

**DIVERSIFICATION STRATEGY USED BY COMMERCIAL  
BANKS IN KENYA AS A MEANS OF GAINING SUSTAINABLE  
COMPETITIVE ADVANTAGE**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION  
DEGREE, SCHOOL OF BUSINESS  
UNIVERSITY OF NAIROBI**

NOVEMBER, 2013

**DECLARATION**

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

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## **DEDICATION**

This project is dedicated to my late father, mother, wife and two daughters.

## **ACKNOWLEDGEMENT**

I wish to express my sincere gratitude to God, my late father and above all Dr. Reginah Kitiabi, for her guidance as well as all my colleagues for their time and encouragement which has helped to produce this paper.

## **ABSTRACT**

Strategy has been a game which has been put forth by banks to ensure they are ahead of the pack. Diversification as a strategy has meant that organizations make use of existing resources to expand the business into new frontiers and expand the profitability of the organization in leaps and bounds. This study sought to investigate the use of diversification strategy by commercial banks in Kenya as a means of gaining sustainable competitive advantage. The paper established that achieving competitive advantage is possible whenever banks roll out new products and services. However, sustaining competitive advantage calls for the banks to ensure their diversified products are well thought out and that the decisions and resources employed to arrive at these products and services are unique, rare and are not easily replicated by competition. The study further discovered that innovative ventures arrived at by banks through the use of technology especially when building key alternate channels of business will last and are likely to result into better and more guaranteed return on investments. This study is anchored on the game theory, and industrial organization theory.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

ATM – Automated Teller Machines

CBA –Commercial Bank of Africa

CBK – Central Bank of Kenya

ICT – Information and Communications Technology

KBA- Kenya bankers association

FDI - Foreign Direct Investment

SCP – Structure Conduct Performance

RTGS – Real Time Gross Settlement

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Diversification has been a key strategy employed by organization in an attempt to improve their attractiveness and performance. Diversification boosts the performance of organizations as it helps in initiating actions which leverage in the existing internal as well as external resources which in turn support other venture hence complement the overall performance of the organization. Diversification helps organization build the urgency and the need of improving shareholders value by using existing resources (Thomson et al. 2012). Diversification refers to a change in the characteristics of an organization's product line and market. Ansoff (1957) argued that diversification is manifested through market penetration, market development, and product development, which represent other types of change in product-market structure.

Anchored on the game theory and the industrial organization theory, diversification emphasizes the need to get the structure, conduct and performance of the organization correct to be guaranteed of sustainable competitive advantage. Porter (1985) noted that firms need to position as well as differentiate themselves in the industry through five forces model. SCP paradigm encourages firms formulate competitive strategies to help them remain competitive (Hoskinson et al, 1999). On the other hand game theory makes use of mathematical models to craft strategic decisions by emphasizing on the fact that there are decisions to be made in an organization and these have choices which are driven by multiple uncertainties in the environment and the need to make the right decisions relying on managerial experience (Stinchcombe, 2002).

Banks in Kenya have remained in the forefront on innovations as a good percentage of Kenyans are increasingly getting banked. This is attributed to the fact that there is existence of a knowledgeable skilled labour in the market as well as a supportive environment which encourages innovation. In addition, this appetite for innovative products and services can be attributed to the competitiveness of the industry which attempts to use entry level barriers into play to remain in the lead and overcome competition from the other players. With such competition, banks have resorted to employing alternative ways of banking, something which is being referred to as 'alternate channels' in the banking industry. Alternate channels have been referred to as products and services which do not rely on the old banking procedures. These are products and services which make use of technology to drive convenience and encourage innovation hence leading to competitiveness. Banks have diversified into new frontiers such as Diaspora banking, Borderless banking, Digital banking, Bancassurance, among others. The benefactor of such diversification is the stakeholder whose wealth maximization capacity is enhanced as well as the customer who benefits from convenience brought about by these products and services.

### **1.1.1 The Concept of Diversification Strategy**

Diversification occurs when firms extend existing product or service line from their current traditional ones by embracing new products or services whether related or unrelated (Stern and Henderson, 2002). Diversification attempts to maximize resource utilization of a firm as well as extend the market reach in terms of product offering so that a variety of product or services are availed to meet the perceived expanded taste of customers.

Matsusaka (2001) contend that an organization which uses diversification can maximize value in its strategy. The central idea is that firms are made up of organizational capabilities that can be profitable in multiple businesses and that diversification is a search process by which firms seek businesses that are good matches for their capabilities. The use of diversification is therefore aimed at maximizing the organization's offering by ensuring that all the tastes of different client base is provided for, product or service wise

### **1.1.2 The Concept of Competitive Advantage**

Thompson et al. (2012) acknowledge that competitive advantage relates to the ability of an organization to meet customer needs more effectively on the products and services that customers value highly. The need to meet customer needs efficiently may translate into the ability to command a higher price. Being more cost effective in producing customer goods and services may result into higher profits for the organization.

Peteraf (1993) perceive competitive advantage to entail sustainability above normal returns resulting from an organization's resources. It entails generating rent from resources of an organization. According to Barney (2002) a firm experiences competitive advantage when its actions in an industry or market create economic value to the firm. He further emphasize that for a firm to be competitive, it must obtains above normal performance where it generates greater than expected value from the employed resources.

### **1.1.3 Banking Sector in Kenya**

Central Bank of Kenya (2012) advice that there are 44 commercial banks in Kenya today. Out of these banks are financial institutions as well as savings and credit cooperative societies (SACCOS). There is one Mortgage institution -Housing Finance Corporation of Kenya (HFCK). The major players in the commercial banks are; Kenya Commercial Bank (KCB), Equity Bank, Co-Operative Bank of Kenya (Co-op Bank), Standard Chartered Bank (SCB), Barclays Bank of Kenya (BBK), Citibank N.A, National Bank of Kenya (NBK), Commercial Bank of Africa (CBA), National Industrial Credit (NIC) among others.

