STRATEGIC RESPONSE TO MOBILE MONEY TRANSFER SERVICES BY COMMERCIAL BANKS IN KENYA

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DECLARATION

I hereby declare that this research project is my original work and has not been presented in any other university for an award.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

ATMs	Automated Teller Machines
CBK	Central Bank of Kenya
CCK	Communications Commission of Kenya
OB	Organizational Behavior
OST	Open Systems Theory
RBV	Resource-Based View
MMT	Mobile Money Transfer

ABSTRACT

Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. To succeed in the long term, organizations must compete effectively and out perform their rivals in a dynamic environment. Kenyans have embraced mobile money transfer services in masses due to the security, reliability, affordability and convenience associated with mobile banking and cash transfer. The business environment within which Kenyan commercial banks operates has therefore been threatened by the new entrants offering money transfers services. The threat to the industry cannot be ignored because the industry plays a significant role in our economy. This study sought to establish the strategic response of commercial banks in Kenya to the introduction of mobile money transfer services. This research study adopted descriptive cross-sectional research design. The population of study consisted of all the 43 commercial banks that are dully registered with Central Bank of Kenya by 2013. The study collected primary data from the managers of the commercial banks. The primary data was collected using semi-structured questionnaires. The respondents included senior and middle level managers who make strategic decisions in these commercial banks. The questionnaires were administered using the drop-and-pick method. The filled questionnaires containing the data were first edited then coded to facilitate statistical analysis Data collected was analyzed through descriptive statistics and the findings presented in form of frequency distribution tables, bar charts and pie charts. In the pursuit of collecting data, the researcher experienced challenges such as lack of cooperation from the banks which were unwilling to give information. The study found out that most of the commercial banks had increased their budgetary allocation to counter competition from mobile money transfer. Majority of the banks had adopted new technologies to counter competition that had been posed by the mobile money transfer; introduced a wide ATM network and also opened up more branches across the country to try reach more customers. The study concludes that most of the commercial banks have adopted strategies to mitigate the competition posed by mobile money transfer services. These included adopting new technologies such as mobile banking through collaborating with mobile/ telecommunication companies in effecting these services; online/internet banking and more introduction of plastic money through credit cards. The study recommends that commercial banks in Kenya must be in tune with its external environment. Banks also need to adopt strategies such as forming strategic alliance with other financial services providers. The banks also need to employ human resource strategies since lack of skilled man power was established as a major factor that hinders innovativeness.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Companies respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players (Hamel and Prahalad, 1993). It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment. The success of every organization is determined by its responsiveness to these environmental changes (Pearce and Robinson, 1997).

According to Open Systems Theory, organizations and communities are open systems; changing and influencing each other over time. Organizations are constantly being influenced by changes in the external environment and hence they need to be innovative in today's fast changing, unpredictable and turbulent environments (Luhmann, 1995).Organizations also need the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments; which Teece et al. (1997) defines as dynamic capabilities.

The resource based view theory also contends that a firm's internal resources and capabilities are the best source of competitive advantage over other firms (Barney, 1991). While the RBV emphasizes resource choice or the selecting of appropriate resources, dynamic capabilities emphasize resource development and renewal.

Firms therefore focus on gaining a competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core strengths, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Hamel and Prahalad, 1993). According to Johnson and Scholes (1997), core strengths are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains. Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies meaning that new products can be made.

Commercial banks face challenges in today's dynamic market environment. In a global economy that has become increasingly competitive, there is need for efficient development of products that can quickly satisfy a more demanding customer base and build long-term customer trust. It must optimize both internal and external innovation, while seeking operational excellence at all levels. Meeting these challenges requires new business and marketing strategies that boost revenues, improve operational efficiency, cut costs, and enhance the overall management of business.

Banks use a myriad of strategies to respond to competition or any force in the external environment. These are grouped as asset and liability strategies, market strategies, human resource strategies, information technology strategies, and organizational strategies. These are the strategies that have been used by banks in the past in other countries (Trethowan and Scullion, 1997).

1.1.1 Strategic Response

For any organization to live and survive, it is important that it responds positively to its environment and the changes in it; these are strategic responses of an organization to its environment (Pfeffer and Salancik, 1978). To compete in today's rapidly changing competitive environment, new strategies are required that most managers may have never thought possible. Strategy is a firm's game plan for surviving in the changing environment. This implies that strategies are not static; they keep changing as the environment changes. For organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environment. This is what is termed as strategic responses, which are the actions that an organization takes to align itself with the environment. Any firm that does not take actions to align itself with the environment cannot survive in the environment and is soon forced out of the market (Pearce and Robinson, 1997).

Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. The banking industry in Kenya has undergone a major transformation due to amongst other factors, changing patterns of customer behavior, government regulation, technological innovations, service quality movements, and pressures to improve productivity, relaxation of previous professional association restrictions on marketing, internationalization and globalization.

1.1.2 Mobile Money Transfer Services

Kenyans have embraced mobile money transfer services in masses due to the security, reliability, affordability and convenience associated with mobile banking and cash transfer. M-Pesa is the most popular cash transfer service in Kenya. The Communications Commission of Kenya shows that the total number of mobile subscribers have risen to 30.7 million in the last quarter (CCK Quarterly Sector Statistics Report, 2012).

Evidence suggests that there is an increase in penetration and use of MMT services in Kenya (Mason, 2007). Statistics from the Central Bank of Kenya indicate that Safaricom's M-PESA users moved more than Ksh. 728 Billion (approximately $8 Billion) in 2010 as compared to only Ksh. 50 Million by Orange-money (Central Bank of Kenya, 2010). This amount was moved in the more than 306 Million transactions conducted in the service. The report further puts daily movement of cash to more than Ksh 2.3 Billion. Revenue from M-PESA in 2010 stood at Ksh 12 Billion, up from Ksh 8 Billion in 2009 (Central Bank of Kenya, 2010).

1.1.3 Banking Industry in Kenya

Commercial banks in Kenya are 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). According to the Central Bank of Kenya, Kenya currently has 43 licensed commercial banks and one mortgage finance company. Of these 43 institutions, 31 are locally owned and 12 are foreign owned.

Commercial banks in Kenya accept deposits from individuals and turn a profit by using the deposits to offer loans to businesses with a high interest rate. Data from the Central

Bank of Kenya shows that Sh1.117 trillion changed hands through mobile phone money transfers helped largely by increased interface between commercial banks and the cash remittance services of mobile telephone services firms. This represents substantially more points of service than the combined number of bank branches (1063) and Automated Teller Machines (ATMs) (1979) (Central Bank of Kenya, 2010).

1.2 Research Problem

In order to survive in the competitive environment, it becomes necessary for companies to be aggressive in their search and development of strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantages held. The stiff competition among companies and the entry of other players into the industry necessitate the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage. The ability of a company to command a competitive advantage depends on the sustainability of the competitive advantages that it commands (Rumelt, et al; 1994).

The business environment within which Kenyan commercial banks operates has been threatened by the new entrants offering money transfers services. The threat to the industry cannot be ignored because the industry plays a significant role in our economy. The business environment changes have serious strategic threat to existing commercial banks in Kenya; hence the need to adopt urgent measures in form of competitive strategies to survive the new turn of events and retain their position in the market. The recent increase in technological expansion and innovation that has changed the way money transfer services are offered and this has had an impact on the commercial banks market (Gallup survey, 2011).

A number of past studies have been done on strategic response by commercial banks; internationally, Kamukama and Tumwine, (2012) conducted a study on mobile money services: as a liquidity threat to Uganda's commercial banks; Trethowan and Scullion (1997) did a study on strategic responses to changes in retail banking in the UK. Locally, Muendo Jackson (2011) did a study to examine the effects of direct sales strategy as a strategic response to the changing and competitive banking environment in Kenya; Ochieng Marian Akelo (2009) conducted a study to identify the strategic planning problems faced by commercial banks in Kenya and to determine the coping strategies adopted by commercial banks in Kenya for the strategic planning problems; Goro, (2003) did a study on strategic responses of commercial banks to the threat of substitute products.

