

**RESPONSE OF NATIONAL BANK OF KENYA TO  
COMPETITIVE FORCES IN THE BANKING INDUSTRY**

**BY:**

**TOM MUMIA NAMENYA**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN  
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR  
THE MASTER OF BUSINESS ADMINISTRATION DEGREE  
BUSINESS SCHOOL  
UNIVERSITY OF NAIROBI**

**2008**



## DECLARATION

This management Research Project is my original work and has not been presented for a degree in any other University.

**TOM MULUMIA NAMENYA**

**REGISTRATION NUMBER**

**D61/8484/2006**

Signed: .....

Date: 21/11/2008.....

This Management Research Project has been submitted for examination with my approval as University Supervisor.

Signed: .....

Date: 21/11/2008.....

**DR. MARTIN OGUTU**

**Supervisor, Department of Business Administration**

**School of Business**

**University of Nairobi**

## ACKNOWLEDGEMENT

I would like first and foremost to thank the Al-Mighty God for giving me the precious gift of life and strength to undertake this research and indeed the entire MBA course

My heartfelt gratitude goes to my loving family, my wife Bertha, my sons Trevor and Wayne and my daughter Michelle, for their unwavering support and for foregoing precious time that I would otherwise have spent with them throughout the duration of the study

I would also like to give special thanks to my supervisor, Dr Ogutu whose guidance and encouragement was indeed invaluable

I also feel grateful to all the people who, in their own special ways, have made this study a success

## ABSTRACT

The objective of the study was to establish response strategies adopted by NBB to changing industry forces. In order to meet this objective, the pertinent primary and secondary data was collected. Primary data was obtained from personal interviews with the respondents who were responsible for developing the strategic responses by NBB to the competitive forces in the banking industry. Secondary data was collected from various sources including the strategic planning manuals, annual reports and periodic bulletins of the bank. The data was then analyzed qualitatively.

The study established that the competitive forces in the banking industry have posed challenges to NBB and have thus called for the appropriate responses. These challenges arose from the interplay and presence of all the porter's five forces in the banking industry. These forces are the threat of new entrants, threat of substitute products, the rivalry within the industry, the bargaining power of suppliers and the bargaining power of customers.

According to the research findings, NBB has responded to the competitive forces through restructuring, aggressive marketing, information technology, and culture change among other responses. Most of the respondents felt that NBB has the necessary resources and capabilities to effectively respond to the competitive forces and achieve a sustainable competitive advantage in the industry.

The study was based on the response of NBB to the competitive forces in the banking industry. Alternatively, a cross-sectional survey covering all banks in the industry to determine the strategic responses to these forces by the banks generally, could be undertaken. This then will allow for industry generalizations to be made.

# TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>ACKNOWLEDGEMENT</b> .....	iii
<b>ABSTRACT</b> .....	iv
<b>1.0 INTRODUCTION</b> .....	<b>1</b>
1.1 Background .....	1
1.1.1 Response Strategies .....	2
1.1.2 Industry Forces .....	5
1.1.3 The Banking Industry in Kenya .....	6
1.1.4 National Bank of Kenya .....	11
1.2 Research Problem .....	13
1.3 Research Objective .....	14
1.4 Importance of the Study .....	15
<b>2.0 LITERATURE REVIEW</b> .....	<b>16</b>
2.1 The Concept of Competition .....	16
2.2 Porter's Five Force Model .....	18
2.2.1 Threat of new entrants .....	18
2.2.2 Bargaining power of suppliers .....	20
2.2.3 Bargaining power of buyers .....	21
2.2.4 Threat of availability of substitutes .....	21
2.2.5 Rivalry within the Industry .....	22
2.3 Response Strategies to Environmental Challenges .....	23
2.3.1 Cost Leadership Strategy .....	26
2.3.3 Differentiation Strategy .....	28
2.3.4 Focus Strategy .....	30
2.4 The Resource based View .....	30
2.5 Technology .....	31
<b>3.0 RESEARCH METHODOLOGY</b> .....	<b>33</b>
3.1 Introduction .....	33
3.2 Research Design .....	33
3.3 Data Collection .....	34
3.4 Data Analysis .....	34
<b>4.0 DATA ANALYSIS AND INTERPRETATION</b> .....	<b>35</b>
4.1 Introduction .....	35
4.2 The Respondents' Profiles .....	35
4.3 Competitive Forces in the Banking Industry .....	35
4.3.1 Bargaining Power of Customers .....	36
4.3.2 Rivalry within the Banking Industry .....	37
4.3.3 Threat of new entrants .....	38
4.3.4 Bargaining power of suppliers .....	39
4.3.5 Threat of substitute goods .....	40
4.4 Other Strategic Responses .....	40
4.4.1 Restructuring .....	40
4.4.2 Marketing .....	42
4.4.3 Customer Care .....	43
4.4.4 Information Technology .....	44

4.4.5 Culture Change	45
4.4.6 Product Innovation	46
<b>5.0 SUMMARY CONCLUSION, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH.....</b>	<b>48</b>
<b>5.1 Summary of Findings.....</b>	<b>48</b>
5.1.1 Challenges posed to NBK by competitive forces in the banking industry	48
5.1.2 Response of NBK to competitive forces in the banking industry	48
5.2 Recommendations	49
5.3 Limitation of the Study	52
5.4 Suggestions for further Research	52
<b>REFERENCES .....</b>	<b>53</b>
<b>APPENDIX 1 – Letter of Introduction .....</b>	<b>59</b>
<b>APPENDIX 2 - Questionnaire.....</b>	<b>60</b>

# 1.0 INTRODUCTION

## 1.1 Background

According to Porter (1980), environments can change, new organizations enter and exit and the supply of resources becomes more or less scarce. He claims that when environments become uncertain organizations face the prospect either of not surviving or of changing their activities in response to these changes. Therefore, to survive and become effective an organization must be capable of making adaptations to the changing situations. Cole (1980) contends that it is due to these continuous changes that organizations need more powerful management process like strategic management to cope successfully. Porter (1985) asserts that organizations that do not adapt change to keep pace with the dynamic environment are likely to suffer and become irrelevant. They will lose their reason for existence. According to Kotler (1991) the magnitude of today's environmental, competitive, and global market change is unprecedented and that it is a very interesting and exciting world, but it's also volatile and chaotic.

Grant (1991) contends that to cope with an unpredictable world one must build an enormous amount of flexibility into the organization. He argues that while one cannot predict the future one can get a handle on trends, which is a way to take advantage of the change and convert risks into opportunities. Not only must managers be aware of environmental forces and environmental change they must also manage the organization's resources to take advantage of opportunities and counter threats (Thompson, 1997). Pearce and Robinson (1991) arguing on the same line state that a host of external factors influence a firm's choice of direction and strategy and ultimately its organizational structure and internal processes.

### 1.1.1 Response Strategies

As competition increases, price-cost margins are negatively affected (Kates and Petersen 1994), productivity levels rise as weak firms exit (Bernard et al., 2003; MacDonald, 1994) and wages face downward pressure (Revenge, 1992). These industry level findings are complemented by observations made on individual businesses. Companies that rely solely on cost reduction cost leadership strategies in response to competition lose market share and see their relative competitive position eroded (Carr, 1993).

In contrast, companies that respond by exploiting comparative advantage through international sourcing activities and differentiation strategies are able to maintain or even increase their competitive strength over rivals (Langlois and Stenmueller, 2000). Much research has been conducted on strategic responses to competition, both conceptual (Porter 1980, 1985) and empirical (Campbell-Hunt, 2000). When facing industry competition market incumbents need to carefully analyze their new rivals, identify their source of competitive strength, and adapt their strategies accordingly (Kumar, 2006). When a new entrants reduce average profit margins within an industry, companies respond by differentiating their products, cutting prices, or doing both at the same time (Spanos, Zaralis, and Trioukas, 2001).

Higher market experience of newcomers has been found to provoke a stronger reaction of market incumbents (Shankar, 1999). Furthermore, true competitive advantages achieved through higher entrant product quality facilitate entry and lead to higher market shares (Gatignon, Weitz and Bansal, 1990). According to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Mahoney and Pandian, 1992; Penrose, 1995; Peteraf, 1993; Wernerfelt, 1984).



In this paradigm, a company can be considered as a bundle of resources that makes it unique if the resources are valuable, rare, hard to imitate, and difficult to substitute (Barney, 1991). For firms operating in a highly competitive environment, a distinctive strategic orientation is needed, requiring the exploitation of critical resources in order to gain competitive advantage (Porter, 1985). Consistent with the resource-based view, Mintzberg (1973) considers strategy as a pattern stream of decisions which allocate resources to reach consistency between a firm's strategy and its environment.

The resource-based theory posits if domestic companies try to compete with low-cost competitors on price they have to offset the competitive advantage, which is only possible if they build upon other resources, e.g. capital for automation (de Meyer, 1986). However, Grant (1989) argues that such a substitution is limited only to those segments where product changes are rare and sufficient economies of scales are achievable. Strategic choice therefore suggests that companies either can remain in their given environment pursuing a dedicated strategy best suited in response or can decide to change the environment by moving into product segments with little competition or by erecting entry barriers to thwart competition in the industry (Porter, 1985).

However, Child (1972) contends that in case of inconsistency, strategic choice theory suggests two distinct categories of strategic action to resolve this misfit. Alternatively, 'environmental strategies' aim at manipulating the environment in such a way that a fit between strategy and the environment is established, that is, strategy is largely fixed while the environment is mutable (Kumar, 2006). Kumar (2006) alludes that such a change can either be achieved if firms relocate themselves into a more favorable environment or if the environment is actively manipulated in favor of the firm's strategy.

Therefore a pure cost-reduction strategy alone seems to be of limited effectiveness when suppliers have a substantial cost advantage (Grant, 1989). Product differentiation strategies strive to create unique products that cannot easily be matched by other competitors and thereby alleviate cost pressure on the firm (Porter, 1985). He further contends that companies can develop resources and competences that are difficult for their rivals to imitate. Increased competition drives increased use of product differentiation strategies in terms of innovation speed, and offered services to the customer.

Availability of the latest technology that is crucial for product innovation is more likely to exist in more advanced companies. (Lee and Suh, 1998, Posner, 1961). Only the most advanced competitors will typically be able provide the necessary range of supporting services for advanced products (Zou, Fang, and Zhao, 2003). Marketing differentiation as a response strategy is especially interesting in the context of industry competition because marketing knowledge is an intangible asset not as easily imitated as physical products. Competitors sometimes can compensate for missing marketing knowledge by relying upon large wholesalers and international trading companies (Arpan, de la Torre and Loyne 1981).

