

STRATEGIC RESPONSES TO COMPETITION BY  
KENYA COMMERCIAL BANK LIMITED IN  
KENYA

BY

JOAN NALOBO DIFFU

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS OF DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI.

SEPTEMBER, 2010

## DECLARATION

This research project is my original work and has not been submitted for award of a degree at University of Nairobi or any other university.

SIGNED  .....

NAME: JOAN DIFFU

REG NO. D61/70676/2008

This research project has been submitted for examination with my approval as University Supervisor.

SIGNED  .....

DATE. .... Jtt/2MZ >

DR WAHOME GAKURU

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

## DEDICATION

This study is dedicated to my loving father Nicodemus Were Diffu, who was my mentor in every step of life. Thank You for being a wonderful Dad.

## **ACKNOWLEDGEMENT**

I sincerely express my gratitude to all those who contributed directly or indirectly, in whatever level towards the successful completion of this project. I offer ultimate thanks to God for answering my prayer for the completion of MBA study.

First and foremost, I would like to thank Dr.Wahome Gakuru, my supervisor for his invaluable assistance throughout the entire period of writing this research paper. Thank you for being patient and making time for guidance.

Secondly, to my family especially my parents Nicodemus Were Diffu and Veronica Nafula Diffu for making me understand the value of education at early age, also for their emotional and financial support.

Thirdly to my employer Kenya Commercial Bank for the support accorded. Truly you are an employer of choice to many.

## **ABSTRACT**

This research project was a case study of Kenya Commercial Bank, strategic responses to competition in Kenya. The objective of the study was to establish the strategic responses to competition adopted by Kenya Commercial Bank. This included technology, cost leadership, differentiation, quality customer service, restructuring, alliance and joint ventures among others.

In effort to meet this objective, pertinent primary data was obtained from personal interview with the respondents who are the Directors of Strategic Planning, Operation, Finance, IT and Risk and Compliance. Secondary data collected from its magazines and journals. Data was analyzed qualitatively using content analysis. Following these finding, it was recommended that other commercial banks or any other organizations should have specific strategic responses to competition in order to remain significant in market.

## ABBREVIATIONS

AUTOMATED TELLER MACHINE.....ATM

CENTRAL BANK OF KENYA.....CBK

EAST AFRICA PORTLAND CEMENT COMPANY.....EAPCC

KENYA COMMERCIAL BANK.....KCB

NATIONAL HOUSING CORPORATION.....NHC

SAVING AND LOAN.....S&L

INFORMATION TECHNOLOGY.....IT

## TABLE OF CONTENTS

DECLARATION.....	i
DEDICATION.....	ii
ACKNOWLEDGEMENT.....	iii
ABSTRACT.....	iv
ABBREVIATIONS.....	v
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of Study.....	1
1.1.2 Strategic Response to Competition.....	2
1.1.3 Banking Industry in Kenya.....	6
1.1.4 Kenya Commercial Bank.....	8
1.2 Statement of Problem.....	9
1.3 Objective of the Study.....	10
1.4 Significance of the Study.....	10
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Competition in banking industry.....	11
2.3 Strategy and Strategy Response.....	13
2.4 Importance of Strategy Response to Banks.....	15
2.5 Technology in Banking Industry.....	16
2.6 Cost Leadership Strategy.....	17
2.7 Differentiation Strategy.....	20
2.8 Quality Customer Service.....	21
2.9 Alliance and Joint Ventures strategy.....	20
2.9 Restructuring Strategy.....	23
CHAPTER THREE: RESEARCH METHODOLOGY.....	24
3.1 Introduction.....	24
3.2 Research Design.....	24

3.3 Data Collection.....	24
3.4 Data Analysis.....	25
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.....	26
4.1 Introduction.....	26
4.2 Environmental Influence on Business.....	26
4.3 Awareness of Strategic Responses to Competition.....	31
4.4 Strategic responses to competition adopted by the bank.....	33
4.4 .1 Technological use in the Bank.....	30
4.4. 2 Offering Quality Customer Service.....	32
4.4. 3 Cost leadership and Differentiation Strategies use in the bank.....	33
4.4. 4 Restructuring, Alliance and Joint ventures.....	34
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	41
5.1 Introduction.....	41
5.2 Summary of finding.....	41
5.2.1 Strategic responses by KCB to its changing competitive environment.....	41
5.3 Recommendations.....	42
5.4 Limitation of study	
REFERENCES.....	43



## TABLE OF CONTENTS

DECLARATION.....	i
DEDICATION.....	ii
ACKNOWLEDGEMENT.....	iii
ABSTRACT.....	iv
ABBREVIATIONS.....	v
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of Study.....	1
1.1.2 Strategic Response to Competition.....	2
1.1.3 Banking Industry in Kenya.....	6
1.1.4 Kenya Commercial Bank.....	7
1.2 Statement of Problem.....	8
1.3 Objective of the Study.....	9
1.4 Significance of the Study.....	10
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Competition in banking industry.....	11
2.3 Strategy and Strategy Response.....	13
2.4 Importance of Strategy Response to Banks.....	15
2.5 Technology in Banking Industry.....	16
2.6 Cost Leadership Strategy.....	17
2.7 Differentiation Strategy.....*	18
2.8 Quality Customer Service.....	19
2.9 Alliance and Joint Ventures strategy.....	20
2.9 Restructuring Strategy.....	23
CHAPTER THREE: RESEARCH METHODOLOGY.....	24
3.1 Introduction.....*	24
3.2 Research Design.....	24

3.3 Data Collection.....	24
3.4 Data Analysis.....	25
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.....	26
4.1 Introduction.....	26
4.2 Environmental Influence on Business.....	26
4.3 Awareness of Strategic Responses to Competition.....	28
4.4 Strategic responses to competition adopted by the bank.....	29
4.4 .1 Technological use in the Bank.....	30
4.4. 2 Offering Quality Customer Service.....	32
4.4. 3 Cost leadership and Differentiation Strategies use in the bank.....	33
4.4. 4 Restructuring, Alliance and Joint ventures.....	34
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	37
5.1 Introduction.....	37
5.2 Summary of finding.....	37
5.2.1 Strategic responses by KCB to its changing competitive environment.....	37
5.3 Recommendations.....	38
5.4 Limitation of study.....	38
REFERENCES.....	40

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of Study

The choice of organizational structure can be seen as the outcome of organizational responses to pressures coming from a firm's external environment as well as its internal organizational practices and routines, increase in the intensity and diversity of competition (Arnold and Nicolas, 1991). The dynamism of the environment implies that organizations have to constantly re-design their strategies in order to remain competitive. Pearce and Robison (1997), state that in order for organization to achieve their goals and objectives, it's necessary for them to adjust to their environment. According to Ansoff and McDonnell (1990), failure to effectively adapt the organization to its environment leads to a strategic problem.

Grundy (1995), states that responsiveness and flexibility are increasingly important factors that determine the success of an organization. Strategic responses are concerned with decisions and actions meant to mitigate against business environmental turbulence, with a view of achieving business objectives and purposes (Chander, 1962). Commercial banks worldwide are facing a fast pace dynamic environment where competitiveness and efficiency hold the key to survival. Changing customers' demand, rapid innovation, introduction of new financial instrument, growth in technology, have significantly changed the way commercial banks operate their business (Devlin and Ennew, 1997).

Increased competition threatens the attractiveness of banking industry and reduces profitability of players in the sector. This initiates commercial banks to be proactive and

to formulate successful strategies that facilitates proactive response to anticipated and actual changes in the competitive environment (Bauer and Colgan, 2001). The competitive situation in the industry has a decisive effect on banks earning and consequently has a bearing on financial stability. Local and multinational banks are currently undergoing extensive restructuring and consolidation. Competition has intensified, the industry is being internationalized, and securities markets and institutional investors are becoming steadily more important (Galliers and Leidner 2006).

The business environment within which commercial banks in Kenya operate has been turbulent. They face competition from local and international banks. Managers must decide how best to respond to competition. The dynamism of banking environment in the current time is posing many challenges to banks. Kenya Commercial bank has come up with ways to face competition. Coping with increasingly competitive environment has called on business firm to rethink their strategies (Pearce and Robinson, 2005). The days when firms could simply wait for customers to beat path to their door are long gone. Organization now realize that sendee and product, regardless of how good they are, simply do not sell themselves (Kotler, 2000).

