COMPETITIVE POSITIONING AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

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

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

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DEDICATION

This project is dedicated to my mother Rose Oimbo for her constant support both emotionally, financially and my father Mark Oimbo for his constant nudge and the emphasis on the importance of education which gave me encouragement to complete this project.

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TABLE OF CONTENTS

Declaration..ii

Dedication...iii

Acknowledgement..iv

List of Tables vii

List of Figures...viii

Abstract ix

CHAPTER ONE: INTRODUCTION

1.1Background of the Study..1

1.1.1Competitive positioning...1

1.1.2 Organization performance...3

1.1.3Competitive positioning and organization performance............5

1.1.4Commercial banks in Kenya...6

1.2 Statement of the problem..8

1.3Objectives of the study...9

1.4Importance of the study..10

CHAPTER TWO: LITERATURE REVIEW

2.1Competition and competitive positioning 11

2.2 Competitive positioning...15

2.2.1 Cost leadership...16

2.2.2 Differentiation..17

2.2.3 Focus...17

2.2.4 A combination of generic strategies...................................18

2.3 Organizational performance..18

2.3.1 Balanced scorecard: A performance Management system.......19

2.4 Competitive positioning and organization performance....................21

2.4.1 Return on Equity...21

2.4.2 Asset Quality...22

2.4.3Capital Adequacy...22

2.4.4 Earnings...23

2.4.5 Liquidity Ratio..23

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design..25
3.2 Target Population..25
3.3 Data Collection..25
3.4 Data Analysis..26

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction...27
4.2 General Information..27
4.3 Competitive positioning..29
4.4 Relationship between positioning and performance.......................................34
4.4.1: Competitive positioning strategies used by banks.....................................37

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSION

5.1 Summary, discussions and conclusion..40
5.2 Limitations of the study...42
5.3 Recommendations for further research 42
5.4 Implications for policy and practise...43

References...44
Appendix 1: Letter of Introduction...47
Appendix 2: Questionnaire..48
Appendix 3: List of Commercial banks...52
Appendix 4: Tiers of Banks...54

LIST OF TABLES

Table 1: Classification of banks by ownership..27

Table 2: Number of years of operation in Kenya..28

Table 3: Number of Branches..28

Table 4: Type of clientele..29

Table 5: Strategy Formulation..30

Table 6: Level of competition in the Banking Industry..31

Table 7: Basis of competition..31

Table 8: Changes in external environment..32

Table 9: Effect of competition on the banks performance..32

Table 10: Impact of external forces..33

Table 11: Weighting of various strategies..34

Table 12: Summary of competitive positioning and performance..35

Table 13: Competitive positioning of tier 1 Banks..37

Table 14: Competitive positioning of tier 2 Banks..38

Table 15: Competitive positioning of tier 3 Banks..39

LIST OF FIGURES

Figure 1: Type of clientele..30
Figure 2: Distribution of banks by competitive strategies.......................36

ABSTRACT

The banking Industry has grown immensely in the last 10 years, with several banks entering the market and others merging or acquiring smaller banks to become more competitive. Environmental factors have therefore made the Banking Industry in Kenya very competitive. This research project sort to determine how different banks are positioning themselves in the Banking Industry. It also sort to establish whether there is a relationship between competitive positioning and performance of Kenyan banks.

During the study, a semi-structured questionnaire was distributed to the 43 commercial banks in Kenya which were categorized into three tiers based on the banks assets. The data was collected using the "drop and pick later" method and by e-mails. There was a response rate of 60%.This data was then analysed using the Statistical package for Social Sciences (SPSS) and a Chi-Square test performed to establish the relationship between competitive positioning and performance of banks using the return on average core capital as the performance indicator. The results were then presented using various modes including frequencies, means, standard deviation, percentages and pie charts.

The study found out that the most competitive banks are using a mix of cost and differentiation strategies, with the impact of differentiation, technology and service being the greatest. The study also found out that there is a mild relationship between the competitive strategy chosen by a bank and its performance. This means that there are other factors affecting performance which were not within the scope of this study.

It would be interesting for other scholars and bank management to find out which other factors affect performance of banks. I would therefore recommend a study to be carried out to determine what factors other than competitive positioning needs to be considered by banks to make sure that there performance is enhanced in the very competitive banking industry

CHAPTER ONE: INTRODUCTION

1.1 Background of study

Porter (1980) states that in the classic Approach to formulation of Strategy, a business needs to develop a broad formula for how it is going to compete, its goals and the policies needed to carry out those goals. Cole (1997) goes further to state that in making an assessment of ones own and competitor's relative position in the market firms should not just concentrate on market share but on the profit that comes from it. Hence Porter (1985) concludes that competitive strategy is the search for a favourable competitive position in the Industry a fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

1.1.1 Competitive positioning

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Porter (1985) suggests that competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Two central questions underlie the choice of competitive strategy. The first is the attractiveness of industries for long-term profitability and the factors that determine it. Not all industries offer equal opportunities for sustained profitability, and the inherent profitability of its industry is one essential

ingredient in determining the profitability of a firm. The second central question in competitive strategy is the determinants of relative competitive position within an industry. In most industries, some firms are much more profitable than others, regardless of what the average profitability of the industry may be.

Neither question is sufficient by itself to guide the choice of competitive strategy. A firm in a very attractive industry may still not earn attractive profits if it has chosen a poor competitive position. Conversely, a firm in an excellent competitive position may be in such a poor industry that it is not very profitable, and further efforts to enhance its position will be of little benefit. Both questions are dynamic; industry attractiveness and competitive position change. Industries become more or less attractive over time, and competitive position reflects an unending battle among competitors. Even long periods of stability can be abruptly ended by competitive moves. Both industry attractiveness and competitive position can be shaped by a firm, and this is what makes the choice of competitive strategy both challenging and exciting.

To assess the Industry's attractiveness we will use Porter's 5 forces which attempts to illustrate how different forces affect the economic environment in which different organizations operate within. The facets which are looked at in Porter's five forces include, intensity of rivalry amongst industry competitors, threat of new entrants, bargaining power of buyers, bargaining power of suppliers and determinants of threats from substitutes. Competitive strategy on the other hand is the search for favourable competitive position in an industry. Bob, Ron (2004) suggests that "competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. We therefore need to consider the industry attractiveness and competitive position.

A firms profit is also influenced by the specific position that the firm occupies in the industrial environment. Firms operating in the same industry can decide to adopt different strategies, choosing between three so-called ‘generic competitive strategies’. According to Thompson et al (2007) a firm can either decide to compete on the basis of cost where the firm offers same products at a price lower than its competitors this is called cost leadership. A firm can also offer a different product (higher quality and more functions) at a higher price. This is referred to as differentiation. In this case, the firm must fix the price at a level sufficient to cover the greater costs sustained to differentiate the product. If this is not done, the differentiation strategy will result in greater costs not covered by higher income. Alternatively, the firm can adopt the focus approach when the firm follows one of the two previous strategies, but focusing on a restricted segment of the market. We shall have a cost focus if the firm decides to pursue a cost leadership strategy in a restricted segment of the market, and a differentiation focus if it acts according to a differentiation strategy.

1.1.2 Organizational performance

Firms measure their performance in two ways: against goals that they set internally and against the relative performance of their competitors. Firms should employ the techniques such as benchmarking, Resource Based Strategy, Balanced Scorecards and CAMELS to assess their own overall competitive position within an industry or to look at relative performance of a specific function to help them decide upon the best strategies to employ in order to improve themselves.