However even in those cases the development of a strong brand identity and customer awareness is vital as a response strategy (Insch, 2003). Market incumbents can also avoid direct competition within the industry by switching into market segments that are less affected. Such a move constitutes a defensive strategy which is only possible if similar but more attractive niches exist in the market. Typically these segments are characterized by higher skill and capital intensity (Bernard, Jensen, and Schott, 2008). Another strategy focused on environmental change aims to raise market entry costs.

In the case of increasing competition, this may take the form of lobbying for tariffs or quotas, a dramatic build-up of capacity, or aggressive pricing. An entry deterrence strategy built upon aggressive pricing and over-capacity may require companies to forgo short-term profitability in the hopes that they may maintain a long term market presence (Porter, 1985). Alternatively, companies may attempt to prevent higher levels of competition by calling for national regulation and protectionism through the government (Schuler, Rehbein, and Cramer, 2002).

### 1.1.2 Industry Forces

According to Porter (1980) an industry consists of a group of companies competing not only amongst themselves, but also as an aggregate against the same industry in other countries. Firms position themselves within an industry through different strategies. However, in most cases firms in an industry pursue similar strategies that make the industry's strategy clearly different from the strategy of the same industry in another nation (Porter, 1996). An industry is competitive if the industry as an aggregate has a competitive advantage that allows it to consistently create higher profits than other industries in other sectors (Porter, 1996).

Porter's 5 forces analysis is a framework for the industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School. According to Porter (1980) the 5 forces model attempts to realistically assess potential levels of profitability, opportunity and risk based on five key forces within an industry. These forces are, the threat of new entrants, threat of substitute products, the rivalry within the industry, bargaining power of suppliers and the bargaining power of customers. Porter (1980) asserts that a company must seek to understand the nature of its competitive environment if it is to be successful in achieving its objectives and in establishing appropriate strategies within an industry.

If a company fully understands the nature of the five industry forces, and particularly appreciates which one is the most important, it will be in a stronger position to defend itself against any threats and to influence the forces with its strategy (Porter, 1980). Successful use of the Porter Model Analysis includes identifying the sources of competition, the strength and likelihood of that competition existing, and strategic recommendations for the action a company should take in order to develop barriers to competition (Grant, 1998). This model may be used as a tool to better develop a strategic advantage over competing firms within an industry in a competitive environment as it identifies five forces that determine the long run profitability of a market or market segment (Recklies, 2001).

Porter (1980) contends that an "unattractive" industry is one where the combination of forces acts to drive down overall profitability. He argues that a very unattractive industry would be one approaching "pure competition". Porter (1980) referred to these industry forces as the micro environment, to contrast it with the more general term macro environment. A change in any of the industry forces normally requires a company to re-assess the marketplace (Recklies, 2001). However, Ansoff (1987) argues that the overall industry attractiveness does not imply that every firm operating in the industry will return the same profitability. Firms are able to apply their uniqueness in resource, business model or network to achieve a profit above the industry average.

### **1.1.3 The Banking Industry in Kenya**

The banking Act (Cap 488) defines a bank as a company which carries on, or propose to carry on, banking business in Kenya and includes the Cooperative Bank of Kenya but does not include the Central Bank of Kenya. Banking business means the accepting from members of the public of money on deposit payable on demand or after the expiry of a fixed period or after notice

The banking system acts as the medium through which national savings are mobilized in the economy for development. The Kenyan banking industry environment has been changing steadily since the 1960s in a number of areas such as nature of personal liabilities, regulatory framework and information technology. The redundancy of the boundaries of the services was mainly restricted on both the range of products that a firm could offer and constraints on the geographical area in which the service could be offered (Finew, 1991). In the immediate post-independence Kenya the banking industry was highly controlled. However, after 1982 the government relaxed the hitherto stringent rules in the issuance of licenses, especially licenses to operate non-bank financial institutions (NBFIs).

The low capital requirement of only Ksh 5 million for a non-bank financial institution brought about the mushrooming of these institutions in the country. The relaxed regulatory and supervisory systems with which the banking and financial institutions operated at this time brought with it poor governance and management culture in the industry. The eighties thus witnessed the collapse of a number of banking institutions. After the failures, the government made extensive changes in both the Banking Act and the Central Bank of Kenya Act so as to stem further instability in the industry (Central Bank of Kenya, 2003).

The changes saw the capital adequacy requirement increased to Ksh 20 million for banks and Ksh 10 million for non-bank financial institutions. Another major change was the creation of Deposit Protection Fund paid for by member banks to meet liabilities of small depositors in the event of a bank collapsing. To further protect the core capital from erosion by bad and doubtful advances, a statutory reserve fund was established to be funded by banks' declared profits. Of such profits, 12.5 percent were to be transferred to reserves to guard against future losses (Central Bank of Kenya, 2003).

Banks responded to these changes by diversifying away from interest sensitive products and services. Bank rivalries are also very strong and many of the small banks are merging to increase their competitiveness. The banking industry is continuing to restructure and position itself for the changing economy as a result many mergers that have occurred in recent years. Bank mergers are usually consummated as a cost-cutting measure but also as a means to compete with bigger banks. There has been also increased acquisition and strategic alliances among banks (Goro, 2003)

Kathuku (2005) found that market size and growth rate of the banking industry has tremendously grown. Most banks are now targeting low income customers previously ignored. The industry's products are increasingly being made flexible and customized in an effort to suit the customers specific requirements. In response to this, some of the institutions have redefined their business strategies while leveraging on innovative and affordable products to capture this new market segment. Musa (2004) found that Islamic banking has emerged as a new market product. In the long run, the success and soundness of the financial institutions and the entire sector will depend on the achievement of operational efficiency through the application of prudential practices, good corporate governance and robust risk management framework. (Central Bank annual report 2006)

According to Goro (2003) firms offering substitute products are becoming a major issue in the banking industry. There has been the introduction of the non-traditional players who now offer financial services' products. These include cooperative societies, building societies, foreign exchange bureaus and Microfinance enterprises.

There are also other alternatives like 'shylocks' though there is a lot of debate as to their legality in the country but nevertheless they are part of the competition against the banking industry (Gioro, 2003). Another major substitute to the banking products has been the mobile telephony industry. Safaricom which has introduced their M-Pesa product is a threat to the banking industry. This is a mode of sending and receiving money and indeed depositing money via the mobile phone. In rural areas M-Pesa is very popular as shown by reports from Safaricom that it transfers on average Kshs 500 M every month (Safaricom Ltd, 2006). The mobile telephony industry has a huge mass penetration deep into the interiors of the country unlike the banking industry.

Barriers to entry in the banking industry are enormous and there is virtually no chance of a new entrant significantly affecting the major banks' market share (Kathuku, 2005). It is very expensive to open up a bank as there are high entry costs affecting the banking industry (Gioro, 2003). Despite changes in the regulatory framework and exchange controls being lifted, the Kenyan banking industry still continues to be restrictive. Legislation has a huge impact on the banking industry as a barrier to entry because banks must comply with government regulations. The capital adequacy requirement is currently 1 billion shillings which impacts the industry by locking out potential small players.

The Central Bank of Kenya has also clearly stipulated who is fit and proper to manage a bank. It has also put in place other strict requirements that must be met to allow entry into the industry and as such only serious contenders are able to join (Musa, 2004). According to Lee & Suh (1998) information technology is an area that has steadily developed in the banking industry.

Technological advancements have introduced new management methods and financial instruments which have opened up new markets in the banking industry. In the banking industry environment there is intense competition, growing customer sophistication, the need to improve profit to cover increasing costs and inflation factors which are gradually bringing a wide spread appreciation of the need for strategic responses (Lee & Suh, 1998). Musa (2001) contends that new product development is also a very significant as banks have embarked on developing new products to lure and retain customers. He argues that this can be seen in the way each bank always has a new product to offer that it promises will have more benefits than that of the competition.

This has greatly been due to reduced interest earnings from Treasury Bills which were previously the main source of income for banks. Banks have started buying out loans from other banks. Banks are also offering unsecured loans at very competitive rates which can be arranged within a very short time (as short as 18 hours). Banks are also advancing loans to customers for purchase of shares especially in Initial Public Offers (IPOs). According to Okode (2001) the method of marketing and selling bank products keeps undergoing change. Today the banks will approach the customer and not the other way round as previously was the case.

It is actually possible to open a bank account without stepping in the banking hall. Banks have become innovative in their ways of attracting customers by aggressively reaching out into the streets and shopping malls. The bargaining power of customers in the banking industry is significant. The great transformation in the banking industry has led to customers becoming more enlightened and thus more demanding for specific needs. Some banks are operating up to 8pm at night in order to meet customers' expectations (Okode, 2001).



#### 1.1.4 National Bank of Kenya

National Bank of Kenya limited, herein after referred to as the bank, is one of the largest bank in Kenya. The bank was incorporated on 19th June 1968 and officially opened on Thursday January 11th 1969. The bank was Kenya's first indigenous commercial bank, having an initial authorized share capital of Kshs. 20 million. The objective for which it was formed was to help indigenous Kenyans to get access to credit and control their own economy after independence. The bank has its head office on National Bank House situated on Harambee Avenue in Nairobi.

The bank has 30 outlets spread across the country in the form of full-time branches, sub-branches and agencies. Currently it has its head office and four other branches in Nairobi, while the rest of the branches are situated in other major towns in the Republic of Kenya totaling to 21 branches in number. In 1985, National Bank revolutionized customer service counters in Kenya by pioneering the introduction of on-line computerized services making the bank a leader in fast and efficient service delivery. However, this competitive edge was lost due to complacency and lack of investment in the upgrading of its systems.

At an extra Ordinary General Meeting of the Bank held on 13th September 1994 a special resolution was passed converting the Bank from a private to a public company and adopting a new Articles of Association. In the same year (1994), the Government reduced its shareholding by 32% (40 Million Shares), which was sold to members of the public. Again in May 1996, the Government further reduced its Shareholding by a further 40 million Shares, also sold to the public. The current Shareholding stands at National Social Security Fund (NSSF) 48%, General Public 29%, Kenya Government 23%. In the year 2003 the Bank increased its share capital from Kshs. 3 Billion to Kshs. 9 billion.

The bank is a major player in Kenya's banking industry, continuing to give financial services to all sectors of the economy. The bank continues to cover the financial landscape and responding positively to the needs of its customers, shareholders and the economy at large. The bank provides a wide range of services through its Head Office and network of branches. Besides offering traditional financial services and products, the bank has taken a leading role in the stock market playing multiple roles as an arranger, underwriter and a placing agent. The bank is an appointed fiscal agent, registrar and market maker in the secondary market. The bank's latest product is the Internet Banking (NBKOnline) services.

