A STUDY OF THE STRATEGIC RESPONSES OF COMMERCIAL BANKS IN KENYA TO CHANGES IN THEIR ENVIRONMENT

BY

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DECLARATION

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

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

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DEDICATION

I dedicate this research paper to my parents for their endless love, guidance and support.

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This study would not have been completed without the valuable support and encouragement that I received from my family and friends. Please accept my heartfelt gratitude for your help and guidance, directly or indirectly, and I am solely responsible for any shortcomings or oversight of this research.

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Last but definitely not least, I would like to thank my loving wife for her support, patience and understanding throughout the duration of my MBA degree studies.

ABSTRACT

This study sought to identify the strategic responses of commercial banks in Kenya to the changes taking place in their environment. The second objective of this study was to establish the factors that may have influenced the strategic responses adopted by the commercial banks in the study.

Data was obtained through responses to the questions that were contained in a standardized questionnaire. A response rate of 55% was achieved with 23 out of the 42 licensed commercial banks in Kenya taking part in the research study.

Strategic responses identified included the formation of stable inter-organizational ties (39.13%), mergers and acquisitions (21.73%), improved distribution channels (52.17%), geographical diversification (26.09%), diversification into non-traditional banking products (47.83%), consolidation (73.91%), customer base diversification (69.57%), the increased emphasis on non-interest income (56.52%), changed their business orientation (69.57%) and adoption of 'Judo Strategy' (34.78%). Factors found to appear to have influenced the choice of strategic response included the length of time a commercial bank has been in operation, and ownership.

As a result of the research findings, it was recommended that in a fast changing environment, commercial banks in Kenya need to carry out environmental analysis consistently and frequently as this provides the means of matching or fitting the organization to its environment.

Another recommendation made was that more commercial banks in Kenya, particularly those not keen on taking on stronger competitors head-on, should consider formally embracing Judo Strategy as a strategic response. Further research should be undertaken in this area to identify how commercial banks can use this strategy to overcome their competitors.

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CHAPTER 1: INTRODUCTION

1.1 Background

The banking system is of utmost importance to any economy. All economic activities rely on the banking sector in one way or another. It may be to settle payment of a transaction, transfer funds abroad or to obtaining financing to further business growth. The state of health of the banking sector is a direct indicator of the health of the economy as a whole.

Governments throughout the world, through their respective central banks, do regulate their banking sectors in one way or another to ensure stability in the financial system. The centrality of commercial banks to confidence in the financial system and their essential role in supporting economic activity led to a strong regulatory regime emerging worldwide right from the 1930s (Gilbert, 1984). Regulation has for long taken it for granted that the essential role of retail financial services is to harness savings and channel them into productive investment and also that banks operate within predictable environments (Muda, 1993).

However, since the banking sector does not operate in a closed system, it is susceptible to changes taking place in the environment in which it operates, such as changes in regulation. Indeed, evidence on changes in size and diversity of banks documented in Gilbert (1984), and Walter (1997) suggest that changes in bank size and business portfolio followed external changes over bank markets.

Banks are generally specialized in an economic activity that can, to a growing extent, be performed by non-specialist players. For example, insurance companies are now actively extending loans, one of the specialized functions of banking, to their policy holders. Microfinance institutions are now offering credit facilities to their customers, while forex bureaus are now competing with banks in the foreign currency exchange business.

Preliminary findings by the researcher showed that this disintermediation and securitization is likely to pose a threat to banking, to the extent of raising questions on the continued viability of banking as we now know it. This could lead to shrinkage of the banking industry. A decline in the banking industry as a result of market forces would not be viewed as negatively by the market in comparison to that occasioned by excessive regulation.

A number of research studies have been carried out in the area of the local banking sector. Bii (1992) examined the extent to which commercial banks in Kenya use the promotion mix elements to market their services. Ochieng (1998) analyzed the factors considered important in the successful implementation of information technology systems in commercial banks in Kenya. Koros (2001) evaluated the financial performance of non-bank financial institutions that have converted into commercial banks in Kenya. Warucu (2001) looked at it from a competitive strategy point-of-view. These researches have contributed to the wealth of research knowledge in the area of the local banking sector. This research will aim to add research knowledge on the strategic responses that banks in Kenya have adopted as a result of changes in their environment.

The Kenyan banking sector plays a major role in the provision of banking services to the various sectors of the economy. Preliminary findings by the researcher revealed that most formal businesses in the country operate bank accounts. Some informal sector businesses do not maintain bank accounts due to the perceived high cost of banking in the country. Total bank deposits stood at Ksh. 385 billion in 2002 up from Ksh. 360 billion in 2001 (Market Intelligence, BS 2003).

Since the 1991/1992 excessive monetary expansion that arose from printing of currency to meet the deficit in government expenditure occasioned by the suspension of balance of payment support by donors, a high interest rate regime began (Market Intelligence, BS 2000). This period also coincided with the liberalization of Kenya's economy. Similar to other sectors of the Kenyan economy before the 1990s liberalization wave, the banking sector was controlled by the Government through the Central Bank. Interest rates were set by the Central Bank, and not individual banks. This sector was liberalized in 1993, giving banks a free hand to price their products and services. The Central Bank retained its role of regulator of the banking sector. One of the results of this liberalization was the increase in commercial bank earnings as reported in their audited annual reports. This is attributable to the fact that liberalization allowed banks to price themselves to profitability. The previously controlled interest rates were now converted to market rates, which were relatively more expensive to the consumer than was previously the case.

Banks rely on lending for their viability. A non-performing economy cannot support credit hence the situation banks in Kenya now find themselves in. Traditional risk management has been rendered ineffective in the Kenyan environment. The slow pace and bureaucracy in the judicial system has rendered some processes like litigation largely ineffective (Market Intelligence, BS 2000).

This scenario led commercial banks to place their excess funds in Government paper namely Treasury Bills and more recently, Treasury Bonds at the expense of lending to the private sector. These Government papers have provided banks with a low risk high return asset for the last decade, and constitute a major component of banks' profit. It is mainly the bigger more established companies and multinationals that have continued to have access to bank loans. Smaller companies and savers find it much more difficult to access bank loans.

However, the short term (91 day and the 182 day) Treasury Bill yields have been on a steady decline over the last three years. The average annual Treasury Bill rate has steadily declined from a high of 44.39% per annum in 1993 to 8.94% per annum in 2002 (See Appendix I). While Treasury Bonds offer a higher return than Treasury Bills, their long term nature causes liquidity mismatch problems for banks. Moreover, the interest earned from Treasury Bonds is still relatively low in comparison to the interest rates that were obtainable from Treasury Bills a few years ago.

This has posed a major dilemma for commercial banks. On one hand, they are faced with the threat of declining earnings from Government paper, which has for a long time constituted a major component of their revenues. On the other hand, the risk averse attitude generally adopted by banks in Kenya over the last decade is deterring them from taking on high risk, high return assets through lending to the private sector.

With a total of 20 non-bank financial institutions having converted to commercial banks since 1994 (see Appendix II), competition has increased significantly. Similarly, 20 mergers between banks and non-bank financial institutions have been approved since 1994 (see Appendix III). However, out of this figure of mergers, only 7 have involved totally unrelated companies. The remaining 13 have been mergers between wholly owned subsidiaries and the respective parent company. This has brought the number of licensed commercial banks in Kenya that are not under statutory management to 42 (see Appendix IV).

Some non-bank financial institutions have introduced new products that are directly competing with commercial banks' or extended their range of products to include those that were previously offered by commercial banks. Forex bureaus have for the last six (6) years competed for currency conversion business with commercial banks. Newly registered investment banks have now introduced high yielding unit trusts and other investment products that are expected to compete for commercial banks' business. This has increased competition in the financial services sector.

Banks in Kenya can be placed into four broad categories based on ownership. We have foreign owned commercial banks, which are not locally incorporated and these include Citibank N.A., Credit Agricole Indosuez and Habib A.G Zurich. Secondly, we have those that are foreign owned but are locally incorporated (partly owned by locals) and these include Barclays Bank of Kenya Limited, Stanbic Bank Limited and Bank of Baroda. Thirdly, there are also commercial banks with Government participation such as Kenya Commercial Bank Limited, Industrial Development Bank Limited and National Bank of Kenya Limited. Finally, we have commercial Banks that are wholly locally owned e.g. Commercial Bank of Africa Limited, Akiba Bank Limited and First American Bank Limited. (See Appendix V)

For the purposes of this research study, we shall look at all the above categories. This is because preliminary findings by the researcher show that the domicile of ownership has a degree of influence on the strategies adopted by individual commercial banks. It is anticipated in this research that the various categories of banks based on ownership will provide unique insights into their strategic responses.

Due to increased donor pressure on the Government particularly from the IMF and the World Bank to reform the financial sector, banks are now operating in an environment that is witnessing a number of regulatory changes. From the Government's perspective, these regulatory changes are aimed at safeguarding bank customers' interests while at the same time spurring economic growth through cheaper credit to small businesses. For example, the previously overlooked section 44 of the Banking Act that prohibits banks from unilaterally increasing charges without receiving consent from the Finance Minister is now being enforced by the Central Bank of Kenya.

1.2 Statement of the research problem

The Kenya Monthly Economic Review (June 2003) reported that the Kenyan economy grew by only 1.2% per annum and 1.1% per annum in 2001 and 2002 respectively. This situation has driven many banks to invest in the relatively low risk Government paper. This is mainly due to the perceived high risk of lending to the private sector in a stagnant economy. However, returns from Government paper have been on the decline over the last decade and are now at one of their lowest levels (see Appendix I). With the changing regulatory environment through Central Bank of Kenya circulars to commercial banks, increased competition, reduced earnings from Government paper and a declining economy, banks are faced with the challenge of adjusting their strategies to cope with, and survive their changing environment.

