market an approach supported by Andrews (1971), who held that the structure of competition, quite apart from the resources of the firm, may suggest that a relatively small firm should seek out a niche of relatively small attraction to the majors, and concentrate its powers on that limited segment of the market.

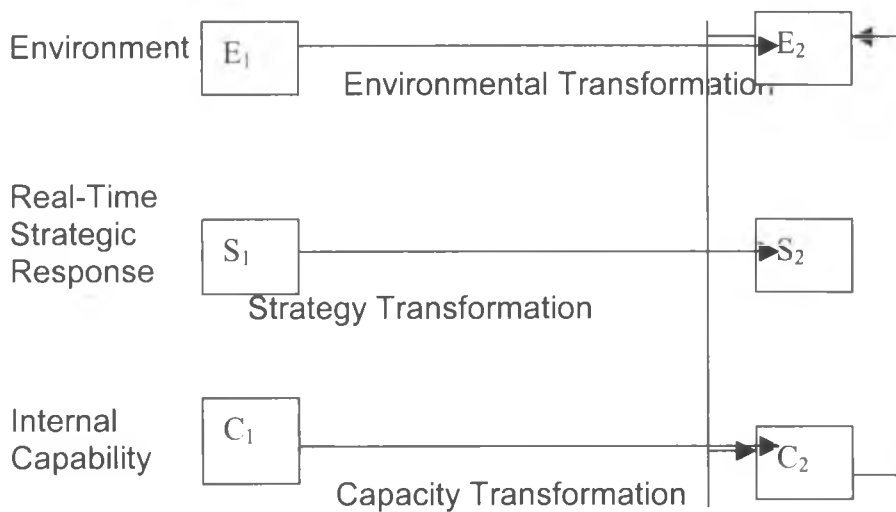
The Institute of Economic Affairs (2001), found that the petroleum industry has enormous barriers to entry on account of the heavy capital and

infrastructural investments required for start-ups. New entrants often have to establish not only the infrastructure but also arrange for their own procurement without the expectation of assistance from their more established competitors

2.3 Environment, Strategy and Organizational capability

Ansoff and McDonnell (1990) state that changes in the organisation's behaviours are necessary if success in the transformation of the future environment is to be assured. They noted that such changes, which touch on the organization's strategy and capability, would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis which states that a firm's performance potential is optimum when the aggressiveness of the firm's capability matches the turbulence of its environment; the responsiveness of the firm's capability matches the aggressiveness of its strategy; and the components of the firm's capability are supportive of one another. When any one of these three aspects are lacking, then the firm's performance potential is less than optimum. The real-time response is the specific action that is chosen and implemented in order to realign the organisation's strategic aggressiveness to the environmental turbulence.

Managing the Firm's Adaptation to the Environment



Key:

E ₁	Current Environment	E ₂	Future Environment
S ₁	Current Strategy	S ₂	Future Strategy
C ₁	Current Internal Capability	C ₂	Future Internal Capability

(Source: Ansoff and McDonnell, 1990, pp40)

The above diagram clearly indicates the environmental dependence of an organization. When there is an environmental shift from E₁ to E₂, then the organisation's strategy has to be changed from S₁ to S₂ in order to adapt to the changed environmental conditions. However, this is only possible when the organisation's capability is changed from C₁ to C₂. Therefore, an organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes. This requires that the firm's capabilities be constantly updated to ensure that they support the chosen strategy.

As the organisation's environment changes, it is necessary that the firm continuously adapt its activities and internal configurations to reflect the new external situation. Failure to do this endangers the future success of the organization (Aosa, 1998).

Porter (1991) explains the concept of dynamic strategic fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate, and upgrade their competitive advantages over time. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology.

According to Grant (2000), a successful strategy is consistent with the organisation's goals and values, external environment, resources and capabilities, and organizational systems. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance. Thus, when there are changes in the environment, the organisation's capabilities and strategy would have to be changed in order to ensure a continued 'strategic fit'.

