VALUE CHAIN AND COMPETITIVE ADVANTAGE IN COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This project is my original work and has never been presented for award of any degree in any other university.

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

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DEDICATION

I wish to dedicate this project to my love Marie Koki and Mum Ann Wanza for their great love for education that they sacrificed immensely to see me through this program, God bless you and am forever indebted. To my Grandpa David Kasango, the Mureithi family. My brothers Gideon and Kalli thanks a lot for your support and encouragement during my educational endeavors.

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Abbreviations and Acronyms

ATM: Automatic Teller Machine

BBK: Barclays Bank of Kenya.

CBK: Central Bank of Kenya

EABL: Equity Bank Limited

IBM: International Business Machines Cooperation

ICT: information. Communication $ technology

KCB: Kenya Commercial Bank

KRA: Kenya Revenue Authority

PSS: Procurement Services

ROI: Return on Investments

RBV: Resource Based View

Abstract

This study sought to establish the application of value chain as a competitive advantage tool in Kenya's banking sector. A value chain is a management tool that helps to analyze specific activities through which the firm can create value and have competitive advantage. The chain uses industry attractiveness as a determinant of profitability with an ultimate goal to maximize value creation while minimizing cost. Competitive advantage is gained when a firm moves into position where it has an edge in coping with the market forces. Kenya's banking sector is currently facing stiff competition from micro-finances and telecommunications industry and the only way that a firm will stand this competition and remain competitive is by capitalize on the strengths and reduce the weaknesses. The value chain identifies areas of weaknesses which once minimized the firm can easily maximize on margins. Measures of central tendency and content analysis were used to analyze the data and the inferences were made systematically and objectively identifying the application of value chain in banking sector. This study established that value chain is applied to a large extent in banking sector and researcher came up with a value chain for the banking sector. The study was limited to confidentiality of information in banking sector where respondents held information they thought was confidential. The researcher recommended thorough training of employees, talent retention and relationship management be applied in banking sector in order to cut on operational costs hence increase profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In response to criticism that the five forces framework lacked implementation and methodology, Michael Porter (1985) bridged the gap between internal capabilities and opportunities in the competitive landscape by developing the value chain analysis. The framework focused on industry attractiveness as determinant of profit potential of all firms operating in particular industry. Value Chain Analysis helps identify a firm's core competencies and distinguish those activities that drive competitive advantage. This model helps to analyze specific activities through which firms can create value and have competitive edge over its competitors. The value chain is comprised of generic value adding activities called primary activities and support activities known as secondary activities. Johnson el al (2005) observed that the ultimate goal of value chain is to maximize value creation while minimizing cost.

Other theories in strategic management that have been adopted by the firms to gain competitive advantage include, resource based theory which lies primarily on application of tangible or intangible resources at firms disposal to leverage on its competition. Dynamic capabilities arose from a key shortcoming of the resource-based view of the firm. Teece et al. (1997) defined dynamic capabilities as the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments.

In the recent past, the operating environment the Kenyan business has witnessed an influx in the number of players offering the same or similar goods and services; this shift has also been experienced in the banking industry. The liberalization of the economy and improvement of entry rules have led to an influx of banks in the county. This has led to increased competition in the industry and so the banks have to come up with strategies to survive and remain relevant. Recently, Kenyan banking sector received unexpected competitors when the telecommunication industry introduced banking facilities dumped mobile money transfer. The focus of this study will be on increasing demand on provision of efficient services in Kenyan banking sector through the application of porter's value chain model in analyzing between the core and support activities and their subsequent contribution to corporate performance through the application of Porter's value chain in the Kenya banking industry and whether the application has led to sustainable competitive advantage.

1.1.1 Value Chain Analysis

The value chain model is a systematic way of examining all the activities a firm performs and how they interact. It disintegrates a firm into its strategically relevant activities in order to understand the behavior of the cost and existing potential sources of differentiation (Porter 1985).

The value chain is made up of Primary and secondary activities. The primary activities are directly concerned with the creation and delivery of a product or a service, they include inbound logistics, operations, outbound logistics, marketing and sales activities. The Secondary activities help to improve the effectiveness or efficiency of primary activities to which they are actually linked. These activities include firm's infrastructure, human resource management, technology and procurement.

1.1.2 Competitive Advantage

Competitive advantage is gained when a company moves into a position where it has an edge in coping with market forces. For an organization to survive in competitive environment it has to adjust its strategies in response by developing competitive strategies especially at market level (Porter 1990). Kottler and Keller, (2006) found out that the task of any business in a market is to deliver customer value at a profit in hypercompetitive economy with increasing rational buyers faced with abundant choices, a company can win only by fine tuning the value delivery process by choosing, proving and communicating a superior value.

For a firm to remain relevant Michael Porter (1990) proposed Generic competitive strategies for competitive advantage which fell in three broad categories those are cost leadership, differentiation and focus strategies. He further observed that if a firm can deliver its benefits at low cost then it will have competitive advantage over its rivals.

1.1.3 Value Chain and Competitive Advantage

The most important goal in any business unit is to make profit, increase market share and contain costs related to operation. Porter (1985) observed that the best practice in profit maximization is integrated in value chain system; he further observed that for maximum profit a firm must be efficient and effective in understanding how value of its goods or services is created or lost.

Drucker (1954) observed that the organizations that do not change to meet dynamic market conditions through value addition to their customers' needs will struggle at best to maintain them. He further argued that old firms such as General Motors, IBM, Sears and others have found out that old ways of operating are no longer working and they are having difficulty in achieving levels of performance that made them great.

Ansoff (1990) presented a strategic success hypothesis and argued that firm's performance potential is optimized when the following conditions are met, first the aggressive of the firm's strategic behavior that matches the turbulence of its environment, secondly, responsiveness of the firm's capability matches the aggressiveness of its strategy and lastly components of the firm's capability must support each other.

1.1.4 The Banking Industry in Kenya

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 falls under the Minister for Finance and is responsible for

formulating and implementing monetary policy, fostering the liquidity, solvency and proper functioning of the financial system. As at December 2012 there were forty six banking and non-bank institutions, fifteen microfinance institutions and one hundred and nine foreign exchange bureaus (www.cenralbank.go.ke).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. (www.cenralbank.go.ke). Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly supported by improved technology, robust human resource, strict procurement rules and advanced marketing skills.

1.1.5 Commercial Banks in Kenya

Kenya Commercial Bank (KCB) is the largest bank in Kenya by asset with an asset base of Ksh 367 billion, it has more than 230 branches, hundreds of automated teller machines (ATMs) and has 1.2 million customers, KCB offers the widest service coverage in Kenya and has indeed expanded beyond Kenya's borders with branches in Tanzania, Uganda, Southern Sudan, Rwanda and Burundi. Last year the bank attained Ksh 17.2 billion being the second in Kenya's banking industry. KCB is owned by Kenya government and individual shareholders (www.kcb.co.ke)

Equity bank is another large bank in the Kenyan banking sector it was formed in the year 1984 as a building society. The banks has asset base of Ksh 150 billion and is fully owned by individual shareholders. In the year 2012 the bank got profits of Ksh 17.8 billion and was the best in the industry, Equity bank has branches network in Kenya, Tanzania, Uganda, Rwanda and Southern Sudan (www.ebl.co.ke)

Cooperative bank was established in 1965, initially as a cooperative society it has asset base of Ksh 197.7 billion. It is owned by cooperative societies within Kenya individual and institutional investors through the Nairobi securities exchange. The bank has more than 3.2 million accounts (www.coopbank.co.ke)

Barclays bank is an international bank which has successfully ventured in Kenyan market. The bank is a large financial institution in Kenya, with an estimated asset base in excess of KES 180.9 billion, as of September 2011. At that time, Barclays Bank of Kenya was the second largest bank in Kenya, by assets, behind Kenya Commercial Bank Group. As of March 2011, the bank maintains a network of one hundred fifteen (115) branches and 236 ATMs in various locations across Kenya (www.barclaysbank.co.ke).