Studies in the banking sector reviewed have focused on other areas such as the extent to which commercial banks in Kenya use the promotion mix elements to market their services, the analysis of factors considered important in the successful implementation of information technology systems in commercial banks in Kenya, evaluation of the financial performance of non-bank financial institutions that have converted into commercial banks in Kenya. This has left a gap in the area of research on the strategic responses of commercial banks in Kenya to changes in their environment.

With this research gap and the continually changing environment in which commercial banks in Kenya operate, one question that warrants the need to research into the strategic responses of commercial banks in Kenya to changes in their environment does arise:

"Which strategies have commercial banks in Kenya adopted in order to cope with the changes in the environment?"

1.3 Research objectives

The following are the objectives that this research aims to achieve:

1. This research aims to identify the strategic responses of commercial banks in Kenya to changes in their environment.
2. This research aims to identify factors that may have influenced the strategic responses of commercial banks in Kenya to changes in their environment.

1.4 Importance of the study

It is anticipated that the findings of the study will be of value to the following groups:

1. The top management of local banks shall be able to use the findings and recommendations of the study to develop better strategic responses to cope with changes in their environment.
2. Scholars, academicians and researchers will also find the study to be a useful reference point for further research into various aspects of strategic management.
3. Other interested organizations such as the Central Bank of Kenya, Kenya Bankers Association, the Ministry of Finance, and various financial journals should find

the research helpful especially in terms of increasing the understanding of the environmental dynamics taking place within the local banking industry.

1.5 Limitations of the study

1. Time constraint limited the duration under which the research could have been undertaken. For this reason, responses that were taking too long to be completed were left out.
2. The fact that the response rate was 55% means that some generalizations have been made in this study. More accurate findings would have been obtained had the response rate been higher than this.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the issue of strategic responses as advanced by different authors. It looks at how organizations adapt to their ever changing environment by way of strategic responses, which come about when organizations match their strategies to the environment while taking into account their capabilities.

2.2 The environment

Banks do not operate in a vacuum. They are faced with a continuous stream of ever changing events that present opportunities as well as pose threats. In a rapidly changing external environment, managers are faced with the challenge of meeting growing strategic needs. Both threats and opportunities exist in such an environment. In such a scenario, the ability to institutionalize learning in the form of organizational memory may not always lead to favorable results.

Moorman and Miner (1997) demonstrate that when an environment is highly turbulent, high memory dispersion can detract from creativity and hinder innovation. An organization might rationally preserve its way of doing things, because it has become so good at doing the (now) wrong thing. Dougherty (1995) has labeled this core incompetence. Exploitation of current knowledge drives learning by doing; the pitfall is that this learning increases the rigidity of the firm. Chandy and Tellis (1998) demonstrate that a willingness to cannibalize existing investments and assets (including existing products and stocks of knowledge) can be an important precursor to the successful radical innovation.

When adaptation becomes a prerequisite for survival, firms often tend to stick to routinely imbedded capabilities, turning them into core rigidities (Leonard Barton, 1992). In spite of inertia, some firms do engage in explorative search, as their organization overcomes obstructions and their management experiment with new alternatives (Volberda, 1996).

Managers therefore need to be well equipped to cope with the changes that are continuously taking place in the environment if they are to fully meet the organizational goals. Teece et al (1997) argue that the core feature of an organization is the ability to develop various capabilities to accommodate changing requirements and to produce new competencies from situations inside and outside the organization, with capabilities referring to the organization's ability to utilize its resources effectively. Miller (1998) argues that research and experience have shown that a firm's overall strengths and weaknesses and its ability to execute may be even more important to its performance than environmental factors.

2.3 The relationship between the environment, capabilities and strategy

Johnson and Scholes (2002) contend that the environment encapsulates many different influences. It is quite difficult to make sense of this diversity. They view the future environment as likely to be different from the past. Having scenarios of possible futures would in turn help managers to consider the different ways in which strategies might need to change depending on how the business environment behaves. The external environment influences an organization's strategic development by creating both opportunities and threats. Successful strategies rely heavily on the organization having the strategic capability to perform at the level that is required for success. An understanding of strategic capabilities is important because it would aid an organization to determine whether its strategies continue to fit the environment in which it is operating and the threats and opportunities that exist. Strategy development is concerned with changing strategic capability in order for it to better fit the changing environment. Strategic capability is about providing products or services that customers value or might value in the future.

In assessing the external environment (Thompson and Strickland, 1998) look at the remote environment and operating environment. They view the remote environment as the set of forces that originate beyond and usually irrespective of any single firm's operating situation i.e. political, economic, social, and technological factors. Economic considerations include the nature and direction of the economy in which the business operates. All firms need to have a clear understanding of both the national and international economic trends that directly or indirectly affect their industry because these will ultimately affect consumption patterns. They include interest rates, rates of inflation and trends in the gross domestic product. Social considerations involves the beliefs, values, attitudes, opinions, and life-styles of those in a firm's external environment, as developed from their cultural, ecological, demographic, religious, educational and ethnic conditioning. Social forces are dynamic, and changes in social attitudes usually have a direct bearing on the demand for various products such as clothing styles and leisure activities. Political considerations encompass the direction and stability of political factors. This is a major consideration for managers formulating company strategy. This is because they can impose constraints or create an enabling environment such as antitrust laws, minimum wage legislation, pollution laws and price controls. Technological considerations include advances in technology. These can have a significant impact on business as innovative, more efficient ways of production can result in major cost savings.

The operating environment involves factors in the immediate competitive situation that provide many of the challenges a particular firm faces in attempting to attract or acquire needed resources or in striving to profitably market its goods and services. Among the most prominent of these factors are a firm's competitive position, customer profile, reputation among suppliers and creditors. The operating environment differs from the remote environment in that it is typically subject to much more influence or control by the firm. This means that businesses can be much more proactive (as opposed to reactive) in strategic planning than is the case with remote factors.

As the environment changes, firms must change their strategies so as to survive. With each new strategy, new capabilities are developed. The adoption of a dynamic perspective on strategic alignment necessitates a shift in emphasis towards dynamic capabilities. Dynamic capabilities describe an approach to strategy that tries to identify the dimensions of firm specific capabilities that can be sources of advantage, and to explain how combinations of competencies and resources can be developed, deployed and protected. Teece at al. (1997) argue that organizational routines play a major role in creating dynamic capabilities. The routines provide the ability to build internal and external competencies in order to face rapidly changing environments. Capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

Pearce and Robinson (2002) argue that even if an organization has no outstanding competencies and capabilities (and many do not), managers still must tailor strategy to fit the firm's particular resources and capabilities. They identify three levels of strategy namely the corporate level; business level; and the functional level. The corporate level involves the setting objectives and forming strategies at the corporate level, usually by the board of directors and the chief executive officer. Decisions at this level are characterized by greater risk, cost and profit potential, as well as longer time horizons and greater needs for flexibility. It includes decisions such as the choice of business, dividend policies, and priorities for growth. The business level involves translating general statements of direction and intent developed at the corporate level into concrete, functional objectives and strategies for individual business divisions or strategic business units. This is carried out by business and corporate managers. The functional level is carried out by managers of products, geographic and functional areas. They are the implementers or executioners of a company's strategic plans. It involves the development of annual objectives and short term strategies in areas such as production, operations, research and development, marketing, finance and accounting.

In a turbulent environment strategic thinking enables organizations to be flexible enough to change accordingly. Rowe et al (1994) describe strategic thinking as "an on-going process in which significant events are dealt with in a comprehensive manner". Strategic thinking is a part and parcel of strategy management.

2.4 Strategic management

Ansoff and McDonnell (1990) define strategic management as "a systematic approach to a major and increasingly important responsibility of general management: to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises".

Pearce and Robinson (1997) define strategic management as "that set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives".

Strategic management basically involves determining where an organization is, where it would like to go, and how it intends to get there. It inevitably, therefore, includes numerous tasks such as developing a mission statement to determine its purpose; having a vision; assessing internal strengths and weaknesses; analyzing the external environment so as to come up with options that the organization can pursue subject to its available resources; developing compatible long-short term objectives as well as short-long term strategies.

Many scholars have attempted to look at how strategies are formed in organizations. Johnson and Scholes (1999) view strategies as coming about in a number of ways such as: The result of managerial intent and planning. This brings about intended strategy, which is basically the expression of desire to move in a certain strategic direction; the imposition by external forces that are supreme and beyond the organization's control such as changes in regulation; information technology; the outcome of cultural and political processes developed over time.

Realized strategy is the strategy that an organization is implementing or has implemented. Unrealized strategy refers to a strategy that was intended, but failed to be implemented possibly for a variety of reasons such as being overtaken by events in the environment.

Mintzberg and Water (1982) view strategy formation as a stream of decision in sharp contrast to an analytical process of establishing long-range goals for the organization. They view strategies as being either 'deliberate' or 'emergent', with each of the two lying at the extreme end of a continuum.

Strategic response is the result of strategic thinking and planning leading to strategy formulation and its subsequent implementation. Hax and Majluf (1996) view strategic planning as a "disciplined and well-defined organizational effort aimed at the complete specification of a firm's strategy and the assignment of responsibilities for its execution".

They see strategic planning process as one that is difficult to generalize because it heavily depends on the particular characteristics of each firm. For example, the planning process appropriate for a multinational company may be quite different to one that is ideal for a business operating within a confined geographical location.

Johnson and Scholes (1999) see it as useful in that it can provide a structured means of analysis and thinking about complex strategic problems. It therefore enables wider involvement of people in strategy development, helps to communicate the intended strategy, as well as a means of controlling and co-ordinating strategies.