An observation of the local studies conducted establishes that no research has been done to establish the strategic responses adopted by commercial banks to the introduction of mobile money transfer services which has threatened the commercial banks market with stiff competition. The study sought to establish; which strategic responses have commercial banks in Kenya adopted in relation to the introduction of mobile money transfer services?

1.3 Research Objectives

The objective of the study was to establish the strategic response of commercial banks in Kenya to the introduction of mobile money transfer services.

1.4 Value of the Study

The study was expected to guide and enable commercial banks come up with practical approaches and strategies primarily on the resources available to them. The study findings would also help the commercial banks to enhance their capability capacity so as to create a competitive niche in relation to the substitute products and services being provided by the mobile money companies.

The study would be of significance to policy makers both in the private sector and in government agencies; especially policies and regulation on emerging issues such as cybercrime, tax evasion, regulations and corporate social responsibility and ethical issues in business.

This study was also expected to be of great value to the researchers and scholars. The study would provide some directions for future research and serve as source of reference for future research into the subject matter.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focused on the review of literature on the strategic response to mobile money transfer services by commercial banks. This involved are view of the theories that support the study and literature on the current and past literature studies and research on mobile money transfer and strategic responses.

2.2 Theoretical Foundation

The theoretical foundation discusses the theories that are attributed by other researchers, authors and scholars and are relevant to response strategies. The study specifically discussed the dynamic capability theory, open systems theory, organizational behavior theory and the resource based view theory.

2.2.1 Dynamic Capability Theory

The concept of dynamic capabilities was introduced by (Teece and Pisano, 1994; Teece et al., 1997) who asserted that in a dynamic environment a firm's competitive advantage will rest on the firm's internal processes and routines that enable the firm to renew and change its stock of organizational capabilities thereby making it possible to deliver a constant stream of new and innovative products and services to customers. Dynamic capabilities can therefore be perceived as the routines in a firm that guide and facilitate the development of the firm's organizational capabilities by changing the underlying resource base in the firm (Eisenhardt and Martin, 2000). Both dynamic and organizational capabilities can be seen as organizational routines, but their outcomes are different.

In the dynamic markets of today competitive advantage rest on the ability to constantly develop organizational capabilities that form the basis for products and services offered by the firm, thereby constantly renewing the competitive advantages of the firm. Building on previous research on the resource based view of the firm (Barney, 1991, 2001) the dynamic capabilities concept has added to our understanding of the challenges involved in following a resource based approach to strategy. Strategy should also be a battle for sustained development of the firm's organizational capabilities (Teece et al., 1997) and not just a battle for strong market positions.

Dynamic capabilities can be seen as an extension of resource based view where the firm is conceived as a collection of resources, e.g. technologies, skills, and knowledge-based resources. Competitive advantage originates from the creative integration and subsequent exploitation of these resources in the market place (Teece, 2007). Furthermore, it has, within the resource based view, been emphasized that the key to achieving a sustainable competitive advantage from the firm's stock of resources lies in the ability to integrate different resources to form strong organizational capabilities (Verona and Ravasi, 2003).

Dynamic capabilities can usefully be thought of as belonging to three clusters of activities and adjustments: identification and assessment of an opportunity (sensing); mobilization of resources to address an opportunity and to capture value from doing so (seizing); and continued renewal (transforming). These activities are required if the firm is to sustain itself as markets and technologies change, although some firms will be stronger than others in performing some or all of these tasks.

2.2.2 Open Systems Theory

Open Systems Theory (OST) is a modern systems-based changed management theory designed to create healthy, innovative and resilient organizations and communities in today’s fast changing and unpredictable environments (Luhmann, 1995).

As organizations and communities conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. This two-way influential change is known as active adaptive change. Organizations and communities are open systems; changing and influencing each other over time. Open Systems Theory, which is a state-of-the-art systems-based change management body of knowledge, is designed for today’s turbulent and unpredictable environment (Luhmann, 1995). It is being utilized by many successful organizations, including corporate giants such as Microsoft and Hewlett Packard.

To ensure viability an Open System must have an open and active adaptive relationship with its external environment. In other words, a healthy viable Open System has a direct correlation with respect to changing values and expectations over time with its external environment. The corollary therefore is that if the values and expectations of a certain organization or community are out of sync with those that exist in the external environment then that particular organization or community will eventually become unhealthy and unviable (Luhmann, 1995).

People too are open systems. Through their actions they influence and change their external environment, and at the same time are constantly being influenced by changes in the external environment. From an employee’s perspective, the organization itself is their immediate external environment. The aggregated effect of this influential change between people, their organization and/or community and the external environment is known as socio-ecological (people-in-system-in-environment) change. In today's globalized and networked world socio-ecological change is relentless and increasing exponentially (Rudolf, 2011).

The prime driver of this change is the increasing rate of change in people's values and expectations in the external environment. People are constantly changing their minds about decisions they will make, including what products and services they will buy and how they'll buy them. The rate of socio-ecological change is being accelerated by globalization, deregulation, and technological change. All these factors are combining to produce fierce competition for organizations and communities as well as causing unprecedented turbulence and uncertainty (Rudolf, 2011).

2.2.3 Resource Based View Theory

Collis et al; (1995) define resource-based view (RBV) as a way of viewing the firm and in turn of approaching strategy. Fundamentally, this theory formulates the firm to be a bundle of resources. It is these resources and the way that they are combined, which make firms different from one another. It is considered as taking an inside-out approach while analyzing the firm. This means that the starting point of the analysis is the internal environment of the organization.

Resources of the firm can include all assets, capabilities, organizational processes, firm attributes, information and knowledge. In short resources can be considered as inputs that facilitate the organization to perform its activities (Wernerfelt, 1984).

All resources that an organization has may not have strategic relevance. Only certain resources are capable of being an input to a value creating strategy which put the organization in a position of competitive advantage (Pearce & Robinson, 2007).

The resource-based view (RBV) argues that firms possess resources, subsets of which enable them to achieve competitive advantage, and a subset of those that lead to superior long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution. In general, empirical studies using the theory have strongly supported the resource-based view (Wade and Hulland, 2004).

The resource based view theory contends that a firm's internal resources and capabilities are the best source of competitive advantage over other firms. An approach to strategy with this view then seeks to find or develop distinctive competencies and resources, applying them to produce superior value. To the extent that these competencies can be kept unique to the firm, they can be used to develop a competitive advantage. (Barney, 1991) The resource-based view focuses on internal resources, the firm's strengths and weaknesses, in contrast to the positional or environmental models of competitive advantage which focuses on opportunities and threats.

The resource-based model assumes that firms within an industry (or group) may be heterogeneous with respect to the strategic resources they control. Second, this model assumes that these resources may not be perfectly mobile across firms, thus heterogeneity can be long lasting. Resource based theory sees the firm as a collection of assets, or capabilities. In the modern economy, most of these assets and capabilities are intangible. The success of corporations is based on those of their capabilities that are distinctive. Companies with distinctive capabilities have attributes which others cannot replicate, and which others cannot replicate even after they realize the benefit they offer to the company which originally possesses them (Barney, 1991).

2.2.4 Organizational Behavior

According to Cunningham, Eberle, 1990; Organizational Behavior (OB) is the study and application of knowledge about how people, individuals, and groups act in organizations. It does this by taking a system approach. That is, it interprets people-organization relationships in terms of the whole person, whole group, whole organization, and whole social system. Its purpose is to build better relationships by achieving human objectives, organizational objectives, and social objectives. Organizational behavior encompasses a wide range of topics, such as human behavior, change, leadership and teams.

The organization's base rests on management's philosophy, values, vision and goals. This in turn drives the organizational culture which is composed of the formal organization, informal organization, and the social environment. The culture determines the type of leadership, communication, and group dynamics within the organization. The workers perceive this as the quality of work life which directs their degree of motivation. The final outcomes are performance, individual satisfaction, and personal growth and development. All these elements combine to build the model or framework that the organization operates from (Cunningham, Eberle, 1990).