1.2 Research Problem

The focus of value addition in service delivery is likely to gain prominence in modern businesses due to increased competition, better marketing strategies and appreciation of strategic management as a tool for moving business from good to great. Strategies to attain and sustain superior corporate performance are highly necessary; this comes by

creating, communicating and delivering superior value to carefully targeted market Porter (1985). Competitive advantage cannot be understood by looking at firm as a whole, it stems from many discrete activities a firm performs in designing, producing, marketing, delivering and supporting a product. Each of these activities can contribute to firms relative cost position and create basis for differentiation (Porter, 1985).

Value chain management in banking sector has been brought about by the following factors, limited resources, increased competition and regulations. Odero (2006) found out that banks in Kenyan banking sector must have an ongoing process that evaluates and controls the business and the industry in which the bank is involved. He further observed for a bank to be competitive it must asses its competitors and assess goals and strategies to meet all existing and potential competition, then reassess each strategy regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors and new economic environment (new social, financial or political).

Several researches been done on value chain and competitive advantage in other sectors but non on Kenya's major banks. Internationally Daniel and Aaron (2004) studied augmenting the value chain; identifying competitive advantage via internet. Smit (2010) researched on, the competitive advantage of the United Nations; is Porters diamond framework a new theory that explains the international competitiveness of countries. Nationally, Gakumo (2006) studied application of porter's generic strategies by commercial banks in Kenya. Odero (2006) researched on the value chain and competitive

advantage in corporate banking industry in Kenya case study Citi bank. Ouma (2009) studied the application of Porter's value chain model at Kenya revenue authority. Munyi (2011) researched on Porters value chain model and competitive advantage in the oil industry in Kenya. So far no research done on the value chain and competitive advantage in Kenya. This study will seek to fill the gap by answering the following questions, what are the value chain activities adopted by major banks in Kenya? And is value chain being used as a competitive advantage tool in Kenyan banking industry?

1.3 Research Objectives

The objectives of this study will be to determine:-

i. The extent in which value chain is being used in Kenya's banking industry
ii. How value chain is being used as sustainable competitive advantage tool in Kenya's banking industry.

1.4 Value of the study

The study will focus on how to create competitive advantage by application of porter's value chain and how this chain can be used as a competitive tool. The results will review the strengths which can be maximized to profit margin and weaknesses which require important and urgent attention.

The study will be important to the top management all other banks whose interest lies in improved service delivery for economic development and creating investors' confidence. The study results will assist the management on Kenya's major banks in strategic

planning through effective and efficient management. The sector is being faced by increased competition the banks are keen on delivering high quality services to its customers, the findings will help the management in policy formulation.

The study results will be of great importance to practitioners and academicians both in private and public sector by contributing to existing body of knowledge in value chain analysis. Scholars will use the findings for further research and will apply it in lessons on strategic planning and efficient operations management. The practitioners will use this knowledge in making strategic decisions, departmental objectives and organizational mission and vision.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The idea of the value chain is based on the process view of organizations, it views an organization as a system made up of subsystems each with inputs, transformation processes and outputs. These subsystems involve the acquisition and consumption of resources, money, labor, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits margin. Most firms engage in thousands of activities in the process of converting inputs to outputs, these activities can be classified generally as either primary or secondary. Ways in which firms have gained sustainable competitive advantage include competitive capabilities, customer focus, dynamic strategy innovation and organizational process.

2.2 Theoretical Perspective of the Study

Sustainable competitive advantage is a long run competitiveness that cannot easily be duplicated or suppressed by competitors. Businesses must adopt sustainable competitive advantage strategies in order withstand the market dynamics; there are strategic management theories that assist the management in formulating sustainable competitive advantage. The resource-based view (RBV) theory is a basis for a competitive advantage of a firm that lies primarily in the application of the bundle of valuable interchangeable and intangible tangible resources at the firm's disposal (Wernerfelt 1984). Barney, (1991) observed that in order to transform a short-run competitive advantage into a sustained

competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile effectively, this translates into valuable resources that are neither easily imitable nor substitutable, if these conditions hold, the bundle of resources can sustain the firm's above average returns.

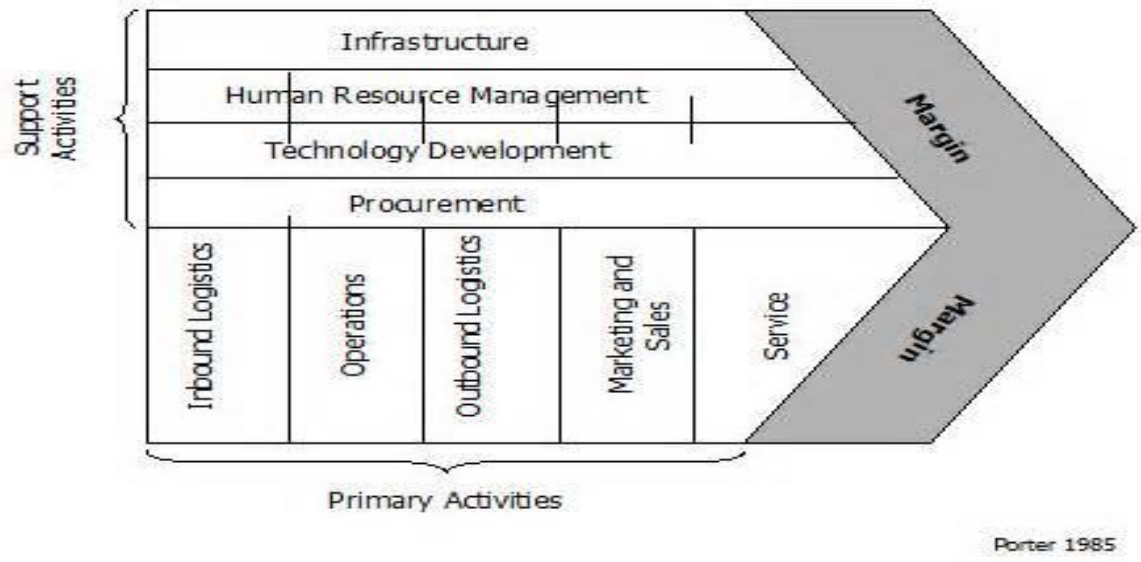
The concept of dynamic capabilities arose due to shortcoming of the resource-based view of the firm. The RBV has been criticized for ignoring factors surrounding resources, instead assuming that they simply “exist” it never considers how resources are developed, integrated within the firm they are released have been under-explored in the literature (Zahra, and George 2002). Dynamic capabilities attempt to bridge these gaps by adopting a process approach by acting as a barrier between firm resources and the changing business environment. The dynamic resources help a firm adjust its resource mix and thereby maintain the sustainability of the firm’s competitive advantage (Barney, J. B. 1986). Eisenhardt and Martin (2000) established that RBV emphasizes resource choice or the selecting of appropriate resources while dynamic capabilities emphasize resource development and renewal.

Business rivalry is a good thing for consumers, it forces businesses to provide superlative service and quality or face financial ruin. Michael Porter's Theory of Five Forces is a model for business management and managerial economics relative to rivalry among firms in a specific field (Porter 1982). Porter referred to these forces as the “micro-environment” and they consist of those forces close to a company that affect its ability to serve its customers and make a profit. These forces are: - threats of new entrants, threats

of substitute products or services, bargaining power of customers, bargaining power of suppliers and intensity of competitive rivalry. Porter's five forces of 1979 were highly criticized since they lacked implementation and methodology, so he developed the value chain framework which focused on industry attractiveness as determinant of profit potential in which this research is focused.

