

**COMPETITIVE POSITIONING OF KCB IN THE KENYAN
BANKING INDUSTRY WITH REALIGNMENT OF ITS
MORTGAGE SUBSIDIARY S&L INTO THE MAIN BANK
OPERATIONS**

BY

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DECLARATION

This management research project is my original work and has not been submitted for examination in any other University.

Signed.....

Date

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D61/70723/2009

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

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DEDICATION

This project is dedicated to my dear husband Peter Kagechu who inspired, encouraged me and made me believe that I am capable.

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ABSTRACT

All organizations operate in an environment which influence the way they operate. In this age and time organizations have to understand the competitiveness in its industry and identify the best strategy that would give it an edge over its competitors. For an organisation to continue to achieve their goals and overcome the operating environmental turbulence it is imperative to constantly scan the operating environment and develop response strategies aimed at overcoming any adverse effects of such turbulence. The banking industry is very competitive. The property industry has been experiencing a lot of growth in the recent past this has attracted a lot of banks venture into Mortgage business examples include Equity bank, Co-operative bank, Consolidated bank, Gulf African bank. There is a lot of optimism and anticipated business opportunity in the property market.

The research was a case study of Kenya Commercial bank Limited (KCB). The study focused only on the realignment of S&L the KCB mortgage subsidiary into the main bank operation KCB to attain a competitive position. The research respondents were the KCB top management. The study had two objectives; To establish the competitive position of KCB in the banking industry with realignment of its Mortgage Subsidiary S&L in to the main bank operations and to establish the challenges facing KCB with increased competition in the banking industry. In an effort to meet these objectives the pertinent primary and secondary data was collected. The primary data was collected from personal interviews with the respondents who were responsible during the planning and implementation of the realignment of S&L into the main bank KCB operations. The

secondary data was collected from various sources. The data was analyzed using content analysis.

The study established that the Kenyan banking industry has grown tremendously. With this expansion of the industry in terms of the providers of the banking services KCB has had to review its operations in order to attain a competitive position in the banking industry. The substitute bank products have flooded the market. There has been an increased exposure of the consumers of these bank products with the high levels of education hence customers are more informed and know their rights. This has enhanced the power of buyers pushing KCB to remain continuously innovative on its set of products to suite the customer needs. KCB strategic responses are now very much influenced by the prevailing market condition, customer needs and expectations. There has also been a continuously increasing demand for properties in the Kenyan market. The study established that this increased property demand posed a lot of challenge for KCB to position itself well and grow its business through selling the Mortgage product. This is backed by S&L which was a fully owned subsidiary of KCB and had unique capabilities in mortgage lending business.

A study can be carried out on the strategies employed by other players in the banking industry to achieve a competitive position in the banking industry. The study can be in the context of the increased property demand and how banks can position themselves to tap into the mortgage business.

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CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

All organizations operate in an environment which influence the way they operate. The banking industry is very competitive. The property industry has been experiencing a lot of growth in the recent past this has attracted a lot of banks venture into Mortgage business examples include Equity bank, Co-operative bank, Consolidated bank, Gulf African bank. There is a lot of optimism and anticipated business opportunity in the property market. KCB decided to restructure its business process by realigning its Mortgage Company S&L its fully owned subsidiary into the main bank operations. This is a strategy enables the bank to take advantage of its wide branch network to increase its business volume making every branch in the network a one stop shop and take advantage of S&L expertise in Mortgage lending to grow the business. This major change in the bank structure gives it a competitive edge in the banking industry and strengthens the bank capacity to finance huge housing projects in the region.

According to Ansoff and McDonnell (1990) organizations are environment dependent and environment serving. Organizations are in constant two way interaction with the environment. They receive inputs from the environment, transform and add value to them and return the outputs in the form of goods and services back to the environment, which is beyond the organisation control. Environmental change creates pressure for change in the organisation and this means that they have to respond to relevant external change to ensure that they survive. Grundy (1995), states that responsiveness and flexibility are increasingly important factors that determine the success of an organisation. Hill and

Jones (2001) state that the achievement of superior efficiency, quality, innovation and responsiveness enables the organization to create superior value and attain competitive advantage.

According to Hill and Jones (1999) strategic managers need to develop a new strategy and structure to raise their level of business performance. Even companies that hold a strong position may choose to restructure, simply to build and improve their competitive advantage and stay on top.

1.1.1. Strategies for competitive positioning

In this age and time organizations have to understand the competitiveness in its industry and identify the best strategy that would give it an edge over its competitors. According to Porter (1985) for organizations to survive in the market they should formulate strategies that adequately respond to the competition. Such strategies should place them at a position of advantage in the market and give them a competitive advantage in the market and give them a competitive edge (Porter, 1985).

The external component should have a strategic fit with the internal environment, which includes the organisation systems, policies, resource capability and its corporate culture (pearce and Robinson, 1997). Miller (1998) stipulates that organizations exist in a complex commercial, economic, political, technological, cultural and social environment. These environment changes are more complex to some organizations than others. For survival an organisation must maintain a strategic fit with the environment. The environment is important and an organisation has to respond to its dynamism,

heterogeneity, instability and uncertainty (Thompson, 2002). In addition, the competitive environment has been and continues to be driven by technological innovations, globalization, competition, extreme emphasis on price, quality and customer satisfaction. As a result organizations must continuously create and innovate in order to stay relevant and successful.

For an organisation to continue to achieve their goals and overcome the operating environmental turbulence it is imperative to constantly scan the operating environment and develop response strategies aimed at overcoming any adverse effects of such turbulence. Response strategies should always achieve strategic fit for the organisation. (Johnson, Scholeand Whittington, 2006).

