

**COMPETITIVE STRATEGIES APPLIED BY
COMMERCIAL BANKS**

BY

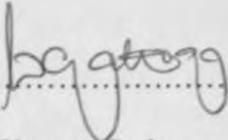
**UNIVERSITY OF NAIROBI
KOWER KABETE LIBRARY**

WARUCU GATHOGA

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FUFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER FOR BUSINESS ADMINISTRATION,
FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI.

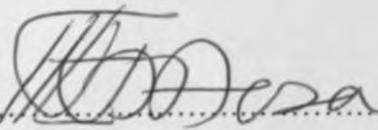
DECLARATION

This project is my own original work and has not been submitted for a degree in any other university.

Signed: .....
Warucu Gathoga

Date: OCTOBER 19 2001

The project has been submitted for examination with my approval as the university supervisor.

Signed: .....

Date: 19 October 2001

Prof . Evans Aosa

Department of Business Administration.

To my parents Lizzie Nyathira Gathoga and Jonathan Gathoga who taught me to value and honour truth.

CHAPTER ONE: INTRODUCTION	1
1.1 BACKGROUND	1
1.2 STATEMENT OF THE PROBLEM	1
1.3 OBJECTIVE OF THE STUDY	1
1.4 SCOPE OF THE STUDY	1
1.5 SIGNIFICANCE TO THE STUDY	1
1.6 STRUCTURE OF THE PAPER	1
CHAPTER TWO: LITERATURE REVIEW	8
2.1 THEORIES FOR TREATMENT	8
2.2 CRISIS-ORIENTED TREATMENT	8
2.3 AN INTEGRATION OF RELATIONAL AND COGNITIVE	11
2.4 FORMER WORKS ON WORKING WITH THE ENVIRONMENT	16
CHAPTER THREE: RESEARCH METHODOLOGY	21
3.1 POPULATION	21
3.2 THE SAMPLE	21
3.3 DATA COLLECTION	27
3.4 DATA ANALYSIS	28
CHAPTER FOUR: THE RESEARCH FINDINGS	33
4.1 NATURE OF EXPERIENCE OF DOMESTIC	33
4.2 PREPARATION OF VIDEO AND AUDIO STATEMENTS AND THE SETTING OF OBSERVATION	34
4.3 IDENTIFICATION OF STRATEGIES TO ALLEVIATE CHANGE IN THE RELATIONAL ENVIRONMENT	34
4.4 ACQUISITION OF THE INTERNAL ENVIRONMENT AS WELL AS THE SETTING OF THE COMMUNITY PROJECTS AND THE SETTING	35
4.5 CHANGING THE INTERNAL ENVIRONMENT – READ-OUTS	35

TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	v
LIST OF TABLES.....	vii
ABSTRACT.....	ix
CHAPTER ONE: INTRODUCTION.....	1
1.1 BACKGROUND.....	1
1.2 STATEMENT OF THE PROBLEM.....	3
1.3 OBJECTIVES OF THE STUDY.....	4
1.4 SCOPE OF THE STUDY.....	4
1.5 SIGNIFICANCE OF THE STUDY.....	4
1.6 STRUCTURE OF THE PAPER.....	5
CHAPTER TWO: LITERATURE REVIEW.....	6
2.1 THE CONCEPT OF STRATEGY.....	6
2.2 THE PROCESS OF STRATEGY.....	9
2.3 AN ORGANIZATION'S EXTERNAL ENVIRONMENT.....	11
2.4 POSSIBLE TOOLS FOR SCANNING THE ENVIRONMENT.....	16
CHAPTER THREE: RESEARCH METHODOLOGY.....	21
3.1 POPULATION.....	21
3.2 THE SAMPLE.....	21
3.3 DATA COLLECTION.....	22
3.4 DATA ANALYSIS.....	22
CHAPTER FOUR: THE RESEARCH FINDINGS.....	23
4.1 NATURE OF OWNERSHIP OF COMPANIES.....	23
4.2 PREPARATION OF VISION AND MISSION STATEMENTS AND THE SETTING OF OBJECTIVES.....	24
4.3 FORMULATION OF STRATEGIES TO RESPOND TO CHANGES IN THE EXTERNAL ENVIRONMENT.....	25
4.4 WHETHER CHANGES IN THE EXTERNAL ENVIRONMENT HAVE AFFECTED THE COMPANIES' PRODUCT/SERVICE OFFERING.....	26
4.5 CHANGES IN THE DELIVERY CHANNELS – BRANCH NETWORK.....	28

4.6	CHANGES IN THE PRICING STRUCTURE AS A RESULT OF EXTERNAL ENVIRONMENTAL CHANGES.....	29
4.7	PROMOTIONAL STRATEGY CHANGES DUE TO EXTERNAL ENVIRONMENTAL CHANGES.....	31
4.8	CHANGES IN CORPORATE IMAGE.....	32
4.9	TYPE OF CUSTOMER CHANGES AS A RESULT OF CHANGES IN THE COMPANIES EXTERNAL ENVIRONMENT.....	33
4.10	HOW INDIVIDUAL BANKS HAVE REACHED POSITIONS THAT ARE BETTER THAN COMPETITORS'.....	34
4.11	MAJOR TYPES OF RESPONSES THAT THE BANKS HAVE USED TO RESPOND TO CHALLENGES IN THE EXTERNAL ENVIRONMENT.....	35
4.12	FACTORS WHICH INFLUENCE THE FORMULATION OF STRATEGIES.....	43

CHAPTER FIVE: SUMMARY, CONCLUSIONS, SUGGESTIONS, LIMITATIONS AND RECOMMENDATIONS..... 49

5.1	SUMMARY.....	49
5.2	CONCLUSIONS.....	53
5.3	SUGGESTIONS.....	54
5.4	LIMITATIONS OF THE STUDY.....	55
5.5	RECOMMENDATIONS FOR FURTHER RESEARCH.....	55
APPENDIX 1:	LETTER OF INTRODUCTION.....	56
APPENDIX 2:	QUESTIONNAIRE.....	57
APPENDIX 4:	FACTOR ANALYSIS PRINT OUTS.....	69
REFERENCES	73

ACKNOWLEDGEMENTS

I owe my gratitude to a lot of people who in one way or another have contributed to the completion of this project. However, due to limitations involvement in trying to include everyone's name in this sort of paper, I cannot name them all. I very humbly request that those concerned accept my thanks. The following people however, deserve special mention.

My special thanks go to my supervisor, Prof. Evans Aosa for his guidance, support and patience. I called his office and house at all sorts of hours and he very kindly tolerated my haranguing him. His family was also very patient in this respect.

I am also indebted to all the academic staff in the MBA Programme, Faculty of Commerce, for their advice and guidance at one time or another during the whole course. The relevant Faculty Support - Staff are also acknowledged for their assistance of one kind or another.

The help received by the staff in the MBA section at Jomo Kenyatta Library and those in the Lower Kabete library in getting reading materials is hereby acknowledged.

My gratitude also goes to my MBA colleagues from inception to the completion of the course for their company, friendship, support and encouragement.

Others who must be remembered are my office colleagues especially Ruth Olendo, who expertly did most of the typing of this document from proposal stage to completion, Mr. John Wanjao who had to go home at some ungodly hour, the night before my proposal, after helping with the final typing. Beatrice Ndambuki and Margaret Mwasi and others who helped in preparing the questionnaire for sending. Mr. Mbau Mabuu, Enos Okhebero and James Machio must also be remembered for delivering and picking the questionnaires. All other colleagues who were involved in the project in one way or another are also thanked.

There are others in my research team who deserve mention for their data collection and analysis. Those are Mr. Ogeto, Mr. Ochenga, Mr. Karanja and Mr. Sifunjo. I am grateful for their contribution. Also acknowledged are Margaret Owango and Jane Wambilianga for doing quite a bit of the final typing of this document.

Special thanks go to all those who very kindly completed the questionnaires. Their effort will go along way towards contributing to knowledge in general.

Last but not least, I am indebted to my family for being tolerant of my absence from many family gatherings during the course of this study. Their understanding is appreciated. Further, without my parents' value for education, I may never have pursued this study.

LIST OF TABLES

TABLE 1: RESPONDENTS WERE ASKED WHETHER THEIR COMPANIES WERE PUBLICLY QUOTED.	23
TABLE 2: VISION STATEMENTS.	24
TABLE 3: MISSION STATEMENTS.	24
TABLE 4: SETTING OF OBJECTIVES.....	24
TABLE 5: FORMULATION OF STRATEGIES.....	25
TABLE 6: FORMALITY IN STRATEGY FORMULATION.....	25
TABLE 7: PRODUCTS/SERVICES OFFERED BY BANKS	26
TABLE 8: CHANGES IN THE BANKS' PRODUCT/SERVICE OFFERING.	27
TABLE 9: WAYS IN WHICH THE COMPANIES' PRODUCT/SERVICE OFFERING HAS CHANGED	27
TABLE 10: BRANCH NETWORK (DELIVERY CHANNELS) CHANGES.....	28
TABLE 11: WAYS IN WHICH THE BANKS' DELIVERY CHANNELS HAVE CHANGED.....	29
TABLE 12: PRICING STRUCTURE CHANGES.....	29
TABLE 13: WAYS IN WHICH PRICING STRUCTURE HAS CHANGED.....	30
TABLE 14: CHANGES IN PROMOTIONAL STRATEGY	31
TABLE 15: WAYS IN WHICH PROMOTIONAL STRATEGY HAS CHANGED.	31
TABLE 16: WHETHER THERE ARE CHANGES IN CORPORATE IMAGE.....	32
TABLE 17: WAYS IN WHICH CORPORATE IMAGE HAS CHANGED	32
TABLE 18: POSSIBLE TYPE OF CUSTOMER CHANGES.....	33
TABLE 19: WAYS IN WHICH THE TYPE OF CUSTOMER HAS CHANGED.	33
TABLE 20: STRATEGIES THAT HAVE ENHANCED BETTER COMPETITIVE POSITIONS.	34
TABLE 21: BROADENING THE PRODUCT LINE TO CLOSE OFF VACANT GAPS.	35
TABLE 22: OFFERING HIGH QUALITY PRODUCTS/SERVICES.	36
TABLE 23: USING A WIDER DISTRIBUTION NETWORK.....	36

TABLE 24: NARROWING THE DISTRIBUTION NETWORK	37
TABLE 25: IDENTIFYING UNIQUE WAYS OF DISTRIBUTING PRODUCTS/SERVICES.....	37
TABLE 26: HAVING MORE CONVENIENT LOCATIONS COMPARED TO OTHER COMPETITORS IN THE AREA.	38
TABLE 27: USING SUPERIOR TECHNOLOGY	39
TABLE 28: HAVING SHORTER DELIVERY LEAD TIMES.	39
TABLE 29: ENSURING THAT OUTLETS ARE SECURE AND ATTRACTIVE	40
TABLE 30: SEGMENTING THE MARKET.	40
TABLE 31: DIFFERENTIATING PRODUCT/SERVICE	41
TABLE 32: HAVING LOW COST PRICING STRUCTURE.....	41
TABLE 33: CONCENTRATING ON CORE BUSINESSES AND SUBCONTRACTING OTHER SERVICES.	42
TABLE 34: BOOSTING THE COMPANY'S NAME AND REPUTATION THROUGH SALES PROMOTION, ADVERTISING, BETTER PUBLIC RELATIONS.	42
TABLE 35: HAVING GOOD SYSTEMS FOR RECEIVING CUSTOMER FEEDBACK TO AID IN PRODUCT/SERVICE IMPROVEMENT.....	43
TABLE 36: COMMUNALITIES	44
TABLE 37: TOTAL VARIANCE EXPLAINED.....	45
FIGURE 1: SCREE PLOT	46
TABLE 38: MATRIX OF FACTOR LOADINGS.....	47
TABLE 39: ROTATED COMPONENT MATRIX.	47
TABLE 40: COMPONENT TRANSFORMATION MATRIX.	48

ABSTRACT

The 1980s saw the beginning of Structural Adjustment Programmes in Kenya that sought to correct the slow economic growth and stagnation of the public sector. Subsequent to this, the 1990s ushered in the public sector reforms that called for market-driven systems. This amounted to liberalization of controls towards a market-driven economy. Coupled with these local changes were the globalization and Information Technology phenomena. These changes were immense and were bound to impact intensely on a hitherto protected economy.