Banks in Kenya are divided into Tiers which relate to the bank's asset base with KCB leading followed by Equity Bank, SCB, and BBK being members of Tier 1. Tier 2 banks include NIC, CBA, CFC Stanbic amount others. Ties 3 banks include Equatorial Commercial Bank, Bank of Dubai, Victoria Commercial Bank among others. Performance of many commercial banks has also improved tremendously as banks are beginning to return very good and encouraging figures in their annual income statements (Nyaoke, 2007).

Teece, (1986) acknowledge that there are two methods of innovation which organizations can employ. These are product innovation and process innovation. Schwartz (2010) noted that in order to create an innovative culture, organizations have to meet customer needs, encourage creativity through trainings, nurture staff passion, make employees believe and encouraged that whatever they come up with is valuable even when their effort does not produce the desired innovation. At the same time, provide requisite time for staff to be creative and lastly, to create an incubation where ideas resonate before they are taken to the next level.

Banks have embraced technology to keep pace with innovation. They have achieved this feat through collaborations and partnerships. For instance, Safaricom has been the highly courted partner as most banks attempt to integrate Mpesa services with the core banking systems. In addition, Automated Teller Machine (ATM) services have moved away from the traditional networking with telephone lines and have begun to switch their data through mobile telephony. These process innovations have been the entry point to product innovation in the banking industry.

## **1.2 Research Problem**

The need to remain competitive has been a key preserve of most banks. As a service industry, launching and enhancing new products and services is a clear way of retaining and attracting new customers. To excel in this act, banks must keep pace with the technological offering as well as respond to the needs of its customers. With the current globalized world, coupled with a knowledgeable population, it is very difficult to keep pace with the changes in the industry as customers are able to get to know what is happening across the globe within a split of a second without a struggle. Customer knowledge as well as the ever changing nature of the industry poses a major challenge to the players in the industry as they try to keep pace with the changes in the environment as well as remain ahead of competition by being competitive something which means that firms must spend more, research further and at the same time keep abreast with technological changes.

Product diversification has proved to be a good source for customer attraction as it offers diversity of service and at the same time enables an organization target various sectors in the same industry. As a strategy, diversification has been used to profile and segment customers in

such a way that the firm can offer targeted attention to each niche market. Through the use of technology, the banking industry has attempted to diversify its products for sustainable competitive advantage.

This study sought to find out how diversification strategy can be used by commercial banks in Kenya as a means of gaining sustainable competitive advantage since competition has become cut throat with no bank retaining a monopoly of any new innovations for long before other banks perfect the same innovation.

Earlier studies conducted in this area failed to relate alternate channels and diversification. Njeri (2010) conducted a study to analyze the effectiveness of customer retention strategies in Equity bank. Her results showed how Equity bank employed that low cost strategy to retain its clients. King (2013) conducted a study on why the current banking is no longer where you go but something you do. His study indicates that alternate channels are a sure way of diversifying banking products for competitive advantage however, the context is American. Wasike (2010) conducted a study on competitive strategies adopted by Barclays bank of Kenya in counteracting industry competition.

In addition, Wilson and Zurbruegg (2003) carried out a study to find out whether it pays to diversify real estate assets. The outcome of the study was that there is a mixed outcome. This therefore calls for a new study since the above did not address the role of diversification as a means of competitive advantage in the banking sector for gaining sustainable competitive advantage. The choice of the banking industry was due to the nature of competition witnessed in



the banking industry which has informed the need to conduct the study so as to inform the industry on how best to compete in a dynamic environment like the banking sector in Kenya.

### **1.3 Research Objective**

The research objective of this study was to establish how diversification strategy can be used by commercial banks in Kenya as a means of gaining sustainable competitive advantage.

### **1.4 Value of the Study**

To the policy makers, this study will assist in empowering the existing players by equipping them with the latest trends in the diversification field as well as in the industry. This will help policy makers come up with better policies to the benefit of the banking industry.

The scholars will benefit as the study will contribute to existing literature hence growing scholarly materials in the field of diversification strategy, competitive advantage in real estate and banking sector application of the two in Kenya. In addition, the study will assist scholars in applying game theory in their daily running of businesses hence making it possible for scholars to relate theories and real life daily running of organizations.

Lastly, to the practitioners in the banking in Kenya, the study will empower them on how to improve performance through diversification. The banking industry, as the main player, will appreciate the importance of diversification and challenge these banks to embrace it as a means of achieving competitive advantage.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter looks at the literature which provides support for the study. This will explore theoretical foundation in order to bring out the understanding of diversification. The chapter further looks at how a firm can achieve sustainable competitive advantage in the banking sector.

### **2.2 Theoretical Foundation**

The overriding theories in this study are Game theory and Industrial Organization Theory.

#### **2.2.1 Game Theory**

Game theory aim at providing a formal language to describe conscious, goal-oriented, decision making processes involving one or more players and the decisions which are made out of the process of conscious choice based on the multiple options existing (Ogot, 2011). The solutions derived from game-theory may be thought of as normative or descriptive views of multi-person decision-making. Camerer (1991) posit game theory as the analysis of rational behaviour in situations involving interdependence of outcomes.

Kockesen, (2011) noted that game theory studies strategic interactions within a group of individuals in order to come up with solutions which are a thought process emanating from multiple options. The theory believes that actions of each individual firm have various and multiple effect on the outcome of other firms. Each firm is therefore aware of that fact that their competition are also rational and have objectives over the set of possible outcomes and are therefore ready to pursue the best available strategy to counter their competitors.

### **2.2.2 Industrial Organization Theory**

Bain, (1956) and Mason, (1939) separately looked at the Industry Organization theory at the structural and conduct wise to be an influence of performance. They then coined the paradigm Structure-Conduct-Performance (SCP). They believed that an industry in which firms operate must first of all be viewed through the organization structure to influence the competitive position of the firm. Industry organization is the study of a firm behavior in imperfectly competitive markets. IO relies on the structural aspect of an industry which emphasizes on the strategic groups in the industry with emphasis on the firm behavior and market structure.

Porter (1980) noted that SCP helps us understand the structure of an industry. He explains that structural analysis focuses on competition beyond a firm's internal environment to include external environment which ultimately explains whether the organization will have a sustainable performance or not in an industry.

