APPLICATION OF DIFFERENTIATION STRATEGY IN COMMERCIAL BANKING IN KENYA

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DECLARATION

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

23/12/2004.

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This management research project has been submitted for examination with my approval as University supervisor

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DEDICATION

To my husband Ken Ouko and daughters Jessica and Vivien for their love, encouragement and support throughout the MBA Degree program.

To my parents for teaching me the value of education

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ABSTRACT

Differentiation strategy is one of the generic strategies used by firms to achieve competitive strategy. The banking industry in Kenya is facing a very competitive environment coupled with different environmental changes. The competition in this industry triggers the need for firms to come up with competitive strategies for survival and sustained profitability. The banking industry was recently affected by government regulations such as re-enactment of section 44 of the banking act, imposition of ceiling on interest charged on non performing loans and disclosure of banks charges. The banks also faced changed economic environment that saw a major decline on interest rates on government securities. Banks traditionally invested and reaped high revenues from the high interest rates.

The study sort to establish the use of differentiation strategy in the banking industry given the changes in the environment. The study was set out as a census survey involving all the 42 active commercial banks. Structured questionnaires were administered to all the banks. However, only 26 banks responded constituting 61% response rate.

The findings of the study indicated that the factors most affecting the banks were decline on government security interest rates and inability to increase charges without government approval. Inability to increase charges directly affects application of differentiation strategy since it affects premium pricing which is at the core of differentiation. Due to these factors, the research found that there was an overall change in strategies as banks sought to find ways of coping with the changing environment. The research also found that banks had also attempted to fight against some of the regulations through their umbrella body, the Kenya Bankers Association.

While all banks practice differentiation strategy to some extent, it was found that there was a significant difference in application of the strategy between large and small/medium banks and between foreign and local banks.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

The Kenyan banking industry

The Banking industry in Kenya has undergone a lot of changes since the early nineteen nineties from a high level of regulation to a more liberalised environment with less government interference. Reforms have been implemented through the introduction of elements of liberalisation but with the Central Bank still maintaining control measures to enhance prudential regulation. In fact the government, through the Central Bank of Kenya, is becoming stricter in the implementation of monetary policies and this is causing a lot of concern in the banking sector.

Even though there have been policies regulating the banking industry, there have been a lot of lapses in implementation prior to ascendancy to power by a new political regime in January, 2003. For example, it is stipulated in section 44 of the banking act that increases in bank charges/ tariff should be approved by the Finance Minister before implementation. However this has not always been the case as banks, especially the multinationals, have continued to arbitrarily increase their charges without reference to the ministry. Until about a year ago, bank charges continued to rise unchecked with non funded income forming a substantial proportion of revenue. With the incoming of the new government, the Finance Minister in his maiden budget speech of 2003, as reported in the Daily Nation of 13th June 2004, announced that the government would implement certain measures aimed at ensuring implementation of policies governing the banking sector. This announcement brought about some sharp reactions from commercial banks. In view of this, the banks have had to review their strategic thinking in order to counter any effects of government policy implementation on their profit margins.

Although not much was done in the last financial year by way of implementing the policies, the resolve to regulate some aspects of the industry was reiterated in the budget speech of June 2004. For example, there were specific control measures put in place restricting lending interest rates by putting a ceiling on how much interest can be recovered from non performing loans and interest rates on deposits (Market intelligence business Journal: Banking survey 2004). These are changes which the industry has to respond and adapt to by employing appropriate strategic management practices.

In an environment which has been laxed in policy implementation, the banks have to adopt new strategies to respond to regulatory pressures. The question is what strategies are the banks using to respond? Traditionally, banks have reported huge profits, with exception of a few local state owned ones. No research has been done to find out the strategies banks have adopted to respond to the new environmental change in form of government control and the effectiveness of such strategies

Collins English and Thesaurus dictionaries (1993, page 239 and 969) define regulation as rule, principle or condition that governs procedure or behaviour. One of the definitions of control on the other hand is to check limit or restrain. While regulations provide guidelines within which to operate, controls limit operations by putting strict restrictions which must be adhered to. Control can also be said to be a command. Recently, some control and regulatory measures were re-introduced by the government on the banking industry as mentioned earlier.

For a long time banks in Kenya have been accused of making profits by charging high fees and investing on the high yield government securities while ignoring lending which should be their core business. The Finance Minister's move in invoking section 44 of the banking act aims at dealing with the issue of exorbitant bank charges while reduction in government security rates has reduced the incentive to invest in these securities. Given this scenario, banks are falling over themselves by coming up with credit facilities but this may also not be as lucrative given the policy of regulating rates by putting a ceiling on interest recoverable from credit products. In view of these facts, there is pressure on the banks to formulate strategies which can counter these effects.

Changes of regulations in the banking industry in Kenya

Currently, there are 43 commercial banks in Kenya including one under Central Bank statutory management. Up until the early 1990s, the government had several control measures governing the banking industry. Some of these included

- Foreign exchange controls

- Interest rate controls
- Repatriation of dividends

These control measures hindered efficiency and growth of the industry since they were not motivating investors to invest in the country. Due to this, the government decided to liberalise the market so that the operations would be controlled by market forces. Even though the government embarked on liberalization of the market, it still maintained regulatory measures which were meant to provide the boundaries within which the banks should operate. Re-introduction of controls in some aspects of the industry has also elicited reactions from the International Monetary Fund (IMF).

Despite the poor economic situation in the country, banking industry has continued to achieve high profit margins. However, there have been several changes in the environment which are threatening the status quo, and to which the banks must respond in order to sustain their profitability. Some of these changes are not as much new policies as strict implementation of already existing policies in the Banking act. These changes include:

Legislative/regulatory changes

Re-enactment of section 44 of the banking Act which states that 'no institution shall increase its rate of banking or other charges except with the approval of the minister'. To enhance transparency on bank charges, the central bank of Kenya will encourage disclosures of all charges by specified institutions in the local press. This is aimed at increasing customer awareness of products and services available and their associated costs to widen the consumers' choice and improve competition. In the past, tariffs have been increased at the banks discretion with a substantial proportion of the banks' profits coming from fees and other charges. Section 44 of the banking act only allows the minister to approve increase in charges and rates. The minister is now seeking more powers to have comprehensive control over bank charges

It is now a Treasury/CBK requirement that banks pay interest to savings account holders higher than the underlying inflation. This will have a major cost implication (interest cost vs. interest income)

Introduction of rules barring banks from charging excessive interest rates especially on distressed and non performing loans. In the 2004/2005 budget speech of June 2004 it was proposed that interest rates on loans should not exceed the original loan. This way, the government is intending to control interest earning by commercial banks while protecting the borrowers. The rule in part states that '--- interest whether it accrues simple or compound interest, cease to accumulate once the accrued interest equals the amount of capital outstanding, whether the debt arises as a result of financial loan or out of any contract whereby capital sum payable together with interest thereon at a determined rate'. (Market intelligence, 2004 page 8-9). This rule seeks to stop bankers from continuing to load customers with interest charges on debt that is clearly not performing.