The changes affected all the sectors of the economy. The banks were not spared these monumental changes. The study sought to identify changes that have affected commercial banks in Kenya since 1980s and to further identify the strategies that the commercial banks, which participate in clearing house, have applied in order to respond to these changes.

For the purpose of this study, all the commercial banks that participate in clearing house were contacted. These were forty-four (44) as at the time of our study. However, only twenty-eight (28) of them responded as at the end of the research period. This constituted about 64% of response. The study was carried out by the use of a questionnaire which consisted of both open-ended and closed questions. The data so collected was analysed by use of statistical package (SPSS) and presented in tables, frequency distribution, percentages and other descriptive statistics. Further, factor analysis was carried out in

order to determine the major factors that impacted on commercial banks that participate in clearing house.

The study revealed that there were several factors that impacted on commercial banks which included global and local competition, bargaining power of supplies, increasingly demanding customers, changes in Information Technology and threat of substitute products. Factor analysis was however able to determine the key factors as being increased competition and threat of substitute products. These were the changes that impacted most on commercial banks that participate in clearing house, given the turbulence in the external environment. However, other mentioned factors could not be ignored in strategy formulation, as they constitute 20% of the impact.

The study further revealed that the commercial banks have adopted certain strategies to counter the forces that impact upon them. The strategies include delivery of high quality service, rationalizing delivery channels, segmenting the market, applying competitive pricing structure, boosting the company's image and profile and having a presence in appropriate locations. The underlying factor in the delivery of quality service was high quality and appropriate technology that was responsive to the rate and magnitude of its change. The key focus to the strategies so adopted is attention to the customer by being sensitive to his/her needs, both actual and perceived.

Given the findings, the study's recommendations are that a heightened environmental awareness should be adopted by organizations and quick responses be formulated to respond to the challenges so detected. A much broader view than the immediate environmental scan should be adopted which will help in forecasting possible trends, given the global nature of business today. Time is of essence in formulating appropriate strategies due to the global nature of competition and magnitude and speed of technological changes.

These early efforts resulted in development education programs in various institutions and government of the public sector. By late 1980s however it was clear that the situation was still not improving, and more radical measures were required. During this period, problems associated with the rapid growth of public sector in Kenya began to get very unmanageable. This led to a new government coming about in following government initiatives to deal expeditiously with the situation from within (Government of Kenya, 1987). The new government advocated restructuring of the new economy in Kenya. This would lead to an increasing market driven system and called for public sector reform (Government of Kenya, 1988). The strategy was recommended by the World Bank and International Monetary Fund. The purpose is liberalization of economic structure & market driven economy. Consequently, the government has had to take a whole lot of decisions since

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

At independence, which for most African countries was mainly in the 1960s, the general thinking was for governments to place controls in strategic sectors. This was primarily aimed at protecting the budding industries and services from what was considered unfair competition to an unprepared people, and thus accord real meaning to political independence. Market-driven systems were seen as contrary to this spirit. While these were noble intentions, what was perhaps unforeseen was that these institutions would grow into uncompetitive monopolies. The conclusion of the World Bank report of 1981 on economic failure of Sub-Saharan Africa was that this process resulted in slower economic growth and economic stagnation (*World Bank, 1981*).

From early 1970s nearly all developing countries adopted programs to remedy the consequent poor performance of the public sector. By late 1980s however it was clear that the remedies were also not working and more radical decisions were required. During this period, problems associated with the vast growth of public sector in Kenya began to get more pronounced. This led to a new government policy aimed at reducing government subsidies to state corporations and withdrawal from some (Government of Kenya, 1982). This new strategy advocated restructuring of the new economy in ways that would lead to an increasing market-driven system and called for public sector reform (Government of Kenya, 1986). The strategy was recommended by the World Bank and International Monetary Fund. This resulted in liberalization of controls towards a market driven economy. Consequently, the restrictions that had been in place for decades were

dismantled in the early 1990s. Due mainly to these events, unprecedented competition was ushered in, which was both from local and foreign sources.

Organisations do not operate in a vacuum. They are environment dependent (Ansoff & McDonnel, 1990). They obtain their inputs from their environment and after transformation they discharge their outputs into the same environment (Porter, 1985). The organisation's external environment consists of all the conditions and forces that affect its strategic options and define 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. Hofer and Schendel (1979) define strategy as the basic characteristic of the match an organization achieves with its environment. Aosa (1988) 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 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.

From this discussion we can conclude that external conditions having drastically changed in Kenya, new challenges face organizations. This in turn creates pressure for organizations to change their strategies. It would be expected that banks would adapt their operations and activities to the new environmental realities. The study aims to focus on changes relating to the period 1980s to-date.

1.2 STATEMENT OF THE PROBLEM

The 1990s have seen a lot of changes in the economy of Kenya. Most of these changes have mainly had to do with liberalisation, globalisation, technological advancement and a more enlightened consumer (Kenya Institute of Management, 1993). Organisations in general have to interact with their external environment as this is where they get their inputs and release their outputs after transformation (Ansoff, 1990). Consequently, they have to design strategies that allow for effective interaction with their external environment for the benefit of the organization. That is, organizations have to strive to achieve a sustainable competitive advantage in order to not only survive but do well. When external circumstances change, organisations have to strategically respond to the changes (Thompson, 1997).

There has been turbulent environmental changes bearing pressure on all organizations in the country. Banks have not been spared. No study has been done to document how commercial banks in Kenya have been affected and how they have responded to these changes. Shimba (1993) did some research work on aspects of planning in the financial sector. In her research, Shimba set out to document strategic planning practices within the financial sector in Kenya. The study did not focus on all aspects of strategy or on changes in the environment. Bett (1992) looked at financial performance in the banking sector, focusing on Kenyan banks and financial institutions. In his study he used mainly accounting measurements to measure performance during his research period, that is 1986-1990. Ndegwa (1996) looked at the commercial banks and financial institutions from a marketing point of view. He set out to assess the quality of service. No one has focused on strategies applied by commercial banks in responding to changes in external environment

so far. Since there has been turbulent environmental changes bearing pressure on organizations in Kenya in general, there must be pressure exerted on commercial banks and an attempt by these banks to respond to this pressure. This is what the researcher set out to investigate in this study.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study were the following:-

- a) To identify changes that have affected commercial banks in Kenya since the 1980s.
- b) To identify the strategies that the commercial banks have applied to respond to the changes

1.4 SCOPE OF THE STUDY

The study reviewed strategy in terms of the products offered by banks and the types of markets that the banks focus on. This included pricing, promotional activities, distribution channels (branches), and types of products. It also included market focus, segmentation, and activities relating to corporate image.

1.5 SIGNIFICANCE OF THE STUDY

The study will be important to the following users:

Managers in Kenya – the study will be useful to this group in helping them identify what in the external environment is affecting their organizations and the possible responses.

The government in formulating policy that relates to the economic forces prevailing in the country that put pressure on organizations.

Scholars for reference and further research in external forces affecting organizations operating in the country.

1.6 STRUCTURE OF THE PAPER

This research paper has five chapters and the references and appendices to the research project.

Chapter one comprises of the background to the study, the purpose of the study, the objectives to be achieved, the importance of the study and the details relating to the structure of the research paper. The literature review is covered in chapter two. The review discusses some of the major studies done on strategy formulation and application and external environmental circumstances. Chapter three discusses research method and data analysis. The research findings and discussions are contained in chapter four. The fifth chapter covers a summary of the study, conclusions, suggestions, limitations and recommendations for further research. Finally, the last section contains references and appendices to the research project.

CHAPTER TWO: LITERATURE REVIEW

In this chapter we shall review the concept of strategy which will enable us place the subject of our research in the right perspective; the process of strategy, again which will help us understand through what methods the topic of our research translates into in practice. We will also review literature that relates to the firms external environment, which in effect shapes or should shape strategy.

2.1 THE CONCEPT OF STRATEGY

The origin of the concept of strategy is said to be from the Greek word 'stratego', meaning 'to plan the destruction of one's enemies through effective use of resources' (Bracker, 1980). The concept was developed purely on the basis of war. This concept remained a military one until after the nineteenth century when it began to be employed to the business world. Some scholars think however, that the time when the term began to be employed to the business is untraceable (Burnes, 1996). There is no single universally accepted definition of strategy. However there are several definitions from different authors that capture the meaning of the concept.

Johnson and Scholes (1999) state that 'strategy is the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources within changing environment to meet the needs of the market and fulfill stakeholders expectations.' The organizational environment is always changing and for an organization to enhance its competitive advantage, it must reconfigure its resources to match the changes. The changes could be mild or turbulent but they must be

matched accordingly by appropriate strategy. Failure to do this will result, according to this definition, in market needs not being met by the organisation's activities and resources.

Peace and Robinson (1997) define strategy as large-scale, future oriented plans for interacting with the competitive environment to achieve company objectives. It is the company's 'game plan.' While it does not detail all future development of resources, it provides the framework for managerial decisions. A strategy reflects a company's awareness of how, where and when it should compete and for what purposes it should compete. The underlying issue of this definition is that the main thrust of strategy is to achieve long term sustainable advantage over the other competitors of the organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization.

Aosa (1988) states that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The strategic problem is mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of organisation's core capabilities that are correlated to the external environment well enough to enable the exploitation of opportunities existing in the external environment and to minimize the impact of threats from the external environment. Strategy is therefore required in order for an organization to obtain viable match between its external environment and its internal capabilities. It must also continuously and actively adapt the organization to meet the demands of an ever changing environment.

THE PROCESS OF STRATEGY

Ansoff (1965) defines strategy as the product market scope of a company. This refers to a decision of what to produce in what market. If the environment is stable, an organization can operate without changing its product-market focus. However, if the environment changes, this would require changes in the organisation's product-market focus that is, its strategy. Product-market focus relates to conditions of the external environment which have to be incorporated into strategy. If the products the company is producing or the markets it is serving are not reflective of the demands of the external environment, then the company's efforts are futile.

Porter (1996) asserts that strategy is creating a fit among company's activities. The success of a strategy depends on doing many things well – not just a few – and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability. The company's activities include its effective interaction with the environment in that these activities are geared towards serving the external environment.

From our discussions we note how inter-related the organizations and their external environments are, as this is where the organizations outputs are discharged and where inputs come from. We also note that the company must discharge those outputs that meet the needs of the external environment. This external environment is always changing, sometimes more turbulently than other times. Consequently, the company must not only configure its resources to meet these needs but must develop foresight, flexibility and speed in order to respond to these changes in a timely manner.