Porter (1980) coined the five forces (threat of new entrants, bargaining power of buyers, threat of substitute products and services, bargaining power of supplier and rivalry among existing competitors) which are a complement to the industry organization theory thereby making it simpler to analyze and understand a firm's attractiveness. The five forces believe that competition is a means of gauging the industry attractiveness (Porter, 1985).

### **2.3 Diversification Strategy**

Johnson, et al. (2004) define diversification as a strategy used by organizations to move them into new products/services or into new markets. Diversification is a growth strategy which firms

apply to extend their market dominance by opening new frontiers in business. Diversification also seeks to increase profitability of a firm through greater sales volume as a result of new markets and products introduced (Spaeth, 2012). More often than not, diversification strategies are employed in businesses to expand the operations of these firms by expanding the market niche and increasing the product or service offering in the existing business (Randeniya, 2010).

Spaeth (2012) notes that diversification happens through the push for internal changes brought about by new markets and products, a deliberate take over of another entity (firm) through acquisition, making complementary relationships with other firms by crafting a working alliance, the use of licenses in which a new organization is licensed to use a given technology (ies) and lastly through distribution of another company products in ones market.

Thomson et al. (2012) observe that diversification happens due to the push by stakeholders to improve their wealth maximization quest. Though it comes with benefits, diversification is embedded with lots of challenges especially in the strategy making process. This is because there is now need to assess multiple industry environments and come up with a set of business strategy for each industry. As this happens, there is still need to have a company wide strategy at corporate level to improve attractiveness and performance of the company's overall business.

The aim of diversification is two fold; one, to improve the core process execution and secondly to increase the product offering by adding value to the existing products or services. Some organizations may choose to diversify for tax reasons. For instance a company may set base in a foreign country which offers tax haven for new entrants especially in countries where foreign

direct investment (FDI) is encouraged (Spaeth, 2012). Most firms will diversify to extend their product offering for survival purposes especially when the existing products do not meet the financial targets or to provide value addition and make better use of internal capabilities by marshalling resources to create synergy (Randeniya, 2010). Johnson, Scholes and Whittington (2004) refer to the efficiency gains by diversification as creating '*economic scope*'. For instance converting a church into conference facility during the week and using the church for Sunday service meeting is an example of how a firm can expand its economic scope at play.

Diversification happens for business reasons especially when a firm wants to capitalize on the sales cycle especially when the sales season is only three months in a year, the firm must look for other products or services to offer so as to make use of the production capacity of the organization as well as make more money for shareholders through this diversification (Barrett, Linney, and Pratt, 2012).

The need to diversify should be well calculated and planned. The motivation to diversify should be driven by the firm with emphasis on the available opportunities which the current business is unable to capitalize on without diversifying. This means the business environment must be the driving force after it avails an opportunity which requires the organization to take advantage of.

Resources existing within the organization need to be adequate to support the opportunity in the environment. This internal resource is expected to be unique to the extent that it provides an entry barrier to competitors (Wernerfelt, 1984). A resource is anything which could provide strengths or weaknesses in a firm. These resources are those tangible and intangible assets which

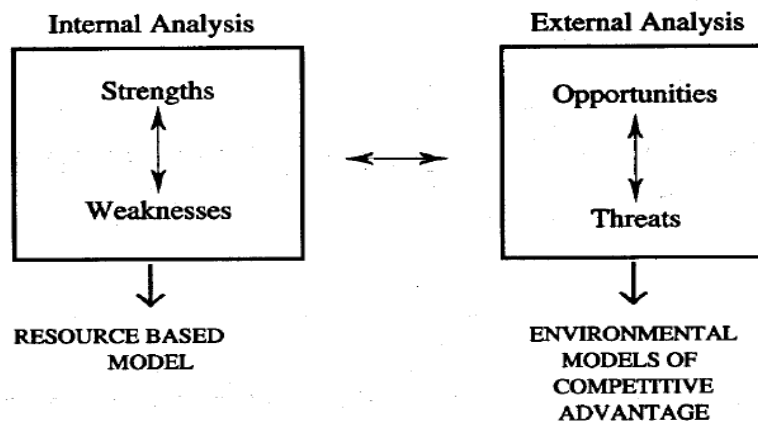
are tied semi-permanently to the firm and include; brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures, capital among others. Any organization which holds resources which other firms cannot match at any one time will remain competitive (Penrose, 1959). Wernerfelt (1984) acknowledge that any diversification should happen when the bundled resources in an organization is increased by the diversification itself. (Randeniya, 2010) purport that diversification should be done when the firm deliberately targets to improve shareholders value through wealth maximization.

There are three notable types of diversification. Vertical integration calls for integration along the same business but adding value within the value chain of the firm. Its aim is to achieve efficiency within the value chain. It is manifested by both forward and backward integration. Vertical integration is also referred to as related diversification. Horizontal integration (also known as unrelated diversification) calls for diversifying into more than one business line than the current one. Geographical integration is a situation where a firm opens up new frontiers in other regions by leaving the home turf to pursue additional business outside ones territory for growth reasons. Geographical integration is a strategy of diversification applied when the structure is adequate to support the strategy (Chandler, 1962; Randeniya, 2010).

## **2.4 Sustainable Competitive Advantage**

Barnley (1991) establish that understanding source of competitive advantage is pertinent in business today. Resources within the organization form the basis of sustainable competitive advantage. Porter (1985) says that sustainable competitive advantage is reached when a firm identifies its opportunities and threats and goes ahead to exploit these opportunities as well as cushions itself against the emerging threats as shown in figure 2.1.

**Figure 2.1: Diagram showing Industry Attractiveness**



Source: Barnley, (1991: 36)

Achieving sustainable competitive advantage calls for a firm to pursue internal capabilities which are rare, not easily imitated by competition, are not easily substituted and above all are very valuable (Rumelt, 1984). The source of the internal capabilities is found by interrogating firm competencies and resources (Andrews, 1971). This then leads to formulation of strategies which can propel an organization to achieve sustained competitive advantage if its resources are above the industry match.