The bank is firmly emerging from problems it has been experiencing since 1998, mainly due to the high level of non-performing loans. National Bank embarked on a US \$ 10 million Centralization program in 1999, which was aimed at improving controls, and efficiency in service delivery. Customers are now served in an online real time modern banking system. Over the years the bank has initiated several recovery programs including debt recovery, Information Communication Technology (ICT) to centralize its branch network, cost control, capacity building and rationalization of branch network.

As a result the bank has reported overall positive net trading improved performance. Re-organization and rationalization of National Bank's Head Office and network has been undertaken and completed resulting in a more responsive structure to the needs of customers. The bank's strategic Business plan (2008-2010) for the coming three years has been developed and is currently under implementation. With an ever changing business environment due to dynamics in the economy, the bank's new business plan has given it a strategic direction aimed at achieving efficiency. Towards this end, emphasis has been laid on the need to improve on services so as to cope with the changing technology, market trends and the customer needs.

The bank has enumerated various mobile phone applications that the bank has rolled off using this newfound medium of reaching out to their customers. The National Bank of Kenya top management is headed by the Managing Director assisted by the Company Secretary and the Finance Director. Other top managers are the General Manager Internal Audit, General Manager Operations, General Manager Credit, and General Manager Human Resources & Administration.

(Source: NBK Financial Reports, 2004,2005,2006,2007 & NBK strategic business plan 2007-2010)

## **1.2 Research Problem**

A business has to understand the dynamics of its industry and markets in order to compete effectively in the marketplace. Porter (1980) defined the forces which drive competition contending that the competitive environment is created by the interaction of five different forces acting on a business. Understanding the nature of each of these five forces gives organizations the necessary insights to enable them to formulate the appropriate strategies to be successful in their market (Thurlby, 1998). Ansoff (1987) asserts that a mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem.

A strategic problem requires a strategic response (Ansoff & MacDonnell, 1990). Additionally, Pierce and Robinson (1998) define strategic response as the set of decisions and actions that result into formulation and implementation of plans designed to achieve the organizations objectives. Porter (1991) also observes that organizations need to know the underlying sources of competitive pressure to develop an actionable strategy.

Research studies have been undertaken on strategic responses by commercial banks in Kenya to the changes in the environment. Goro (2003) conducted a study on the strategic responses of commercial banks to the threat of substitute products. This study narrowed the strategic responses of commercial banks to only one of the Porters 5 forces that is, the threat of substitute goods. Kiptugen (2003) researched on strategic responses to a changing competitive environment in a case study of Kenya Commercial Bank. Okode (2003) also conducted a study on the strategic responses of commercial banks in Kenya generally. Others have also researched on strategic responses to changes in the external environment in case studies of various banks.

Adoyo (2005) researched on Postbank. Kathuku (2005) researched on Cooperative bank of Kenya. Mutugi (2006) researched on Barclays Bank of Kenya. Only Goro's (2003) study was related to Porter's forces but focusing on only one of the forces, while this study focuses on all the five industry forces. However, Wahogo (2006) conducted a study on the application of Porter's Diamond model but he analyzed competitiveness in the of Kenya's tourism industry. This study therefore seeks responses to the following research question, what strategies has NBB adopted in responding to changing industry forces?

### **1.3 Research Objective**

The objective of the study is to establish response strategies adopted by National Bank of Kenya to competitive forces in the banking industry.

## **1.4 Importance of the Study**

The findings of this study will help the top management of National Bank of Kenya to identify what in the external environment affect their organization and the possible responses to be adopted. Thus, the bank will benefit from the findings and adopt response strategies to cope with the environment. The study will also be beneficial to the banking industry players as they will be able to identify critical success factors in the industry as well as serve as a benchmark for the industry. Strategic Management executives will use the findings to enhance better service provision in the banking industry through the analysis of response strategies at National Bank of Kenya.

The study will also be beneficial to academicians. It will serve as a stimulus for scholars to carry out further research in the same and related industries so as to increase the existing body of knowledge. The study shall provide a comprehensive analysis of the present competitiveness of Kenya's banking industry and identify prospects for the future. The study will also provide a base of factual and analytical data on the development of the banking sector, both in quantitative and qualitative terms. The Government may use the findings for formulating policies that relate to the economic forces prevailing in the country that put pressure on the banking industry.

### 2.1 The Concept of Competition

According to Porter (1980) competitor analysis in strategic management is an assessment of the strengths and weaknesses of current and potential competitors in an industry. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats in the environment (Hall, 1992). Given that competitor analysis is an essential component of corporate strategy, Porter (1998) argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what he calls "informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives." As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis (Porter (1998).

Porter (1985) placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of competitive strategy. He presented the possibility of selecting a strategy based on a well-defined position in the economic market backed up by analysis rather than 'prescription'. Thompson (1997) argues that despite all the discussions on competition, it has proved to be a very broad and complex concept because a whole range of factors account for it. He contends that perspectives in various disciplines reveal that competition is a multi-faceted concept. Waheeduzzan and Ryans (1996) assert that we can regard the notion of competition as associated with four major groups of thought

The four major groups are comparative advantage and/or price competitiveness perspective, strategy and management perspective, historical and social/cultural perspective, and development of indicators of national competitiveness. Crouch and Ritchie (1999) argued that a further complexity of competition arises due to the limit of analysis and the perspective of the analyst. They alluded to the fact that politicians are interested in the competitiveness of the economy (national, regional or local), industries or trade associations confine their interests to their own industry, and business owners and managers worry about the ability of their own firms to compete in specific areas.

A sound microeconomic, political, legal and social context creates the potential for competitiveness, but is not sufficient. Competition ultimately depends on improving the microeconomic capability of the economy and the sophistication of local companies in both their operations and strategy (Porter, 2004). Furthermore, Porter (1998) argues that it is firms and not nations that compete in international markets. He argues that one must understand how firms create and sustain competitive advantage in order to explain what role the nation plays in the process. Porter (1998) asserts that the basic unit of understanding competition is the industry. According to Porter (1996), at the level of individual firms, competitiveness is the ability of a firm to survive and prosper, given the competition of other firms for the same profits.

The competitiveness of a firm is the result of a competitive advantage relative to other firms. Porter (1996) defines competitive advantage as the ability of a company to make products that provide more value to the customer than rival products, leading to higher sales and higher profits for that company. Porter (2004) asserts that perspectives of a firm's competitive success can be viewed as either internal or external. Internal, because the competitive advantage resides inside a company or industry, and that the competitive success depends primarily on company

choices. External, because the competitive advantage resides partly on the locations at which the company's business units are based, and cluster participation is an important contributor to competitiveness. Subsidiaries of advanced country multinationals will be closer to the leading edge of competition through technology and experience, while domestic firms, such as state-owned enterprises, may be at the low end of experience, quality and product advantage (Hallack and Scott, 2005). For domestic firms facing global competition, industry imports impose an additional competitive challenge that differs from purely domestic competition (Ghoshal, 1987).

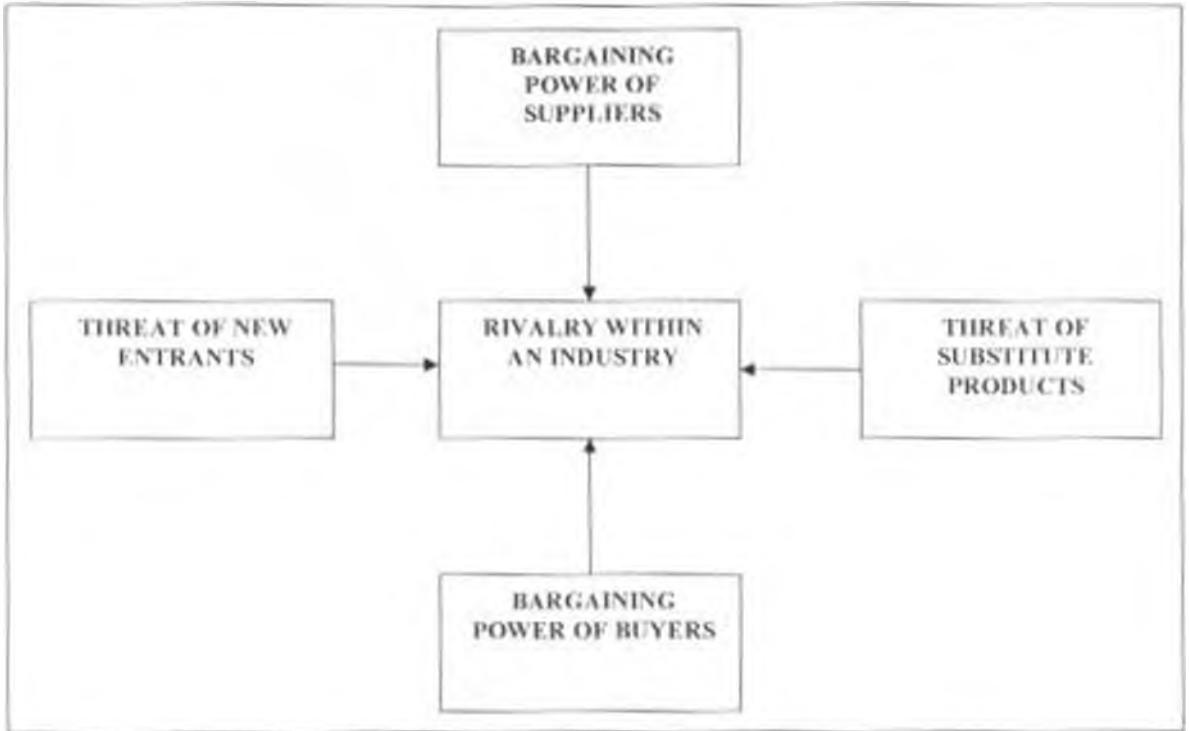
## **2.2 Porter's Five Force Model**

Porter's (1980) five forces of competition model identify the basic sources of competition at the organization and product level. The Five Forces include three forces from 'horizontal' competition which are the threat of new entrants, threat of substitute products, the rivalry within the industry, and two forces from 'vertical' competition which are the bargaining power of suppliers and the bargaining power of customers (Porter, 1980).

### **2.2.1 Threat of new entrants**

Profitable markets that yield high returns will draw firms. The result is many new entrants, which will effectively decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rate will fall towards a competitive level. The easier it is for new companies to enter the industry, the more cutthroat competitive there will be. The possibility of new firms entering an industry impacts competition. The most attractive segment has high entry barriers and low exit barriers (Porter, 1980).