Deloitte consulting (2004) presents Competitive Benchmarking as the act of conducting a comparison of one company’s results to a set of competitors’ results across certain performance indicators. While benchmarking will likely

answer many questions regarding relative firm performance, it is difficult and can be costly depending upon the depth of the chosen indicators. Thus, it is important to resolve what questions a benchmarking analysis should answer. The possible considerations would include, whether your competitors perform the same activities as your company, whether competitors use the same level of effort(resources and time) in the same activities as your company, how the quality of the companies services are perceived relative to competitors. Other questions would be if some of the company's business processes create a relative cost advantage, whether competitors are doing something fundamentally different to create a cost advantage and whether the competitors have assumed the same level of financial risk as the company.

Ratio analysis is commonly used in competitive benchmarking to compare profitability, efficiency, and financial structure. Ratios help adjust for firm size to allow better comparisons. CAMELS as defined by Koch (2006) are also a worldwide measure of how organizations are performing against each other. CAMELS looks at Capital adequacy which measures the banks ability to maintain capital commensurate with the banks risk. Asset quality which reflects the amount of credit risk with the loan and investment portfolios. Management quality indicating management's ability to identify, measure, monitor and control risks. Earning reflecting the quantity, trend and quality of earnings. Liquidity indicating the sources of liquidity and fund management practises and sensitivity to market risk which shows the degree to which changes in market prices and rates adversely affect earnings and capital. The regulators then assign ratings of 1(best) to 5 (Worst) in each of the six categories and overall composite ratings. Where 1 or 2 indicates a fundamentally sound bank while a 4 or 5 indicates a bank that shows some underlying weakness that should be corrected.

1.1.3 Competitive positioning and organizational performance

Competitive advantage a major facet of competitive positioning is at the heart of a firm's performance in competitive markets. Firms throughout the world face slower growth as well as domestic and global competitors that are no longer acting as if the expanding pie were big enough for all (Porter,1985).A central question in the strategic management literature has been to identify the sources of competitive advantage that allow firms to sustain superior economic performance over periods of time. Porter (1980) posited that firms with competitive advantages based on either cost leadership or differentiation are able to outperform others.

In more recent work, Porter (1996) further argues that technological innovations that permit the rapid diffusion of best practices make some operational improvements that enhance cost efficiency easily imitable. Competitive advantage is difficult to imitate and can therefore lead to sustained superior performance (Ghemawat, 1986). The study investigates how different business strategies affect sustainability of future earnings, and by extension, firm value. Specifically, the study addresses an important empirical question in this paper being is a firm that pursues a strategy based on differentiation more likely to sustain its financial performance longer than a firm that follows strategy based on cost or efficiency?

In addition the study examines whether capital markets recognize this difference in the sustainability of performance and price the shares of these firms accordingly. Porter (1980) presents a framework describing three generic strategies that a firm can use to achieve competitive advantage: cost leadership, differentiation and focus. Firms adopting the cost leadership strategy aim to increase market share based on creating a low-cost position

relative to their peers. To achieve cost leadership a firm must perform activities creating, producing, selling and delivering products and services faster, cheaper, and with fewer inputs than their rivals. Firms can adopt different tactics to achieve cost leadership these include large scale facilities, process improvements, cost minimization, TQM, benchmarking, and overhead control.

Cost leaders can achieve above-average returns by charging low prices for their products and seeking out customers who care more about price than about image or novelty. On the other hand, firms adopting the differentiation strategy achieve a competitive advantage by providing products or services that offer unique qualities desirable to customers which allow the firm to command a price premium. To realize either of these strategies, firms must make resource allocations that are consistent with the strategy and discernible in publicly reported financial information.

1.1.4 Commercial Banks in Kenya

According to an interview with Governor of Central Bank in Banking Survey (2009) the banking sector recorded an impressive performance in 2008.The overall profitability (profit before tax) increased by 18% up from 6.5% in 2007 and 5.5% in 2006. The banking sector has also reported to have continued to meet the capital and liquidity requirements with a total capital to risk weighted ratio of 18.9% and a liquidity ratio of 37% compared to statutory limits of 12% and 20% respectively. This can be attributed to the prudent management on the part of the banks as well as the enhancement of standards in the sector.

Overall the asset base has also expanded from Ksh 548billion in 1999 to Ksh 1.2 trillion in 2008 this is more than a 120% growth over the last ten years.

The customer deposit base has also grown by about 130% in the same period moving from Ksh 290billion in 1999 to Ksh 290billion in 2008. Kenya Commercial Bank is now the largest bank in Kenya after trailing Barclays Bank since 2001.The commercial banks in Kenya as at April 30, 2009 is 43. Kenya also has 2 Mortgage finance companies and 123 foreign exchange bureaus. The sector has recently seen the mergers of CFC and Stanbic together with Prime and Credit bank. Also two banks have been licensed to operate in Kenya these are Gulf and First community bank. Apart from the commercial and microfinance banks, there are over 3,000 Sacco's competing with the financial institutions. Kenya Commercial Bank, Barclays Bank of Kenya, Standard Chartered Bank and Cooperative banks are the top 4 banks in the industry in terms of total assets and customer deposits. Barclays Bank of Kenya reported the highest net profit margin followed by Standard Chartered Bank, Kenya Commercial Bank and Equity Bank. While Citi Finance Bank and Gulf reported the lowest.

From the Interview with Central Bank of Kenya Governor during the Banking survey (2007), he says some of the developments in the Banking Industry include fostering of the stability within the sector as capital holding is aligned to their risk profile. The increase in the banks capital requirement of 1 billion has gone a long way to facilitate this. Branchless Banking allowing customers to transact from any branch and using several modes a recent example is the Mobile banking which has enabled anyone with a mobile phone to enjoy banking wherever they are. This has also been accompanied by internet banking and banks teaming together to offer ATM services. Banks are now also developing generic products based on customers needs.

The Banking Industry has however become very dynamic with competition being cut throat. The major challenge for banks right now is the slowdown in economic growth with the projected growth in 2009 only being 2.5%.Other

challenges facing the players in the industry include, high cost structure of the banking sector and high infrastructural costs where we are now seeing mergers and entrance of high capital intensive banks from Nigeria. We are also witnessing conservative banking practices for example account opening (know your customer) and lending practices in order to manage the non performing loans portfolios.

1.2 Problem Statement

According to Porter (1980) every firm competing in an industry has a competitive strategy, whether implicit or explicit. Some of the questions that need to be taken into account when formulating this strategy are what is driving competition in the industry you are operating in .What actions are competitors likely to take and how do I respond. How will the industry evolve and how is the firm best positioned to compete in the long run. The first approach is therefore to look at the company's strengths and weaknesses and then build defences against the competitive forces or find positions in the industry where the forces are weakest.

The number and performance of banks in the Kenyan market is affected by a number of factors some of which include competition, government regulation and the economy. Bank performance can be evaluated based on the internal performance, external performance and the presentation of the banks financial statements. Internal performance is based on the individual bank policies that are their goals, budgets technology, development of their employees and other internal factors. External performance on the other hand is based on the market share of the bank, regulatory compliance and public confidence in the bank. Banks performance are also based on different financial ratios especially profit. There are however different methods we would use to measure a banks performance some of this would include balanced scorecard for internal

performance and CAMELS for external performance together with several other ratios.