Research findings generally report that strategic planners perform better than their non-planning counterparts. Malik and Basu (1986) and Herold (1972) both concur that planners are more successful than non-planners in many aspects as evidenced in better financial and operational efficiency ratios, higher growth rates and better preparedness when dealing with uncertainties.

Strategic planning provides the link between strategic management and the external environment in which the organization operates. The strategic planning process involves both industry and competitive situation analysis, and the organization's situation analysis. This leads to the identification and evaluation of an organization's strategy options, which eventually form a strategy.

Hunger and Wheelan (1996) define strategy formulation as "the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses".

For a strategic response to be effective, good strategies must be developed. Besides focusing on customer needs, organizations need to cope with their competitors' strategies. Such an explicit attention to competitive factors will provide an organization with a proactive disposition toward shaping the competitive environment and its own strategy (Day and Wensley 1988).

2.5 Other related studies

In their study on the corporate strategy for Mexican banks and market contestability theory, Lazo and Wood (1999) argue that bank corporate strategy can be considered as managers recognizing available types of growth opportunities and then pursuing them. They see growth opportunities as being external to banks and are adopted by the most economic analysis.

Documented evidence suggests that changes in banks' external environment increases competition in bank markets. It also leads to banks pursuing strategies aimed at deterring new players entering the market, such as discouraging insurance companies from providing unsecured lending.

Gardener Molyneux (1990) and Walter (1997) maintain that the strategic response of commercial banks in Western Europe in light of changes in their growth opportunities originating from the external environment during the late 1980s was to adopt two main generic strategies or types of organizational design. One set of banks adopted wide spread diversity in their geographic, product market and customer group portfolio. Another set of banks followed a rather focused strategy by specializing in one or all of those dimensions.

The identification and evaluation of strategy options in different organizations is carried out at differing levels. Many researchers have attempted to prescribe the person/people who should carry out strategic planning in organizations. Hambrick (1987) supports the view that top management must be involved in strategy formulation if it is expected to succeed. In his study of fifty six United States based medium sized manufacturing firms, Thakur (1998) concluded that the formulation of strategies should not be left to the top management alone, but should be extended to include middle level managers too.

In Kenya a number of organizations have left the function of identifying and evaluating strategy options to the CEO. This may be attributed to the fact that other than in publicly quoted companies, most board members are not deemed to have the relevant skills to carry out proper strategic planning. Many CEOs are also known to fear abdicating the role of strategic planning to their BODs as they believe that this will greatly dilute their power and influence. In his study of private manufacturing companies operating in Kenya, Aosa (1992) found that a vast majority of these organizations had no explicit mission statements, which is a precursor to strategic planning.

Strategy response is where the strategy that will achieve the best fit for an organization, given its situation, is implemented. By selecting a good strategy given the organization's circumstances, competitive advantage will be built. Literature on strategy formation and choice generally support the use of sophisticated analytical techniques if an organization is to improve its chances of selecting the most ideal strategy that would be relevant to its situation. However, Keith et al (1998) notes that many managers involved in strategy formulation, still rely heavily on gut feel and intuition when selecting the most appropriate strategy.

Lazo and Wood (1999) hold the view that policy-makers change banks' legal framework based on macroeconomic variables, trying to increase banks' technical efficiency. These decisions do not imply a unique stimulus for banks and, hence the development of diverse strategic responses.

Studies make an implicit claim that entry barriers affect the choice of diversification into bank markets (Yip, 1982). In other words, the analysis of entry and diversification strategies into bank markets can establish a causal link in the relationship between growth opportunities, strategic change and core capabilities.

Since the effectiveness of a particular strategic response is largely a function of the firm's environment (Andrews, 1971), a strategy that is effective under one set of environmental conditions may be much less effective under a later changed set of conditions.

2.6 Conclusion

Possible strategic response options available to banks in a changing environment include strategic networks, product innovation, geographic diversification, new distribution channels, consolidation, conglomeration and the use of Judo Strategy.

Management literature defines strategic networks as stable inter-organizational ties which are strategically important to participating firms. They may take the form of strategic alliances, joint ventures, long term buyer supplier partnerships, and other ties [Gulati al. 2000]. Shrinking transaction costs make it easier for firms to vertically disintegrate and to reorganize in partner networks. Firms can focus on their core competencies and activities in the value creation process and rely on partner networks for other non core competencies and activities.

Yoffie and Kwak (2001) propose Judo Strategy as an approach to competition that relies more on skill than size or strength. It involves organizations avoiding head-to-head struggles. At the same time, it incorporates three principles – movement, balance, and leverage – that companies should incorporate into their strategy.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

1. This chapter provides information on the research design, population and the data collection technique applied in this study.

3.2 Research design

This research was a census survey study whose aim was to identify the strategic responses of commercial banks in Kenya to changes in their environment and the factors that may have influenced them. A census of the banks was necessitated by the relatively small size of the population. It also enabled the collection of adequate data which could be used for further analysis and drawing of accurate conclusions.

3.3 Population

The population consisted of all licensed commercial banks in Kenya that are not under the statutory management of the Central Bank of Kenya. Commercial banks under statutory management were excluded because they do not carry out normal banking business. Based on the information available from the Central Bank of Kenya, a total of 42 banks fitted this profile during the study. A response rate of 55% was achieved with 23 out of 42 banks taking part in the research study.

3.4 Data collection

The 'drop and pick' method, a variant of the mail survey technique was used in this study in the collection of primary data. The choice of this method was necessitated by time and cost constraints, which would not have allowed the use of the other survey data collection methods. Data was obtained through responses to the questions that were contained in a standardized questionnaire. These were sent to the relevant banks after contacting the commercial banks by telephone to prepare them for the study. The questionnaires were dropped and picked up later, within an agreed time frame. The questions in the questionnaires were mainly close-ended with only very few open-ended ones.

The questionnaire consisted of three sections. The first section consisted of questions aimed at gathering background information on the individual commercial banks. The second section aimed at obtaining information on the changes that have taken place in commercial banks' environment. The third section concentrated on gathering information on the strategic responses of the individual banks' to changes in their environment.

Data on the commercial banks general background was meant to allow for the identification of factors that were unique to some of them that may have influenced their choice of strategic response.

3.5 Data analysis

On receiving back the questionnaires from the banks, the data collected was thoroughly checked to ensure completeness, consistency, accuracy and uniformity. These were then arranged to enable coding and tabulation. Data coding and cross-tabulation was then carried out. Descriptive statistics was used because the study covered the entire population by way of a census study. Percentages, frequency distributions, tables, and charts were used to describe data.

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter contains the detailed research findings and an in-depth discussion of the research findings. The research findings are presented using tables or charts followed by a detailed discussion.

4.2 General information

Table 4.1 below indicates that 73.9% of the commercial banks were locally owned while 13.0% were foreign owned. A further 13.0% had a mix of both local and foreign ownership. Further analysis showed that 17.4% of the commercial banks surveyed had Government participation in the local component of the ownership structure.

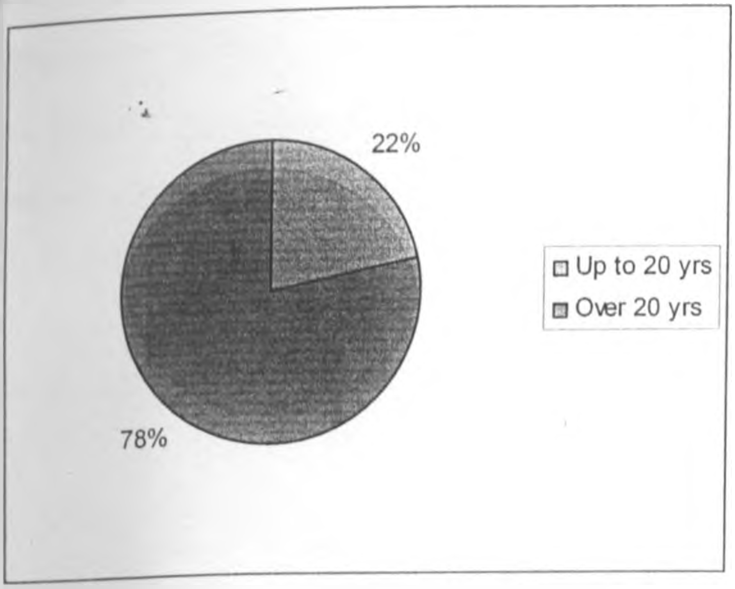
TABLE 4.1: OWNERSHIP OF COMMERCIAL BANKS IN KENYA

	Frequency	Valid Percent	Cumulative percent
Locally owned	17	73.9	73.9
Foreign owned	3	13.0	87.0
Both local and foreign ownership	3	13.0	100.0
Total	23	100.0	

Source: Research data

On the length of time the banks had been operating in Kenya, 21.7% indicated that they had operated for less than 20 years. The remaining 78.3% indicated that they had operated in Kenya for more than 20 years.

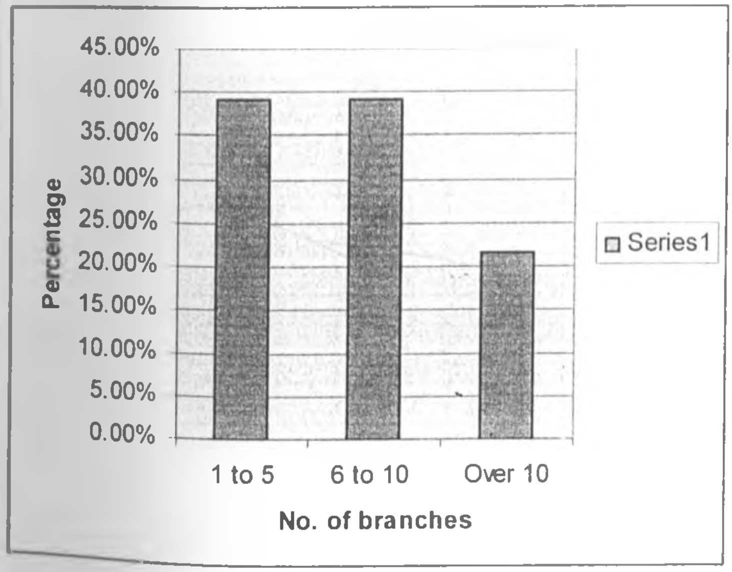
CHART 4.1: NUMBER OF YEARS COMMERCIAL BANKS HAVE OPERATED IN KENYA



Source: Research data

In terms of the size of the branch network, 39.1%, 39.1% and 21.7% of the banks had 1-5 branches, 6-10 branches and over 10 branches respectively. 13.0% of the banks had branches outside Kenya.