2.2 THE PROCESS OF STRATEGY

As observed elsewhere, for an organization to be able to interact effectively with its external environment, it must have a strategy and be able to manage this strategy (Hax & Majluf, 1996). Strategic management is the process by which organizations determine their purpose, objectives and desired levels of attainment, decide on the actions for achieving these objectives in an appropriate timescale, and frequently in a changing environment, implement the actions, assess progress and results (Thompson, 1997). Since strategic management is a process, it means that a change in any component will affect several or all the other components. A process is the flow of information through inter-related stages of analysis toward the achievement of an aim (Pearce and Robinson, 1997). If a company's markets are changing for instance, it would consequently mean that the strategy has to change.

The process of strategic management is defined at both the primary and secondary levels, which are corporate and business levels, respectively (Andrew, 1987). Strategic management involves strategic analysis, strategic choice, strategic implementation and strategic evaluation and control (Johnson and Scholes, 1999).

Strategic analysis is concerned with understanding the strategic position of the organization in terms of its external environment, internal resources and competences, and the expectations and influence of stakeholders (Johnson and Scholes, 1999). At this stage the mission and vision of the organization are stated and the goals are set and objectives defined. Setting goals and objectives in strategic planning involves more than listing them. An organization has to be concerned with the degree to which it is changed to achieve

truly demanding goals that effectively meet the external environmental characteristics (Johnson and Scholes, 1999; Hax and Majluf, 1996).

Strategic choice involves understanding the underlying bases guiding future strategy, generating strategic options for evaluation and selecting from among them (Pearce and Robinson, 1997; Johnson and Scholes, 1999). Here an organization is striving to achieve sustainable competitive advantage and therefore chooses a strategy that will help it succeed towards this goal. The choice of strategy is crucial for it could make or break an organization. The choice must also be compatible with stakeholders' expectations. It must also pay attention to the organisation's resource capabilities and its environment (Johnson and Scholes, 1999)

Strategy implementation entails translation of strategy into organisation's actions through organizational structure and design, resource planning, and the management of strategic change (Johnson and Scholes, 1999). In implementing strategy, the strategist must of necessity effect change in order to accommodate the new strategy which is based upon the demands of the external environment. Management of strategic change involves recognizing the need for altering the way things are in an organization, planning for the alteration by doing the correct analysis, setting change goals and designing the appropriate actions, moving the organization from the current state to the desired future state, and consolidating and stabilizing the changes.

Strategic evaluation and control involves not only evaluating strategy for deviation from intended course, but also for flexibility towards responding to new challenges.

Organisational change should be a continuous thing as new ideas and challenges keep coming up. Strategy therefore must be flexible enough to accommodate these developments particularly the impact of the external environment.

Strategic management therefore tries to ensure that opportunities are grasped, risks are acceptable, failure can be contained and success can be built upon (Hax and Majluf, 1996). These objectives cannot be realized while ignoring the external environment, which is where the company's products and services will be released too.

2.3 AN ORGANIZATION'S EXTERNAL ENVIRONMENT

Pearce and Robinson (1997) define an organisation's external environment as all those conditions and forces that affect its strategic options and define its competitive situation. Porter (1985) sees this connection as an input-throughput-output process, where inputs are received from the environment, processed by the organization, and released back into the environment. What is released back can only be consumed by the environment if it fits the environmental requirements and needs. Consequently if a firm is to control its growth, change and development, it must seek to control the forces which provide the opportunities for growth and change and those which pose threats and demand response. Not only must managers be aware of environmental forces and environmental change, but they must also manage the organization's resources to take advantage of opportunities and counter threats (Thompson, 1997).

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 nature of the stakeholders and the environmental forces. Pearce and Robinson (1997) state that the external environment comprises of the remote environment, the industry environment and the operating environment, each of which has a global and domestic aspect. 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. Therefore, although agreement exists that the external environment has multiple facets, no agreement exists on the number. Shipper and White (1988) and Lorsch have suggested two, whereas Hofer and Schendel (1978) have suggested five. We shall herebelow examine some of the major facets of the external environment which the strategist must not only be aware of but must incorporate in his/her strategy.

EXTERNAL FACTORS

2.3.1 DEGREE OF COMPETITIVENESS

The degree of competitiveness in an industry is manifested not only in the other players, but rather competitive forces exist that go well beyond the established combatants in a particular industry (Pearce and Robinson, 1997). Porter (1979) says that there are five forces that affect the level of competition in an industry. These he states as, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services and rivalry among the existing firms. Whilst these environmental forces influence the firm, the firm must seek to manage the environment (Thompson, 1997)

In addition to the multiplicity of the competitive forces in the industry, there are other catalysts to this competition. Burnes (2000) states that it has become an accepted view that for society at large, the magnitude, speed, unpredictability and impact of change are greater than ever before. New products have appeared at an ever increasing rate, local markets have become global, protected or semi protected markets and industries have been opened up to fierce competition, and public bureaucracies and monopolies have either been transferred to the private sector or have had the markets transferred into them.

Competition therefore is not only local and global but there is a realignment of the forces at a very fast rate. Consequently the firm must apply different strategies in order to compact and respond to the now different environment.

2.3.2 ECONOMIC FACTORS

Economic factors concern the nature and direction of the economy in which a firm operates (Pearce and Robinson, 1997). It is important for a strategist to consider economic trends as consumption patterns are affected by the relative affluence of the various market segments. Other economic factors which also form part of the firm's environmental situation include cost of capital, availability of credit, the level of disposable income, the propensity of people to spend, prime interest rates, inflation rates and trends in the growth of the gross national product. The economic conditions affect how easy or how difficult it is for a firm to be successful and profitable at any time. A firm must therefore include these factors in its strategy formulation.

2.3.3 TECHNOLOGICAL FACTORS

Previously the major concern on this environmental condition has been whether technology is high or low. However the major issue now in this area involves the rate of change. (Pearce and Robinson, 1997; Thompson and Scholes, 1999) A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility (Pearce and Robinson, 1997). Therefore for a firm to be or stay successful it must strive to understand both the existing technological advances and the probable future technological advances that can affect its products and services. Also the ability to forecast future technological advances helps to alert strategic managers to both impending challenges and promising opportunities.

2.3.4 POLITICAL/LEGAL FACTORS

These environmental factors affect the firm in a diverse manner. They include government stability and thus the willingness of people to invest in the firms operational area, government taxation policy, laws relating to monopolies, employment, environmental protection and foreign trade regulations. All these factors can affect the way the firm will do business. A deep awareness of them is therefore paramount for the firm if it is to succeed. A good and relevant example is the legal complications that Bill Gate's Microsoft Company recently found itself in over monopolies legislation. This incident certainly affects the firm's future plans which appear to have been put on hold to a large extent.

Environmental protection laws have also affected firms especially in the last couple of decades where firms have been called upon to, for instance, reduce emissions etc. Compliance with these regulations while they cost money to implement, also endear the firms' products to customers.

2.3.5 SOCIAL CULTURAL FACTORS

The social cultural factors that affect a firm include beliefs, values, attitudes to work and leisure, opinions, population demographics, income distribution, social mobility, consumerism and levels of education (Pearce and Robinson, 1997; Johnson and Scholes, 1999). As changes occur in this area, so too does the demand for various types of clothing, books, leisure, artifacts etc. Like anything else, the social cultural factors are dynamic. A firm's strategy therefore needs to include the awareness of these factors and sometimes to forecast them. These factors have sometimes changed the direction of demand for product and services and the delivery of them. For instance the entry of women in the workforce has spurred demand for baby sitting facilities and increased disposal incomes that could be spent on consumer goods. For a strategist, informed judgment of the impact of changes in social cultural factors is imperative.

2.3.6 ECOLOGICAL FACTORS

The term ecology refers to the relationship among human beings and other living things and the air, soil and water that support them, (Pearce and Robinson, 1997). Specific concerns in this area include global warming, loss of habitat and biodiversity as well as air, water and land pollution. Firms are increasingly being called upon to pay attention to this

by reducing emissions that produce pollution or affect the ozone layer. There can also be a shift in demand of a firm's products if they are seen to either enhance or affect the ecology. Businesses are now being held responsible for eliminating the toxic by-products of their manufacturing processes and for cleaning up the environmental damage that they did previously (Pearce and Robinson, 1997).

2.4 POSSIBLE TOOLS FOR SCANNING THE ENVIRONMENT

As we have seen elsewhere, the external environment is critical to the firm's success. Managers should therefore be alert to all developments in their firms' external environment. This alertness will enable a firm to formulate high quality strategies that will help it cope with competition. The essence of strategy formulation is coping with competition (Porter, 1979). Knowledge of the underlying sources of competitive pressure provides the groundwork for a strategic agenda that will help an organization find a position in its environment where it can best defend itself.

There are several tools that can help an organization understand its environment. According to Thompson (1997) they include SWOT Analysis, a PEST Analysis, Porter's Five Forces model, Strategic Group Analysis and Porter's model of competitive advantage (Diamond). These frameworks are discussed below.

2.4.1 SWOT ANALYSIS

SWOT is an acronym for the internal Strengths and Weaknesses of a firm and the environmental Opportunities and Threats facing that firm, (Pearce and Robinson, 1997). It

is based on the assumption that an effective strategy derives from a sound 'fit' between a firm's internal capabilities (strengths and weaknesses) and its external situation (opportunities and threats). The SWOT analysis therefore aims to identify the extent to which the current strategy of an organization, and its more specific strengths and weaknesses are relevant to and capable of, dealing with the change taking place in the business environment. It can also be used to assess whether there are opportunities to exploit further, the unique resources or core competences of the organization (Johnson and Scholes, 1999).

In SWOT analysis we identify key changes in the organisation's environment, the resource profile and competences of the organization. These points should be specific and while there is no agreed number about eight are sufficient in each case (Johnson and Scholes, 1999). These points should be looked at, relative to competitors and key trends in the firm's environment.

2.4.2 A PEST ANALYSIS

A PEST analysis involves identifying the political, economic, social and technological influences on an organisation (Johnson and Scholes 1999). The possible questions to be asked here is what the environmental factors that are affecting the organization are, which of these are the most important at the present time and which will be important in the next few years (Johnson and Scholes, 1997).

Some of the issues in the political/legal arena include labour laws, monopolies legislation, taxation policy, government stability etc. The economic factors might include GNP trends, interest rates, inflation, disposable income, business cycles, etc.

Social cultural issues would refer to population demographics, income distribution, levels of education, lifestyles, attitude to work and leisure etc. Technological issues concern speed of technological transfer, rates of obsolescence, government spending on research etc.

Analysis of these issues will give a firm a good indication of the major issues impacting on its external environment.

2.4.3 PORTER'S FIVE FORCES INDUSTRY MODEL

The Porters five forces model is a means of identifying the forces which affect the level of competition in an industry (Porter, 1979). Those forces are namely, the threat of potential entrants, bargaining power of suppliers and of buyers, threat of substitutes and rivalry among existing firms.

The threat of entry to an industry will depend on the extent to which there are barriers, for instance, due to capital requirement of entry, access to distribution channels etc.

The power of both the buyers and suppliers can constrain the strategic freedom of an organization and influence the margins of an organization.

The threat of substitute needs to be recognized by the firm because it can place a ceiling on prices for a company's products, or make inroads into the market and so reduce its attractiveness (Johnson and Scholes, 1999). A firm therefore needs to know whether substitutes pose the threat of obsolescence to its products and services or whether it provides a higher perceived buyer or value.