The government also plays a major role in the banking industry. For a long time the Banking Industry has had a few big players but with time this is rapidly turning around with new players entering the market and mergers and acquisitions taking place. The Finance minister, in his budget speech for the 2007/2008 introduced a number of measures affecting the sector. Key among these was the increase in the banks' capital requirements from Kshs 250 million to Kshs 1 billion. While majority of the large and mid-tier banks are in compliance, the requirement, which was meant to encourage mergers and acquisitions within the sector, will require additional capital injection or consolidation among smaller banks.

Competition has also seen the growth of banks, the regulation of their services, the venture into new market niches, and regulation of their costs and increased use of technology amongst others. This has had an impact on bank performance in that they present a change in assets and liabilities of commercial banks. We will be using Porters 5 forces to analyse competition amongst the banks.

1.3 OBJECTIVES OF THE STUDY

i). To determine how different banks are positioning themselves within the banking industry.

ii). To establish whether competitive positioning is related to bank performance

1.4 IMPORTANCE OF THE STUDY

i) For top management of different banks to gauge how the different banks are performing compared to their competitors .Hence providing suggestions on how to enhance the banks responsiveness to competition.

ii) Scholars to use as a source of reference and provide ground for further research.

iii) The findings of this study will contribute to the growing body of knowledge in the Banking Industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Competition and competitive positioning

Porter (1998) suggests that competitive strategy is about being different. Competitive strategy is therefore the search for a favourable competitive position. It means deliberately choosing to perform different activities differently or to perform different activities than rivals to deliver a unique mixture of value. He goes further to say that it is a broad formula for how a business is going to compete that is what its goals should be and what policies will need to carry out these goals. Competition in an industry is rooted in underlying economics and competitive forces. Customers, suppliers, potential entrants and substitute product are all competitors which may be more or less dominant depending on the industry.

When a company has an edge over its rivals then it achieves what is known as competitive advantage. When studying the concept of competitive advantage, the first question we need to answer is, what is the nature of competitive advantage? Competitive advantage is the result of a strategy capable of helping a firm to maintain and sustain a favourable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry. This work focuses on the study of the mechanisms responsible for realizing sustainable competitive advantages resulting from an intentional and consistent strategy.

From the definition proposed two issues emerge, the existence of a strategy which is intentionally planned and realised through investments and resource deployment programs. We are therefore interested in strategic planning results

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and their implications on investment decisions. The second being the implementation of a firm's strategy as result of a long-term competitive advantage, which is a competitive advantage not immediately destroyable by competitors. These two issues limit the analysis to the study of competitive environments characterised by informative asymmetries and imperfect resource markets. In the absence of these conditions, we could not have sustainable competitive advantages, because the realization of a new competitive advantage would be immediately destroyed by the imitative strategies of competitors.

Concepts on competition have evolved over time with each author proposing an additional concept. This include a variety of approaches have evolved since the late 1950s, but only at the beginning of 1960s the competitive advantage concept has been analysed systematically. During these years at Harvard University a new school emerged. The Harvard School approach to the analysis of competitive advantage focused on the study of the influence of the external environment on a firm's strategy. According to this perspective, firms operating in the same industry receive identical inputs and are forced to adopt identical strategies. In other words, no competitive advantage is possible in this perspective. All the firms operating in the same industry receive identical opportunities and should adopt identical strategies, obtaining the same results. eventual diversity is possible only in the short period.

Therefore, the firm's success is the result of the firm's ability to respond to threats and opportunities existing in the specific industrial environment in which it operates. The strategic decisional processes and the profit-results that firms obtain are heavily influenced by external market conditions. The relationship between the firm and the industrial environment in which it operates is responsible for realising a successful market position and develops along three dimensions according to (Learned et al ,1969).

First of all, the firm develops a consistent system of strategic objectives, adopting a complex of coherent functional policies. Second, the system of objectives and policies must be kept consistent with the external conditions of the market, that is, the strengths and weaknesses of the industry which the firm must consider in deciding strategies and policies. Nevertheless, the firm's adaptation to industrial environment requirements has to be seen in a dynamic form, in which the firm constantly adapts its action to external and internal changes, in a continually changing pattern.

Finally, the strategy must pursue the creation of 'distinctive competencies', which are 'patterns of resource and skill deployments that will help it (the firm) achieve its goals and objectives' (Hofer & Schendel, 1978). The industrial environment continues to be important but, at the same time, the firm's ability to develop its own strategy as the result of its distinctive competencies begins to be considered.

After the Harvard School, the most important milestone in competitive advantage studies is related to Porter's idea of 'value chain' proposed in the 1980s.According to his approach, the study of strategy must rely on three elements: the external environment, the firm's behaviour, and the market results that the firm obtains in implementing its strategy. The successful market position that firms can gain is the result of two factors, the industrial environment and the position assumed by the firm inside the market.

The state of competition depends on five forces by (Porter,1980).This include customers, suppliers, potential entrants, competitive rivalry and substitute products that may be more or less prominent or active depending on the

industry. The knowledge of the sources of underlying competitive pressures provides the groundwork for strategic agenda for action .New entrants to an industry brings new capacity, desire to gain market share and often substantial resources. Companies diversifying through acquisition often bring with them resources which shake up the industry for example Ecobank's acquisition of East Africa Building Society, CFC Stanbic merger. The sources of barriers of entry would include: economies of scale, product differentiation, capital requirements, access to distribution channel, government policies e.t.c. The incumbents will then be forced to react in one way or the other. For example price cuts where you now find all the banks in the Kenyan industry availing a cheap product for the lower end of the market and extending banking hours.

Bargaining power of suppliers and buyers where suppliers have power when, the industry has a very few players, the product is unique and differentiated; the industry is not an important part of the supplier group. Customers are powerful when they purchase in large volumes, the purchases are undifferentiated and the industry's product is unimportant to the quality of the buyer's products or services. Where you find customers forcing down prices, demanding higher quality or more service and playing competitors against each other lowering the industries profit. An example is the recent mushrooming of exclusive banking centres for the high end clientele. Where the quality of service is more superior at no substantial cost and rate on deposits and other facilities very low. Also we find companies having to choose who their clientele will be. Substitute products also play a major role in price reduction or performance improvement this is because the customers have options they can exercise.

Jockeying for positions is a result of rivalry amongst competitors. The factors related to this includes, numerous competitors ,slow industry growth, lack of product differentiation and high exit barriers The company must then look

internally at its strengths and weaknesses to enable it compete favourably. This will again be done using Porters (1985) SWOT analysis. An effective competitive strategy is either offensive or defensive in order to create a defendable position against the five forces.

2.2 Competitive positioning

Competitive positioning enables you to assess your company's perceived strengths and weaknesses against those of your competitors, in order to develop more effective strategic plans. Competitive positioning implies a match between customer's perception of quality or value of a product offering or service in comparison to its rivals offering. Pearce and Robinson (1997) look at it as a measure of co-operate success being the relative dominance in the market place .With most firms using total sales or market share as a measure of competitive position. Other measures of competitive positioning would involve selecting a decision area and score carding. Some of the areas that would include: Competitor type and Specific competitor geographic region, market segmentation, product lines, size of bank, sales territories. Others suggested by Dyer and Blair (2008) would be more performance driven Profit after tax, growth in customer deposits, loans and advances, Net profit margin and market capitalization.