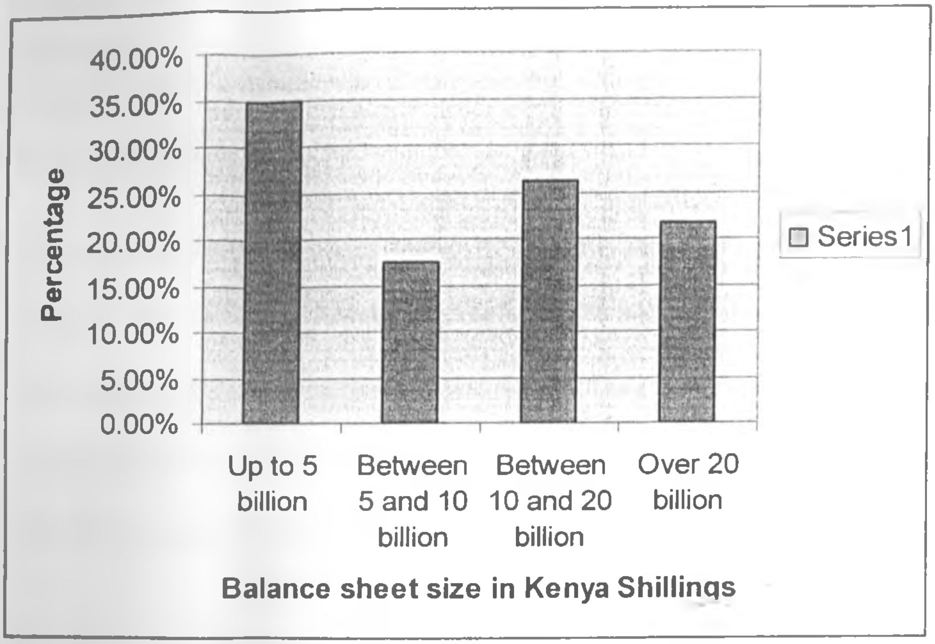
CHART 4.2: BANKS' BRANCH NETWORK



Source: Research data

Responses to questions on the balance sheet size revealed that 34.8%, 17.4%, 26.1% and 21.7% of the banks had sizes of up to Kenya Shillings (Ksh.) 5 billion, over Ksh. 5 billion but below Ksh. 10 billion, over Ksh. 10 billion but below Ksh. 20 billion and over Ksh. 20 billion respectively.

CHART 4.3: BANK BALANCE SHEET SIZES



Source: Research data

Table 4.2 below indicates that 8.7% of the banks had an exclusive corporate banking business orientation. 43.5% had a significant corporate banking orientation but with minimal retail banking business. 47.8% of the banks had an equal orientation towards both retail and corporate banking businesses.

TABLE 4.2: BANKS' BUSINESS ORIENTATION

Business orientation	Frequency	Valid Percent
Exclusive corporate banking orientation	2	8.7
Significant corporate banking orientation with minimal retail banking	10	43.5
An equal orientation towards both retail and corporate	11	47.8
Total	23	100.0

Source: Research data

The research further revealed that over the last three years, 65.2% of the banks had changed their business orientation. Only 34.8% had not changed their business orientation within the last three years. Some of the previous business orientations included retail orientation (13.0%), hire purchase (4.3%) and corporate banking (21.7%). 6% of the banks did not specify their former business orientation.

4.3 Changes in the environment

A varying trend in the profitability of commercial banks over the last three years was found as revealed in Table 4.3 below. 17.4% of the banks indicated that their profits had significantly increased, while 73.9% indicated that their profitability had slightly increased. 4.3% indicated that their profitability had reduced slightly, while a similar 4.3% indicated that their profits had significantly reduced over the last three years.

TABLE 4.3: TREND IN BANKS' PROFITABILITY OVER THE LAST THREE YEARS

	Frequency	Valid Percent	Cumulative percent
Significantly reduced	1	4.3	4.3
Slightly reduced	1	4.3	8.6
No major change	-	-	8.6
Slightly increased	17	73.9	82.6
Significantly increased	4	17.4	100.0
Total	23	100.0	

Source: Research data

Commercial banks' income from Government securities as a percentage of their total investment income has not significantly changed over the last three years as displayed on Table 4.4 below. 26.1% of the banks indicated that the percentage still remains at between 1-20%. 52.2% of the banks indicated that this percentage was between 21-40% three years ago, while now 65.2% indicate a similar percentage. 21.7% of the banks indicated that this percentage was between 41-60%, while only 8.7% indicated a similar percentage currently. This can be explained by the fact that banks have now shifted their holdings of Government securities from the lower yielding Treasury Bills to the relatively higher earning Treasury Bonds.

TABLE 4.4: INCOME FROM GOVERNMENT SECURITIES AS A PERCENTAGE OF TOTAL INVESTMENT INCOME

	Frequency	Valid Percent	Cumulative frequency
1-20%	6	26.1	26.1
21-40%	15	65.2	91.3
41-60%	2	8.7	100.0
61-80%	-	-	100.0
81-100%	-	-	100.0
Total	23	100.0	100.0

Source: Research data

One of the changes that have taken place in the environment is that of declining interest rates. While in the past banks earned very high interest rates, these are now at an all time low. The 91 day Treasury Bill rate has even gone below the 1% level, the lowest in more than two decades. This has invariably led to a reduction in lending rates to bank customers, which has affected bank interest income levels. From the research, 13.0% of the banks indicated that this change in interest rates has had a positive effect on their interest income with another 13.0% also indicating that it has had a slightly positive effect. A further 39.1% also indicated that changes interest rates had not had a major impact on their interest income levels. This may be explained by the fact that 65.2% of the banks indicated that they had changed their business orientation over the last three years. Table 4.5 below shows this.

TABLE 4.5: EFFECT OF CHANGE IN INTEREST RATES ON BANKS' INTEREST INCOME

	Frequency	Valid Percent	Cumulative percent
Negatively	4	17.4	17.4
Slightly negatively	4	17.4	34.8
No major impact	9	39.1	73.9
Slightly positively	3	13.0	87.0
Positively	3	13.0	100.0
Total	23	100.0	

Source: Research data

Banks have in the past been very reluctant to disclose their charges to customers and generally divulged this information only on a need to know basis. Up to about a year ago, banks treated their complete schedule of tariffs as a confidential document not to be disclosed to the competition. CBK has now made it mandatory for banks to provide them with all the details of their charges. These are then published periodically in the local dailies. The aim of CBK publishing these tariffs is to enable the public make informed decisions on bank charges when choosing or assessing their banks.

Despite this new disclosure requirement, Table 4.6 shows that only a total of 8.6% of the banks indicated that it had increased the level of competition that they now face. A further 87.0% indicated that it had not in any way increased the level of competition. 4.3% of the banks indicated it had actually reduced the level of competition that they faced. This disparity may be explained by the fact that most banks generally have similar tariffs with a few banks charging either above or below the industry average. Therefore, it can be concluded that those who indicated that it has increased the level of competition may be banks that have been charging higher than the industry average and are now under pressure from their customers to reduce them to acceptable levels. Similarly, banks that indicated that it has actually reduced competition may be those that are charging lower than the industry average and therefore the publication of the rates has simply made them look least expensive to the general public.

TABLE 4.6: THE EFFECT OF PUBLICATION OF BANK CHARGES BY THE CENTRAL BANK ON THE LEVEL OF COMPETITION.

	Frequency	Valid Percent	Cumulative percent
Significantly reduced competition	-	-	-
Slightly reduced competition	1	4.3	4.3
No major impact	20	87.0	91.3
Slightly increased competition	1	4.3	95.7
Significantly increased competition	1	4.3	100.0
Total	23	100.0	

Source: Research data

On the recent change in the structure of the cash ratio reserve (CRR) requirement by CBK and the effect it has had on the cost base of banks, 8.7% and 60.9% of the banks indicated that it has had a positive and slightly positive effect respectively. 17.4% indicated that it has had no major impact on their cost base, while 13.0% indicated that it has had a slightly negative impact. This is shown in Table 4.7 below. Banks are now expected to maintain their CRR at 6%, and this covers both their Kenya Shillings as well as foreign currency denominated customer deposits. Previously, they were expected maintain a CRR of between 8% and 10%, covering only their Kenya Shillings denominated customer deposits.

The wide disparity in the cost effects of this new CRR requirement can be explained by the fact that banks have significantly different levels of foreign currency denominated customer deposits. It would appear that the banks with a sizeable level of foreign currency deposits were the worst affected. This is because these deposits were previously not used in the CRR calculations. These affected banks now have to set aside relatively higher levels of cash in order to comply with CRR requirements. This may explain why 13.0% of the banks indicated that this new requirement had affected their cost base slightly negatively.