Thomson et al. (2012) note that achieving sustainable competitive advantage is not an easy task as managers are required to first build on the company capabilities by deliberately building the internal development of the organization. This process can take months and years and it must be done proactively in stages to ensure that at any one time, the company grows internally on its capabilities. Secondly is the need to acquire new capabilities through mergers and acquisition. Refreshing a company's capabilities is the guarantee that a firm will challenge competition even when it arises. Companies must therefore refresh and be renewed capabilities wise to meet the

ever changing customer expectation. Consequently, achieving sustained competitive advantage calls for consciously assessing capabilities through collaborative partnerships with other firms. Achieving sustainable competitive advantage calls for employment of various strategies to remain on ahead of the pack.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research design used to carry out the study as well as the data collection and analysis methods. It further provides the steps which were used to identify the population and sample size, how the outcome was analyzed, types of data in the study and the instruments that were used in data collection exercise.

### **3.2 Research Design**

This study made use of cross sectional survey design to establish how commercial banks in Kenya use alternate channels as a diversification strategy to gain sustainable competitive advantage. A survey was the most appropriate design to make this investigation as it takes place at one point in time. The banking industry has 44 banks which can better be studied through a survey design.

The choice of survey as a design is appropriate in that it provides an avenue for establishing various alternate channels in the banking sector and relating their implications or role in diversification of banking products. Nachmias and Nachmias (1996) recommends the use of survey design when looking at a number of players in an industry such as the entire banking industry in this case as this makes generalization easy. Similar studies have been carried out using this design study method with satisfactory results. Cheptumo (2010) and Wanemba (2010) used similar designs and their results were successful.

### **3.3 Population of the Study**

The study relied on a census survey by looking at the entire 44 banks in Kenya. The study sought to conduct the study on the entire population (44 banks). A complete listing of all banks is availed in appendix 1. The study sought to get responses from all the banks. To do this, it was necessary to establish a pool of respondents who will provide response which can be used for analysis. This study was well aware that not all the 44 banks will respond due to the normal research constrains but aimed to achieve the highest possible response. This required that about one respondent be targeted from each bank. In addition, the study sought to gather data from key people of the banks who are relevant in the senior management levels in charge of strategy of the organization.

### **3.4 Data Collection**

The study targeted key units of the banks for data collection. The use of primary data (Questionnaires-Appendix 2) was employed. The questionnaires were administered through drop and pick method as well as delivered by email. The questionnaires had both closed and open-ended questions. The questionnaires relied on Likert Scale type of 1 (strongly disagree or strongly negative) to 5 (strongly agree or strongly positive impact) to rank the respondents opinion on various statements as well as open ended questions aimed at soliciting opinion of the respondents. The study in addition made use of secondary data from industry players such as Kenya Bankers Association (KBA), Financial Sector Deepening (FSD), the regulator CBK among others.

### **3.5 Data Analysis**

This study used content analysis to analyze the data collected from the respondents. The study sought to collate gathered data and turn the views and opinions gathered from the questionnaire

into quantitative alternative making it easy for analysis. Hsieh and Shannon (2005), observe that content analysis was preferred for analyzing subjective interpretation of data through systematic classification, coding and identifying themes and patterns.

The use of tables, graphs and charts was employed to relate data gathered as well as come up with percentages to relate the data to facts on the ground.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presented the findings of the study based on the data collected. The study relied much on content analysis. The analysis of this study relied on data collected from respondents with emphasis devoted to addressing the objective of the study.

### **4.2 The Respondents**

Respondents to the study came from managers and especially those responsible for alternate channels or Online Banking were targeted. In situations where a bank lacked alternate or online banking managers, the study chose to issue questionnaires to ICT managers. It was assumed that the people in these departments will be knowledgeable enough to address the questions in the questionnaire. A total of 44 questionnaires were sent out with 40 questionnaires returned making the success rate 90%. The responses were analyzed using content analysis and results tabulated in tables and presented in graphs as shown in the ensuing paragraphs.

#### **4.2.1 The Market**

The banking sector in Kenya is awash with products and services which aim at meeting the needs of the customers. The products range from Online Banking, corporate banking, SME banking, retail banking, institutional banking, alternate channels, cash management, mortgages, real estate products, Diaspora banking, Agency banking, mobile banking among others. The drive to have multiple products and services is aimed at offering value adding services and at least giving value to customers by ensuring that their needs and aspirations are met by the banks.

Commercial banks have been on a cut throat competition as every bank attempts to outsmart its competitors. This has left the consumer a happy lot while constraining the banking staff to think outside the box and come up with solutions which will add value to the banks and also become a market leader. The need to innovate has assumed a new dimension as banks have gone further to even set up innovations unit to champion their growth and become the lead players in rolling out new products.

In the quest to remain leaders in the commercial space, banks always attempt to gain competitive advantage and by so doing they capture the market and keep their customers. The banking industry boasts of driving the economy of the country, product diversification is seen as the ultimate driver and deliverer of competitive advantage. The banking industry controls about 30% of the economy currently and is therefore a very important component of the economy both for organizations and individuals. Banks offer loans used to support businesses growth and expansion. Individuals also burrow from banks for personal development such as mortgages, asset financing, insurance premium financing as well as personal loans for general upkeep and support of financial obligations by individuals such as school fees payments among others.

#### **4.2.2 Banking Environment**

There are 44 banks in Kenya today (CBK, 2013). These banks are in a struggle to win customer attention as competition becomes very stiff. Each bank tries to elbow the other in fight for dominance. The industry has seen many banks drive technological offerings which are attention catchy. The new area of dominance and competition in banking has shifted to innovation. These