Porter (1980) suggests that effective strategic management is the positioning of and organization relative to its competitors and such a way that it outperforms them. Marketing, operations and personnel are all aspects of a business capable of providing a competitive edge an advantage which leads to superior performance and superior profits The two most important aspects are, nature and structure of the industry and position of the organization within the industry. The number of firms, their sizes and relative power .The ways in

which they compete and the rate of growth must be considered so that you determine whether an industry is attractive or not .This will also depend on the prospects of the industry in terms of profits and growth potential. The position on the other hand involves its size and market share, how it competes, whether it enjoys specific and recognized competitive advantage.

A firm can also compete in an unfavourable industry with a competitive advantage. Most successful competitors create value and competitive advantage in delivering that value and operate their business effectively and efficiently .The essence of strategy formulation is coping with competition. Mintzberg et al (2003) suggests that the fight for market share, competition is not only manifested in other players. Rather it is rooted in underlying economics and competitive forces exist well beyond established combatants in a particular industry.

2.2.1 Cost Leadership

According to Porter this was common in 1970's due to popularization of the experience curve concept. It requires aggressive construction of efficient scale facilities, vigorous pursuit of cost-reduction from experience tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like R & D, service, sales force, advertising etc. All this without ignoring quality. The firm can therefore lower cost by combating rivalry as it can still get profits. Low costs protect the company from all the other 5 forces. Low cost position requires high relative high relative market share, favourable access to raw materials etc. Once the low cost position is achieved it goes further to provide high margins reinvested in new equipment and modern facilities in an attempt to maintain cost leadership.

2.2.2 Differentiation

Here a firm seeks to be unique in its industry along some dimension, for example to be unique in its industry aligning attributes valued by its customer's. It is then rewarded for this uniqueness with a premium price. Factors that can be unique include; the product itself, the delivery system by which it is sold, marketing approach, design, brand image, customer service etc. High cost because of extensive research, product design, high quality materials or intensive customer support. Price gain always needs to be greater than the cost of differentiating defensive approach for coping with the 5 forces. Insulates against competitive rivalry; customers are loyal and result to lower sensitivity for a low cost position. Differentiation doesn't go together with high market share.

2.2.3 Focus

The third generic strategy, Focus or Niche, as mentioned above, has two flavours. The first is a re-visitation of cost leadership. The difference here, however, is that the firm applies the tenets of cost leadership to a specific buyer group, segment of the product line, or geographic market. The first two generic strategies are assumed to be industry wide while the focus strategy is aimed to serve a specific portion of the market very well. The premise underlying this strategy is that by focusing on a smaller target group, the firm will be able to create (real or perceived) advantage through differentiation or cost leadership because their competitors will be competing more broadly and therefore will be less efficient and effective in the eyes of the target group. Risks of pursuing this strategy include, being out-focused: competitors find a niche within the niche, narrowing of strategic differentiation between niche

and overall market, narrowing of cost differentials, allowing the market competitors to compete with niche players. Poor choice of niche market (shrinking, unprofitable)

2.2.4 A combination of generic strategies:-Stuck in the Middle

These generic strategies are not necessarily compatible with each other. A firm attempting to achieve advantage on all fonts, in this attempt it may achieve no advantage at all. An example would be a firm which differentiates itself by supplying very high quality products risks undermining quality if it attempts to become a cost leader. On the other hand, if cost does not suffer then it risks projecting a confused image. It is because of these that Porter (1980) suggests that for a firm to be successful in the long run it must select one of the three strategies. However he again suggests that for a firm to be able to succeed with multiple strategies often do so by creating separate business units for each strategy. A single strategy is not always the best because there are some product customers who seek multi-dimensional Satisfactions such as a combination of quality, style, convenience and price.

2.3 Organizational performance

An organization will subsequently look at its capabilities and finally assess its performance .To measure an organizations performance we need to be able to establish its core capabilities together with those of its competitors. Grant (1998) defines organizational capabilities as the firm's capability of undertaking a particular productive activity. The words capability and competence can be used interchangeably. Selznick (1975) used distinctive competence to describe the things an organization can do exceptionally well relative to its competitors and Ansoff (1990) used the same term to analyse the basis of the firms growth strategies.

Hamled and Prahalad (1990) coined the term, Core competences to distinguish those capabilities fundamental to a firm's performance and strategy. According to them therefore core competencies make a disproportionate contribution to ultimate customer value or to the efficiency with which that vale is delivered. They also provide a basis for entering new markets. These competences should be looked at vis a vis other firms hence benchmarking. Benchmarking involves five stages. These stages include stage one being identifying an activity within the firm where there is potential for improvement and the second stage identifies who will be a leader in this. Stage three undertakes performance comparisons between the two. Stage four analyses the reason for the differentials and the last stage uses the learning to redefine goals, redesign processes and change expectations.

2.3.1 Balanced Scorecard: A performance Management system

The Balanced Scorecard Method by Kaplan and Norton (1993) is defined as a strategic approach and performance management system that enables organizations to translate a company's vision and strategy into application working with four perspectives. These include the financial perspective, customer's perspective, business process perspective and learning and growth perspective.

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority. This perspective takes a view on how the organization must and should appear to shareholders. It includes the setting of measurable performance indicators that influence shareholder views- return on equity, asset utilization, growth etc. Top in this aspect is the return on capital employed. Within the banking sector we will be looking at some of the ratios like net profit margin, liquidity ratio, cost of

funds, total assets, return on equity etc. This measure on its own do not give a clear indication of an organizations performance and hence the use of other aspects below.

Customer perspective is also another aspect that has been added to financial data. With customers becoming more knowledgeable by the day this has become a critical measure of an organizations performance. Here companies identify the customers and market segments they have chosen to operate in. The customer perspective enables the business to align their core customer measures is satisfaction, loyalty, retention, acquisition and profitability of the customer and market segments. The elements are market share which the customers give a specific business this can be obtained from various surveys. Customer acquisition and retention are the other elements. Here the organization looks in absolute terms the growth of their business in terms of the number and value of customers. Finally, the level of customer satisfaction and hence profitability. This is because if customers are not satisfied with your service they will most definitely get this service from elsewhere and hence impact the bottom line which is economic profit.

The business perspective also needs to be put into consideration. This refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running and whether the products and services meet the customers requirements. They are therefore those processes which are mission oriented and those that are support oriented. Specifically three aspects which are innovation, operations and after sales services are addressed. The organization is therefore required to constantly come up with new products and services for their customers in a cost effective way with increased efficiency.

The last aspect which in the balanced scorecard is the learning and growth perspective. This includes employee training and corporate cultural attitudes related to both individual and corporate self improvement. Kaplan also emphasizes that "learning" is more than just training but includes things like mentors and tutors within the organization. As well as the ease of communication among workers that allows them to readily get help on a problem when it is needed. Here we look at employee capabilities shown by employee satisfaction, retention and productivity. Also we look at motivation which will translate to increased profits seeing an engaged employee translates to an engaged customer and eventually increased profits resulting in increased bonus for the employee making them more engaged.

2.4 Competitive positioning and organizational performance

To ensure fair comparison on the performance of Banks, Koch (2006) uses the CAMELS' model. Locally Banking Survey (2009) groups banks in tiers which then provides a fair comparison between the banks. The basis of this in assets values. Tier 1 compares banks with a balance sheet of more than Ksh 40 billion. Tier 2 banks have assets less than Ksh 40 billion but more than Ksh 10billion.Tier 3 banks have assets less than Ksh 10billion.Other than this different parameters discussed below are also incorporated.