Thompson (2007) stipulates that while core competencies and competitive capabilities are a major assist in executing a strategy, they are an equally important avenue for securing a competitive edge over rivals in situations where it is relatively easy for rivals to copy smart strategies. Any time rivals can readily duplicate successful strategy features, making it difficult to out-strategize rivals and beat them in the market place with a superior strategy. The chief way to achieve lasting competitive advantage is to out-execute them. This can involve building core competencies and competitive capabilities that are very difficult or costly for rivals to emulate and that push the company closer to true operating excellence and promote very efficient strategy execution. Moreover core competencies and competitive capabilities present resource strengths that are often time consuming and expensive for rivals to match or trump. Any competitive edge they produce tends to be sustainable and paves the way for above average company performance.

Wooldridge & Ford (1990) notes that the environment is a critical factor for any organisation survival and success. It should be seen as a biosphere in which individuals and organisation live over the long-term and as a community project in which to be actively involved. It is a resource to be managed and to be shared.\), hence the need to effectively manage the value chain system and establish collaborations, partnerships and to get involved in social responsibility to enrich this resource and enhance corporate image of the organisation. It is noted that many organizations are now more than ever being involved in social responsibility since a good image can also be a source of competitive advantage. It is imperative that managers apply critical investigations into the realities of the changing environment of this millennium through enlightened diagnosis of the problem it poses. The political and economic environment for example can influence the life styles and the health of people. This same environment should also be seen as a system, which calls for profound understanding inured to improve decision-making and to recognize the links between the past, the present and the future and also between local and global matters. This necessitates strategic managers to view the environment and understand the concept of competitive positioning in the market. For a firm to survive in the market it should acknowledge the existence of competition in the market. The firm must identify its capabilities and competencies. That is a firm should identify what are its core competencies. Distinctive capabilities are the basis of a firm's competitive advantage. The opportunity for a company to achieve competitive advantage is determined by its two kinds of capabilities that is – distinctive capabilities and reproducible capabilities and their unique combination you create to achieve synergy.

1.1.2 Context: The banking industry in Kenya

The Kenyan business environment has been undergoing drastic changes for some time now. Some of the changes include the accelerated implementation of economic reforms. The liberalization of the economy, discontinuation of price controls, privatization and commercialization of the economic sector and commercialization of public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities.

The banking industry in Kenya is governed by the Companies Act, the Banking act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Before 1995 the banking sector was operating under strict guidelines with exchange controls being in place. In 1995 the sector was liberalized and change controls lifted.

The Central Bank of Kenya, which falls under the docket of the minister of Finance, is responsible for formulating and implementing the monetary policy, fostering liquidity, solvency and proper functioning of the financial system. The CBK publishes information on the Kenya Commercial banks

According to Central bank of Kenya annual report (2009) as at the end of June 30, 2009, the Kenyan Banking sector maintained high capital adequacy ratios, adequate liquidity and low non-performing loans in relation to gross loans. The total shareholders' funds, deposits and assets expanded by 25.4 percent, 9.5 percent and 15.0 percent respectively. Liquidity was considered strong, with the ratio of liquid assets to total deposit liabilities

at 40.9 percent, well above the statutory minimum requirement of 20 percent. The overall performance of the banking sector was rated strong by June 2009. As at June 30, 2009 the Kenyan banking sector comprised of 43 commercial banks, 2 mortgage finance companies and 123 foreign exchange bureaus. The sector witnessed an increase in the branch network from 772 branches in June 2008 to 930 in June 2009 representing a growth of 20.5 percent. One deposit taking microfinance institution, namely Faulu Kenya was issued with a license to allow it to take deposits from the public during the period under review. Further, the Bank approved 29 business names for applicants seeking to operate as deposit taking microfinance institutions which is the first stage in the licensing process.

1.1.3. Kenya Commercial Bank Ltd

According to the KCB website (2010) the history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance.

Kenya Commercial Bank engages in both retail and corporate banking. Commercial banking is handled by the main arm of the business in respective countries. Kenya Commercial Finance Company deals with investment decisions of the company; Savings and Loans until recently used to handle mortgage finance; KCB Foundation is responsible for the corporate social responsibility; property ownership and management is the responsibility of Kencom House Ltd.

As at the end of 2008, KCB had 187 branches spread through out the region in Kenya, Uganda, Tanzania, Rwanda and South Sudan. The company was estimated to be worth Ksh 21 billion. Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam in 1997. Since then, the subsidiary has 11 branches. In May 2006 KCB extended its operations to Southern Sudan. The subsidiary now has six branches. The latest addition into the KCB Family came in November, 2007 with the opening of KCB Bank Uganda Limited which has eleven branches. In December 2008 KCB Rwanda began operations with one branch at Kigali. There are currently eleven branches spread out in the country.

The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank.

In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1% after raising additional capital for kshs 5.5billion. The remaining 66.9% is owned by private companies and individuals of which NSSF and Stanbic hold majority of the shares at 5.3% and 3.4% respectively.

With the objective to become the best bank in the region, KCB rebranded, from Kenya Commercial Bank to the abbreviated KCB and the current green corporate colour, this gives the bank a less Kenya specific title.

KCB has made heavy investments in technology. In the year 2008 the bank launched T24 banking software platform. This has made the bank a one branch network since customers can access their account details for any transaction at no extra cost.

Recently the bank made a move to realign its mortgage company S&L with the main bank KCB. This was a major change in the bank structure and its operations. This has lead to consolidation of resources, and cost sharing. S& L will expand its market scope. S&L will make use of the wide branch network to sell the mortgage products. The bank has used this restructuring to sell to expand its Mortgage business

1.2 Statement of the problem

In recent times, operating business the world over has become very dynamic. Competition has consequently placed organizations in a state of alertness. In order to survive this dynamic environment, organizations need strategies to focus on their customers, and deal with emerging environmental challenges. It is therefore imperative for organizations to respond appropriately to competitive environment to remain viable. Having a decisive competitive edge over peers has become an endless preoccupation for many organizations.