Organisations need to be concerned with the extent of direct rivalry between themselves and competitors. They want to know its basis, or whether it is likely to increase or decrease.

An understanding of the above issues will enable a firm to determine what its position is in relation to the competitors.

2.4.4 STRATEGIC GROUP ANALYSIS

This tool aims to identify organizations with similar strategic characteristics, following similar strategies or competing on similar bases (Porter, 1980). The aim of the identification is to establish which characteristics most differentiate one group of organization from another. The analysis helps to identify who the most direct competitors are, on what basis competitive rivalry is likely to take place within strategic groups, and how this is different from rivalry within other groups (Johnson and Scholes, 1999) It also assists an organisation to map out its strategic mobility from one group to another.

2.4.5 PORTER'S MODEL (DIAMOND) OF COMPETITIVE ADVANTAGE

Porter's diamond model suggests that there are inherent reasons why some nations are more competitive than others, and why some industries within nations are more competitive than others (Johnson and Scholes, 1999).

Porter suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. The diamond can therefore be used by governments at the national level to consider policies that they should follow to encourage the competitive advantage of their industry. Organisations can also use the diamond as a way of trying to identify the extent to which they can build on home based advantage to create competitive advantage in relation to others on a global front (Johnson and Scholes, 1999).

The above tools while major are in no way exhaustive. An organization can come up with various ways in which to scan the environment for strategic formulation purposes. Different business environments present different challenges to the firms operating in them. Homegrown methods of determining the major challenges facing individual firms in different environments are not far-fetched and may be nearer to the ground.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter outlines the various stages used in carrying out the study, in order to meet the objectives of the study. The stages include population, data collection instruments, data collection procedures and data analysis.

3.1 POPULATION

The population studied is all commercial banks that participate directly in clearing house as per Central Bank of Kenya's list as at the time of our study (February, 2001). Commercial banks are all those institutions involved in accepting deposits and lending money to the public with the use of cheques. They retain a given amount of their capital base at the Central Bank of Kenya. They lend money, for short periods of time, usually less than 5 years. There are currently fifty one (51). However we only surveyed the ones that directly participate in clearing house without being represented by others. This is because the regulatory demands for these banks are more stringent making adaptation of strategies more imperative. The latter group consists of forty four (44) banks.

3.2 THE SAMPLE

The researcher contacted all commercial banks that participate in clearing house which are forty four (44) as per Central Bank of Kenya list as at the time of our study (January/February, 2001). However, by end of the research period only twenty eight (28) had responded. This number constituted the achieved sample. This sample is in the appendix.

3.3 DATA COLLECTION

The study is a cross sectional survey. The data was collected by the use of a structured questionnaire. The questionnaire had both closed and open-ended questions. It consisted of two parts. The first part asked for information relating to the respondent company's general profile data. It also sought to know what the environmental changes have been. The second part aimed to know the strategies that the banks have employed to respond to these changes. Drop-pick later approach was used. The questionnaire was given to senior managers. Completed questionnaires were examined before collection to ensure that they were properly completed. While all the forty four (44) banks that participate in clearing house were contacted, only twenty eight (28) responded by the end of the research period. This is the number that participated in the study.

3.4 DATA ANALYSIS

Since the study was descriptive in nature, descriptive statistics were used to analyse data. These included frequency and percentages to assist in analyzing the main changes, and the major strategies used in response to the changes. Cross-tabulation was also used to analyse the relationship between the nature of change and the strategies used by different banks.

	11	39.3
	17	60.7
	28	100

CHAPTER FOUR: THE RESEARCH FINDINGS

At the time of our research, there were forty-four (44) commercial banks that participate in clearing house. These were the subject of our research. We had hoped to get a response from each one of them but only twenty-eight (28) responded. This however, is a reasonable figure, as it constitutes about 64% of response.

The data involved in the study was summarized and presented in the form of percentages, tables, frequency distributions and other descriptive statistics, such as mean, mode and standard deviation. Factor analysis was also carried out in order to determine the most influential factors in competitive strategy formulation.

In the following pages we shall present the research findings in the formats described above.

4.1 NATURE OF OWNERSHIP OF COMPANIES.

Table 1: Respondents were asked whether their companies were publicly quoted.

Response	Frequency	Percent
Yes	11	39.3
No	17	60.7
Total	28	100

Source: Research Data

A fair distribution between those companies that are quoted in the stock Exchange and those that were not was achieved for the study. This, as the study later reveals, would mean that the challenges facing the industry are irrespective of the nature of ownership.

4.2 PREPARATION OF VISION AND MISSION STATEMENTS AND THE SETTING OF OBJECTIVES.

Table 2: Vision Statements.

Response	Frequency	Percentage
Yes	20	71.4
No	6	21.5
None	2	7.1
Total	28	100

Source: Research Data

Table 3: Mission Statements.

Response	Frequency	Percentage
Yes	20	71.4
No	6	21.5
None	2	7.1
Total	28	100

Source: Research Data

Table 4: Settings of Objectives.

Response	Frequency	Percentage
Yes	27	96.4
No	1	3.6
Total	28	100

Source: Research Data

The study sought to find out whether the companies being studied prepare vision and mission statements. In each case 71.4% said they do. A Company must state its aspirations and determine its basic goals and philosophies that will shape its strategic posture (Pearce and Robinson, 1997). The findings would therefore be consistent with these authors' assertion.

Setting of objectives helps define the specific kinds of performance and results which the organization seeks to produce through its activities (Thompson, 1997). An organization is therefore able to measure whether it is achieving what it set out to achieve. 96.4% of the respondents said that they set out objectives, showing how important this exercise was to the companies studied.

4.3 FORMULATION OF STRATEGIES TO RESPOND TO CHANGES IN THE EXTERNAL ENVIRONMENT.

Table 5: Formulation of strategies.

Response	Frequency	Percentage
Yes	26	92.9
No	2	7.1
Total	28	100

Source: Research Data

Table 6: Formality in strategy formulation.

Response	Frequency	Percentage
Yes	26	92.9
No	2	7.1
Total	28	100

Source: Research Data

It would appear that changes in the external environment were considered of vital significance by the banks studied. 92.9% of the respondents stated that they formulated strategies to respond to the changes in the external environment. This is not totally unexpected given the changes that have occurred in this sector especially in the 90s.

92.9% of the respondent also stated that their strategy formulation was formal. Formulating strategy formally enhances managerial understanding and decision making. It also unifies the company's corporate direction, introduces discipline for long term thinking in the firm and provides an opportunity for multiple personal interactions and negotiations at all levels (Hax and Majluf, 1996)

4.4 WHETHER CHANGES IN THE EXTERNAL ENVIRONMENT HAVE AFFECTED THE COMPANIES' PRODUCT/SERVICE OFFERING.

Table 7: Products/services offered by banks.

Service/Product	Frequency	Percentage
Current Accounts	28	96.4
Savings accounts	28	89.3
Fixed deposits	28	96.4
Export financing	28	85.7
Letters of credit	28	96.4
Import Financing	28	82.1
Foreign currency dealings	28	57.1
Small scale credit	28	89.3
Medium large scale	28	85.7
Guarantees	28	14.3
International funds transfer	28	10.7
Local funds transfer	28	3.6

Source: Research Data

The products offered by the banks are pretty much homogenous. What was varied was not the nature of the product but the extent to which each bank offered individual product. This would mean that competition would have to be played on a different arena but not on the nature of the product.

Table 8: Changes in the banks' product/service offering.

Response	Frequency	Percentage
Yes	22	78,6
No	5	17,9
None	1	3,5
Total	28	100

Source: Research Data

78.6% of the banks studied stated that their product/service offering changed as a result of the external environmental changes. This would be consistent with Porter's (1985) assertion that a company can only compete successfully, if it aligns its products/services with the needs of the external environment.

Table 9: Ways in which the companies' product/service offering has changed.

Response	Frequency	Percentage
Customers more aware of Products	2	7.1
Substitutes from competitors (competition)	4	14.3
Better service-delivery packaging	2	7.1
Low deposits – loans not serviced	1	3.6
Poor country economy – down trend	2	7.1
Poor telecommunication & infrastructure limits channels of innovation	4	14.3
None	10	35.8
Total	28	100

Source: Research Data

Not all banks responded to this question. The feeling was that revealing the information would be taken advantage of by the competitors, to the detriment of the companies concerned. Nevertheless, the responses received do give us an indication of the trend of the changes. The major factors have to do with need to respond to increased competition, service delivery, a more demanding customer, poor infrastructure and liberalization of the sector. As noted elsewhere, liberalization of the economy brought in, not just local but global competition. Also, some of the banks that have rationalized branches have done so not just because they were not profitable but because they would not fit in with the banks' telecommunication infrastructure.

4.5 CHANGES IN THE DELIVERY CHANNELS – BRANCH NETWORK.

Table 10: Branch network (delivery channels) changes.

Response	Frequency	Percentage
Yes	15	53.6
No	9	32.1
None	4	14.3
Total	28	100

Source: Research Data

53.6% of the respondents say that their network has changed as a result of factors in the external environment. The local scene has witnessed massive closures of branches and the opening of outlets in other areas that are frequented by a lot of people and considered safe, for instance, Malls. Segmentation of the market has also come with this rationalization.

Table 11: Ways in which the banks delivery channels have changed.

Response	Frequency	Percentage
Opened new outlets to serve specific customer demographically	3	10.7
Branch closures – rationalization	7	25.0
Hold on – put off expansion Programmes	1	3.6
Downsizing branch operations	1	3.6
None	16	57.1
Total	28	100

Source: Research Data

Branch closures and rationalization seems to top the ways in which the banks' networks have changed at 25% of response. Quite a few of the respondents however, thought that responding to the question would reveal their competitive strategies at their expense. Nevertheless, we know from general observation that the current trend has been for banks to close and reduce branches. They have also been opening outlets to capture certain markets. For instance Barclays Bank of Kenya has been opening what they call priority-banking services in Malls.

4.6 CHANGES IN THE PRICING STRUCTURE AS A RESULT OF EXTERNAL ENVIRONMENTAL CHANGES.

Table 12: Pricing structure changes.

Response	Frequency	Percentage
Yes	25	89.3
No	1	3.6
None	2	7.1
Total	28	100

Source: Research Data

External environmental changes have forced pricing changes in the banks studied, according to 89.3% of respondents. Lower cost advantages curtail the threat of substitutes. At the same time successful cost differentiation allows a business to provide a product/service at perceived higher value to buyers at a differentiated cost below the premium, that is, the buyer feels that the additional cost to buy the product/service is well below what the product/service is worth, compared to other available alternatives (Pearce & Robinson, 1997). The banks' review of their pricing structure is in keeping with these authors view.

Table 13: Ways in which pricing structure has changed.

Response	Frequency	Percentage
Adoption of competitive prices	15	53.6
Adoption of Liberalized interest Regime	5	17.9
Declining Economy – lowered cost of pricing	3	10.7
Government Policies – regulations	1	3.6
None	4	14.2
Total	28	100

Source: Research Data

53.6% of the respondents say that they have had to adopt to competitive pricing structure. This would be in line with the fact that banks have developed a heightened awareness of what their competitors are charging and responded accordingly as evidenced by the various advertisements in the electronic and print media. The price awareness among the populace in all aspects of life has been exacerbated by the downturn in the economy, making price considerations of vital importance.