Organizational behavior theory usually represents concepts that help a company create better management practices. In some cases, these theories can mean the creation of a structure in the business; in other cases, it may be training personnel for different activities. The most common types of organizational behavior include classical, contingency, and systems, among others. The first theory takes on the management practices of a firm, the second looks at managing conflict in an organization, and the last represents a theory of interrelated systems. A company can use one theory or transition to another, if it so desires, so long as the new behavior increases the business's operational efficiency (Davis, 1967).

Classic organizational behavior theory typically includes four parts, though newer forms of this theory may include more parts. These are: finding the best way to complete tasks, matching the best employee to each task, supervising workers closely while using rewards and punishment for motivation, and using management planning and control in the company. Each part is important to every activity in a business, with the end result of this management being improved effectiveness and efficiency. (Newstrom, Davis, 1993).

2.3 Strategic Responses

There are various strategic responses to the environmental challenges. Such responses require that the firm develops a strategy that responds to internal environment (strengths and weakness) and external environment (opportunities and threats), in order to achieve a sustainable Competitive Advantage. According to this perspective, the central thrust in strategy is to achieve a long-term sustainable advantage over the key competitors of the firm in every business in which it participates (Majluf and Hax, 1991).

In this approach, strategy is used to support the search for favorable competitive position. It recognizes that competitive advantage result from a thorough understanding of the external and internal forces that impact the organization. Strategy forms a fit or a link between the firm and its external environment. The firm embodies three sets of key characteristics: its goals and values; its resources and capabilities and its organizational structure and systems. Strategy is therefore needed in order for organizations to obtain a viable match between the external environment and the internal capabilities. It also enables the organization to continuously meet the demands of changing environments (Pearce & Robinson, 2007).

A host of external factors influence a firm's choice of direction and action and ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, can be divided into three interrelated subcategories; Factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson, 2002). The remote environment comprises factors that originate beyond and usually irrespective of any single firms operating situation and include economic, political, social and technological.

The remote environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence (Pearce and Robinson 2002).

According to Grant (1998), the business environment of the firm consists of all the external influences that impact a firm's decision and performance. Lynch (1997) used the term environment to describe everything and everyone outside the organization. This includes customers, competitors, suppliers, distributors, government and social institutions. As elements of the environment change, the organization needs to adjust its corporate strategy accordingly. The business environment is being subjected to rapid degree of change and managers typically feel that the pace of technological change and speed of global communications mean more and faster change now than ever before (Johnson and Scholes, 2002).

In a given industry, the five forces framework by Porter helps identify the sources of competition in an industry or sector. The five forces are the threat of entry, the threat of substitutes, competitive rivalry, buying power and Power of suppliers. Threat of entry will depend on the extent to which there are barriers to entry (Johnson and Scholes, 2002). These are factors that need to be overcome by new entrants if they are to compete successfully. Substitution reduces demand for a particular "class" of products as customers switch to the alternatives – even to the extent that this class of products or services becomes obsolete. This depends on whether a substitute provides a higher perceived benefit or value.

Competitive rivals are organizations with similar products and services aimed at the same customer group (Johnson and Scholes, 2002). Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and advertising. Suppliers can exert bargaining power on participants, in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers thereby can squeeze profitability out of an industry unable to recover cost increases in its own prices (Pearce and Robinson 2002).

Ansoff and MC Donell (1990) asserts that the first step in strategic management is to perform a strategic diagnosis which identifies the turbulence, type of aggressiveness and organizational responsiveness a particular firm needs to develop in order to meet the future challenges of its environment. Strategic diagnosis identifies whether a firm needs to change its strategic behaviour to assure success in the future environment.

Ansoff and McDonnell (1990) noted that strategic responses involve changes to the organizations' strategic behavior. Such responses may take many forms depending on the organizations' capability and environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The strategic responses include new products, new markets, new processes, new services and new strategies for attacking the markets.

Porter (1980) the corporate strategist's goal is to find a position in the industry where his company can best defend itself against these forces or an influence them in his favour. Knowledge of the underlying five competitive Forces provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic change may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

Kombo (1997) in his study on strategic response by Motor Vehicle franchise Holders in Kenya facing changed environmental conditions found out that for firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments. Such adaptation may be referred to as strategic responses (Schendel and Hofer, 1979).

In Kenya, a study on the strategic responses by Kenyan insurance companies following liberalization found out that the firm responded by increasing their asset base and employing more of marketing strategies such as promotion and quality in order to survive (Abdullah, 2000). In another study on the strategic responses of commercial banks to the threat of substitute products, Goro (2003) found out that commercial banks employ more of market strategies such as advertising and quality so as to maintain their market share.

In yet another study on strategic responses, Kandie (2001) found out that Telkom Kenya Ltd responded by reducing costs of operation in terms of cutting down on staff. This was in order to survive in the competitive environment. Migunde (2003) on the other hand found out that Kenya Broadcasting Corporation responded to increased competition by improving the quality of its programs as well as venturing on an expansion strategy to reach a wider coverage.

Mugambi (2003) on the other hand did a case study of tourist hotels in Nairobi to determine their strategic responses to the changes in their environment. As the study found out, tourist hotels have responded to changes in environment by employing various market as well as promotional strategies. Some have even segmented their markets in order to offer specific segments specific services.

Kiptugen (2003) also did a case study on strategic responses of Kenya Commercial Bank to a changing competitive environment. The study found out that the bank responded to the changing environment by expanding its coverage as well as by segmenting the market. The bank also used the cost cutting strategies in the initial stages by closing down some branches.

In a study on the strategic responses of East African Breweries Ltd, Njau (2000) found out that the company responded to the changing competitive conditions by segmenting its departments so as to compete on the basis of brands. The company also used hardball strategies that saw its competitors agreeing to work together with them as was the case with Castle.

Thiga (2002) on the other hand dealt with the issue of strategic responses by focusing on the airlines operating in Kenya. As he found out, the airlines operating in Kenya respond to the competition by improving their quality, entering into strategic partnerships with other airlines and by using price strategies. From these studies, it can be concluded that firms in different sectors of the economy employ various strategies to compete effectively in their respective industries.

2.3.1 Market Strategic Response

The influence of depleted capital has already been highlighted as dictating strategy in banking. The other key factor that influences progress in the industry is the market strategy adopted by the banks (Trethowan and Scullion, 1997). Capital is in short supply in banking, with over-capacity in the financial services industry; therefore banks are making the classic strategic decisions as to which market segments they wish to service and in what way (Trethowan and Scullion, 1997). Banks had previously attempted to be "all things to all men" as they embarked on mass marketing campaigns; now increasing efforts are being expended in determining which customer segments provide the most profit potential.

The basic thrust of bank marketing strategies is to increase the penetration of products to their existing customers through more effective cross- selling (Trethowan and Scullion, 1997). Gavigan (1992) has articulated this strategy as: it is much easier, and cheaper, to sell to "warm bodies"; and farming an existing account base is much better than hunting for new customers.

Huge relational databases are being built that capture data on customers from their day-to-day transactions through the bank's Information Technology (IT) systems. This provides bank marketers with information to improve techniques to identify customer segments and predict customer needs. Segmentation, in the past, was a crude affair used to blanket the market with fairly unsophisticated marketing techniques such as the ubiquitous mail shot (Trethowan and Scullion, 1997). The objectives of segmentation today are to profile the lifestyle of those in the customer base (in addition to their demographics) in order to tailor products and delivery to meet them.

Banks are increasingly anxious to measure the profitability of their products, and with this knowledge, to aggregate a customer's product portfolio to determine the profitability of each customer. Similarly, by consolidating the profitability of similar customers, segment profitability can be determined, and this indicates which segments are attractive for bank marketing.

A retail bank may adopt a relationship strategy based on attracting the low profit cash transmission business of customers in the “carriage trade” segment, and then deepen the relationship by superior service, to cross-sell more profitable products (Trethowan and Scullion, 1997). The same bank may use another division to service the “bargain basement customers”, through a non-branch telephone banking system, which has a product based focus. Obviously those banks that operate on low costs and have good credit policies can offer lower prices, and will dictate prices in the industry.