TABLE 4.7: THE EFFECT OF THE RECENT CHANGE IN THE STRUCTURE OF THE CASH RATIO REQUIREMENT BY THE CENTRAL BANK OF KENYA ON THE COST BASE

	Frequency	Percent	Valid percent	Cumulative percent
Negatively	-	-	-	-
Slightly negatively	3	13.0	13.0	13.0
No major impact	4	17.4	17.4	30.4
Slightly positively	14	60.9	60.9	91.3
Positively	2	8.7	8.7	100.0
Total	23	100.0	100.0	

Source: Research data

To gain an insight into the levels of technology usage, banks were asked to indicate the level of usage of available technology over the last three years. The level adoption of new technology has increased in the banking environment over this period. A total of 86.9% of the banks indicated a high level of new technology usage over the last three years. This trend has increased competition as was indicated by 78.2% of the banks. This increase in competition can be attributed to the increased number of product options that adopting new technology has brought. Of the banks in the research, 95.7% indicated that the adoption of new technology had increased the number of products available to their customers. As a result of changes in the technological environment, 12.4% of the banks indicated that they had taken advantage of this to strategically improve their of distribution channels through technological innovation. On the effect the adoption of new technology has had on competition, 21.7% and 56.5% of the banks indicated that it has significantly increased and slightly increased competition respectively. 21.7% of the banks indicated that it has not had a major impact. This is shown in Table 4.8 below.

TABLE 4.8: THE EFFECT OF THE ADOPTION OF NEW TECHNOLOGY ON COMPETITION

	Frequency	Percent	Valid percent	Cumulative percent
Significantly reduced competition	-	-	-	-
Slightly reduced competition	-	-	-	-
No major impact	5	21.7	21.7	21.7
Slightly increased competition	13	56.5	56.5	78.3
Significantly increased competition	5	21.7	21.7	100.0
Total	23	100.0	100.0	

Source: Research data

On the effect of licensing forex bureaus on bank's foreign exchange business, 17.4% of the banks indicated that the licensing of forex bureaus has had a positive impact on their forex income. 52.2% indicated that it has not had a major impact. 30.4% indicated that it has had a negative impact. Table 4.9 below shows this. Many of the banks in the study indicated that the licensing of forex bureaus has not had a negative impact on their foreign exchange business. This can be attributed to a number of factors. Firstly, some of these may still be banking forex bureaus hence no major decline in the foreign exchange business. Secondly, many banks have developed new products such as instant money transfers that have ensured that their earnings from foreign exchange transactions do not fall as a result of the licensing of forex bureaus. However, 30.4% indicated that their foreign exchange incomes have been negatively affected by the licensing of forex bureaus. It may be that banks in this category have not yet taken advantage of new foreign exchange products to make up for the loss in related incomes.

TABLE 4.9: THE EFFECT OF LICENSING FOREX BUREAUS ON THE FOREIGN EXCHANGE INCOME OF BANKS

	Frequency	Percent	Valid percent	Cumulative percent
Negatively	-	-	-	-
Slightly negatively	7	30.4	30.4	30.4
No major impact	12	52.2	52.2	82.6
Slightly positively	4	17.4	17.4	100.0
Positively	-	-	-	100.0
Total		100.0	100.0	100.0

Source: Research data

Over the last one year, a number of unit trusts have been licensed to operate in Kenya. Regarding this new development, 91.3% of the banks indicated that these had not affected their deposit taking business negatively. However, 8.7% indicated that it had negatively affected them. This is shown in Table 4.10 below. The explanation for this may be that unit trusts are still relatively new in the country and are yet to attain wide acceptance. However, once acceptance is attained, many more banks' deposit taking business may be affected negatively. This is mainly due to the higher interest rates that are offered by unit trusts in comparison to commercial bank deposit rates. It is likely that the banks that indicated a negative effect on their deposit taking business are those targeting elite retail customers who are more likely to embrace new alternative deposit products in the market. Banks generally do not appear to have formulated strategies to counter this new development. The reason for this may be that many banks do not view them as directly competing for their deposit business. However, as these unit trusts gain more public acceptance, commercial banks will have to formulate new strategies to counter this threat.

TABLE 4.10: THE IMPACT OF LICENSING UNIT TRUSTS ON DEPOSIT TAKING BUSINESS

	Frequency	Percent	Valid percent	Cumulative percent
Negatively	-	-	-	-
Slightly negatively	2	8.7	8.7	8.7
No major impact	21	91.3	91.3	100.0
Slightly positively	-	-	-	100.0
Positively	-	-	-	100.0
Total	23	100.0	100.0	

Source: Research data

Non-bank financial institutions are increasingly taking on business that was traditionally offered by commercial banks and as shown in Table 4.11 below, this has had a negative impact on some banks' profitability as indicated by 17.4% of the banks. This may be explained by the fact that non-bank financial institutions are now being viewed as a cheaper alternative to commercial banks, particularly in the rural areas. Since most non-bank financial institutions concentrate on microfinance, they have easily gained acceptance with the masses because commercial banks have for long been perceived to be too focused on corporate business at the expense of retail customers. The remaining 82.6% indicated that non-bank financial institutions had not had a negative impact on their profitability.

TABLE 4.11: THE IMPACT OF NON-BANK FINANCIAL INSTITUTIONS TAKING ON TRADITIONAL BANKING BUSINESS

	Frequency	Percent	Valid percent	Cumulative percent
Negatively	-	-	-	-
Slightly negatively	4	17.4	17.4	17.4
No major impact	19	82.6	82.6	100.0
Slightly positively	-	-	-	100.0
Positively	-	-	-	100.0
Total	23	100.0	100.0	

Source: Research data

4.4 Strategic responses

It is surprising that 8.7% of the banks did not have a written vision/mission statement. This really puts into doubt the quality of the strategic management process in these banks. Without a formal vision and mission statement, it is quite difficult if not impossible for an organization to have a coherent strategic management process. The remaining 91.3% indicated that they had a written vision and mission statement.

From this research study, it is evident that the analysis of the environment as a whole is given prominence by banks. Majority of the banks in the study indicated that this analysis many a times results in identifiable strategies that they pursued. However, despite evidence of environmental analysis, some banks appear not to take this process seriously. In a turbulent environment, one would expect environmental analysis to be carried out at much shorter intervals to ensure that the strategic responses adopted remain relevant. For example, some banks actually indicated that they had never carried out an analysis of the social environment. This is a very important environment to analyze as it gives banks an idea about customer tastes, attitudes and other preferences. This is powerful information that banks need especially when they are communicating their products to both existing and potential customers.

A total of 34.8% of the banks indicated that they carried out an analysis of the political environment monthly. 26.1% indicated that this is carried out quarterly while 21.7% carried it out annually. 4.3% of the banks indicated that they never carried out an analysis of the political environment. Table 4.12 below reveals this.

TABLE 4.12: FREQUENCY OF THE POLITICAL ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative percent
Never	1	4.3	4.3	4.3
Annually	5	21.7	21.7	26.0
Semi-annually	3	13.0	13.0	39.0
Quarterly	6	26.1	26.1	65.2
Monthly	8	34.8	34.8	100.0
Total	23	100.0	100.0	

Source: Research data

When it comes to the frequency of analysis of the economic environment, 39.1% of the banks indicated that they carried this out on a monthly basis. A further 39.1% indicated that they carried out this analysis on a quarterly basis. 8.7% of the banks carried out the analysis on a semi-annual basis while 13.0% carried it out on an annual basis. This is shown in Table 4.13 below.

TABLE 4.13: FREQUENCY OF THE ECONOMIC ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative percent
Never	-	-	-	-
Annually	3	13.0	13.0	13.0
Semi-annually	2	8.7	8.7	21.7
Quarterly	9	39.1	39.1	60.9
Monthly	9	39.1	39.1	100.0
Total	23	100.0	100.0	

Source: Research data

Responses on the frequency of the social environment analysis as shown in Table 4.14 revealed that 30.4% of the banks carried this out on a monthly basis. 21.7% indicated that they carried out this analysis quarterly while 8.7% indicated that this is carried out semi-annually. 26.1% of the banks indicated that this analysis is carried out annually while 13.0% indicated that they never scanned the social environment.

TABLE 4.14: FREQUENCY OF THE SOCIAL ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative
Never	3	13.0	13.0	13.0
Annually	6	26.1	26.1	39.1
Semi-annually	2	8.7	8.7	47.8
Quarterly	5	21.7	21.7	69.6
Monthly	7	30.4	30.4	100.0
Total	23	100.0	100.0	

Source: Research data

Pertaining to the technological environment analysis, 13.0% of the banks indicated that they analyzed it on a quarterly basis. 43.5% of the banks indicated that they carried this out semi-annually. A further 43.5% of the banks indicated that they carried out environmental analysis annually. This is presented in Table 4.15 below.

TABLE 4.15: FREQUENCY OF THE TECHNOLOGICAL ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative percent
Never	-	-	-	-
Annually	10	43.5	43.5	43.5
Semi-annually	10	43.5	43.5	87.0
Quarterly	3	13.0	13.0	100.0
Monthly	-	-	-	100.0
	23	100.0	100.0	

Source: Research data

Concerning the analysis of the legal environment, 30.4% of the banks indicated that they carried it out on a monthly basis while 21.7% indicated that this is carried out quarterly.

8.7% of the banks indicated that they carried out environmental analysis semi-annually while 39.1% indicated that they carried this out annually. This is shown in Table 4.16 below.

TABLE 4.16: FREQUENCY OF THE LEGAL ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative percent
Never	-	-	-	-
Annually	9	39.1	39.1	39.1
Semi-annually	2	8.7	8.7	47.8
Quarterly	5	21.7	21.7	69.6
Monthly	7	30.4	30.4	100.0
	23	100.0	100.0	

Source: Research data

Regarding the frequency of the competitive environment analysis, Table 4.17 shows that 52.2% of the banks carried this out monthly while 34.8% carried this out quarterly. 13.0% of the banks indicated that they carried this out annually.