In this age and time organizations have to understand the competitiveness in its industry and identify the best strategy that would give it an edge over its competitors. According

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

KCB is a key player in the industry for many years and a market leader in its niche. KCB has also been in the Mortgage business for many years since the time it acquired Savings & Loan (K) Ltd in 1972, to specialize in mortgage finance. The bank has been eyeing the increasing demand for home ownership thus an expected growth in the Mortgage business. Buoyed by the its restructuring that brought together its banking operations and its mortgage subsidiary, Savings and Loan (S&L), on January 1, 2010, KCB aims to leverage its wide branch network and financial muscle to finance housing projects across the region. With the bank balance sheet of Sh183 billion as at September 30, 2009, the bank will be able to finance even larger projects than it would have as S&L. This is understandable given that, under the Banking Act, banks and other financial institutions are limited to lending to any single borrower up to a maximum of 25 per cent of its core capital. In Kenya, average demand for housing is 150,000 units annually, against a supply of 30,000 only. The realignment will enable KCB to face competition locally, including the resurgent and only remaining stand-alone mortgage financier, Housing Finance, and fellow commercial banks engaged in the mortgage business. Regionally, it is a major boost for KCB's mortgage financing, especially in Southern Sudan where huge infrastructure projects are on going as part of the country's reconstruction process, following years of civil strife.

Generally the Kenyan financial, property business and the business environment has undergone tremendous change. Commercial banks are realizing that stiff competition in the banking industry necessitates the design of competitive strategies to guarantee performance. Consequently, there has been pressure on organizations to respond with

formulation of strategies that will enable them to attain a competitive position in the market. This explains why KCB has to constantly review its strategies for it to remain competitive in the banking industry.

Given the several studies that have been done about KCB strategic response in the banking industry no study has been done about competitive positioning of KCB in the banking industry with realignment of its mortgage subsidiary S&L into the main bank operations. Some of the studies done about KCB include a study by Kiptugen (2003) Strategic responses to a changing competitive environment the case of KCB. This study did not cover the competitive positioning of KCB with realignment of its Mortgage Subsidiary S&L in to the main bank operations. Kamanda (2006) also did a study on KCB with the objective of determining the factors that influence its regional growth strategy. The study does not cover the realignment of S&L into the main bank operations. Nyokabi (2008) did a study that focused on strategy implementation by KCB this study also failed to capture the realignment of S&L into KCB main bank operations. Njoroge (2009) also did a study on KCB but covered strategic responses of KCB to changes in the Kenyan banking industry. This study did not cover the competitive positioning of KCB with realignment of its Mortgage Subsidiary S&L in to the main bank operations. Adhiambo (2009) also did a study on competitive positioning of commercial banks in Kenya. This study did not focus on competitive positioning of KCB with realignment of its Mortgage Subsidiary S&L in to the main bank operations. This research seeks to fill the existing knowledge gap on competitive positioning of KCB in the banking industry.

1.3 The Research Objectives

- a) To establish the competitive position of KCB in the banking industry with realignment of its Mortgage Subsidiary S&L in to the main bank operations
- b) To establish the challenges facing KCB with increased competition in the banking industry.

1.4 Importance of the Study

The study will benefit the KCB management from the independent analysis of the bank restructuring and its impact on its business. By focusing on the competitive factors highlighted by the study

The study will benefit the various stakeholders who may have an interest in knowing the future of the bank in the industry. This will guide them in making decision on their area of interest in the bank.

The study will aid the various players in the banking industry in understanding the challenges in the industry and how to best respond considering that KCB is a key player in the industry.

The study will also benefit academics and researchers in universities this includes those doing research in Masters in Business Administration and analysis of financial institutions. The study will benefit Research Institutions that are studying organizations to understand how financial institutions respond to business environment changes.

CHAPTER TWO: LITERATURE REVIEW

2.1 The concept of strategy

Strategy can be defined as the establishment of the long term goals and objective of an organization, including the process of taking action and allocating resources for achieving goals. Due to scarcity of resources the strategy chosen should be one that optimizes resources in pursuits of the organization goals and objectives (Chandler, 1962). Pearce and Robinson (1991) define strategy as large scale future oriented plans for interacting with the competitive environment to achieve company objectives. It is the Company's game plan while it does not detail all future development of resources; it provides the framework for managerial decisions. A strategy reflects company's awareness of how and where it should compete and for what purpose.

Mintenberg and Quinn (1996) define strategy as the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive whole. Porter (1998) states the strategy is creating a fit among a company's activities. The success of a strategy depends on doing many things well not just a few and integrating them. If a strategy depends on doing many things well not just a few and integrating them.

According to Porter (1980) strategy is basically about competition and the means by which an organization tries to gain a competitive advantage. According Ohmae (1983)

the only purpose of strategic planning is to empower an organisation to efficiently gain a sustainably competitive edge over its competitors.

Thompson and Strickland (1993) define strategy as the pattern of organizational moves to and managerial approaches used to achieve organizational objectives and pursue organizational mission. Strategy is the match between an organization's resource and skills and the environmental opportunities it wishes to accomplish (Schendel and Hofer 1979). It is important to provide guidance and direction for the activities of the organization. Strategy can also be seen as the process of deciding a future course for a business and has a role on organizing and steering the business in the attempt to bring that future course.