CBK is developing a benchmark to replace the treasury bills. This is expected to have an impact on pricing of interest rates on deposits as well as credit facilities. In the 2003/2004 budget, the finance minister noted that it was risky and unreasonable to use the demand for credit by government to set base rate for the commercial lending and that the stock for treasury bills at anytime depends on short term government need for money and has no relationship to economic fundamentals. The finance minister recalled the issue of the dreaded Central Bank Amendment Act 2000 (commonly referred to as the Donde Act) which seeks to regulate interest rate, among other factors.

The 2003 budgetary provisions are likely to have a negative impact on the banks' profit margins. The industry's profitability has declined overtime from Kes 16 billion in 1997 to Kes 9 billion in 2001 and to Kes 6 billion in 2002 in tandem with the decline in interest rates (Market intelligence, Banking Survey 2003).
The above requirements were expected to have a major effect on the banks' costs and revenue.

Changes in the political environment

With the entry of the new regime, the playing field is expected to change. There are high expectations that economy will improve and that the banking industry should be able to benefit from the new regime, which is expected to bring an end to the rein of political patronage that worked to the detriment of the industry.

Changes in the economic environment

According to a report in the Kenya monthly Economic Review (January 2004), The CBK over the past year continued to restructure the stock of government debt in favour of the long term treasury bonds. This has led to general decline in interest rates. As a result, over the past year the banking sector saw a marked decline in interest income on government securities. Generally, banks have enjoyed high interest rates on government securities. The low interest rate regime is expected to have a major impact on the bank's profitability.

According to the Central Bank annual report, 2003, the performance of the banking sector is expected to improve following the implementation of the measures proposed by the Minister of Finance in the budget for financial year 2003/2004. In other words, strict enforcement of compliance requirements by the Central Bank is expected to ensure prudence and higher efficiency in the sector.

Differentiation as an aspect of strategy

The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy and achieving competitive advantage requires a firm to make a choice (Porter, 1998). Porter continues to say that competitive strategy is central to a firm's relative position within its industry.

The objective of the generic differentiation strategy is to achieve a competitive advantage by creating a product or service that is perceived to be unique in some important way (Hill and Jones, 2001). The ability to satisfy a need in a way that the competitor cannot means that the differentiator can charge a premium price and this allows the differentiator to outperform its competitors and gain above average profits. This principle has been seen in the banking sector where some foreign owned banks such as Standard Chartered Bank and Barclays Bank were perceived to be superior in service delivery and banking products offered as well as stability. These banks were therefore able to charge premium prices and achieve high profit margins compared to the other banks in the same industry. With the introduction of control measures, the banks now have to seek approval to increase prices on products offered even if the products are perceived to be of high quality by customers. Ability to charge premium prices on products perceived to be superior is at the centre of differentiation strategy. It is therefore important to understand how the strategy can be applied in an environment where price is controlled. No study, to the best of my knowledge has been done to bridge this gap in knowledge.

Performance of the banking sector

Some banks in Kenya have been reaping huge profits in an economy which has generally been declining, while other banks in the same industry were making loses. The table below shows financial performance of some banks since 2001.

Table 1: Financial performance from 2001 to 2003

Institution	**Profit Before Tax (Ksh in millions)**		
	2003	**2002**	**2001**
Barclays Bank of Kenya	4,790.00	2,550.00	4,235.00
Standard Chartered Bank	4,010.00	3,212.01	3,232.00
Kenya Commercial Bank	750.00	-4,178.56	183.00
Cooperative Bank of Kenya	180.52	146.86	-803.00
National Bank of Kenya	491.90	390.14	-323.00
Commercial Bank of Africa	568.13	382.15	515.00

Source: Market intelligence: Annual Special Edition 2003 and 2004

From the table above, it can be clearly seen that the top two foreign owned banks have been making quite large profits. These banks can also be said to have differentiated themselves in terms of service and products offered and therefore have been able to charge premium prices which customers were willing to pay as they deemed them to offer value for money. As much as the government has re-enacted section 44 of the banking act, the bank tariffs continue to be different across the industry. However going forward, approval has to be sort to make any amendment on the charges and this has curtailed increase in tariffs since the financial year 2003/2004.

According to a report by the Financial Standard of August 17 2004, Barclays Bank and Standard Chartered Bank reported 4.4% and 26% reductions in pre tax profits respectively for the first six months of 2004 compared to a similar period in 2003. The fall in profitability was attributed mainly to the slow recovery of the economy and the prevailing low interest rates. The pressure to create more innovative products and market them aggressively is growing. The high yield government securities and income from commissions and fees have in the past been the main contributors to the banks' profits.

1.2 STATEMENT OF THE PROBLEM

Kenya's banking industry was under stringent government control for many years. During the same period, the government consistently sold treasury bills at high rates of interest. These bills were predominantly bought by the banks. Because of the huge profits they made from the bills, the banks had no motivation to develop competitive strategies as their market was assured. Threats of new entrants (new banks entering the market), substitute products, competitive rivalry, power of buyers and power of suppliers were minimal. The situation changed significantly with the advent of liberalisation in the early 1990s. However, intensity of competitive rivalry in the sector only reached peak levels with the drastic decline in interest rates offered by the new government on treasury bills. The banks were forced to look elsewhere to forestall drastic decline in their profit margins. They resorted largely to the use of generic strategies namely cost leadership and differentiation. In an effort to reposition themselves, the banks engaged in extensive marketing. During this period, there was also a marked increase in bank tariffs as banks sought to differentiate themselves and charge premium prices on there products. Differentiation strategy is more effective if it enables a firm to charge premium price for its product (Porter 1985).

There was significant change in the situation described above when the government re-introduced section 44 of the banking act (therefore controlling bank charges) and set a ceiling on interest charged on none performing loans as well as those paid on customers' deposits.

