RESPONSES BY COMMERCIAL BANKS IN KENYA TO INCREASED COMPETITION

BY

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Declaration

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

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

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DEDICATION

To my dear parents, brothers and sisters for their encouragement, patience and understanding during my absence.

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ABSTRACT

The environment is constantly changing. Organizations have to proactively or continuously adapt their operations in order to survive the environmental challenges. The environment presents firms with opportunities, threats and constraints, but rarely does a single firm exert any meaningful reciprocal influence. The liberalization of the economy, privatization, increased competition and the general economic reforms in all sectors are some of these changes in the operating environment. The environment is highly dynamic and continuously presents opportunities and challenges. To ensure survival and success, firms need to develop capability to manage threats and exploit emerging opportunities promptly. Strategies that match capabilities to environment are required.

The objectives of the study were to identify the challenges faced by commercial banks to increased competition and to establish the strategic responses of Commercial banks in Kenya to increased competition. Responding to the changes in the environment. The study employed survey design in addressing the challenges and responses to the increased competition. To satisfy these objectives data was collected from thirty three selected commercial banks in Nairobi and from each bank two managers in general managers department and human resource or marketing department were targeted as the principal respondents. A self-administered questionnaire was used as major tools of data collection. The aim of the questionnaire was to capture data on challenges in the banking industry, strategic responses adopted by commercial banks and managers opinion on intensity of competition within commercial banks in Kenya.

The study revealed that, commercial banks are faced with many challenges and liberalization was taken to be the challenge that is a threat to the industry. In this study, Information Technology appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. The results of this study tally with the findings of Gathoga (2001) that the commercial banks are in competition and their products and services differential is quite thin hence need for restructuring. Strategic marketing variables are manipulated by commercial banks to respond to a competitive intensity in the banking sector. These include; developing new products, and market development and market focus.

Further the study revealed that branding of corporate building had a mean score of 3.65 and nature of internal communication were most notable changes relating to corporate culture most effected in commercial banks. Schein (1985) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change

The study was limited to a number of factors such as the sample size limited to sixty six commercial banks. The scope and depth of study was also limited by the time factor and financial resource constraints. The researcher also encountered immense problems with the respondents' unwillingness to complete the questionnaires promptly. The study recommended further research to be carried out to establish the competitive strategies adopted by the micro finance institutions.

CHAPTER ONE: INTRODUCTION

1.1 Background

Ansoff (1987) noted that the environment is constantly changing. Organizations have to proactively or continuously adapt their operations in order to survive the environmental challenges. The environment presents firms with opportunities, threats and constraints, but rarely does a single firm exert any meaningful reciprocal influence. The liberalization of the economy, privatization, increased competition and the general economic reforms in all sectors are some of these changes in the operating environment. The environment is highly dynamic and continuously presents opportunities and challenges. To ensure survival and success, firms need to develop capability to manage threats and exploit emerging opportunities promptly. Strategies that match capabilities to environment are required.

Kotler (1997) observed that further turbulent environmental changes can render yesterday's winning business solutions and principles obsolete. Organizations need to have the right fit between their internal structures and their external environment in order for them to function effectively and efficiently. Some firms change in response to external forces thus reactive to change, while others change principally because they have decided to implement change proactively.

Strategic change is increasingly important in today's changing business environment. Contemporary firms operating in dynamic market contexts often deal with these contingencies by implementing strategies that permit quick reconfiguration and redeployment of assets to deal with environmental changes. It is necessary for firms to adopt strategies which would enable them maintain competitive positions in the market place or else be eliminated (Burnes, 2000).

1.1.1 Responses to Competition

Pearce and Robinson (1997) stated that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to the environment. The external environment is complex and challenging thereby presenting the organization with opportunities and threat. The external environment has three major parts – the remote environment, industry environment and operating environment. Compared to the remote environment, the industry environment has more direct effects on the firm's efforts to achieve strategic competitiveness and earn above average return (Hitt *et .al*, 1997). The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment, according to Ansoff and MC Donnell (1990), leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands.

Thompson (1997) defined strategic adaptations as changes that take place overtime to the strategies and objectives of an organization. The banks, just like all other organizations, are affected by change. Such changes could be gradual, evolving, dramatic or even revolutionary. Grundy (1995) states that, responsiveness and flexibility is increasing important factors that determine the success of an organization. Hill and Jones (2001) added that, the achievement of superior efficiency, quality innovation and responsiveness enables an organization to create superior value and attain competitive advantage.

Porter (1980) identifies five forces that affect the level of competition in an industry. He states that the rules of competition are embodied in the entry of new competitors, the threat of substitutes, the bargaining power of suppliers, bargaining power of buyers and the rivalry among existing competitors. Changing environment is a very imperative endeavour in the banks. This study unravelled responses by commercial banks in Kenya to increased competition.

1.1.2 The Commercial Banks in Kenya

As at the end of year 2001, the Kenya banking industry was made up of forty commercial banks by the year 2007 there were forty-four banks .However, only five banks account sixty per cent of the total banking industry assets and deposits. These major banks listed in descending order according to assets base and deposits are Barclays, Kenya Commercial Bank, Standard Chartered, Citi Bank and National Bank of Kenya. These large banks are commonly referred to as the big five within the banking industry. Any decisions made by these banks have substantial impact on the total industry. As banks continuously rationalize their branches in order to reduce overhead costs, the numbers of ATMs in use have risen to more than five hundred. The improved uptime of the ATMs has been realized due to the access of some of these banks to Very Small Aperture Terminals (VSATs) which have made them less dependent on the unreliable services of the main telecommunication service provider (Market Intelligence, 2006).

Most economies joined the globalization race by introducing liberalization and privatization policies. Consequently, the banking industry for instance, experienced the freedom from Government control on foreign exchange and interest rates. As a result of such deregulations, the operating environment for banks has changed drastically. The forces of change have led to increased competition, new regulation or expectations of customers (Basu 1997).

The banking industry in Kenya has been undergoing many changes and despite the stable environment in the Kenyan-banking sector in the period 2001-2006, there has been a need to address bottlenecks that impede the sector from providing efficient, affordable and accessible banking services to the Kenyan public. These bottlenecks include: - non-performing loans especially in state influenced banks, delays in the resolution of litigation cases, outdated laws such as the Companies Act and Inefficiencies in the payment systems (Banking Supervisory Report 2007).

There have been legislative changes such as those governing interest rates as well as the amounts that are deposited at the Central Bank of Kenya (As part of the deposit protection fund). There have also been a number of cooperative societies that collect members' contributions and extend loans to their member's. Some of these cooperative societies offer front office banking facilities and serve their clients just as any commercial bank does. Government of Kenya (2002) highlights the emergence and recognition of microfinance institution as alternative sources of funds for loans, hence as sources of increasing competition in the banking industry. The above changes have contributed to the increasing competition in the banking industry, especially concerning the number of financial products available in the market that is comprised of an increasingly more sophisticated clientele. The banks should ensure that customers are the king and their complaints are acted upon accordingly. It is in this light then that the researcher is concerned on studying this unpleasant problem of the competitive intensity and strategic responses that banks have resorted to.

1.2 The Research Problem

Strategic responses can be seen as the matching of the activities of an organization to the environment in which it operates. Strategic responses affect the long term direction of an organization and require large amounts of resources. It is aimed at achieving advantage for the organization and as such, it is concerned with the scope of the entire organizations activities (Johnson & Scholes, 1999).

The environment is rapidly changing making it imperative for organizations to continually adapt their activities in order to succeed. To survive in a dynamic environment, their strategies need to focus on their customers and deal with emerging environmental challenges. This is necessary because they are environment serving (Ansoff, 1987). Pearce and Robinson (1997) argue that response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of the organization. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence level (Ansoff and McDonnell, 1990). Failure to do this may put the future success of the organization in jeopardy (Aosa, 1998)

The commercial banks like any other financial institution in the banking industry are environment dependent. They rely on both internal and external environment to carry out their activities. They have to constantly understand the changes taking place in the environment for them to survive. To capitalise on market opportunities, they have to continuously adjust their ways of doing business to match the changes due to the intense competition. The nature of changes taking place in the environment affects the organization future business. The commercial banks environment has experienced many changes ranging from political/legal, economical, and social to technological changes

The Kenya government liberalized the banking industry in 1990s. Prior to this period, the sector was highly regulated in terms of operations and pricing of the products. Commercial banks have predominantly bought treasury bills hence fetched huge profits. However, the situation changed significantly with the intensity of competitive rivalry in the sector only reaching peak levels with drastic decline in interest rates offered since the year 2002 on treasury bills and the re-introduction of Section 44 of the Banking Act (therefore controlling charges). In the last 15 years, the number of players has increased. This has made the industry one of the most competitive in Kenya. The sector has shifted to respond to challenges and changes in the environment.

Various researchers have provided valuable insight into the area of strategic responses to various environmental factors. Kandie (2001) studied the strategic responses by Telkom (K) Ltd in a competitive environment and found out that financial constraints and lack of management empowerment construed on the capacity to respond to environmental changes. Obiero, (2002), Kithaka, (2001) and Gathoga, (2001) focused on the banking sector regulatory framework, queue management in financial institutions and the responses of declining quality loan assets. Adongo, (2005) studied the factors influencing efficiency of Namibian Banks. Whilst lessons may be learnt from his study, not all may be applicable to the Kenyan commercial banks. Others include Kiptugen (2003), Musa (2004), Kimathi (2004), Mwarey (2008) focused on the competitive strategies adopted by Kenya commercial bank, National bank of Kenya, K-Rep bank and Barclays bank of Kenya respectively. The findings from the above case studies showed that each bank respond differently to the changing environment. A knowledge gap does exist as no study has attempted to analyse the responses by commercial banks in Kenya to increased competition.