### **1.1.2 Strategic Response to Competition**

A company has competitive advantage whenever it has edge over its rivals in securing customers and defending against competitive force (Thompson and Strickland, 2002). Grundy (2002) defines Strategy as a coherent, unifying and integrative pattern of decisions that determines and reveals the organizational purpose in terms of long-term objectives, action programs, and resource allocation priorities. A firm's strategy selects

the business the organization is in or is to be in, attempts to achieve a long-term sustainable advantage in each of its business by responding properly to opportunities and threats in firm's environment and strengths and weakness of organization. Strategic response is meant to safeguard an organisation from the impact of both present and foreseeable future environment drive .It is concerned with the scope of an organisation's activities (Smart and Vertisky, 1984).

In banking industry, increased competition threatens the attractiveness of industry and reduces the profitability of players in the sector. It exerts pressure on banks to be proactive and formulate successful strategies that facilitate proactive responses to anticipated and actual changes in the competitive environment. Banks therefore focus on gaining competitive advantage to enable them respond and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them lead over competitors. According to Johnson and Scholes (1997), core competences are more roust and difficult to imitate because they relate to management of linkages within organization value chain and to linkages into the supply and distribution chains.

hi today's competitive banking environment, exemplary customer sendee is one of distinguishing characteristic that banks can establish a competitive edge, since most banks offer comparable products and sendees .They continually search for a competitive advantage that attract new customer and help retain existing ones. Banks therefore endeavour to develop innovative programs and initiatives to maintain superior customer senice level while remaining profitable. The competitive banking environment has

compelled organizations to either downsize while continuously restructuring their operation in order to develop operations that are most cost effective and efficient (Rajan, 1998).

For an organization to continue to achieve their goals and overcome the operating environmental turbulence, it is imperative to constantly scan operating environment and developing strategic responses aim at overcoming any adverse effect of such turbulence. Strategic responses should always achieve strategic fit for the organization (Johnsons, Scholes and Whittington, 2006).

A change in the organization's behaviour is necessary, if success in the transformation of the future environment is to be assured. Ansoff and McDonnell (1990), note that such changes which touch on organization strategy and capability, would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis, which states that a firm's performance potential is optimum when aggressiveness of the firm's strategic behaviour matches turbulence of its environment and the responsiveness of firm's capability are supportive of one another. When any one of these time aspect is lacking, then the firm's performance potential will be less than optimum. The real time response is the specific action that is chosen and implemented in order to realign the organization aggressiveness to the environmental turbulence.

As the organization environment changes, it is necessary that a firm continuously adapt its activities and internal configuration to reflect the new external situation, Porter

(1991), explains the concept of dynamic strategic fit ,that a firm creates and sustains competitive advantage because of capacity to continuously improve , innovate ,upgrade their competitive advantage over time. Upgrading is the process of shifting advantage s throughout the value chain to more sophisticated type and employing higher levels of skills and technology. Successful strategy is consistent with organization's goals and value, external environment, resources and organizational system. This indicate the fact that the organization depends on environment for its survival and responses to the environmental, the organization's capabilities and strategy would have to be changed in order to ensure a continued strategic fit (Grant, 2000). Strategic responses are concerned with decision and action meant to mitigate against business environment turbulence, with a view to achieving business objectives and purposes (chandler, 1962).

Competition in business is about two or more parties aiming at winning the same customer. Each party will want to impress the customer most in order to gain or retain loyalty. The higher the demand the lower competition and vice versa (Blanchard and Kiyotaki, 1987).

For organization to survive in the market, they should formulate strategies that adequately respond to competition. Such strategies should place them at position of advantage in the market and give them competitive edge (Porter, 1985)

In banking industry, Young (1999) concludes that understanding market structure is key determinant to successful implementation of a differentiation or cost leadership strategy. Farrance (1993), identified distribution, technology, segmentation, pricing, product development , sendee quality and relationship banking as areas where financial

institution currently pursue differentiation strategies. However, Devlin and Ennew (1997) caution that a differentiation strategy may be difficult to implant in sendee industry because services are easily copied and fruitful option for achieving differentiation may be limited due simplicity and duplicability of financial service unless the target market is highly sophisticated and knowledgeable.

Strategy refers to matching of resources and activities of an organization to the environment in which it operates (Johnson and Scholes, 2001). According to Anoff and McDonnell (1990), it is through strategic management that a firm will be able to position and relate itself to environment to ensure its continued success and also secure itself from surprises brought about by changing environment. They further argue that this can be done firstly, by positioning of the firm through strategy and capability planning in it's rightfully competitiveness and secondly, use of real time response through *issue* management of resistance during strategic implementation. Therefore strategic management is important to a firm's success and indeed for its continual survival, thus this study focuses on KCB responses to challenges posed by competition in banking industry

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

The banking sector in Kenya comprises of Central Bank of Kenya as regulatory authority. The regulated being commercial banks, non bank financial institutions and foreign exchange bureaus. As at 31 December 2009, the banking sector comprised of 44 commercial banks, one mortgage finance company, one deposit taking micro finance institution and 130 foreign exchange bureaus. Commercial banks and mortgage finance



companies are the major players in banking industry and are licensed and regulated under Banking Act, Cap 488 and Prudential Regulation while foreign exchange bureaus are licensed and regulated under Central Bank Act, Cap 491 and foreign exchange Bureaus Guidelines. (CBK, 2010)

The banking sector was liberalised in 1995 and exchange controls were subsequently lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of financial system. The banking sector continued on its growth trajectory in 2009 notwithstanding local turbulence arising principally from the post election crisis. The sector also emerged unscathed from effects of global financial crisis as it was not exposed to the toxic assets that fuelled crisis. Despite the challenging operating environment brought about by post election violence in the first quarter of 2008 and global financial crisis, the banking sector remained stable with all institutions remaining adequately capitalised (CBK, 2010)

The Kenya banking sector aggregate balance sheet increased by 14.9 percent from Kshs. 1,193.4 billion in December 2008 to Kshs. 1,371.8 billion December 2009. In the twelve months period to December 2009, the banking sector registered 15.6 percent growth in pre tax profits, from Kshs 41.8 billion achieved in December 2008 to Kshs. 48.3 billion in December 2009. Total income increased by 13.9 percent from 148.9 billion in December 2008 to Kshs. 169.6 billion in December 2009. Total expenses increased by 13.2 percent from Kshs 107.2 billion in December 2008 to Kshs 121.3 billion in December 2009. 10 out of 45 licensed financial institutions are listed at the Nairobi stock exchange. These include Barclays Bank, CFC Stanbic, Co-operative Bank, Diamond

Trust Bank, Equity Bank, Housing Finance, Kenya Commercial Bank, National Bank, NIC Bank and Standard Chartered Bank. Of these financial institutions, only, Kenya Commercial Bank is cross listed in stock exchanges within East Africa and Equity Bank is cross listed in the Uganda stock exchange (CBK, 2010).

Recent developments in the Kenya banking industry are as follows; first, increase in minimum core capital from 250 million to Ksh. 1 billion by end of 2012, this will enable banks to effectively and competitively serve their market niches. Second, Publication of Credit reference bureau regulation in July 2008 which assist in making credit accessible to more people and enabling lenders and business reduce risk and fraud. Third, increase in investment in Information and Communication Technology (ICT), this influences the unit cost of banking services and diversity of product and service that a bank can offer to its customers. Fourth, growth in micro in micro finance and CBK has enforced legislative provisions that require the approval of bank charges (CBK, 2010).

#### **1.1.4 Kenya Commercial Bank**

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombassa. Eight years later in 1904, the Bank extended its operation to Nairobi, which had become the headquarters of expanding railways line to Uganda. Grindlays Bank merged with National Bank of India to form National and Grindlays Bank. In 1970, the Government acquired 100 percent of shareholding in the bank to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank. In 1972, Kenya Commercial Bank acquired Savings and Loan limited that specialised in the provision of mortgage finance. Kenya Commercial Bank incorporated KCB (Tanzania) Limited in 1997, KCB Sudan

Limited in 2006, KCB Bank Uganda Limited in 2007 and KCB Rwanda SA in 2008 ([www.kcbbankgroup.co.ke](http://www.kcbbankgroup.co.ke)).