From the perspective of generic strategies, this change meant that the banks would only be able to charge premium prices for their products with the approval of the Central Bank of Kenya even if such products were perceived by customers as relatively superior in quality. However, this approval is not guaranteed. This raises the following question: what is the role of differentiation strategy in a controlled environment? This research is therefore motivated by the need to seek answers to this question and thus constitutes the research problem.

1.3 OBJECTIVE OF THE STUDY

To establish the use of differentiation strategy in the banking sector in Kenya.

1.4 IMPORTANCE OF THE STUDY

- **The industry-** The results of this study can be used by banks as a source of information for industry analysis and strategic change planning.
- **Top management-** in making managerial decisions related to changes in the market. The paper should be able to put the issues facing the industry in a clear perspective that can be applied by managers in decision making.
  To reflect on their strategic management practices for further improvement or application in future if faced with strategic change situation.
- Can be used by academics as a basis of existing literature for further research.
- Use by other industries facing a similar change situation.
- Help the government regulators in understanding the effect of the policies on the industry which will be useful in policy making, given the importance of the banking industry to the country's economy.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

To gain competitive advantage in an industry, there is need to understand the industry forces in order to adopt an appropriate competitive strategy. Porters five forces model offers an important basis for undertaking an industry analysis while the generic strategies are an important tool in competitive advantage. This chapter therefore will have an overview of the five forces as well as the concepts of generic strategies with more emphasis on differentiation strategy which is the subject of this study. The advantages of generic strategies can be discussed in the context of the five forces hence the importance of having an overview of the five forces in this literature review. Also included in the chapter is an overview of some of the changes experienced in the banking sector elsewhere in the world.

2.2 COMPETITIVE FORCES

Competition is at the core of the success or failure of firms (Potter, 1998). One of the central questions in competitive strategy according to Potter is the determinants of relative competitive position within an industry. In most industries some firms are much more profitable than others regardless of what the profitability of the industry maybe. This has been the case in Kenya's banking industry where banks like Standard Chartered Bank (SCB) and Barclays Bank of Kenya (BBK) have been raking in profits while others such as Kenya Commercial Bank (KCB) and National Bank of Kenya (NBK) are posting loses.

The competitive strategy taken by a firm should respond to the environment while also attempting to shape the environment to its favour. A firm's external environment consists of all conditions and forces that affect its strategic options and define its competitive situation. Different forces take prominence in shaping competition in an industry (Pearce and Robinson 1997). The rules of competition are embodied in Potters five forces of competition. These are threat of new entrants, threat of substitute, bargaining power of buyers, bargaining power of suppliers and rivalry among existing competitors.

Threat of new entrants The threat of entry into an industry depends on the barriers to entry that are present coupled with the reaction from existing competitors. Where the barriers are high and the new entrant can expect sharp reaction from the existing firms, entry is low. The government can limit or even fore close entry to an industry with such controls as licence requirements (Pearce and Robinson, 1997). In Kenya entry into the banking industry requires licensing by the government on meeting certain set conditions.

Threat of substitutes Substitute products broadly offer competition in any industry. They affect the prices that can comfortably be charged within the industry and hence the overall performance.

Bargaining power of Buyers can affect the industry by forcing down prices, bargaining for higher quality or more services and playing competitors against each other.

Bargaining power of suppliers Powerful suppliers can exert pressure on the industry by increasing prices or reducing quality. This may squeeze profitability out of an industry by increasing overall cost.

Rivalry among existing competitors Rivalry among competitors may take the form of price competition, advertising battles, product introductions, increased customer service, etc. Rivalry occurs where a competitor has seen an opportunity to improve its position or the competitor feels the pressure from rivals. A competitive move by one firm may have noticeable effect on the other firms causing competitive moves by other firms by inciting retaliation. For example in Kenyan banking industry rivalry has increased with new products being introduced and imitated and banks resorting to some unorthodox measures like buying of loans from the competitors all in the name of competition.

2.3 GENERIC COMPETITIVE STRATEGIES

Competitive strategy is taking offensive or defensive actions to create a dependable position in an industry to cope successfully with the five competitive forces (Porter 1998). A number of researches have been undertaken to understand competitive response strategies. Several of these indicate use of the generic strategies in managing change. Chepkwony (2001) found that more firms in the oil industry adjusted their products strategies so as to improve their quality in order to meet the changing environment.

Companies pursue a strategy to gain a competitive advantage that allows it to outperform rivals and achieve above average returns (Hill and Jones, 2001). Positioning determines whether a firm's profitability is above or below average. The fundamental basis of above average performance is sustainable competitive advantage. This can be obtained basically by low cost or differentiation. According to Potter (1998), the three generic strategies can be used to achieve above average performance in an industry and thus outperform other firms in the industry.

Cost leadership A firm sets out to become the low cost producer in the industry. At equivalent or lower prices than its rivals, a cost leader's low cost position translates into higher returns. Cost leadership requires aggressive construction of efficient scale facilities, cost reduction, tight cost and overhead control, cost minimisation among other measures. Low cost provides defence against powerful buyers and suppliers. Isaboke (2001) in his study on the strategic responses by major oil companies found that the companies identified cost leadership as a critical factor to their continued competitiveness.

Low cost position gives the firm a defence against rivalry from competitors since it can still earn returns after the competitors have competed away profits through rivalry. It also defends the firm against powerful buyers since the buyers can only drive prices to the level of the next efficient competitor. Low cost also provides flexibility in dealing with cost increases hence it provides defence against powerful suppliers. It may also provide entry barriers due to cost advantages.

Differentiation In this strategy, a firm seeks to be unique in its industry along some dimension that is widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely position itself to meet those needs. Differentiation can be on the product, delivery system, marketing approach, technology, and customer service among other factors. It requires that the differentiator seeks ways of differentiating that lead to price premium greater than the cost of differentiating otherwise the premium price would be nullified by a markedly inferior cost position. A firm must be unique or be perceived as unique at something if it is to expect a premium price (Porter, 1998). Unlike cost leadership, there can be more than one successful differentiation strategy in an industry. The firm practicing differentiation strategy concentrates on creating a highly valued product line and marketing program so that it comes across as the class leader in the industry (Kotter and Armstrong, 2001)

According to Hill and Jones 2001, differentiation can be achieved in three principle ways namely innovation, quality and responsiveness to customers. A differentiating company may sometimes seek to differentiate itself along as many dimensions as possible. Generally, the differentiator chooses to segment its market into many niches, offer products designed for each market niches and decides to be a broader differentiator. The company might choose to serve the niches(s) where it has specific differentiating advantage.