'Strategy can be seen either as building of the defenses against competitive forces, or as the finding of positions in the industry where the competitive forces are weakest' (Pearce & Robinson, 1997, p136). Grant (2000) adds that the abilities to identify and occupy attractive segments in the industry are critical to the success of an organization. Hill and Jones (2001), conclude that the strategies an organization adapts have a major impact on its performance relative to its competitors Strategy needs to be well defined since it would determine and communicate the direction in which the organization will move, and the level of performance it will achieve.

Strategic positioning is a continuous process that is often not obvious but requires insight and creativity on the part of managers (Porter, 1995). An organization must configure its

resources and strategies to result in the most appropriate response to environmental changes which often tend to be turbulent and discontinuous.

2.2 Strategic Management

Strategic management has the ultimate objective of the development of corporate values, managerial capabilities, responsibilities, and administrative systems that link the strategic and operational decision making at all levels of the organization. According to Hax and Majiluf (1996), strategic management is a way of conducting a firm. Thus it focuses the decision of the entire organization in one direction. Cole (1997) states that the strategic management is a process directed by the top management, but engaged in throughout the organization. It embraces the involvement of those concerned with satisfying customers' legitimate needs and ensure the attainment of those fundamental goals through the adoption of adequate resources for the planned direction for the organization for a given period.

Strategic management involves strategic planning, directing, and controlling the strategic decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. Hunger and Wheelen (1999), view strategic management as a set of managerial decisions and actions that determine the long-run performance of an organization. It emphasizes the monitoring and evaluation of the opportunities and threats in light of the strength and weakness of the organization.

Strategic management has also been defined as the art and science of formulating, implementing and evaluating cross functional decisions that enable the organisation to achieve its objectives (David, 2001 p5).

These definitions, though offered by different authors over a period of time, all emphasize the fact that strategic management is dynamic and is concerned with providing, and continuously adjusting the means with which organizations can effectively cope with environmental change. Therefore strategic management is not only a continuous process but it is also dynamic.

2.3 Business environment challenges and organizational response

Barney (1991) defines a firm to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. Similarly, a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these firms are unable to duplicate the benefits of this strategy

Miller (1998) stipulates that organizations exist in a complex commercial, economic, political, technological, cultural and social environment. These environment changes are more complex to some organizations than others. For survival an organisation must maintain a strategic fit with the environment. The environment is important and an organisation has to respond to its dynamism, heterogeneity, instability and uncertainty (Thompson, 2002). In addition, the competitive environment has been and continues to

be driven by technological innovations, globalization, and competition, extreme emphasis on price, quality and customer satisfaction. As a result organizations must continuously create and innovate in order to stay relevant and successful.

He further states that a sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment. An organisation external environment includes the economic forces, social-cultural, demographic, political and technological factors, while its competitive environment includes competitors, customers and suppliers. Pearce and Robinson (1997) states that the external component should have a strategic fit with the internal environment, which includes the organisation systems, policies, resource capability and its corporate culture

Wooldridge & Ford (1990) notes that the environment is a critical factor for any organisation survival and success. It should be seen as a biosphere in which individuals and organisation live over the long-term and as a community project in which to be actively involved. It is a resource to be managed and to be shared, hence the need to effectively manage the value chain system and establish collaborations, partnerships and to get involved in social responsibility to enrich this resource and enhance corporate image of the organisation. It is noted that many organizations are now more than ever being involved in social responsibility since a good image can also be a source of competitive advantage. It is imperative that managers apply critical investigations into the realities of the changing environment of this millennium through enlightened diagnosis of the problem it poses.

Thompson (2007) stipulates that while core competencies and competitive capabilities are a major assist in executing a strategy, they are an equally important avenue for securing a competitive edge over rivals in situations where it is relatively easy for rivals to copy smart strategies. Any time rivals can readily duplicate successful strategy features, making it difficult to out-strategize rivals and beat them in the marketplace with a superior strategy. The chief way to achieve lasting competitive advantage is to out-execute them. This can involve building core competencies and competitive capabilities that are very difficult or costly for rivals to emulate and that push the company closer to true operating excellence and promote very efficient strategy execution. Moreover, core competencies and competitive capabilities present resource strengths that are often time-consuming and expensive for rivals to match or trump. Any competitive edge they produce tends to be sustainable and paves the way for above-average company performance.

For firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) point out that the match between strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development.

Existence of strategy is not a guarantee for success. Institutionalization of those strategies, allocation of adequate resources, visionary leadership and good corporate culture amongst others, are necessary ingredients for successful business strategies. To be successful over time, an organization must be in tune with its external environment.

There must be a strategic fit between what the firm needs and what the environment can provide.

2.4 Strategic responses towards achievement of a competitive position in the business environment

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

Strategic response is about restructuring by adopting new strategies that match the challenges from the environment. Thompson (1997) defines strategy adaptations as the changes that take place over time to the strategies and objectives of an organization. Such change can be gradual, evolutionary, or more dramatic, even revolutionary. Ansoff and McDonnell (1990) note the strategic responses involve changes to the organization's strategic behavior. Such responses may take many forms depending on the organization's capability and the environment in which it operates.

Some of the strategies that have been used for restructuring are re-engineering, rightsizing, self-management and outsourcing. According to Ansoff and McDonnell (1990), the management system adapted by an organization is a determining component of the firm's responsiveness to environmental changes. The management system adapted determines the way in which an organization perceives the environment, diagnosis its impact on the firm, and consequently implements the decisions. The strength of a firm's strategic response capabilities is determined by flexibility in the market, production and competition. Market flexibility deals with an organization's ability to have high market share. Production flexibility arises from a firm spreading its value creation activities in those markets where it has a major market share, while competitive flexibility of an organization arises from its ability to coordinate its competitive moves.

Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge.

2.4.1 Restructuring

Organizational structure is the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. Thus structure distinguishes the parts of the organisation and delineates the relationship between them (Wilson and Rosenfeld, 1990)

Cost cutting efforts will lead to dramatic lower overhead costs and part of this saving can then be passed on to the customer in terms of lower prices. Reichheld (1996) suggests that by searching for the root causes of customer departures, companies with the desire

and capacity to learn can identify business practices that need fixing, and sometimes can win the customer back and re-establish the relationship firmly.

According to Hill and Jones (1999), often, because of drastic unexpected changes in the environment, such as the emergence of aggressive new competitors or technological breakthroughs, strategic managers need to need to develop a new strategy and structure to raise their level of business performance. Even companies that hold a strong position may choose to restructure, simply to build and improve their competitive advantage and stay on top.

2.4.2 Information Technology

Technology change, especially IT, is among the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. IT can also create new business from within a company existing activities (Porter, 1985). It is used to automate processes and to augment the skills of the organization staff. Luftman (1996) adds that the way a firm views its business, customers' competition is critical to successful aligning its business and IT Strategy.

Information supports and enhances every activity in the organization, and it can itself be a source of added value and hence, competitive advantage, provided organizations are able to draw that value. Rayport and sviokla (1995), state that competition is defined along two dimensions, the physical world of resources and a virtual world of information. Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly adapt to the feedback of their rivals. They exploit the potential

as well as competitive and operating information systems. Some of the information technology variables that can influence a firm's responses to competition include the use of real-time systems, extent of interconnectivity of distribution channels, as well as the efficiency of the telecommunication systems.

2.4.3 Culture change

Organizational culture can be described as the beliefs held true or accepted behavior within an organization. Brown (1998, p9), defines organization culture as 'the pattern of beliefs, values, and learned ways of copying with the experiences that have developed during the course of an organization's history which tend to be manifested in its material arrangements and in the behaviors of its members.' Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, co-ordination and control, and it reduces uncertainty while enhancing motivation and organization effectiveness. All these factors facilitate the chances of being successful in the market place. Therefore identifying organizational culture can be a strategic tool that can be used to manipulate consumer perception of an organisation and its products /services.

The culture of the organization would need to be changed when it does not fit well with the requirements of the environment or the organization resources or when the company is not performing well and needs major strategic changes, or the company is expanding rapidly in changing environment and needs to adapt. According to Thompson (1997), the potential for changing the culture of an organisation is affected by the strength and

history of the existing cultures, how well the culture is understood, the personality and beliefs of a strategic leader, and the extent of strategic need.

Kotler(1996) notes that truly adaptive firms with adaptive cultures are awesome 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 risen to a global leadership began with strategic intents that were disproportional to their resources and capabilities.

Culture 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 relearning. Other indicators of culture shift include changes in architectural design and branding of corporate buildings, the change in the organization logo, nature of internal communication as well as staff dress code. Strategic responses to a changing competitive environment therefore, entail substantial changes to an organization's long-term behavior. This adaptation may be gradual or revolutionary depending on the nature and a circumstance facing the organisation, Sadler (1988) concludes that successful organizations must be able not only to level of customer-service, but also manage culture change.

2.4.4 Training and development

Training and development includes company training policies, development strategies, learning and development strategies, employee development strategies and people development strategies.

Gerry Johnson and Kevan Scholes (1999) state that training and development is another way in which organizations invest in maintaining social controls within the organisation. It provides a common set of reference points to which people can relate their own work and priorities, and a common language with which to communicate with other parts of the organisation. The existence of uniquely competent individuals in an organization will not be a robust source of long term strategic advantage since those individuals may leave, retire or die. If excellence is to be sustained a major concern to the Organisation Human resource should be how these persons knowledge can be spread in the organisation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research problem posed was best studied using a case study method. This method was appropriate because it allowed an in-depth account of all the variables under study. According to Kothari (1990) a case is more appropriate as it involves a careful and complete observation of a social unit be it a person, institution, family, cultural group, or an entire community. A case study emphasizes depth rather than breath of study.

3.2 Data Collection

The study used both primary and secondary data. The primary data was collected from the top management in KCB. The respondents were, the Director Strategy and Change Division, Director Mortgage Division, Deputy CEO group business, Director Finance Division. The primary data was collected with the help of personal guided interview to facilitate in-depth response on the competitive positioning of KCB in the banking industry with realignment of its Mortgage subsidiary S&L into the main bank operations.

The primary data was supplemented by the secondary data from the existing records of KCB. Among sources from which data was collected include the KCB financial record, KCB Magazine Called Cascade, KCB Strategic plan Manual, Business Daily, KCB website.

3.3 Data Analysis

At the close of the guided interviews, the responses were edited for completeness and consistency. Data was then coded to facilitate categorization. The data collected on the strategic responses involved was analyzed qualitatively on the basis of strategic variables highlighted.

Content analysis was used in analyzing the in-depth qualitative data. Content analysis has the potential of generating more detail from data. Content analysis was used in analyzing the in-depth qualitative data. Content analysis has the potential of generating more detail from data

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Challenges facing KCB with increased competition in the banking industry

There has been a lot of competition in the banking industry in Kenya within the last few years this has resulted in a change of the competitive situation. In any industry there are five forces that influence the competitive environment. These forces are barrier to entry, rivalry in the industry, threats of substitutes, power of buyers and power of supplying (Porter, 1980). The Kenyan banking Industry is no exception thus all the five forces are present.