2.4.1 Return on equity

Bank performance is further conducted using the Return on Equity Model. In this mode an analysis of the source and extent of profit relative to the risks taken is done. This method emphasises that a high performing bank is that one which obtains a greater return for the risk assumed, price, assets and liabilities better realize cost advantages compared to peers according to (MacDonald and Koch, 2006).This analysis starts with collective profits then breaks down

return on assets into constituent ratios to determine the reasons of performance variations from other players. Broadly speaking stakeholders returns (Return on Equity) is measured in two parts: Return on equity = Net Income/ Average Total assets which represents the returns to the assets the bank has invested in and return on assets = Net Income/Average Total assets a measure of the degree of financial leaverage employed by the bank. According to Banking Survey (2009) the other measures which are used to gauge banks performance include the following.

2.4.2 Asset quality

Banks assets comprise of its loans and advances. Thus non performing loans have a negative impact on the banks performance. Thus importance of other measures includes Non-performing Loans (NPL) provision to operating income. This is a measure of how much of the banks income has been taken up by provisions set aside for NPL provision A lower ratio is desirable. The ratings have improved tremendously an indication that banks are now keen on cleaning their books. Also Net NPL to total loans is used .This is a measure of how much of a banks total loan portfolio is non-performing. This again gives an indication of whether a bank is lending prudently or not. According to Banking Survey (2009) this ratio has moved from 7.76% in 2007 to 7.17% in 2008.

2.4.3 Capital Adequacy

Here we look at which banks are adequately capitalized in relation to its liabilities. The ratios employed are: Core capital to Total deposits which is a measure of how much shareholders have invested into the business vis a vis how much depositors have put in. This is important because depositors can

pull out their money at any time. Central Bank of Kenya stipulates that banks must maintain core capital of not less than 8% of the total deposits. Core capital to total risk weighted assets measuring total risks comprise the total value of the different assets categories weighted by their risk according to CBK guidelines is also applied. A higher ratio here is desire able with a statutory minimum of 125.

2.4.4 Earnings

This is the favourite measure however this cannot be used in isolation an average year on year is ideal. Supporting measures include: Return on Average assets, a measure of how well the banks assets are utilized in realizing profits. It is a ratio of profit before tax (PBT) to the average of total assets (at the beginning and the end of the year).A higher ratio is desirable. Average funding costs which is a ratio of total expenditure to average income (at the beginning and the end of the year).Banks strive to reduce their costs to manageable margins hence a lower ratio is desirable. Return on Average core capital also measures earnings and this ratio looks at the return on the actual investment made to shareholders that is the dividends paid to shareholders. Efficiency ratio, also known as Cost-income ratio is a ratio of operating expenses to total net Operating income. It is a measure of how effectively a bank is utilizing its resources to generate income. A lower ratio is desirable.

2.4.5 Liquidity ratio

A bank needs to be liquid enough to meet its daily obligations hence the need to meet an adequate liquidity ratio which ensures that depositors get their money when they need it.Net loans to total deposits here banks use the money collected from deposits to loan out however there needs to be a balance where they do not lend out all the money but have some money left to pay depositors.

This in effect is what fuels the economy seeing that they also pay interest on deposits. Quick assets to total liabilities. Quick assets are assets that are either in cash form or can quickly be converted into cash for example treasury bills and Bonds. Banks are therefore required to maintain high levels of liquidity with a minimum statutory requirement of 20%.Quick assets to total deposits a ratio which is a measure of how quickly a bank can respond to demands for cash from their depositors. A high ratio implies that a bank is liquid enough to settle its obligations from depositors promptly. A combination of these aspects will give us a more accurate feel of which bank is the best performing in comparison to its peers.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was a survey of Kenyan Banks, whose objective was to establish how different banks position themselves in the banking industry and hence the relationship between the competitive positioning mode chosen and performance of the banks. The banks were categorized into 3 tiers and the performance of the banks in each tier measured in a bid to relate competitive positioning and performance.

3.2 Target Population

The population consisted of all the banks licensed to operate by the Banking Act as at April 30,2009.According to the Central Bank, Economic review of May 2009 the banking sector comprises of 43 commercial banks(see appendix 3).A census of all the banks will be taken.

3.3 Data Collection

Primary Data was collected using a semi- structured questionnaire (see appendix 2) some of which were hand delivered and picked later and others e-mailed to the respondents. The questionnaire consisted of two parts: Section 1 designed to obtain general information about the respondents and different banks. While section 2 consisted of more specific questions on various banks.

Secondary data was collected from various documents including Banking Surveys, Economic Reviews by Central Bank supervision annual reports and

accounts together with Balance sheets and income statements reported to Central bank of Kenya.

3.4 Data Analysis

The data was collated and edited for completeness and accuracy. The data was then analysed by use of descriptive statistics such as measures of central tendency (mean), standard deviation, frequency tabulations and percentages to determine how different banks are positioning themselves in the market. The banks were then categorized in tiers based on their Balance sheet values as at end of 2008 and a Chi-Square test conducted to establish the relationship between the mode of competitive positioning chosen by the bank and its performance.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction.

This chapter presents the analysis and findings of the research. The study targeted a population of 43 banks, 26 banks responded to the questionnaire, constituting a 60% response rate. The data in this study was summarized and presented in the form of frequency tables, descriptive statistics including the mean and pie charts .The banks were then grouped in tiers and the relationship between competitive positioning and performance deduced using the Chi-Square test. Banks in Kenya are divided into three tiers according to Banking Survey (2009).Tier 1 banks comprise of banks with a balance sheet of more than Ksh 40billion, Tier 2 has assets less than Ksh 40Billion but more than Ksh 10Billion while Tier 3 have a balance sheet of less than Ksh 10billion.This will be the basis of the comparison used in this study. The list of the banks in each tier appears on appendix 4.

4.2 General Information

Table 1: Classification of banks by ownership

Ownership	Frequency	Percentage
Locally	17	66%
Foreign	0	0
Both local and foreign	9	34%
Total	26	100%

Table 1 indicates that 66% of banks in Kenya are locally owned. The remaining percentage (34%) has a foreign ownership element. This will

usually have an impact on the strategies chosen by the banks .This is because the mother company has say in the strategy chosen together with impacting the speed of implementation of the strategy.

Table 2: Number of years of operation in Kenya

Duration	Frequency	Percentage
1-10	3	15%
11-20	5	20%
Over 20	18	69%
Total	26	100%

Table 2 indicates that 69% of the banks have been in existence for over 20 years, 20% for between 11 to 20 years and only 15% have existence for less than 10 years. This shows that the entrants in the banking industry are not as many. There have however been mergers and acquisitions which have taken place recently for a stronger operation.

Table 3: No. of Branches

No of branches	Frequency	Percentage
1-10	6	23%
11-20	5	19%
Over 20	15	58%
Total	26	100%

Based on table 3 above we are seeing a situation where banks are rapidly opening new branches across the network, 58% of banks have more than 20 branches while 19% have between 11 and 20 branches and the remaining 23%

with less than 10 branches. It is interesting to know that the mix of branches and Automated Teller Machines where banks with fewer branches have more Automated Teller Machines seems that this is a deliberate strategy to reach a wider client base.

4.3 Competitive positioning

Table 4: Type of clientele

Clientele	**Frequency**	**Percentage**
Retail	19	73.1%
Small and Medium Enterprises	4	15.3%
Corporate	3	11.6%
Total	26	100.0%

From the table 4 above, 11.6% concentrate on corporate customers, 15.3 % on Small and Medium Enterprises and 73.1% on mass market (retail).This shows that most of the banks rely on large numbers of people to make a profit .This is further illustrated on the next page.