2.3 The Value Chain Model

Figure 2.10: Porters value chain



Source Porter ME (2004). *competitive Advantage:* Creating and sustaining superior performance *New York free press.*

To use a value chain as a competitive tool for gaining competitive advantage, a firm in an industry has to properly define its value chain the discrete value activities identified should have different economic, high potential impact on differentiation and represent a significant proportion of cost Porter (1985). Michael Porter subdivided an organization

into its key processes or functions and was able to link classical accounting to strategic capabilities by using value as a core concept i.e. the ways a firm can best position itself against its competitors given its relative cost structure, how the composition of the value chain allows the firm to compete on price, or how this composition allows the firm to differentiate its products to specific customer segments.

2.4 The Value Chain Activities

Porter's five forces consider external forces around the firm while the value chain analysis looks inside the firm. Porter (1985) considered a firm as a pipeline that converts raw materials into products and services, markets and sells those products and services to customers, and then suppliers services to those customers who have who have bought from us. Porter further observed that each step in the pipeline adds value to the product in the eyes of the customer and products and services end up being valued so highly than the sum of the costs of the individual steps in the processing pipeline. The difference between these costs and the value of the product is the margin.

Value chain model does not only apply to individual organization but to whole supply chain and distribution networks. According to Porter (1985) the value chain describes the activities within and around an organization which together creates a product or a service. A good product should result from how a set of linked activities are performed from design, component, manufacture, assembly process, speed of installation and after sale service (Johnson and Scholes 2002).

In his (1990) edition Michael porter described larger and interconnected system of value chain as “the value chain system” the system included the chain of suppliers (and their suppliers all the way back) the firm itself, the distribution channels and the firms buyers. Porter identified five primary and secondary activities each of which will permanently contribute competitive advantage**.**

2.4.1 Primary Activities

Primary activities are sometimes referred to as live function and are involved in physical creation of product or service, marketing, transfer to the buyer and after sales support (Pearson and Robinson 2005). Porter (1985) identified five primary value chain functions which are; in bound logistics, operations, outbound logistics, marketing and aftermarket installation. Inbound Logistics are activities associated with receiving, storing and disseminating inputs. These activities are material handling, warehousing, inventory control, vehicle scheduling, return to suppliers and stock control (Porter, 2004). In service sector the inbound activities are taken at the reception or customer service and where the customers are received and introduced to the services a firm provides.

Operation is associated with transforming input into final product; these activities include machining, packaging, assembly, testing and facility operations Porter (2004). Banking sector these activities normally take place in back office department which comprises of finance, risk, credit, accounts and legal (Ouma, 2009). He found out that for a success in a service industry, operation should be carried out in efficient and effective manner.

Outbound logistics are activities associated with collecting and physically distributing the product to buyers as finished goods, material handling, delivery, operations, processing and scheduling. In case of a service industry this may be concerned with the arrangement for bringing customers to the service if it is a fixed location through creation of branches for customers to access (Odero, 2006).

Sales and marketing is associated with providing means by which buyers can purchase the product and inducing them to do so. These activities include advertising, promotion, sales force quoting, channel selection, channel relations and pricing (Porter, 1985). Each bank in the Kenyan market has sales and marketing department which sensitizes the public through sales promotion and media adverts. The service marketing focus is mainly on the promotion mix i.e. price, product, place and promotion. Odero (2006) found out that for good performance in banking sector the customers must be well sensitized.

Services are activities associated with proving the after sales checks to enhance or maintain the value of the product such as installation, repair, maintenance, and parts supply and product adjustment response to buyers' enquiries and complain (Porter, 1990). Odero (2006) found out the main concern is to bring customers to the service if it is a fixed location, the services are intangible and customers will in more often than be able to make choices between alternatives. He further argued that the mode of presentation in a manner to create a repeat purchase behavior by the target market is evident as a quest to know customer satisfaction levels. Most banks have formed contact centers where customers can get all day long services and their products or services.

2.4.2 Support Activities

Support activities help to increase the efficiency or effectiveness of primary activities, these activities are sometimes referred to as staff or overhead functions (Porter, 1990). Pearce and Robinson (2005) observed that secondary activities assist the firm as a whole by providing infrastructure or inputs that allow the primary activities to take place on ongoing basis. Procurement is the process of purchasing inputs used in firms value chain, the input include raw material, fuel energy assets such as machinery, soft and hard wares and office equipment (Porter, 1985). He further observed that the improved procurement practices can affect the cost of purchased inputs.

Technology developments are activities related to product design and improvement through innovations, research and development. Johnson et al (2005) the key technologies are mainly specific to a product, process or particular resource and this is fundamental to the innovative capacity of the organization. Banking industry in Kenya has ICT department which ensures that technology is a means to leverage their business initiative and manage critical asset, time, people and money. Odero (2006) ICT must appreciate the need to drive business by means of controlling overheads, costs, leveraging resources and providing quantifiable return on investments.

Human resource management consists of activities involved in recruiting, hiring, training, development and compensation of all types of personnel Porter (1985). According to Odero (2006) the benefits a firm realized from human capital investments is directly proportional to the quality of its human resource, strategy, process and overall

management. He adds that the outcomes of an organization human resource process are critical capabilities like enhanced leadership, managerial competency, employee efficiency and workforce collaborations. Firm's infrastructure consists on number of activities including general management, planning, finance, accounting, legal, government affairs, quality management and formation of strategic alliances (Porter, 1985). Porter further observed that the firm infrastructure support the entire chain and is sometimes valued as the only "overhead" but can be powerful source of competitive advantage.

2.4.3 Linkages in the Value chain

Porter (1985) found out that the linkages in the value chain are the relationship between the way one value activity is performed and the cost of performance of another. Although value chain activities are building blocks of competitive advantage, they are not a collection of independent but interdependent with linkages between primary and secondary activities.

Gerry and Whittington (2009) noted that there exist linkages between primary activities themselves and secondary activities themselves. According to Porter (1990) the linkages led to competitive advantage in two ways i.e. optimization and coordination. Optimization is a long term strategy and occurs when a firm reduces cost of service by using high quality material and using stringent quality control. The coordination as a competitive strategy is the activity interrelationship to enhance differentiation or cost advantage.

2.5 Value Chain and Cost Analysis

For cost leadership cost are assigned to each value chain activity, the management will focus on minimizing these costs which gives the firm ability to lower its prices compared to its competitors and still make profit (Porter, 1990). The firm should reduce cost by; building economies of scale, decreasing or eliminating linkages, geographical factors (closer to suppliers or buyers), organizational learning, timing of entry to market, business environment (regulation, union regulation etc.) vertical integrations and how different units work together (Porter, 2004).

A firm may create a cost advantage either by reducing the cost of individual value chain activities or reconfiguring value chain activities. Once the value chain is defined the cost analysis can be performed by assigning cost to the value chain activity. The cost obtained from the accounting report may need to be modified in order to allocate them properly to value creating activities (Porter, 1985).

There are ten drivers related to value chain activities these are; economies of scale, learning, capacity utilization, linkages between activities, interrelationship among business units, degree of vertical integrations, timing of market entry, firms policy on cost or differentiation, geographical location and institutional factors (Porter, 2004).

2.6 Value Chain and Differentiation Analysis

A firm differentiates itself from its competition if it can be unique at something that is valuable to buyers (Porter, 1990). Procurement of raw material can affect performance of the end product hence differentiate on quality and quality. Porter (1985) identified nine

drivers of uniqueness in a firm i.e. product features and performance offered, service provided, intensity on activity adopted, content on activity, technology employed in performing an activity, quality of inputs products for activity, procedures governing the actions of personnel in an activity, skills and experience level of personnel applied and skill employed to control an activity.