Changing lifestyles and increased affluence have led to higher service expectations by the customer. This has made distribution the key marketing variable (Trethowan and Scullion, 1997). The traditional delivery channel is the branch network. The mass marketing era saw the establishment of branches on every main thoroughfare, however as this investment took place it was not fully recognized that these new non-business customers did not have the same discretionary time to visit the branches as the business community on which banks had traditionally focused.

The introduction of widespread networks of cash machines and the willingness of retailers to give cash on the growing numbers of debit cards is reducing the need for personal customers to come into a branch (Trethowan and Scullion, 1997). The delivery of products to the personal sector is an important area of strategic thinking, as there is a perception of non-availability of branch service, and this is coupled with the increasing number of non-branch outlets for obtaining cash. Pottruck (1992) states that product innovation no longer offers banks a source of sustainable competitive advantage as sophistication in IT means that products can be quickly copied.

Marketing strategy is thus increasingly focused on delivery. The survey by Trethowan and Scullion (1997) shows that 84 per cent of respondents believe that the numbers of banks offering an alternative to the traditional branch network will increase, and 84 per cent also believe that direct marketing and branch networks will also increase. Direct marketing offers the advantages of convenience, totally sales orientation and low maintenance costs (Trethowan and Scullion, 1997). Branch networks are the primary delivery channels for bank services, and also act as a barrier to entry in the industry.

Products are no longer seen as providing banks with sustainable competitive advantage. However extending the range of services that are available through branches may improve the effectiveness of these channels. Banks have the people and the systems to distribute “information-based” products that are linked to their core activities, such as travel services, house sales and conveyance.

Banks at present use a mix of advertising and sponsorships at national, regional, and local levels. Many banks’ promotion strategies are now turning to building a cultural identity of sales and service excellence that will be recognizable to their customers and the marketplace in general. Whitley (1991) suggests four points to achieve good third party reputations through the quality of their sales and service.

According to Trethowan and Scullion (1997) Banks need to work hard to repair their image; it is a paradox that when the consumer is seeking higher standards of quality, much of the focus of bank strategy is on managing to survive with depleted capital following past strategic mistakes.

2.3.2 IT Strategic Response

Money has frequently been described as "information in motion" and banks are among the biggest users of information technology. Over the past two decades IT has allowed banks to expand their activities to the mass market. However the survey results by Trethowan and Scullion (1997) show that 85 per cent of retail bankers are not fully satisfied with their IT systems. The first generation of automation has now passed, and in retrospect three main failings have been identified.

The first failure is that they were initially designed with a product focus. This has led to systems in banking resembling patchwork quilts, constantly in a state of repair and modification. Problems associated with systems that no longer match the needs of the business are line staff being unable to cope with the administrative burden, caused by the work generated to achieve operating plans and customers of one division not being identified as common customers of the group as the types of products that banks offer expands. This resulted in poor performance in cross-selling, which is the very area that banks are staking out as their main marketing strategy (Bateman and Zeithaml, 1993).

The second failure is that of user involvement in the design and implementation of the systems (Trethowan and Scullion, 1997). The first generation of systems analysts consulted with users and then disappeared until implementation date when it was too late for users to comment on the systems that they would have to use every day. Finally, banks set up their initial IT accounting systems at account level, to reflect the way they had administered their old manual systems (Trethowan and Scullion, 1997). It was easy to detect the extent of a customer's overall relationship by examining physical ledger pages. However, automating this arrangement gave banks real headaches in retrieving customers' files from all around their systems. Paradoxically, just as banks' systems are addressing this issue, the banks' voluntary code of practice is placing constraints on how they use information on their personal customers.

Although capital is scarce in the industry, banks continue to invest huge sums in IT, as it is acknowledged that lack of investment in this area damages a bank's ability to compete effectively (Trethowan and Scullion, 1997). Banks are making the transition to customer-based information being held on relational databases in their efforts to become more market-oriented and to resolve the difficulties of holding details of customers at account level. The details of individual accounts are clustered around the customer's static details records, such as name and age.

The speed at which technology continues to develop makes predicting the future of systems in banking difficult, but IT solutions to business problems must provide information support to place the customer in the centre of their operations; aid in-time compression in the development of banks' products and services; and reduce overall costs by improving productivity throughout the organization (Trethowan and Scullion, 1997).

2.3.3 Human Resource Strategic Response

The importance of human resource strategy is crucial to banks, as the performance and cost of those employed in the industry are fundamental to its future success. This is another area where banks are attempting to raise quality. Human resource strategies must support the strategic direction of the organization.

Banks' current difficulties have not only led to a cut in staff numbers, but also in training budgets, However the survey by Trethowan and Scullion (1997) shows 84 per cent agreement that training investment will rise significantly in the next few years. Training has been traditionally focused on administrative tasks (that reflected the tasks that the banks required prior to automation). Now, however, there is a growing focus on market-oriented training.

Bankers receive little training specifically on the business of retail banking, and how their own organization functions. Bankers are traditionally more comfortable interpreting their customers' profit and loss accounts rather than those of their own banks. There is also little formal understanding of the organizational structure, or in its co-ordinating mechanisms that impact daily on the working life of the staff. Staff will always be more effective if they understand the process in which they are involved (Brockhoff, 1995).

Bankers have become highly dependent on IT but understand little about systems and software that can make them more productive. Most bank staff understands IT only as the "batched" commands coded on their computers. As banks become more sophisticated there is a greater need for spread sheet skills for planning and analysis (Trethowan and Scullion, 1997).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out this study. The chapter presents the research design, the population, sample and sampling technique, data collection method and instruments and data analysis.

3.2 Research Design

This research adopted descriptive cross-sectional research design. Descriptive research design portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizeable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al., 2007).

The main advantage of descriptive survey is that it gave the researcher the opportunity to use both qualitative and quantitative data. Moreover, this design accommodated large sample sizes which were in turn lead to generalizability of results.Therefore, the cross-sectional descriptive survey was deemed the best strategy to fulfill the objectives of this study.

3.3 Population of the study

A population is defined as the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2003). The population of study will consist of all the 43 commercial banks that are dully registered with Central Bank of Kenya by 31st December 2012.

Since the population (the 43 commercial banks in Kenya) is small and variable, any sample drawn may not be representative of the population from which it is drawn. Therefore as guided by Cooper & Schindler (2007, no sampling technique was used to select the sample hence the sample size for this study shall be all the 43 commercial banks.

3.4 Data Collection

Primary data was collected from the managers of the commercial banks. The primary data was collected using semi-structured questionnaires. The respondents included senior and middle level managers who make strategic decisions in these commercial banks; for example; marketing and business development, finance manager, IT manager and Human resource manager.

The questionnaires were administered using the drop-and-pick method. Follow up was done through personal visits, telephone calls or e-mails to enhance response rate.

3.5 Data Analysis

The filled questionnaires containing the data were first edited then coded to facilitate statistical analysis. Data collected was analyzed through descriptive statistics. The descriptive statistic tool helped the researcher to describe the data and determine the how to be used.

The study applied a quantitative approach through the use of frequency distribution, mean scores and standard deviations in analyzing the data. The findings were presented in form of frequency distribution tables, bar charts and pie charts.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter entails the findings of the study based on the data collected from the field. The study sought to establish the strategic response of commercial banks in Kenya to the introduction of mobile money transfer services. The data was collected from commercial banks staff through the questionnaires. The data was analyzed and the presented in form of pie charts, bar graphs and tables.

The study targeted a total of 43 commercial banks that were dully registered by central bank of Kenya by 31st December 2012. A total of 33 questionnaires were successfully filled and returned. The study therefore had a response rate 77%; according to Mugenda and Mugenda (2003) a 50% response rateis adequate, 60% goodand above 70% rated very well. Therefore, the response rate was adequate for the study to proceed.

4.2 Demographic Information

The researcher found it important to establish the general information of the respondents since it forms the basis under which the study can rightfully access the relevant information.