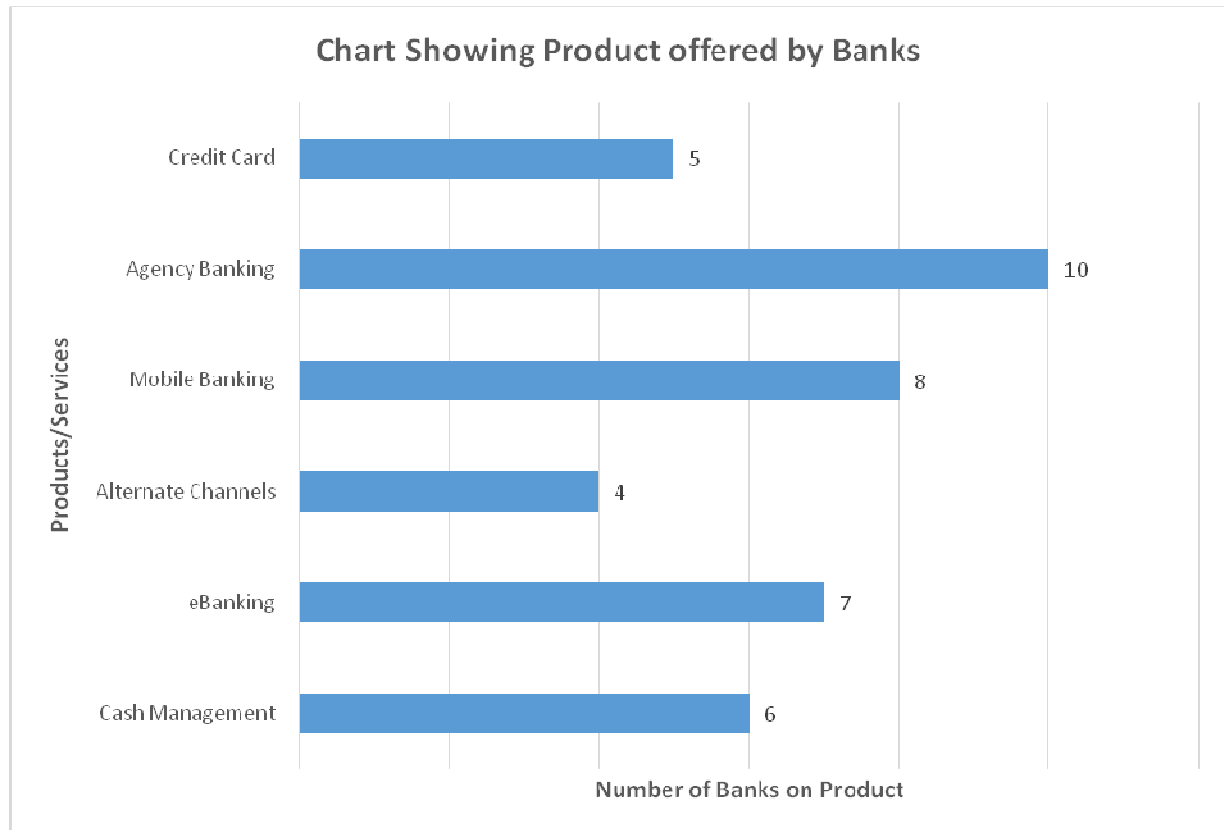
banks have initially invested in rolling out powerful and robust core banking systems which can help them roll out multiple solutions which are innovative and are state of the art. Banks such as Equity, KCB, BBK, NIC Bank, CBA, Diamond trust, CFC Stanbic among others have rolled out very powerful systems in the last five years with the hope of using the core to launch new product offering.

There have been a lot of partnerships between banks, card providers as well as telecommunications firms. Currently, over 10 banks have partnered with Safaricom Limited to offer Mpesa services for their customers. CBA bank has also launched MShwari service which has allowed depositors to not only keep cash with CBA, but also allow the customers to borrow seamless without the need to go through banks' credit risk department. This has allowed over 1 million accounts to be opened in less than 2 years of the system launch something which will improve financial deepening.

#### **4.2.3 Diversification in Banking**

As competition catches up with banks, it is the consumers who are left to rejoice as banks have gone out to ensure that they innovate to the core such that they are not left behind and that they control the market by ensuring that what is available in the market has some relationship with them. As banks wish to become the leaders in innovative ideas, the need to diversify products and services has been driven by shareholders who have increasingly pushed bank top management to ensure they increase their return on investment.

**Figure 4.2: Showing the Products/Services offered by banks**

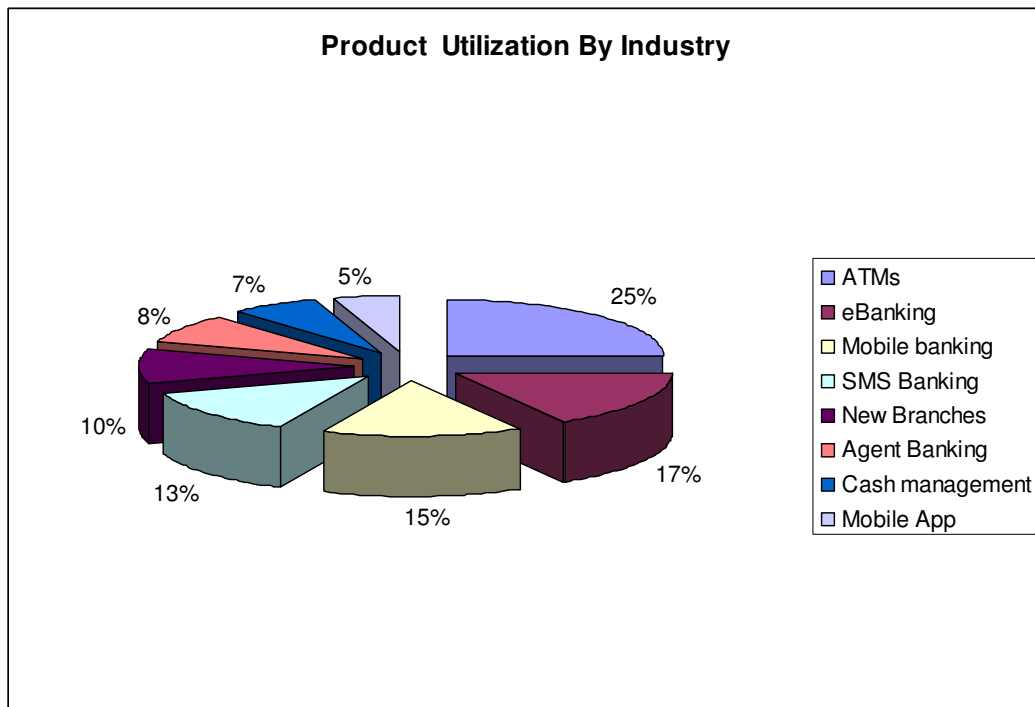


Source: Author (2013)

#### **4.3 Diversification Strategies used by Banks to Gain Competitive Advantage**

The following are the findings related to the use of diversification as a means of gaining competitive advantage by the banks. Figure 4.3 considered the use of alternate channels as a diversification strategy.