The respondents identified a number of factors in the banking industry in Kenya that have affected KCB in the banking industry. According to the responses given by the interviewees entry barrier into the banking industry is magnified by the high minimum capital requirement by the regulatory authority Central Bank of Kenya. The respondents added that this was one of the main reasons why there has been an increase in the number of non banking financial institutions, cooperative societies. These institutions are able to offer products similar to those of traditional banks. This has lead to increased customer shift in search for affordable products. KCB has managed to counter the effect of this through continuous product innovation to ensure that the products offered to the market suite the customer needs.

According to the respondents rivalry in the industry is considered high. The increase in the number of banks in the industry has posed a lot of competition to the bank. The industry competition is brutal most banks are going down to bottom of the pyramid new entrants such as the African banks are a source of competition. Non traditional players such as telecommunication companies are now part of the competition. This has also been enhanced

by the ability of Microfinance institutions to offer loan facilities thus this has contributed to an increase in the number of providers of the banking services in the industry. Thus most business for KCB has to be competitively won making search for a competitive position a continuous preoccupation for the bank. The bank has had to focus a lot on low cost products, vigorous marketing to increase the customer base and the market share. Search for competitive advantage through realignment of the bank operations and renewed product development.

According to the respondents buyers now have a major role to play in KCB strategy formulation. Improved customer knowledge has been a cause of concern to KCB. Customers are now more informed about banking services. With the wide set of suppliers in the banking industry customers have a choice. Customers know their rights and cannot be mistreated. With realization of this the bank has had to review its corporate culture and work towards customer satisfaction the KCB team must now ensure Professionalism in service delivery and ensure good long term relationship with the customers. The buyer now has power to choose where to find the best banking services and at the most affordable price. KCB has to analyze the market trends and work towards attracting new customer and retaining existing customers who have a choice.

The power of suppliers does influence the bank performance in the industry. According to the respondents KCB has a wide branch network in terms of Geographical coverage. The bank has now invested in four of the five countries in East African community and in Southern Sudan the respondents confirmed that the bank is now positioned as a regional

bank. This gives the bank a competitive position and especially to business customers within the East African region. Besides the bank has continuously launched a set of products and services in line with changing customer needs and demands of the competitive landscape. Thus with increased competition in the banking industry KCB has to maintain a wide product portfolio and ensure continuous innovativeness for it to maintain competitive position in the industry.

4.2 Strategic responses towards achievement of a competitive position in the banking industry.

KCB has been eyeing the increasing demand for home ownership thus an expected growth in the Mortgage business. According to the interviewees the bank had to review its operations by taking a proactive move to realign its Mortgage Subsidiary S&L into the main bank operation in order to achieve a leadership position in Mortgage lending. The bank is making good use of the unique capabilities of S&L and the strong asset and capital base of the main bank KCB to enlarge the bank lending capacity in Estate development, home ownership and land purchase. Some of the KCB strategic responses include Restructuring, Concentration, Information Technology and Training and development.

4.2.1. Restructuring

The realignment KCB and S&L operations involved a lot of restructuring. KCB made use of both internal and external expertise to drive the restructuring. The restructuring involved a review of the S&L operations and a change in the internal process of working on customer requests towards achievement of efficiency and improved customer satisfaction. The bank could not operate two parallel entities thus making S&L a division of KCB. This was also a

cost sharing initiative and consolidation of resources whose overall net effect would be a reduction in costs. This restructuring was driven by the growing demand in the property market and the need to spread the unique S&L capabilities in Mortgage lending across the business. This has led to an expansion in the Mortgage division market scope within the wide KCB branch network.

In an effort to implement the restructuring various challenges were encountered. According to the respondents branding was a major challenge. The loss of the S&L brand name being the renowned mortgage loan provider. The KCB had to retain the brand name S&L. The restructuring process involved a merger of two cultures. Thus there was culture change with S&L having to fully embrace the mode of operation and the KCB structure hence a need to harmonize the two. There was a challenge of S&L feeling absorbed being the smaller entity and having to depend on KCB on most operation decisions. Despite the challenges some of the short term gains have been realized such as selling the Mortgage loan across KCB branch network this has contributed to business growth. With increased borrowing S&L had to engage in borrowing funds from KCB to improve the lending capacity. At the moment S&L is capable of lending very costly project due to the capital availed by KCB.

4.2.2 Information Technology

Information Technology is key to giving efficient banking services. The respondents stated that in the last two years massive investment has been allocated to IT system. The change in the IT system involved a tremendous change which involved an upgrade which involved the migration of all the branches into one platform an upgrade to TC3 this was aimed at

increasing connectivity and achieve one branch banking. The second phase culminated in the implementation of the T24 core banking system which provides the platform for upgrading services and rolling out more IT-based products and services. According to the respondents IT is a key driver of growth of banking business since it influences the unit cost of providing banking services and the diversity of the products and services the bank can offer to the customers. The cut throat competition in the banking industry pushed the bank to develop and implement strategies biased towards increased business volume. Therefore to optimize the bank objective function and faced with the constraint of providing efficient and affordable banking services. The bank was recently awarded as the best in innovations and utilization of IT this gave the bank a leading position in the industry in terms of a good IT system to offer banking services.

With a robust and adequate IT platform of its new system T24 the bank was successful able to review its operations thus a realignment of S&L into the main bank operations. The respondents stated that the new system made it possible for customers to access their accounts anywhere across the branch network. The system was a unifying factor of KCB and S&L due to the ease of customers being served at any outlet. This made the transition process of the S&L customers being served at any KCB outlet very smooth. This new system made it possible for the bank to make every branch a one stop shop for the Mortgage product and the rest of the bank products.

The respondents acknowledged that the development of the new IT system in KCB poses various challenges to the business. The bank has experienced an increased number of

transactions being processed hence an increase in operational risk relating to processing, approval, dissemination and storage of processed information. This calls for a policy shift on the bank risk management framework and more effort is required to ensure information is efficiently processed, data integrity, data efficiency and confidentiality should be maintained.