The government of Kenya has progressively over years reduced its shareholding to 80 percent in 1988, 70 percent in 1990, 60 percent in 1996, 35 percent in 1998 and to 26.2 percent following the rights issue of 2004 where rights were renounced. In the rights issue of 2008, the Government sold their rights which further reduced its shareholding to 23.61 percent but continues to remain the single major shareholder of Bank. The KCB Branch network is as; KCB Kenya has 162 branches, KCB Uganda has 12 branches, KCB Tanzania has 10 branches, KCB Sudan has 8 branches, KCB Rwanda SA has 9 branches, the total number of branches is 210. ([www.kcbbankgroup.co.ke](http://www.kcbbankgroup.co.ke))

## **1.2 Statement of Problem**

Competition and rapid evolution of innovation have lead commercial banks to adopt strategies that suit their capabilities, in order to maintain its market share and acquire new market share, leading to increase in profits of the business. The stiff competition is due to existence banks selling same products or service. Businesses have as result come up with ways to cope with competition, by adopting strategic responses to it or risk through out of the market by same competition. In recent times, operating business environment, the world all over has become very dynamic. Competition has consequently place organization in a state of alertness in order to survive this dynamic environment. Organizations need strategies to focus on their customers and deal with emerging environmental challenges. It is therefore important for organization to respond appropriately to competitive environment to remain viable.

Though these challenges pose a major problem to individual banking firms, scanty research has been done on industry which further exacerbate the problem for individual firms do not know the way forward for lack of academic justification of strategic response to competition they should adopt. There is need to formulate a study on banking sector in Kenya specifically to understand the strategic responses that banks in Kenya have adopted to curb increasing competition.

Previous research studies have concentrated on implementation of competitive strategies adopted by various institutions like banks. For example Warucu (2004) research on competitive strategies adopted by banking industry. Nyakang'o (2007) carried out research on competitive strategies adopted by Audit firms and found out they perform better when adopt competitive strategies. However, Odiwuor (2008), researched on strategic responses adopted by National Bank of Kenya limited and recommended further study to be carried out on strategic response adopted by its competitors. Thus the need to carry out research on strategic response adopted by Kenya Commercial Bank Limited. The research proposal seeks to fill existing gap in the area of study by answering the question: what are the strategic responses to competition by Kenya Commercial Bank?

### **1.3 Objective of the Study**

To establish strategic responses by Kenya Commercial Bank to its changing competitive environment.

#### **1.4 Significance of the Study**

The study will be of help to potential investors e.g. Commercial banks in fully understanding the strategic responses it can adopt, in order to gain competitive advantage over its competitors. The research will also help the government and regulatory institutions such as: - the Central Bank of Kenya (CBK) in understanding the strategic responses that can be adopted by commercial banks in market and the extent to which they can sustain the market segment

The study will contribute to and help in appreciation of strategic responses that can be adopted by commercial banks.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter focuses on the literature review of competition in banking industry, strategy and strategy responses, importance of strategic response, technology, cost leadership, differentiation, quality customer service, alliance and joint ventures and restructuring strategies.

### **2.2 Competition in banking industry**

Competition in business is defined as "the effort of two or more parties acting independently to secure the business of third party by offering the most favourable terms", seen as the pillar of capitalism in that it may stimulate innovation, encourage efficiency or drive down prices, competition is routed as foundation upon which capitalism is justified (Kohn A., 1985). According to micro economics theory, no system of resource allocation is more efficient than pure competition. Competition, according to theory, cause commercial firms to develop new products, services and technology. This gives consumer greater selection and better products.

The primary objective of managers of profit seeking organisation like banks is to maximize the performance of the firm over time (Rappaport, 1981). Bowman and Helfat (2001) found that corporate strategy is an essential management tool and is important to firm performance. Porter (1980, 1985) argues that superior performance can be achieved in competitive industry through the pursuit of a generic strategy which he defines as the development of an overall cost leadership, differentiation or focus approach to industry competition which is among the strategic responses that a firm can adopt. If a firm does

not pursue one strategy types, it will be struck in the middle and will experience lower performance when compared to firms that pursue a generic strategy.

Day and Wensley (1988), argue that competitive methods consist of skills and resources that are available for use by firms in competitive industry. They define superior skills in terms of staff capability, systems or marketing savvy not possessed by competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation, example include operating scales, location, comprehensiveness of distribution system, brand equity or processing asset. They conclude that establishing a generic strategy based positional advance in market place will provide a firm with superior performance. Bharadwaj et al., (1993), suggest a competitive advantage can be developed from particular resource and capabilities that firm possess that are not available to competitors. The transformation of available skills and resources into strategic position can only take place under condition that provide a customer benefit and normally requires transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation or focus strategy is dependent on a firm ability to develop a specific set of competitive methods. This becomes the basis for achievement of above average industry performance.

Firms can follow both cost leadership and differentiation strategies simultaneously (Murray, 1988; Hill, 1988; cronshaw et al, 1994). However the issue remain unresolved indeed, Miller (1999) argues that the pursuit of pure strategy as compared to a hybrid strategy where firms place similar emphasis on both differentiation and cost leadership competitive methods simultaneously.. Miller,(1992) states "pure cost leadership is more effective when customer are sensitive to price and where there is a fighting chance to

maintain a cost advantage becomes of economies of scale, proprietary technology or unique access to cheap material or channel of distribution". Because banking customer are sensitive to both loan and deposit rates, banks following a cost leadership strategy may realize performance advantage over competitor that pursue another generic strategy type or those that are struck-in -middle.

Porter (1980) indicates that firm cannot focus solely on cost leadership or differentiation strategy exclusion of other strategies. He contends that cost leaders devote some resources to differentiation activity and those that cannot pursue a differentiation strategy cannot do so to detriment of their cost structure. According to Wagner and Digman (1997), Prior research has identified hybrid strategies which are those with simultaneous emphasis on both cost and differentiation competitive methods.

### **2.3 Strategy and Strategy Response**

Mintzberg et al. (1998) offers five answers to the question, what does strategy really mean; A plan, direction or course of action for future; The course of action an organization has followed over the past; Strategy can also be positioning of product in a market, the product meets the customer needs; Strategic is a perspective in terms of the way an organization does business, the vision of the organization; Strategy is ploy, a specific tactic in response to competition. According to Barney (1997), strategy is a patten of resource allocation that enables firm to maintain or improve performance. A good strategy neutralizes threats, exploits opportunities, capitalizes on strength and fixes weakness.



Strategic responses are concerned with reacting to threats posed to the long term direction of an organization by changes in operating environment. Ansoff (1980) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. According to Ansoff and McDonnell (1990), strategic responses involve change in the firm's strategic behaviour to assure success in transforming future environment. Pearce and Robinson (1997), define strategic responses as the set of decisions and actions that result in formulation and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in economic environment of organizations.

Strategic responses is about restructuring by adopting new strategies that match the challenges from environment. Thompson (1999) defines strategy adaptation as changes that take place over time to strategies and objectives of an organization. Such change can be gradual, even revolutionary. Ansoff and McDonnell (1990), note the strategic responses involves changes to the organization's strategic behaviour, such responses may take many forms depending on organization's capability and environment in which it operates. According to Ansoff and McDonnell (1990), the management system adapted, determines the way an organization perceives the environment, diagnoses its impact on the firm and consequently implement the decisions. The strength of a firm's strategic responses capabilities is determined by flexibility in the market, production and competition. Market flexibility deals with an organization's ability to have a high market. Production flexibility arises from a firm spreading its value creation activities in those markets where it has a major market share, while competitive flexibility of organization arises from ability to co-ordinate its competitive moves. These strategic responses include restructuring, information technology, marketing (Smart and Vertisky, 1989).

The ability of a firm to command a competitive advantage depends on practicability of their strategic responses (Barney, 1997). The business environment in the country has drastically changed resulting in some banks opening a number of branches across boarder and thus increasing competition in industry globally. Banks have end up "hawking" their sendees to potential clients and this has lead to downward price due to competition (Galliers and Leidner, 2006). Strategic management in banking industry demand that companies should have effective system in place to counter unpredictable events that can sustain their operation and risk involved (Hambrick. 1983).