2.4 STRATEGIC AND OPERATIONAL RESPONSES

Thompson (1997) defines strategic adaptations as changes that take place over time to the strategies and objectives of an organization. Such change

can be gradual or evolutionary, or more dramatic, even revolutionary. Ansoff and McDonnell (1990) note that strategic responses involve changes to the organisation's strategic behaviour. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology and culture change.

2.4.1 Restructuring

Wilson and Rosenfeld (1990) define organization as the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns.

One of the major activities of restructuring is business process re-engineering. Hammer (1996, p. 191) notes "companies can dramatically improve their efficiency and quality of focusing on customers and the processes that create value for them. According to Quinn (1992), enterprises generally obtain strategic advantage by focusing on the smallest activity or cost units that can be efficiently replicated. Cost-cutting efforts will lead to dramatically lower overhead costs and part of these savings can then be passed to the customer in terms of lower prices.

Reinhold (1996) suggests that by searching for the root causes of customer departures, companies with the desire and capacity to learn can identify business practices that need fixing and, sometimes, can win the customer back and re-establish the relationship firmly.

Thompson (1997) states that radical business process reengineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. Grundy (1995), however, cautions that speeding activities up without detriment to quality, and without increasing costs, demands more effective learning and feedback in the management process.

Senior (1997) notes that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of a new IT equipment or system, business process reengineering through process intensification/extension, the redesign of a group of jobs, staff right-sizing and subsequent staff cutbacks, as well as staff redundancies.

2.4.2 Marketing

Kotler and Armstrong (1999) define marketing as a social and managerial process. It is the process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. Basically, it is all about satisfying customer needs and wants.

Kotler (2000) observes that marketing helps to define the business mission, as well as analyzing the environmental, competitive, and business situations. It, therefore, plays a major role in the

organisation's strategic planning process. According to Thompson and Strickland (1993), environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to the emergence of opportunities and threats. This will help the managers to develop appropriate strategies given the industry's competitive situation.

A number of strategic marketing variables may be manipulated in response to a changing competitive situation. These include adjusting of target markets, diversification, developing new products, distribution changes, and making price cost (Business Trend Review, 1992). Other marketing variables that comprise the firm's response to a changing competitive situation include the advertising and establishment of relationship marketing.

2.4.3 Information Technology (IT)

According to Porter (1985), technological change, especially IT, is amongst the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. Porter and Millar (1985) contend that IT can also create new businesses from within a company's existing activities. McFarlan et al (1983) contribute that IT offers a scope of product differentiation that enables the company to effectively service the needs of its market niche. Luftman (1996) adds that the way a firm

views its businesses, customers and competition is critical to successfully aligning its business and IT strategy.

Rayport and Sviokla (1995) state that competition is defined along two dimensions: the physical world of resources and virtual world of information. Information supports and enhances every activity in the organization, and it can itself be a source of added value and, hence, competitive advantage, provided organizations are able to draw that value. Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly, and adapt to the feedback ahead of their rivals. They exploit the potential of strategic as well as competitive and operating information systems

2.4.4 Culture Change

Brown (1998 p.9) defines organisation culture as “the pattern of beliefs, values, and learned ways of coping with experience that have developed during the course of an organisation’s history and which tend to be manifested in its material arrangements and in the behaviours of its members” Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, co-ordination and control, and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitate the chances of being successful in the market place.

According to Thompson (1997), the potential for changing the culture of an organisation is affected by the strength and history of the existing culture, how well the culture is understood, the personality and beliefs of the strategic leader, and the extent of the strategic need. Kotter (1996) notes that truly adaptive firms with adaptive cultures are awesome competitive machines. They produce superb products and services faster and better, even when they have fewer resources or less market share. Hamel and Prahalad (1989) add that companies that have arisen to global leadership began with strategic intents that were disproportional to their resources and capabilities. Sadler (1988) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

Culture change and corporate learning are interdependent. The rate of organizational learning is dependent on culture, while the rate and content of organizational learning fundamentally influence the firm's culture. Thus, culture change is a process of relearning. Other indicators of cultural shifts include changes in architectural design and branding of corporate buildings, the change in organisational logo, and nature of internal communication as well as staff dress code.