Companies tend to add value to their products and services through differentiating products and lowering costs coupled with more competitive efforts to improve linkages between the various activities/functions that contribute to the creation and delivery of products and services (Beer, 1987). Johnson and Scholes (2002) intimate that differentiation strategy seeks to provide products or services unique or different from those of competitors in terms of dimensions widely valued by buyers. The aim is to achieve high market share than competitors by offering better products or service at the same or premium price. Karanja (2002) found that real estate firms popularly applied focus differentiation strategy to gain competitive advantage.

Differentiation provides insulation against competitive rivalry because of brand loyalty resulting in lower sensitivity to price. The resulting loyalty and the need for a competitor to overcome uniqueness provide entry barriers. It also provides higher margins with which to counter supplier power and mitigates buyer power since they lack alternatives and are hence less price sensitive. The firm is also better placed against substitutes than its competitors due to the perceived uniqueness. Kombo

(1997) found that firms in the motor vehicle industry adjusted their variables substantially to survive in the changing environment by introducing e.g. new technologies, product development, differentiated products segments and targeted their customers more while improving on customer service. Muturi (2000) noted that there was effort by East Africa Breweries Ltd to differentiate the company's products in view of the threats posed by increased liberalisation.

Focus This strategy rests on a narrow competitive scope within an industry. It involves selecting a segment or group of segments in an industry and tailoring a strategy to serving them to the exclusion of others. By optimising its strategy for the target segment, the focuser seems to achieve competitive advantage in its target segment even though it does not posses an overall competitive advantage.

Focus may be cost focus or differentiation focus. In cost focus, a firm seeks a cost advantage in its target market while in differentiation focus; a firm seeks differentiation in its target segment. Focussed differentiation seeks to provide high perceived value justifying a substantial price premium usually to a selected market segment (Johnson and Scholes, 2002). The focus strategy rests on the differences between the target markets and other segments in the industry. The target market must either have buyers with unusual needs or production and delivery system that best serves the target segment must differ from that of the other industry segments.

Focus strategy presumes that the firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing broadly. Its focus means that the firm either has a low cost position with its strategic target, high differentiation or both (Porter, 1998). These positions provide defence against the five competitive forces. Focus may be used to select where competitors are the weakest or where the firm is least vulnerable to substitutes. The focusing firm profits from their willingness to serve an otherwise ignored or under appreciated segments. Cost focus aims at attaining a low cost position in a more limited sphere.

Broadly targeted competitors may be over performing in meeting the needs of a segment which means that they are bearing higher than necessary costs in serving it. An opportunity for cost focus may be present in just meeting the needs of such a segment and no more. Depending on the environment it's operating in and the company's strategy a firm may sometimes pursue more than one strategy.

A firm that does not assume any of the three strategies is said to be stuck in the middle. According to Porter, such firms will compete at a disadvantage because the cost leaders, differentiators and focusers will be better positioned to compete in their respective segments. A research by Karanja (2002), found that there was a percentage of firms stuck in the middle and who were more or less guaranteed low profitability.

The generic strategies are summarised in the table below

Table 2: The generic strategies

		Strategic Advantage	
		Uniqueness perceived by customer	Low cost position
Strategic Target	Industry wide	**DIFFERENTIATION**	**OVERALL COST LEADERSHIP**
	Particular segment	**DIFFERENTIATION FOCUS**	**COST FOCUS**

Source: Porter, Michael E. (1985) Competitive Advantage: Creating and sustaining superior performance. Free press

It is important to note that some banks in Kenya took up cost cutting measures much earlier before others eventually followed suit. For example, Standard Chartered Bank (SCB) started cost cutting in the early 1990s at a time when other banks were comfortable, leading to perception that the bank was unstable. However, in the long run this strategy bore fruit as was seen by steady improvement in profits made by the bank. Differentiation has also been used extensively while banks jockey for position in the market. This saw products like prestige banking of BBK and excel banking of SCB come into the market.

There are general requirements that need to be in place for a company to be able to adopt a given generic strategy. These are summarised in table 2 below

Table 3: General requirements for generic strategies application

Generic strategy	**Commonly required skills and resources**	**Common organizational requirements**
Overall cost leadership	*Substantial investment and access to capital *Process engineering skills * Intense supervision of labour *products designed for ease in manufacture *low cost distribution system	* Tight cost control * Frequent, detailed control reports *structured organization and responsibilities *Incentive based on meeting strict quantitative targets
Differentiation	*Strong marketing abilities *product engineering *creative flair *strong capability in basic research *Corporate reputation for quality or technological leadership *Long tradition in the industry or unique combination of skills drawn from other businesses *Strong cooperation from channels	*Strong coordination among functions in R&D, product development and marketing *subjective measurement and incentives instead of quantitative measures *Amenities to attract highly skilled labour, scientists, or creative people
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target

Source: Porter, Michael E. (1998) Competitive Advantage: Creating and Sustaining Superior Performance. Free press

The generic strategies are not without inherent risk. For example depending on the industry, all the strategies may have the risk of imitation by competitors. A low cost leader fears new technology being developed by a competitor, differentiator fears imitations and focused firms fear invasion by a firm that largely targets its customers.

2.4 GENERAL OVERVIEW OF CHANGES IN THE BANKING INDUSTRY AROUND THE WORLD

The world today is changing faster than ever before. Technological developments, financial constraints, expanding markets, restructuring and mergers and government legislation are all putting pressure on organisations to change and stay dynamic. Panopoulou (2001) intimates that banking sector is one of the most regulated industries in the world and bank capital is one of the most important aspects of financial regulation. Until the 1980s banks in the majority of European Union countries operated in regulated national environment though there were countries like UK. Germany, the Netherlands and Denmark where the industry was less regulated.

Since the late 1970s, significant changes have been occurring in the financial services industry due to market de-regulation and financial innovation, combined with the development of new information technology applications. Against these trends changes in banking legislation and regulation have sometimes encouraged these trends or adapted to them. In effect, structural change in world banking markets has led regulators to reconsider traditional approaches to supervision and regulation.