#### **2.4 Importance of Strategy Response to Banks**

The demand and needs of environment are constantly evolving and management is about adjusting the company according to the needs and demands of environment which more than often is characterized by intense competition of all sorts (Porter, 1980). Hence strategic response to changes in business environment is important as follows;The most direct result of the above change is increasing competition and narrowing of spread arid its impact on profitability of banks. The challenge for bank is how to manage with thinning margins while at same time working to improve productivity which remains low in relation to global standards. This is particularly important because with dilution in bank's equity, analysts and shareholders now closely track performance (Bush and Sinclair, 1992).The pressure to undertake extensive computerization is very real as banks that adopt the latest in technology have an edge over other. Customers have become very demanding and banks have to deliver customized products through multiple channels allowing customer access to bank around the clock (Day and Wensley, 1988).

The deregulated environment brings in its wake risks along with profitable opportunities and technology play a crucial role in managing the risks. In addition to being exposed to credit risk, market risk and operational risks (Day and Wenslev, 1988). Banks are upgrading their credit assessment, risk management skills and retraining staff developing a cadre of specialists. Banks have to strive to attract and retain customer by introducing innovative products, enhancing the quality of customer service and marketing a variety of products through diverse channel targeted at specific customer group (Hoffman, Lamont and Marling, 1993).

## 2.5 Technology in **Banking** Industry

Technology is fundamentally realigning business relationship between bank and their customers. Competitive contention in the payment innovation moves from single delivery towards integrated delivery channel. This is because customers no longer express the preference to a single channel. As banks face new challenge in electronic payment. They need to leverage their Information technology strategy to be aligned with business strategy. Banks with extensive branch network tend to capture more customers than those with fewer branches. Currently the internet and World Wide Web have impacts on the way banks are doing business. Banks are moving towards integrated delivery channels and adoption of click strategy (Hensmans et al., 2001). Information technology investments that lead to high levels of long-tenn performance have a competitive impact. Narayanan (2001) proposes the objectives of information technology strategy as; to maintain technological capabilities in the existing business by continuously improving current processes and products, to expand markets in existing business through product

and process innovation, to secure distinctive technological capabilities from external environment.

Banks face competitive pressure which forced them to migrate their branch network system towards the development of integrated sendee channel (Vishal, 1997). This is because the competitive alternative in the banks payment transmission system example internet, mobile mean that banks cannot use network for clearing and settlement to achieve competitive advantage. Technological development particularly in the area of telecommunication and information technology is revolutionizing the way business is done. Electronic commerce is the activity in which consumers get information and purchase products using internet technology.

The electronic revolution in banking centers on changes in distribution channels of financial institutions. The presence of computer and information technologies in today's bank has expanded dramatically, some estimate indicate that since 1980, about 50 percent of all new capital investment in organization has been in information Technology ( Clark and Westland 2000).Yet for technologies to improve productivity they must be accepted and use by employees in those organization.

Computerization in Kenyan banking industry got off to slow start and has only picked up momentum in 2000's. The banking sector has embraced changes occurring in information technology with most banks having already achieved branchless banking as a result of adoption of communication options. According to Central Bank annual Supervision report (2003), the increased utilization of modern information and

communication technology for example led to several banks acquiring ATMs as part of branchless development strategy measures. This has enhanced efficiency and improved customer service. This is reflected particularly in increase use of ATM cards and wider network of merchant that accept payment through credit and debit cards. Several banks have also entered into internet banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected.

## **2.6 Cost Leadership Strategy**

This strategy focuses on gaining competitive advantage by lowering cost in the industry (Porter, 1996; Bauer and Colgan, 2001). According to Dess and Davis (1984), the primary thing for a firm seeking competitively way of reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new potential cost reduction. Cost leadership is valuable if buyers do not value differentiation very much, buyers are price sensitive, competitors will immediately match lower prices and it is sustainable if there are no changes in consumer tastes, technology and exogenous prices.

In order to achieve a low-cost advantage, commercial banks must have a low-cost leadership strategy, low-cost servicing and a workforce committed to low-cost strategy. The banks must be willing to discontinue any activities in which they do not have cost advantage and should consider outsourcing activities to other organisation with a cost advantage. For effective cost leadership strategy, commercial banks must have a large market share (Hyatt, 2001). Lower costs and cost advantage result from process innovation, learning curve benefits and\* economies of scale, product design reducing manufacturing time and costs and reengineering activities. Cost leadership is effectively

implemented when business designs, produces and markets a comparable product more efficiently than its competitors.

According to Bauer and Colgan (2001), lower prices lead to higher demand and, therefore, to a large market. Commercial banks do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share. Commercial banks can present barriers against new markets entrants who need large amounts of capital to enter the market (Hyatt, 2001)

## **2.7 Differentiation Strategy**

Another of porter's generic strategies is differentiation; company using this strategy focuses its effort on providing a unique sendee or product and thus provides high customer loyalty (Reilly, 2002). Commercial banks following a differentiation strategy can charge a higher price for their products based on product characteristics, delivery system, quality of sendee or distribution channel. McCracken (2002), suggests that some key concepts for establishing differentiation strategies in commercial banks include speaking about product to select panel, writing on key topics affecting the company in association's magazine or newsletter, becoming involved in community, being innovative when composing company's portfolio, offering something the competitor does not, training employees with in-depth product and sendee knowledge, using photos and rendering brochures. According to Hyatt (2001), differentiation allows organization to charge a premium price to capture market share. When using differentiation, firms must be prepared to add premium to the cost. This is not to suggest costs and prices are not considered; only it is not main focus. However, since customers perceive a differentiated

sendee or product as being unique, they are loyal to the company and willing to pay the higher price for its products.

## **2.8 Quality Customer Service**

In today's competitive banking industry characterized by existence of many services and product with different branding which have similar characteristics, development and maintenance of product differentiation become increasingly difficult, to reduce for banks. Consequently, non price competition particularly by offering high quality customer service is becoming increasingly important as a marketing instrument by financial institution towards distributors. Quality customer service is the comparison made between their expectation about a service and their perception of the way the service has been performed (Parasuraman et al., 1994). Companies have become increasingly conscious of the need to improve the quality of their service provision as result of increasingly customer expectation, growing competition and government legislation.

There can be little doubt that quality is now days among the most critical aspects for the strategic management of service firms. Customer satisfaction and loyalty is secured through high quality products and service providing value for money for consumer are essential for long term success (Zeithaml et al., 1990). Good customer care and strategies involve choosing strategically to serve only a specific type of customer or serving all types of customers. Most banks are in the finance industry and not in the service industry. Thus, they tend to compete in terms of financial prowess rather than service quality. People, resources, time and system are devoted more to managing assets and cash rather than managing customer service.

Banks usually give customer service and satisfaction very low priority and accordingly assign it to lower levels. Few or none of bank's elaborate system and structure is designed to monitor and maintain customer loyalty. Dick, Astrid A. (2002). Banks differ in terms of expertise and customer care offered at the branch, the size of branch personnel, financial advice, as well as brand investment and overall sendee quality. Endogenous sunk cost, indeed are expected to be a significant component of total banking cost, Williams, C.A (1997). As customer relationship evolves, many financial institutions are unsure how best adapt their approach, eventually finding themselves outdistanced by competitors. To attract new customers and strengthen existing relationship, leading banks are introducing innovation across the board in sendee delivery, technology, customer retention program and operational efficiency gains.

## **2.9 Alliance and Joint Ventures strategy**

Establishing strategic alliances seem to be a critical strategy in broad range of industries and during the past quarter century alliances have been a very important organization form in face competition and entering new market (Dyer and Singh, 2002). Strategic alliance between bank firms also referred to as hybrid organization have moved from peripheral tool of applied business management, mostly focused on joint venture between local and foreign firms to a center piece of corporate strategy and competitive advantage (Bamford et al.,2003).The increasing attention of strategic alliance between firms has also challenged the single firm as traditional unit of analysis in economics and strategy(Wright and Lockett,2003).



One of the most important trends in industrial organization has been the growth of collaboration between independent companies. It is common to see alliances account for 20-30 percent of corporate value when measured in terms of revenue, assets, income or market capitalization.