The justification for this research is that the methodology used will be a survey since most studies have only done case studies of various banks. Again the study will use a different research instrument and research variables. Furthermore this research will cover a different geographical area as compared to other studies. Also since there has been liberalization of the banking industry then there has been an increase in the number of banks operating in Kenya since the time of the above case studies. The study will seek to unravel all the responses to competition of commercial banks in Kenya. The research variables under the study will cover entire commercial banks since each company strategies are unique from each other. Also this study will also cover the challenges faced by commercial banks in Kenya due to increased competition the case studies done dealt only on the response but not the challenges faced by banks. Knowledge accumulates incrementally through studies that build each other over time and replication adds strength and clarity to research findings.

1.3 Research Objectives

The objectives of the study were:

i) To study the challenges faced by commercial banks from increased competition.

ii) To establish the responses of commercial banks in Kenya to increased competition.

1.4 Scope of the Study

This study was limited to commercial banks within Kenya only and did not cover other financial institutions like micro-finances and building societies and the study was done in Nairobi since most of the banks' headquarters are located there.

1.5 Importance of the Study

The study was considered significant for several reasons:

First, the research findings will be of value to commercial banks, which will help them to identify any strategic gaps in their strategic responses and the limitations of such responses. It will also provide suggestions on how to enhance the banks responsiveness to competition.

Secondly, this study will be expected to generate interest among academia that lead to further study on the dynamic area of strategic responses by banks to the intensive competitive pressure in the financial industry. This study will also to contribute to the existing body of knowledge on strategic response in the face of ever-growing challenges.

Finally, the government will find the information useful in diagnosing the challenges facing the financial institutions and come up with solutions to reverse the situation. In addition, the public and the customers are expected to benefit from the results of this study because of better service and customer care.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept Of Competition

The notion of competition is central to economic theory, but its meaning and the ways in which it is perceived to work and contribute to development, differ widely among theorists, policy-makers, bureaucrats and business people. Indeed the history of economic thought provides some deeply contrasting views about the meaning of competition. Amongst them, the concept of perfect competition has survived as the standard model for analysis and has had a profound influence on policy-making concerned with the regulation of competition. Yet the notion of this form of competition is very different to the concept envisaged by classical economists such as Adam Smith (McNulty 1967). When Adam Smith was writing in 1776, the concept of competition was familiar, and was formulated in the context of independent rivalry between two or more persons. Viewed in this way competition acts as a force that would, in the long run, eliminate excessive profits and unsatisfied demand.

The classical economic literature emphasised price determination through the notion of competition as replacing ethically and politically oriented price administration as the focus of economic analysis (McNulty 1967). Participants in the market would change price in response to market conditions principally through a process of rivalry. Adam Smith's major contribution to this analysis appears to have been to add systematic thinking to earlier views on the subject. Since then the development of a notion of competition gave the profession an analytical rigour akin to the character of a science (Mill 1864). According to Edgeworth (1881) without the notion of competition, economics as a discipline would be referred to as a dismal science. By the late nineteenth century, the analytical development of the concept of competition differed in many respects to that portrayed by Adam Smith. Mathematical refinement, initially by Cournot, and continued through the works of Edgeworth (1881), Clark (1915) and Knight (1946), took the concept of competition in a different direction (Stigler, 1957). In this neo-classical development, price became a parameter rather than a variable. The neoclassical economists viewed competition as a state of affairs rather than as a process as depicted by classical economists. It is built around the notion that the market is characterized by a state of equilibrium that is dependent on forces of demand and cost structure that determine who survives and who fails, and is formally presented in the idea of perfect competition. The neo-classical focus is on the effects of competition rather than a definition of the underlying behavioural process that characterises competition. As Knight states 'perfect competition involves no presumption of psychological competition, emulation, or rivalry' (Knight, 1946).

The profit maximising behaviour based on notions of rational decision-making that underlies the neo-classical approach leads to the selection of output and choices over entry and exit in relation to observed profit opportunities. This has been subject to a barrage of criticisms. In the perfectly competitive model an enterprise seeks to maximise profits, and correspondingly selects an output where marginal costs equals the market price. As long as profit opportunities appear to exist, enterprises will continue to enter the industry. In the long run it is argued that enterprises that remain will produce at the minimum efficient scale. Alternative maximising behaviour has been suggested by Baumol (1967) in relation to sales revenue, and Cyert and March (1963) have suggested that enterprises pursue a satisfying behaviour in an attempt to resolve a number of potentially conflicting managerial objectives.

Alternative theories have viewed profits as accruing less as a result of a predictable rational process than one related to the outcome of a process of natural selection and survival (Penrose 1952).It could be claimed that the classical and neo-classical interpretations of competition are fundamentally incompatible. Even discounting the view that the notion of perfect competition can only be used as an ideal or benchmark for analytical purposes, precisely because it is an abstract condition, does not appear to satisfy the argument that the concept is incompatible with any idea of competition. This view was stated forcibly by Hayek (1948) who claimed that perfect competition meant the absence of competitive activities.

The classical and neo-classical concepts of competition differ fundamentally, therefore, in their view of what competing means. The classical economists related the concept to business behaviour that involves organisational and technological changes. The neo-classical view is not about behaviour but is more concerned with market structure. Under neoclassical economics, the concepts of competition and the market have become merged, with competition taking a back seat. The market deals with exchange relationships as the most important notion, rather than production relationships. In this way, neo-classical enterprises are viewed as differing from one another with respect to the kind of product or factor market in which they buy and sell.

The concept of workable competition also emerged from the literature in the 1930s as a concept to counteract the view that perfect competition is not a reliable basis for making normative appraisals of the working of actual markets. A set of criteria that defined workable competition was developed that reflected the demands of the public interest. The criteria related to performance, conduct and structure and drew on the works of eminent writers (Sosnick 1958). Using their extended neo-classical criteria, markets could be viewed as almost workable, workable or optimum. A variety of schools has expressed their fundamental dissatisfaction with the equilibrium concept of competition. The Austrian and Evolutionary schools view competition as a dynamic discovery process in which entrepreneurs seek new profit opportunities set in a world of constant change (Hayek 1948; Little child 1986; Schumpeter 1978). They are interested in change over the relatively long run. In contrast to static neo-classical theory, profits earned by successful entrepreneurs are not viewed as inefficiencies but as signals that entrepreneurs are responding to changing market conditions.

Drawing on Schumpeter's analysis these perspectives view competition less in terms of price but in terms of new technology, new sources of supply and new types of organizational development that provide cost and quality advantages. 'It is not (price) competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organisation competition which commands a decisive cost or quality advantage and which strikes not at the margin of profits and the outputs of the existing firms but at their foundations and their way of lives' (Schumpeter, 1943).

This approach is rooted in the behavioural theory of the firm and emphasises learning capabilities, adaptive behaviour, and the interactions between these behaviours (Metcalfe 2000). This entails a shift from perceiving competition in terms of a state of equilibrium, characterised by different market structures, to competition as a process of change premised on the existence of the differential behaviour of firms and the economic arguments. Inequilibrium theory, the behaviour of the firm is often depicted as a form of anti-competitive market behaviour. In this respect, the evolutionary perspective indicates that economic progress is only possible, in what is, from a neo-classical viewpoint, an inefficient world. This view was earlier shared by Adam Smith when he hinted at the importance of changes in the techniques of production and organisation when he stated that 'competition of producers who, in order to undersell one another, have recourse to new divisions of labour, and new improvements of art, which might never otherwise have been thought of' (Smith cited in McNulty 1968).As Metcalfe (1993) claims the evolutionary approaches are less developed but have clear lines of differences with the equilibrium approach to competition. The fundamental difference is the displacement of equilibrium and optimisation as the organising concepts.

Evolutionary theory is concerned with why the world changes endogenously, and with why technological competition is the driving force behind structural change and economic development. It is concerned with the process of adaptive learning and the creation of novelty. Indeed it is by this change in approach that attention is switched to the strategic cognitive and organisational aspects of firms which explain why they behave differently (Arthur and Lane, 1993). Nelson and Winter (1982) define this innovation process in terms of dynamic efficiency. Decisions about technological innovation are made with great uncertainty which make it difficult to assess the results of different strategies that are adopted by enterprises. Again competition, unlike in neo-classical theory, does not only relate to prices and costs, but to a wider set of variables and welfare increases not only in response to price reductions but to improvements in quality and product variety (Jorde and Teece 1992).

The evolutionary account of the competitive process is therefore characterised by a competitive order rather than a competitive equilibrium. As Metcalfe has stated 'competition depends upon the variety of behaviourisms in a population of firms. That variety is translated into differential profits in terms of differential growth and decline. Innovation processes continuously reshape the pattern of variety and provide the developmental impetus to drive the selection process' (Metcalfe, 2000). The competitive order changes with innovation and therefore is conceptually different to the idea of market structure portrayed in neoclassical economic theory and of its measurement in terms of the concentration of firms. The evolutionary approach has been used to explain how competitive advantage, as opposed to comparative advantage, explains successful development (Teece, 1987). The contrast has been made between the UK's earlier comparative advantages in the industrial sphere which gave way to Germany's superior competitive advantage achieved through investment in production, marketing and management.