The firm's management looks at activities that they can leverage or change in order to increase the uniqueness of their products or services relative to their competitors. For a firm to differentiate itself, it must consider drivers of differentiation such as organizational learning, linkages, timing of entry to markets, geography, business environment, integrations, policies and coordination between business units.

2.7 Other Value Chain Models

Porter's 1980 discussion of competitive strategy highlighted that, to be profitable, organizations must add value to products through the effective coordination of operational and support activities. In 1994, Hine re-evaluated Porter's model and said that an organization should ensure that the necessary practices are in place to produce a product that meets customers' satisfaction (Hines, 1994).

Hines also made it clear that the strategic competitiveness of individual businesses relied upon its ability to coordinate its operations within the overall value chain. Hines' value chain stretched from the consumer back through to the initial raw material providers with an overall goal of satisfying customer's needs (Hines, 1994).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with research design, population of the study, methodology that was used in collection of data, analytical framework of data analysis which describes the firm and the variables included in the study, the distribution patterns of data and applied statistical techniques in investigating value chain and statistical techniques in investigating value chain and competitive advantage in banking industry in Kenya.

3.2 Research Design

This is a cross sectional survey intended to establish the activities that constitute the value chain and extent in which these activities are used to develop sustainable competitive advantage. Mugenda and Mugenda (1999) Termed descriptive research design as scientific method which involves observing and describing the behavior of a subject without influencing it. It also concerned on what, who, where and how of a phenomenon.

The cross-sectional survey was the most appropriate since the study sought to describe the application of value chain in banking industry in Kenya. This kind of design was also utilized on studies of similar nature which included: - Ouma (2009) used descriptive study in his research on the application of Porter's value chain model at Kenya revenue authority Njau (2010) researched on the impact of value chain management strategy on performance, study on major oil companies in Kenya. Munyi (2011) who studied the Porter's value chain model and competitive advantage in oil industry in Kenya.

3.3 Population of the Study

The population of this study included all the 46 banks in the Kenya's banking industry. The researcher concentrated on four largest banks in terms of market share (above 10%) and workforce (more than 2,000 employees). These Banks include Kenya commercial bank, Equity Bank, Barclays Bank and Cooperative Bank. In large banks it is possible to disintegrate the activities in the value chain and therefore easily measure competitive strategies used in the value chain.

It is not possible to disintegrate activities in small banks since they have undefined processes and small workforce therefore difficult to established value chain. However the researcher will incorporate these firms by use of secondary data from print media and websites so as to make the research cover the intended population.

3.4 Data Collection

The primary data was collected using semi structured questionnaire. Self-introduction to the respondents on the issue of concern was made through introductory letter. The respondents were persons who make strategic decision in the banks e.g. sales and treasury head, financial institution head, operations head. At least two respondents per department will be required to fill the questionnaire. Follow up was done through personal visits, telephone calls, e-mails and the socio media to enhance response rate.

The questionnaire was divided in three parts, part one is the general information of the respondent and part two linkert scales aimed at determining the extent by which value chain activities have been adopted for differentiation in respect to; product differentiation, service differentiation, personnel differentiation and image differentiation. And part three focused on the value chain activity which creates significant profitability and enhances the shareholders' value. Secondary data was collected through banks website, newsletter journals and magazines.

3.5 Data Analysis

Data was analyzed using measures of central tendency. The questionnaire is divided in two parts. Part one of the questionnaires gives us the general information of the respondent and will be analyzed through content analysis. Part two of the questionnaire was analyzed using mean score, and standard deviation to determine the extent of practice of various activities within the value chain of corporate banking industry.

Data in part three of the questionnaire comprises of Porters support activities and was analyzed using measures of central tendency. It is aimed at showing the areas of strengths where the banks should capitalize on and areas of weaknesses where improvement will be required. Lastly, Secondary data will be analyzed using content analysis, measures of central tendency and factor method.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study and is structured in three parts. Part one is the general information about the informer where content analysis was used. Part two of the questionnaire tried to respond to the first objective of the study "the extent in which value chain is being applied in Kenya's banking sector". The informers pointed out the core activities of their department which have been contributing to attainment of banks targets and value activities that require improvement and urgent attention. In part three the informers ranked the service levels from other departments and the results of ranking in terms of service delivery are also at the end of the chapter. Finally the researcher came up with an ideal value chain model for the banking industry.

4.2 Informers Profile

Data was collected through in-depth interview from twenty six informers drawn from various departments of the four large banks in Kenya. There were seven informers from KCB, seven from cooperative bank, six from Barclays bank and six from equity bank. The informers were mainly senior Managers with at least ten employees reporting to them.

All the informers have worked in the banking sector for the past five years so they shared information about core value activities in their departments and things that they feel that urgent improvement is required in order to maximize gains in its operations. In order to establish the linkages between various departments the informers quantified the service levels received from other from other departments.

4.3 Application of Primary Activities in Banking Industry in Kenya

To determine the extent of application of value chain Kenya's banking industry a questionnaire was drawn. The primary activities were identified as Retail department, operations, Back office, marketing and Call Centre (Contact Centre in KCB and BBK). These are departments which introduce goods and services to customers, manage the applications, improve product specification and details, market the banks products and make sure that the existing customers enjoy the value of the product.

The respondents were subjected to questions testing the performance of primary activities in banking sector. Using Linkert scale was applied where the scope of response ranged from great extent to not at all. The response details per department as given by the respondents are presented hereunder.

4.31 Retail Department

Retail banking is department in banking industry which is handles inflow and outflow of customers. The department administers the entire banking products and services to the customers. The services offered by retail department include savings and transactional accounts, mortgages, loans, debit cards, credit cards and non-financial services.

Figure 4.1: Application of value chain in retail banking

ISSUE	**MEAN**	**S/D**
My Bank ensures that the logistics for the service delivery are awarded to the highest bid.	3.85	0.53
Ensure that inputs of the branch operations are above reproach in- terms of features and technology.	3.59	0.26
The process and system of receiving inputs are capable of detecting counterfeits and poor quality inputs.	4.23	0.19
Branches are capable of avoiding unauthorized issuing of outputs to operations	4.01	0.21
Best inventory management practices are applied to key inputs.	3.99	0.62
AVERAGE SCORE	**3.93**	**0.36**

The results depicted in the table above as a retail activities in Kenya's banking sector is practiced to a large extent to a large extent with mean score of 3.93 and a standard deviation of 0.36. This clearly answers our first objective of the study that retail banking as a core activity is in practiced the banking sector to a large extent.

The informers from the retail department cited that the five most important value activities in retail department as Sales, Acquiring, data capture loaning and account

opening. In order to differentiate the banks services from those of competitors the department identified banks processes and market dynamism as the activities which require improvement and urgent attention.

4.32 Operations Department

Operations department is a non-revenue making department which helps to streamline the processes used by the front office (the revenue generating part of the bank). Operations also oversee many regulatory requirements of the bank, as well as resolving discrepancies in trades. Surprisingly, all the banks studied viewed Operations as the 'engine' since it works across the whole company to meet the operational challenges of processing transactions, settling trades and satisfying the business needs.

Figure 4.2: Application of value chain in operations department

ISSUE	**MEAN**	**S/D**
Conducts checks/ audit to ensure all operations conform to required legislations/ policies/ procedures.	4.23	0.51
Ensures that operations staff are well trained to resolve customer issues	3.23	0.28
Ensure that all revenue and expenses are always accounted for daily, weekly, monthly, quarterly and annually for accurate and correctness.	3.51	0.06
Provides range of differently priced quality levels of products and services.	3.92	0.22
Promptly and accurately respond to all customer queries.	3.99	0.31
AVERAGE SCORE	**3.78**	**0.28**

The result portrayed in the table answers the first objective of the study that operations as a primary activity in the banking sector practiced to a large extent in Kenya's banking sector with mean score of 3.78 and standard deviation 0.28. In section three of the

questionnaire the informer from the department indicated the following are five most important activities done in operations department, account opening, documentation, authorizations and analysis. The department cited bank processes and turnaround time as activities which requires urgent attention.