The investigation centered on this is information of the respondents so as to classify the different outcome according to their knowledge and responses. In this section, the study captured respondents' general information such as designated department and duration worked at the respective banks.

4.2.1 Respondents Department

In Figure 4.1 below, the study sought to show the respondents department. The respondents included staffs from the major departments such as the marketing, operations, Information and technology, finance and accounts as well as human resource department.

Figure 4.1 Departments of the Respondents

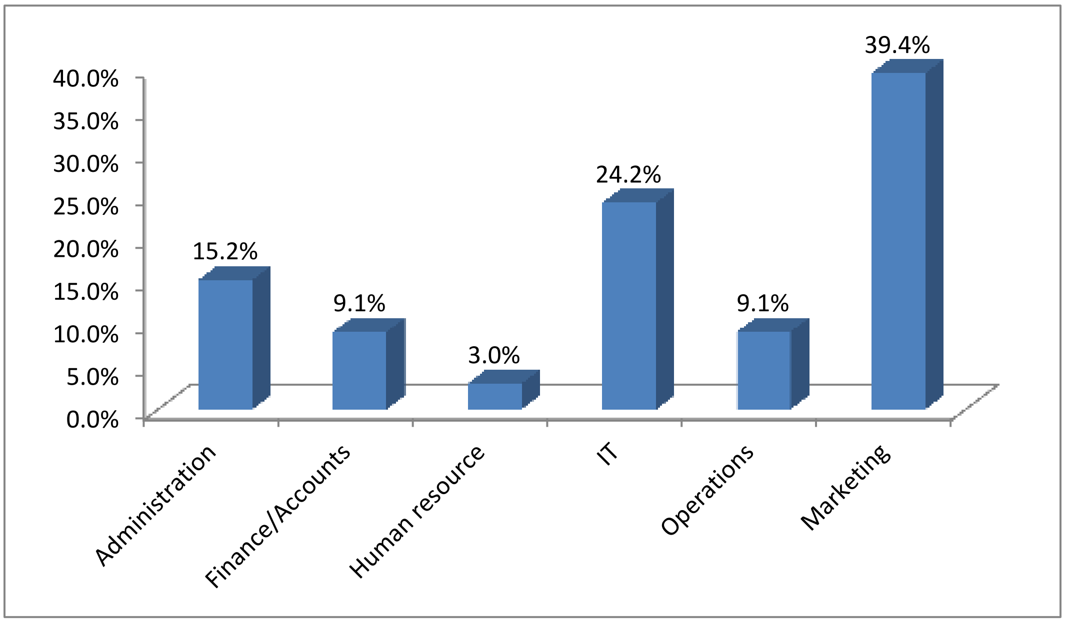


Figure 4.1 above shows that most of the respondents (39.4%) were from the marketing department; 24.2% were from the information and technology (IT) department while 15.2% from the administration department. On the other hand, 9.1% of the respondents were from finance/ accounts department and operations department respectively. This shows that the responses were captured from all major departments of the banks hence this improves the reliability of the data collected.

4.2.2 Duration Worked in the Bank

In this section, the study sought to find out the duration the respondents had worked in their specific banks. The results are as shown below in figure 4.1.

Table 4.1 Number of Years Worked in the Bank

Duration in Years	Frequency	Percent
1- 5 years	17	51.5
6 - 10 years	15	45.5
11 - 15 years	1	3.0
Above15 years	0	0
Total	**33**	**100.0**

The study established that majority of the respondents (51.5%) had worked in their respective banks for a duration of 5 years and below while 45.5% had worked with their respective banks for a duration of 6-10 years. This shows that majority of the respondents had worked in their banks for quite a significant duration hence they were well conversant with the operations, products and services, including those newly introduced to counter competition from mobile money transfer services hence their responses were highly reliable.

4.3 Market Segmentation

In this section, the study sought to establish whether commercial banks in Kenya classify clients into different segments. The results are as shown in figure 4.2 below.

Figure 4.2 Whether the Bank Classify Clients into Different Segments

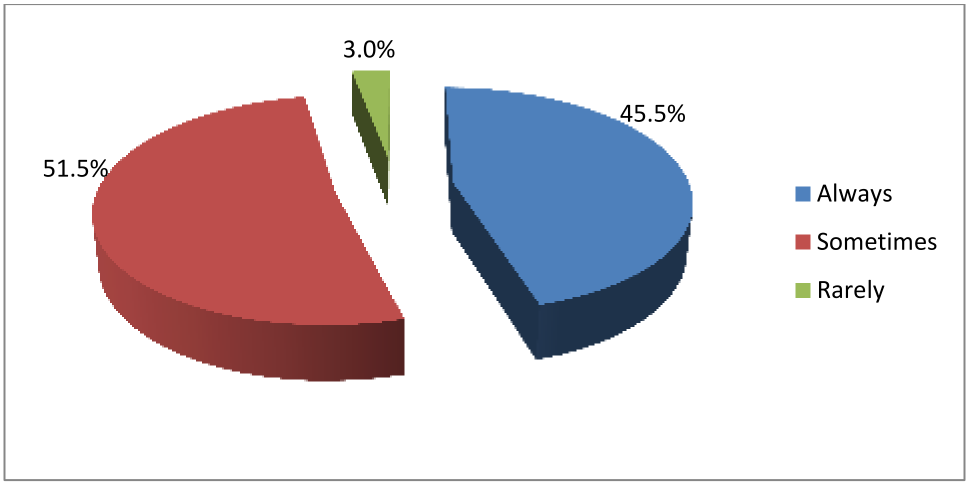
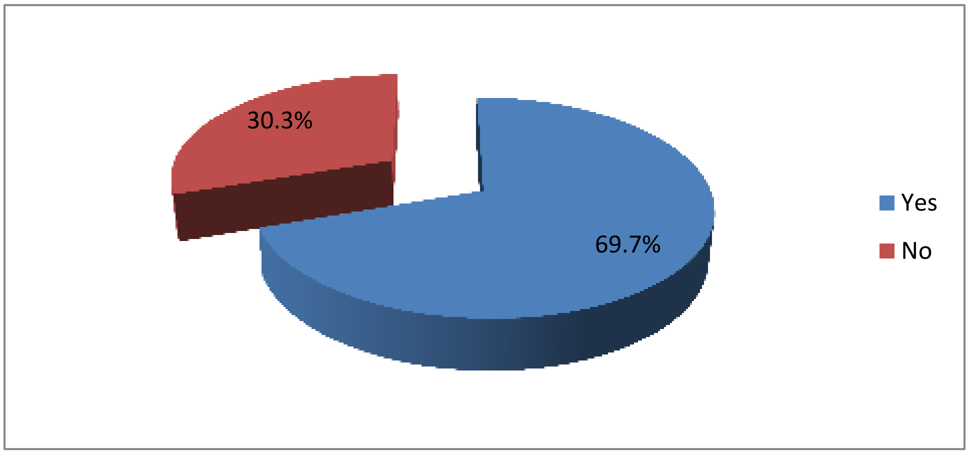


Figure 4.2 shows that majority of the respondents (51.5%) revealed that their banks sometimes classified clients into different segments while 45.5% indicated that they always classified clients into different segments. This may imply that classification of clients into different segments may be dependent on various factors.

4.3.1 Introduction of Mobile Money Transfer Services and Segmentation

In this section, the study sought to establish whether introduction of mobile money transfer services affected the banks client's segmentation. The results are as shown in figure 4.3 below.

Figure 4.3 Mobile Money Transfer Services and Segmentation



Majority of the respondents (69.7%) indicated that introduction of mobile money transfer services affected the banks client's segmentation. However, 30.3% revealed that it did not affect the banks clients' segmentation. They explained that the mobile money transfer has not affected clients segmentation in any way as almost every client can use phone to transfer and it favours all clients, both low and high end clients. The respondents further explained that increased use of M-Pesa had affected deposits and flow of cash since clients could now transact without involving the bank.

4.4 Strategic Responses by Banks

In this section, the study sought to establish the extent to which the commercial banks have adopted various strategic responses to counter the competition as a result of introduction of mobile money transfer services. The results are as shown below.