TABLE 4.17: FREQUENCY OF THE COMPETITIVE ENVIRONMENT ANALYSIS

	Frequency	Percent	Valid percent	Cumulative percent
Never	-	-	-	-
Annually	3	13.0	13.0	13.0
Semi-annually	-	-	-	13.0
Quarterly	8	34.8	34.8	47.8
Monthly	12	52.2	52.2	100.0
	23	100.0	100.0	

Source: Research data

As regards the environmental analysis, 13.0% of the banks indicated that the analysis of the political, social, economic, technological, legal and competitive environment very often resulted in identifiable strategies that they pursued. A further 43.5% indicated that this analysis often resulted in identifiable strategies that they pursued. 34.8% of the banks indicated that fairly often, this analysis resulted in identifiable strategies, while 8.7% indicated that it rarely resulted in identifiable strategies that they pursued. This is indicated in Table 4.18 below.

TABLE 4.18: ENVIRONMENTAL ANALYSIS AND HOW OFTEN IT RESULTS IN IDENTIFIABLE STRATEGIES

	Frequency	Percent	Valid percent	Cumulative percent
Never	-	-	-	-
Rarely	2	8.7	8.7	8.7
Fairly often	8	34.8	34.8	43.5
Often	10	43.5	43.5	87.0
Very often	3	13.0	13.0	100.0
	23	100.0	100.0	

Source: Research data

Over the last five years, the formation of strategic networks through stable inter-organizational alliances has been adopted as a strategic response by 39.13% of the banks. They may take the form of strategic alliances, joint ventures, long term buyer supplier partnerships, and other ties [Gulati al. 2000]. Shrinking transaction costs make it easier for firms to vertically disintegrate and to reorganize in partner networks. Firms can focus on their core competencies and activities in the value creation process and rely on partner networks for other non core competencies and activities. Further analysis of the research data revealed that of the banks that had been in operation for more than 21 years, 55.55%

of them had adopted this strategy as a response to the changing environment. None of the banks that had been in operation in Kenya for less than 21 years indicated having adopted this strategic response.

Mergers and acquisition of new businesses was also indicated as a strategic response adopted by 21.73% of the banks over the last five years. While some mergers were between group subsidiaries, some involved totally independent institutions. It would appear that the main objective here was to take advantage of economies of scale on one hand, and to achieve balance sheet growth on the other. Statutory requirements such as minimum capital requirements have also contributed to this strategic response.

The improvement of distribution channels through technological innovation was adopted as a strategic response by 52.17% of the banks. Over the last five years, the number of banks offering Automated Teller Machine (ATM) services has significantly increased. In order to remain competitive in the retail banking business, banks have had to adopt and improve this vital distribution channel. The number of banks offering electronic banking (e-banking) solutions has also notably gone up in the recent past. Initially, e-banking solutions targeted corporate customers only. However, this has now been broadened to include retail customers as well. For example, many banks in Kenya are now enabling their customers to access their account balances via the internet and mobile phones.

Geographic diversification was adopted by 26.09% of commercial banks over the last five years as a strategic response to the changing environment. The main aim of this response appears to be the need to avoid over reliance on one geographic market alone. By operating across borders, a bank would be able to mitigate country risk and fare relatively better should one market perform dismally. Ownership and age appear to have had an influence on this strategic response. It is only 31.25% of the locally owned banks that adopted this strategy in comparison to none in the foreign and mixed foreign and local categories. It should however be noted that foreign owned banks geographic diversification strategy across borders is usually controlled from their head offices abroad and this may explain why none indicated having adopted this strategy. In terms of age, it is only 27.78% of the banks that have been in operation in Kenya for more than twenty one years who indicated that they had adopted this strategy. This strategy was not adopted by any of the banks in the other age categories.

The adoption of non-traditional banking business as a strategy in response to the changing environment was taken on by 47.83% of the banks over the last five years. A number of banks have embraced insurance based products which they are now offering to their customers. Presently, these insurance based products are geared towards the retail customers. Many banks are now also offering mortgage financing as a strategy to cope with the present low interest regime. In the past, this was the preserve of the mortgage finance companies. Further analysis revealed that 81.2% of the locally owned banks had adopted non-traditional banking products such as insurance as a response to the changing environment. Interestingly, none of the foreign owned banks or banks with a mix of both foreign and local ownership had adopted this strategic response. The explanation for this may be that banks with foreign ownership are more rigid when it comes to the introduction of new products. Generally, banks with foreign ownership are usually required to obtain approval from their foreign head offices and this sometimes is a tedious process. Moreover, the head offices of banks with foreign ownership sometimes prescribe products for each market they operate in based on their perceived risks. This further reduces the flexibility of such banks when it comes to adopting non-traditional banking products.

Over the last five years, consolidation as a strategy to cope with changes in the environment had been adopted by 73.91% of the banks. A number of banks have responded to changes in the environment by merging their non-strategic branches with those that they consider strategic. This has mainly been propelled by the need to have a lean cost base in order to compete more effectively in the ever changing environment that has seen profit margins reduce significantly.

Change in business orientation more often than not leads to customer base diversification as new customer pockets are identified to support the new orientation. Diversification of the customer base as a response to the changing environment was adopted by 69.57% over the last five years. Many banks (65.2%) indicated that they had changed their business orientation over the last three years. For instance, many banks that were previously wholesale/corporate have now diversified into the retail banking segment. This diversification can be attributed to the stiff competition and low interest rates that has been a characteristic of the corporate banking business.

The increased emphasis on non-interest income had been adopted by 56.52% of the banks as a strategic response to the changing environment over the last five years. As interest rate margins continue to be squeezed, commercial banks have been forced to seek new ways of increasing profitability to ensure their survival. A total of 69.5% of the banks indicated that changes in the local economy over the last three years have had a negative effect on their customers' ability to repay their loans. A further 21.7% of the banks indicated that trends in the local economy have not had a negative impact on their customers' ability to repay their loans. The remaining 8.6% of the banks indicated that trends in the local economy over the last three years have had both a positive effect on their customers' ability to repay their loans. This increasing inability of customers to service their loans and the decreasing interest income form loans has led commercial banks to increase their range of transaction based services and products in order to avoid over reliance on lending related income.

Judo strategy or taking on the competition discreetly as a strategic response to coping with changes in the environment had been adopted by 34.78% of the banks over the last five years. This is a powerful strategy, especially for the smaller or relatively weaker commercial banks competing with their bigger or stronger counterparts and who are avoiding taking them head on. Commercial banks are increasingly launching new products discreetly and relying on direct marketing to reach their target market. Through this strategic response to stiff competition, commercial banks are able to have a head start before the competition catches on. Further analysis revealed that 56.25% of the locally owned banks had adopted this strategic response as compared to none of the banks with foreign ownership. This may be explained by the fact that most banks with foreign ownership perceive themselves to be stronger than their local competitors and therefore do not see the need for taking on the competition discreetly. This is summarized in Table 4.19 below.

TABLE 4.19: SUMMARY OF STRATEGIC RESPONSES ADOPTED BY COMMERCIAL BANKS OVER THE LAST FIVE YEARS

Dichotomy label	Count	Yes (%)	No (%)	Total (%)
Formation of stable inter-organizational ties with other banks or organizations (such as strategic alliances, joint ventures)	9	39.13	60.87%	100.0
Merging with or acquiring another business	5	21.73	78.27	100.0
Improved distribution channels through technological innovation	12	52.17	47.83	100.0
Geographical diversification (opening branches and outlets)	6	26.09	73.91	100.0
Diversification into non-traditional banking products	11	47.83	52.17	100.0
Consolidation of the existing business	17	73.91	26.09	100.0
Customer base diversification	16	69.57	30.43	100.0
Increased emphasis on non-interest income	13	56.52	43.48	100.0
Take on competition discreetly (element of surprise)	8	34.78	65.22	100.0

Source: Research data

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the research findings, conclusions drawn and recommendations.

5.2 Summary and conclusion

In a changing environment, organizations need to continuously match their strategies to the changing environment. Banks are no exception. The adoption of a particular strategy has a degree of dependence on the individual circumstances of each bank.
Many changes have taken place in the environment in which banks in Kenya operate. These changes have had varied effects on different banks. Some banks appear to have been adversely affected by these changes, while others seem to have benefited from them. Could it be that the banks that have not been negatively affected by the changes in the environment have a better strategic management posture than their peers who have not fared very well?

Despite the turbulence in the environment, some banks do not regularly carry out environmental analysis. Some neglect the analysis of certain environments altogether. Others even indicated that environmental analysis rarely results in identifiable strategies which they pursue. This puts them at risk of adopting strategic responses on a trial and error basis. This is very risky and could also be very costly, especially when an expensive strategic response is adopted only for it to be dropped halfway through.

In order to be better placed to survive the ever changing environment, there is a need to have formal strategy sessions in banks on a regular basis in order to continuously align their strategies to the ever changing environment. This is the only way through which banks will adopt strategies that will help them to succeed in a turbulent environment.

5.3 Recommendations

In a fast changing environment, consistent and frequent environmental analysis provides the means of matching or fitting the organization to its environment. Commercial banks in Kenya need to take the process of environmental analysis more seriously if good and relevant strategies are to be formulated.

Judo strategy or the element of surprise is a powerful strategy that can be adopted by all banks, but more so the relatively disadvantaged banks, be it in terms of balance sheet size or even geographical coverage. More banks, especially the smaller banks, need to adopt judo strategy as a way of taking on relatively stronger competitors. Further research should be undertaken in this area to identify how commercial banks in Kenya are using this strategy to overcome their competitors.