**Figure 4.1: Utilization of Alternate Channels**



Source (Author, 2013)

#### **4.3.1 Use of Alternate Channels as a Diversification Strategy**

Banks employing various products and services to catch the attention of their clients has received new impetus. Banks seem to embrace alternate channels as shown above. ATMs are leading the pack as most banks have resorted to forming partnerships with technology providers as well as aggregators such as Paynet and Kenswitch. These two firms control over 150 ATM networks in the country. The banks have entered into an arrangement where the ATM providers act as switches and the charges applicable are reasonable hence reducing entry barriers.

The fact that a customer is open up to accessing over 150 ATM networks over and above the banks ATM network makes it very attractive for such technology providers to rope in more



banks and expand further the ATM reach. In addition, the banks invest less in ATM technology by saving on cost while moving the funds to better areas of strength.

Electronic banking and online banking as well as mobile banking have also been applied to support the diversification experience of most banks. The use of eBanking has made it possible for banks to launch new products such as Diaspora banking. Diaspora banking has enabled banks to tap in foreign exchange earnings of most banks making it easy for banks to post additional profits hence return higher value for investments put up by the stake holders.

Agency banking has revolutionized banking in Kenya as most banks have devised new ways of increasing financial sector deepening as well as reduced the need to open up many branches. Currently, 10 banks offer agency banking and this product has seen banking move to the people in what most banks consider, “mtaani” banking or “kwa jirani” banking. A lot of deposits as well as cash has been dispensed through agency banking something which a bank like Equity as well as Co-op bank have quoted to be the main contributors to their profitability in 2012.

#### **4.4 How Channels are used to Gain Competitive Advantage**

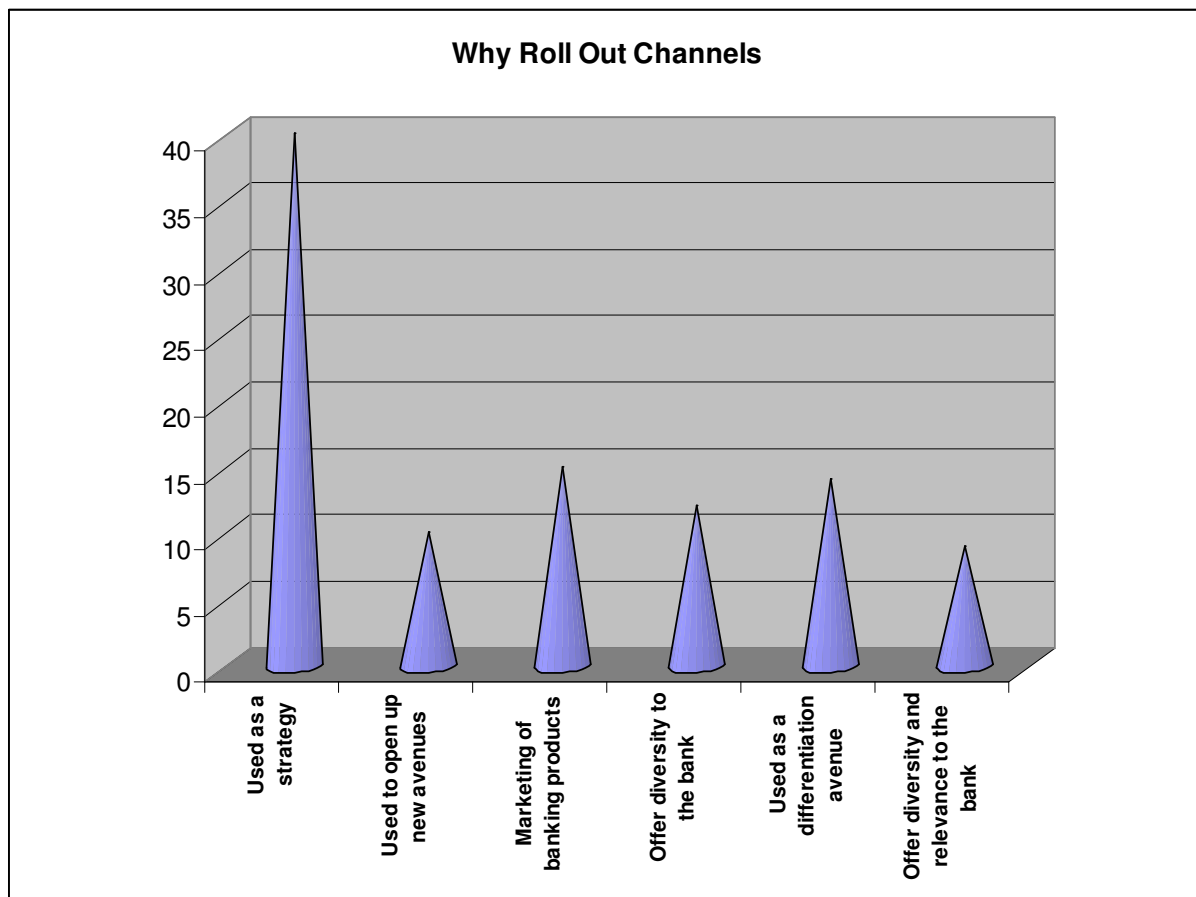
To support the need to roll out more channels to gain competitive advantage, banks have employed various reasons for channels expansion and the table 4.1 attests to this.

**Table 4.1: Showing the Reason for Channels Deployment**

Reason for Channel Deployment	Percentage Rating
Used as a strategy	40
Used to open up new avenues	10
Marketing of banking products	15
Offer diversity to the bank	12
Used as a differentiation avenue	14
Offer diversity and relevance to the bank	9

Source (Author,2013)

**Figure 4.2: Graph Showing Reason for Channels Deployment**



Source (Author, 2013)

#### **4.5 Discussion**

This study shows that out of the 40 banks, there are 10 banks offering agency banking. Mobile banking follows and eBanking/Online banking comes next. This shows that banks are attempting to move towards nontraditional banking products and services as they seek to remain competitive. The study found out that cash management is more popular with corporate banking business something which only 6 banks are offering. The motivation by banks is to seek ways to tap the market by rolling out new ventures which no competitor has thought of. With the help of technology banks have shown that diversification can assist banks maintain competitive advantage.