Strategic responses to a changing competitive environment, therefore, entail substantial changes to an organization's long-term behaviour. These adaptations may be gradual or revolutionary depending on the nature and circumstances facing the organization

CHAPTER THREE

RESEARCH METHODOLOGY

Since the aims of the research were to identify the challenges that face Savings and Loan (Kenya) Limited in view of the new entrants and to document the relevant responses made, a case study approach was chosen.

3.1 RESEARCH DESIGN

This is a study on of the mortgage industry focusing on the case of Savings and Loan (Kenya) Limited aimed at identifying challenges facing the industry and documenting the operational and strategic and operational responses to the threat of new entrants. The choice of Savings and Loan is justified in that the company is not only the oldest mortgage company in Kenya, but is also the second largest in the country and has the widest branch network compared to her competitors.

This research design was chosen rather than, for instance, the cross-sectional survey because the objective of the study required an in depth understanding of the challenges facing the mortgage industry in the face of new entrants.

3.2 Data Collection

3.2.1 Secondary Data

Secondary data was collected from the existing records of KCB, as Savings and Loan (Kenya) Limited is a subsidiary of KCB. Data

collected included those relating to promotional efforts, restructuring programs, and community efforts. These were drawn from internal circulars and the KCB *cascade*, which is a staff newsletter.

3.2.2 Primary Data

The researcher collected the primary data by personally interviewing the ten respondents. The interview process was guided by open ended and structured questionnaires to facilitate the in-depth coverage of the responses by Savings and Loan (Kenya) Limited to its changing competitive situation in view of the new entrants into the industry. The study was carried out in Nairobi where the headquarters of Savings and Loan (Kenya) Limited is located and the target respondents are based. The people interviewed were ten in number. The Managing Director, the Advances Manager, the Marketing Manager the Operations Manager and five senior branch managers and Manager, Strategy and Change who is based in KCB. The respondents comprised those who have been involved in the formulation of the strategic response variables that were being studied – restructuring, marketing, Information Technology, and culture change – and are charged with the responsibility of overseeing the implementation of these responses. In addition, the researcher organized an informal meeting with some of the departmental heads who provided relevant information that confirmed that the rest of the management shared the views of both the managing Director and the senior managers

The questionnaire was divided into four sections. Section A sought data on the respondent's position in the organization and length of service in the given area. Section B sought information on the respondents' assessment of the challenges facing Savings and Loan (Kenya) Limited. Section C addressed aspects relating to response to threat of new entrants while Section D elicited information on the respondents' views on whether Savings and Loan (Kenya) Limited had achieved a strategic fit.

3.3 Data Analysis

Once the responses were received, the questionnaires were edited for completeness and consistency before processing. Thereafter, the data was coded to facilitate categorization.

The data collected on the responses was analyzed qualitatively on the basis of the strategic variables highlighted. Content analysis was used in analyzing the in-depth qualitative data that was collected. This type of analysis was used in similar studies in the past including Bett (1995) , Kombo (1997), Njau (2000) and Kandie (2001).

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

This section presents the results in the order of the objectives namely the challenges facing Savings and Loan in the light of threats of new entrants into the mortgage industry and the responses made to counter these threats.

The first part of the chapter deals with the profiles of the respondents. The next section covers the first objective and the third part is concerned with the second objective namely the responses made by Savings and Loan (K) Ltd to counter these threats.

4.1 The Respondents Profiles.

The respondents in this case study are part of the top management of Savings and Loan (K) Ltd. and have been involved in the formulation of the both strategic and operational responses that were being studied – restructuring, marketing, information technology and operational culture change – and are charged with the responsibility of overseeing the implementation of these responses. Majority of the respondents have held senior management positions at Savings and Loan (K) Ltd. (K) Ltd for over five years. The rest were staff from KCB who have recently been transferred to the subsidiary. Thus, their contributions to the responses of Savings and Loan (K) Ltd. to the changing competitive situation facing the bank are drawn from a broad reservoir of experience and knowledge.