In the post war period, governments in advanced and developing countries implemented macroeconomic policies supported by a system of financial market regulations in which ceiling for nominal interest rate was one of the main instruments (Panopoulou 2001). Panopoulou further recons that in the recent years, regional financial crises had dramatic negative impact on the economic performance of many countries. The international financial institutions have attempted to adopt appropriate regulations and supervisory practices on local financial systems that would enhance financial stability and improve economic development. Deregulation and liberalisation of financial markets was introduced and resulted in major structural changes in the financial sector in Europe. In some European countries and Japan, this process was delayed for a longer period while in Germany, Canada and the Netherlands banks' interest rates and capital controls was removed much earlier in the late 1960s and early 1970s.

In Switzerland, Norway and Sweden, banking crises was preceded by liberalisation of banks funding sources and very significant deregulation related credit booms. Fearing that they could lose ground in the vigorous competition touched off by liberalisation, many banks pursued aggressive lending policies as pre-emptive resonance and were prepared to accept higher risks. (Einchengreen & Artela 2000) Due to structural changes, financial systems in many countries have undergone dramatic transformation. Many changes occurred in the volume of financial activities. Markets have grown in size and new financial products introduced. Carlos Artela & Eichengreen intimate that it's the instability of banking system that distinguishes economic crises from ordinary recession.

Michael Beer (1987) noted that deregulation in the banking industry has forced banks to redefine their products and services so that they better meet customer needs. The more competitive markets require management of change strategies to achieve competitive advantage.

The banking industry worldwide is undergoing transformation. The global forces for change include technological innovation; the deregulation of financial services at the national level and opening-up to international competition. The banking industries in central Europe and Latin America have also been transformed as a result of privatisations of state-owned banks that had dominated their banking systems in the past.

While banks are finding new sources of income – mortgages, currency services, and financial products such as consumer loans – they remain laden with bad debts from the unproductive and unprofitable state owned enterprises. Examples of banks in Kenya laden with large bad debts include Kenya Commercial Bank (KCB) and National Bank of Kenya (NBK).

Due to the changes in the banking industry, financial systems in many countries have undergone a dramatic transformation. Many changes occurred in volume of financial activity. Markets have grown in size and new financial products have been introduced (Panopoulou 2000).The same situation is currently being witnessed in Kenya with banks coming up with new financial products and aggressively advertising to uniquely position themselves and thus attract the consumers' interest and active demand. What is not known is how the banks themselves perceive the role of the differentiation strategy in an environment where prices (tariffs) are controlled by the government.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Population of study

The research was a census study involving a survey of all the 42 active commercial banks in Kenya. However individual respondents consisted of product development managers who are ordinarily involved in strategic planning and decision making. These were from the different banks' headquarters since it is assumed that strategic plans from headquarters are implemented uniformly in the different banks' branches.

3.2 Data collection

A structured questionnaire consisting of close ended questions complemented with open ended questions where necessary was used to collect data. The questionnaire consisted of two parts, A and B. Part A contained questions on general characteristics of the banks while Part B addressed the objective of the study.

3.3 Data analysis

The completed questionnaires were edited for completeness before analysing the data collected. Descriptive statistics were used to analyse the data. These included mean scores, percentages and frequency tables. Chi-square statistic was used to test for the difference between large, medium and small banks and between foreign-owned and local banks in the use of differentiation.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter deals with the analysis of the data collected and the research findings. From the study population target of 42 banks, 26 responded to the questionnaire constituting 61% response rate. One bank was not targeted for the study since it is under Central Bank of Kenya statutory management. The data collected has been presented in form of descriptive statistics including mean scores, percentages and frequency tables. Chi-square statistic has been used to test for the difference between large, medium and small banks and between foreign-owned and local banks in the use of differentiation strategy. To compute the mean, weights were assigned to the frequencies on a range of 1-5 for example

Key used	Weight
To a very great extent	5
To a great extent	4
To moderate extent	3
To a less extent	2
Not at all	1

4.2 Data analysis and findings

Table 4: Classification of commercial Banks by ownership/Origin

Ownership/origin	Frequency	Percent
Local	20	77
Foreign	6	23
Total	26	100

77% of the banks are locally owned even though the bigger players in the market are foreign owned banks.

Table 5: Classification of commercial banks by size

Bank size	Frequency	Percent
Large	9	34.6
Medium/ Small	17	65.4
Total	26	100.0

Of the responding banks, 65.4% were medium to small while 34.6% were large banks.

Table 6: Level of competition in the banking industry

Level of competition	Frequency	Percent
Non	0	0
Low	0	0
Moderate	5	19.2
Intensive	15	57.7
Very intensive	6	23.1
Total	26	100.0

From Table 6 above, it can be noted that 57.7% of the respondents captured in the study agreed that there is intensive competition in the banking sector. This implies that the banks have to come up with strategies for survival in order to gain and maintain competitive edge in the industry and sustained profitability.

Table 7: Extent of application of differentiation strategy

extent of application	Frequency	Percent
Not at all	0	0
To a less extent	1	3.8
To a moderate extent	7	26.9
To a great extent	14	53.8
To a very great extent	4	15.5
Total	26	100.0

53.8% of the banks agreed that they practice differentiation to a great extent while 26.9% said they practice it to a moderate extent. This indicates that differentiation has been quite used as a competitive strategy by banks. This confirms the importance of differentiation as a strategic tool and hence any factors affecting its application are of great concern to the industry.

Effect of Government control on the banking industry

A number of regulatory and control measures were introduced in the banking industry as highlighted in the introduction section of this research paper. These included re-enactment of section 44 of the banking act, which requires banks to seek authority from the central bank of Kenya before increasing their fees/charges and reduction of rates on government securities among others. Table 8 and 9 below show the extent to which these changes have affected the industry.

Table 8: the extent to which decline in treasury bills rate has affected the banking industry

Extent of Decline	Frequency	Percent
To a less extent	1	3.8
To a moderate extent	10	38.5
To a great extent	12	46.2
To a very great extent	3	11.5
Total	26	100.0

As shown in Table 8, it was observed that 46.2% of the banks have been affected to a great extent by the decline in the rate of government securities while 38.5% were moderately affected. This was expected since most banks invested heavily in government securities while ignoring other means of investment such as lending.