Figure 4.4 and table 4.1 shows that the banks' main reason for deploying channels is strategic. This is a clear manifestation that the bottom-line is the need to quench the diversification strategy of most banks. As the lead reason, this study confirms that banks are more interested in achieving growth through diversification.

The overriding motivation by banks in Kenya is to remain competitive going by the way they attempt to diversify. It is also evident from the study that banks are leaning towards alternate channels as a means of diversifying their product offering. The reliance on technology is aimed at saving cost while reaching a wider customer base without opening additional branches or expanding staff numbers.

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

### **5.1 Introduction**

This chapter summarized the findings based on the objective of the study. The purpose of the study was to establish how commercial banks in Kenya use real estate diversification for competitive advantage.

### **5.2 Summary**

The study has positively supported the need for banks to diversify their products. Banks have demonstrated in this study that they can remain competitive when they resolve to innovate new ideas. The study demonstrated that diversification as a strategy is important in the continuous growth of the banks especially in alternate channels. As supported by Johnson et al. (2004), diversification, a growth strategy by organizations is to enable players in real estate to move the banks into new products or services and into new markets. Diversification strategy has proved that, when well managed and applied by banks, alternate channels can extend the bank's market dominance by opening new ventures in business, which can keep the brand of the bank more vibrant and relevant and hence leading to competitive advantage.

Commercial banks in Kenya have shown that they are very competitive and alternate channels can be better grounds for diversification. This way, banks can maintain their edge in the competition when alternate channels are fully used as diversification avenues. The study further shows that leading banks are using a number of ways to diversify their products and services which is healthy as these banks must keep innovating and inventing new ideas to remain at the helm. The use of ATMs, SMS banking, Mobile Banking, Agency banking, Mobile Apps just to

name but a fraction of innovative ICT ventures has proved to be key towards a bank maintaining competitive advantage.

Products such as Diaspora banking have also been a plus in the banking industry. These products have sealed the gap brought about by capital flight as a result of expatriates returning funds back to their originating countries. Diaspora banking in conjunction with leading alternate channels products and services have enabled the banks to attract in total KES 100 B in 2011 (CBK, 2012)

Alternate channels has not only led to the banks improved profitability, but has also led to better bank offering hence the feel good factor which has enabled some banks to attract additional new customers through referrals and cross selling opportunities by bank staff as well as customers.

### **5.3 Conclusion**

It is laudable by the foregoing discussion to praise the banks for their active role in shaping the future of the nation. It is also commendable for banks to be the lead players in alternate channels as banks have gone out to make partnerships with major telecommunications and ICT stake holders to launch new business opportunity something which is not a small feat to achieve. The innovation in Alternate channels by commercial is commendable as it is capable of giving the banks a competitive advantage. Banks need to be lauded for the impressive work put so far in alternate channels by opening up new opportunities and ventures which has not only enabled the market to expand but has as well guaranteed the banks competitiveness hence improving profits of the banks and ultimately benefiting the shareholders thereby improving return on investments.

This study would therefore wish to commend banks for a work well done when it comes to alternate channels diversification. The performance of the bank has shown a lot growth year in

year out. Banks have also shown that adequate diversification policies in place can guide the process of innovation as the lifeline of innovation is continuously re-thinking the process. The banks have demonstrated that it is possible to diversify in banking and this is to the benefit of the banks themselves as well as stakeholders. Diversification has enabled the banking industry even strengthen its resolve to be a leader in innovation.

The competitive advantage coming as a result of banks embracing alternate channels is a big bonus to the industry as banks will keep on benefiting from these innovations. It is the resolve of this paper that banks are in a take off stage where the peak has not been reached and that banks still have room to grow beyond the current position. The banks which will keep pace with innovations in alternate channels are the ones which will keep being relevant in the times to come.

#### **5.4 Recommendations**

This study recommends that commercial banks as an industry should keep innovating in alternate channels to ensure that it maintain the competitive advantage. The banking industry should not shy away from designing new products (Wanefelt, 1984) but do so in a pace which resonates well with expectations of the market and clients. This is to prevent launching products which are not well researched and the ones which do not relate to customer requirements.

Commercial banks that rely on technology to launch their alternate channels diversification strategy stand a better chance of success than banks which make use of “vanilla” banking products. To remain competitive, banks must ensure they make proper use of partnerships and

their product research and rollout is seamless. This way, the industry cannot go wrong especially when competition is purely performance based.

The pace at which innovative products are launched, also needs to be planned and a proper user acceptance testing is used so that the desired impact of the products rolled out is achieved without the need to further waste time trying to perfect a system which is already in the market. Banks need to also stress-test the system so that any financial risk, both to the banks and customers, is lowered.

### **5.5 Limitations of the Study**

This study was limited to the banking industry something which limited the scope of the study. The study recommends for future researches to incorporate players such as telecommunication companies such as Safaricom, Airtel, Yu, and Orange, among others to widen the scope. In addition, the use of case study to carry out this study can provide very outstanding and more precise response to the problem at hand.

### **5.6 Suggestions for Policy and Research**

This study suggests that similar studies be carried out on all the key channels players extending the study beyond commercial banks. This will ensure the findings are compared to see if the outcome is similar. This will cover a wider ground something which this study might have omitted.