4.7 PROMOTIONAL STRATEGY CHANGES DUE TO EXTERNAL ENVIRONMENTAL CHANGES.

Table 14: Changes in promotional strategy.

Response	Frequency	Percentage
Yes	14	50
No	11	39.3
None	3	10.7
Total	28	100

Source: Research Data

Table 15: Ways in which promotional strategy has changed.

Response	Frequency	Percentage
Merchandising, Advertising and corporate image initiatives	8	28.6
Poor response to new products	1	3.6
Cut back on budgets	2	7.1
Technological changes	1	3.6
None	16	57.1
Total	28	100

Source: Research Data

Most of the banks studied say that they have had to change their promotional strategy due to changes in the external environment. This constitutes 50% the respondents. This would be confirmed by the electronic and print media advertisements now prevalent. Not surprising 28.6% of those who agreed to respond state that advertising is some of the ways in which their promotional strategy has had to change.

4.8 CHANGES IN CORPORATE IMAGE.

Table 16: Whether there are changes in corporate image.

Response	Frequency	Percentage
Yes	15	53.6
No	11	39.3
None	2	7.1
Total	28	100

Source: Research Data

Table 17: Ways in which corporate image has changed

Response	Frequency	Percentage
Change of corporate colours – logo	3	10.7
Move away from Parastatal and political image	1	3.6
Active advertising - promotional social responsibilities	5	17.8
Market as caring, professional and changing bank	1	3.6
Change in management	2	7.1
Bank's move to corporate customers	1	3.6
Mergers	1	3.6
None	14	50
Total	28	100

Source: Research Data

Changes in corporate image have definitely occurred among the banks studied as stated by 53.6% of respondents. However, most of the respondents were again reluctant to say how, seeing this as competitive weapon. Nevertheless physical changes have been noticed among banks in the local scene, the most prominent being those in the Standard Chartered Bank Limited.

4.9 TYPE OF CUSTOMER CHANGES AS A RESULT OF CHANGES IN THE COMPANIES EXTERNAL ENVIRONMENT.

Table 18: Possible type of customer changes

Response	Frequency	Percentage
Yes	15	53.6
No	11	39.3
None	2	7.1
Total	28	100

Source: Research Data

53.6% of the bank studied state that the changes in the external environment have caused changes in the type of customer they are now focusing on. Pearce and Robinson (1997) state that developing a profile of a firms' present and prospective customer improves the ability of its managers to plan strategic operations, to anticipate changes in the size of the markets and reallocate resources so as to support focus shifts in demand patterns. The banks would appear to be following this strategy.

Table 19: Ways in which the type of customer has changed.

Response	Frequency	Percentage
Loss of high quality customer: High Net worth depositors	2	7.1
Wary of small Medium banks	2	7.1
Depositors are less liquid.	2	7.1
Poor economy – less focus on local corporates.	3	10.7
More non-corporate deposits	2	7.1
More aware and demanding depositors	1	3.6
Less reliance on Government and Parastatals	1	3.6
None	15	53.7
Total	28	100

Source: Research Data

Unfortunately 53.7% of the banks studied were reluctant to say how their type of customer had changed as they considered it their marketing strategy. There is however, a good indication from the responses receive that there was a wider emphasis on individual customers.

4.10 HOW INDIVIDUAL BANKS HAVE REACHED POSITIONS THAT ARE BETTER THAN COMPETITORS’.

Table 20: Strategies that have enhanced better competitive positions.

Response	Frequency	Percentage
Quality service/personalized service	14	50.0
Letters of credit	1	3.6
Marketing	1	3.6
Project financing	1	3.6
Better technology	3	10.7
Better Network	3	10.7
Historical Relationships with customers	1	3.6
None	4	14.2
Total	28	100

Source: Research Data

At 50% quality service tops the list of the responses adopted by banks to beat competition, which is not totally unexpected given that these banks already say that they are facing a more demanding customer. To stay at the top or at least be near there, quality service has had to be their number one priority.

4.11 MAJOR TYPES OF RESPONSES THAT THE BANKS HAVE USED TO RESPOND TO CHALLENGES IN THE EXTERNAL ENVIRONMENT

From the foregoing noted changes we find that the banks being studied have encountered major challenges in the external environment. As a result of this situation, they have adopted various methods in an attempt to respond to the challenges posed by the external environmental changes. The following tables present some of the major responses so adopted.

Table 21: Broadening the product line to close off vacant gaps.

Response	Frequency	Percentage
Not utilized	1	3.6
Least utilized	2	7.1
Moderately utilized	8	28.6
Fairly utilized	10	35.7
Utilized to a great extent	7	25.0
Total	28	100

Source: Research Data

The banks have utilized this tactic extensively, as responses to 'fair use' and 'used extensively' constitute 60.7%. These banks have been advertising themselves in the media as one – stop points.

Table 22: Offering high quality products/services.

Response	Frequency	Percentage
Moderately utilized	3	10.7
Fairly utilized	7	25.0
Utilized to a great extent	18	64.3
Total	28	100

Source: Research Data

As we have seen elsewhere, products being offered by banks studied are pretty much homogenous. The quality of service is how the banks have been attempting to set themselves apart. Customers are increasingly choosy, disloyal and demanding value for their money. The customers want fast service, security for their deposits and they quickly switch banks, when these are not guaranteed. They also want financial products that are tailored to their individual and/or corporate needs.

Table 23: Using a wider distribution Network.

Response	Frequency	Percentage
Not utilized	5	17.9
Least Utilized	8	28.6
Moderately utilized	8	28.6
Fairly utilized	4	14.3
Utilized to a great extent	3	10.6
Total	28	100

Source: Research Data

Wider distribution network (many branches) is not seen as a vital strategic response. Closing of branches and branch rationalization have been more of the order of the day in the local scene.

Table 24: Narrowing the distribution Network.

Response	Frequency	Percentage
Not utilized	7	25.1
Least utilized	8	28.6
Moderately utilized	6	21.4
Fairly utilized	3	10.7
Utilized to a great extent	2	7.1
None	2	7.1
Total	28	100

Source: Research Data

Perhaps the reason why only moderate figures, that is, a total of 31.1% show as using this tactic, compared to a figure of 53.7% of those who do not use it or use it only moderately is because only the large banks who had large networks anyway, have been closing and rationalizing branches. Most of the other banks studied did not have a large network. We know otherwise that quite a few of the branches have been closed in the last couple of years by banks, mainly the large ones.

Table 25: Identifying unique ways of distributing products/services.

Response	Frequency	Percentage
Not utilized	3	10.7
Least utilized	2	7.1
Moderately utilized	7	25
Fairly utilized	11	39.3
Utilized to a great extent	4	14.3
None	1	3.6
Total	28	100

Source: Research Data

As noted elsewhere the products/services that the banks studied are offering are pretty much homogenous. Unique ways of distributing the product/service is one of the methods that the banks are differentiating themselves. 39.3% of these banks studied say that they fairly use this method as do 14.3% who say that they use it extensively.

Table 26: Having more convenient locations compared to other competitors in the area.

Response	Frequency	Percentage
Not utilized	5	17.9
Least utilized	6	21.4
Moderately utilized	3	10.7
Fairly utilized	8	28.6
Utilized to a great extent	6	21.4
Total	28	100

Source: Research Data

This is a method that is extensively used by the banks. We have seen a proliferation of banking locations in Malls and other convenient locations, both in terms of access and security.

The type of customer the banks are now dealing with is increasingly demanding quality, convenience, variety, and all these at competitive terms. Banks are now under constant pressure to deliver.

Table 27: Using superior technology.

Response	Frequency	Percentage
Not utilized	1	3.6
Least utilized	2	7.1
Moderately utilized	5	17.9
Fairly utilized	7	25.0
Utilized to great extent	13	46.4
Total	28	100

Source: Research Data

46.4% of respondents say that they have utilized technology to a great extent. 25% say that they fairly use it. All in all, the respondents state that the use of superior technology has been a vital response to challenges in the external environment.

The financial sector has witnessed a rapid change in Information Technology that has had a great impact(s) on most institutions. Information technology is reshaping the basics of business. Customer service, operations, product and marketing strategies and distribution are heavily, or sometimes even entirely dependent on it. The computers that support this can be found on the desk, on the shop floor, in the store, even in briefcases. Information Technology and its expense, have become an everyday part of business life (Keen, 1991).

Table 28: Having shorter delivery lead times.

Response	Frequency	Percentage
Not utilized	1	3.6
Least utilized	1	3.6
Moderately utilized	4	14.3
Fairly utilized	4	14.3
Utilized to a great extent	17	60.6
None	1	3.6
Total	28	100

Source: Research Data

Banks have shortened processes to enable them deliver fast service to an ever demanding clientele, who see time and convenience as of great importance to their business. These changes have been driven by changes in Information Technology as discussed elsewhere.

Table 29: Ensuring that outlets are secure and attractive.

Response	Frequency	Percentage
Moderately utilized	4	14.3
Fairly utilized	5	17.8
Utilized to a great extent	18	64.3
None	1	3.6
Total	28	100

Source: Research Data

This tactic is utilized to a great extent by 64.3% of the respondents. In our country today security has become an issue. Banks realize this and are therefore opening outlets in areas that will take care of these concerns. Ambiance is also being considered by clients and most of the banks have thus redesigned and redecorated their premises as a competitive strategy.

Table 30: Segmenting the Market.

Response	Frequency	Percentage
Not utilized	4	14.3
Least utilized	4	14.3
Moderately utilized	2	7.1
Fairly utilized	6	21.4
Utilized to a great extent	12	42.9
Total	28	100

Source: Research Data

A lot of banks have decided that they cannot be everything to all people. Hence they have segmented their markets. They have mainly done this by raising deposits so that only a certain type of clientele can afford their minimum deposits. They have also done this by opening outlets in upmarket areas where only a certain type of clientele is likely to frequent, for instance, upmarket Malls.

Table 30: Differentiating on basis frequency and utilizing other services.

Table 31: Differentiating Product/Service.

Response	Frequency	Percentage
Not utilized	1	3.6
Least utilized	1	3.6
Moderately utilized	6	21.4
Fairly utilized	11	39.3
Utilized to a great extent	9	32.1
Total	28	100

Source: Research Data

This tactic is also utilized by a considerable percentage of those banks studied. 71.4% of respondents fall between those who fairly use the method and those who greatly use it.

Technology has enabled the method to be used effectively.

Table 32: Having low cost Pricing structure.

Response	Frequency	Percentage
Not utilized	2	7.1
Least Utilized	1	3.6
Moderately utilized	9	32.1
Fairly utilized	12	42.9
Utilized to a great extent	4	14.3
Total	28	100

Source: Research Data

Low cost per se is not a favorite method of countering external challenges as only 14.3% of the respondents use it to a great extent. Perhaps customers are looking for value for money as noted elsewhere. Cost in relation to the competitors price appears to be also important.

Table 33: Concentrating on core businesses and subcontracting other services.

Response	Frequency	Percentage
Not utilized	3	10.7
Least utilized	10	35.7
Moderately utilized	7	25.0
Fairly utilized	2	7.1
Utilized to a great extent	6	21.5
Total	28	100

Source: Research Data

Large banks, especially those that were widely established are often quoted in the local media as selling and subcontracting non-core businesses. Perhaps the reason this is not reflected extensively in the table above is because these large banks constitute only a small percentage of the total banks studied.