Table 9: Extent to which inability to raise charges without approval has affected application of differentiation strategy in the banking industry

Extent of Effect	Frequency	Percent
Not at all	1	3.8
To a less extent	2	7.7
To a moderate extent	8	30.8
To a great extent	13	50.0
To a very great extent	2	7.7
Total	26	100

Differentiation strategy is more effective if it enables a firm to charge premium price for its product (Porter 1985). Table 9 above indicates that banks have been affected to a great extent by the inability to raise charges without approval from the government. 50% of the responding banks said they were affected to a great extent while 30.8% were moderately affected. Since premium pricing is one of the expected benefits derived from differentiation, it implies that this control by the government has in effect affected application of differentiation strategy by banks. Where the banks are not able to charge premium pricing without approval, it affects there application of the strategic option.

Table 10: Importance of customer satisfaction as a tool of differentiation in the banking industry

Extent of importance	Frequency	Percent
Not at all	0	0
To a less extent	0	0
To a moderate extent	2	7.7
To a great extent	9	34.6
To a very great extent	15	57.7
Total	26	100.0

As shown in Table 10, most of the banks concur that customer satisfaction is very important. 57.7% of the respondents felt that customer satisfaction was important to a very great extent and 34.6% to a great extent respectively. Only 7.7% thought it was moderately important. In view of the current level of competition, banks are actively trying to differentiate themselves in terms of service delivery. In view of the fact that the banks offer similar products, the main differentiating factor is service, which comes down to people hence the importance of training and development.

Table 11: Extent to which changes of government regulations have impacted on premium pricing

Extent of impact	Frequency	Percent
Not at all	0	0
To a less extent	2	7.7
To a moderate extent	9	34.6
To a great extent	12	46.2
To a very great extent	3	11.5
Total	26	100.0

From Table 11 above, it can be observed that 46.2 % of the banks have been affected by introduction of government regulations on increase of bank tariff. 34.6 % of the banks are moderately affected while 11.5% were affected to a very great extent by the said regulation. To be able to enjoy the benefits of differentiation, the firm should be able to charge premium prices as soon as the product or service is introduced. This is affected in the industry in that banking products are easily imitated and by the time the bank obtains approval, similar products are already in the market and the perception of superiority is lost.

Table 12: Extent to which regulatory changes have affected overall strategy

Extent of effect	Frequency	Percent
Not at all	0	0
To a less extent	2	7.7
To a moderate extent	13	50.0
To a great extent	11	42.3
To a very great extent	0	0
Total	26	100.0

As shown in Table 12, 50% of the banks said they had moderately changed their overall strategy to accommodate the new environment while 42.3% said they had changed their strategy to a great extent. All banks changed their strategy to some extent since none of the respondents indicated no change at all. These changes in overall strategy were occasioned by changes in government regulations and control.

Changes in differentiation strategies employed by banks due to control changes in the environment

Different tools are applied to achieve differentiation in the market. Some of the tools used by banks to differentiate themselves include customer service, product development, technology and focus on target market. The research undertook to determine the level to which the banks were involved in these activities before and after the introduction of the new regulations and controls as well as the level to which banks applied premium pricing before and after the said regulations. The aim of finding out the effect before and after was to measure the extent of effect of government regulations.

Table 13: Level of involvement in premium pricing before and after introduction of controls and regulations in the banking industry

	Frequency		Percentage	
Level of involvement	Before	After	Before	After
Minimal involvement	2	3	7.7	11.5
Less involvement	2	7	7.7	26.9
Moderate involvement	10	8	38.45	30.8
High involvement	10	6	38.45	23.1
Very High involvement	2	2	7.7	7.7
Total	26	26	100	100

The research findings show a decline in premium pricing from high usage involving 38.45% to 23.1% of the responding banks (Table 13 above). Even though it is still applied, the usage has declined. The banks applying premium pricing are mostly a continuation of previous practice as opposed to new application since the new rules did not apply to the tariffs which were already in place as at the time it was implemented but to new tariffs from then.

Table 14: Level of involvement in customer service initiatives before and after introduction of controls and regulations in the banking industry

Level of involvement	Frequency		Percentage	
	Before	After	Before	After
Minimal involvement	0	0	0	0
Less involvement	2	1	7.7	3.8
Moderate involvement	13	4	50.0	15.4
High involvement	6	13	23.1	50.0
Very High involvement	5	8	19.2	30.8
Total	26	26	100.0	100.0

Table 14 above shows an increase in high involvement on customer service initiatives from 23.1% to 50%. There was also an increase in very high involvement from 19.2% to 30.8%. The findings indicate that there was increased involvement in customer service as a differentiating factor and this also saw more banks taking up training initiatives to improve on there service delivery as a way of attracting customers as observed in the table below.

Table 15: Level of involvement in training before and after introduction of controls and regulations in the banking industry

Level of involvement	Frequency		Percentage	
	Before	After	Before	After
Minimal involvement	1	0	3.8	0
Less involvement	6	2	23.1	7.7
Moderate involvement	5	5	19.2	19.2
High involvement	12	11	46.2	42.3
Very High involvement	2	8	7.7	30.8
Total	26	26	100	100

The results above show a change in training in the banking industry with 30.8% very highly involved in training up from 7.7%.

Table 16: Level of involvement in product development before and after introduction of controls and regulations in the banking industry

Level of involvement	Frequency		Percentage	
	Before	After	Before	After
Minimal involvement	1	0	3.8	0
Less involvement	8	3	30.8	11.6
Moderate involvement	10	7	38.5	26.9
High involvement	4	9	15.4	34.6
Very High involvement	3	7	11.5	26.9
Total	26	26	100.0	100

Banks are also involved in serious product development with very high involvement noted. Those highly involved increased from 15.4% to 26.9% while very high involvement increased from 11.5% to 26.9%. The aim of product development is to diversify to capture a wider market as opposed to small targets who may not give returns due to the difficulties of getting premium gains from the target groups. As shown in Table 17 below, there was a decline on focus on target market with the exception of a few banks that are corporate sector focused.

Table 17: Level of involvement in focus on target Market before and after introduction of controls and regulations in the banking industry

Level of involvement	Frequency		Percentage	
	Before	After	Before	After
Minimal involvement	0	0	0	0
Less involvement	4	7	15.4	26.9
Moderate involvement	9	9	34.6	34.6
High involvement	8	6	30.8	23.1
Very High involvement	5	4	19.2	15.4
Total	26	26	100	100.0

According to the findings outlined in Table 17 above, even though banks still practice focus on target market, the level of involvement has declined from 30.8% to 23.1%. This may be attributed to the difficulties involved in increasing income from this segment due to the process of authorisation involved in increasing prices. Most banks that still practice focus are basically those that are corporate client based.