2.2 Porter's Five Forces Model

The nature and degree of competition within an industry hinges on five forces. The threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and the jockeying among current contestants. Porter, (1979) emphasized that there is a greater opportunity for superior performance when these contending forces are weak.

New entrants in the industry bring in new capacity, the desire to gain market share, and often substantial resources. The seriousness of the threat will depend on entry barriers presenting the industry. The threat of entry is low if the entry barriers are high and newcomer expects sharp retaliation from entrenches competitors.

Customers power are manifested in their capability to force down prices, demand for higher quality or more service and play competitors off against each other at the expenses of industry Information Technology. The power of buyers as often attributed to consumers as a group as well as industrial buyers. Consumers tend to be more prices sensitive if they are buying products that are undifferentiated, expensive relative to incomes or a product whose quality is not particularly important.

Suppliers can exert bargaining power on an industry by raising prices or reducing the quality of goods and services purchased. Hence, an industry profits are squeezed out if the participants are unable to recover the increased cost in its own prices. Suppliers tend to be powerful if they are more concentrated than the industry they sell to and if they have built up switching costs.

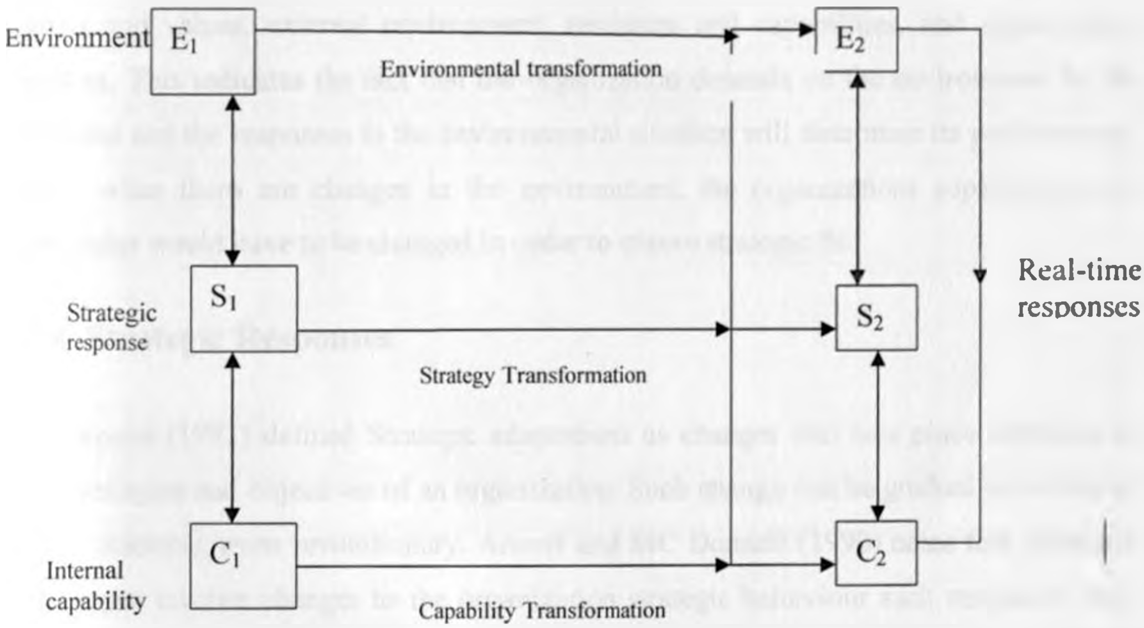
A substitute product limits the potential of an industry in terms of earning possibly in growth. This is because of a price ceiling posed by substitute products particularly where the price–performance trade off offered by substitutes is more attractive. Substitute products compel the industry players to upgrade quality or to differentiate their products.

Rivalry among competitors takes the form of tactics like price competition, product introduction; and advertising slugfests. In some industries, rivalry is intense resulting in bitter price cuts. A company may have some latitude for improving matters through strategic shifts such as a focus on selling efforts in the fastest growing segments for the industry or market areas with lower fixed costs.

2.3 Environment Strategy and Organization Capability

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

Figure1.<u>Managing the firm's adaptation to the environment</u>



Source: Ansoff, H.I and McDonnell, E.J. (1990), Implanting strategic management, 2nd Edition Prentice Hall, page 40

The above diagram clearly indicate the environmental dependence of an organization when there is an environmental shift from E_1 toE_2, the organization strategy has to be changed from S_1 toS_2 in order to adapt to changing environmental conditions. However, this is only possible when the organization's capability is changed from C_1 to C_2.Therefore; an organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes. This requires that the firm's capabilities be constantly updated to ensure that they support the chosen strategy. As the organizations environment changes, it is necessary that the firm continuously adapts its activities and internal configurations to reflect the new external situation. Failure to do this endangers the future success of the organization. (Aosa, 1998)

Porter (1991) explains that the concept of dynamic strategy fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantage overtime. Upgrading is the process of shifting advantages throughout the value chain to more types that are sophisticated and employing higher levels of skills and technology.

According to Grant (2000), a successful strategy is consistent with the organizations goals and values, external environment, resources and capabilities, and organization system. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance; thus, when there are changes in the environment, the organizations capabilities and strategies would have to be changed in order to ensure strategic fit.

2.4 Strategic Responses

Thompson (1997) defined Strategic adaptations as changes that take place overtime to the strategies and objectives of an organization. Such change can be gradual or evolve or more dramatic, even revolutionary. Ansoff and MC Donnell (1990) notes that, strategic responses involve changes to the organization strategic behaviour such responses may take more forms depending on the organizations capability and environment in which they operate. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining competitive edge. These strategic responses include Information Technology, Restructuring, Marketing, and Cultural Change.

2.4.1 Information Technology

According to Porter (1995), Technology changes, especially Information Technology, is amongst the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. Porter and Miller (1985) content that Information Technology can also create new business within a company's existing activities. MC Farlan *et al.* (*1983*) contribute that Information Technology offers a scope of product differentiation that enables the company to effectively serve the needs of the market niche. Turban *et al.* (1996) adds that the way a firm views its business, consumers and competition is critical to successful aligning its businesses and information technology strategies. Information Technology is used to automate processes and to augment the skills of the organizational staff.

Rayport and Sviokla (1995) state that competition is defined along two dimensions: The physical world of resources and the vital world of information. Information supports and enhances every activity in the organization, and it can itself be a source of benefit and, hence competitive advantage provided organizations are able to draw that value.

Robson (1997) noted that strategically successful organizations obtain market feedback continuously and rapidly, and adapt to the feedback ahead of their rivals. They exploit the potential of strategic as well as competitive and operating Information systems. Some of the Information Technology variables that can influence a firm's response to competition include; the usage of real time systems, extent of interconnectivity of distribution channels, as well as the efficiency of telecommunication systems.

2.4.2 Restructuring

According to Mullins (1999), organization structure is the pattern of relationships among positions in the organization and among members of the organization. Structure makes it possible the application of the process of management and creates a framework of order and command through which activities of the organization can be planned, organized directed and controlled. About the number of levels in the structure of the organization, often referred to as scalar chain, Drucker (1989) suggests that, these should be as few as possible and that the correct design of structure that is of most significance in determining organizational performance.

Too many levels bring difficulties in the understanding of objectives and communication both up and down the hierarchy. One of the major activities of restructuring is Business Process Re-engineering. Hammer (1996) notes that, companies can dramatically improve their efficiency and quality by focusing on customers and the processes that create the value to them. Processes have come to be more important than their products and are in fact defining the market places in which companies compete". Outsourcing, for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. Firms can design their strategies based on their processes, for instance, through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets.

According to Quinn (1992), Enterprise generally obtains strategic advantage by focusing on the smallest activity or cost units that can be efficiently replicated. Cost cutting efforts will lead to dramatically lower overhead costs and part of these savings be passed to the consumer in terms of lower price.

Thompson (1997) states that radical business process re-engineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. It leads to breaking down functional and individual job boundaries as the processes do not have to coincide with the existing departmental status.

Grundy (1995), however, cautions that speeding activities up without detriment to quality and without increasing costs demands learning that is more effective and feedback in the management process. Accelerating processes, with continual and open learning, avoids costly errors.

Rowland and Peppard (1995) suggests that by searching for the root causes of consumer departures, companies with the desire and capacity to learn can identify business practices that need fixing and sometimes can win the consumer back and re-establish the relationship firmly. They noted that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of new Information Technology equipment or systems, Business Process Re-engineering through process intensification or extension, the redesign of a group of jobs, staff right-sizing and subsequent staff cut backs, as well as staff redundancies.

2.4.3 Marketing

Kotler and Armstrong (1999) defined marketing as a social and managerial process. It is the process by which individual and groups obtain what they need and want through creating and changing products and value with others. Basically, it is about satisfying consumer's needs and wants. Kotler (2000) observed that Marketing helps to define the business mission, as well as analyzing the environmental, competitive and business situations. It, therefore, plays a major role in the organizations strategic planning process.

The strategic marketing responses are based on the marketing mix elements of product, price, place and promotion and market research (probe).