There are four potential benefits that international business may realize from strategic alliances (Soares, 2007). These benefits are outlined as below;

The cost of entering an international market may be beyond the capabilities of a single firm but entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost low. Choosing a strategic partnership as an entry mode may overcome hostile government and regulation obstacles. Forming a strategic alliance is one way to reduce or control a firm's risks. It is a common rationale for undertaking a cooperative arrangement when a market has just been opened or where there is much uncertainty & instability. Forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The expertise and knowledge can range from learning to deal with government, regulators, production knowledge or learning how to acquire resources.

Forming a strategic alliance helps to decrease the risk of market entry, international market expansion, research & development. Competition becomes more effective when partners leverage off each other's strengths, bringing synergy into the process that can be hard if attempting to enter a new market alone. According to Gulati and Singh (1998),

the basic form of alliances can be classified into three broad alliances types namely; joint ventures, minority equity alliance and non-equity or contractual alliances

Joint venture involves the creation of new legally independent firm owned by least two alliance partners. A joint venture could be created through new plant, new employees or divisional merger (Miles et al., 1998). Minority equity alliances are formed when one or more partner take equity position in others, allowing partners to share equity cost. Non-equity or contractual alliances include co-marketing, research and development contracts, strategic distribution, licensing & franchising. Gulati and Singh (1998), states that a typical strategic alliance formation process involves four major stages as follows; the first stage is strategy development; this involves studying the alliance's feasibility objectives and rationales focusing on major issues, challenges and development of resource strategies for people, technology and production. It requires aligning alliance objective with overall corporate strategy. Partner assessment is the second stage, this involves analyzing a potential partner 's strength and weakness, creating strategies for accommodating all partners management styles, understanding a partner motives for joining the alliance and addressing resource capability gaps that may exist for a partner. The third stage is Contract Negotiation, this involves determining whether all parties have realistic objectives, forming negotiation teams, defining each partner's contribution and rewards as well as protects any proprietary information, addressing termination clause, penalties for poor performance. Alliance operations is the fourth stage, this involves addressing senior management commitment, linking of budgets and resources with strategic priorities, measuring rewarding alliance performance, assessing performance and results

of the alliance. Finally the companies may have alliance termination stage, Involves winding down of the alliance for instance when its objectives have been met or cannot be met, when a partner adjusts priorities or reallocate resources elsewhere.

## **2.9 Restructuring Strategy**

McKinley and Scherer (2000) defined restructuring as any major reconfiguration of internal administrative structure that is associated with an intentional management change program. According to Gibbs (1993), are three types of corporate restructuring there transactions, namely first, financial restructuring including recapitalizations, stock repurchases, and changes in capital structure; second, portfolio restructuring involving divestment and acquisitions and refocusing on core businesses, resulting in change of the diversity of business in the corporate portfolio; and finally, operational restructuring including retrenchment, reorganization, and changes in business level strategies.

Restructuring is also referred to as downsizing, which may boost organizational efficiency and effectiveness (Matthews, 2001). According to Miller and Friesen (1997), suggests that the environment shift, technology changes, organizations grow and leadership changes are the reasons that lead to restructuring. Massimo and Delmastro (2002) deemed that the adoption of advanced manufacturing technology and new human-resource management practices favours organizational change. Heeley (2000) suggests that environmental dynamism impacts the strategies chosen by firms and moderates the relationships between organization structure, strategic posture, and firm performance. Firms in stable environment can often predict such factors as raw material suppliers, customer demand, and the amount\* of time required for particular- operations. The

unpredictability of dynamic environments, on the other hand, can negate any benefit that would be derived through the adoption of mechanistic structure (Moers, 2000).

Restructuring is associated with strong market competition and is partially explained by free cash flow. Free cash flow is a function of investment opportunity, operating cash flow, diversification, financial leverage, and corporate governance. For a given value of a free cash flow variable the likelihood of restructuring increases (Gibbs, 1993).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the methods that were used to collect and analyze data in order to accomplish the study objective.

### **3.2 Research Design**

The study was a case study. It allows a detailed examination of company, social unit, institution and upholds a deeper understanding of study (Kothari, 1990). A case study is an in depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors and relationships among factors that have resulted in the behaviour under study. Since this study sought to identify the strategic responses to competition by Kenya Commercial Bank, a case study design was deemed the best design to fulfill the objective of the study.

### **3.3 Data Collection**

Data collection was from both primary and secondary source. Primary data was collected using interview guide attached as appendix 1 and 2. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda 2003). It made it possible to obtain data required to meet specific objectives of the study. Given that those who were interviewed were not so many, the researcher required getting in depth information on strategic responses adopted by KCB, interviews were regarded as the best method and the interview guide gave a clear guidance on what questions to ask. Interview guide was used in conducting face to face interview; this will enable respondents to freely give more information. Company magazines and journals were also used in

collecting data. The respondents were Divisional directors for strategic planning, operation, Finance, Risk and compliance and IT

### **3.4 Data Analysis**

Primary data was analyzed qualitatively, where information collected was subjected to content analysis. Qualitative data analysis seeks to make general statement on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of objects or material of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the object of study. . This involved evaluating and analyzing data for consistency, usefulness, credibility and adequacy. The themes (variables) that were used in the analysis were broadly classified into two. Strategic responses and competition in banking industry.

## **CHAPTER FOUR: DATA ANALYSIS AND FINDINGS**

### **4.1 Introduction**

A case study design was used to establish the strategic response to competition by Kenya Commercial Bank. Six respondents were interviewed, they included Divisional directors for strategic planning, operations, Finance, Risk and compliance and IT. The main strategic responses to competition include amongst others technology, quality customer service, cost leadership, differentiation, restructuring, alliance and joint ventures. The summarized data reflect the responses from Divisional directors interviewed.

### **4.2 Environmental Influence on Business**

There have been a number of changes in business environment in Kenya within last 10 years. This has resulted to changing competitive situation and posed various challenges to KCB. The respondents identified five macro environmental changes that have occurred in business environment in Kenya which have made an impact on KCB. These changes are economic decline, liberalization, legislative change, technological advancement and increasing level of education among its citizen.

Economic decline has resulted in fewer business opportunities for KCB customers. Consequently the level of deposits declined, which resulted to the ability of customers to borrow and service loan declined. The global economy is slowly recovering from the financial crisis following massive injection of stimulus funds. Kenya economy is expected to register more robust growth rate on back of revival of tourism, increased export earnings, foreign direct investment and diaspora remittances. The East Africa common market protocol is expected to facilitate more intra-regional trade that will

eventually lead to growth in business in banking industry, this will make it more competitive for the stakeholders. The promulgation of new constitution has not only transformed the politics of the country but also management of its social, diplomatic and economic affairs. The constitution provides an excellent platform for addressing national malaise like corruption, impunity and ethnicity that have in one way or another has affected the banking industry operations.

The respondents noted that the bank can position itself, to take full advantage of the benefits of new dispensation. The government has created forty-seven counties to get a fair share of business flows at county levels. They furthermore explained that the new constitution provides that at least 15 percent of national resources will be channelled to the counties. Moreover, it is expected that implementation of vision 2030 will now be accelerated to ensure achievement of the overarching objective of a middle income country. This provides business opportunities both at county and national levels for growth which can contribute to growth of business in Kenya banking industry.

Liberalization of banking industry in Kenya, has led to an increase in number of financial institutions. Most businesses have now to be competitively won, thus making search for a competitive edge continuous. Based on responses given by the interviewees, barrier to entry into banking industry is epitomized in the high minimum capital requirement. The respondents added that liberalization was one of the reasons for increase in number of non banking financial institution such as micro finance companies and co-operatives societies. These institutions are able to offer products that are comparable to those of traditional banks.



They are therefore good substitutes to products offered by the banks. This has led to lower product costs and continued shifts in search for low-cost products. By reconfiguring low-cost products, according to the respondents, KCB has managed to counter the effects of substitute products. Technology advancement has resulted in internet banking, which is growing in popularity among young people in Kenya of age bracket 18 to 45 years. KCB has responded to the demand of its customers by investing in new state-of-the-art IT systems that are automated. Rivalry among the banks in Kenya is considered high. This, according to respondents, has caused the bank to review its strategy to start focusing on low-cost products, offering quality customer service, technology advancement, vigorous marketing and promotion. Search for competitive advantage through product development campaigns by KCB is a constant preoccupation.