Table 18: Changes in the use of aspects of differentiation and focus strategies before and after introduction of government regulations

Differentiation strategy	Mean	
	Before	After
Premium pricing	3.30	2.88
Customer Service	3.53	4.10
Training	3.30	3.96
Product Development	3.00	3.76
Focus	3.53	3.26

As shown in Table 18, the research findings show an average decline in the application of premium pricing and focus on target market. On the other hand, there was an increase in emphasis on customer service, product development and training. Training was meant to enhance customer service while product development was to broaden the customer segments in order to capture those segments that were otherwise not targeted before.

Analysis of the difference in application of differentiation strategy between large and small/medium banks and between foreign and local banks

The research also undertook to determine if there were any significant differences between large and small/medium banks and between foreign and local banks with respect to the extent to which they apply differentiation strategy. To determine this, specific questions were posed relating to application of the strategy as well as use of specific tools related to the application of differentiation strategy. Some of the tools banks use include customer service, technology and products offered. Chi square statistic was used to test the level of significance of the differences as shown in Tables 19 and 20.

Table 19: Chi square test for the difference in the use of differentiation strategy between large and small/medium banks

Differentiation strategy	Chi-square Value	Degrees of freedom	Level of significance
Application of differentiation strategy	14.488	6	0.025
Products offered	20.604	6	0.002
Customer Service	19.476	6	0.003
Technology	20.292	6	0.002

At 0.05 confidence level and given the chi square values presented in Table 19 above, it can be concluded that there is a significant difference in the application of differentiation strategy, aspects of differentiation strategy namely products offered, customer service and technology, between large and small/medium banks.

Table 20: Chi square test for the difference in the use of differentiation strategy between local and foreign banks

Differentiation strategy	Chi-square Values	Degrees of freedom	Level of significance
Application of differentiation strategy	15.467	3	0.001
Products offered	8.800	3	0.032
Customer Service	8.000	3	0.046
Technology	12.622	3	0.006

The research findings presented in Table 20 above indicate significance levels below 0.05 with respect to application of differentiation strategy and aspects of differentiation strategy namely products offered, customer service and technology. At 0.05 confidence level, it can be concluded that there is a significant difference in application of differentiation strategy between foreign and local banks.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary and conclusions

The objective of this study was to determine the use of differentiation strategy in the banking sector. The study was motivated by the introduction of government regulations in the industry. As highlighted in the problem statement, from the perspective of generic strategies, the changes meant that the banks would only be able to charge premium prices for their products with the approval of the Central Bank of Kenya even if such products were perceived by customers as relatively superior in quality. However, this approval is not guaranteed. This raised concern on the role of differentiation strategy in a controlled environment. The research was also motivated by the fact that some of the environmental changes were expected to have effect on the banks profitability and therefore it would be interesting to note the banks reaction to the changes.

From the research findings, banks generally applied differentiation strategy as a means of gaining competitive advantage. The banks offered specialised services to a target market from whom they would benefit from premium pricing while still offering other products to the mass market. They also used other factors to differentiate themselves such as customer service and technology. However, with the coming of government regulations, the banks have had to come up with other ways of survival including increased advertising, offering mass market products and product development to target new markets, for example the mortgage and unsecured loan facilities. The aim of introducing new product range is to widen the market base so as to maximise on profits.

From the findings of the study, it was noted that there was increased emphasis on customer service. This is because the banks are striving to maintain their customer base to avoid losing their customers to other banks, since products offered are more or less similar across the board. Competition in the industry is intensive and hence the banks have to have strategies which will offer them a competitive advantage.

Banks have come together through their umbrella body, the Kenya Bankers Association (KBA), to fight some of the regulatory changes affecting them. In light of this, some of the changes such as putting ceiling on interest charged on non performing loans have not yet been implemented. KBA is resisting introduction of controls in an otherwise liberalised market. In this they have the support of such organisations as the World Bank and IMF.

From the observations made, changes that have had greater effect on the banks are the re-enactment of section 44 of the banking act which requires that banks seek approval before increasing charges/tariffs and the reduction of rates on government securities. In the past it was noted that banks were able to change their tariffs at will and hence would be able to charge premium prices as soon as they developed new products and services and therefore gain the advantage before the same products or substitutes were introduced by competitors. While banks were able to benefit from premium pricing in the past, they also enjoyed high returns on investment in treasury bills and bond. With both avenues affected, profitability has notably declined in the industry and most affected are the big banks.

From the research findings, it can be concluded that while banks still practice differentiation, this strategy has been affected by the introduction of controls in the industry and hence reduction in revenue. When asked what they were doing to counter this effect, banks responded that they had employed strategies such as product development and customer service while also lobbying for some of the changes not to be implemented through their umbrella body the KBA among others. The banks are coming up with new products targeting new customers who were otherwise not targeted before. As much as the banks are coming up with new strategies, they have not entirely abandoned the use of differentiation as a strategy. They still enjoy the use of differentiation where they had already differentiated themselves except that they can no longer alter prices at will.

Overall it was found that there was a significant difference in the application of differentiation strategy between large and small/medium banks and between local and foreign banks. The findings showed that the banks were highly involved in product development and customer service initiatives for example banks are offering new products such as home loans and aggressively selling unsecured loan products which are expected to reach a wider range of customers and offer alternative source of income while also undertaking training initiatives to improve on customer service.

5.2 Limitations of the study

The challenge faced was with the administration of the questionnaires. Most banks did not want to fill out the questionnaires arguing that it would breach their confidentiality of information. At a time when banks are coming up with new strategies to enhance profitability given the loss of revenue avenues such as investment on government securities and fees/charges, the banks felt that disclosing information may lead to leakage which might take a way their competitive edge. A lot of time was taken explaining the purpose of the study. The difficulties were faced from the smaller banks that are closer knit. Greater participation would have undoubtedly enhanced the research findings.

5.3 Recommendation for further research

Differentiation strategy is more applicable in a non price controlled environment. I recommend that a full study be carried out on the application of the strategy in a controlled environment. As much as this has been addressed in this study, the timing of the study did not allow for a more extensive research with a bigger sample spread across many sectors of the economy. It would also be more informative if future studies incorporated other generic strategies.

