STRATEGIC RESPONSE BY KCB TO ENVIRONMENTAL CHALLENGES

BY

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DECLARATION

This research project is my original work and to the best of my knowledge has not been submitted for examination or a degree award in any other university.

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I would like to acknowledge the contribution of my family, supervisors Dr. John Yabs and friends for their valued contribution and input without which the study would not have been finalized within the stipulated time.

DEDICATION

I would like to dedicate this study to my family and friends who have always encouraged me to study more, for their continuous encouragement throughout the study and course.

ABSTRACT

In the recent past, the banking industry has faced increased competition and tremendous challenges globalization, privatization of government owned banks, adverse changes in economic and political patterns and narrowing of profit margins. This has prompted the industry players to take competition to a higher level. Increased competition is critical advancing economy growth in banking industry. This study sought to determine the strategic responses by KCB to environmental challenges in Kenya. The research design applied in the study was a case study. The primary data was collected using interview guide done on ten interviewees who are the head of departments at the KCB head office. The qualitative analysis was done using content analysis. The results indicated that KCB has been experiencing environmental turbulence. Economic problems such as inflation and the weakening currency were also found to be conditions creating business problems to the KCB to a large extent. The company`s key strategy was adoption of strategic leadership. The other responses are on the applied use of ICT in its operations and e-commerce in general. The prudent management principles by KCB management also involve corporate governance, management by objectives and the inclusion of stakeholders especially management in strategy formulation and implementation. Owing limitations the researcher was not able to cover the study objective conclusively. Thus, the researcher recommends the following topics to researcher on:-the impact of the government regulations on response strategies adopted by banks in Kenya, the effect of internal challenges on the response strategies adopted by commercial banking, the role of organizational culture on strategic response and growth among financial institutions and the benefits that accrue to the organization as a result of competitive response strategies on environmental challenges. KCB needs to put in place a Research and Development department. This will be charged with not only gathering and analyzing competitor intelligence information but also exploring new markets and new products. R & D will also be charged with innovations and environmental monitoring and possible firm investment. The firm should also consider additional outsourcing of non-core functions such as auditing, archiving, public relations and information technology, among others. The company should review technology needs, have in house group and individual training, improve on a learning culture and reward and implement innovations. More fundamentally, all employees should be turned into marketers of the firm. Also short term products should be developed as well as empowerment of employees to work from wherever they are. IT improvement such as teleconferencing and working from outside the official roofed home should be encouraged. Above all performance management for effectiveness whereby employees` performance is pegged on surpassing key performance indicators should be prioritized.

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ABBREVIATIONS AND ACRONYMS

ATMs: Automated Teller Machine

CBK: Central Bank of Kenya

ERS: Enterprise Resource Systems

KBA: Kenya Bankers Association

KCB: Kenya Commercial Bank Limited

NBA: Nairobi Stock Exchange

NBK: National Bank of India

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Ansoff strategies success formula emphasizes that there is linkage between organization and external environment. Organizations depend on external environment for procurement of resources and depend on it to accept their products and value Ansoff and McDonnel (1990). The business environment is continually changing and challenging organizations in multiple dimensions. All business entities do not operate in a vacuum but in a turbulent and dynamic internal and external environment. Organizations therefore need to be competitive in the market place as they are faced with internal and external environmental challenges such as economic and market conditions, competitors, customer needs and demand, opportunities and threats. All these challenges affect the profitability of organizations. The internal challenges can be controlled and this depends on the management capability to ensure that their resources have experience and competent skills to be competitive in the market (Barney, 1997).

Peter Drucker stressed the value of managing by targeting well-defined objectives. This evolved into his theory of management by objectives (MBO). According to him the procedure of setting objectives and monitoring progress towards them should permeate the entire organization. Strategy theorist Michael Porter argued that strategy target either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business. According to Porter a company must only choose one of the three or risk a waste of precious resources. In their argument Kim and Mauborgne countered that an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the trade off by pursuing both differentiation and low cost. On the other hand Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future.

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

For Porter (2004), competitive strategies primarily evolve explicitly through planning process or implicitly through approaches dictated by a firm’s professional orientation and the incentives of its directors. The purpose of bank’s competitive strategy is to build a sustainable competitive advantage over the organization’s rivals. Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. The competitive situation in the industry has a decisive effect on banks' earnings, and consequently has a bearing on financial stability.

1.1.1 Concept of Strategy

Chandler (1962) stated that strategy determines the basic long-term goals of an enterprise, and the adoption of courses of action (strategy as plan of action) and the allocation of resources necessary for carrying out these goals (strategy as re-source allocation). While Porter (1996) viewed strategy as the process of creating a unique and valuable position with means of a set of activities in a way that creates synergistic pursuit of the objectives of a firm.

Mintzberg (1990) suggests that the term strategy is used to mean a plan, a ploy, a pattern, a position or a perspective the 5 Ps. Mintzberg defines strategy in terms of a process. Since strategy has almost inevitably been conceived in terms of what the leaders of an organization plan to do in the future, strategy formation has, not surprisingly, tended to be treated as an analytic process for establishing long-range goals and action plans for an organization, that is, as one of formulation followed by implementation. Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry which forces are weakest (Pearce & Robinson, 1997).

Porter (1980) also noted that strategy is all about competitions and trying to gain competitive advantage. Batemand (1990) suggested that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the External Environment. Jauch (1988) argued that decisions and actions taken will lead to the development of an effective strategy.

1.1.2 Context of the Study

Environmental challenges in the banking industry have been enormous and organizations are working day and night to come up with the right strategic responses to counter the ever changing working environment. Some of the challenges that commercial banks are facing include; uncertainty, globalization, regulations and technology. Uncertainty in the global economy, uncertainty in the credit markets, uncertainty in how new regulations will affect business and therefore organizations need to come up with strategies that will enable them survive in the market (Wambugu, 2011).