Table 34: Boosting the company's name and reputation through sales promotion, advertising, better public relations.

Response	Frequency	Percentage
Not utilized	2	7.1
Least utilized	2	7.1
Moderately utilized	4	14.4
Fairly utilized	10	35.7
Utilized to a great extent	10	35.7
Total	28	100

Source: Research Data

In our local electronic and print media banks are advertising a lot and also raising their profiles through various means, for instance, being accessible to the media, charity donations etc. These are all geared towards boosting the companies' reputations and names. A total of 71.4% use the method between fairly and to a great extent.

Table 35: Having good systems for receiving customer feedback to aid in product/service improvement.

Response	Frequency	Percentage
Not utilized	1	3.6
Least utilized	3	10.7
Moderately utilized	7	25.0
Fairly utilized	7	25.0
Utilized to a great extent	10	35.7
Total	28	100

Source: Research Data

The customer has taken centre stage in the war against challenges in the external environment. Banks are not taking chances in this area and are therefore making an effort to know what the customer feels and expects. 35.7% of the respondents use the method to a great extent, while 25% use it fairly.

4.12 FACTORS WHICH INFLUENCE THE FORMULATION OF STRATEGIES

Several factors influence the formulation of competitive strategies by business organizations. These factors include the existing competition, new entrants into the market, suppliers, increased customer sophistication, substitute products, government policy, infrastructure and political connections. However, all the factors may not influence

strategy formulation to the same degree. The researchers interest was to determine factors which exert a greater influence to strategy formulation in commercial banks that participate in clearing house.

Factor analysis is used as a statistical technique for extracting those factors that have a significant impact on strategy formulation. This technique reveals subtle relations which ordinary procedures like cross-tabulations and frequency analysis cannot capture. The results of the factor analysis is discussed below.

The initial step in factor analysis is the computation of the total variance in strategy formulation across the industry that is attributable to each of the listed factors. These results are shown in table 36 below. It is evident from the table of communalities that, existing competition, political connections, substitute products, suppliers, customer sophistication and infrastructure, could be some of the key factors that strategists consider while formulating competitive strategies.

Table 36: Communalities

Factor	Initial	Extraction
Competition	1.000	0.643
New entrants	1.000	0.456
Suppliers	1.000	0.604
Customers	1.000	0.587
Substitutes	1.000	0.712
Government	1.000	0.402
Infrastructure	1.000	0.574
Politics	1.000	0.647

Source: Research Data

The second step in the analysis was to compute the eigen value of each of the eight factors. An eigen value is the total variance explained by a given factor. The objective here is to determine the principal components influencing strategy formulation. A given factor is considered a principal component if its eigen value is greater than 1. Table 37 below gives the summary of the results.

Table 37: Total variance Explained.

	Initial Eigen Values		
	Total	Percentage of variance	Cumulative Percentage
Component 1	3.167	39.590	39.590
Component 2	1.459	18.242	57.832
Component 3	0.812	10.154	67.986
Component 4	0.780	9.752	77.738
Component 5	0.732	9.154	86.892
Component 6	0.511	6.388	93.280
Component 7	0.280	3.506	96.786
Component 8	0.257	3.214	100.000

Source: Research Data

The factors which have an eigen value greater than one are only two, that is, component 1 and 2. This is revealed by the scree plot of the eigen value against the component number.

This is illustrated in the figure 1 below.

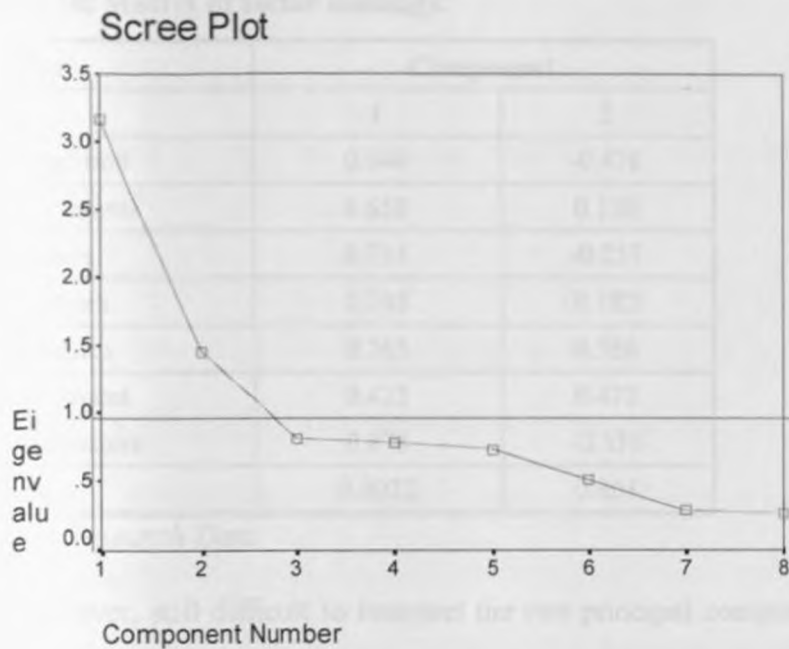


Figure 1: Scree plot

Source: Research Data

Principal component analysis therefore suggests that strategy formulation is strongly influenced by two factors, that is, component 1 and 2 whose identity is not known but can be inferred from the analysis of the matrix of factor loadings. However, the next three components cannot be ignored because they explain 20% of the variance in strategy formulation. Consequently to identify the actual components influencing strategy formulation, an analysis of the matrix of factor loadings is done as given below.

Table 38: Matrix of factor loadings.

Factor	Component	
	1	2
Competition	0.644	-0.478
New entrants	0.658	0.150
Suppliers	0.734	-0.255
Customers	0.745	0.182
Substitutes	0.765	0.356
Government	0.423	0.472
Infrastructure	0.678	-0.338
Politics	0.0022	0.804

Source: Research Data

It is however, still difficult to interpret the two principal components from the matrix of factor loadings. This is due to the fact that factor loadings are close to one another, making identification of individual principal component difficult. This problem can be solved by rotating the matrix of factor loadings about the origin. The rotated component matrix is given below: -

Table 39: Rotated Component matrix. Rotation method: Varimax with Kaiser Normalization.

Factor	Component	
	1	2
Competition	0.802	0.002
New entrants	0.424	0.525
Suppliers	0.734	0.225
Customers	0.472	0.604
Substitutes	0.381	0.753
Government	0.004	0.633
Infrastructure	0.742	0.154
Politics	-0.480	0.646

Source: Research Data

A given factor is deemed to influence greatly a particular principle component when its absolute loading is greater than 0.5. The most influential factor is the one with the highest absolute factor loading, for instance, competition in component 1 and substitute in component 2.

The rotated component matrix shows that component 1 is highly positively related to existing competition, infrastructure and suppliers, and negatively related to political connections. Consequently this factor could be identified as existing competition. This competition is leveraged by Information Technology infrastructure, which influences the delivery and quality of service, and probably optimization of the supply-chain.

The second factor is highly positively correlated with substitute products, political connections, government policy and customer sophistication. Consequently this factor could be identified as substitute products. It is also influenced by government policy, political connections and customer sophisticated demands.

The final step in factor analysis is the derivation of the component transformation matrix. This matrix is shown below:

Table 40: Component transformation matrix.

	1	2
Component 1	0.785	0.619
Component 2	-0.619	0.785

Source: Research Data

The analysis of factors influencing strategy formulation therefore indicates that the existing competition and the threat of substitute products are the key factors.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, SUGGESTIONS, LIMITATIONS AND RECOMMENDATIONS.

5.1 SUMMARY

The 1980s saw the beginning of Structural Adjustment Programmes in Kenya, that sought to correct the slow growth and stagnation of the public sector. Subsequent to this, public sector reforms that called for market domain systems were introduced in the 1990s. In addition to these local changes, there were the globalization and Information Technology phenomena also bearing their weight. The changes outlined impacted greatly on all sectors of a hitherto protected economy. Banks were not spared the impact. Thus the study set out to identify changes that have affected commercial banks that participate in clearing house in Kenya since the 1980s, and to identify the strategies that commercial banks have applied to respond to these changes.

In order to meet these objectives, the researcher designed a questionnaire to enable carrying out of a survey. The questionnaire was first pretested and recommendations arising therefrom incorporated into the final questionnaire. There were forty four (44) commercial banks that participate in clearing house as at the time of our research. Questionnaires to all these banks were sent out. However not all banks responded and other copies had to be delivered a second time and picked later. In total twenty-eight (28) questionnaires were received back. This figure constitutes 63.6% or 64% of response, which figure was adequate for our research.

The data was subsequently analyzed using tables, frequency distribution, percentages and other descriptive statistics. Further, factor analysis was carried out in order to determine the most important factors influencing strategy formulation in response to changes in the external environment. The major responses by banks to the challenges in the external environment were also determined using tables and percentages.

5.1.1 CHANGES AFFECTING COMMERCIAL BANKS

As noted elsewhere, one of the objectives of the study was to identify changes that have affected commercial banks that participate in clearing house in Kenya since the 1980s. The study revealed that several external factors, some of them quite closely related, affected these banks. The study further went on to determine what the key factors were, among these changes. The factors are the topic of our discussion in this subsection.

The changes in the banks' external environment included existing competition. This refers to the heightened competition between the existing combatants given that, with markets now freed, the banking business could move, and did move across the borders, leaving the local banks to fight over what was left. The changes also included new entrants. New banks were opening their doors to the public. The new banks were generally smaller than what was previously in the local scene, and much closer to the people they were serving, for instance, in the rural areas. Mainly because of their size, but not exclusively, they were also less bureaucratic. Most of these banks did later fall into trouble but some remained. However, they had left an impact and the customer was now different. Included in the changes was increasingly customer sophistication. The customers were demanding better service and value for money for the service they were getting. This was catching a lot of

local banks off guard. Another change was the entry of substitute products. These included forex bureaus, who were taking quite a big chunk of the foreign exchange cash transactions and insurance companies who were now offering indemnities and guarantees previously the preserve of banks. They also included cooperative societies, who began to offer over the counter services that had hitherto being offered by banks. Suppliers also were becoming increasingly powerful especially those offering Information Technology and related supplies. A further change was government policy, that dismantled foreign exchange rates and freed interest rates thus ushering in competition. The government also stopped favouring its previously wholly owned banks, in for instance parastatal business, thus expected them to compete with other players in the industry. Another factor was infrastructure that affected delivery of the services that banks were offering. Some banks, for instance Standard Chartered Bank, closed some lucrative branches because they could not fit in with their telecommunication network.

Factor analysis revealed that the key factors were existing competition and threat of substitute products. Bargaining power of suppliers, infrastructure, changing Information Technology and increasingly demanding customers cannot be ignored in strategy formulation as they constitute 20% of the impact.

Strategists in organizations therefore need to scan their environment in order to determine what impacts on them most as they design strategies to meet the discerned forces. Their survival and well being depends on designing appropriate strategies.

5.1.2 MAJOR RESPONSES USED BY COMMERCIAL BANKS TO COUNTER EXTERNAL ENVIRONMENTAL FORCES.

The second objective of this study was to identify the strategies that commercial banks that participate in clearing house, have applied to respond to changes in the external environment. The changes in the banks' external environment have been unprecedented. They have therefore called upon banks to develop strategies that could adequately respond to the forces. Discussed below are some of the strategies that the study revealed as being in use.