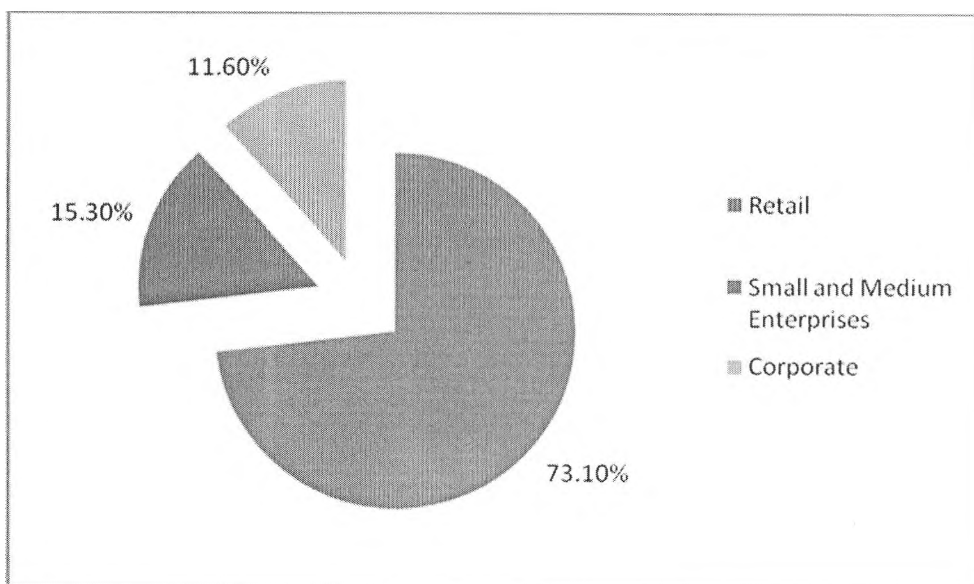

Figure 1: Type of clientele

Table 5: Strategy Formulation

Response	Frequency	Percentage
Formal	25	96%
Informal	1	4%
Total	26	100%

Table 5 above demonstrates that of the entire population 96% of the respondents felt that their strategies were formulated in a formal manner. This means that almost all the banks rely heavily on a formal way when formulating their strategies. Only 4% set their strategy in an informal way. This shows that the strategies chosen by each bank are premeditated.

Table 6: Level of competition in the banking industry

Level of competition	Frequency	Percentage
Very Intense	14	54%
Intense	9	34%
Moderate	3	12%
Low	0	0
Very low	0	0
	26	100%

Based on table 6 ,most of the respondents (54%) felt that the level of competition in the banking sector is very intense.34% felt that the competition was intense and only 12% felt that the competition was moderate. This then leads to the varied strategies that we will be looking at in this study.

Table 7: Basis of competition

Basis of competition	Frequency	Percentage
Cost	4	15%
Differentiation	2	8%
Stuck in the middle	20	77%
Total	26	100%

Most of the respondents according to table 7, felt that their banks applied abit of both strategies, this constituted 77% of the census, with only 8% competing on the basis of product and 15% competing on the basis of charging low costs.

We will be using the Pearson Chi-square to deduce the impact of this on performance.

Table 8: Changes in external environment

Environmental changes	Frequency	Percentage
Very stable	3	12%
Stable	3	12%
Relatively stable	4	15%
Continuously changing	10	38%
Always changing	6	23%
	26	100%

Table 8 shows that 38% of the respondents were of the opinion that the external environment is continuously changing, 23% felt that the external environment is always changing.15% felt that the environment was relatively stable, 12% felt it was stable and 12% felt it was very stable. This seems to explain the changes in the strategies where most banks are not sticking with either product or differentiation.

Table 9: Effect of competition on the banks performance

Force	Mean	Standard Deviation
Competitive Rivalry	4.2692	1.00231
Power of buyers	3.3846	1.16883
Power of Sellers	3.3846	1.23538
Potential entrants	2.3846	1.32897
Substitute products	2.8462	1.25514

Table 9 indicates that on average competition within the banking sector has the highest impact on the performance of banks. This again explains the need to change the strategies used by banks to compete. On the other hand threats by potential entrants have the least effect on the performance of banks. This is further in line with the fact that the requirements to open new banks are now more stringent hence mergers and acquisitions.

Table10: Impact of external forces

External force	Mean	Standard Deviation
Government Regulations	3.92	1.09
Operating costs	3.77	0.86
Product Innovation	3.58	1.17
Technology	2.92	1.29
Pricing	2.35	1.13

Table 10 indicates that government regulation has the greatest impact on performance of banks with an average of 3.92.Operating costs also highly affects banks performance due to the fact that irrespective of the income a bank makes the costs have to be incurred. Hence the reason why costs affects performance. Pricing on the other hand has the least effect on performance with an average of 2.35.

4.4 Relationship between positioning and performance:

In order to establish the relationship between competitive positioning strategy and bank performance the banks involved in the study were analyzed in three categories or tiers. Information was collected from banks on four key competitive positioning strategies that they used. These strategies were then ranked and weighted as shown below.

Table 11-Weighting of various strategies

Rank	Weight	Strategy
1	8	Product differentiation
2	7	Technology
3	6	Good service
4	5	Low cost
5	4	Effective controls per regulators like CBK
6	3	Branch network
7	2	Loyal customers
8	1	International network

In order to establish the correlation between competitive positioning strategy and bank performance a score was computed for the competitive positioning strategy by summing up the weights of the strategies employed by each bank. As indicated on table 11 bank performance was measured by use of the return on average core capital obtained from the Banking Survey (2009).A correlation analysis was done for each of the tiers in order to test the following hypothesis.

H_0: r = 0 (i.e. no significant correlation)

H_a: r is not equal to 0 (i.e. a significant correlation)

Table12: Summary of Competitive positioning and performance

Competitive positioning strategy vs bank performance	**Pearson's r**	**P value**
Tier one	0.392	0.233
Tier two	0.214	0.611
Tier three	0.015	0.974

Table 12 shows the correlation coefficient between competitive positioning strategy and bank performance obtained from the tier one banks involved in the study was a mild and positive correlation of 0.392. The P value of 0.233 was greater than alpha value of 0.05 hence the the null hypothesis was not rejected. The correlation coefficient between competitive positioning strategy and bank performance obtained from the tier two banks involved in the study was a weak and positive correlation of 0.214. The P value of 0.611 was greater than alpha value of 0.05 hence the the null hypothesis was not rejected. The correlation coefficient between competitive positioning strategy and bank performance obtained from the tier three banks involved in the study was a weak and positive correlation of 0.015. The P value of 0.974 was greater than alpha value of 0.05 hence the the null hypothesis was not rejected.