**Figure 1: Graphical presentation of Porter's five-force model: Source: Porter M.A (1980); Competitive Strategy, Free Press; pg 122.**

Hiree (1994) argues that although any firm should be able to enter and exit a market, each industry often presents varying levels of difficulty, commonly driven by economies. Manufacturing based industries are more difficult to enter than many service based industries. The definable characteristics of each industry protect profitable areas for firms and inhibit additional rivals from entering the market. Porter (1980) refers to these inhibitive are referred to as barriers to entry. He contends that both potential and existing competitors influence average industry profitability and that the threat of new entrants is usually based on the market entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital rise above zero. Entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position (Porter, 1980; Sanderson, 1998)

The most common forms of entry barriers, except intrinsic physical or legal obstacles are economies of scale, high cost of entry, major investment into technology, Government legislations, and highly differentiated products (Grant, 2005)

### **2.2.2 Bargaining power of suppliers**

Also described as market of inputs, suppliers of raw materials, components, and services (such as expertise) to the firm can be a source of power over the firm (Arthur, 1992). He asserts that suppliers may refuse to work with the firm, or charge excessively high prices for unique resources. This is how much pressure the suppliers can place on a business. Porter (1980) contends that if one supplier has a large enough impact to affect a company's margin and volumes, then they hold substantial power.

As a result, the analysis of supplier power typically focuses on the relative size and concentration of suppliers relative to industry participants and on the degree of differentiation in the inputs supplied (Porter, 1980). Porter (1985) alludes that bargaining power of suppliers also exists where the switching costs are high, there is high power of brands, possibility of forward integration of suppliers (e.g. Brewers buying hops), fragmentation of customers with a limited bargaining power (e.g. Gas Petrol stations in remote places). The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1998).

### **2.2.3 Bargaining power of buyers**

Also described as the market of outputs, this is the ability of customers or buyers to put the firm under pressure (Arthur, 1992). He contends that the bargaining power of buyers also affects the customer's sensitivity to price changes. Porter (1980) asserts that if one customer has a large enough impact to affect a company's margins and volumes, then they hold substantial power. The most important determinants of buyer power are the size and the concentration of customers. Other factors are the extent to which the buyers are informed and the concentration or differentiation of the competitors (Porter, 1980).

Kippenberger (1998) states that this force is relatively high where there are a few large players in the market, for example, as it is the case with retailers in grocery stores. It is also present where there are a large number of undifferentiated small suppliers, such as small farming businesses supplying large grocery companies. However, he argues that it is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power.

### **2.2.4 Threat of availability of substitutes**

Porter's (1980) refers to substitute products as those products that are available in other industries that meet an identical or similar need for the end users. The existence of close substitute products increases the propensity of customers to switch to alternatives in response to price increases. As more substitutes become available and affordable, the demand of the product(s) becomes more elastic since customers have more alternatives. Birecree (1994) argues that if the cost of switching is low, then this poses to be a serious threat. Thus, there will be a high likelihood that someone will switch to a substitute product or service.

Direcree (1994) describes switching costs as the costs in areas such as retraining and redesigning that are incurred when a customer switches to a different type of product or service. Porter (1985) contends that substitute products may limit the ability of firms within an industry to raise prices and improve margins. Porter (1985) further argues that the threat that substitute products pose to an industry's profitability depends on the relative price-to-performance ratios of the different types of products or services to which customers can turn to satisfy the same basic need.

### **2.2.5 Rivalry within the Industry**

This describes the intensity of competition between existing firms in an industry. For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price dimensions such as innovation and marketing (Porter, 1980). Porter (1985) asserts that highly competitive industries generally earn low returns and therefore firms strive to secure a competitive advantage over their rivals. According to Miller (1992), the intensity of rivalry varies within each industry and these differences can be important in the development of strategy. He further argues that the intensity of rivalry, which is the most obvious of the five forces in an industry, helps determine the extent to which the value created by an industry will be dissipated through head-to-head competition. Porter (1985) also argues that this force is most likely to be high in those industries where there is a threat of substitute products and existing power of suppliers and buyers in the market.

## 2.3 Response Strategies to Environmental Challenges

Ansolf and McDonnell (1990) state that successful environment serving organizations use strategies that ensure continued organizational survival in the environment. They further state that a major escalation of environmental change means a change from a familiar world of marketing and production to unfamiliar world of new technologies, new competitors, new consumer attitudes, new dimensions of social control and above all unprecedented questioning of the firms role in the society. Organizations do not operate in a vacuum but are environment dependent (Ansolf and McDonnell, 1990).

Organizations obtain their inputs from their environment and after transformation they discharge their outputs in the same environment (Porter, 1985). The organization's external environment consists of all conditions and forces that affect its strategic options and defines its competitive situation (Pearce and Robinson, 1997). Therefore for an organization to succeed in achieving its objectives, it must pay close attention to its external environment. Pearce and Robinson (1991) state that strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction of what is happening in the environment of organizations.

Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides the groundwork for strategic response. When firms are faced by unfamiliar changes, they should revise their strategies to match the turbulence level (Ansolf and McDonnell, 1990). Thompson (1997) sees the external environment as consisting of three aspects. These are the external stakeholders, the changing political, economic, social and technological forces and the organization's response to the environmental forces.

The external environment comprises of the remote environment the industry and the operating environment, each of which has a global and domestic aspect (Thompson, 1997) Shipper and White (1988) refer to the external environment as having multiple facets three of the major ones being the degree of market competitiveness, the rate of technological innovation and the variability of economic fluctuations that affect the industry Aosa (1998) argues that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategic problem, which is a mismatch between the internal characteristics of an organization and its external environment

Consequently, organizations need to not only notice changes in their external environment, but also need to formulate strategies that match these changes. Failure to do so will result in a strategic problem, which is detrimental to the survival of the organization. The Kenyan business environment has been undergoing drastic changes since the onset of liberalization in the early 1990s. According to Kathuku (2005), some of the changes include the accelerated implementation of economic reforms, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition.

In this changing environment, organizations have constantly adapted their activities and internal configuration to reflect the new external realities. Failure to do this may put the future success of the organization in jeopardy (Aosa, 1998). The environment in which Kenyan firms operate therefore became turbulent in the 1990s due to the unfamiliar changes in the business environment that exerted heavy pressure on organizations to face competition (Wagacha & Ngugi, 1999).

External conditions have drastically changed in Kenya, hence continuously exerting new challenges on the organizations. This in turn creates pressure for organizations to respond to the new environmental realities (Okode, 2004). Operational strategies should support the organization's overall corporate strategy in responding to environmental challenges. They should define the tactics and processes to support the corporate strategy and demonstrate real and measurable results (Porter, 1985).

According to Porter (1985) the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter (1985) explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy.

Porter (1980) identifies three generic strategies of responding to the environmental challenges and the industry forces. They are cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope. Cost efficiency, product differentiation, and marketing differentiation are standard strategies available to the firms facing all forms of competition. Porter (1985) typology of cost leadership, differentiation, and niche strategy has been extensively tested and verified in various industry settings. An analysis on generic competitive strategy yields a similar, though more comprehensive, set of generic strategies (Campbell-Hunt, 2000).

### 2.3.1 Cost Leadership Strategy

According to Porter (1985) the cost leadership strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often produced at a relatively low cost and made available to a very large customer base. The underlying rationale of a cost efficiency strategy is to outperform competitors in the same market segment by lowering prices. This strategy is only possible if the costs are kept as low as possible (Porter, 1985). The very nature of industry competition, however, is based on lower costs due to the comparative advantage of lower costs in final assembly and as well as in upstream component suppliers.

Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business (Porter, 1985). The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features (Robinson, 1998). To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors.

Successful implementation also benefits from process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital, close supervision of labour, tight cost control, incentives based on quantitative targets (Tehrani 2003). When a firm designs, produces and markets a product more efficiently than competitors such firm has implemented a cost leadership strategy (Allen et al 2006). Cost reduction strategies across the activity cost chain will represent low cost leadership (Beheshti 2004).



Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product. Any processes that do not contribute towards minimization of cost base should be outsourced to other organisations with the view of maintaining a low cost base (Akan et al 2006). Low costs will permit a firm to sell relatively standardised products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share (Porter 1979). Cost efficiency gained in the whole process will enable a firm to mark up a price lower than competition which ultimately results in high sales since competition could not match such a low cost base (Hvatt, 2001)

If the low cost base could be maintained for longer periods of time it will ensure consistent increase in market share and stable profits (Anon, 1998). Allen and Helms (2006) contend that sustainability of the competitive advantage reached through low cost strategy will depend on the ability of a competitor to match or develop a lower cost base than the existing cost leader in the market. A firm attempts to maintain a low cost base by controlling production costs, increasing their capacity utilization, controlling material supply or product distribution and minimizing other costs including R&D and advertising (Prajogo, 2007)

Mass production, mass distribution, economies of scale, technology, product design, learning curve benefit, work force dedicated for low cost production, reduced sales force, less spending on marketing will further help a firm to maintain a low cost base (Freeman, 2003)

Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm as maintaining the low cost base will become the primary determinant of the cost leadership strategy (Porter, 1985). For low cost leadership to be effective a firm should have a large market share (Robinson and Chiang 2000)

According to Hyatt (2001) new entrants or firms with a smaller market share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms. Low cost leadership becomes a viable strategy only for larger firms. Market leaders may strengthen their positioning by advantages attained through scale and experience in a low cost leadership strategy. If firms costs are low enough it may be profitable even in a highly competitive scenario hence it becomes a defensive mechanism against competitors (Kim et al 2004). Further they argue that such low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader.

### **2.3.3 Differentiation Strategy**

According to Robinson (1988) differentiation is aimed at the broad market and it involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers' network, or customer service. Allen et al 2006 assert that differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. They argue that increased costs can usually be passed on to the buyers. Buyers' loyalty can also serve as an entry barrier.

Porter (1985) contends that firms must develop their own distinctive competences to differentiate their products in some way in order to compete successfully. He suggests that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share (Porter, 1985).

Strategic responses in terms of product differentiation are less clear-cut when product quality is rising. One possible response is that market incumbents attempt to keep up with the new competition by further differentiating their products (Robinson, 1988). Conversely, the advantages of a product differentiation strategy are lower when the quality of competitors is high, suggesting a shift toward alternative strategies (Robinson, 1988). For marketing differentiation strategies, higher product quality may lead to positive as well as to negative reactions. On the one hand, if product quality is high, incumbents have to respond strongly to neutralize this advantage by establishing brand identities (Shankar, 1999).