4.33 Back Office Department

Back office is a part of most corporations where tasks dedicated to running the company itself take place. This is where the records of the banks sales and all other financial and non-financial transactions are kept. The updated inventory, receipts and reports are produced by the back-office system. Lastly, back office ensures that the final service meets the requirements of the customer and indicates the terms and conditions.

Figure 4.3: Application of value chain in back office department

ISSUE	Mean	S/D
The bank has adequate branches to effectively serve the customers countrywide.	3.81	0.43
Has secure distribution system of its key output services devoid of counterfeits.	4.27	0.31
Has self-regulating system which reveals defects/ counterfeits and unauthorized approvals.	3.93	0.44
Has appropriate secure system of storing its work in progress and fully processed output.	4.01	0.23
Operates key output at optimal levels.	4.37	0.43
MEAN SCORE	**4.078**	**0.37**

The results show that the back office in the banking sector uses value chain to a very large extent. This justifies our first objective that operations as a primary activity in Kenya's banking sector is applied to a large extent with a mean score 4.07 and a standard deviation of 0.37.

The back office manager cited cheque processing, loan processing, reconciliation, accounting, Process re-engineering and Quality Assurance Services as the most important value activities which have been contributing to achievement of the banks corporate targets. The department cited that in order to mitigate frauds at back office bank processes and security features as should be improved.

4.34 Marketing Department

Marketing in banking sector is responsible for planning of marketing activities, implementation, monitoring and adjustment it helps to develop strategic plans for the bank. Marketing makes the public aware of the goods and services the bank is offering.

Figure 4.4: Application of value chain in marketing department

ISSUE	Mean	S/D
Educates and sensitizes the customers on full scope of the services offered.	3.25	0.34
Contacts surveys to identify customers' needs	2.91	0.05
Recognizes and awards loyal customers.	3.52	0.28
Participated in corporate social responsibility	4.02	0.22
Promptly and accurately respond to all customer queries	3.91	0.32
AVERAGE SCORE	**3.52**	**0.24**

The result showed that marketing is practiced to large extent in in the banking sector with mean score 3.52 and standard deviation of 0.24. This responds to our first objective that marketing as a primary activity is practiced to large extent in the Kenyan banking sector banking sector.

The marketing department representative believed that the five major activities done at marketing sector are promotions, advertising, product development, opportunity identification and corporate brand building have been contribution to achievement of the banks targets. However he recommended that for the bank to achieve maximally corporate brand building and opportunity identification require urgent improvement.

4.35 Contact Centre Department

A Call Centre is a central place within an organization where employees handle incoming and outgoing customer calls, emails, short massages (sms), web chat, voice mail and scanned documents in a structured, programmed and monitored way. Each interaction is tracked for accountability and quality of service.

All the four banks studied have a call center but only KCB and Barclays have a twenty four hour contact Centre. It handles, manages and promotes customer interactions and queries on the banks by use of qualified, dedicated and well-trained customer service staff.

Figure 4.5: Application of value chain in call center

ISSUE	**Mean**	**S/D**
Promptly resolves customers queries and complains	4.56	0.28
Jointly agrees on service levels delivery with the customers	4.82	0.12
Monitors compliance of service level time frames	4.01	0.62

New enhancement/ improved to existing services are offered	4.08	0.23
Timely support of all internal services requirement	4.62	0.05
AVERAGE SCORE	**4.42**	**0.26**

The results revealed that the Call Centre in the banking sector uses value chain to a very large extent with a mean score of 4.42 and a standard deviation of 0.26. This h responds to our first objective that call Centre is applied in banking industry to a very large extent.

In section three the informer from call Centre department cited the following as the five most important value activities which have been contributing to attainment of the banks corporate targets, Product Information, Location Information, Complaints Handling, Basic Account Queries, Welcome Calls and Promotions/Campaigns. The department cited network and ICT as activities which need to be improved.

4.36 Primary Activities in Banking Sector

In order to determine the overall extent of applications of primary Value chain in the banking sector the individual score card per department was conducted and mean score was calculated as shown below.

Figure 4.6: Application of value chain banking sector.

No	Issue	Mean score	Standard deviation
1.	retail	3.93	0.36
2.	Operations	3.78	0.28
3.	Back Office	4.08	0.37

4.	Marketing	3.52	0.24
5.	Call Centre / Contact Centre	4.42	0.26
AVERAGE SCORE		**3.95**	**0.31**

This result fully answers the first objective which sought to determine the extent of application of Value chain in the banking sector. It is evident that the banking sector performs the core primary activities to a large extent with mean score of 3.95 and standard deviation of 0.31. However 81% of the respondents above the mean thought that the primary activities are practiced in the banking sector to a very large extent.

4.40 Secondary Activities in Banking Industry in Kenya

To determine the extent of application of value chain Kenya's banking industry a questionnaire was drawn. The secondary activities were identified as human resource, procurement services, information communication and technology (ICT) and infrastructure.

The interviewee responded to questions testing the application of support activities in the bank. They also cited the activities that they felt contributed to banks margins and activities which needed improvement and urgent attention. Later they ranked the quality of service received from core and support activities.

4.41 Human Resource Management Department

The main role of HRM function is to attract, train, develop and maintain an effective workforce. This involves development and management of human capital programs that will engage, develop and retain the employees while ensuring alignment with the banks vision, values, growth strategies and business objectives.

Figure 4.7: Application of value chain in HRM

ISSUE	**Mean**	**S/D**
HRD promptly resolves internal user's queries.	2.81	0.63
HRD observes to service level agreement (SLA) with all users	3.01	0.51
HRD monitors compliance to SLAs in all levels.	3.22	0.51
HRD sensitizes internal and external full functionalities of its process.	2.99	0.32
HRD support all internal department requirements.	3.08	0.62
AVERAGE SCORE	**3.02**	**0.52**

The results showed that the human resources in the banking is practiced to large extent hence rejoining our first objective that human resource as a support activity is applied to a large extent in the Kenya's banking sector with mean score of 3.02 and a standard deviation of 0.52.

In part three, the human resource manager department cited business partnering, employee relations, compensations & benefits and learning & development as the five most important value activities which have been contributing to attainment of the banks corporate targets. However, the informer believed that remuneration and compensations $ benefits needs to be improved for maximum talent retention.

4.42 Procurement Services Department

The Procurement unit in a bank that is responsible for all acquisition of goods and services, disposal of obsolete goods, Tendering and supplier relations. The extent in which the procurement process is applies in banking sector is shown below.

Figure 4.8: Application of value chain in procurement department

ISSUE	**mean**	**S/D**
PSS practices participatory/ team based approach in making procurement decisions.	3.92	0.07
PSS promptly resolves internal and external user queries.	4.01	0.52
PSS adheres to Service Level Agreements.	3.82	0.24
PSS sensitizes internal users on full functionalities of its process.	3.08	0.41
PSS supports all internal department requirements.	4.06	0.36
AVERAGE SCORE	**3.78**	**0.32**

The results clearly indicates that the Procurement in the banking sector is applied to a large extent with mean score of 3.78 and standard deviation 0.32, re-joining our first objective that procurement as a secondary activity is applied to a large extent in the banking sector in Kenya.

The procurement manager cited that developing supplier relationship, procuring goods and service, processing bids and awarding bids following the procurement act as the five most important value activities which have been contributing to attainment of the banks corporate targets. The respondent stated that supplier relationship and bids awards needs to be improved in order to maximize profits.