4.4.1 Extent of Agreement on Strategic Responses Adopted by the Banks

To establish the extent to the commercial banks adopted various strategic responses, the study adopted a scale of 1-5 whereby a score of 5 showed a strong agreement with the statement while a 1 showed a strong disagreement with the statement. The results are as shown below:

Table 4.2 Extent of Agreement on Strategic Responses Adopted by the Banks

Statements	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree	
	F	%	F	%	F	%	F	%	F	%
The bank uses various techniques to identify segments and predict their needs	-	-	3	9.1	9	27.3	16	48.5	5	15.2
The bank profiles the customers and tailors products to meet their specific needs	1	3.0	2	6.1	9	27.3	13	39.4	8	24.2
The bank has introduced a wide ATM network so as to serve customers conveniently	1	3.0	3	9.1	5	15.2	12	36.4	12	36.4
The bank has opened up more branches across the country to try reach more customers	-	-	5	15.2	5	15.2	15	45.5	8	24.2
The bank has extended the banking hours in order to serve more customers	-	-	1	3.0	3	9.1	16	48.5	13	39.4
The bank has invested more in the sales force in order to increase the turnover and market new products	1	3.0	5	15.2	11	33.3	7	21.2	9	27.3

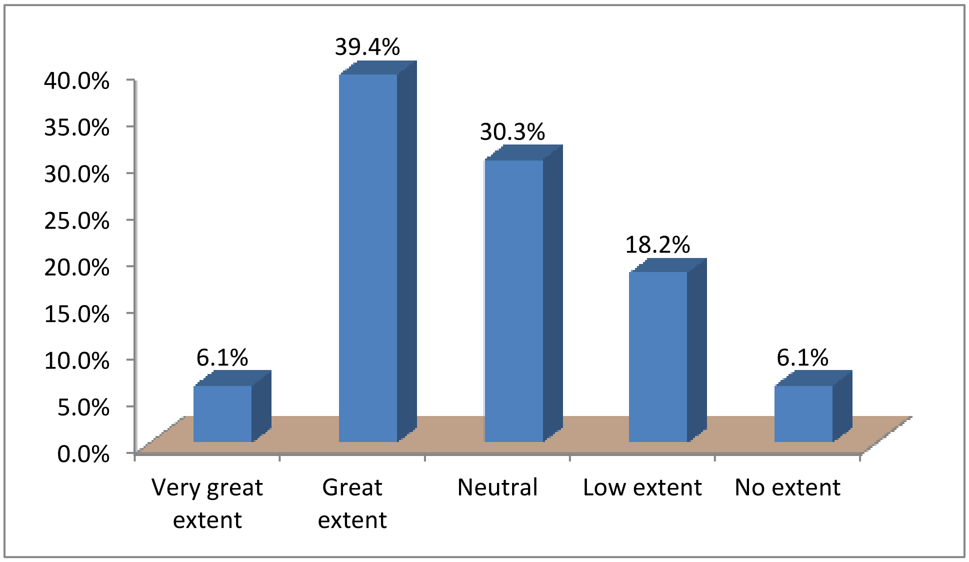
The study shows that most of the respondents (48.5%) agreed that the bank used various techniques to identify segments and predict their needs. 39.4% of the respondents further agreed that the bank profiled the customers and tailored products to meet their specific needs; however 27.3% of the respondents were neutral. Further, 36.4% of the respondents agreed and strongly agreed respectively that the bank had introduced a wide ATM network so as to serve customers conveniently.

On whether the commercial banks had opened up more branches across the country to try reach more customers as a strategic response, the study shows that 45.5% of the respondents agreed while 24.2% strongly agree to this. Moreover, the study established that most of the banks had extended the banking hours in order to serve more customers as reported by 48.5% of the respondents who agreed while 39.4% strongly agreed to this. However, while 33% were neutral on whether the banks had invested more in the sales force in order to increase the turnover and market new products, 27.3% agreed while 21.2% strongly agreed.

4.4.2 Budgetary Allocation

In this section, the study sought to establish whether the banks had increased their budgetary allocation to set aside funds to counter competition from mobile money transfer.

Figure 4.4 Budgetary Allocation by the Banks to counter Competition



The study shows that 39.4% of the respondents agreed to a great extent that their banks had increased their budgetary allocation for the sales and marketing as result of competition from mobile money transfer. However, 30.3% were agreed to a neutral extent while 18.2% agreed to a low extent.

4.4.3 New Technologies to Counter the Competition from Mobile Money Transfer

In this section, the study sought to establish whether the banks had had adopted any new technologies to counter the competition from mobile money transfer.

Table 4.3 Whether New Technologies were adopted to Counter Competition

Responses	**Frequency**	**Percent**
Yes	26	78.8
No	7	21.2
Total	**33**	**100.0**

Majority of the respondents (78.8%) revealed that their banks adopted new technologies to counter competition that had been posed by the mobile money transfer. They stated that they had adopted new technologies such as banking via mobile and came up with new products such as Pesa pap for Family Bank; there is increased adoption ofcredit cards and online banking; introduction of M-shwari (for the case of CBA) and also adopted other strategies such as increasing the banking hours.

The respondents further stated that they had joined or entered into a contract with telecommunication companies for instance Safaricom so as to link M-pesa to bank services. However, 21.2% of the respondents revealed that their banks had not adopted new technologies to counter the competition.

Table 4.4Extent the NewTechnologies Neutralized the Competition from Mobile Money Transfer

	Frequency	**Percent**
Very great extent	2	6.1
Great extent	12	36.4
Neutral	9	27.3
Low extent	7	21.2
No extent	1	3.0
No Response	2	6.1
Total	**33**	**100.0**

According to 36.4% of the respondents, the new technologies adopted had neutralized the competition from mobile money transfers to a great extent. However, 27.3% of the respondents revealed that it neutralized the competition to a neutral extent while 21.2% were of the opinion that it the competition from mobile money transfers to a low extent.

4.4.4 Training of the Employees

In this section, the study sought to establish the extent to which the banks trained their employees for instance on new technologies/ systems adopted so as to enhance efficiency in operations and for the company to remain competitive.

Table 4.5 Extent Banks offered Training to the Employees to Enhance Operation of New Technological Products Introduced

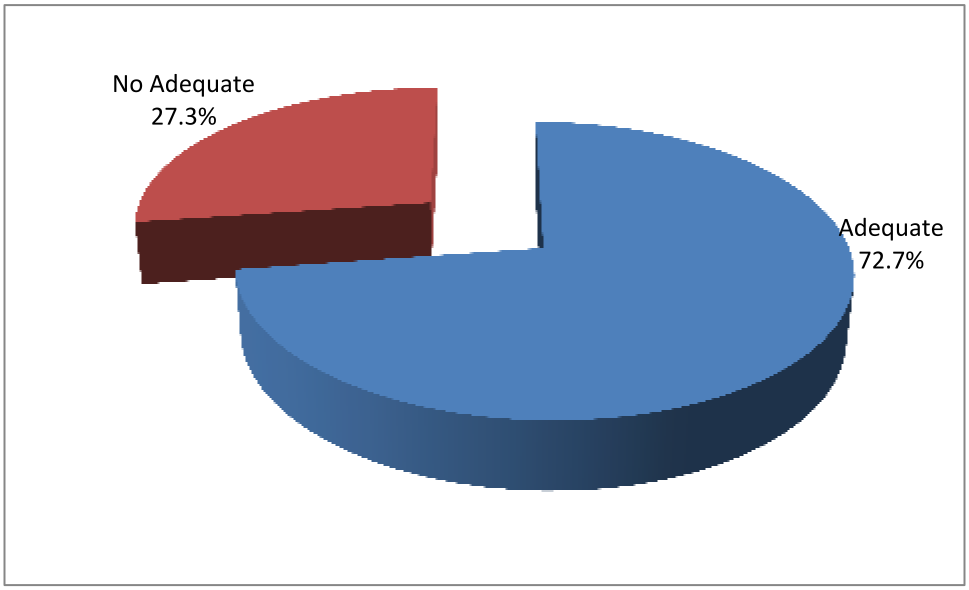
Extent	**Frequency**	**Percent**
Very great extent	4	12.1
Great extent	14	42.4
Neutral	9	27.3
Low extent	6	18.2
Total	**33**	**100.0**

The study shows that most of the banks offered training to their employees to ensure efficiency and effectiveness of the new technologies introduced; this was revealed by 42.4% of the respondents. However, 27.3% of the respondents were neutral while 18.2% indicated that training was offered to a very low extent.