#### **4.3 Awareness of Strategic Responses to Competition**

KCB has adopted strategic responses to competition. This is due to the dynamic environment in which the company operates. The dynamism in the market in which it operates is a result of changing customer demand, rapid innovation, growth in technology and introduction of new financial instruments. The stiff competition in the Kenya banking industry is a result of stakeholders selling similar products or services. The respondents explained that KCB management has placed seven strategy pillars to guide it in responding to competition, which are frequently communicated to staff via e-mails and magazines. The seven strategy pillars are customer pillar, financial pillar, people pillar, regional business pillar, risk management pillar, social relevance pillar, technology and process pillar.

The Customer pillar strategy is seen as the central pillar whose overarching objective is to create a cut-like approach to customers manifested in people, processes, products and approach to customer sendee. According to interviewees, the key deliverables will be an improved customer sendee, brand positioning and increase market share in Kenya and the subsidiaries. The financial pillar strategy is important to KCB's operating environment which is becoming increasingly competitive, exerting pressure on its financial and management resources. This has led to rising operating costs, high cost investment in technology and service delivery networks, changing regulatory environment, thinning margins, and high capital requirements in new markets. Financials Pillar focuses on highly efficient, well-funded and profitable operation in all the markets. The People Pillar strategy focus is to create a fully aligned high performing team across the KCB Group in order to drive efficiency while growing market share. The focus of the Regional Business pillar involves driving performance to achieve break even and reasonable returns on investment in all the markets, robust market entry and exist strategies and maintain Strategic Partnership with clearly defined shareholding and control thresholds.

Risk Management Pillar involves cultivating on a strong risk culture on staff which will enable business to remain sustainable. Technology and process Pillar focuses on providing easy and convenient access to banking sendees to customers and boosting brand presence across the region. Social relevance pillar focuses on targeting all the stakeholders by leveraging on core business to create sustainable partnerships.

KCB has a mission statement and vision to guide its management and staff in remaining competitive in the market. The bank strives to maintain its share and acquiring new share

market which is clearly stated in its vision and mission. The mission statement of the company is "To grow our existing business whilst building the platform to be the preferred Financial Solutions Provider in Africa with Global Reach". They stated vision of the company is "To be the preferred Financial Solutions Provider in Africa with a Global Reach"

#### **4.4 Strategic responses to competition adopted by the bank**

The respondents stated that the bank has adopted some specific strategic responses to competition to remain significant in the market. These strategic responses are its core competences in having an edge over other players in the market, because they produce almost similar products and services. The strategic responses adopted are technology, quality customer service, cost leadership, differentiation, restructuring, alliance and joint ventures.

##### **4.4 .1 Technological use in the Bank**

KCB has invested massively in information technology in last 4 years in response to competitive situation, according to the respondents. This has been used as a means of diversifying and improving the service delivery channels to its customers. KCB has a wide branch network as compared to its competitors, comprising of 210 branches across the Africa Region, with 162 branches in Kenya.

KCB recently acquired a new core banking system in its operations called T24 temenos which is user friendly, customized and fast. The use of this system has led to high profit margins because of its efficiency. The automation of business processes in branch network has lead to an increase in the number of transaction processed from 200,000 to

350,000 per day and opening over 300 accounts per day .The bank was previously under great pressure to meet operation challenges of processing large number of transaction and data storage .With, the purchase of new systems, the respondents noted customers enjoy branchless banking. The efficiency of system has resulted to KCB I.T division scooped the network innovation award from Cisco system (2009) for its system.

KCB has recently introduced mobile banking to its customers which is known as KCB connect. In 2009, 120,000 of its customers subscribed to the service with the number increasing to 350,000 in 2010. The respondents noted that majority of customers subscribing to this service were young with age ranging from 18 years to 40 years. The service enables the customers to access their service via their mobile phones by touch of the buttons. The customers can do money transfer from their accounts to KCB or account of other banks, mobile number transfer regardless of network operators, pay their bills, request for forex rates, receive notification of credit usage and account notification such cleared cheques, credits, debits and accounts overdrawn. KCB Connect mobile banking service has been enhanced and now enables its customers to have a much more user-friendly offering due to the ease and simplicity of usage. The popularity KCB Connect service among its young customers has earned the bank with banking innovation Award in 2009, the Kenya Information and communication Technology excellence Award

The bank also offers online payment services to its customers. This is enabled by use of debit and credit cards, which can be used in of payments of bills in hotels, hospitals, supermarkets, beauty shops amongst others. The bank has also established a wide coverage of ATM network, total number of ATMs is 750 across the region, this enables both its customer and non-customers to enjoy its services for example cash withdrawal,

balance inquiry amongst others. KCB has also improved its linkage with internal service providers. They include Kenya Data Networks and Jamii Telecommunication. The driving objectives behind these changes according to respondents were, to improve customer service through faster and convenient access to banking service. Another objective was to enhance record keeping and ease data retrieval. The enhancement of internal communication for faster decision making was main motivation for installing internet access.

While making these changes, KCB has faced many challenges. According to respondents. IT changes involve substantial costs in terms of software, hardware, qualified personal. Kenya is yet to realize efficient telecommunication services and its market is still in the process of growth after liberalization. This has continued to hamper the progress desired by KCB. To overcome the above challenges, KCB has a project steering committee to oversee technical implementation program. The employees of KCB also undergo frequent training, to keep up with dynamic requirements and new products. The bank carries out periodic gap analysis and endeavour to close them promptly.

#### **4.4. 2 Offering Quality Customer Service**

KCB is committed to offering quality service to its customers in order to have an edge over its competitors. The management has placed efforts in ensuring this commitment is realised. The respondents elaborated that there is a constant communication to its staff via email, journals and magazines. This commitment is clearly demonstrated in its vision and mission. The vision of KCB is "To be the preferred Financial Solutions Provider in Africa with a Global Reach" and mission is "To grow our existing business whilst building the platform to be the preferred Financial Solutions Provider in Africa with

Global Reach". KCB management realised that by offering quality service to its customers, it could stand out from its competitors because the products and services offered are more or else similar in the market.

KCB had established a contact centre in its effort to ensure customers receive quality service. The respondents explained that a Contact Centre is a central place within an organisation where employees handle incoming and/or outgoing customer calls, email, SMS, web chat, voice mail and scanned documents in a structured and programmed and monitored way. Each interaction is tracked for accountability and quality of service. On a strategic level, the Contact Centre will support the Group's core banking and mortgage units by driving profitable growth across the region, cost reduction, process improvement and Customer service improvement. The objectives of KCB in establishing contact centre is to handle customer interactions by use of dedicated well-trained customer service staff, who are currently eighty in number, to manage customer traffic that would otherwise need to contact the branch about a banking enquiry, to objectively measure the performance of its service network, to enhance Customer access and choice of contacting the bank, to provide a delightful customer experience and to carryout tele-marketing and promotional or awareness campaign.

KCB continuously offers customer service training to its staff to ensure that they are well versed in service they offer and product knowledge. Offering quality customer service is important because today's customers are knowledgeable, they know what they want, services offered to customer are mostly perishable as it cannot be repeated, one has to get it right at first time and the competition is stiff in the market. It is noted that contact

centre staff handle approximately 8000 enquiries per day, which has resulted to faster turn around time in solving problems.

#### **4.4. 3 Cost leadership and Differentiation Strategies use in the bank**

KCB uses cost leadership and differentiation strategies as responses to competition in the market. The respondents noted that the bank offers wide range of products and services to its customers according to their needs. KCB has segmented its customers into two categories namely retail and corporate. This categorization has enabled the bank to offer a group of banking products designed to meet the unique and diversified needs of business customers. The client base at KCB stands at 1.5 million customers, representing 11 percent of market share and 15 percent by value, according to market intelligence (2002), banking survey.

KCB has Micro Banking Services with approximately 20,000 account holders, which is tailor made to suit the needs of any Micro and Small Entrepreneurs. The entrepreneurs are owners of salons, Jua kali business, cyber cafe or any other small business. The entrepreneurs are offered sendees at lower cost as compared to other customers such as ledger, maintenance and transaction fees example cash withdrawal, cost of cheques, statement inquiries.