According to Thompson and Strickland (1993), Environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to the emergence of opportunities and threats. This will help the manager to develop appropriate strategies given the industry competitive situation. A number of strategic marketing variables may be manipulated to respond to a competitive situation. These include; adjusting of target market, diversification, developing new products, distribution changes and making price cuts. Other marketing variables that compromise the firm's response to a changing competitive situation include the advantages and establishment of relationship marketing. The following are marketing strategies proposed by Ansoff growth matrix.

Johnson and Scholes (2002) argue that market penetration strategy, is the least risky since it leverages many of the firms existing resources and capabilities in a growing market, simply maintaining market share will result in growth, and there may exit opportunities to increase market share if competitors reach capacity limits. The strategy also probably requires the least amount of finance for expansion although resources may need to be channeled into promotional campaigns to appeal to and then persuade customers. This could be in the form of advertising, sponsorship special promotions and even temporary discounts. The most obvious risk on pursuing this strategy is that of retaliatory action from competitors, this is especially likely if the penetration can only come at the expense of cannibalizing rivals market share and when products are good substitutes for each other.

According to Pearce and Robinson (2001), market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographies or other new opportunities. The company targets new geographical areas domestically and; internationally, identifying potential new consumer groups, seeking additional distribution channels and developing new locations both domestic and abroad cannibalizing rivals market share and when products are good substitutes for each other.

New product development strategies is used when the external factors suggest that the market is saturated or that stronger competition or other threats to the market exist and the internal factors show weakness in distribution or strength in product development. New market developments strategy may be adopted when internal factors suggest adding markets for existing products due to greater distribution strengths but production or product development weakness (Jauch and Glueck, 1988)

A diversification strategy could take the form of related diversification or unrelated diversification. Related diversification allow a business to escape from possible internecine war with existing competitors while minimizing product – market adjustments costs in terms of having to adopt technology (Doyle 1994)). Unrelated diversification is an expansion by a business into market areas that are not related to existing product or services in terms of technology, distribution channels or the rationale for such an expansion path is financial rather than industrial. Unrelated diversification releases the firm from any constraints upon the chosen market in which to expand. Unrelated diversification could be either concentric or conglomerate.

2.4.4 Organizational Leadership and Culture

Organizational leadership involves guiding the firm to deal with change. It requires the Chief Executive Officer to embrace change by clarifying the strategic intent that build the organization and shape their culture to fit with opportunities and challenges. Change has become an integral part of what leaders and managers deal with daily. Management is to galvanize commitment within an organization (Pearce and Robinson, 2003).

Brown (1998) defined organization culture as the pattern of beliefs, values and learned ways of coping with experience that have developed during the course of an organizations history and which tend to be manifested in its material arrangements and in the behaviours of members. Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination and control and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitates the chances of being successful in the market place. Therefore, corporate cultural identity, for the marketer, is a strategic tool that is used to manipulate consumer perceptions of an organization and its products and services.

According to Thompson (1997), the potential for changing the culture of an organization is affected by the strength and history of the existing culture, and the extent of the strategic need. The culture of the organization would need to be changed when it does not fit well with the requirements of the environment or the organizational resources, the company is not performing well and needs major strategic changes or the company is growing rapidly on a changing environment and needs to adapt. Kotler (1996) notes that truly adaptive firms with adaptive cultures are aware some competitive machines. They produce superb products and services faster and better, even when they have fewer resources or less market share. Hamel, and Prahalad (1989), add that companies that have arisen to global leadership began with strategic intents that were disproportional to their resources and capabilities. Schein (1985) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

Cultural change and corporate learning are interdependent. The rate of organizational learning is dependent on culture, while the rate and content of organizational learning fundamentally influences the firm's culture. Thus, culture change is a process of re-learning. Other cultural shifts include changes in architectural design and branding of corporate building, the change of organizational logo, nature of internal communications as well as staff dress codes.

Strategic responses to a changing competitive environment, therefore, entail substantial changes to organization long term behaviour. These adaptations may be gradual or revolutionary depending on the nature and circumstances facing the organization.

2.4.5 Porter's Competitive Strategy

In his definitive work of competitive strategy, Porter (1985) propelled the concept of strategy and competitiveness into the foreground of strategic thought and business planning. The nature and degree of competition in an industry hinge on five forces namely the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products or services and rivalry among current competitors.

Porter (1980) the corporate strategist's goal is to find a position in the industry where the company can best defend itself against the five competing forces. Knowledge of the underlying five competitive forces provides the groundwork for a strategic agenda of action because they constitute industry structure and it is from industry analysis that firm is able to determine its best competitive strategy. They highlight the critical strengths and weaknesses of the company and industry trends promising to hold the greatest significance as either opportunities or threats.

A scheme developed by Porter (1985) noted that any long term strategy should derive from a firm's attempt to seek a competitive advantage based on three successful generic strategies. These are overall cost leadership, differentiation and focus. Low cost leaders depend entirely on some fairly unique capabilities to achieve and sustain their low- cost position. A low cost leader is able to use its cost advantage to charge lower prices or to enjoy higher margins. Strategies dependent on differentiation are designed to appeal to customers with specific attribute. A focus strategy, whether anchored in a low-cost base or differentiation base, attempts to attend to the needs of a particular market segment. In formulation of strategic response to changes in the environment, an organization must first decide on the core idea about how it can best compete in the market place in its strategic orientation as illustrated contending forces during industry competition.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study employed a survey design. This is because the survey design makes a complete examination and analysis of many entities and this research was looking at commercial banks in Kenya. Banking services are similar thus the line of service and product differential is quite thin, it is because of this that, an exploratory survey was used in carrying out this study. The depth of analysis and unique information to a large population attained through the design is its major advantage and thus the preference in this study. This design has also been used by other researchers like Gathoga (2001), Goro (2001), Kiyai (2003) and others to investigate many entities and it has proved to be successful design.

3.2 Population

The population of interest was composed of all commercial banks operating in Nairobi, Kenya. According to the Banking Supervisory Report (2009), these are forty-four such banks. See (Appendix II).

3.3 Sample Design

From the population a random sampling technique was used to select the banks for the study. This study was limited to seventy five percent of the total banks in Kenya. This means that thirty three commercial banks were studied. This was appropriate because statistically this sample size is acceptable as it conformed to the widely held rule of the thumb that a sample size should not be less than thirty n>30 (Kent 1999)

First, a comprehensive list of all commercial banks in Kenya with bank sizes stated was drawn. Secondly, a dichotomised list consisting of all non-state owned commercial banks and state-owned banks. Finally, each institution was given a unique number for sampling purposes. A random numbers table was used to arrive at the indicated number of banks after which each bank is given a number unique to itself. This procedure was considered effective as each bank had a non-zero chance of being included in the study.

Table 1.0 : The Sampling design

Size of Banks	Size of Population	Non-State owned Banks	State owned banks	Sample
Large	13Balance sheet balance>Kes 20 billion.	8	5	9
Medium	13 Balance sheet balance<Kes20 billion.	13	-	9
Small	18 Balance sheet balance Kes 5 billion.	18	-	15
Total	44	39	5	33

Source: Researcher 2010

3.3 Data Collection

Primary data was collected by the use of semi structure questionnaire (see Appendix. I). The questionnaire consist of; part A that collects respondents profile, part B provided data on the challenges faced by commercial banks and part C was used to gather data about responses to competition. The questionnaire was administered by the "drop and pick later" method. In every organization, the respondents were the general managers and where that position did not exit the marketing and operations manager filled the questionnaires. The top managers were targeted because the study focused on respondents who were able to give an overall understanding of the banks' management systems, functions, and procedures. Secondary data was also collected.

3.3 Data Analysis

The information from the respondents was coded and edited and then database was created using Statistical Package for Social Sciences (SPSS) an analytical computer software program used to analyze the data. This enabled a wide range of analysis and statistical tests to be conducted quickly and accurately. The study was descriptive in nature; therefore, descriptive statistics was used to analyze the data. The objectives of the study were analyzed using the mean score and standard deviation because they were measured at the ratio level using a five-point scale. The mean scores were ranked giving the highest score the greatest importance. This type of analysis had been used in similar studies in the past including; Obiero, (2002) and Goro, (2003). Suitable presentation of tables and charts were used to interpret the data to form conclusions regarding the research objectives. Histograms were also drawn to show the spread of these factors.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the findings of the study based on the analysis and interpretation of primary data collected from the top management of commercial banks interviewed. The research objective was to study the challenges faced by commercial banks from increased competition and to establish the responses of commercial banks in Kenya to increased competition.

4.2 Characteristics of Surveyed Commercial banks.

A total of sixty six questionnaires were issued to target a respondent that is thirty three commercial banks. Out of these, eighteen commercial banks responded which means that 36 were completed and returned representing a response rate of 54.54 per cent.

The completed questionnaires were edited for completeness and consistency. Statistical package for social and science was used for data analysis. The findings were presented in percentages and frequency distributions, mean, standard deviations and narratives.

4.2.1 Profile of Commercial Banks

As shown in Appendix II, 88.63 per cent are non-state banks while 11.36 per cent are state owned banks. Eighteen commercial banks responded and out of these fifteen were local banks representing 83.3 % and multinational that is both local and foreign represent 16.7 %.This means that Kenyan economy is dominated by local entrepreneurs which is crucial for the growth of any economy. All commercial banks that responded concurred that competition was high.