4.2.3 Culture Change

Organisation culture plays a major role in determining the successful implementation of the various changes in the bank. KCB gives much attention to the bank corporate culture with a lot of emphasis on customer and service delivery this has been a continuous process through communication to the staff, introduction of performance measures and a lot of effort has been made towards change of staff attitude towards a competitive market. A lot of emphasis has been made on the need to work towards speed in responding towards customer enquiries and processing of application. The research respondents noted that every KCB staff must live the bank core values. The bank has provided a lot of reading materials emphasizing the importance of living these values. The core values are being professional in everything we do, working together as a team, putting the customer first, caring for the community and willingness to change. There has been emphasis on the staff to embrace this core values, the bank has established an award system for staff that exceptionally live the KCB values. KCB has participated a lot in corporate social responsibility giving back to the needy in the society, caring for the environment. A lot of communication is being done within the bank on the various changes in the banking operations. The KCB team was encouraged to be positive about changes in the bank operations. The KCB team is informed on the importance of

realignment of S&L in to the main bank and how this would add up to business growth and why every staff should be interested in learning how to offer the Mortgage product and be conversant with the bank products.

The bank introduced customer feedback forms every staff is expected to give a customer the form hence the response is compiled into a report that is submitted to the KCB head office. This information is used to communicate to the KCB team on the areas of improvement in order to remain competitive in the industry. The respondents pointed out that the banking institutions in the Kenyan banking industry offer similar products the distinguishing factor to acquiring business growth is through giving exemplary customer service. KCB top management has made it a continuous thing of encouraging the staff to embrace the changes positively and with an open mind. They also recognize that the transition process of being able to sell the Mortgage product across the business is a continuous thing and the change of customer perception to know that they can now access mortgage loan at any KCB outlet .This is a long term plan that also involves putting structures in place especially within the KCB branches which can process the Mortgage product.

4.2.4 Training and development

KCB has invested a lot on staff training and development. The respondents stated that the KCB recognizes the importance of its human capital in rendering services and generating revenues and returns which commensurate with customer and shareholder expectations. According to the respondents a number of training needs were identified especially with the realignment of S&L into the main bank operations. The training involved both the line-mangers and the clerical staff. The training involved establishment of some training programs by the Human Resource management. Much of the training content entails details on how to handle Mortgage loan customers, loan appraisal, and disbursement of funds. Processing the Mortgage product is quite technical and calls for a lot of understanding of the credit appraisal process since it involves borrowing of large amount of money. Due to the risk involved there was need for the KCB team to clearly understand the Mortgage applications. A positive out come has been noted due to the gradually improved ability to sell all the bank products across the KCB branch network.

Majority of the staff have also undergone the customer service training. The bank also has an ongoing leadership program which is aimed at creating business leaders at both middle and senior management. The training has been continuously done at the KCB leadership centre with new challenges being identified at the various work stations and new courses to cover the knowledge gap being established. The objective of this training and development is to make the change in the bank operations successful and also ensure the transition process is seamless without affecting the bank business. The long-term objective of this training and

development is to develop talent and tapping into this skills to achieve excellent performance as a bank.

4.2.5 Competitive Positioning

According to majority of the respondents the strategic responses made by KCB are adequate to suite the prevailing market conditions especially with the increased demand for property and the need for customers to find suitable financing in order to acquire these properties. The respondent stated that KCB has an upper hand in the banking industry due to the fact that it has been giving Mortgage for many years through its fully owned Mortgage Subsidiary S&L this has given the bank accumulated experience on how to finance both huge and small developments in form of housing. Realignment of S&L into the main bank operations gave the bank more financial strength and access to a wide market due to the broad geographical coverage in terms of branch net work. The bank now stands out as the market leader and has gone ahead and established Estate Developers club often the bank arranges trips to China for the developers and any other willing customer to have a chance to view developments in China in comparison with what is done in Kenya. This gives them an insight on how to come up with better ideas on how to do estate development and individual home construction. KCB assures them of financing and gives them guidelines on how to become estate owners even without sufficient funds.

The respondents noted that KCB should now work towards becoming a supermarket and be able to offer all financial services such as insurance, investors fund management. The bank should also work towards conversion of plan into action. KCB should make efforts to always

be proactive and not reactive to competition for example the bank was among the first to launch mobile banking but did not advertise clearly, in the recent past other banks have launched in a language that is simple and easily understood by the Kenyan market such as Equity bank Mkesho and Family bank Pesa pap. This has made the service look so new to the market yet KCB has been offering this product to its customers for some time.

KCB is now a transformed bank from the history of being a government bank and it is now transformed to a modern bank with a good IT platform, established staff training programs with the identified training needs. The poor customer service which the bank has previously been known for has now transformed to efficient service with observation of speed and no delays in service delivery. The bank is now working towards a world class status with the review of the bank corporate culture from being slow to quality and observation of defined turnaround time in resolution of customer complains or needs. Though challenges are inevitable the bank has continuously grown its business. The bank has experienced an increase in the mortgage business in the past few years hence improved profitability from previously loss making organization to a profit making organisation.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH.

5.1 Summary of findings

5.1.1 Challenges facing KCB with increased competition in the banking industry

The Kenyan banking industry has tremendously changed over the past ten years. This has also been influenced by the overall changes in the economy. In any industry there are five forces that influence the competitive environment. These forces are barrier to entry, rivalry in the industry, threats of substitutes, power of buyers and power of suppliers. These key forces have impacted on the banking industry.