On the other hand, entry based on high quality has been shown to reduce the effectiveness of marketing differentiation strategies (Shankar, Carpenter, and Krishnamurthi, 1998). Marketing differentiation is more effective if product/service quality is low because it acts to highlight quality in the incumbent's own product. Furthermore, it may be optimal to forgo marketing differentiation strategies when the product quality is high as it may draw attention to the quality of the product (Carpenter and Nakamoto, 1989). The rationale of adopting an avoidance strategy is to move out of the way of competition by changing the product mix towards more skill and technology-intensive products (Shankar, 1999).

The assumption is that the competences of competitors do not allow them to compete in the new products. However, if competitors already are capable of producing at the high end of the quality range, such a strategy does little to change the environment facing the firm (Robinson, 1988). In order to prevent entry by competitors, the incumbent firm will want to increase setup and entry costs for the potential market entrant. Preventing initial market entry becomes more desirable for the incumbent when the firm is able to produce products of comparable quality (Porter, 1980).

### **2.3.4 Focus Strategy**

In this strategy, the firm concentrates on a select few target markets. It is also called a niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency (Allen et al. 2006). It is most suitable for relatively small firms but can be used by any company. As a focus strategy, it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment (Shankar, 1999).

## **2.4 The Resource based View**

Wernerfelt (1995) contends that the Resource Based View strategy starts with the assumption that the desired outcome of managerial effort within a firm is a Sustainable Competitive Advantage (SCA). Achieving a SCA allows the firm to earn economic rents or above-average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource-based view contends that the answer to this question lies in the possession of certain key resources, that is, resources that have characteristics such as value, barriers to duplication and appropriability (Wernerfelt, 1995). The list of resources in any given firm is likely to be a long one. Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability and non-substitutability. Grant (1991) argues that levels of durability, transparency, transferability and replicability are important determinants.

Collis and Montgomery (1995) also suggest that advantage creating resources must meet five tests namely inimitability, durability, appropriability, substitutability and competitive superiority. Amit and Schoemaker (1993) go even further, producing a list of eight criteria including complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and an overlap with strategic industry factors. Barney (1991) also contends that value to customers is an essential element of competitive advantage. Therefore, for a resource to be a potential source of competitive advantage, it must be valuable or enable the creation of value. In the words of Barney (1991), it must permit the firm to conceive of or implement strategies that improve its efficiency and effectiveness by meeting the needs of customers. This implies that though resources may meet other conditions, if they do not enable the creation of value, they are not a potential source of advantage. There is also a complementary relationship between the resource-based view and environmental models of competitive advantage (Barney, 1991).

## **2.5 Technology**

The banking industry, just like any other industry, has faced the implications of immense changes in technology and the rapid growth in globalization, which has created new risks as well as new opportunities (Sions, 2003). Technology seems to be the single largest driver of change in the banking industry and with new innovations taking place all the time, the trend is not about to change (Sanchez, 2004). Technology has been among the most significant factors permitting banks to adjust to the new competitive environment in making credit decisions, in measuring and managing risk, and in creating and using new instruments (Giro, 2003).

However, some investment in technology has been largely defensive, with the gains captured mainly by customers who would otherwise have shifted to competing institutions. Internet banking and ATMs are examples. But the use of even these defensive investments has often yielded benefits for banks from non-interest fees and commissions. According to Okode (2004) banks have been able to centralize their technical operations in a 'hub' and serve a large group of spokes usually in different towns thus greatly reducing the costs of operations. Okode (2004) contends that through networking technology, the banks' distribution channels have changed and a lot of basic services are offered through automated teller machines (ATMs). Musa (2004) found that Internet Banking (e Banking) is widely being used by banks through which customers can transact at their place of business or in the comfort of their homes without having to make trips to the bank. Mobile banking (M banking) is also another facility enabled by technology which enables customers carry out bank transactions through their mobile phones (Musa, 2004). Banks offer debit and credit cards linked to Visa technology. Use of the cards greatly reduces the risks involved with carrying and handling cash which makes it beneficial for both the customers and merchants (Kiptugen, 2003).

### 3.1 Introduction

Since the aims of the study were to identify the challenges that faced NBK and to document the relevant strategic responses made, a case study was chosen. This chapter outlines the overall methodology that was used to carry out the study. The pertinent primary and secondary data were then collected to meet the objectives of the study.

### 3.2 Research Design

The proposed study was modeled on a case study design. The study focused on interpreting details concerning the strategic responses of the management of NBK to the banking industry forces. Case study designs are most appropriate when in-depth information is desired for describing phenomena of interest in a single unit of study (Burns, 2001). A number of researchers have used this type of research successfully for related studies, including Othieno (2005), Kimithi (2006) and Kathuku (2005).

The case study is but one of the several ways of doing social science research. Other ways include experiments, surveys and analysis of historical information. In this study a case study was preferred because the method gave an in-depth account of on how NBK has been responding to the competitive forces in the banking industry. In addition, the use of the case study method enriches generalized knowledge and makes it possible for the researcher to use one or more methods depending on the prevalent circumstance e.g. in-depth interviews, questionnaires, etc.

### **3.3 Data Collection**

The researcher collected both primary and secondary data for this case study. Secondary data was collected from various sources including the strategic planning manuals, annual reports and periodic bulletins of the bank. The instrument of primary data collection was through a questionnaire which was used to interview the respondents. The questionnaire was administered to all general managers and managers of the four main branches in Nairobi. Thus the target respondents were Director Finance, Director Human Resources and Administration, General Managers -Credit, ICT, Operations, Business Development, Remedial and Legal Services and Managers - Harambee Avenue branch, Kenyatta Avenue branch, Hill branch and Hospital branch.

### **3.4 Data Analysis**

The data analysis sought to establish the response strategies applied by NBK to the competitive forces in the banking industry. The data was analysed using content analysis. According to Mugenda and Mugenda (2003) content analysis is the systematic qualitative description of the composition of the objects or materials of the study. Content analysis enables detailed description of observation objects and other variables that comprise a study. Thus, the data collected was analyzed using content analysis which involved logical grouping of the information gathered to enable the researcher apply qualitative analysis, compiling results and interpretations.



### 4.1 Introduction

The collected data has been analyzed and interpreted in line with the aims of the study. The chapter outlines the respondent's profiles and the strategic responses by the bank to competitive forces in the banking industry.

### 4.2 The Respondents' Profiles

The respondents in this case study are part of the top management of NBK and have been involved in the formulation of strategic responses to the competitive forces in the industry. Most of the respondents have held senior management positions at NBK for more than five years. Others were relatively new at NBK but have had experience within the banking industry from other banks. Thus, the contribution to the strategic responses of NBK is drawn from a broad pool of experience and knowledge of the banking industry.

### 4.3 Competitive Forces in the Banking Industry

Porter's five forces influence the competitive situation in any industry. These forces are barriers to entry, rivalry in the industry, threat of substitutes, bargaining power of buyers, and the bargaining power of suppliers (Porter, 1980). The respondents stated that all these forces are at play in the banking industry in Kenya. According to the respondents, there have been a number of changes in the banking industry in Kenya within the last 5 years that have resulted in the increase in intensity of the competitive forces, which have posed various challenges to NBK.

### 4.3.1 Bargaining Power of Customers

The increasing level of technological advancement, education and awareness among customers has led to the emergence of a more informed, demanding and sophisticated clientele. The respondents saw this as increasing the bargaining power of customers. The market place is increasingly becoming customer oriented and with rising levels of competition, customers are spoilt for choice. According to the respondents, losing a single corporate or institutional customer would have adverse effects on the bank's bottom-line. Service, therefore, must be of high quality so as to build and maintain customer satisfaction and loyalty. The bank has put in place systems of obtaining customer feedback, which they use to improve their customer service.

In addition, the respondents stated that NDBK has had to undertake market segmentation and the development of a variety of products to cope with and satisfy the constantly changing needs of the customers. The ongoing installation of ATMs by the bank in various delivery points, including supermarkets, has been driven by customers' need for convenience banking 24 hours a day. The respondents felt that the delivery of quality customer service is what people value in a bank. They stated that the bank is enabling excellent customer service by inculcating the following core values in service delivery: professionalism, integrity, creativity and innovation, respect and delight for customer care.

According to the respondents, since the customers' tastes and preferences are becoming more sophisticated, the bank has had to move from their more traditional role of a financier to one of financial relationships. This way, the bank is now visiting their customers, especially the high net worth customers, at least quarterly.

The bank has had to change their way of doing business to suite these new customer orientations. The bank is also working towards satisfying the specific customer needs and changing customer behavior by treating them as individuals. For instance the bank is now opening for longer hours and on all Saturdays.

### **4.3.2 Rivalry within the Banking Industry**

Rivalry amongst the banks was considered very high amongst the respondents. Competition is ever increasing in the banking industry. Banks are coming up with new innovative products and services to outdo their competitors. Kenya's population is over 33 million and out of which only 4 million people hold bank accounts with Savings at less than 10% of Gross Domestic Product. Clearly this indicates that the banking industry has a lot of room for growth. Profitability in the banking industry is growing at an exciting rate. This has made the rivalry very intense.

According to the respondents, the bank is coming up with different financial incentives and products to outdo the competition. These include credit cards with reduced interest rates on transferred balances and above-market interest rates on savings deposits. Technological advancements by the bank have resulted in the concepts of branchless banking whereby customers can be served in any branch regardless which branch they opened the account. The bank has managed to link all its branches in a hub and attain a branchless status. However the respondents also felt that the technological innovations are not only expensive to adopt but also involve a high rate of obsolescence.

To cope with the competitor's large network of ATMs the bank has gone into partnership with Pesa Point, a private enterprises setting up ATM machines. There is increased use of ICT at NBK as almost all aspects of its operations are now computerized.

The respondents indicated that the method of marketing and selling the bank's products keeps undergoing change due to the increased rivalry. Today the bank will approach the customer and not the other way round as it previously was. The bank is actually making it possible for customers to open a bank account without stepping in the banking hall by visiting them in their offices. The bank is also attracting customers by aggressively reaching out into the streets and shopping malls. However, the respondents felt that the bank needs to be more innovative at all times since it takes the other banks a very short time to copy and improve on the new products.

### **4.3.3 Threat of new entrants**

On the basis of the responses, it was evident that barriers to entry in the banking industry are quite high. Therefore, the threat of new entrants is very minimal. The minimum capital adequacy requirement is currently at Kshs. 1 billion for commercial banks. The respondents added that this was one the reasons for the increase in the number of non-bank financial institutions such as micro-finance companies and cooperative societies, which offer products that are good substitutions to those offered by banks.