The major strategies included broadening the product line to close off vacant gaps. The banks have been widening their product range to become what they are calling, one-stop points, so that the customers do not need to look elsewhere. The responses also included offering high quality product/service in order to meet customers' demanding expectations. The driving force in this area has been use of superior and appropriate technology, use of which is also another response. A further response has been to narrow the distribution network, especially among the large banks, but open outlets in convenient locations. While doing this, the banks have segmented the market so that they have been offering high quality products in upmarket malls, for who they consider their top customers. These convenient locations have also taken into consideration security and ambience as added strategies. The banks are also differentiating their product/service given the homogenous nature of the products in the local market. The banks are concerned about their image and profile and are boosting them through sales promotion, charity donations and advertising. These are added strategies that are being used by banks. The banks are very concerned about finding out what the customer needs and wants and have set up feedback systems.

They are also returning to core business and contracting non-core ones in order to pay more attention to the customer. They are also reviewing the pricing structure. The underlying factor that was constantly re-emphasized by banks as very useful in their response to external turbulence was appropriate technology.

The research revealed that banks studied used different strategies or the same strategies to different degrees depending on their needs. By and large however, the strategies outlined were the major ones that banks used.

5.2 CONCLUSIONS

The study revealed that strategy formulation was very important to the survival and/or profitability of all organizations studied. It also showed that the external environment was very turbulent due to both local and global competition, the increasingly demanding customer and changes in Information Technology. Liberalized interest rates and floating exchange rates were also a challenge to the banks. However, factor analysis revealed that the key factors that most impacted on the banks were increased competition and threat of substitute products.

The banks however have adopted various methods of responding to the challenges, which included delivery of quality service at competitive prices in appropriate locations. The underlying factor in this delivery was high quality and appropriate technology.

Managers should therefore focus on discerning changes in the external environment in order to keep abreast of the expected challenges.

5.3 SUGGESTIONS

In order to formulate strategies to respond to challenges in an organization's external environment one should do the following,

- i) Identify the major factors that are impacting on an organization, from both the industry and the wider environment.
- ii) Identify the team(s) that will be involved in narrowing down the key factors and formulating the relevant strategies for responding to the identified challenges.

RECOMMENDATIONS FOR FURTHER RESEARCH

Research should be carried out in the following areas:

- iii) Involve and educate the whole organization about what is happening and the need to adopt the necessary changes.
- iv) Implement the strategies.
- v) Evaluate the strategies and adjust where necessary.
- vi) Devise ways of coping with strategic implementation challenges.
- vii) Adopt the methods of coping with strategy implementation difficulties.

5.4 LIMITATIONS OF THE STUDY

There were several limitations encountered in carrying out this study. These limitations included the unwillingness of banks to give information due to suspicion about how the information would be used. The inclination for the majority of the banks was to refuse to respond at all. It is only with a lot of persuasion and coaxing that even the twenty-eight (28) questionnaires were received back. While the figure received was sufficient for our analysis, and while the information included was sufficient for our analysis, it would have been a much more comprehensive study if all the forty-four (44) banks had responded.

5.5 RECOMMENDATIONS FOR FURTHER RESEARCH

Future research could be carried out in the following areas:

There were areas that this study did not cover because of limitations inherent in its breadth. These areas would however contribute to knowledge in external environment analysis and response. This is an area that has become increasingly important because of the global nature of the business today and the speed and magnitude of technological changes among other factors. Further research in the following areas would therefore add to knowledge in this vital area.

- i) Investigate whether ownership of the company plays a role in a timely and effective response to external environmental changes.
- ii) Investigate the effectiveness of the chief Executive officer in responding to changes in the external environment.
- iii) Investigate whether the composition of the strategy formulation team plays a role in strategy effectiveness.

APPENDIX 1: LETTER OF INTRODUCTION

Date:

To:

.....

P O Box:

NAIROBI

Dear Respondent,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH/PROJECT

I am a graduate student of the faculty of Commerce, University of Nairobi, working on a Masters of Business Administration (MBA) degree. As part of the fulfillment of the requirement of the degree, I am carrying out research on 'Competitive Strategies Applied by Commercial Banks.'

In view of this, I kindly request you to complete the attached questionnaire. Please rest assured that the information provided is purely for academic purposes only and will be treated with utmost confidentiality. Further, the name of your company will not be mentioned in this report. I should be glad to avail to you a copy of the research if required.

Thanking you for your time and consideration which are greatly appreciated in advance.

Warucu Gathoga
Researcher

Dr Evans Aosa
Supervisor

P O Box 45219
NAIROBI

Tel: 720151/2

APPENDIX 2: QUESTIONNAIRE

Faculty of Commerce, University of Nairobi.

Note: The information in this questionnaire will be used strictly for academic purposes only and will be treated with utmost confidentiality.

Date Questionnaire No.

Part A

A Personal Details of Respondent

- 1 Designation
- 2 Responsibility (OPTIONAL).....

B Company Information

- 3 Name of your organisation
- 4 Year of incorporation
- 5 Ownership (please circle appropriately)
 - a) Predominantly local (51% or above)
 - b) Predominantly foreign (51% or above)
 - c) Balance between foreign and local (50% each)
 - d) Any other (please specify)

- 6 Is your company publicly quoted?

YES

NO

- 7 Please state the current number of employees

.....

8 Please state the current number of branches *(in your district)*

.....

	1	2	3	4	5
Not Reported					
Very Important					

3 C Strategy formulation

9 Do you have a vision statement?

.....
.....

10 Do you have a mission statement?

.....
.....

11(a) Do you set objectives?

YES

NO

11 (b) In which areas:

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

12 Does your organisation formulate strategies to respond to the changes in the environment?

Yes

No

13 (a) Is the strategy formulation process in your organisation formal?

Yes

No

4 **D Environmental conditions**

16 How would you describe your business environment

Very stable Very turbulent

1 2 3 4 5

17 What changes have taken place in the recent past (10 – 20 years) that have had an impact in the way you do business?

		Little Impact				Great Impact
		1	2	3	4	5
A	Technological Advancements	1	2	3	4	5
B	Existing Competition	1	2	3	4	5
C	New Competitors	1	2	3	4	5
D	Increased Customer Sophistication	1	2	3	4	5
E	Liberalised Interest Rates	1	2	3	4	5
F	Liberalised Exchange Rates	1	2	3	4	5
G	Infrastructure	1	2	3	4	5
H	Government Policy	1	2	3	4	5
I	Substitute Products/Services	1	2	3	4	5
J	Any Other (please specify)					

.....

.....

.....

18 (a) Which products/services do you offer?

- a) Current Accounts
- b) Savings Accounts
- c) Fixed Deposits
- d) Bureau de change
- e) Export financing
- f) Letters of Credit
- g) Import Financing
- h) Foreign Currency dealings
- i) Small Scale credit (Shs1-500,000)

- j) Medium/Large scale credit (over Kshs 500,000)
- k) Guarantees
- l) International Funds transfers
- m) Local funds transfers
- n) Any other (please specify)

.....

.....

18 (b) Of these products/services, which ones do you focus on?
Please use the following scale:



Least Focus

Major Focus

1 2 3 4 5

.....

.....

.....

19 How do you determine which products/services to offer?

.....

.....

.....

20(a) Have the changes in the external environment affected your product/service offering?

YES

NO

20(b) In what way(s)

.....

.....

.....

21(a) Has your branch network been affected by changes in the external environment?

YES

NO

21(b) In what way(s)

.....

.....

.....

22(a) Has your pricing structure had to respond to the changes in the external environment?

YES

NO

22(b) In what way(s)

.....

.....

23(a) Have you had to change your promotional strategies due to external environmental changes?

YES

NO

23(b) In what way(s)

.....

.....

24(a) Have you had to change your corporate image?

YES

NO

24(b) In what way(s)?

.....

.....

.....

25 (a) Who are your customers?

(b) Indicate your focus on each of the customers.

Least focus

Major focus

1 2 3 4 5

Corporate

Individual businessmen/
women

Government & Quasi
Government Agencies

Parastatals
Co-operatives

Middle level Salaried
employees

Lower level salaried
employees

Any other (please specify)

.....

.....

26(a) Has your type of customer changed as a result of changes in your business environment?

YES

NO

26(b) In what way(s)?

.....

.....

.....

27 Rank the following competitors in order of importance to you.

Least Important

Very Important

1 2 3 4 5

- | | 1 | 2 | 3 | 4 | 5 |
|-------------------------------|---|---|---|---|--------------------------|
| a) The five large Banks | | | | | <input type="checkbox"/> |
| b) All Commercial Banks | | | | | <input type="checkbox"/> |
| c) Forex Bureaus | | | | | <input type="checkbox"/> |
| d) Micro Credit Enterprises | | | | | <input type="checkbox"/> |
| e) Informal Lenders | | | | | <input type="checkbox"/> |
| f) Any other (please specify) | | | | | |

.....

28 For each of the aspects of competition indicated below, please indicate the level of importance you attach to each.

		Least Important			Very Important	
		1	2	3	4	5
A	Technological Advancements	1	2	3	4	5
B	Existing Competition	1	2	3	4	5
C	New Competitors	1	2	3	4	5
D	Customer Sophistication	1	2	3	4	5
E	Liberalised Interest Rates	1	2	3	4	5
F	Liberalised Exchange Rates	1	2	3	4	5
G	Infrastructure	1	2	3	4	5
H	Government Policy	1	2	3	4	5
I	Substitute Products/Services	1	2	3	4	5
J	Any Other (please specify)					

29 How do you rate your competitors on each of the following aspects

		Very Weak			Very strong	
		1	2	3	4	5
a)	Product quality	1	2	3	4	5
b)	Product diversity	1	2	3	4	5
c)	Market share	1	2	3	4	5
d)	Growth potential	1	2	3	4	5
e)	Location	1	2	3	4	5
f)	Distribution network (branches)	1	2	3	4	5
g)	Pricing	1	2	3	4	5
h)	Strategy/Marketing	1	2	3	4	5
i)	Profitability	1	2	3	4	5

30 (a) Where you are better than competitors, how have you reached that position?

.....

.....

.....

30 (b) Where you are worse than competitors, how are you trying to overcome your disadvantage?

.....

.....

Part B
RESPONSE TO CHALLENGES

31 Please indicate (circle) the extent to which the following strategies are used in order to respond to challenges in the external environment.

- (1) Not Utilised (2) Least utilised (3) Moderately utilised
(4) Fairly utilised (5) Utilised to a great extent

- 1) Broadening the product line to close off vacant gaps
- 2) Offering high quality products and services
- 3) Using a wider distribution network
- 4) Narrowing the distribution network
- 5) Identifying unique ways of distributing products / services
- 6) Having more convenient locations compared to other competitors in the same area
- 7) Using superior technology
- 8) Having shorter delivery lead times
- 9) Ensuring that outlets are secure and attractive, e.g. well lit, safety measures are in place etc.
- 10) Segmenting the market
- 11) Differentiating product / service
- 12) Having low cost pricing structure
- 13) Concentrating on core business and sub contracting other services.
- 14) Boosting the company name and reputation through sales promotion, advertising, better public relations etc.
- 15) Having good systems for receiving customer feedback to aid in product and service improvement.
- 16) Any other (please specify)
.....
.....
.....
.....
.....
.....
.....

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

Thank you very much for completing this questionnaire. Please write below any other comments you wish to include that are relevant to this subject.

.....
.....