4.2 Challenges Facing Savings And Loan (K) Ltd In View of Threats Of New Entrants.

This section addresses the first objective of the study, which sought to determine the challenges the company is facing in the wake of the threats of new entrants into the mortgage industry. Data was collected through open-ended questionnaire whose results are as presented below.

When asked to describe the changes that have taken place in the business environment in which Savings and Loan (K) Ltd operates and which have affected the company, the respondents cited economic decline, liberalization of the banking sector, legislative changes, increased levels of education and technological advancement plus general reduction of interest rates.

In response to the question on the challenges that the above changes posed to Savings and Loan, the respondents identified cut throat competition, lower funds based income as a result of reduction in interest rates, customers having become more selective and the mortgage market having become smaller and more crowded. Other challenges cited included the demand for housing having outstripped supply resulting in the value of houses shooting up to unaffordable levels for consumers

4.3 Responses of Savings and Loan To Threats of New Entrants to the Mortgage Industry

This area addresses the second objective. Data collected here addresses the responses, both strategic and operational to threats of new entrants into the mortgage industry. The data was collected through open-ended questionnaires. The results are as presented below.

4.3.1 Restructuring

When asked whether there has been restructuring by Savings and Loan as a result of threats of new entrants most of the respondents answered in the affirmative. Restructuring was undertaken through corporate re-organization through the establishment of new reporting structure as well as through Voluntary Early Retirement.

The main challenge identified that faced the company during restructuring was the issue of whether to merge with the holding company or not. Implementation of the restructuring process through VER was also considered expensive. Resistance was also cited as one of the challenges faced.

When asked to what extent they felt the objectives of the restructuring had been met a majority felt it had been met to a fairly good extent.

Resistance to restructuring was managed through continuous provision of information relating to the reasons for, and the bank-wide progress

of the exercise. In addition, the employees were given an opportunity to freely air their views to top management. Generally, the research respondents felt that the objectives of the restructuring process have been met.

4.3.2 Marketing

Respondents were unanimous on the fact that there have been changes in the area of marketing at Savings and Loan in the last 3 years. They indicated that the objective of the marketing changes were to ensure business growth and retain as well as increase the company's market share. These objectives were effected through effective personal selling by the sales teams and also in product re-evaluation.

The challenges cited by respondents in making the marketing changes include an inadequate marketing budget as well as lack of adequate resources to effectively market the mortgage products. An example cited by all the respondents was lack of vehicles for the sales teams. As a result of these challenges, the research respondents felt that the objectives of the marketing responses have been met only to a small extent.

4.3.3 Information Technology

The respondents were once again unanimous in confirming that there have been changes in the development of IT at Savings and Loan in

the last 3 years. These changes include the phasing out of the old Bankplus system and the adoption of the modern TC3 system which is an open standard system. Savings and Loan has also been incorporated into the ATM family and communication has been eased through intra-net access system.

The above changes, according to the respondents, were aimed at achieving three main objectives. One of these was the need to improve customer service through a more convenient and faster access to bank services through the 24-hour access of ATM services by the customers. Another objective was to enhance record keeping and ease retrieval of data within the bank. The enhancement of internal communication for faster decision-making was the main reason for the installation of the intra-net access. The above responses were, and continue to be, implemented on a phased approach. The respondents also noted that the networking of the bank's system has resulted in significant enhancement of flow of information between branches and between Savings and Loan (K) Ltd and KCB.

While making these changes, KCB has faced some constraints. According to the respondents, IT changes involve substantial costs in terms of software, hardware, and qualified personnel. Technological innovations also rely on telecommunication efficiency. However, the existing communication infrastructure in Kenya is poor thus hampering

the full realization of the benefits of technological improvements. The respondents added that the field of information technology is highly dynamic.

In a bid to overcome the above challenges, KCB has, according to the respondents, been reviewing its contractual relationships with the IT vendors. In addition, Savings and Loan (K) Ltd has invested in the training of its staff in IT and in the acquisition of expertise from KCB. This has been done to ease the heavy reliance on vendor support.