Table 1 Nature of Bank Ownership

Ownership Frequency	Frequency	Percent
Local	30	83.3
Both local and foreign	6	16.7
Total	36	100.0

Source: Researcher 2010

4.2.2 Length of Service with Organisation.

The results presented in table 4.2.2 shows that the number of years of service in the current commercial banks varied from a period one year to over 15 years. 25% of the respondents had worked in their respective companies for a period of 1 to 5 years, 75% had worked for a period ranging from 6 years to over ten years.

The period of stay in the commercial banks indicated that majority are still new in their respective companies. However, none had worked for less than three years, this shows that there is high level of understanding of the banking industry amongst the respondents.

Table 2 Period with organization (years)

Years Frequency	Frequency	Percent
Less than 5 years	9	25.0
5-10 years	19	52.8
10-15 years	8	22.2
Total	36	100.0

Source: Researcher 2010

4.3 Challenges in the Commercial Banks to increased competition

This section covers findings from the specific questions posed to the respondents on the challenges faced by commercial banks to increased competition. Respondents identified the following as the major challenges facing their commercial banks. As shown in table 4.3. The data was analysed using mean scores to determine to what extent the listed challenges.

Table 3: Challenges in commercial banks

Challenges faced by commercial banks	Mean	Std Deviation
Liberalization	4.58	1.550
Legislative changes	3.50	1.269
Demanding clientele	3.40	1.350
Technological advancement	3.90	1.449

Source: Researcher 2010

Table 4.3 above shows that most of the challenges are faced by commercial banks to a great extent. Liberalization has a mean score of 4.58 meaning most of the banks rated it as the biggest challenge. 70.8 % of the respondents considered liberalization as major challenge, even though liberalization has been in the country for so long according to business trend review (1992) recessions and liberalization has made competition in Kenya market place stiffer as a result companies respond by actions such as lay off, cutting costs, adjusting target market, diversification, developing new products and making price cuts. The researcher thought that liberalization is no longer a major challenge in the banking industry but the results show that banks are still coping with liberalization.

Technological advancement had a mean score of 3.90, with 62.5% of the respondents rating it as a challenge to a moderate extent. According to some of these respondents to curb these challenge banks have to embark on Technological innovations that are not only expensive to adopt but also involve high rate of obsolescence.

In general, the findings presented in the table above shows all the variables except demanding clientele has a mean score greater than 3.50 indicating that they faced these challenges to a great extent. The findings are consistent because organizations today must grapple with revolutionary trends-accelerating product and technological change, international competition, deregulation, demographic changes and shift towards service improvement. These trends have increased drastically the degree of competition in virtually all industries. Either companies in such environments must become competitive or they varnish. The findings are consistent because the infiltration of the small banks into the market posed a great challenge to the already established banks forcing them to come up with new products. However, the highest standard deviation (1.550) indicates that respondents had the least consensus in this view.

4.3.1 Competitive Forces

This section sought to unravel the extent to which given competitive forces affected the banking industry. The results of the data analyzed using mean scores are as shown in Table 4. below:

Table 4 .Ranking of severity of competitive forces in the Banking industry

Severity of competitive forces	Mean	Std. Deviation
Rivalry at industry	3.89	0.785
Threat of substitutes	2.94	0.893
Power of suppliers	2.94	1.099
Barrier to entry	2.78	1.245
Power of buyers	2.69	0.471

Source: Researcher 2010

As shown on Table 4 the respondents indicated that competitive forces in the banking industry were shaped by rivalry at the industry had a mean score of 3.89, with 63.9% of the respondent rated rivalry at industry as very intense meaning that it is in agreement with Pearce II and Robinson Jr. (2005) when explaining porters model he noted that rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction, and advertising slug fests .This type of intense rivalry is related to the presence of a number of factors: Factor one is competitors are numerous this is true in the banking industry because they face competition from building societies, cooperative societies and Shylocks. Factor two, is that industry growth is slow according to bank supervisory report (2006) banks had reduced from 46 in the year 2001 to 44 in the year 2006.

Threats of substitutes had a mean score of 2.94, with 38.9% of the respondent rating it as moderate. The power of suppliers had a mean score of 2.94, with 26.5% of the respondent rating it as moderate while 47.1% rated it as low or very low intense this shows that the intensity of suppliers and substitute products are to a moderate extent. It can further be seen that the power of the buyers was the lowest ranked with a mean score of 2.69. This means that the buyers (bank customers) have very little influence on the operations of bank activities.

Barrier to entry was relatively lowly ranked with a mean score of 2.78, with 33.3% of the respondents rating it as an intense force meaning that barriers such as minimum capital requirement of Kshs.500 million for commercial banks is quite high. However, the highest standard deviation (1.245) indicates that respondents had the least consensus in this view.

The study then sought to investigate the reaction of the commercial banks to the competitive forces. The respondents were unanimous that the banks had responded to the competitive intensity and that the institutions had effected various responses in the last five years as a ways to combat the competitive forces.

4.4 Strategic Responses

This section covered findings from the specific questions posed to the respondents'. It was to determine whether the commercial banks carried out environmental analysis. It was to establish from the commercial banks what they had put in place as strategic responses for the identified challenges.

The respondents pointed out the strategic responses involved changes to the organizations employees' behaviour. These responses took many forms depending on the organizations capability and the environment in which it operated. It was noted by the researcher that good strategic responses put an organization at advantage point in its sustenance of the competitive edge. Amongst the strategic responses identified by the respondents were use of information technology, restructuring, marketing, change of culture, and improved customer services.

4.4.1 Information Technology

The changes in information technology in the commercial banks were investigated. All the respondents reported that they had witnessed IT changes in the banks in said period that is 2001-2006. The respondents gave an importance rating of the platforms in which the IT changes had taken place as shown in the Table 5 below.

Table 5: Information Technology changes in commercial banks

Information Technology strategies	Mean	Std. Deviation
Usage of real time systems	4.39	0.599
Interconnectivity of distribution channels	4.19	0.624
Efficiency of telecommunication system	3.81	0.822

Source: Researcher 2010

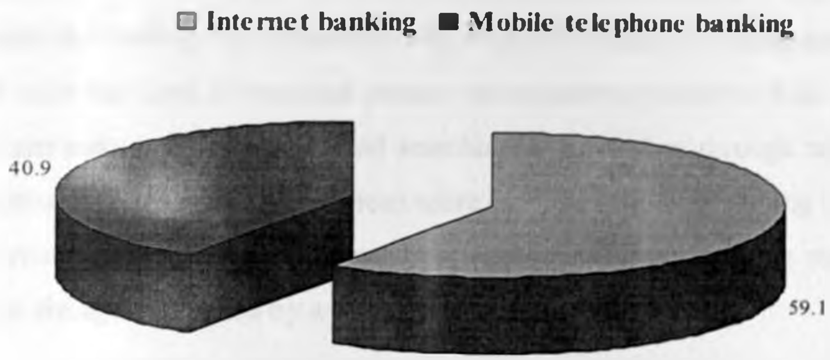
As evidenced by results in the table 5 above, it can be observed that 94.4% of the respondents rated usage of real time systems as the most important IT change effected by the commercial banks with a mean score of 4.39.This shows that this factor is very important. The low standard deviation (0.599) is indicative of a high consensus among respondents in this view.

Interconnectivity of distribution channels had a mean score of 4.19, with 88.9% of the respondents rating it as very important. These finding shows that many of the banks had actively moved towards having IT systems that meet global standards. This appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. This is in agreement with Porter and Miller (1985) who contend that information technology can also create new business within a company's activities.

The least ranked was 'efficiency of telecommunication system' which had a mean score of 3.81, with 66.7% of the respondents rating it very important. The lower ranking may not necessarily mean it is insignificant but rather, the fact that, telecommunication is largely provided by other independent players and therefore cannot be subjected to banks manipulation.

Other information technology changes reported by the banks are illustrated in the figure 4.1 below:

Figure 4.1: Other information technology changes



Source: Researcher 2010

Figure 4.1 illustrates that the internet (40.9%) and mobile banking (59.1%) were the other visible IT changes in the commercial banks. These shows that the some banks had integrated the use the common communication channels in their IT platforms. This is in agreement with a study by the chattered institute of bankers (1987) who noted that with the advent of the micro chip it has led to low cost technology solutions which provide a much higher quality service and convenience to the customer. Today customers can use debit and credit cards, ATMs, telephone banking, home banking and Electronic Funds Transfer at a Point of Sale (EFTPOS).