4.4.5 Adequacy of the Company's Strategic Responses

The study further sought to establish whether the strategic responses adopted by the commercial; banks were adequate to counter or neutralize the stiff completion from the mobile money transfer services. The results are as shown in figure 4.5 below:

Figure 4.5 Adequacy of the Company's Strategic Responses

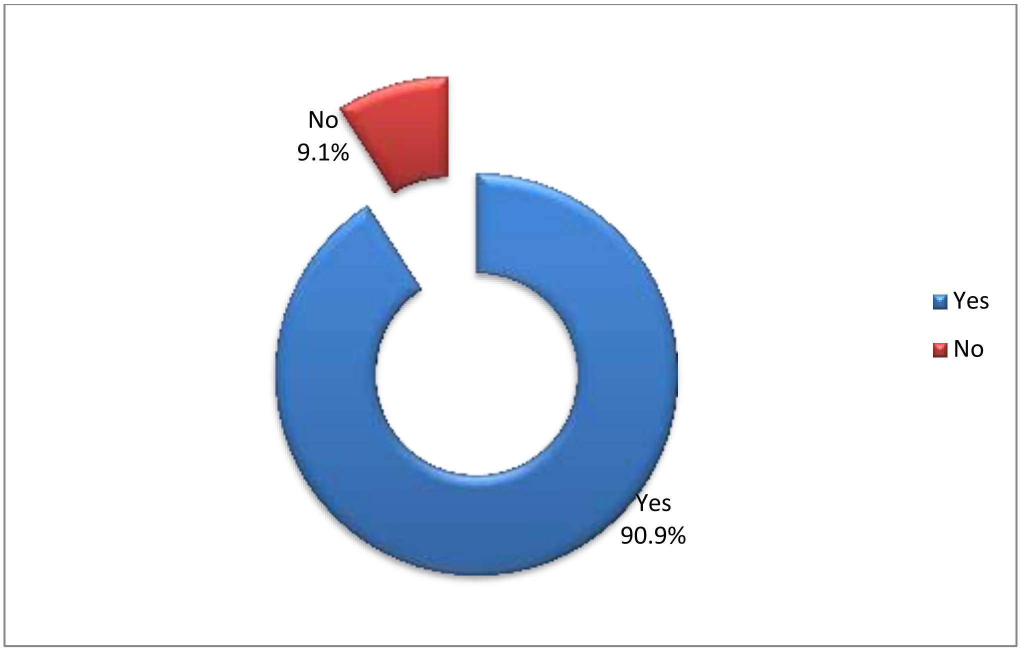


Majority of the respondents (72.7%) reported that the strategic responses adopted to counter competition from mobile money transfer were adequate. However, 27.3% reported that the strategic responses were not adequate. The respondents stated that they needed to adopt more advanced technologies, introduce more solutions based on latest technologies; be more innovative and employ the right IT professionals. The respondents also indicated that for strategic responses to be adequate they needed to find ways to acquire more customers, ensure continuous staff training and open up more branches and ATMs facilities.

4.4.6 Capability to Adopt Aggressive Strategies

In this section, the study sought to establish whether the company possessed the necessary capability to adopt aggressive strategies to march the external environment changes.

Figure 4.6 Capability to Adopt Aggressive Strategies



An overwhelming 90.9% of the respondents revealed that they had their banks had the capability to adopt aggressive strategies to march the external environment changes such as the increased competition from mobile money transfer services. Only 9.1% of the respondents revealed that they did not have the necessary capability and their reasons included low budgets hence they needs improved budget allocation; need for training of staff; lack of improve innovativeness and need for increase banking products.

4.5 Discussion

On the strategic responses by commercial banks, the study found out that majority of the bank used various techniques to such as market strategic responses (including products), IT strategic responses and human resource strategic responses due to the competition posed by the introduction of mobile money transfer services. This concurs with Trethowan and Scullion (1997), who stated that banks use a myriad of strategies to respond to competition or any force in the external environment which were grouped as asset and liability strategies, market strategies, human resource strategies, information technology strategies, and organizational strategies.

On products, the study established that most banks profiled the customers and tailored products to meet their specific needs. However, Pottruck (1992) cautions that product innovation no longer offers banks a source of sustainable competitive advantage as sophistication in IT means that products can be quickly copied.

The study found out that majority of the banks had introduced a wide ATM network so as to serve customers conveniently and also opened up more branches across the country to try reaching more customers. Moreover, the study established that most of the banks had extended the banking hours in order to serve more customers. This is in line Trethowan and Scullion, (1997), who revealed that the introduction of widespread networks of cash machines and the willingness of retailers to give cash on the growing numbers of debit cards is reducing the need for personal customers to come into a branch and that the delivery of products to the personal sector is an important area of strategic thinking, as there is a perception of non-availability of branch service, and this is coupled with the increasing number of non-branch outlets for obtaining cash.

The study established that most of the commercial banks had increased their budgetary allocation for the sales and marketing as result of competition from mobile money transfer. This concurs with Trethowan and Scullion, (1997) findings who reported that, although capital is scarce in the industry, banks continue to invest huge sums in IT, as it is acknowledged that lack of investment in this area damages a bank’s ability to compete effectively. Majority of the respondents acknowledged that their banks had adopted new technologies to counter competition that had been posed by the mobile money transfer. They stated that they had adopted new technologies such as mobile banking, increased adoption of credit cards and online/ internet banking.

Most of the commercial banks reported that the new technologies had neutralized the competition from mobile money transfers to a great extent. The study further established that most of the commercial banks offered training to the employees to enhance operation of new technological products introduced and also to ensure efficiency and effectiveness of the new technologies introduced. This is in line with Trethowan and Scullion, (1997) who revealed that as banks become more sophisticated there is a greater need for skills, planning and analysis. Banks have become highly dependent on IT, hence there is need for the training to make the employees understand about systems and software and make them more productive.

Majority of the commercial banks revealed the strategic responses adopted by the commercial banks to counter competition from mobile money transfer services were adequate. The resource based view theory states that a firm's internal resources and capabilities are the best source of competitive advantage over other firms. This is also in agreement with the findings of Teece et al. (1997) who stated that organizations need the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments. Hence, this is to mean that, despite commercial banks having adequate resources to counter the threats from changing environments, there is need to have the ability to integrate those resources.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings and recommendation made there-to. The conclusions and recommendations drawn were focused on establishing the strategic responses adopted by commercial banks in Kenya due to increased competition from the newly introduced mobile money transfer services.

5.2 Summary.

The study established that majority of the commercial banks sometimes classified clients into different segments and while majority of the banks reported that that introduction of mobile money transfer services affected the banks client's segmentation, a significant number revealed that it did not affect the banks clients' segmentation. They explained that the mobile money transfer has not affected clients' segmentation in any way.

Majority of the respondents agreed that the bank used various techniques to identify segments and predict their needs and; also profiled the customers and tailored products to meet their specific needs. The study further established that majority of the banks had introduced a wide ATM network so as to serve customers conveniently and also opened up more branches across the country to try reach more customers. Moreover, the study established that most of the banks had extended the banking hours in order to serve more customers.

The study established that most of the commercial banks had increased their budgetary allocation for the sales and marketing as result of competition from mobile money transfer. On the other hand, majority of the banks had adopted new technologies to counter competition that had been posed by the mobile money transfer. They stated that they had adopted new technologies such as mobile banking, increased adoption of credit cards and online/ internet banking.