According to the respondents, government legislation has a huge impact on the banking industry because banks must comply with government regulations. For example, the raising of the capital adequacy requirement to 1bn shilling impacts the industry by making the smaller banks go into mergers, strategic alliances and acquisitions.

The respondents felt that even though this is a welcome barrier to new entrants, it has the effect of strengthening the smaller players in the industry. The respondents were also of the opinion that the reduced government borrowing from the public has lowered interest earnings from Treasury Bills thus resulting in reduced earnings for the bank in the investments in Treasury Bills. Consequently, the bank has had to look for other avenues of earning e.g. revenue from commissions.

In addition, the respondents stated that over the years customers have expressed concerns regarding the high charges imposed by banks for the provision of services. In response to the concerns, the Central Bank publishes on weekly basis selected bank charges levied by all financial institutions so as to foster transparency and enhance competitiveness in the industry. The government can also enforce rules such as maximum interest rates chargeable on borrowed funds thereby affecting the margins banks would make. The government is thus a force in the industry that cannot be ignored.

#### **4.3.4 Bargaining power of suppliers**

Most of the bank's ICT systems, which are the major inputs of the bank, were pre-packaged. As a result, the respondents noted that there was heavy reliance by the bank on vendor support, thus making the bargaining power of the supplier quite high. In response to the foregoing force, according to the respondents, the bank has been reviewing its contractual relationships with the ICT vendors. This has enabled the bank to have some of the terms of the services adjusted for more flexibility. In addition, NBK has invested heavily in the training of its ICT staff and in the acquisition of expertise from outside the bank. The staff is able to develop and service some systems internally and has thus eased the heavy reliance on vendor support.

### **4.3.5 Threat of substitute goods**

According to the respondents banks not only face competition from other banks but also from micro-finance organizations, forex bureaus and other investment banks. These two offer very competitive rates on loans and savings packages respectively. The respondents also felt that Cooperative Savings Societies posed a major competition through their Front Office Services which are similar to banking activities. The capital markets are also offering alternative and more lucrative avenues of investments rather than keeping money in the bank accounts. The respondents also stated Safaricom, a mobile telephony company, which has introduced the M-Pesa method of sending and receiving money is a major substitute for banking products especially in the rural areas.

## **4.4 Other Strategic Responses**

NBK has been responding vigorously to the competitive forces in the banking industry that have influenced its competitive situation. Some of the strategic responses include ICI Restructuring, Marketing and Customer Care.

### **4.4.1 Restructuring**

Over the last five years, NBK has undertaken corporate restructuring, with the process being enhanced in the last three years. Both internal and external expertise has been used in the restructuring process. The restructuring process has mainly been in the form of cost cutting and control through automation, modernization, reorganization and staff retrenchments. Removal of redundant jobs and the recruitment of skilled and well trained staff to improve on efficiency and effectiveness.

The introduction of cultural change programs to develop sales and profits oriented culture necessitated by the inherent government parastatals' culture of inefficiency and lack of customer focus. Towards the end of the year 2005 the second phase of the planned rationalization program was completed when 103 employees of all cadres left the bank under a Special Retirement Scheme in which each retiree qualified for a monthly pension. Together with those who left under natural attrition, the establishment was reduced by 25% which was a hefty cost saving.

The restructuring also involved training and deploying relationship managers. It also involved training of staff in the retail network on front office delivery skills and for the head office support staff in product design, assessing training effectiveness in relation to business objectives in a competitive environment. Automation of back and front office processes to avoid duplication and enhance efficiency. The bank also embarked on vigorous recovery of bad debts through the use of professional debt collectors in an effort to drastically reduce its debt portfolio.

Outsourcing of non-core services such as systems maintenance and courier services. The bank also reviewed tariffs to make its products competitive and avoiding over reliance on interest income. There was also the need to change the bank's image from a "government bank" to a more customer focused entity which the bank has gradually done. In addition the bank's goal of becoming more customer-focused necessitated the provision of faster and better services while maintaining a workforce that is not only efficient but also lean.

According to the respondents, these forms of restructuring were chosen because they were considered appropriate for the attainment of appropriate responses to the competitive forces in the industry. The staff rationalization was aimed at reducing the costs on salaried staff and generally reducing overhead costs of the bank. This was achieved through scrutinized procurement procedures of all tenders on the bank, reduce waste through avoiding unnecessary purchasing in all the bank branches and the headquarters. This went a long way in reducing costs and boosted the bank's competitive advantage.

With bad debts having dodged the bank for many years, provident credit assessment is being carried out so that past mistakes are not repeated. With Provident Credit Assessment in place the bank credit policy was more provident and the risk management will ensure that such credit payment will be repayable within expected payback period and will fetch enough interest. Given that the bank has some government ownership will ensure that they use this advantage to get occasional financial support and backing from the treasury. This will also guarantee the clientele of large government institutions e.g. USC and KRA.

#### **4.4.2 Marketing**

There have been strategic changes in marketing at NBK in response to the changing competitive forces in the industry. Market segments have been redefined and marketing function being reorganized into retail and corporate divisions. The bank is putting a lot of emphasis on improving customer service. A lot of money is being spent on physical renovations to improve the physical image, staff training and other activities intended to improve customer service. The main motivation behind the improvement in customer service is increased rivalry and the threat of substitute products in the industry.



NBK is now segmenting its market and carefully selecting its customers. There is a realization that competing across the board may not be best way forward. The idea is to select target customers and give them high quality service. Some banks are moving up-market to target corporate customers and high net worth individuals while others are focusing on small and/or medium savers. This trend is expected to continue. The bank is undertaking very aggressive marketing in the form of competitively pricing its products and services. It is also actively advertising its products as well as building its corporate image through road shows. Today the bank will approach the customer and not the other way round as it previously was. It is actually possible to open a bank account without stepping in the banking hall.

#### **4.4.3 Customer Care**

NBK is also aggressively improving its services to customers. Some activities adopted by NBK to improve customer service include: developing and implementing customer service departments and counters, increased use of new information technology e.g. queue manager technology, appointment of vibrant professional marketing team and direct sales representatives, Continuous training of staff, continuous market research and surveys. Refurbishment of its banking halls to attract customers; introduction of new customer tailored products e.g. salaried unsecured personal loans given to employed customers without any collateral. In a bid to ensure that the bank has the ability to transfer money quickly from several collection points and from different geographical locations the bank has responded through branchless banking.

The general enhancement of marketing strategies ensured that the bank used marketing strategies to market its products and develop its markets and the aggressiveness involved made the bank to maintain its market share in the banking industry within an environment of stiff competition. Despite the above efforts most of the respondents felt that the bank is not doing enough marketing of its services especially through print and electronic media. They felt that the bank is concentrating on personal selling by its sales team.

#### **4.4.4 Information Technology**

Modernization of the computer system designed to cut costs improves delivery to customers. The entire NBK network has been fully computerized. In the last 5 years, NBK has been making changes in its IT systems in response to the changing customer needs and technology trends. The respondents noted the use of technology was the instruction of mobile phone Banking and Internet banking to the customers. Other ICT responses to the competitive forces include the upgrading of the systems to take advantage of technological innovations, provision of home banking and the centralization of the branches.

In addition there was increased installation of ATMs in various delivery points including supermarkets. Linkage with international payment systems such as the Society for Worldwide Inter-bank Financial Transfers (SWIFT) and the provision of intranet to enhance efficiency of communication within the bank. According to the respondents, the above changes were aimed at achieving three main objectives. One of these was the need to improve customer service through a more convenient and faster access to bank services. Another objective was to enhance record keeping and ease of data retrieval within the bank, and the third was the enhancement of internal communication for faster decision making within the organization.

While making these changes NBK has faced some constraints. According to the respondents, ICT changes involve substantial costs in terms of software, hardware and qualified personnel. Technological innovations rely on telecommunication efficiency, however the existing communication infrastructure in Kenya is still poor and thus it hampers the full realization of the benefits of technological improvements. The respondents added that the field of information technology is highly dynamic and the bank needs to keep up with the latest technological trends in its operations. As a result, what may be seen as a satisfactory ICT adaptation today will soon be considered obsolete even before the full benefits have been realized. Despite a few setbacks, the respondents considered the ICT adaptations by NBK a very strong strategic response to all the competitive forces in the industry.

#### **4.4.5 Culture Change**

The respondents noted that the culture inherent in government institutions or parastatals should end at NBK and embrace a serious business culture experienced in the private sector. Better communication across the bank has been enhanced with upward, downward and horizontal communication being encouraged. The staff, for instance, are now able to directly communicate with and get response from any one member of the top management.

The annual end year party has been introduced which enables representatives from all cadres in the bank meet and openly to discuss issues affecting the various categories of staff and management. Following the restructuring of the bank, a strategy and change management division was created. Both internal and external forces have influenced the necessity for culture shift at NBK. An additional objective of the culture change was to facilitate the shedding off of the quasi-parastatal tag and assuming a culture that portrays the fact that NBK is a commercial business entity that is customer-focused.

The respondents also noted that the bank is soon introducing performance contracting to all the employees including the Managing Director. This is meant to push profits very high in comparison with the "big five" banks, that is, Barclays bank, Kenya commercial bank, Standard chartered bank, Cooperative bank and Equity bank.

According to the respondents, the strategic responses made by NBK to adapt to the competitive forces in the industry are inadequate. The respondents also stated that NBK should undertake more proactive initiatives and less reactive responses to facilitate the management of these forces. The respondents emphasized that it is important at corporate level to assess the attractiveness and performance of the various products offered by the bank. This way it is possible to identify the best products and those ones that are loss making.

Most of the respondents, however, were confident that NBK does possess the necessary resources and capabilities to adopt strategies that can enable it to effectively match the changes in the environment in which it operates. The respondents also stated that NBK could further enhance its capability by getting a strategic partner that offers complementary services and also has a large capital reserve to boost the bank's financial resource base.

#### **4.4.6 Product Innovation**

The respondents saw new product development as a very significant response strategy especially to the rivalry in the industry. The bank has embarked on developing new products to lure and retain customers. For example, the bank has introduced Tuta Account whereby there are no transaction fees or ledger fees charged to the customers. Other new products would include, mortgages at very competitive interest rates, unsecured loans at very competitive rates that can be arranged within 48 hours, Vision Account, a children's savings

account with discounts at outlets frequently visited by children e.g. Gertrude's Children Hospital; Premium Accounts for high profile customers which offer attractive and competitive interest on deposits. Other accounts include accounts opened to serve specific interest groups for example the Al Mumin account specifically for Muslim clients who do not want to operate interest earning accounts in accordance with their faith. NBK has also introduced accounts with mixed features such as interest earning current accounts and savings accounts with cheque books all in an effort to provide attractive products. The bank has also started buying out loans from other banks by offering very competitive interest rates and a prolonged repayment period.