4.4.2 Restructuring

The nature of restructuring in commercial banks was investigated and results of the percentages and mean rankings shown in Table 4. 6 below:

Table 6: Extent to which changes in restructuring affected the bank

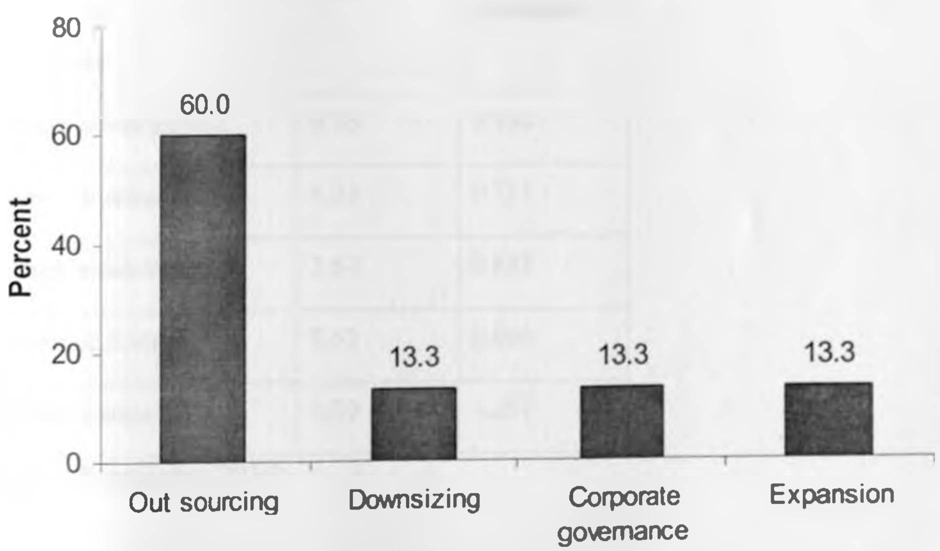
Responses to restructuring	Mean	Std. Deviation
Cost cutting	3.58	0.692
Right sizing	3.38	1.074
Retrenchment	2.47	0.706

Source: Researcher 2010

As shown in Table 6 above, cost cutting was the form of restructuring most carried out and had a mean score of 3.58, with 58.3 % of the respondents rating it as a great extent. This therefore means the findings are consistent with what was stated by Thompson (1997) that cost cutting can take the form of business process re-engineering where a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. Right sizing had a mean score of 3.38, with 44.1% rating it as a moderate change in restructuring. However, there was the least consensus among the respondents with regard to right sizing as indicated by a standard deviation of 1.074.

Retrenchment was the least form of restructuring implemented as indicated by a mean score of 2.47, with 41.2% of the respondents who rated that commercial banks does not consider this factor when undertaking restructuring. This means that retrenchment is a temporary occurrence in an organization history that is why it has a lower mean score. This is in agreement with McCarthy *et.. al*, (2002) who stated that retrenchment is not a turn around, since it takes place in a basically healthy situation and is usually of relatively short period may be during times of slow economic growth. The respondents were required to state and rank other forms of restructuring witnessed in their organizations. These are shown in Figure 4.2 below.

Figure 4.2: Other forms of restructuring in the commercial banks



Source: Researcher 2010

Out sourcing was reportedly the most widely practiced form of restructuring as reported by 60 per cent of respondents in banks that had carried out other forms of reorganization. This is shown in the figure above which is in line with Hammer (1996) who stated that outsourcing, for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. These show that banks, which have traditionally been very conservative, are no longer averse to outsourcing non-core services so as become more competitive. Downsizing, corporate governance and expansion all had 13.3 per cent .These findings reveal that banks consideration on these options of restructuring is not very high.

4.4.3 Marketing

This objective sought to find out the extent to which commercial banks had implemented marketing strategies that reflected the reality of the changes in competition within the banking sector. The results obtained indicate that all the respondents (100 per cent) concurred that there had been changes in marketing in their commercial banks during the five year period preceding this study.

Table 7: Extent of marketing strategies adopted in your bank

Marketing Strategies	Mean	Std. Deviation
Product development	4.16	0.954
Market development	4.03	0.717
Market penetration	3.64	0.833
Marketing focus	3.53	0.696
Diversification	3.39	1.257

Source: Researcher 2010

Results in Table 4.7 above shows that product development was the most highly ranked in terms of importance and had a mean score of 4.16 this means that it is the marketing strategy mostly adopted by the banks. This is in agreement with Thompson and Strickland (1993) who contended that a number of strategic marketing variables may be manipulated to respond to a competitive situation. This, according to them, includes adjusting of target market, developing new products, distribution changes, diversification and making price cuts.

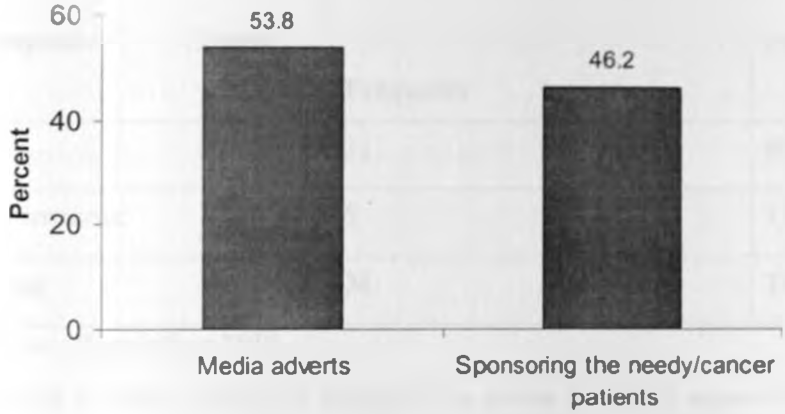
Market development had a mean score of 4.03 and market penetration had a mean score of 3.64, with76.5% and 52.8% respectively of the respondents rating them as very important. This is true, according to the respondents, with the commercial banks in Kenya whereby after developing new products they search for untapped verticals, virgin geographies or other new opportunities which is in agreement with Pearce and Robinson (2001). The latter suggests that banks set a strategy to actively identify new markets (geographic) for their products.

Diversification had a mean score of 3.39, with 39.3% of the respondents who ranked it least in terms of importance as a marketing strategy adopted by commercial banks implying that banks did not actively pursue it as a marketing strategy.

In general, two factors were rated important that is product development and market development with mean scores of between 4.0 and 5.0. Market penetration and market focus had a mean score of 3.0 to 3.9 meaning that they are moderate in terms of importance only diversification had a mean score of less than 3.5.This shows that according to the respondents these factor do not or slightly is undertaken by most banks.

The respondents were further asked to cite any other marketing strategies relating to marketing that have been seen in the banks. The responses elicited are as shown in Figure 4.3 below.

Figure 4.3: Other marketing strategies adopted by commercial banks



Source: Researcher 2010

As illustrated in Figure 4.3 other apparent marketing strategies in the banks included media adverts 53.8 (%).The findings on the use of newspaper advertisement and brochures in an earlier study by Nyaga (2003), which noted that private or middle level colleges rely on such methods as using the media in a bid to create awareness of the existence of a product in the market. In fact, when asked if they participated in any community activities such as sponsoring the needy only 46.2 % of the respondents said that they had allocations to support the society they live in. The latter implies that the banks not necessarily draw a line between corporate responsibility and marketing.

4.4.4 Corporate Culture

The study also sought to determine whether the corporate culture of the commercial banks had changed. The respondents were asked if any notable changes had been perceived in this regard within the five year period preceding this study. Table 8 shows that 86.1 per cent of the respondents had noted changes in the banks corporate culture. Thirteen percent were not committal on the same. They indicated that the way they do things in the organization today is not how they did it a year earlier therefore confirming the fact that culture is dynamic.

Table 8: Noted changes in corporate culture at bank in the last five years

Response Extent	Frequency	Percent
Yes	31	86.1
No response	5	13.9
Total	**36**	**100.0**

Source: Researcher 2010

Table 4.9 below shows the rating of the extent to which aspects of corporate culture had been witnessed in the commercial banks.

Table 9: Extent of changes in the banks corporate culture

Change to corporate culture	Mean	Std. Deviation
Branding of corporate building	3.65	0.691
Nature of internal communication	3.58	0.692
Change of organizational logo	2.88	1.185
Changes in architectural design	2.77	0.568
Staff dress code	2.50	0.707

Source: Researcher 2010

The responses obtained show that branding of corporate building had a mean score of 3.65, with 64.7 % of the respondents rating it as a very intense change in culture. The nature of internal communication had a mean score of 3.58 with 58.3 % of the respondents noting that it was most notable change relating to corporate culture. This supports the findings in earlier study, Fisher (1988) who noted that communication of what is happening in organization relieves panic. According to him, he says that even if a manager does not know everything that is going on silence is always a worst policy.

Changes in organizational logo had a mean score of 2.88 with 37.5% of the respondents rating it as moderate. This shows that this factor is moderate and sometimes an intense change.

Changes in architectural design had also been implemented with a mean score of 2.77, with 63.3% of the respondent rating it moderately. This factor is associated with the highest standard deviation (1.185) illustrating the clash of views. This implies that while some banks may choose to re-brand by changing the logo, others will never want to touch their symbol of the goodwill developed over many decades.

Staff dress code had a mean score of 2.5 which shows that it was relatively ranked lowest as a cultural change effected in the banks. This means that staff dress code is moderate factor in culture change. Other changes in corporate culture reported were team building and training in telephone handling. In fact some respondents said that they have taken up as their responsibilities to ensure that emphasis continues on we achievement rather than concentrating on individual performance.

4.4.5 Service Delivery

This objective aimed to bring to light the relation between service delivery and attainment of competitive advantage in commercial banks. It specifically sought to establish the relative weights aspects of service delivery were regarded in the banks. First and foremost, all the respondents attested to existence of changes in service delivery in the banks within the last five years. Table 4.10 below shows the extent of various changes in service delivery.