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APPENDIX I

91 DAYS TREASURY BILLS ANNUAL RATES

ISSUE DATE	YEARLY AVERAGE
1993	44.39
1994	24.56
1995	18.17
1996	22.12
1997	22.50
1998	23.39
1999	15.01
2000	12.02
2001	12.73
2002	8.94

Source: Central Bank of Kenya website www.centralbank.go.ke

APPENDIX II

FINANCIAL INSTITUTIONS THAT HAVE CONVERTED TO COMMERCIAL BANKS SINCE 1994

No.	Financial institution (old name)	Commercial Bank (new name)	Date approved
1	Akiba Loans & Finance Ltd.	Akiba Bank Ltd.	14.11.1994
2	Diamond Trust Company Ltd.	Diamond Trust Bank Ltd.	15.11.1994
3	Credit Kenya Finance Ltd.	Credit Bank Ltd.	30.11.1994
4	Consolidated Finance Ltd.	African Banking Corp. Ltd.	08.12.1994
5	Imperial Finance Co. Ltd.	Imperial Bank Ltd.	08.12.1994
6	Finance Institution of Africa Ltd.	FINA Bank Ltd	13.01.1995
7	City Finance Ltd.	City Finance Bank Ltd.	23.03.1995
8	Credit Finance Corporation Ltd.	CFC Bank Ltd.	29.03.1995
9	Equatorial Finance Co. Ltd.	Equatorial Commercial Bank Ltd.	23.06.1995
10	Southern Credit Finance Ltd.	Southern Credit Banking Corp. Ltd.	26.09.1995
11	National Industrial Credit Ltd.	National Industrial Credit Bank Ltd.	28.09.1995
12	Euro Finance Ltd.	Euro Bank Ltd.	20.12.1995
13	Victoria Finance Company Ltd.	Victoria Commercial Bank Ltd.	11.01.1996
14	Fidelity Finance Ltd.	Fidelity Commercial Bank Ltd.	07.03.199
15	Co-operative Finance Ltd.	Co-operative Merchant Bank Ltd	27.03.1996
16	Investments & Mortgages Ltd.	Investments & Mortgages Bank Ltd.	27.03.1996
17	Credit & Commerce Finance Ltd.	Commerce Bank Ltd.	15.04.1996
18	Development Finance Co. Ltd.	Development Bank of Kenya Ltd.	20.09.1996
19	Charterhouse Finance Ltd.	Charterhouse Bank Ltd.	01.01.1998
20	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	10.09.1998

Source: Central Bank of Kenya website at www.centralbank.go.ke

APPENDIX III

MERGERS OF INSTITUTIONS SINCE 1994

APPROVED MERGERS

No.	Institution	Merged with	Current Name	Date approved
1	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
2	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
3	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
4	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
5	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
6	Mercantile Finance Ltd.	Ambank Ltd.	African Mecantile Banking Corp. Ltd.	15.01.1996
7	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
8	CBA Financial Services Ltd.	Commercial Bank of Africa Ltd.	Commercial Bank of Africa Ltd.	26.01.1996
9	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
10	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
11	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
12	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
13	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
14	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999

MERGERS OF INSTITUTIONS SINCE 1994

APPROVED MERGERS

No.	Institution	Merged with	Current Name	Date approved
15	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
16	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
17	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
18	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
19	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
20	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07.12.2001

Source: Central Bank of Kenya website www.centralbank.go.ke

APPENDIX IV

NAME OF INSTITUTION	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED
1. AFRICAN BANKING CORP. LTD	ABC Bank Mezzanine Floor Koinange Street ho@abcthebank.co.ke	1.5.1984
2. AKIBA BANK LTD.	Fedha Towers Muindi Mbingu st. Nairobi finance.headoffice@akiba.com	`1.7.1995
3. BANK OF BARODA (K) LTD.	Tom Mboya Street barodak_ho@form-net.com	1.7.1953
4. BANK OF INDIA	Kenyatta Avenue boi10@calva.com	5.6.1953
5. BARCLAYS BANK OF KENYA LTD.	Barclays Plaza Loita Street bbkfin@user.africanline.co.ke	`1.7.1925
6. BIASHARA BANK OF KENYA LTD. Merged with Investments & Mortgages Bank	JETHALAL CHAMBERS Biashara st. business@biasharabank.com	1.7.1984
7. CFC BANK LIMITED Converted to a commercial bank in 1995	CFC Centre Chiromo road Westlands	14.05.55

8. CHASE BANK (KENYA) LTD. (changed name from United Bank Ltd w.e.f 15.11.95)	Prudential Ass. Building 6th Floor. Wabera Street info@chasebank.co.ke	1.4.1991
9. CHARTERHOUSE BANK LTD. (changed name from Middle East Bank (K) Finance w.e.f, 11.11.96 and became a bank w.e.f. 01.10.98)	Longonot Place 6th. Floor Kijabe Street info@chaterhouse-bank.com	1.10.98
10. CITIBANK N.A.	Citibank House Upper Hill Road	1.7.1974
11. CITY FINANCE BANK LTD.	Unity House Koinange St. cfbl@saamnet.com	10.09.1984
12. COMMERCIAL BANK OF AFRICA LTD.	Wabera Street cba@cba.co.ke	13.2.1967
13. CONSOLIDATED BANK OF KENYA LTD.	Consolidated Bank Hse. Koinange Street consobank@iconnect.co.ke	18.12.1989
14. CO-OPERATIVE BANK OF KENYA LTD.	New Location-(H.Q) CO-OPERATIVE HOUSE coopbankmd@form-net.com	1.7.1968
15. CREDIT AGRICOLE INDOSUEZ Previously Bank Indosuez- converted on 5.8.1997	Re-Insurance Plaza Taifa Road cai.kenya@ke.ca-indosuez.com	1.1.1998

16. CREDIT BANK LIMITED	Ground Floor Mercantile Hse Koinange st. cblnbi@creditbankltd.com	14.5.1986
17. DEVELOPMENT BANK OF KENYA LTD.	Finance House Loita Street dbk@africaonline.co.ke	1.5.1995
18. DIAMOND TRUST BANK KENYA LTD. (merged with Premier Finance on 01.04.99)	Nation Centre- 8th Floor Kimathi Street user@dtbkenya.co.ke	1.11.94
19. DUBAI BANK KENYA LIMITED (changed name from Mashreq Bank from Apr. 2000)	I.C.E.A Building Kenyatta avenue user@dubaibank-kenya.com	11.9.1981
20. EQUATORIAL COMMERCIAL BANK LTD	Sasini House Loita street ecd@saamnet.com	20.12.95
21. FIDELITY COMMERCIAL BANK LTD.	I.P.S Bldng. 7th Floor Kimathi St. customerservice@fidelitybankkenya.com	1.6.1992
22. FINA BANK LIMITED.	Fina House Kimathi Street banking@finabank.com	13.01.95
23. FIRST AMERICAN BANK OF KENYA LTD.	I.C.E.A Building Kenyatta Ave. 6TH&7TH FLOORS fabk@saamnet.com	1987

24. GUARDIAN BANK LIMITED. (Merger with First National Fin. Bank app. on 24-11-98) (Merger with Guilder Int. Bank app. on 31.12.1999)	Nation Centre 7th Floor Kimathi Street viewpark@guardian-bank.com	17.12.1992
25. GIRO COMMERCIAL BANK LIMITED (Merger with Commerce Bank effective 11-12-98)	Giro House Kimathi Street gcbl@swiftkenya.com	17.12.1992
26. HABIB BANK A.G. ZURICH (Merger with Habib African Ltd app. on 31.12.1999)	National House Koinange Street habibbank@form-net.com	1.7.1978
27. HABIB BANK LTD.	Exchange Building Koinange Street hblronbi@africaonline.co.ke	2.3.1956
28. IMPERIAL BANK LTD.	IPS Building Kimathi Street impbank@iconnect.co.ke	1.11.1992
29. INDUSTRIAL DEVELOPMENT BANK LTD. (Converted to a Commercial Bank on 10.09.98)	National Bank Building Harambee Avenue bizcare@idbkenya.com	1.[illegible].1989
30. INVESTMENTS & MORTGAGES BANK LTD.	I & M Bank House 2nd Ngong Avenue invest@imbank.co.ke	25.5.1980
31. KENYA COMMERCIAL BANK LTD.	Kencom House Moi Avenue kcbhq@kcb.co.ke	

32. K-REP BANK LIMITED	Registry@k-repbank.com Naivasha Road Riruta	25.03.99
36. MIDDLE EAST BANK KENYA LTD.	Mebank Tower Milimani Road Nairobi mebkenya@nbnet.co.ke	15.12.1980
33. NATIONAL BANK OF KENYA LTD (merged with KENYAC effected on 25.05.99)	National Bank Building Harambee Avenue mailto:nbkit@nbnet.co.ke	1.1.1968
34. NATIONAL INDUSTRIAL CREDIT BANK LTD.	N.I.C. House Masaba Road nic@iconnect.co.ke	17.9.1959
35. PARAMOUNT UNIVERSAL BANK LTD. Merger of Paramount with Universal Bank	Sound Plaza Building Westlands pbl.bank@africaonline.co.ke	1.101993
36. PRIME BANK LTD.	Kenindia Hse. Loita Street primebank@form-net.com	1.3.92
37. SOUTHERN CREDIT BANKING CORP. LTD. Merged with Bullion Bank	Off Muranga Road	1.10.80
38. STANBIC BANK KENYA LIMITED. (changed name from Grindlays Bank w.e.f 1.7.93)	Stanbic Bank Building Kenyatta Ave. stanbic@africaonline.co.ke	9.5.1970
39. STANDARD CHARTERED BANK (K) LTD.	Stanbank House Moi Avenue	1.10.1910

	mds.office@ke.standardchartered.com	
40. THE DELPHIS BANK	Finance House Koinange Street delphiskenya@connect.co.ke	02.08.91
41. TRANS - NATIONAL BANK LTD.	Transnational Plaza Mama Ngina Street tnbl@form-net.com	1.8.1985
42. VICTORIA COMMERCIAL BANK LTD.	Victor Hse. 2nd Floor Kimathi st. user@vicbank.com	1.6.1987

Source: Central Bank of Kenya website www.centralbank.go.ke

C. Ohaga Okoko
P.O. Box 76290, 00508
NAIROBI

Tel: 0722-891819

March 8, 2004

Dear Sir/Madam,

RE: REQUEST FOR PARTICIPATION IN A RESEARCH STUDY ON THE STRATEGIC RESPONSES OF COMMERCIAL BANKS IN KENYA TO CHANGES IN THEIR ENVIRONMENT

I am a final year MBA student at the University of Nairobi. My area of specialization is in Strategic Management. I am currently undertaking a research study/thesis on 'The Strategic Responses of Commercial Banks in Kenya to Changes in their Environment'.