On the extent to which the new technologies neutralized the competition from mobile money transfer, most of the commercial banks reported that the new technologies had neutralized the competition from mobile money transfers to a great extent. The study further established that most of the commercial banks offered training to the employees to enhance operation of new technological products introduced and also to ensure efficiency and effectiveness of the new technologies introduced.

On the adequacy of the strategic responses adopted by the commercial banks to counter competition from mobile money transfer services, majority of the commercial banks revealed that they were adequate. However, a significant number reported that the strategic responses were not adequate and they stated that they needed to adopt more advanced technologies, introduce more solutions based on latest technologies; be more innovative and employ the right IT professionals.

Moreover, majority of the respondents their banks had the capability to adopt aggressive strategies to march the external environment changes such as the increased competition from mobile money transfer services. Only a few who reported that they did not have the necessary capability and their due to low budgets, lack of trained staff and lack of improve innovativeness.

5.3 Conclusion

The study concludes that commercial banks had been faced by stiff competition from the mobile money transfer services. However the majority of the commercial banks have made various arrangements to mitigate the consequences of these challenges by employing strategic responses. These included adopting new technologies such as mobile banking through collaborating with mobile/ telecommunication companies in effecting these services; other technologies include online/internet banking and more introduction of plastic money through credit cards. Some commercial banks have gone further to establish more branches (including agencies), extended working hours and established more ATMS and other money access points so as to serve more customers and remain competitive.

It can also be concluded that, while most of the commercial banks have the capability to adopt aggressive strategies to counter challenges posed by the external environment changes such as the competition posed by mobile money transfer services, a significant number of the banks did not have the capability to march with these challenges. This is due to lack of adequate resources, human resource challenges such as lack of high trained staffs and lack of innovativeness which might be as a result of poor corporate culture.

The study shows that commercial banks adopted market strategic responses, IT strategic responses and human resource strategic responses such as training. However, the banks needs to adopt more strategic responses based on their capability. According to Ansoff and McDonnell (1990) strategic responses involve changes to the organizations' strategic behavior and that such responses may take many forms depending on the organizations' capability and environment in which it operates.

5.4 Recommendations

The study recommends that, to remain competitive overtime in a turbulent and competitive environment, commercial banks in Kenya must be in tune with its external environment. There must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide. Banks need adopted strategies include such as forming strategic alliance with other financial services providers, and forging joint ventures with strategic partners especially for those with limited resources so as to have capability to respond or counter the challenges posed by the external environment.

The study also recommends that for commercial banks to able to overcome external environmental challenges, the institution needs to employ human resource strategies; lack of skilled man power were established as a major challenge that renders an organization incapable of countering external challenges and also internal challenges such as lack of innovativeness. The importance of human resource is crucial to banks, as its very fundamental to their future success.

The study also recommends that for commercial banks to overcome competition, the need introduce competitive products and technological advancements. Moreover, banks should mobilize their resources towards tapping into this potential and they should tailor their products based on the customers' needs.

5.5 Limitations of the Study

In conducting the study, the researcher encountered a number of challenges. One of the challenges was lack of cooperation from some of the banks who were unwilling to give information. This study was dependent on primary data which was collected from commercial banks through a questionnaire, but some banks were unwilling to give such information. However, the researcher explained to the banks authorities that the sought information was just for academic purposes and would not be released to third party.

Another limitation was that, majority of the banks, did not want to authenticate the information they gave and they limited the information they gave. Some banks were not willing to open up on all the strategies that they have adopted due to fear of their competitors. The limitation of some of the information affected to a little extent the results as it could form a clear picture on all the strategic responses adopted by the commercial banks in Kenya. Some of this information was crucial for the study to make a formidable conclusion.

5.6 Areas For further Research

The researcher recommends that this particular study can be extended to other financial institutions in Kenya to establish the strategies that can used to deal with competition posed by the external environment. Despite the limitations, this study can act as a stepping-stone in the assessment of strategic responses in other financial institutions in Kenya hence this would give a conclusive picture on the various forms of strategic responses adopted by financial institutions in Kenya.

This work sets up future contributions that will enable academicians; managers to better understand and evaluate the challenges posed by external environment or threats. However, a further study needs to be conducted to establish the challenges that these organizations experience when developing and implementing their strategies.

5.7 Implications of the Study on Theory, Policy & Practice

Since it is costly for banks to take such services closer to the clients but mobile money providers can through their outlets, it is expected that commercial banks would partner or enter into joint venture with mobile money operators. With such partnership, banks will have effective models to expand their physical reach and expand its market.

The increased use, success and interests in money mobile transfer services is expected to awaken the Central Bank of Kenya in a bid to regulate and have an oversight of the activities of those institutions dealing in mobile money transfer services. Currently there is no regulation applying to the operations of these agents, instead there are only guidelines allowing banks to appoint agents for deposit taking. The key consideration to reviewing the existing regulatory framework would be based on the understanding of the relative risks posed in order to ensure a level playing field, and foster financial inclusion.

In practice, commercial banks would be expected to take advantage of the products that are not provided by mobile operators. For example, credit or loan facilities and insurance services where banks have competitive advantage over mobile operators should be conveniently provided at a low cost to clients. It is hoped that this will build strong bond between the client and the bank which guarantees their market is safeguarded

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APPENDICES

Appendix I: 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. HabibA.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: Central Bank of Kenya (CBK), 2013

Appendix II: Questionnaire

Please fill in all parts as sincerely as possible by putting a tick on one of the options given, where applicable. For those that require your opinion, please use the space provided.

SECTION A: Demographic Questions

1. Name of your organization

   …………………………………………………………….

2. Please indicate your department

Administration	[ ]	Finance / Accounts	[ ]
Human Resource	[ ]	IT	[ ]
Operations	[ ]	Marketing	[ ]

3. How many years have you worked here (Tick as applicable)

0-5 yrs	[ ]	5-10 yrs	[ ]
10-15 yrs	[ ]	15 yrs and above	[ ]

SECTION B: Market Segmentation

4. Does the bank classify clients into various segments?

   Always [ ] Sometimes [ ] Rarely [ ]

5. Has the introduction of mobile money transfer services affected your organization's client's segmentation?

Yes [ ] No [ ]

b). Explain your answer…………………………………………………………………...

……………………………………………………………………………………………….

6. To what extent do you agree with the following statements? Use a scale of 1-5 Where 5 is Strongly agree, 4- agree, 3- Neutral , 2- disagree and 1- Strongly disagree

Statements	**1**	**2**	**3**	**4**	**5**
the bank uses various techniques to identify customer segments and predict their needs					
the bank profiles the customers and tailors products to meet their specific needs					
The bank has introduced a wide ATM network so as to serve customers conveniently					
Then bank has opened up more branches across the country to reach more customers					
The bank has extended the banking hours in order to serve more customers					
The bank has invested more in the sales force in order to increase the turnover and market new products					

7. The bank has increased its budgetary allocation for the sales and marketing as a result of competition from mobile money transfer: to what extent do you agree with the statement?

Very Great extent [ ] Great extent [ ] Neutral[ ] Low extent [ ] No extent [ ]

8. Have you adopted any new technologies to counter the competition from mobile money transfer

Yes ( ) No ( )

If yes, which ones………………………………………………………………….

9. If yes, to what extent has the new technologies neutralized the competition from mobile money transfer

Very Great extent [ ] Great extent [ ] Neutral [ ]
Low extent [ ] No extent [ ]

10. To what extent has your organization offered training to the employees to enhance them operate the new systems or the new technological products you have introduces?

Very Great extent [ ] Great extent [ ] Neutral [ ]
Low extent [ ] No extent [ ]

11. Do you consider your company's strategic responses to competition from mobile money transfer adequate?

Yes ( ) No ( )

b). If not, what else do you feel your company should do to stay competitive?

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12. In your assessment, does your company currently possess the necessary capability to adopt aggressive strategies to match the external environment changes?

Yes ( ) No ( )

b). If not, please indicate the possible means by which the company can acquire these capabilities…………………………………………………………………………......

....

THANK YOU