KCB has launched a club called Biashara, which is designed to provide a range of value adding sendees to Small and Medium sized business, aimed at growing their business even further. By joining KCB's Biashara club, the approximately 150,000 customers, can take advantage of valuable opportunities to take their business to a higher level. The Biashara Club offers; Workshops on entrepreneurship and capacity building,

Opportunities for one to network and source for new customers for their business, business advisory sendees through SME Management seminars and workshops in a variety of relevant topics and business trips to tap into new markets among others.

KCB also offers exclusive banking sendees at premium cost to its customers called advantage banking for class and comfort. The service offered at KCB advantage banking is convenient, personalized, dedicated and has timely banking sendees. KCB has opened 10 Advantage Banking centers, to take care of these needs by adding value and making a difference in the banking experience. The customers have access to a telephone banking facility and also get a waiver for day-to-day activities including ledger fees, service charge, Overdraft buffer , credit card with pre-scored limit, Preferential interest rates on Asset facilities ,discounted processing fees on mortgage financing product and access to offshore investments via our international connections.

#### **4.4. 4 Restructuring, Alliance and Joint ventures.**

Due to stiff competition in market, the respondents pointed out that the company had to adopt restructuring, alliances and joint ventures as strategic responses. KCB has done a lot of restructuring recently, which includes financial, portfolio and operational restructuring. Financial restructuring has been done through offering rights issues to its stakeholders worth KSh 15 billion, where the 170,000 shareholders were offered to buy additional shares at discounted price of ksh.17 per share. KCB managed to raise KSh.12.5 billion capital from rights issue, which is to be used to book long tenn assets such as loans and property development. The raised capital is to be used to facilitate business growth in the market, which is very competitive. KCB has recently opened 13



additional branch networks and installed 100 more ATMs across Eastern Africa with raised capital to enhance accessibility of its services. Recently KCB management offered its 850 staff members, with a voluntary exit retrenchment package as a way of restructuring the company. The package was offered to staff who had worked for the bank for a very long time and were about to retire or lacked the necessary competence to their Job descriptions. The respondent explained that voluntary exit retrenchment program has enabled KCB to employ more qualified and competent persons in order to compete effectively in the market. KCB has approximately 5000 employees across Africa region.

KCB has formed alliances and joint ventures as one of its strategic responses to competition. Recently Savings and Loans Kenya limited (S&L) was merged with KCB, in order to facilitate access to mortgage finance through the bank's wide branch network. The respondents pointed out that KCB S&L mortgage division has started forming partnerships with manufacturing and construction companies, where its customers would enjoy products and services at discounted price. For example there is partnership between KCB and East Africa Portland Cement company (EAPCC), allowing for the sale and promotion of the EAPCC products to the KCB Developers Club and its members. There is also partnership agreement with the National Housing Corporation limited that will facilitate the construction of over 700 housing units in Nairobi. As part of its strategy, KCB plans to embrace more partnerships to bridge the housing demand and supply gap.

KCB is in partnership with other sendee providers' example Western Union and MoneyGram in offering its customers with money transfer sendees that are safe, fast and

convenient ways to send and receive money. With these sendee providers' partnerships, it enables a wide coverage locally and internationally through KCB's large local network. Customers can easily send money worldwide, it is estimated that 50,000 transactions are facilitated through these service per month. The increase in number of transactions facilitated through this sendee has contributed to commissions and fees earned by the bank.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents a summary of finding, conclusion and recommendation. Results have been discussed in line with research objective stated earlier in chapter one. The chapter concludes by suggesting measures.

### **5.2 Summary of finding**

The Kenya economy has changed tremendously in the last 10 years. The major environmental factors that have impact on banking industry and KCB in particular are slow economic growth, liberalization, legislative changes, technological advancement and increase level of education. These changes have played a role in the industry by intensifying competition among industry players. This is true, especially in creating the right environment for the products and services, which are more or less similar in the market. As a result, KCB has had to take measures to counter the impact of such competitive forces

#### **5.2.1 Strategic responses by KCB to its changing competitive environment**

KCB has addressed its changing competitive situation by formulation and implementation of strategic responses that include use of technology, offering quality customer service, cost leadership, differentiation , restructuring , alliance and joint ventures. These responses have tremendously improved the bank's competitiveness. However, the study has indicated that there is need for sustained strategic action by KCB, in order to enable the bank to attain its objectives fully, and match the environment in

which it operates. Furthermore, the study also establish that KCB possesses necessary capability to adopt the strategies that would facilitate effective responses by bank to its changing competitive environment

### **5.3 Recommendations**

The study recommends that KCB becomes more diligent in environment scanning and continue with proactive as opposed to reactive strategies in dealing with challenges of their environment. This can be achieved by formulating and implementing strategic initiatives that would prevent any anticipate adverse changes for its operating environment.

The study recommends that other commercial banks or any other organisation should have specific strategic response to competition in order to remain significant in the market. The study recommends that future studies in this area should replicate the study to other industries to establish whether these results are standard across industries.

### **5.4 Limitation of study**

The study focuses on main strategic responses. However they are other strategic responses that were undertaken by KCB in addressing its changing competitive situation. These business processes include culture change and marketing. These variables are not covered in this study. This was a case study; as a result the research finding cannot be used to make generalization on industry. In addition, the time available for the study was short. This constrained the scope as well as the depth of research.

## REFERENCES

- Arnoldo, C.H and Nicolas S. M., (1991).*The Strategy Concept and Process*, New York: Prentice-Hall.
- Ansoff H. & McDonnell F. (1990).*Implanting Strategic Management. 2<sup>nd</sup> Edition*, New York: Prentice Hall.
- Barney J. B. (2002). *Gaining and sustaining Competitive Advantage, 2nd edition*, London: Reading Mass Addison-Wely.
- Bradley J.B. (1999). *International marketing strategy*, Herefordshire: Prentice Hall.
- Barney J.B. (1991). Firms Resources and Sustainable Competitive Advantage, *Journal of Management*, Vol 17, No.1, pp 35-39.
- Bharadwaj, S.G., Varadarajan, P.R and Fahy, J. (1993).Sustainable Competitive advantage in Service industries: conceptual model and research proposition, *Journal of marketing* vol 57. pp. 83-99.
- Bowman, E.H., and Helfat, C.E. (2001). Does Corporate Strategy Matter? *Strategic management Journal*, Vol 22 pp 1-23.
- Bush, R.J and Sinclair, S.A (1992). Changing Strategies in Mature Industries: A Case Study, *The Journal of Business and Industrial Marketing*, Vol 7.No.4 pp 63-72.
- Campbell-Hunt, C. (2000).What have we le&med about Generic Competitive Strategy? *A Meta Analysis, Strategic Management Journal*, Vol 21, pp 27-54.

David, F.R (2001). *Strategic Management Concepts*. New Jersey: Prentice Hall.

Day, G.S .and Wensley, R (1988). Assessing Advantage: A frame work for Diagnosing Competitive Superiority, *Journal of Marketing*, Vol. 52, pp .1-20.

Dess, G.G and Davis, P.S (1984). Porter's Generic Strategies as Determinant of Strategic Group membership and Organization Performance, *Academy of Management Journal*, Vol.27 No. 3,pp. 67-88.

Devlin, J.F. (1995). Technology and Innovation in Retail Banking Distribution, The *International Journal of Bank Marketing* Vol 13 No.4 pp. 19-25.

Dick A, A. (2002). *Demand Estimation and Consumer Welfare in Banking Industry*, Finance and Economics Discussion Series, Federal Reserve Board, 2002-58.

Galliers, R.D and Leidner, D. E. (2006). *Strategic Information Management. Challenges and Strategies in Information systems. 3<sup>rd</sup> Edition*. Oxford: Elsevier Butterworth-Heinemann.

Gitonga K.M. (2008). Response Strategies of Equity Bank Ltd to competition in Kenyan banking industry. *Unpublished MBA Research project*, University of Nairobi.

Gibbs, P.A., (1993) "Determinants of Corporate Restructuring: The Relative Importance of Corporate Governance, Takeover Threat, and Free Cash Flow", *Strategic Management Journal*, Vol. 14, pp. 51-68.