4.43 Information Technology Department

This is a department which develops implements and supports information systems and applications. The information technology department also provides access to ICT resources that supports and maintains all the transactions in the banking industry. The extent of application of ICT in the banking sector is shown on table below.

Figure 4.9: Application ICT in banking sector

ISSUE	**Mean**	**S/D**
ICT provides system and services which are cost effective, timely, secure reusable to both customers and staff.	3.21	0.28
ICT provides system and services which are cost effective, timely, secure reusable to both customers and staff.	3.05	0.28
ICT explores and pursue opportunities of employing new techniques that meet the requirements and expectations of users	2.42	0.17
ICT quality checks all new software's before releasing to internal and external users.	3.58	0.41
ICT observes Service level agreements	2.96	0.31
AVERAGE SCORE	**3.01**	**0.29**

The results showed that the ICT in the banking sector uses value chain to large extent hence answering our first objective that ICT as a support activity is practiced to a large extent with a mean score of 3.01 and a standard deviation of 0.29. In three the informer from ICT department cited the following as the five most important value activities which have been contributing to attainment of the banks corporate targets include Manage information systems, Network and communication services, User support and

maintenance, research and innovation services. The informer further recommended that network and system innovation should be improved for efficiency and effective service.

4.44 Infrastructure Department

Some banks referred infrastructure as facilities, Property and warehousing department and is responsible for refurbishment, space planning and furniture provision within the Bank. The department strategies on new looks, branding, comfortability of bank staff and its customers

Figure 4.10: Application infrastructure in banking sector

	issue	Mean	SD
1	My work place is safe with strong and well-furnished infrastructure	4.56	0.21
2	All safety precautions are observed at my work place	4.06	0.13
3	Working tools meets the modern technology needs.	4.11	0.22
4	Regular checks and renovations are done in my work place	4.62	0.14
5	The tools provided meet my work requirements.	4.08	0.18
6	The infrastructure timely supports all business needs.	3.95	0.07
	AVERAGE SCORE	**4.23**	**0.16**

The results showed that the infrastructure is applied in the banking sector uses to a very large extent hence answering our first objective that infrastructure as a secondary activity is applied in Kenya's banking sector to very large extent with mean score of 4.23 and standard deviation of 0.16.

The managers from infrastructure department cited the following as the five most important value activities which infrastructure have been contributing to attainment of

the banks corporate targets include manage facility refurbishment, plan space utilization, maintain repairs and administer immovable assets. The informer pointed out that bank processes and space utilization needs immediate improvement.

4.45 Secondary Activities in Banking Sector

To determine the overall extent of applications of support activities in the banking sector the individual score card per department was conducted and mean score was calculated as shown below.

Figure 4.11: Application of Secondary activities in the banking sector

No	Issue	Mean score	Standard deviation
1.	Human resource Management	3.02	0.52
2.	Procurement	3.78	0.32
3.	Information Technology	3.01	0.29
4.	Infrastructure/ facilities	4.23	0.16
AVERAGE SCORE		**3.51**	**0.32**

This result answers the first objective which sought to determine the extent of application of Value chain in the banking sector. It is evident that the banking sector performs the support activities to large extent with a mean score of 3.51.

4.5 Application of Heinz model in Kenya's banking sector

The research sought to establish if the banks products were tailored to customer needs and demands as it is in Heinz model. All the informers responded to customer focused questions. The results were shown in the table hereunder.

Figure 4.12: Application of Heinz model in the banking sector.

	ISSUE	Mean	S/D
1	Products are tailored to meet individual customer needs	1.26	0.21
2	Customers are consulted before new products are made.	1.91	0.23
3	The bank has market intelligence department that ensures products meet individual customer needs.	1.52	0.15
4	Suggestion box is keenly monitored	1.63	0.13
5	The bank is highly flexible and individual customers can negotiate terms in a product to meet their needs	1.21	0.09
	AVERAGE SCORE	**1.51**	**0.16**

From the results products and services offered by the Kenya's banking banks were not at all customer focused. This implied that the banks do not consider customers specific needs before making their products and services.

4.6 Departmental Ratings

In the study the departments were asked to rate the quality of service they have been receiving from the other departments this was aimed at establishing the linkages in the value chain. The findings are shown below

Figure 4.13: Inter-Departmental ratings:

RECEIVING DPT / AWARDING DPT	Contact Centre	HRM	Back office	Operations	ICT	Marketing $	Research $ Corporate Plans	Audit $ Risk	administration	General Management	Procurement and Supplies.	Finance.	Transport.

Contact Centre	0	2	4	4	3	4	4	3	5	4	3	3	3
H/ R Management	4	0	3	4	3	4	4	4	4	5	4	5	5
Back office	3	2	0	5	3	3	4	3	4	4	4	3	4
Operations	4	1	3	0	3	3	3	3	2	3	3	3	3
ICT	5	2	4	3	0	4	4	3	4	4	4	3	4
Marketing and Communication	5	1	3	4	3	0	4	4	3	3	4	4	4
Research and Corporate Plans	4	3	4	4	1	3	0	3	2	3	3	3	3
Internal Audit and Risk Management	5	2	5	4	3	4	3	0	3	4	3	3	5
Administration.	4	3	3	3	3	3	4	4	0	4	3	3	4
General Management	5	3	5	5	3	4	5	4	4	0	4	4	4
Procurement and Supplies	4	2	3	4	3	3	3	4	2	4	0	3	4
Finance.	5	3	4	4	3	3	3	3	3	3	3	0	4
Transport.	4	2	4	4	2	3	3	3	2	3	3	3	0
AVERAGE SCORE	**4.33**	**2.12**	**3.75**	**4.00**	**2.75**	**3.42**	**3.66**	**3.42**	**3.12**	**3.67**	**3.42**	**3.33**	**3.92**

The results show contact center and Operations departments are very good in service delivery followed by transport and back office. The services offered in these departments were customer focused and the departments adhered to laid down service level agreements.

Human resource management and information technology departments had only fair performance this implied that these departments did not adhere to service level agreements. Some departments like finance and human resources had interesting ratings, they felt that they have been delivering quality services however this was contradicted by

the receivers, and this implied that the services offered by these departments were not customer focused.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with summary of findings in relation to objective of study, it also gives the importance of the study to the stakeholders who were earlier identified in the importance of the study. Limitations of the study will be highlighted and further research for upcoming researchers will be suggested.

5.2 Summary

It is evident from the study that Kenya's banking sector uses value chain as a competitive tool. The retail department in banking sector deals with different types of accounts, loans and other financial products. For sustainable success in bank, the retail department should be vibrant in opening of accounts and growth customer base this will increase liquidity levels hence increase the lending power of the bank.

Retail department was ranked by other departments as very good when it comes to internal customer service; this is the success roots of the large banks in Kenya. The political stability, rampant technological changes and fair entry in the Kenyan market has increased competition in the banking industry. To remain competitive, retail departments in should offer products and services that are able withstand the market dynamics. Currently, the Kenyan banking industry is facing stiff competition from mobile industry, where money is being transferred using mobile phone industry to contain this unexpected competitor, the retail departments have tailored their products and services to conform to the mobile transfer system.

Operations department is the engine of the bank since it works across the whole company to meet daily operational challenges of processing transactions, settling trades and satisfying the business needs. It comprises of Credit, central processing and legal departments. This research has proved that operations is applied in banking sector to a large extent and so good job placement and clear policies should be put in place.

Operations delivers business support by radically redesigning business processes which increases customer satisfaction, reduce operational costs and create a flat form healthy competition. In banks studied there is highly professional and effective operational support structures such as credit operations and central processing center which have reduced significantly the cost of operations. The banks have a continued benchmarking, standardization and continued assurance with aim of achieving their vision and mission.