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## APPENDICES

**Table 6.2: Appendix 1 - Local Banks in Kenya as at 2012**

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

27	Habib Bank Ltd, Nairobi
28	Housing Finance Co. Ltd, Nairobi (gov)
29	Imperial Bank, Nairobi
30	I&M Bank Ltd (former Investment & Mortgages Bank Ltd), Nairobi
31	K-Rep Bank Ltd, Nairobi
32	Kenya Commercial Bank Ltd, Nairobi (gov)
33	Middle East Bank, Nairobi
34	National Bank of Kenya, Nairobi (gov)
35	National Industrial Credit Bank Ltd (NIC Bank), Nairobi
36	Oriental Commercial Bank Ltd, Nairobi
37	Paramount Universal Bank Ltd, Nairobi
38	Prime Bank Ltd, Nairobi
39	Southern Credit Banking Corp. Ltd, Nairobi
40	Standard Chartered Bank , Nairobi
41	Trans-National Bank Ltd, Nairobi
42	UBA Kenya Bank Ltd., Nairobi
43	Victoria Commercial Bank Ltd, Nairobi
44	Jami Bora Bank

Source: CBK, (2012)

## Appendix 2: Questionnaire

**Topic: Diversification strategy used by commercial banks in Kenya as a means of gaining sustainable competitive advantage**

### Objectives:

To establish how commercial banks in Kenya use diversification strategy to gain sustainable competitive advantage.

**The above objective was broken down into the below questions;**

How do banks use diversification strategy to remain competitive advantage?

### Section A: General Information

1. Name of your bank (Optional)\_\_\_\_\_

2. Kindly provide the unit or department of the bank where you work.

i.)  Branch Operations ii.)  Online Banking iii.)  ICT iv.)  Corporate Banking v.)

Alternate Channels v.)  Cash management  Strategy  Innovation

vi.)  Other, please specify\_\_\_\_\_

3. What would you consider relates to your specific role?

**Please Circle one for each row.**

	Not at all		To a great extent		
i.) Cash Management	1	2	3	4	5
ii.) Alternate channels	1	2	3	4	5
iii.) Card and ATM	1	2	3	4	5
iv.) ICT	1	2	3	4	5
v.) Strategy & Finance	1	2	3	4	5
vi.) Relationship Management	1	2	3	4	5
Other, Please include and rate_____					

**Section B: Use of Competitive Advantage**

1. What is your understanding of Competitive advantage?

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2. How does your bank seek to gain competitive advantage?

**Mark all that apply;**

**Through the deployment of the following;**

- i)  ATMs    ii.)  eBanking system    iii.)  SMS Banking  
 iv.)  Kiosks v.)  Cash Management    vi.)  Mobile Banking  
 vii.) Special APPs viii.) Other, please specify \_\_\_\_\_

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3. Does your bank operate an alternate channels department?  Yes  No.

If yes above, when did your banks start this department?

- i.)  1 year ago    ii.)  2- 5 years    iii.)  6-10 years ago    iv.)  v.) over 10 years ago.

If No above, please explain \_\_\_\_\_

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4. What is your view of the following statements on use of channels for achieving competitive advantage?

<b>Please Circle one for each row.</b>	<b>Not at all</b>		<b>To a great extent</b>		
i.) Used as a strategy	1	2	3	4	5
ii.) Used to open up new avenues	1	2	3	4	5
iii.) Marketing of banking products	1	2	3	4	5
iv.) Offer diversity to the bank	1	2	3	4	5
v.) Used as a differentiation avenue	1	2	3	4	5
vi.) Offer diversity and relevance to the bank	1	2	3	4	5

Other, Please include and rate \_\_\_\_\_

5. How would you relate the reasons which make banks employ multiple channels?

<b>Please Circle one for each row.</b>	<b>Not at all</b>			<b>To a great extent</b>	
i.) New products driven	1	2	3	4	5
ii.) Response to competition	1	2	3	4	5
iii.) Strategic reasons	1	2	3	4	5
iv.) Innovative reasons	1	2	3	4	5
v.) Customer demand	1	2	3	4	5
vi.) Need to remain relevant	1	2	3	4	5
vii.) Other, please specify_____					

6.) What role do you think diversification play in banking when it comes to competition?

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7.) Indicate your agreement or disagreement with the following statement; Banks employ alternate channels to remain competitive in the industry.

Strongly agree 1.  2.  3.  4.  5.  Strongly disagree

### **Section C: Diversification, Competitive advantage and Performance of banks**

8.) What is your understanding on organization performance\_\_\_\_\_

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9.) Does diversification contribute to organization performance in your view?

[ ] Yes [ ] No.

If yes above, kindly provide more information\_\_\_\_\_

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10.) Do you consider your Bank to be making use of diversification to gain competitive advantage for the bank? Yes [ ] No.[ ]



If Yes, please explain.

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11.) What is your agreement or disagreement with the following products or services to have come up in your bank as a result of alternate channels

<b>Please Circle one for each row.</b>	<b>Not at all</b>			<b>To a great extent</b>	
i.) Diaspora Banking	1	2	3	4	5
ii.) Share Trading	1	2	3	4	5
iii.) Asset Finance	1	2	3	4	5
iv.) Mobile banking	1	2	3	4	5
v.) Agent Banking	1	2	3	4	5
vi.) Insurance Services	1	2	3	4	5
vii.) Other, please specify_____					

12.) In your view, does Alternate Channels offer diversification opportunities which ultimately avail sustainable competitive advantage to your bank? [ ]Yes [ ] No.

If yes, Please elaborate\_\_\_\_\_

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13.) Please indicate your agreement or disagreement with the following statement;  
“Without alternate channels, my bank would not have been as competitive as it is since it would not have the caliber of products and service offering as it has today”

Strongly agree 1.  2.  3.  4.  5.  Strongly disagree

14. Kindly provide any additional information regarding alternate channels and its role in enforcing diversification within your banks?

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15. In what way(s) would you consider a bank to be competitive? Please explain

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16. How des a bank manifest its competitiveness?\_\_\_\_\_

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17. To what extent would you consider the following to be the parameters for measuring performance of your bank?

<b>Please Circle one for each row.</b>	<b>Not at all</b>		<b>To a great extent</b>		
i.) Return on Asset	1	2	3	4	5
ii.) Return On Equity	1	2	3	4	5
iii.) Return on Capital Employed	1	2	3	4	5
iv.) Sales Turn over	1	2	3	4	5
v.) Asset Value	1	2	3	4	5
vi.) Market Share	1	2	3	4	5

Other, Please include and rate\_\_\_\_\_

~Thank You~