David, F.R (2001). *Strategic Management Concepts*. New Jersey: Prentice Hall.

Day, G.S .and Wensley, R (1988). Assessing Advantage: A frame work for Diagnosing Competitive Superiority, *Journal ofMarketing*, Vol. 52, pp .1-20.

Dess, G.G and Davis, P.S (1984). Porter's Generic Strategies as Determinant of Strategic Group membership and Organization Performance, *Academy ofManagement Journal* Vol.27 No. 3,pp. 67-88.

Devlin, J.F. (1995). Technology and Innovation in Retail Banking Distribution, The *International Journal ofBank Marketing* Vol 13 No.4 pp. 19-25.

Dick A, A. (2002). *Demand Estimation and Consumer Welfare in Banking Industry*, Finance and Economics Discussion Series, Federal Reserve Board, 2002-58.

Galliers, R.D and Leidner, D. E. (2006). *Sti-ategic Information Management. Challenges and Strategies in Information systems. 3<sup>ra</sup> Edition*. Oxford: Elsevier Butterworth-Heinemann.

Gitonga K.M. (2008). Response Strategies of Equity Bank Ltd to competition in Kenyan banking industry. *Unpublished MBA Research project*, University of Nairobi.

Gibbs, P.A., (1993) "Determinants of Corporate Restructuring: The Relative Importance of Corporate Governance, Takeover Threat, and Free Cash Flow", *Strategic Management Journal*, Vol. 14, pp. 51-68.

Kohn, A., (1986). *No Contest. The Case against competition*. New York: Houghton Mifflin.

McKinley, W. and Scherer, A.G. (2000), "Some Unanticipated Consequences of Organizational Restructuring" *The Academy of Management Review*, Vol. 25 pp.735-752.

Mintzberg, H, Ahlstrand, B and Lampel, A. (1998). *Strategy Safari*. New York: The Free Press.

Miles, M.B. and Huberman, A.M. (1994): *Qualitative Data Analysis. 2nd Edition*. Thousand Oaks: Sage.

Miller, D. and Friesen, P.H., (1997) *Organizations: A Quantum View*. New Jersey, Prentice-Hall.

Miller, M.P., Covin, J.G., and Heeley, M.B., (2000),"The Relationship between Environmental Dynamism and Small Firm Structure, Strategy, and Performance", *Journal of Marketing Theory and Practice*, Vol. 8, pp.63-74.

Moers, L., (2000) "Determinants of Enterprise Restructuring in Transition: Description of A Survey in Russian Industry", *Post-Communist Economies*, Vol. 12 (3), pp 307-335.

Narayanan, V.K (2001). *Managing Technology and Innovation for competitive Advantage.*, New Jersey: Prentice-Hall.

Odiwuor E.A (2008)."Strategic Response to Competition at National Bank of Kenya



Limited". *Unpublished MBA Research project*, University of Nairobi.

Porter, M.E. (1990). The competitive advantage of Nations. *Harvard Business Review* March-April, 1990 pp 73-92.

Prahalad, C.K and Hamel G. (1990).The Core Competence of Corporation, *Harvard Business Review*.

Porter, Michael (1996/What is Strategy? *Harvard Business Review* 74 (November- December).

Porter, M.E. (2004).*competitive strategy: Techniques for analyzing industries and competitors*. New York: Free Press.

Pearce, J and Robinson, R.B (2005).*Strategic Management, Strategy Formulation and Implementation. 3<sup>rd</sup> edition*. New Delhi: AITBS Publishers and Distributors.

Prahalad C.K., and Hamel G., (1990). Core Competency Concept, *Harvard Business Review* May-June 1990 pp.64.

Rappaport, A (1981). Selecting Strategy that creates Shareholder Value, *Harvard Business Review*, May-June pp 39-44.

Reilly. T. (2002). "Be a Champion of solution", *Industrial Distribution*, Vol.91 No.5, pp 62

Thompson J. Martin F. (2005). *Strategic Management Awareness and Change 5th Edition*.

London: Prentice Hall.

Thompson A A. And Strickland A. J. (2001). *Strategic Management Concepts and Cases, 12th Edition*. New York: McGraw Hill.

Vishal, P. (1997) .Smart Cards- - the smart way for banks to go? *International Journal of bank marketing*, Vol 15. No.45 pp 134-139.

Wheeler T.L and Hunger J.D (2002). *Concepts of Strategic Management and Business Policy*. New Jersey, Macmillian publishing.

Williams, C.A (1997). Banks Go shopping for Customers, *Regional Economist*, October: 12-1  
Prentice Hall.

Wagner, B., and Pigman, L. (1997). The Relationship between Generic and Time Based strategies and Performance, *Journal of Managerial Issues*, Vol. 9 No.3, pp 334-55.

Warucu .G. (2001). "Competitive strategies employEd by commercial banks". *Unpublished MBA Research project*, University of Nairobi.

Wheeler T.L and Hunger J.D (2002). *Concepts of Strategic Management and Business Policy*. New Jersey: Prentice Hall.

Williams, C.A (1997). *Banks Go shopping for Customers, Regional Economist*  
October:pp.12-13.

London: Prentice Hall.

Thompson A. A. And Strickland A. J. (2001). *Strategic Management Concepts and Cases, 12th Edition*. New York: McGraw Hill.

Vishal, P. (1997) .Smart Cards- - the smart way for banks to go? *International Journal of bank marketing*, Vol 15. No.45 pp 134-139.

Wheeler T.L and Hunger J.D (2002). *Concepts of Strategic Management and Business Policy*. New Jersey, Macmillian publishing.

Williams, C.A (1997). Banks Go shopping for Customers, *Regional Economist*, October: 12-1  
Prentice Hall.

Wagner, B., and Pigman. L. (1997). The Relationship between Generic and Time Based strategies and Performance, *Journal of Managerial Issues*, Vol. 9 No.3, pp 334-55.

Warucu .G. (2001). "Competitive strategies employed by commercial banks". *Unpublished MBA Research project*, University of Nairobi.

Wheeler T.L and Hunger J.D (2002). *Concepts of Strategic Management and Business Policy*. New Jersey: Prentice Hall.

Williams. C.A (1997). *Banks Go shopping for Customers, Regional Economist*  
October:pp. 12-13.

## **APPENDIX I**

Cover Letter and Interview Guide

### **Cover Letter**

Dear Respondent,

I am a post-graduate student studying towards Master's in Business Administration, specialization strategic management at university of Nairobi. The aim of my study is to find out the strategic response adopted by Kenya Commercial Bank Ltd in order to remain competitive in the market.

You have been selected to be the respondent, whose views I seek on the above-mentioned matter. We would therefore appreciate it if you could answer a few questions

I guarantee that all information will be handled with the strictest confidentiality.

Thank you very much.

Joan Diffu

SUPERVISOR: DR. GAKURU.

## **Interview Guide**

### **Part A: History of company and company data**

1. The respondent name and position in the company?
2. When was the company founded?
3. The company vision, mission statement?
4. The company strategic objectives?
5. What are the company's goals?
6. The company management structure?
7. In how many countries and regions does the company operate?
8. What is the type of ownership?
9. What types of customers does company have?
10. What types of products does the company have?
11. What is the number of staff in the company?
12. What is the annual turnover of the company?

### **Part B: Research Question**

1. How can the market and environment in which Kenya commercial bank operates be described?

### **Environmental challenges**

2. Has the economic situation affected Kenya Commercial Bank operations in different countries it has business?

Please explain

3. Has the Political and Legal System affected Kenya Commercial Bank operations in the different countries it has business?

Please explain

4. Has Kenya Commercial Bank operations been affected by global business environment in the different countries it has business?

5. How has competition from other banks affected your operation?

6. How has the bank used differentiation strategy to stem out increased competition?

7. How has the bank used cost- leadership strategy to stem out increased competition?

8. How has the bank used technology and restructuring strategy to stem out increased competition?

9. How has the bank used customer service to stem out increased competition?

10. Were there any challenges in adopting the above strategies?

Please tick one answer

Yes

No

a) If yes, what are the challenges in adopting each strategy?

b) How were the above challenges overcome of each of the strategies

11. How long did it take to adopt each of above strategies?