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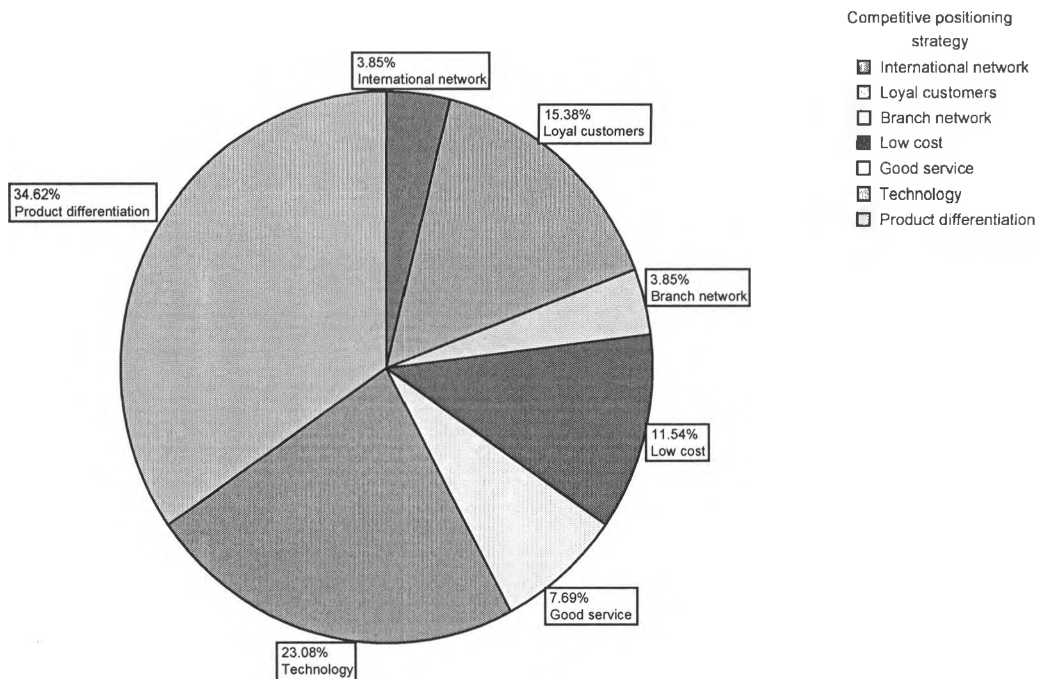

Figure 2: Distribution of banks by competitive strategies

4.4.1 Competitive positioning strategies used by banks

Competitive positioning strategy * Bank performance - Return on average core capital (%)
Table13: Competitive positioning of Tier 1 Banks

		Bank performance - Return on average core capital (%)				Total
		21% - 30%	31% - 40%	41% - 50%	Above 50%	
Competitive positioning strategy	Loyal customers	0	2	0	0	2
	Branch network	0	0	1	0	1
	Low cost	0	1	0	0	1
	Technology	0	0	1	0	1
	Product differentiation	1	2	2	1	6
Total		1	5	4	1	11

A cross tabulation –table 13 was used and the Pearson Chi square was also used to compare the key competitive positioning and categories of bank performance for tier one. The Pearson Chi-square value obtained was 8.067 with a p value of 0.780 which was greater than the α value of 0.05. The Chi-square value obtained was less than the tabulated value of 23.3367 at 12 df. We thus fail to reject the null hypothesis that competitive strategy is not related to bank performance for tier one.

Competitive positioning strategy * Bank performance - Return on average core capital (%)
Table 14: Competitive positioning of Tier 2 Banks

		Bank performance - Return on average core capital (%)				Total
		0% - 10%	11% - 20%	31% - 40%	41% - 50%	
Competitive positioning strategy	International network	0	0	0	1	1
	Low cost	1	0	0	1	2
	Technology	0	2	2	0	4
	Product differentiation	0	0	0	1	1
Total		1	2	2	3	8

A cross tabulation-table 14 was used and the Pearson Chi square was also used to compare the key competitive positioning and categories of bank performance for tier two. The Pearson Chi-square value obtained was 10.667 with a p value of 0.299 which was greater than the value of 0.05. The Chi-square value obtained was less than the tabulated value of 19.0228 at 8 df. We thus fail to reject the null hypothesis that competitive strategy is not related to bank performance for tier two.

Competitive positioning strategy * Bank performance - Return on average core capital (%)
Table 15: Competitive positioning of tier 3 Banks

Competitive positioning strategy		Bank performance - Return on average core capital (%)				Total
		Below 0%	0% - 10%	11% - 20%	21% - 30%	
	Loyal customers	1	0	0	1	2
	Good service	1	0	0	1	2
	Technology	0	0	1	0	1
	Product differentiation	0	1	0	1	2
Total		2	1	1	3	7

A cross tabulation-table 15 was used and the Pearson Chi square was also used to compare the key competitive positioning and categories of bank performance for tier three. The Pearson Chi-square value obtained was 10.500 with a p value of 0.312 which was greater than the α value of 0.05. The Chi-square value obtained was less than the tabulated value of 20.4831 at 9 df. We thus fail to reject the null hypothesis that competitive strategy is not related to bank performance for tier three.

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1: Summary, Discussions and Conclusions

In this chapter the results of the study are summarized, discussed and conclusions drawn. Generally, the results have indicated that most of the banks have both local and foreign degrees of ownership and this has an impact on the strategies chosen together with the speed of implementation. The banking industry also doesn't seem to have too many entrants into the industry with most banks in existence being in operation for more than 20 years. However the numbers of banks have been affected by mergers and acquisitions. On the first objective which was to find out how different banks position themselves in the industry most of the banks were found to be heavily reliant on retail customers together with a large bank network however the effects on performance will be discussed below. Majority of banks also seem to have a formal way of formulating strategy. Research has also shown that the level of competition in the banking sector is very intense with most of the banks adopting a mix of various strategies without heavily relying on products or differentiation. This is also coupled with the fact that the environment in which the banks operate is constantly changing with competition being cut throat with buyers and sellers' also affecting competition. Other external forces which seem to have an effect on the banking industry are government regulations.

Based on the summary above, most of the banks are relying heavily on retail customers this means that they intend to make profits on a large client base. This has to be supported by either a large network to reach a large clientele or advanced use of technology for example internet and mobile banking. It is also imperative that strategy formulation in the sector is formal due to the complex nature of the transactions involved. Due to the intensity of competition within

the sector and the changes in the external environment this affects the strategies used by banks which are indicated as a mix of both cost and differentiation. The changes in government regulation have also lead to major changes for example mergers to meet the capital requirement and more stringent Anti-money laundering requirements.

We can therefore conclude that due to the intensity of competition in the sector most of the banks have adopted a mix of cost and differentiation to make them more competitive .Based on various strategies some of the major strategies were summarized in table 11 with differentiation making the banks more competitive, followed by technology and good service. While the ones with the least impact being an international network, loyal customers and branch network

The second objective of the study was to establish the relationship between competitive positioning and performance. In summary the above strategies were weighted and a Chi-Square test performed to establish this relationship.
Other than these government regulations, operating costs and other external variables also have an impact on their performance. Other changes which affected different banks were, product innovation was also a major change with most banks tailor making their products to their clientele and increased sales forces who are commission based. Reporting structures also tend to have changed to a flatter structure to reduce costs and bureaucracy. This however did not come without its challenges which included higher operating costs; employees have had to deal with greater pressure because of the wider reporting structures. Training is also required for the changes in technology which also impacts on the level of service. Product innovation has also made competition more cut throat.

The impact of this is that banks have to realign themselves to the government

regulations, reduce their operating costs, and come up with new products which will cater for different customer's niches. This has also brought the need for a larger and more aggressive sales force to cater for the customers changing needs. What is the impact of this on performance?

The results of the chi-square analysis as summarized on table 12 indicated that for all the three tiers their was a mild relationship between competitive strategy chosen and the performance of the bank. A further analysis was conducted cross-tabulating different strategies chosen by different banks and its impact on performance specifically returns on average core capital. Again for the all the three tiers we failed to reject the null hypothesis that competitive strategy is not related to bank performance. However the degree of relationship is very mild indicating that there are other factors affecting performance other than competitive positioning.