## **5.0 SUMMARY CONCLUSION, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH**

### **5.1 Summary of Findings**

#### **5.1.1 Challenges posed to NBK by competitive forces in the banking industry**

There have been many changes in the Kenyan economy in the last decade. The major environmental factors that have had an effect on the banking industry are the economic decline, liberalization, legislative changes, increasing level of education and customer awareness and technological advancements. The above changes have contributed to the interplay of all the Porter's five forces in the banking industry. There is intense competition in the banking industry, a wide availability of substitute products, the constant threat of new entrants as well as the bargaining power of buyers and suppliers. As a result NBK has had to undertake measures to counter the impact of these forces.

#### **5.1.2 Response of NBK to competitive forces in the banking industry**

NBK has addressed the competitive forces in order to enhance its competitive advantage by formulating and implementing strategic responses that include restructuring, marketing, information technology, culture change and pursuance of strategic alliances. However, the study indicated that there is still need for more strategic actions that need to be undertaken by NBK in order to enable the bank to fully appreciate the impact of the five forces on its operations and bottom-line. Further, the study also established that NBK has the necessary resources and capability to adopt the strategies that would facilitate effective responses by the bank to the competitive forces.

## 5.2 Recommendations

Not only must managers be aware of environmental forces, they must also manage the organization's resources to take advantage of opportunities and counter threats. If an organisation fully understands the nature of the five industry forces, and particularly appreciates which one is the most important, it will be in a stronger position to defend itself against any threats and to influence the forces with its strategy (Porter, 1980)

In view of the above, I suggest that NBK should become more proactive rather than reactive in managing the competitive forces in the banking industry. This can be achieved by formulating and implementing strategic initiatives that would pre-empt any anticipated adverse changes in its dynamic environment.

In addition, I recommend that the bank should continue with its expansion program but cautiously as expansion is not necessarily gaining more market share. The bank should possibly merge or close branches that are not generating income. This will ensure that the existing branches are cost-effective and serve the customers efficiently.

The bank should get a strategic partner in order to delink itself from the government's ownership. The bank should also speed its search for a strategic partner alliance in order to enhance its capabilities and hence its competitive advantage.

The bank should continue investing in technology for improved efficiency and effectiveness of its systems.

The bank should aggressively market its products through the print and electronic media in order to attract more business and build its public image.

The bank should continue with prudent credit assessment and risk management. This will ensure that cases of bad debts are minimized. This makes the bank to evaluate the credits the bank offers is prudently matched with the payback period well known.

The bank should always conduct market research surveys in order to establish, for example, how many new entrants are coming into the market in a given period of time and what impact they would have on their market share. This will ensure that the bank becomes proactive and enable it to develop new products to ensure that the bank is ahead of the competition at all times.

The bank should also embark on a cost reduction strategy in order to increase revenues that can be used to enhance the provision of quality service that will outdo competition.

Staff training and development should take centre stage with the focus being to enhance exemplary service delivery to the customer's satisfaction.

The distribution of Kenya's banking network is poor with most banks being concentrated in the capital city and a few major urban centers, with the rest of the county having minimum coverage. The bank needs to venture in the untapped market in remote parts of the country.

Globalization is a key driver of change. There is an increasing convergence of markets worldwide making customers' tastes and preferences become similar worldwide. Due to a lot



of cross border trading customers are becoming 'global customers'. The bank should look for an international strategic partner in order to venture abroad.

The image each bank has in the market has a strong bearing on how effective it will be in drawing the desired target section of bank customers. Therefore, the bank should seriously be thinking of rebranding its name in the public domain to improve public perception.

Bank products are quite similar and the target market is the same. The bank must go to great length to modify their products so as to beat the competition by creating more attractive products.

Competition in the banking sector is stiff and thus NBK can opt to concentrate their efforts on specific categories of clients whom they should try to fully satisfy and retain. They should thus form niche markets and position themselves to serve these markets better than the rest of the competition.

The bank like any other type of company must be run properly to ensure the risks taken do not result in losses but profitability. To ensure this, political appointments should be avoided the right caliber of managers strictly appointed on merit should be entrusted with the task. Doing so will not only lead to good use of the banks resources but also contribute towards building a good image for the bank both in the eyes of customers and shareholders.

Given that the study was a case study, it could not give a general picture of how other banks are responding to the competitive forces in the banking industry.

78

### 5.4 Suggestions for further Research

The study recommends further research on response of companies to competitive forces in other industries. Also a cross sectional survey covering the whole industry can be undertaken. This will allow for industry generalizations to be made.

Alternatively a comparative study between indigenous banks like NBK and multinational banks like Barclays bank, Standard Chattered Bank can be carried out to see if there exists any differences in their response strategies to competitive forces in the banking industry.

Alternatively a cross-sectional survey covering all banks in the industry to determine the strategic responses to the competitive forces by the banks could be undertaken. This then will allow for industry generalizations to be made.

### **5.3 Limitation of the Study**

Given that the study was a case study, it could not give a general picture of how other banks are responding to the competitive forces in the banking industry.

### **5.4 Suggestions for further Research**

The study recommends further research on response of companies to competitive forces in other industries. Also a cross sectional survey covering the whole industry can be undertaken. This will allow for industry generalizations to be made.

Alternatively a comparative study between indigenous banks like NBBK and multinational banks like Barclays bank, Standard Chartered Bank can be carried out to see if there exists any differences in their response strategies to competitive forces in the banking industry.

Alternatively a cross-sectional survey covering all banks in the industry to determine the strategic responses to the competitive forces by the banks could be undertaken. This then will allow for industry generalizations to be made.

## REFERENCES

- Andrews, K R (1971). "The Concept of Corporate Strategy". Irwin, Homewood, IL.
- Arpan J.S, de la Torre J, Toyne B (1981), "International Developments and the U.S Apparel Industry", *Journal of International Business Studies* 12(3) 49-64
- Arthur J. B. (1992). "The Link between Business Strategy and Industrial Relations Systems in American Minimills." *Industrial and Labor Relations Review*, 45(3) 488-506
- B Barney J.B. (1991). "Firm Resources and Sustained Competitive Advantage". *Journal of Management*, 17, (1), pp 99-120
- Bernard A.B Eaton J, Jensen BJ Kortum S (2003). "Plants and Productivity in International Trade". *American Economic Review* 93(4) 1268-1290
- Bernard A.B Jensen BJ, Schott PK (2006). "Survival of the Best Fit: Competition from Low Wage Countries and the (Uneven) Growth of U.S Manufacturing Plants". *Journal of International Economics* 68(1) 219-237.
- Birecree A. M. (1994). "Corporate Development, Structural Changes, and Strategic Choice: Bargaining at International Paper Company in the 1980's." *Industrial Relations* 32(3) 343-366
- Burns A.C (2001) "Marketing Research". London: Prentice hall
- Campbell-Hunt C (2000). "What Have We Learned about Generic Competitive Strategy? A Meta-Analysis". *Strategic Management Journal* 21(2) 127-154
- Carpenter G.S, Nakamoto K (1989). "Consumer Preference Formation and Pioneering Advantage". *Journal of Marketing Research* 26(3) 285-298
- Carr C (1993). "Global, National and Resource-Based Strategies: An Examination of Strategic Choice and Performance in the Vehicle Components Industry". *Strategic Management Journal* 14(7) 551-568
- Central Bank of Kenya (2003) Kenya Monthly Economic Review. CBK
- Central Bank of Kenya (2006) Annual Report. CBK
- Central Bank of Kenya (2006) Bank Supervision Annual Report, Fifth Edition. CBK
- Child J (1972). "Organizational Structure, Environment and Performance: The Role of Strategic Choice". *Strategic Management Journal* 6(1) 1-22
- Covne K.P and Sujit Balakrishnan (1996) "Bringing discipline to strategy". *The McKinsey Quarterly* No 4

- Davies H Walters P (2004), "Emergent Patterns of Strategy, Environment and Performance in a Transition Economy", *Strategic Management Journal* 25(4) 3-17
- De Meyer A (1986) "Towards an Understanding of Manufacturing Strategies in Europe: A Comparative Survey" Thousand Oaks CA
- Drucker Peter F (1997) "The Global Economy and the Nation-State" *Foreign Affairs Journal* 21(2) 20-25
- DuBois F L, Loyne B, Ohff M D (1993), "International Manufacturing Strategies of U.S. Multinationals: A Conceptual Framework Based on a Four-Industry Study", *Journal of International Business Studies* 2(2) 307-333
- Duncan R G (1972), "Characteristics of Organizational Environments and Perceived Environmental Uncertainty", *Administration Science Quarterly* 17(3) 313-327
- Gatignon H, Weitz B, Bansal P (1990), "Brand Introduction Strategies and Competitive Environments", *Journal of Marketing Research* 27(4) 390-401
- Ghoshal S (1987) "Global Strategy: An Organizing Framework", *Strategic Management Journal* 8(5) 425-440.
- Gosdard J (1992) "Whither Strategic Choice: Do Management Ideologies Matter?" *Industrial Relations*, 36(2), 206-228
- Goro R W (2003), "Strategic Responses of Commercial Banks to the threat of substitute products" Unpublished MBA project, University of Nairobi
- Gorsuch R L (1983), *Factor Analysis*, Lawrence Erlbaum Associates, Hillsdale NJ
- Grant R.M (1989) "Competing against Low Cost Cutlery Imports", *Long Range planning* 22(5) 59-68
- Grant R M (2005), "Contemporary Strategy Analysis", Blackwell Publishing Ltd, Oxford (U.K.)
- Hallak J C, Schott P K (2005), "Estimating Cross-Country Differences in Product Quality" Yale School of Management
- Hamel G, Prahalad C K (1985), "Do You Really Have a Global Strategy?" *Harvard Business Review* 63(4) 139-148
- Jaworski B J, Kohli A K (1993), "Market Orientation: Antecedents and Consequences", *Journal of Marketing* 57(3) 53-70
- Hoskisson, R E, Hitt M A, Wan, W P and Yiu D (1999), "Theory and Research in Strategic Management: Swings of a Pendulum", *Journal of Management* Vol 25 Iss 3 pp 117-157

Hart S L "Beyond Greening Strategy for a sustainable world" *Harvard Business Review* Jan - Feb 1997