Table 10: Extent of changes in service delivery

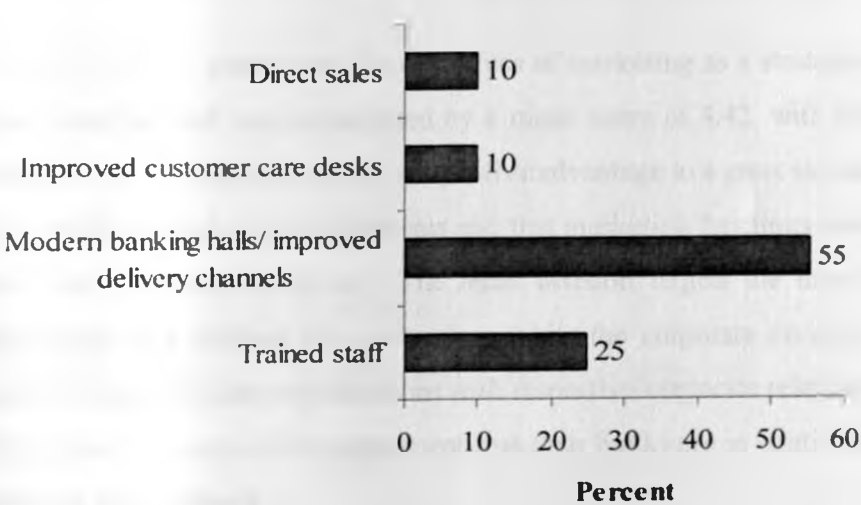
Changes in service delivery	Mean	Std. Deviation
Reduction of complaints	4.53	0.609
Identification of customer need	4.39	0.494
Friendly customer care	4.36	0.683
Reduction of service delivery time	4.14	0.833

Source: Researcher 2010

The results shown above table 4.10 indicate that changes in service delivery carried in banks were rated highly in terms of importance. This is evidenced by the high means in the scores given by the respondents. The low standard deviations reiterate the same. Among the changes in service delivery, reduction of complaints and identification of customer need were the most important factors with a mean score of 4.53 and 4.39 respectively. 94.4% of the respondents rated reduction of complaints as very important change which shows that on average most banks always or sometimes put into consideration in an attempt to improve service delivery and to maintain high levels of customer satisfaction.

Respondents also reported that identification of customer need was very important this is in agreement with the marketing concept which holds that the key to achieving organizational goals lies in determining the needs and wants of the target market and delivering the desired satisfaction more effectively and efficiently than competitors. Kotler, (2003). Friendly and responsive customer care is also an important change in with 88.9% rating it as very important and 11.1% rating it moderately important. Mean score of 4.36 shows that it is a very important factor as rated by the respondents. The reduction of service delivery time had mean score of 4.14, with 72.2% rating it very important. This shows that banks consider their customers time as very precious and have no intention of wasting it. Other identified changes relating to service delivery are shown in Figure 4.4.

Figure 4.4: Other changes relating to service delivery



Source: Researcher 2010

The Figure 4.4 shows that modernization of banking halls (55 per cent) was the other change in service delivery carried out in many banks. This shows that many banks had made efforts to support changes in service delivery by an improvement in the physical bank facilities. The respondents added that the modernization is expected to capture and reflect the new outlook of the banks. In addition, (25 per cent) of the respondents pointed out that the banks had trained staff on aspects of service delivery. Overall, the respondents were asked to give a rating of the extent to which given strategic responses were perceived to be implemented in their commercial banks. The results obtained are as shown in Table 4.11 and Figure 4.5.

Table 11: Ranking of strategic responses to increased competition

Strategic Responses	Mean	Std. Deviation
Information technology	4.28	0.779
Restructuring	3.58	0.692
Marketing	4.42	0 .692
Corporate culture	3.28	0.849
Service improvement	3.92	0.732

Source: Researcher 2010

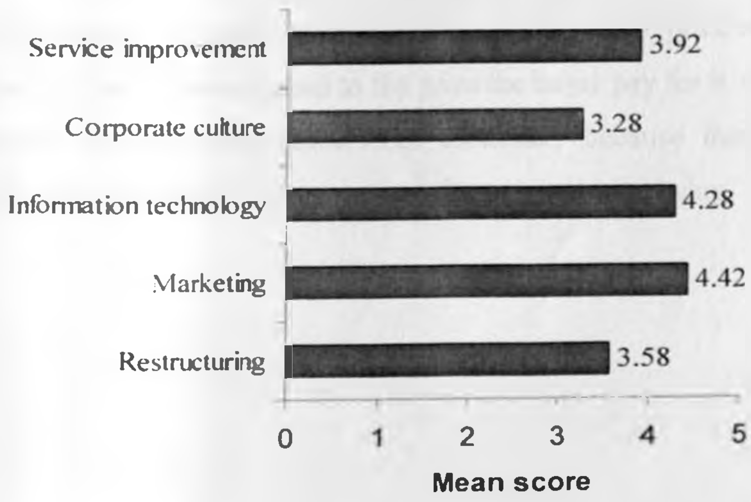
Table 4.11 above shows that the objectives of marketing as a strategic response were rated to have been the best met as indicated by a mean score of 4.42, with 88.9% of the respondents ranking it as a response to attain competitive advantage to a great extent. This means that banks have redefined their market segments and that marketing functions have been reorganized into retail and corporate divisions. The retail division targets the mass market that comprises individuals and medium size enterprises while the corporate division serves the specialized needs of large business organizations with respective corporate relationship manager in charge. The respondents were all in agreement that their banks are in continuous development of new products. (See Table 4.7).

Information technology was also highly ranked with a mean score of 4.28. 80.6% of the respondent noted that IT was a great extent response. These findings imply that the commercial banks were seen to have mainly directed their strategic response efforts to marketing and information technology. This finding is also subject to the critic by Hornberger, (2002) who noted that competitive advantage is not always sustainable because competitors can retaliate and copy strategic systems.

Service improvement had a mean score of 3.92 which shows that commercial banks put this factor into consideration with an aim to build consumer relationship. This is in agreement with an earlier study by Adoyo (2003) who noted that service delivery network enabled Kenya Post Office Savings Bank to increase its deposit base from KShs.6.72Billion in 2000 to 10.52 Billion as at June 2005.

Respondents also reported that restructuring have received attention by the banks and had mean score of 3.58. This shows that restructuring is a response to attain competitive advantage to a moderate extent. The lowest rated was corporate culture had a mean score of 3.28 with 41.7% of the respondents rating it to a great extent. This is in agreement with Amit and Schoemaker, (1993) who noted that culture has also been classified as a strategic asset and has also been associated with sustainable competitive advantage and is a desirable source of creating causual ambiguity. A strategic asset takes time, skill and capital to develop and investment in them is irreversible. It is determined at the market level through complex interactions among competitors, customers, innovators and regulators and that their pace of accumulation may be affected by managerial actions. These ratings are further illustrated in Figure 4.5.

Figure 4.5: Strategic responses to increased competition.



Asked to enumerate any other responses initiated by the bank to attain competitive advantage, the informants gave the views shown in Table 4.12 below:

Table.12: Other strategic responses observed

Response Frequency	**Frequency**	**Percent**
Pricing of products/competitive interest rates	18	29.0
Road to ISO certification	8	12.9
Strategic alliance/positioning	8	12.9
Legal compliance	5	8.1
Staff training/dedication and professionalism	5	8.1
Corporate responsibility	5	8.1
Advertisement	5	8.1
Robust management structures	4	6.5
Innovation/new products introduction	2	3.2
Bench marking	2	3.2
Total responses	**62**	**100**

Source: Researcher 2010

The responses above in table 4.12 show that banks invoked a wide range of responses in a bid to respond to increased competition. It can be seen that commercial banks often implemented a set of actions to gain leverage in competitiveness. Pricing of products/competitive interest rates was the most used as indicated (29 per cent) of the responses obtained. This is in agreement with Porter (1985) who gives importance to the value /price ratio, which is the value a product gives to the buyer compared to the price the buyer pay for it. Commercial banks have taken the pricing of their products/services cautiously because they associate it with quality and affordability, which is a key success factor in industry today.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the study findings, challenges encountered and conclusions and recommendations arising. The chapter concludes with the limitation to the study and suggestions for further study

5.2 Summary

The study revealed that, commercial banks are faced with many challenges and liberalization was taken to be the challenge that is a threat to the industry. Other challenges include technological advancement and demanding clientele. In this study, Information Technology appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. The results of this study tally with the findings of Gathoga (2001) that the commercial banks are in competition and their products and services differential is quite thin hence need for restructuring.

From the findings, it was clear that strategic responses concur with literature available on how to respond to challenges. The findings indicated that strategic responses within the commercial banks were undertaken mainly to address the major challenges in the banking industry. This includes the impact of liberalisation of the banking sector, inadequate resources both financial and human resource, use of obsolete and outdated technology, lack of research and development, poor marketing strategies, inhibiting government policies, lack of strategic direction and corruption.

The study also revealed that a number of strategic marketing variables are manipulated by commercial banks to respond to increased competition in the banking sector. These include; developing new products, market focus and market development. Further the study revealed that branding of corporate building and nature of internal communication were most notable changes relating to corporate culture most effected in commercial banks. This is in agreement with Schein (1985) who concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

It was evident from the findings that the challenges were not unique to one company. Most of the companies had responded to the challenges by taking various measures. This was through setting the vision, mission and values of the companies. Strategic analysis by the various companies followed which entailed evaluation of the past performance and conducting SWOT analysis. The companies then developed strategic objectives to counter the challenges. Strategic responses were developed to address the specific strategic issues. These included adoption of appropriate research technologies to enhance efficiency, mobilisation of resources and prudent utilization and investment of available resources and optimum capacity. Other strategic responses included the adoption of globally competitive banking routine, environmental and marketing strategies, lobbying for review and harmonization of the policies and legislation governing the banking industry.