There has been an increase in the providers of banking services in the industry posing a lot of competition, the substitute bank products have flooded the market. There has been an increased exposure of the consumers of these bank products with the high levels of education. This has enhanced the power of buyers pushing KCB to remain continuously innovative on its set of products to suite the customer needs. KCB strategic responses are now very much influenced by the prevailing market condition, customer needs and expectations.

5.1.2 Responses of KCB to the competitive banking industry

KCB has responded to the competitive banking industry with realignment of its Mortgage Subsidiary S&L into the main bank operations especially to suite the increased property

demand and taking to consideration the deficiencies of operating two parallel organizations. KCB employed a number of strategic responses to achieve a successful review of its operations to suite the prevailing competition in the industry.

The study indicated that there was a need to realign S&L in to KCB operations in order to attain a competitive position in the banking industry. S&L had unique capabilities in processing Mortgage loans, KCB as the main bank has huge asset base and large capital which are required for financing large estate developments giving the bank an upper hand in the property financing since KCB has both the expertise and huge capital. The study indicated that the bank had to employ a number of strategic responses such as the change in the IT system, Restructuring, Culture change, Staff training and development all these components were necessary to achieve successful realignment of S&L in the main bank operations considering that the two were proving different set of products to the market and had different leadership.

5.2 Recommendations

Organizations operate in very dynamics environments. This implies that organizations should be able to identify their key competencies. Organizations should also be in a position to develop and appropriately adopt strategies responses that would drive the organization towards achievement of a sustainable competitive position in the market.

In view of the above I suggest that KCB should constantly carry out market survey and be able to understand the changing customer needs. The bank should also be able to clearly

understand its competitors hence define how to best position it self in order to remain a market leader. The bank should always be on the look out to avoid being reactive to competition in the banking industry but instead be proactive in products innovation and the passing of this information to the customer at the right time and in the right form. The bank has had to focus a lot on low cost products, vigorous marketing to increase the customer base and the market share.

With increasing property demand the bank should embark on estate development in order to provide affordable housing to the market. Generally the bank should work towards increasing the supply of housing by a big percentage this will work towards a reduction in the over inflated prices for houses due to the few estate developments existing compared to the demand. KCB should have a panel of the professional needed for construction this will safeguard the customers from the exposure of dealing with quarks or ending up owning a substandard house. Given the increasing customer numbers KCB should put up structures to monitor time taken to process customer applications and continuously communicate to customers on progress this will create customer loyalty and increase in business referrals.

5.3 Limitations of the study

The study focused only on the realignment of S&L the KCB mortgage subsidiary into the main bank operation KCB to attain a competitive position. However there are a number of other changes within the bank that have contributed to KCB achievement of a competitive position in the banking industry.

5.4 Suggestion for further study

A study can be carried out on the strategies employed by other players in the banking industry to achieve a competitive position in the banking industry. The study can be in the context of the increased property demand and how banks can position themselves to tap into the mortgage business.

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APPENDIX: Interview Guide

Name of Interviewee (Optional)

Section A: Challenges Facing KCB (LTD) with increased competition in the banking industry

1. How would you describe the competition in the banking industry and how has this affected KCB?
2. What challenges has this competition posed to KCB?
3. How severe are the entry barriers to the industry and how has this affected competition?
4. How does the rivalry in the industry impact on your strategy making?
5. Has the threat of substitute products impacted on your business?
6. How do customers needs influence policy and strategy issues?
7. How has the regulator (CBK) impacted on the way KCB conducts business

Section B: Strategic responses towards achievement of a competitive position in the business environment

i) Restructuring

1. How would you describe KCB responses to the changes in the business environment?
2. How does the recent restructuring of KCB with the realignment of S&L (K) Ltd into the main bank impact on the business?
3. What were the objectives of the restructuring?
4. How was the restructuring process undertaken?

5. What challenges were faced by KCB during the restructuring?
6. Were the objectives of the restructuring at KCB met?
7. What is the current status of the restructuring exercise?

ii) Information Technology

1. Has there been change in the KCB IT system in the recent past?
2. What was the nature of such change?
3. How were these changes effected?
4. What were the objectives of IT system changes?
5. To what extent did the change of the IT system influence review of the bank operations?
6. How has the change in the IT system influenced KCB strategic decisions?
7. To what extent has the objectives of the new system been met?
8. What is the competitive position of the bank in the industry after the change of IT system?

iii) Culture Change

1. How does the KCB corporate culture influence the bank strategic response in the competitive business environment?
2. To what extent does the KCB corporate culture determine the success of changes in the bank operations, towards achievement of a competitive position in the banking industry?
3. To what extent does the bank review of its operations affect its corporate culture?

4. Was there a need to review the KCB corporate culture with realignment of S&L into the main bank operations?
5. How has the change of KCB corporate culture assist the bank in responding to the change in its operations?
6. To what extent has the objectives of the change in KCB corporate culture been met?

iv) Training and development

1. Are there identified training needs with realignment of S&L into KCB main bank operations?
2. What measures has the bank put in place to achieve 100% compliance of the bank team to acquire the relevant training?
3. What is the response of the KCB staff to the training and development policy?
4. To what extent has the objective of this policy been attained?
5. What is the long-term projection on the impact of the training and development policy towards achievement of the bank set objectives?

Section C: Competitive Positioning

1. Do you consider the bank strategic responses to competition adequate?
2. Do you consider KCB strategies capable of giving the bank a competitive position in the banking industry?
3. What else do you feel KCB should do to stay competitive?
4. Competitive positioning is about ability to attract customers that have a choice. Does KCB possess the ability to attract such customers?

5. In your assessment, does KCB currently possess the necessary capability to adopt aggressive strategies to match the external environment changes?
6. If not please indicate the possible means by which the bank can acquire these capabilities?