Johnson G, Scholes K & Whittington R (2006). *Exploring Corporate Strategy* 11-Prentice Hall, 7<sup>th</sup> Edition

Johnson G, Scholes K & Whittington R (2005). *Exploring Corporate Strategy* 11-Prentice Hall, 6<sup>th</sup> Edition

Johnson J H (1995). "An Empirical Analysis of the Integration-Responsiveness Framework: US Construction Equipment Industry Firms in Global Competition". *Journal of International Business Studies* 26(3) 621-635

Johnson, G and Scholes, K (2002). "Exploring Corporate Strategy - Text and Cases" 6th ed Prentice Hall Harlow

Kathuku J K (2005). "The Strategic Responses To Changes In The Environment By The Co Operative Bank Of Kenya Limited". Unpublished MBA project, University of Nairobi

Kates M M, Petersen B C (1994). "The Effect of Rising Import Competition on Market Power: A Panel Data Study of US Manufacturing". *Journal of Industrial Economics* 42(3) 277-286

Khandwalla P N (1976) "The Techno-Economic Ecology of Corporate Strategy" *Journal of Management Studies* 13(1) 62-75

Kiptugen F J (2003). "Strategic Responses To A Changing Competitive Environment: The Case Study Of KCB". Unpublished MBA project, University of Nairobi

Kothari C R (2004). "Research Methodology, Methods and Techniques" New Age International publishers

Kogut B (1985) "Designing Global Strategies: Comparative and Competitive Value Added Chains". *Sloan Management Review* 26(4) 15-28

Kumar N (2006) "Strategies to Fight Low-Cost Rivals". *Harvard Business Review* 84(12)

Langlois R N, Stemmueler W F (2000). "Strategy and Circumstance: The Response of American Firms to Japanese Competition in Semiconductors, 1980-1995". *Strategic Management Journal* 21(10-11) 1163-1173

Lawrence P R, Lorsch J W (1967) "Differentiation and Integration in Complex Organizations". *Administration Science Quarterly* 12(1) 1-47

Lee K R, Suh J H (1998). "Technology Gap Approach to a Dynamic Change in World Machine Tool Markets: A Panel Data Analysis". *Economics of Innovation & New Technology* 7(3) 203-220

MacDonald J M (1994). "Does Import Competition Force Efficient Production?" *Review of Economics & Statistics* 76(4) 721-727

Mahoney J I, Pandian J R (1992) "The Resource-Based View within the Conversation of Strategic Management", *Strategic Management Journal* 13(5) 363-380

Miller D (1988). Relating Porter's Business Strategies to Environment and Structure Analysis and Performance Implications. *Academy of Management Journal* 31(2). 280-308

McGahan, A (2004). "Economics and the bank's role in the economy" Cambridge Cambridge University Press

Musa A H (2004) "responses by commercial banks operating in Kenya to changes in the environment - A Case of National Bank of Kenya Ltd" Unpublished MBA project, University of Nairobi

Okode, I (2004) "Application of differentiation strategy in commercial banking in Kenya" Unpublished MBA project, University of Nairobi

Penrose E T (1995). "The Theory of the Growth of the Firm", Oxford University Press Oxford

Pearce & Robinson (2005). "Strategic Management: Strategy Formulation and Implementation". The Free Press New York

Mintzberg, H (1973) "Strategy-Making in Three Modes", *California Management Review* 16(2) 44-53

Peteraf, M A (1993). "The cornerstones of competitive advantage: a resource-based view" *Strategic Management Journal*, Vol 14, No 3, pp 179-191

Porter, M I (1979) "How competitive forces shape strategy" *Harvard Business Review* March/April

Porter, M I (1980). "Competitive Strategy: Techniques for Analyzing Industries and Competitors: Sustaining Superior Performance" Harvard Business School Press, Boston

Porter, M I (1980). "Competitive Strategy: Techniques for Analyzing Industries and Competitors", New York, NY: Free Press

Porter, M I (1980) "Competitive Strategy", The Free Press, New York, 1980

Porter, M I (1985) "Competitive Advantage", The Free Press, New York, 1985

Porter, M I (1986). "Changing Patterns of International Competition", *California Management Review* 28(2) 9-40

Porter, M I (2001) "Now is the time to rediscover strategy" *The Wall Street Journal*, November, 2001

Porter, M I (June 2007). *Global Competitiveness: Implications for Kenya* - Presentation at Strathmore Business School, Nairobi

- Posner MV (1961) "International Trade and Technical Change". *Oxford Economic Papers* 13 (3) 323-341
- Revegra A L (1992). "The Impact of Import Competition on Employment and Wages in U.S. Manufacturing", *Quarterly Journal of Economics* 107(1) 255-284
- Robinson W L (1988). "Marketing Mix Reactions to Entry". *Marketing Science* 7(4) 368-385
- Safaricom (2006 January-march) Safaricom limited, 18th edition. Nairobi, Kenya
- Sanchez R, Heene A (2004). "The New Strategic Management: Organizations, Competition and Competence". Little, Brown, Boston, MA
- Schendel D, Hofer CW (1979). "Strategic Management: A New View of Business Policy and Planning". London: Sage Publications
- Schuler D.A., Reihem K., Cramer R.D. (2002) "Pursuing Strategic Advantage through Political Means: A Multivariate Approach". *Academy of Management Journal* 45(1) 659-672
- Shankar V (1999) "New Product Introduction and Incumbent Response Strategies". *Journal of Marketing Research* 36(3) 327-344
- Shankar V, Carpenter G.S, Krishnamurthi I (1998). "Late Mover Advantage: How Innovative Late Entrants Outsell Pioneers". *Journal of Marketing Research* 35(1) 54-70
- Simon D (2005). "Incumbent Pricing Responses to Entry". *Strategic Management Journal* 26(13) 1229-1248.
- Singh S, Uton M, Waterson M (1998) "Strategic Behaviour of Incumbent Firms in the UK". *International Journal of Industrial Organization* 16(2) 229-251
- Stolis G (2003). "Competitive Pressure and Economic Integration: An Illustration for Spain 1983-1996". *International Journal of Industrial Organization* 21(10) 1435-1459
- Smiles R (1988) "Empirical Evidence on Strategic Entry Deterrence". *International Journal of Industrial Organization* 6(2) 167-180
- Spanos Y E, Zoratis G, Lioukas S (2004) "Strategy and Industry Effects on Profitability: Evidence from Greece". *Strategic Management Journal* 25(2) 139-165
- The Boston Consulting Group (2004). "Capturing Global Advantage". The Boston Consulting Group, Boston, MA



Thompson J D (1997) "Organizations in Action" McGraw-Hill New York

Venkatraman N, Prescott J E (1990), "Environment-Strategy Congnition: An Empirical Test of Its Performance Implications" *Strategic Management Journal* 11(1) 1-23

Vernon R (1966), "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics* 80(2) 190-207

Wernerfelt B (1984). "A Resource-Based View of the Firm" *Strategic Management Journal* 5(2) 170-180

Zou S, Fans J, Zhao S (2003) "The Effect of Marketing Capabilities on Performance: An Investigation of Chinese Exporters", *Journal of International Marketing* 11(1) 32-55

## APPENDIX I

### LETTER OF INTRODUCTION

Tom N. Mulumia

University of Nairobi- MBA student

Dear Sir/Madam,

#### RE: MBA RESEARCH QUESTIONNAIRE

I am an MBA student at the University of Nairobi majoring in Strategic Management. As part of the course, I am required to carry out a research project. My research is titled **RESPONSE OF NATIONAL BANK OF KENYA TO COMPETITIVE FORCES IN THE BANKING INDUSTRY**. I would very much appreciate if you would be willing to help me in completing my research.

Every response to my questionnaire will make a valuable contribution to the research. All information provided in this research will be treated in the strictest confidence and no individual details will be published in the final report. If you would like a copy of the study findings, do not hesitate to get in touch with me through the contacts provided here below.

Thank you in advance for your assistance.

Yours Faithfully,

Tom N. Mulumia

tmulumia@nationalbank.co.ke

Cell phone: 0722 259877

## APPENDIX 2

### QUESTIONNAIRE

Please answer the following questions as accurately as possible.

#### SECTION A

- i) How long have you worked in the banking industry?  
\_\_\_\_\_
- ii) How long have you worked at NBK?  
\_\_\_\_\_
- iii) In your assessment does NBK possess the necessary resources and capability to adopt strategies in response to competitive forces in the industry?  
\_\_\_\_\_  
\_\_\_\_\_

#### SECTION B: FORCES IN THE BANKING INDUSTRY

- a) Rivalry among competitors in the industry.
  - i) List your five major competitors  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  - ii) At what rate is the banking industry market growing?  
\_\_\_\_\_  
\_\_\_\_\_

iii Do you think rivalry in the banking industry is intense? If yes, what factors are contributing to that?

---

---

iv Are the banks in the industry competing for interest rates on deposits or earnings from commissions?

---

---

v What action is the bank taking to cope with the rivalry within the industry?

---

---

**b) Bargaining power of suppliers in the industry.**

i List the major inputs needed for your business

---

---

ii Are the purchases from suppliers representing a large portion of your business products?

---

---

iii How can you best work with your suppliers to minimize their bargaining power?

---

---

ix Are your suppliers becoming more powerful? If yes, how are they affecting you?

---

---

x How is the bank coping up with the challenge of the bargaining power of the supplier?

---

---

**c) The threat of new entrants in the industry.**

i Do you consider the rate of increase of new banks a threat to your organization?

---

---

ii How is this affecting you?

---

---

iii Are there barriers to entry in the banking industry? If yes, what are some of these barriers?

---

---

iv What is the bank doing to cope with the challenge of the threat of new entrants in the industry?

---

---

**d) The threat of substitutes in the industry.**

- i) What substitutes do your customers have for your products/services?  
\_\_\_\_\_  
\_\_\_\_\_
- ii) How can you build loyalty for your product or service to prevent customers from opting for substitute products/services?  
\_\_\_\_\_  
\_\_\_\_\_
- iii) What is the bank doing to cope with the challenge of substitutes in the industry?  
\_\_\_\_\_  
\_\_\_\_\_

**e) Bargaining power of buyers/customers in the industry.**

- i) Do we have enough customers such that losing one isn't critical to our success?  
\_\_\_\_\_  
\_\_\_\_\_
- ii) Are customers thoroughly informed about our product/service and if yes, what is the measure?  
\_\_\_\_\_  
\_\_\_\_\_
- iii) Is it easy for customers to switch from our product/service to our competitors' products/service, if yes, what is the bank doing to prevent switching?  
\_\_\_\_\_  
\_\_\_\_\_