5.2: Limitations of the Study

There were a number of limitations which were encountered when carrying out this study. The major one was the response rate for the questionnaires. While the target was 43 banks only 26 responded and only after being followed several times together with email reminders. The other challenge was that some respondents were not willing to provide information claiming that they were not allowed to disclose any of the information regarding their banks while others flatly refused.

5.3: Recommendations for further Research

From the results of the study it was revealed that competitive positioning only mildly affects performance meaning that there are other factors which influence performance which were outside the scope of this study. There is therefore need to establish which other factors affect the performance of a

bank.

5.4: Implications for policy and practise

The banking sector registered good performance in 2008 even in the face of global and local turbulences. In the face of great turbulences like the liquidity crunch after the Safaricom IPO most banks still were unscathed. In line with promoting and maintaining the safety, soundness and integrity of the banking system through the implementation of policies and standards that are in line with international best practice for bank supervision and regulation. The main governing body Central Bank of Kenya should work closely with Kenya Bankers association and Capital Markets Authority to make sure that the banks stay afloat. It is imperative that banks are well capitalized to ensure that they whether periodic local and global turbulences. This enables the banks to effectively and competitively serve their market niches. Central bank should also emphasise the building of strong institutional structures. This will ensure that governance and risk structures are in place. This will ensure that the Anti-Money laundering requirements are adhered to and a reduction of the Non - Performing loans. The Bank should also continue promoting market discipline initiatives with regards to bank charges and lending rates. The periodic surveys on bank charges and lending rates disseminated to the public are going along way to raise customer awareness. Hence this makes the customers choice on products and services more varied. Exploration and approval of additional innovative channels especially with the use of technology for example Mobile and Internet banking also makes banking more convenient and less costly for the public. With a more supportive regulator Central Bank, the banking sector will definitely flourish rapidly.

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APPENDIXES

APPENDIX 1: INTRODUCTION LETTER

Dear Sir/Madam,

RE: Academic Research Questionnaire

I am an MBA student at the University of Nairobi. As a requirement for the fulfilment of my course, I am required to carry out a management research project with the guidance of the University supervisor. This questionnaire is aimed at collecting data in your organizations pertaining to my project entitled; **Competitive positioning and performance of commercial Banks in Kenya.**

This research is carried out purely for academic purposes and all the information obtained from you will be treated with the confidentiality it deserves. I would therefore urge you to be as sincere as possible. The summary of the results will be available to you after the information collected is analysed and interpreted upon request.

Thank you very much.

Yours faithfully,

Oimbo, S.A	Dr Martin Ogutu
MBA Student	Lecturer/Supervisor
School of Business	School of Business
University of Nairobi	University of Nairobi

APPENDIX 2: QUESTIONNAIRE

Name of respondent (optional):______________________________

Name of the Bank: ______________________________

SECTION 1

1. |Indicate the proportion of ownership of your bank

Locally Owned	
Foreign owned	
Both local and foreign	

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

1-10years	
11-20years	
Over 20 years	

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

1-10 branches	
11-20 branches	
Over 20 branches	

4. Indicate the level of assets as at Dec, 2008____________________

SECTION 2

1. What type of clientele does your bank specialize in?

Retail	
Small and Medium Enterprises	
Corporate	

2. How does your bank go about formulating its strategies?

[ ] Formally i.e through meetings with documented process flows

[ ] Informal i.e no elaborate processes each business head can implement what can work.

3. In a scale of 1-5, 1 being the worst and 5 the best .How would you rate the state of competition in the Banking Industry?

Very Intense	
Intense	
Moderate	
Low	
Very low	

4. What is the basis of your banks competition?

Your products are cheaper than your rivals	
You have differentiated products	
Both the above	

5. How would you consider the changes in the external environment you are operating in?

Very stable	
Stable	
Moderately stable	
Continuously changing	
Always changing	

6. What is the greatest change that your bank has undertaken in the last 5 years because of the changes in the environment?

____

____

____

7. What challenges have these changes posed to your bank?

____

____

____

8. As a bank what would you consider your strongest competitive edge?

____

____

____

9. What are some of your internal policies and processes that have had an impact on your ability to compete favourably in the market?

____

____

____

10. Please indicate in the brackets the extent to which each of the following competitive forces have affected the performance of your bank using the scale:

1. Not at all 2. Little extent 3.Moderate extent 4.Great extent

5. Great Extent.

Competitive rivalry amongst competitors	
Bargaining power of the buyer	
Bargaining power of suppliers	
Potential entrants	
Threats from substitute products	

11. Write in the brackets below the extent to which the outlined variables have affected the performance of your organization using the scale:

Very great extent 1 Great Extent 2

Moderately 3 Little Extent 4

No Extent 5

Government Regulations	
Technology	
Product innovations in the market	
Pricing	
Operating costs	

APPENDIX 3

LIST OF COMMERCIAL BANKS

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CFC Stanbic
7. Charterhouse Bank
8. Chase Bank
9. Citibank N.A
10. City finance Bank Ltd.
11. Commercial Bank of Africa
12. Consolidated bank of Kenya
13. Co-operative Bank of Kenya
14. Credit Bank
15. Development Bank of Kenya
16. Diamond Trust Bank
17. Dubai Bank
18. Ecobank
19. Equatorial Commercial Bank
20. Equity bank
21. Family Bank
22. Fidelity Commercial bank
23. Fina Bank
24. First Community bank
25. Giro Commercial bank
26. Guardian Bank
27. Gulf African Bank

28. Habib Bank A.G Zurich
29. Housing Finance Corporation of Kenya
30. Habib Bank
31. Imperial Bank
32. Investment & Mortgages Bank
33. Kenya Commercial Bank
34. K-Rep Bank
35. Middle East Bank
36. National Bank of Kenya
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank
40. Southern Credit Banking Corporation
41. Standard Chartered Bank
42. Trans- National Bank
43. Victoria Commercial bank
44. Housing Finance(Mortgage finance institutions)
45. Savings and Loans (Mortgage finance institutions)

Source: www.centralbank.go.ke

Appendix 4: Tiers of Banks

Tier 1: Banks

1. Citibank
2. Equity bank
3. Standard Chartered Bank
4. Commercial Bank of Africa
5. Barclays Bank of Kenya
6. NIC Bank
7. Kenya Commercial Bank
8. National Bank of Kenya
9. Diamond Trust Bank
10. Co-operative Bank of Kenya
11. CFC Stanbic bank

Tier 2 Banks

1. I & M Bank
2. Bank of India
3. Bank of Baroda
4. Family Bank
5. Imperial Bank
6. Prime bank
7. Bank of Africa
8. Chase bank
9. Fina Bank
10. Ecobank
11. HFCK

Tier 3 Banks

1. Habib A.G Zurich
2. Victoria Commercial bank
3. Credit Bank
4. Habib bank Ltd.
5. Oriental Commercial Bank
6. K-Rep Bank
7. ABC Bank
8. Development Bank of Kenya
9. Middle East Bank
10. Equatorial Commercial Bank
11. Trans-National Bank
12. Dubai Bank
13. Fidelity Commercial Bank
14. City Finance Bank
15. Paramount Universal Bank
16. Giro Commercial Bank
17. Consolidated Bank
18. Guardian Bank
19. Southern Credit Bank
20. Gulf African Bank
21. First Community Bank

Source: Banking Survey 2009