Back office department comprises of shared services, finance, reconciliation and accounts departments. The back office is responsive for functions related to running of banks such as settlements, budgeting, accounting etc. in some countries back office functions are often outsourced but in Kenya the all the banks perform back office activities. This study has established that back office functions are practiced in the Kenya's banking sector to a large extent.

For efficiency and effectiveness of the back office the bank processes should be improved by aligning the bank products to new technology and setting unique features in the products to curb increasing frauds. To sustain competitiveness the back office has reduced unit costs through economies of scale by elimination of process redundancies, improved Controls hence minimal operational losses, enhanced service through process standardization resulting into consistency in their execution, Minimal hand-offs / process steps hence improved turnaround time. The back office has adherences to service charters (SLAs) product knowledge, and robust risk management practices.

Marketing department is responsible for opportunity identification, corporate brand building, internal and external promotions. The marketing strategies are line with firm's strengths and the weaknesses and protect it from possible threats. The market department does market research and market intelligence to ensure that the firm's goods and services conform to market demand and dynamism. Regular promotions and advertisements are made by the marketing department to increase the life cycle of banks products and services.

Each bank studied has a vibrant marketing department. This study clearly shows marketing is practiced in Kenya's banking sector to a large extent. The other departments ranked the kind of services from marketing department as good. For sustainable competition the marketing department in the large banks in Kenya has used marketing mix of price, product and promotion. The entry of communication industry in the banking sector through mobile money transfer, the banks have turned to the four Cs of marketing i.e. consumer, cost, communication and convenience. Due to rapid competition in the Kenya's banking industry, the large banks have adopted a strategy of involving all its employees in marketing its products.

Contact Centre is the customer interaction center and is the central place in an organization where all customer contacts are controlled and managed. The customers can reach the bank any time and from anywhere using mobile phones, short text massages, internet and social media. Valuable information about the firm from the customers is routed to appropriate department for action. This study shows that call center as a secondary activity is practice to a very large extent.

Contact centers have replaced the suggestions boxes in the Kenya's banking sector. Although many firms in other sectors have outsourced this service it is very difficult for the banking sector to do so since customer details and financial secrets can easily leak to fraudsters. Call centers were recently introduced in the Kenya's banking sector with the large banks leading from the front. The relationship between bank the customers has been cemented and the customers feel that they hold the bank in their palm. Out of the banks studied its only KCB and Barclays who have a twenty four- hour contact center.

Apart from continued interaction with the customers, the banks are using this flat form to do telemarketing through social media where there massive communication at no cost. Contact centers have made large banks to cut advertising and promotions costs thus they are able to differentiate their products and services interns of cost hence having an edge over their competitors. From the call center the banks receives feedback on its products and also information on what the competitors are offering or are about to offer.

Secondary activities were identified as human resource, procurement, ICT and infrastructure. These are non-revenue generating support activities which when well performed will give the firm an edge over its competitors. This study has reviewed that secondary activities are practiced to a large extent in the Kenya's banking sector.

Human resource department attracts, develops, trains and maintains effective workforce ensuring alignment with vision and mission of the bank. All the banks have a vibrant

human resource department. The banks studied have remained competitive by employing minimum degree holders and frequently training and retraining their employees. Good job placement, reasonable remuneration and reliable staff welfare has helped retain talent and increase loyalty. The banks studied are registered in Nairobi stock exchange, have large branch network and financially stable the employees are assured of job security hence the human resource experiences very low turnover hence retaining crucial talents.

Procurement department acquires goods and services in an organization. This study has established that procurement is applied in Kenya's banking industry to a large extent. The banks studied have a centralized procurement department where all purchases are made. The combined bulk purchase of goods and services makes the banks enjoy economies of scale and large discounts associated with bulk purchases gives these banks financial leverage to differentiate their products from those of the competitors in terms of cost.

Information technology provides resources that support management information system, network and communication services, user support & maintenance and research and innovations services. The application modern technology has helped the banks layoff staff through voluntary exit programs hence reducing significantly the staff costs. Technology has fully taken processes such as ATM withdrawal, account opening and depositing resulting to accurate, speedy and efficiency in banks processes. With mobile money transfer joining the competition in the banking sector, ICT department of all the banks studied has aligned its technology to the mobile money transfer and is dubbed "mobile banking". The banks customers can now deposit, transfer, request statement and check loan/ account status from their mobile phones.

The infrastructure department deals with refurbishment, space planning and furniture provision within the Bank. From the study infrastructure supports the banking industry to very large extent. Banks have strong and well-furnished infrastructure which employees and customers have confidence and feel secure while doing business. Asset base worth billions of shillings owned by these banks leaves the customer with no doubt on security of their money thus increased customer loyalty. The customer devotion has resulted to long term deposits making these banks enjoy sustainable liquidity to trade with.

5.3 Conclusion

Form this study the researcher concluded that Kenya's banking sector uses value chain as a competitive advantage tool. The researcher depicts that having strategies that incorporates value addition and be customer focused in each department will increase efficiency, avoid job duplication and enhance cohesion in service delivery. All the service level agreements must be observed in order to strengthen the linkage within the banks departments and enhance efficiency.

This study showed that to achieve a competitive edge over competitors the banks should involve all the employees and departments. To enhance cost reduction the bank should have clear goals and objectives, commitment, teamwork, motivation, matching strategy and structure, adequate resources and manpower coordination in different departments. Contact center is the new avenue for customer interactions, product promotions and Clear Avenue for cutting operational costs, since this is a new avenue in the banking sector; the

researcher recommends that the other banks in Kenyan industry should embrace it in order to be able to produce cheap goods and services.

It was possible to conclude that there exist various challenges in using value chain as a competitive advantage tool in banking sector. These challenges include resistance to change, poor training, mismatch between strategy and structure, complexity of banking processes and mismatch of professional qualification.

5.4 Limitations of the Study

The confines of this study included the restrains of some informers who could not give openly some information which they felt was confidential. The banks felt that this study could easily expose their weaknesses to their competitors hence were reluctant to give formal authority.

This was a cross-sectional study of four large banks in Kenya. The banks have different structures and complexity results were obtained from departments which do not generally rely on each other hence it gave the general overview of the applications of value chain. Porter's value chain is very wide not all aspects linkages were exhaustively covered by this study.

5.6 Implication of the Study on Theory, Policy and Practice

For internal and external customers in an organization to be satisfied, all departments which operate in both primary and secondary activities must operate in total coordination, cohesion and should share common organizational culture, vision and mission. This study

has contributed to theory in application of value chain in service sector and most specifically the banking sector.

Due to hard economic times in Kenya and the entire world there is raising inflation, weak shilling, and stiff competition. The policy makers in the banking sector should to utilize value chain as identified in this study and other studies to create and maintain competiveness. The value chain will guide the policy makers in identifying firm's areas of strengths to capitalize on and weaknesses to put in corrective measures. Lastly, the policy makers will be able to make informed strategic decisions and policies.

The study reviews that the individual departments who believed that they were operating above average in serving their internal customers, were disapproved by the receiver departments who were less satisfied. For sustainable competitive advantage, the banks departments should increase satisfaction to both internal and external customers. This can be achieved through value addition delivery methods, customer focus services and responsiveness in service delivery and relationship management. Once this is done, compliance levels of both internal and external customers will increase resulting to reduced operational costs giving the bank financial leverage to provide goods and services at reduced cost.

5.5 Recommendations for Further Study

The study only looked at the internal value chain in the banking sector further study should be carried on the customer's value chain, suppliers and their supplier's value chain. This study was done on various banks for a simple fact that it can easily expose weaknesses of a bank to its competitors; the researcher recommends a study on a specific bank especially those owned by the state.