Despite these challenges, the respondents considered the IT adaptations to have achieved their objectives to a large extent. However, half of the respondents considered the bank's IT responses as lagging behind those of its major competitors who form part of the "Big five" banks in Kenya, while the remaining half were of the opinion that these adaptations adequately meet the needs of both the bank and its customers.

4.3.4 Cultural Change

Majority of the respondents were of the opinion there has been a culture shift at Savings & Loan (K) Ltd in the last 3 years. The company is currently in the process of re-branding. Staff attitude surveys and customer surveys have been undertaken, better communication across the bank's enhanced and team building activities encouraged.

In implementing the culture change, the respondents stated that there were some challenges that were encountered. These included the difficulties associated with implementation of culture shifts such as resistance to change.

Generally, the objectives of the culture change have been achieved to a large extent as attested to by a majority of the respondents. However, the people interviewed were of the opinion that the current culture still requires some improvement so as to enable the company to compete effectively.

4.4 STRATEGIC 'FIT'

According to the majority of the respondents, the responses made by Savings and Loan (K) Ltd to deal with threat of new entrants is inadequate. They attributed this inadequacy to the red tape Savings and Loan (K) Ltd has undergone in making decisions since all decisions have to be made in consultation with KCB. Respondents also indicated that Savings and Loan (K) Ltd should undertake more proactive initiatives and less reactive responses to facilitate the management of its environment and deal with the threats. Most of the respondents, however, were confident that Savings and Loan does possess the necessary capability to adopt strategies that can enable it to effectively compete with the new entrants into the mortgage industry.

CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

This is the final chapter in the report. It presents the summary discussions and conclusions of the study. It also covers limitations of the study, recommendations for further research and recommendations for policy and practice.

5.1 Summary, Discussions and Conclusions

In this section, the results of the study are summarized discussed and conclusions drawn.

The first objective of the study sought to determine the challenges faced by Savings and Loan (K) Ltd to threats of new entrants into the mortgage industry.

5.1.1 Challenges Posed by New entrants into the Mortgage Industry.

The results show that the major environmental factors have impacted on the mortgage industry, and by extension Savings and Loan, are economic decline, liberalization, legislative changes, increasing level of education, and technological advancements. The above changes have contributed to the intense competition in the mortgage industry

generally especially in view of the new legislation that resulted in a number of commercial banks invading the industry. As a result, Savings and Loan (K) Ltd had to take measure to counter the impact of such competitive forces.

5.1.2 Responses of Savings and Loan (K) Ltd to threats of new entrants

Savings and Loan (K) Ltd has addressed its changing competitive situation by formulating and implementing strategic and operational responses that include restructuring, marketing, information technology and culture change. These responses have, generally, improved the bank's competitiveness. Both internal and external expertise was used in the restructuring process. The process was undertaken by corporate re-organisation. The position of Chief Operating Manager was renamed Managing Director and a new MD appointed. A new reporting structure was also established. The positions of Marketing and Product development managers were created. Other positions introduced included those of Operations Manager, Debt Recovery Manager and Manager Legal Services. Due to the increase in volume of business, an additional Advances manager position was also created.

Marketing segments have been defined and marketing functions re-organised. Branch managers have been given the added responsibility of sales and are all members of sales teams. Sales and profit targets

are assigned to each manager and are reviewed every six months. Managers have to go out of their offices to solicit for business. This is quite unlike previous instances where branch managers would wait for customers to come to them.

The main reasons for these changes has been to make S&L more customer focused and hence more competitive in its respective target market. Other objectives included increasing the company's revenue through higher sales

Despite the challenges faced in IT, the respondents considered the IT adaptations to have achieved their objectives to a large extent. However half the respondents considered the bank's IT responses as lagging behind those who form part of the Big Five banks in Kenya while the remaining half were of the opinion that these adaptation adequately met the needs of both the bank and its customers.