5.3 Conclusion

The research findings established that the commercial banks responded to the challenges in different ways. The findings indicated that the commercial banks adopted several strategies. Key among them included information technology, marketing, restructuring, corporate culture, improving of service delivery, lobbying for Industry and product diversification.

The researcher further established that strategic responses were critical in turning around most of the commercial banks. The responses adopted and implementation by management provided a conducive environment in addressing the challenges. Commercial banks that had no clear strategic responses and procedures performed poorly. The researcher also noted that the some of the commercial banks management team had a clear vision of where the company was headed. This made it possible for the identified challenges to be responded to successfully.

The researcher noted that the commercial banks needed to continuously monitor the environment in order to respond to the challenges on time. The industry has never had a common focus on its operation and needs. As a result, stakeholders have tended to work at cross-purpose. Regulatory body needed to be strengthened in order to facilitate on cross cutting issues and challenges. This should go hand in hand with developing and strengthening of appropriate structures for monitoring and evaluation of the strategic responses. The research findings were consistent with findings by Wairegi (2004) that strategic responses by the insurance companies in Kenya had improved performance of the industry significantly. It further reaffirms the findings by Kandie (2001) that lack of consistent strategic response can easily run down an organisation especially in a turbulent environment. It was noted from the findings that strategic responses were on going in most of the commercial banks and some of the response have yielded positive results.

5.4 Limitations of the study

In the study there were some limitations encountered of the major limitation of this study was that some bank managers refused to cooperate because they were suspicious about the purpose of this study while some left threatened to disclose their information at their advantage of their competitors. Due to this researcher, however this was taken care of since the researcher presented himself as a customer these institution hence informal discussions helped to gather important information for the purpose of the study.

Though this project had targeted to interview respondents only 36 out of the 66, (54.54 per cent) responded to the questionnaires. To take care of this, financial statements, monthly reports and observations were used to solicit more data on strategic responses. The amount of funds available for the research was not enough to cater for the research exhaustively. Therefore, the researcher was unable to cover the total population in each bank's headquarters', hence a sample of two respondents.

5.5 Suggestions for Further Research

This research project focused on the analysis of the strategic responses of commercial banks in Kenya to increased competition. The study was carried out on headquarters of commercial banks in the city of Nairobi. Three stage stratified random sampling was used in analyzing the strategic responses towards attaching competitive advantage in these banks and hoped by the researcher that it is a representative of all the forty four commercial banks operating in Kenya for comparison purpose the following areas deserve further study: an analysis of strategic responses towards attaining competitive advantage in other industries in Kenya. On a wider scope, the same study can be extended to establish the competitive strategies adopted by micro finance institutions in Kenya.

5.6 Recommendations for Policy and Practice

Based on the findings already discussed, the following recommendations were suggested. First, for commercial banks to facilitate better interconnectivity of the banks branch networks as well as their client's they have no option but to ensure that they adapt to the ever-changing technology since it's a weapon of competitive advantage. In addition, the benefits of restructuring are long-term in nature, yet the stakeholder would like to realize the rewards from the exercise within the shorter term. This has created some disillusionment with the viability of the whole process. The management is expected to help cultivate some positive attitude from all such stakeholders on the need of cost cutting, retrenchment and right sizing.

Most respondents felt that commercial banks were not doing enough in the area of promoting their products, it is of paramount importance that they become more aggressive in advertising, personal selling and sales promotion so as to tap potential consumers who up to date do have bank accounts Finally, notable changes relating to corporate culture is most effected in commercial banks. The recommendation is that service improvement and positive change in the way things are done is the way forward in the banking industry since customers play a pivotal role in determining the survival of any business in this era of competition. The banks should ensure that customer care programme is a central focus in their marketing strategy. They should forever aim at providing customer service that sometimes exceeds customer satisfaction.

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APPENDICES

Appendix I: Questionnaire

Responses by Commercial Banks in Kenya to Increased Competition.

INSTRUSTIONS:

- **Two Questionnaires should be filled by ANY TWO MANAGERS;** General Managers, Marketing, Operations or Human Resource Managers.
- Please answer the following questions. Where applicable, Please mark the relevant box with a tick ( )

Section A: Respondents Profile

1) Name of the Bank --

2) Indicate the ownership of your Bank

a. Local ( ) Foreign ( )

b. Both Local and Foreign ( )

3) Number of years of service at your Bank

a. Less than 5 years ( ) 5-10 years ( )

b. 10-15 years ( )

Section B: Challenges facing commercial banks in Kenya

4) Please, indicate to what extent has the following challenges affected your bank?

Challenges facing Commercial Banks	To no extent	Little extent	Moderate	Great Extent	Very great extent
Liberalization					
Legislative changes					
Demanding Clientele					
Technological advancement					

Please, indicate other challenges affecting your bank and specify to what extent?..

....

5) Please indicate the severity of the following competitive forces in the banking industry?

Competitive forces	To no extent	Little extent	Moderate	Great Extent	Very great extent
Barrier to entry					
Rivalry of industry					
Threat of Substitutes					
Power of buyers					
Power of Suppliers					

6) Has your Bank responded to the above competitive intensity?

Yes ( ) No ( )

Section C: Strategic Responses

7) Have there been changes in information technology at your bank in response to increased competition?

Yes ( ) No ( ).

8) To what extent have the following information technology options been adopted in response to increased competition?

Information technology factors	No Importance	Little Importance	Moderate Importance	Important	Very Important
Usage of real time systems					
Interconnectivity of distribution Channels					
Efficiency of telecommunication system					

9) Please, indicate other changes relating to information technology at your bank in response to increased competition and specify to what extent?

....

....

10) Have there been changes in marketing at your bank in response to increased competition?

Yes ( )   No ( ).

11) To what extent has the following marketing strategies been adopted in your bank in respon to increased competition?

Marketing Strategies	No extent	Little extent	Moderate	Great extent	Very great extent
Market focus					
Market penetration					
Market development					
Product development					
Diversification					

12) Please, indicate other changes relating to marketing and specify to what extent?..

....

....

....

13) Has there been corporate restructuring at your commercial bank in response to increase competition?

Yes ( )   No ( ).

14) To what extent have the changes relating to restructuring been adopted in your bank in response to increased competition?

Restructuring strategies	No extent	Little extent	Moderate	Great extent	Very Great extent
Cost cutting					
Retrenchment					
Right sizing					

15) Please, indicate other changes relating to restructuring and specify to what extent?..

....

16) Have there been changes in corporate culture at your bank in response to increased competition?

Yes ( ) No ( ).

17) To what extent have the changes relating to cultural change being adopted in your bank in response to increased competition?

Factors relating to corporate culture	Very low	Low	Moderate	Intense	Very Intense
Changes in architectural design					
Branding of corporate building					
Change of Organizational logo					
Nature of internal communication					
Staff dress code					

18) Please, indicate other factors relating to cultural change and specify to what intense?..

....

19) Have there been changes in terms of service delivery at your bank in response to increase competition?

Yes ( ) No ( ).

20) To what importance have the changes relating to service delivery being effected in your bank in response to increased competition?

Factors relating to Service improvement	No Importance	Little Importance	Moderate Importance	Important	Very Important
Identification of customer need					
Reduction of complaints					
Reduction of service delivery time					
Friendly customer care					

Please, indicate other changes relating to service delivery and specify to what extent?...

....

21) To what extent has the following competitive strategies been adopted in your bank in response to increased competition?

Competitive strategies	No extent	Little extent	Moderate	Great extent	Very Great extent
Cost leadership					
Differentiation					
Focus					

22) To what extent have the objectives for these strategic responses at your bank being achieved in response to increased competition?

Objectives of the Responses	To no extent	Little extent	Moderate	Great extent	Very great extent
1) Information Technology					
2) Restructuring					
3) Marketing					
4) Corporate Culture					
5)Service improvement					
6) Other Response (Specify)					

23) Please, state any other responses that your bank has adopted to increased competition?...

....

....

THANK YOU FOR YOUR CO-OPERATION

Appendix 2: List of All Financial Institutions in Kenya

1. African Banking Corporation Limited
2. Akiba Bank limited
3. Bank of Baroda (Kenya) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Bank Limited
7. Chase Bank (Kenya) Limited
8. Charterhouse Bank Limited
9. Citibank NA
10. City Finance Bank Limited
11. Commercial Bank of Africa Limited
12. Consolidated Bank of Kenya Limited
13. Cooperative Bank of Kenya Limited
14. Corporative Merchant bank
15. Credit Agricole Indosueze
16. Credit Bank Limited
17. Development Bank of Kenya Limited
18. Diamond Trust Bank Kenya Limited
19. Dubai bank Kenya Limited
20. Equatorial Commercial Bank Limited
21. Equity Bank
22. Family Bank
23. Fidelity Commercial Bank Limited
24. FINA Bank Limited
25. First American Bank of Kenya Limited
26. Guardian Bank Limited
27. Giro Commercial Bank Limited
28. Habib Bank A. G. Zurich
29. Habib Bank Limited
30. Imperial Bank Limited
31. Industrial Development Bank Limited
32. Investment and Mortgages Bank Limited
33. Kenya Commercial bank Limited
34. K-Rep Bank Limited
35. Middle East Bank Kenya Limited
36. National Bank of Kenya Limited
37. National Industrial Credit Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Southern Credit Banking Corporation Limited
41. Stanbic Bank Kenya Limited
42. Standard Chartered Bank Kenya Limited
43. Trans-National Bank Limited
44. Victoria commercial Bank Limited