I would be grateful if you could spare some time from your busy schedule and complete the enclosed questionnaire. All the information provided will be used purely for academic purposes only and will be treated with utmost confidentiality. A copy of the final report will be made available to you on request.

I will be most grateful if you could complete this questionnaire by March 26, 2004. Thank you for your participation in this research.

Yours faithfully,

C.O. Okoko

Encl.

SECTION I: GENERAL INFORMATION

Please respond to the following questions by ticking the boxes or writing the appropriate answers in the spaces provided.

1. Indicate the ownership of your bank

   Locally owned ☐

   Foreign owned ☐

   Both local and foreign ☐

2. Is there any Government participation in the ownership of your bank?

   Yes ☐

   No ☐

3. How long has your bank been in operation in Kenya?

   1-10 years ☐

   11-20 years ☐

   Over 21 years ☐

4. How many branches does your bank have in Kenya?

   1-5 ☐

   6-10 ☐

   Over 10 ☐

5. Do you have any branches outside Kenya?

   Yes ☐

   No ☐

6. Please indicate the balance sheet category that best describes your bank's size.

Upto Ksh.5 billion	Over Ksh.5 billion but below Ksh.10 billion	Over Ksh.10 billion but below Ksh.20 billion	Over Ksh.20 billion
☐	☐	☐	☐

7. From the list below, please tick the business orientation that best describes your bank.

Exclusive corporate banking orientation	☐
Significant corporate banking orientation but with minimal retail banking focus	☐
An equal orientation towards both retail and corporate banking	☐
Significant retail banking orientation but with minimal corporate banking focus	☐
Exclusive retail banking orientation	☐

8. Has your bank changed its business orientation over the last three years?

Yes ☐

No ☐

9. If the answer to 8 above is 'yes', please state the former business orientation(s):

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10. Below is a list of some of the products and services that banks do offer. Please tick against those that your bank either started offering or re-launched over the last 5 years. You may add more as necessary.

i. **Personal savings accounts** ☐
ii. **Personal current accounts** ☐
iii. **Corporate current accounts** ☐
iv. **Term and call deposit accounts** ☐
v. **Mortgage finance** ☐
vi. **Personal loans and overdrafts** ☐
vii. **Corporate loans and overdrafts** ☐
viii. **Trade finance services** ☐
ix. **Treasury services** ☐
x. **Fund management services** ☐
xi. **Corporate finance services** ☐
xii. **Electronic banking based products** ☐
xiii. **Insurance products** ☐
xiv.
xv.
xvi.
xvii.

SECTION II: CHANGES IN THE ENVIRONMENT

1. What has been the general trend of your bank's profitability over the last 3 years?

Significantly increased	Slightly increased	No major change	Slightly reduced	Significantly reduced
☐	☐	☐	☐	☐

2. What percentage of your bank's total investment income was derived from Government securities 3 years ago?

1-20%	21-40%	41-60%	61-80%	81-100%
☐	☐	☐	☐	☐

3. What is the current percentage of your bank's total interest income from Government securities?

1-20%	21-40%	41-60%	61-80%	81-100%
☐	☐	☐	☐	☐

4. How have changes in interest rates in the local economy affected your bank's interest income?

Positively	Slightly positively	No major impact	Slightly negatively	Negatively
☐	☐	☐	☐	☐

5. Over the last three years, how have trends in the local economy generally affected the repayment of customer loans in your bank?

Positively	Slightly positively	No major impact	Slightly negatively	Negatively
☐	☐	☐	☐	☐

6. How has the periodic publication of bank charges by the Central Bank of Kenya affected the level of competition your bank faces from local competitors?

Significantly increased competition	**Slightly increased competition**	**No major impact**	**Slightly reduced competition**	**Significantly reduced competition**
☐	☐	☐	☐	☐

7. How has the recent change in the structure of the cash ratio requirement by the Central Bank of Kenya affected your cost base?

Positively	**Slightly positively**	**No major impact**	**Slightly negatively**	**Negatively**
☐	☐	☐	☐	☐

8. Please tick one of the boxes below that best describes how your bank has utilized available technology over the last three years?

Very high usage	**High usage**	**No significant increase in usage**	**Low usage**	**No usage**
☐	☐	☐	☐	☐

9. How has the adoption of new technology within the banking sector affected the level of competition that your bank faces from other banks?

Significantly increased competition	**Slightly increased competition**	**No major impact**	**Slightly reduced competition**	**Significantly reduced competition**
☐	☐	☐	☐	☐

10. Has the adoption of new technology by your bank increased the number of product options available to customers?

Yes ☐

No ☐

11. What effect has the licensing of forex bureaus had on your bank's foreign exchange income?

Positive	Slightly positive	No major impact	Slightly negative	Negative
☐	☐	☐	☐	☐

12. What impact has the licensing of unit trusts in the country had on your bank's deposit taking business?

Positive	Slightly positive	No major impact	Slightly negative	Negative
☐	☐	☐	☐	☐

13. Non-bank financial institutions are increasingly taking on business traditionally offered by commercial banks e.g. giving personal and small business loans. How has this impacted on your bank's profitability?

Positively	Slightly positively	No major impact	Slightly negatively	Negatively
☐	☐	☐	☐	☐

SECTION III: STRATEGIC RESPONSES TO CHANGES IN THE ENVIRONMENT

1. Does your bank have a written Vision Statement?

   Yes ☐

   No ☐

2. Please state your bank's mission. (A copy of the mission statement can be provided if available)

----

3. By ticking in the relevant box, please indicate how often your bank analyzes the following environmental factors?

	Monthly	Quarterly	Semi-annually	Annually	Never
a) Political environment	☐	☐	☐	☐	☐
b) Economic environment	☐	☐	☐	☐	☐
c) Social environment	☐	☐	☐	☐	☐
d) Technological environment	☐	☐	☐	☐	☐
e) Legal environment	☐	☐	☐	☐	☐
f) Competitive environment	☐	☐	☐	☐	☐

4. Does the analysis in No. 3 above result in identifiable strategies that are pursued by your bank?

Very often	Often	Fairly often	Rarely	Never
☐	☐	☐	☐	☐

5. When developing strategies, does your bank generate different scenarios of possible futures (i.e. anticipate different possible changes in the environment)?

Very often	**Often**	**Fairly often**	**Rarely**	**Never**
☐	☐	☐	☐	☐

6. In regard to the strategies pursued by your bank in 4 above, does your bank address the following?

		Yes	No
a)	**What is to be done?**	☐	☐
b)	**How it will be done?**	☐	☐
c)	**Who will implement it?**	☐	☐
d)	**By when it will be implemented?**	☐	☐

7. How often does your bank review its business strategy?

Semi-annually	☐
Annually	☐
After more than one year	☐
Never	☐

8. Has a SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis been carried out for your bank within the last one year?

Yes	☐
No	☐

9. Does your bank base its operating and marketing plans on relevant data from its environment?

Very often	**Often**	**Fairly often**	**Rarely**	**Never**
☐	☐	☐	☐	☐

10. Has your bank identified both the external and internal factors that can either enhance or impede the attainment of set goals?

Yes ☐

No ☐

11. By ticking the relevant box, please indicate the time that has passed since your bank last reviewed each of the following:

	Less than one year	2 years	3 years	4 years	5 years
a) **Product range (types of accounts, loan products etc.)**	☐	☐	☐	☐	☐
b) **Services (opening hours, service delivery standards etc.)**	☐	☐	☐	☐	☐
c) **Pricing of products**	☐	☐	☐	☐	☐
d) **Geographic location (number of branches and their location)**	☐	☐	☐	☐	☐

12. On the overall, has your bank increased its range of products and services over the last three years?

Yes ☐

No ☐

13. Over the last three years, which of the following has your bank done in terms of the number of branches?

Increased them ☐

No change ☐

Decreased them ☐

14. How has the number of employees in your bank generally changed over the last three years?

Increased ☐

No significant change ☐

Reduced ☐

15. State the steps taken by your bank to counter the effects of the declining interest rate levels in the local economy.

----

16. The following are some of the possible strategic responses that banks could adopt to cope with a changing environment. By ticking in the relevant boxes, please indicate those that have been pursued by your bank over the last five years. You may add more as necessary.

a) **Formation of stable inter-organizational ties with other banks or organizations (such as strategic alliances, joint ventures etc.)** ☐

b) **Merging with or acquiring another business** ☐

c) **Improved distribution channels through the use of information technology to reach customers** ☐

d) **Geographic diversification (opening branches outside the country)** ☐

e) **Diversification into non-traditional banking business (such as insurance)** ☐

f) **Consolidation of the existing business** ☐

g) **Customer base diversification** ☐

h) **Increased emphasis on non-interest income** ☐

i) **Take on competition discreetly (element of surprise)** ☐

j)

k)

l)

m)

Thank you for your kind co-operation in this research study.