The respondents noted that various efforts have been made to facilitate the realization of a culture that is competitive and that meet the challenges the bank is experiencing in the face of threats of new entrants. Better communication across the bank has been enhanced, with upward communication being encouraged. Consultative forums have been introduced which enable representatives from all cadres in the bank to meet and openly discuss issues that affect them. Emphasis

continues to be made on the need for team building, rather than concentrating on individual performance. This is done through Team Briefings and communication videos. The bank sets aside funds for Team building activities for every unit in the bank at least once a year. Personal bankers are stationed in the banking halls to enhance customer service. Resistance to change has been addressed by identification of change champions who, through continuous and interactive communication with staff, have minimized the extent of such resistance.

However, the study indicated that there is still the need for more actions to be undertaken by Savings and Loan (K) Ltd in order to enable the bank to effectively counter the threat of new entrants in the industry. Furthermore, the study also established that Savings and Loan possesses the necessary capacity to adopt the strategies that would facilitate effective response by the bank to its changing competitive environment.

5.2 RECOMMENDATIONS

Organisations operate in a dynamic and environment. This implies that strategic as well as operational responses, which are well developed and appropriately adopted, are powerful tools for acquiring and sustaining a

competitive advantage. Such weapons have to be constantly adapted, or even transformed to achieve the desired advantage.

In view of the above, I suggest that Savings and Loan (K) Ltd should become more proactive rather than reactive in managing the changing competitive situation and in dealing with threats of new entrants. Formulating and implementing strategic and operational initiatives that would pre-empt any anticipated adverse changes in its dynamic environment can achieve this.

Savings and Loan (K) Ltd being a subsidiary of KCB, has the added advantage of a wide network of outlets. I would therefore suggest that the bank maximize on its competitive strength by developing competitive strategies on the basis of this already existing advantage.

5.3 LIMITATIONS OF THE STUDY

This study focuses on four main responses. However, there are other responses including process re-engineering that could be used by Savings and Loan in addressing the threats of new entrants.

This was a case study. Therefore the research findings cannot be used to make generalizations on the industry.

Additionally, the time available for the study was limited. This constrained the scope as well as the depth of the research.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

This study was based on four major response variables. Therefore a further study can be carried out on the other responses that Savings and Loan has made to address its changing competitive situation.

Other players in the mortgage industry could also carry out a study on the strategic responses. This would give an indication of the responses made by banks in Kenya to their changing competitive situation, especially with the increasing growth, in the number and size, of the commercial institutions encroaching the mortgage industry.

This study is based on one of Michael Porter's Five Forces of Competition namely threats of new entrants into an industry. Further studies could be undertaken on the other forces of competition namely, threats of substitute products, power of buyers, power of supplier, rivalry in the industry and their effect on the mortgage industry

Alternatively, a cross-sectional survey covering the whole industry can be undertaken. This will allow for industry generalization to be made.

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Appendix 1: Letter of Introduction

Date:

P. O. Box

Nairobi

Dear Sir or Madam:

**RE: REQUEST FOR YOUR PARTICIPATION FOR AN MBA
RESEARCH PROJECT**

The bearer of this letter, Millicent Omondi is a student at the University of Nairobi pursuing a Masters Degree in Business Administration (MBA), specializing in Strategic Management.

As part of her coursework assessment, she is required to submit a research project report on a real management problem; Strategic responses of Mortgage companies in Kenya to threats of new entrants into the industry.

Kindly assist her by completing the attached questionnaire. We assure you that the information provided is purely for academic purposes only and will be treated with the utmost confidentiality.

Should you be interested in the findings of the research, this will be availed to you on request by the student. A copy will also be available at the University of Nairobi library.

Thanking you in advance for your cooperation.

Dr. Martin Ogutu
Supervisor and Lecturer
Tel: 020-732160

Millicent Omondi
MBA Student
Tel: 0722-748072
Or 339441 Ext: 423

momondi@kcb.co.ke

APPENDICES

APPENDIX 2: QUESTIONNAIRE

A Case Study of the responses of Savings and Loan (Kenya) Limited to threats of new entrants into the Mortgage industry.

Please answer the following questions. Where applicable, please mark the relevant box with a tick (✓)

SECTION A: RESPONDENT'S PROFILE

1. Position Held.
Number of Years of Service Savings and Loan.....

SECTION B: CHALLENGES FACING SAVINGS AND LOAN (KENYA) LIMITED

1. Please describe the changes that have taken place, within the last 3 years, in the business environment which have affected S & L.
.....
.....
.....
2. What challenges have these changes posed to Savings and Loan (Kenya) Limited?
.....
.....
.....