**APPENDIX 3: LIST OF CURRENT MEMBER BANKS OF THE
CLEARING HOUSE AS AT FEBRUARY 2001**

Bank

1. ABN-AMRO Bank N.V.
2. African Banking Corporation Limited
3. Akiba Bank Limited
4. Bank of Baroda (Kenya) Limited
5. Bank of India
6. Barclays Bank of Kenya Limited
7. Biashara Bank of Kenya Limited
8. CFC Bank Limited
9. Chase Bank Limited
10. Chart House Bank Limited
11. Citibank N.A.
12. Co-operative Bank of Kenya Limited
13. Commercial Bank of Africa Limited
14. Consolidated Bank of Kenya Limited
15. Credit Agricole Indosuez
16. Credit Bank Limited
17. Development bank of Kenya Limited
18. Daima Bank Limited
19. Diamond Trust Bank Limited
20. Dubai Bank Kenya Limited
21. Equatorial Commercial Bank Limited
22. Euro Bank Limited

23. Fidelity Commercial Limited
24. Fina Bank Limited
25. First American Bank of Kenya Limited
26. Giro Commercial Bank Limited
27. Guardian Bank Limited
28. Habib Bank A.G. Zurich
29. Habib Bank Limited
30. Imperial Bank Limited
31. Industrial Development bank Limited
32. Investments & Mortgages Bank Limited
33. Kenya Commercial Bank Limited
34. Middle East Bank of Kenya Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Paramount Universal Bank Limited
38. Prime Bank Limited
39. Southern Credit Banking Corporation Limited
40. Stanbic Bank Kenya Limited
41. Standard chartered Bank Kenya Limited
42. The Delphis Bank Limited
43. Trans-National Bank Limited
44. Victoria Commercial Bank Limited.

APPENDIX 4: FACTOR ANALYSIS PRINT OUTS

Appendix 4 (i)

Communalities

	Initial	Extraction
How important is existing competition in formulating your strategies	1.000	.643
How important is new competitors in formulating your strategies	1.000	.456
How important are suppliers in formulating your strategies	1.000	.604
How important is increased customer sophistication in formulating your strategies	1.000	.587
How important is substitute products in formulating your strategies	1.000	.712
How important is government policy in formulating your strategies	1.000	.402
How important is infrastructure in formulating your strategies	1.000	.574
How important is political connections in formulating your strategies	1.000	.647

Extraction Method: Principal Component Analysis.

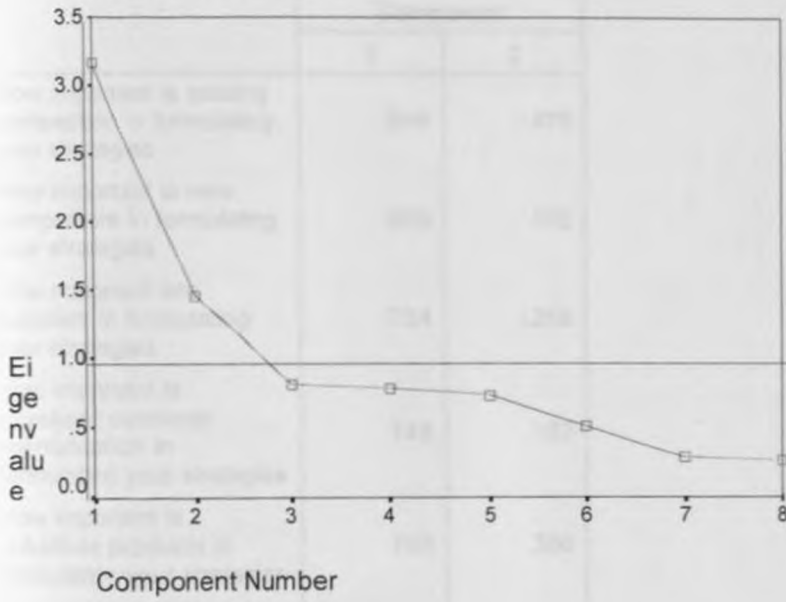
Total Variance Explained

Component		Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1		3.167	39.590	39.590	3.167	39.590	39.590	2.513	31.409	31.409
2		1.459	18.242	57.832	1.459	18.242	57.832	2.114	26.423	57.832
3		.812	10.154	67.986						
4		.780	9.752	77.738						
5		.732	9.154	86.892						
6		.511	6.388	93.280						
7		.280	3.506	96.786						
8		.257	3.214	100.000						

Extraction Method: Principal Component Analysis.

Appendix 4 (ii)

Scree Plot



APPENDIX 4 (iii)

Component Matrix¹

	Component	
	1	2
How important is existing competition in formulating your strategies	.644	-.478
How important is new competitors in formulating your strategies	.658	.150
How important are suppliers in formulating your strategies	.734	-.255
How important is increased customer sophistication in formulating your strategies	.745	.182
How important is substitute products in formulating your strategies	.765	.356
How important is government policy in formulating your strategies	.423	.472
How important is infrastructure in formulating your strategies	.678	-.338
How important is political connections in formulating your strategies	2.257E-02	.804

Extraction Method: Principal Component Analysis.

1. 2 components extracted.

Appendix 4 (iv)

Rotated Component Matrix 1

	Component	
	1	2
How important is existing competition in formulating your strategies	.802	2.338E-02
How important is new competitors in formulating your strategies	.424	.525
How important are suppliers in formulating your strategies	.734	.255
How important is increased customer sophistication in formulating your strategies	.472	.604
How important is substitute products in formulating your strategies	.381	.753
How important is government policy in formulating your strategies	4.046E-02	.633
How important is infrastructure in formulating your strategies	.742	.154
How important is political connections in formulating your strategies	-.480	.646

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.

1. Rotation converged in 3 iterations.

Component Transformation Matrix

		1	2
Component	1	.785	.619
	2	-.619	.785

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.

REFERENCES

- Andrew, K.R. (1971) The Concept of Corporate Strategy Irwin, Homewood, U.S.A.
- Ansoff, I. & McDonnell E. (1990) Implanting Strategic Management. 2nd Edition, Prentice Hall, London, Great Britain
- Ansoff, H.I. (1965) Corporate Strategy: An analytic Approach to Business Policy for Growth and Expansion. McGraw Hill Company.
- Apgar, M. (1998) Alternative Work Place. Harvard Business Review (May-June).
- Aosa, E.. (1992) 'An Emperical Investigation of Aspects of Strategy Formulation and Implementation within Large Private Manufacturing Companies in Kenya,' Unpublished PhD Thesis, University of Strathclyde. UK
- Belasco, J. A. (1990) 'Teaching the Elephant to Dance....Today;' The Manager_Guide to Empowering Change; Crown Publishers Inc. New York, U.S.A.
- Bett, K.A.K. (1992) Financial Performance of the Banking Sector: The Case of Kenyan Banks and Financial Institutions (1986-1994) unpublished MBA Project University of Nairobi.
- Brookes, I & Reast, J (1996) Redesigning The Value Chain at Scania Trucks. Long Range Planning Vol. 29 No. 4.
- Burnes, B. (1996 and 2000) Managing Change: A Strategic Approach to organisational Dynamics 2nd and 3rd Editions, Financial Times Pitman Publishing, UK.
- Champy, J & Hammer, M. (1998) Re engineering The Corporation Haper Collins Publishers, U.S.A.
- Cole, G. A. (1994) Strategic Management: Theory and Practice. DP Publications Ltd. Aldine Place, London. UK.
- Cooper, D. R. & Emory, W. C. (1995) 'Business Research Methods' – McGraw – Hill Company, Chicago, U.S.A.
- Eisenhardt, K.M & Donald, N.S. (2001) Strategy as Simple Rules Harvard Business Review, January

- Gluck, F. Kaufman , W. & Walleck, G. (1980) Strategic Management for Competitive Advantage. Harvard Business Review July-August,
- Government of Kenya (1991) Policy Paper on Parastatal Reform & Privatization Programme Ministry of Finance, Nairobi, Kenya.
- Government of Kenya (1992) Informal Sector Jua Kali Sessional Paper No.2 Government Printers, Nairobi, Kenya.
- Government of Kenya (1986) Economic Management for Renewed Growth Sessional Paper No.1 Government Printers, Nairobi, Kenya.
- Hamel & Prehalad C. K. (1990); 'Strategic Intent;' Harvard Business Review, USA, May-June.
- Hax, A.C.. & Majluf, N.S. (1996) The Strategy Concept and Process. A Pragmatic Approach, 2nd Edition. Prentice Hall, Upper Saddle River, New Jersey
- Johnson, G. & Scholes, K. (1999) Exploring Corporate Strategy, 5th Edition, Prentice-Hall, U.K.
- Kenya Institute of Management (1993) Impact of Economic Reforms and Privitisation on Corporate Management in Kenya. A report on the proceedings of 'The CHIEF EXECUTIVES FORUM' held at Mt. Kenya Safari Club, Nanyuki, 26th-27th August.
- Keen, P.G.W. (1991) Shaping the Future Business Design Through Information Technology Harvard Business School Press Cambridge, USA
- Kanter, M.R. (1999) From Spare Change to Real Change Harvard Business Review, May-June. U.S.A.
- Kanter, M.R. (1997) On the Frontiers of Management Harvard Business Review.
- Mintzberg, N.H. (1985) Covert Leadership: Notes on Managing Professionals Harvard Business Review. Nov-Dec.
- Mintzberg, H. & Quinn, J. B. (1991) 'The Strategy Process – Concepts, Contexts & Cases'
- Ndegwa, R.M. (1996) 'Analysis of Customer Service Offered by Kenya's Commercial Banks'. Unpublished MBA project, University of Nairobi.

- Nellis, J.K. (1986) Public Enterprises in Sub-Saharan Africa World Bank, Washington D.C
- Ondondi, K.O. (1998) An Analysis of Financial & Operating Performance of the Newly Privatized Enterprises In Kenya Unpublished MBA Project, University of Nairobi
- Pearce, J. A. & Robinson, R. B. (1997) Strategic Management: Formulation, Implementation and Control. Irwing McGraw-Hill.
- Pettigrew, A & Whipp, R (1993) Understanding The Environment 2nd Edition Paul Chapman Publishing. London
- Porter, M.E. (1980) Competitive Strategy. The Free Press.
- Porter, M. E. (1985) Competitive Advantage. The Free Press.
- Porter, M. E. (1996) What is Strategy. Harvard Business Review Volume 6 Page 61-78
- Porter, M. E. (1987) The state of strategic thinking. The Economist, May 23, page 21-28.
- Quinn, J.B. (1980) Managing Strategic Change Sloan Management Review
- Shimba, E. L. (1993) Aspects of Strategic Planning in Kenya's Financial Sector. Unpublished MBA Project, University of Nairobi.
- Shipper, F. & White , C. (1988); 'Linking Organisational Effectiveness and Environmental change;' The Free Press, USA.
- Strebel, P. (1996); 'Why do Employees Resist Change;' Havard Business Review; May-June.
- The Business Finance Journal (Nov.97), Unga Ltd.
- Thompson, & John, L. (1997) Strategic Management. Awareness and Change 3rd Edition. International Thomson Press UK.
- Tichy, Noel (1993) 'Control your Destiny or someone else will' General Electric. Fortune. December, New York, U.S.A.
- Wagacha, M. (1990) The Kenyan Economic Outlook for the Year 2000 & Beyond Institute of Policy Analysis
- Welch, J. (1988) Not Power, But Empower. Addison Wessley, U.S.A.