This study was carried out when the banking industry is faced with stiff competition and therefore the banks were not keen on divulging so much information especially on how they operate to remain competitive. A study on small and medium banks could perhaps bring out more interesting findings how to remain competitive in an industry.

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APPENDICES

Appendix 1: Questionnaire

Part One

General information

i. Your name…….(optional)

ii. Job title …… (optional)

iii. Bank you work for……

iv. Using the categories below indicate the number of staff you oversee in your department (please tick one)

Less than 5 [ ] between 5- 10 [ ] between 10-25 [ ] over 15 [ ]

Part Two

Please indicate the extent to which your organization provides the following on scale of 1-5 where. (5 = to great extent) (4 = to very large extent) (3 = to large extent) (2 = to small extent) (1 = Not at all)

no	ISSUE	1	2	3	4	5
	Inbound Logistics					
1.	My Bank ensures that the logistics for the service delivery are awarded to the highest bid.					
2.	Ensure that inputs of the branch operations are above reproach in- terms of features and technology.					
3.	The process and system of receiving inputs are capable of detecting counterfeits and poor quality inputs.					
4.	Branches are capable of avoiding unauthorized issuing of outputs to operations					
5.	Best inventory management practices are applied to key inputs.					
	Operations					
1.	Conducts checks/ audit to ensure all operations conform to required legislations/ policies/ procedures.					
2.	Ensure that operations staff are well trained to resolve customer issues					
3.	Ensure that all revenue and expenses are always accounted for daily, weekly, monthly, quarterly and annually for accurate and correctness.					
4.	Provides range of differently priced quality levels of products and services.					
5.	Promptly and accurately respond to all customer queries.					
no	**ISSUE**	**1**	**2**	**3**	**4**	**5**
	Outbound Logistics.					

1.	The bank has adequate branches to effectively serve the customers countrywide					
2.	Has secure distribution system of its key output services devoid of counterfeits.					
3.	Has self-regulating system which reveals defects/ counterfeits and unauthorized approvals.					
4.	Has appropriate secure system of storing its work in progress and fully processed output.					
5.	Has appropriate secure system of storing its work in progress and fully processed output.					
Marketing.						
1.	Educates and sensitizes the customers on full scope of the services offered.					
2.	Contacts surveys to identify customers' needs					
3.	Recognizes and awards loyal customers.					
4.	Participated in corporate social responsibility (CSR)					
5.	Promptly and accurately respond to all customer queries					
Services						
1.	Promptly resolves customers queries and complains					
2.	Jointly agrees on service levels delivery with the customers					
3.	Monitors compliance of service level time frames					
4.	New enhancement/ improved to existing services are offered					
5.	Timely support of all internal services requirement					

Part 3: Support Departments

no	ISSUE	1	2	3	4	5

	Human resource Department (HRD)					
1.	HRD promptly resolves internal user's queries.					
2.	HRD observes to service level agreement (SLA) with all users					
3.	HRD monitors compliance to SLAs in all levels.					
4.	HRD sensitizes internal and external full functionalities of its process.					
5.	HRD support all internal department requirements.					

no	**ISSUE**	**1**	**2**	**3**	**4**	**5**
	Procurement Services (PSS)					
1.	PSS practices participatory/ team based approach in making procurement decisions.					
2.	PSS promptly resolves internal and external user queries.					
3.	PSS adheres to Service Level Agreements.					
4.	PSS sensitizes internal users on full functionalities of its process.					
5.	PSS supports all internal department requirements.					
	Information technology (ICT)					
1.	ICT provides system and services which are cost effective, timely, secure reusable to both customers and staff.					
2.	ICT explores and pursue opportunities of employing new techniques that meet the requirements and expectations of users					
3.	ICT quality checks all new software's before releasing to internal and external users.					
4.	ICT observes Service level agreements					
5.	ICT sensitizes internal users of full functionalities of its process					
6.	ICT timely supports all other departments					
no	**ISSUE**	**1**	**2**	**3**	**4**	**5**
	Infrastructure					

1.	My work place is safe with strong and well-furnished infrastructure					
2.	All safety precautions are observed at my work place					
3.	Working tools meets the modern technology needs.					
4.	Regular checks and renovations are done in my work place.					
5.	The tools provided meet my work requirements.					
6.	The infrastructure timely supports all business needs.					

no	**ISSUE**	**1**	**2**	**3**	**4**	**5**
	Customer focus					
1.	Products are tailored to meet individual customer needs					
2.	Customers are consulted before new products are made.					
3.	The bank has market intelligence department that ensures products meet individual customer needs.					
4.	Suggestion box is keenly monitored					
5.	The bank is highly flexible and individual customers can negotiate terms in a product to meet their needs					

Part four:

1. Name of your department …….
2. Please indicate five most important activities in your department which have been contributing to your banks targets.

3. please indicate activities of your department that require improvement and urgent attention

Kindly rate the kind of service your department has been getting from the following departments

no	ISSUE	Excellent 5	Very good 4	Good 3	Fair 2	Poor 1
1.	Customer service					
2.	Back office					
3.	Operations					
4.	Information Technology (ICT)					
5.	Marketing and Communication					
6.	Research and Corporate Plans					
7.	Internal Audit and Risk Management					
8.	Administration					
9.	General Management					
10.	Procurement and Supplies					
11.	Finance					
12	Transport					

Thank you for your response

Appendix 2: Introduction Letter University of Nairobi

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 29.07.2013

TO WHOM IT MAY CONCERN

The bearer of this letter ALFRED MUTUNDA MUTUA

Registration No. D61/60162/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
FOR: MBA CO-ORDINATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
29 JUL 2013
P.O. Box 30197 – 00100, NAIROBI

Appendix 3: Self Introduction letter

Alfred Mutinda Mutua,

School of Business,

University of Nairobi,

P.O. BOX 30197

NAIROBI

Dear sir/ Madam

RE: REQUEST FOR RESEARCH DATA

I am a post graduate student at Nairobi university school of business pursuing a course leading to Master's degree in Business Administration (MBA). In partial fulfillment of the requirement of the stated course I am conducting a management research project titled "THE VALUE CHAIN AND COMPETITIVE ADVANTAGE IN COMMERCIAL BANKS IN KENYA.

In order to achieve this organization is one of those selected for this study by filling the attached questionnaire. This information will be used purely on academic grounds and all the information disclosed will be treated in confidence and in no instance will your name or that of your organization shall be mentioned in final report.

a copy of the report shall upon your request be availed to you. your assistance will be highly appreciated.

yours sincerely

Alfred Mutinda	Dr Zack Awino
Student	Supervisor

Appendix 4: Licensed Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Cfc Stanbic bank
7. Chase bank
8. Charter House Bank(Under statutory Management)
9. Citibank
10. Credit Bank
11. Co-operative bank of Kenya
12. Commercial Bank of Africa
13. Consolidated bank
14. Development bank of Kenya
15. Diamond Trust bank
16. Dubai bank
17. Eco bank
18. Equatorial Commercial Bank
19. Equity bank
20. Family bank
21. Fidelity Commercial bank
22. Fina bank

23. First Community Bank

24. Giro commercial bank

25. Guardian bank

26. Gulf African Bank

27. Habib A.G.Zurich

28. Habib bank

29. Imperial Bank

30. Investment and Mortgages bank

31. K-Rep bank

32. Kenya Commercial bank

33. Jamii Bora Bank

34. Middle East bank

35. National bank of Kenya

36. National Industrial Credit bank

37. Oriental Commercial bank

38. Paramount Universal bank

39. Prime Bank

40. Standard Chartered bank

41. Trans-National bank

42. UBA Kenya Limited

43. Victoria Commercial bank

Source www.cenralbank.go.ke