3. Please indicate the severity of the following competitive forces in the mortgage industry.

	Very Low			Very intense		
	1	2	3	4	5	
Barriers to Entry	()	()	()	()	()	
Rivalry in industry	()	()	()	()	()	
Threat of Substitutes	()	()	()	()	()	
Power of Buyers	()	()	()	()	()	
Power of Suppliers	()	()	()	()	()	

SECTION C: STRATEGIC RESPONSES

1. Has S & L responded to the above environmental changes?

Yes () No ()

2. If yes, please describe the responses made

.....

.....

.....

a) Restructuring

i) Has there been corporate restructuring at Savings and Loan (Kenya) Limited in the last 3 years?

Yes () No ()

If yes, please describe the nature of such restructuring?

.....
.....
.....

ii) What were the objectives of the restructuring process?

.....
.....
.....

iii) How was the process of restructuring undertaken?

.....
.....
.....

iv) Please indicate the challenges that were faced by Savings and Loan (Kenya) Limited during restructuring

.....
.....
.....

v) To what extent have the objectives for restructuring at Savings and Loan (Kenya) Limited been met?

Very Small Extent

Very Large Extent

1	2	3	4	5
()	()	()	()	()

vi) What is the current status of the restructuring exercise?

.....
.....b)

Marketing

i) Have there been changes in marketing at Savings and Loan
(Kenya) Limited in the last 5 years?

Yes () No ()

If yes, please describe the nature of such changes

.....

.....

.....

ii) What were the objectives of the marketing changes?

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iii) How were these changes effected?

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iv) Please indicate the challenges faced by Savings & Loan while making
these changes...

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v) To what extent have the objectives of these marketing changes been met?

Very Small Extent

Very Large Extent

1

2

3

4

5

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vi) What is the current status of the marketing responses by S & L to its changing competitive situation?

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c) **Information Technology (IT)**

i) Have there been changes in IT at S & L in the last 3 years?

Yes ()

No ()

If yes, please describe the nature of such changes

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ii) What were the objectives of the IT changes?

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.....

iii) How were these changes effected?

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.....
.....

iv) Please indicate the challenges faced by Savings and Loan (Kenya)

Limited while making these changes
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.....
.....

v) To what extent have the objectives of these IT changes been met?

Very Small Extent			Very Large Extent	
1	2	3	4	5
()	()	()	()	()

vi) What is the current status of the IT responses by S & L to its changing competitive situation?

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.....

d) **Cultural Change**

i) Have there been changes in the culture of Savings and Loan (Kenya) Limited?

Yes () No ()

If yes, please describe the nature of such changes

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ii) What were the objectives of these cultural changes?

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iii) How were these changes effected?

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iv) Please indicate the challenges faced by Savings and Loan (Kenya) Limited while making these changes

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v) To what extent have the objectives of the culture change been met?

Very Small Extent

Very Large Extent

1

2

3

4

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vi) What is the current status of the process of the cultural change at S & L?

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e) **Other Responses**

i) Please state any other responses that Savings and Loan (Kenya) Limited has made as a result of the changing competitive situation facing the bank

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ii) How have these responses been effected?

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iii) Please indicate the challenges faced by Savings and Loan (Kenya) Limited while developing and/or implementing such responses

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iv) To what extent have the objectives of these responses been met?

Very Small Extent Very Large Extent

1	2	3	4	5
()	()	()	()	()

v) What is the current status of these responses by KCB to its changing competitive situation?

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SECTION D: STRATEGIC FIT

1. Do you consider the bank's strategic responses to competition adequate?

Yes () No ()

If not, what else do you feel Savings and Loan (Kenya) Limited should do to stay competitive?

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2. In your assessment, does Savings and Loan (Kenya) Limited currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?

Yes () No ()

If not, please indicate the possible means by which the bank can acquire these capabilities

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