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APPENDIX 1

LIST OF COMMERCIAL BANKS IN KENYA

1. African Banking Corporation
2. Akiba Bank
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CFC bank
7. Charter House Bank
8. Chase Bank
9. Citibank N.A
10. City Finance Bank
11. Commercial Bank of Africa
12. Consolidated Bank of Kenya
13. Cooperative Bank
14. Credit Agricole Indosuez
15. Credit Bank
16. Daima Bank
17. Delphis Bank
18. Development Bank
19. Diamond Trust Bank
20. Dubai Bank
21. Equatorial Commercial Bank
22. Fidelity Commercial Bank
23. Fina Bank
24. First American Bank
25. Giro Commercial Bank
26. Guardian Bank
27. Habib A.G. Zurich
28. Habib Bank Ltd
29. Imperial Bank
30. Industrial Development Bank
31. Investment and Mortgages Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle east Bank
35. National Bank of Kenya
36. National Industrial Credit Bank
37. Paramount Universal Bank
38. Prime Bank
39. Southern Credit Bank
40. Stanbic Bank
41. Standard Chartered Bank
42. Transnational Bank
43. Victoria Commercial Bank

(Source: Central Bank of Kenya)

APPENDIX 2

QUESTIONNAIRE

APPLICATION OF DIFFERENTIATION STRATEGY IN COMMERCIAL BANKING IN KENYA

(N/B while responding, please tick the appropriate box or fill information in the spaces provided)

SECTION A

1. Name of Bank ______________________________

2. Year established in Kenya ______________________________

3. Respondent's position/Title ______________________________

4. Ownership/Origin: Local ( ) Foreign ( )

SECTION B

1. Describe the level of competition your bank is currently facing

5 very intensive	4 Intensive	3 moderate	2 low	1 none
( )	( )	( )	( )	( )

2. To what extent does your bank practice differentiation strategy?

5 to a very great extent	4 to a great extent	3 to a moderate extent	2 to a less extent	1 not at all
( )	( )	( )	( )	( )

3. Please indicate the extent to which the following factors are considered important in your bank's strategic planning

	5 to a very great extent	4 to a great extent	3 to a moderate extent	2 to a less extent	1 not at all
Market leadership	( )	( )	( )	( )	( )
Competitive position	( )	( )	( )	( )	( )
Customer satisfaction	( )	( )	( )	( )	( )

4. Below are some of the changes affecting the banking sector in Kenya today. Please indicate to what extent each change has affected your bank

	5 to a very great extent	4 to a great extent	3 to moderate extent	2 to a less extent	1 not at all
Decline in treasury bills rate	( )	( )	( )	( )	( )
Disclosure of bank charges	( )	( )	( )	( )	( )
Payment of interest on deposits above inflation rate	( )	( )	( )	( )	( )
Imposition of ceiling of interest charged on Non performing loans	( )	( )	( )	( )	( )
Inability to raise charges /fees without approval	( )	( )	( )	( )	( )

Any other (please specify and rate the extent on a scale of 1-5)

____

____

____

5. To what extent did the above changes result in change in the banks original strategy?

5 to a very great extent	4 to a great extent	3 to a moderate extent	2 to a less extent	1 not at all
( )	( )	( )	( )	( )

6. To what extent have the changes in 4 above affected your application of the following aspects of differentiation strategy

	5 To a very great extent	4 to a great extent	3 to moderate extent	2 to a less extent	1 not at all
Premium pricing	( )	( )	( )	( )	( )
Target marketing	( )	( )	( )	( )	( )
Differentiated products	( )	( )	( )	( )	( )

Any other effects, (please specify and rate the extent on a scale of 1-5)

____

____

____

7. Below are some of the expected effects of government regulation on the pricing of products as part of differentiation strategy. Indicate the extent to which your bank has suffered these consequences.

	5 To a very great extent	4 to a great extent	3 to moderate extent	2 to a less extent	1 not at all
Decline in profits	( )	( )	( )	( )	( )
Increased costs	( )	( )	( )	( )	( )
Loss of market share	( )	( )	( )	( )	( )

Please specify any other effects not listed in item 8 above and rate the extent on a scale of 1-5____

____

____

8. To what extent has your bank used the following options in responding to the regulatory changes?

	5 to a very great extent	4 to a great extent	3 to a moderate extent	2 to a less extent	1 not at all
Market development	( )	( )	( )	( )	( )
Product development	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
Increased advertising	( )	( )	( )	( )	( )
Positioning	( )	( )	( )	( )	( )
Customer Service	( )	( )	( )	( )	( )

9. To what extent have the current regulatory developments resulted in increase in product range offered by your bank?

5	4	3	2	1
to a very large extent	to a great extent	to a moderate extent	to a less extent	not at all
( )	( )	( )	( )	( )

10. To what extent have the current regulatory developments resulted in decrease in product range offered by your bank?

5	4	3	2	1
to a very great extent	to a great extent	to a moderate extent	to a less extent	not at all
( )	( )	( )	( )	( )

11. Since the introduction of regulations, to what extent would you say your bank has tended towards target marketing?

5	4	3	2	1
to a very great extent	to a great extent	to a moderate extent	to a less extent	not at all
( )	( )	( )	( )	( )

12. Since the introduction of regulations, to what extent would you say your bank has tended towards mass marketing?

5	4	3	2	1
to a very great extent	to a great extent	to a moderate extent	to a less extent	not at all
( )	( )	( )	( )	( )

13. To what extent has your bank used the following to distinguish or differentiate itself or its products from the competitors?

	5 To a very great extent	4 to a great extent	3 to moderate extent	2 to a less extent	1 not at all
Customer service	( )	( )	( )	( )	( )
Product range	( )	( )	( )	( )	( )
Technology	( )	( )	( )	( )	( )

14. How would you rate your bank's involvement in the following activities before and after the introduction of the regulatory changes in the sector?(5 indicates high involvement and 1 minimal involvement)

	Before					After				
	5	4	3	2	1	5	4	3	2	1
Customer service										
Advertising										
Premium pricing										
Focus on target market										
Competitive positioning										
Training										
Technology										
Product development										

15. Has your bank collaborated with other banks in the sector to counter regulatory changes through an umbrella body or other means?

Yes ( ) No ( )

If yes please specify action

____

____

____

16. Could you please specify any strategies your bank has used to respond to the regulatory changes in the industry?

____

____

____

Many thanks for your accurate and timely completion of the Questionnaire