Kenya Commercial Bank over the last decade has faced challenges in trying to meet ever changing customer preferences, technological advances as well as competition. Owing these challenges, KCB management has worked tirelessly to ensure the bank is profitable and it is meeting its business objectives accordingly. Some of the strategic responses the bank has adopted include investment in technology, diversification into new markets as well as embracing agency banking strategy.

1.1.3 Strategic Response

The strategy of an organization involves matching its corporate objectives and available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources. This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a strategy designed to keep the organization in business (Tim and Hannagan, 2005). According to Drucker,(1961)strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

In the banking industry, increased competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector. It exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage. According to Johnson and Scholes (1997), core competences 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.

1.1.4 Business Environment and Challenges

Drucker (1958) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. Some of the challenges that face businesses include; uncertainty, globalization, regulations and technology. Uncertainty in the global economy, uncertainty in the credit markets, uncertainty in how new regulations will affect business and therefore organizations need to come up with strategies that will enable them survive in the market.

Globalization poses a top challenge in the business world. Understanding foreign cultures is essential to everything from the ability to penetrate new markets with existing products and services, to designing new products and services for new customers, to recognizing emergent, disruptive competitors that only months earlier weren't even known. The problem to be solved is to better understand international markets and cultures through better information gathering and better analysis of what it all means. A changing regulatory environment is always of concern in certain industries, but uncertain energy, environmental and financial policy is wreaking havoc for nearly all companies today. Whether a demand from customers or shareholders to become more "green," or the threat of increased costs due to new carbon taxes, environmental considerations are among the biggest challenges businesses face today.

The pace of technological improvement is running at an exponentially increasing rate. While this has been true for several decades, the pace today makes capital investment in technology as much an asset as a handicap because a competitor can wait for the next-generation technology, which may only be a year away, then use it to achieve an advantage. According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

1.1.5 Strategic Response and Business Environment

The strategy is the way by which a firm fulfills its mission and attains its objectives. According to Brandenburger and Stuart, the essence of strategy lies in creating favorable asymmetries between a firm and its rivals. According to Barney (1997), Strategy is a pattern of resource allocation that enables firms to maintain or improve their performances. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and/or fixes weaknesses. According to Porter (1980), a company can outperform rivals only if it can establish a difference that it can preserve. He further wrote that a firm can be different by creating a unique and valuable position, involving a different set of activities and making trade-offs in competing e.g. choose what NOT to do (Porter 1980).

The ability of a firm to command a competitive advantage depends on the practicability of their strategic responses (Barney, 1997). The business environment in the country has drastically changed resulting in some banks opening a number of branches across borders and thus increasing competition in the industry globally. Banks have ended up hawking their services to potential clients and this has led to downward prices due to competition. Strategic management in the banking industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved (Hambrick, 1983). Therefore, venturing in this area gives hope that, areas of interest for further research can be identified and further understanding of the concept of competitive strategies particularly in the banking industry in Kenya will be enhanced.

Commercial Banks in Kenya have also made very heavy investment in information technology. Modern banks are very dependent on technology. Banks use technology to operate their communication networks, operate ATMS, and offer e-banking services among others. These systems are operated by very expensive ERS (Enterprise Resource Systems) like Oracle, SAP and Flexi-cube, which cost several million dollars. Kenya Commercial Bank spent US$ 6 Million in 2002 on its controversial system upgrade (Karkhanis 2002).

1.1.6 Banking industry in Kenya

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), governs the Banking industry in Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance’s docket, irresponsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya’s commercial banks and non-banking financial institutions, interest rates and other publications and guidelines.

Banks in Kenya have come together under the Kenya Bankers Association (KBA), which serves as a lobby for Thebans interests and addresses issues affecting its members. There are forty-six banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned and yet some partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange (CBK, 2007).

The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking. The Kenyan Banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate. The spread between deposits and loans continues to be around 8.5%, offering much profit potential.

Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from Kshs 13.15 billion in December 2005 to Kshs 18.22 billion in December 2006. This growth is continuation of the strong growth in profit after taxes that the industry has achieved for the past several years. The increase in profit reflected an increase in interest income on loans and advances, which rose by 14.36% or Kshs 5.51 billion to Kshs43.9 billion in December 2006 from Kshs 38.39 billion in December 2005. The increase in interest income was due to the growth of 16% in loans given out. The rate on loans in the industry has been stable at an average of 11% (CBK, 2007).

1.1.7 Kenya Commercial Bank

The origin of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India (NBI) opened a branch in Mombasa. In January 1958, NBI merged with Grindlays Bank Limited, which was later in 1970, acquired by the Kenya

Government and renamed Kenya Commercial Bank Limited. Upon independence the Government of Kenya acquired 60% shareholding in National &Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. The subsidiary has 11 branches.

In pursuit of its Vision: To be the best bank in the region, in May 2006 KCB extended its operations to South Sudan following licensing of its youngest subsidiary, KCB Bank South Sudan, to provide conventional banking services. The subsidiary has 19 branches. In 2008, KCB Rwanda subsidiary was incorporated with one branch in Kigali. Currently the branch has ten branches. KCB Bank Burundi started operations in May 2012 and has a Head Office, one branch and an Advantage Banking Centre. The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs2.45 billion in additional capital for the bank. In the third Rights Issue held in 2010, the government further reduced its shareholding to 17.74% after raising additional capital for Kshs 12.5billion. KCB South

1.2 Research Problem

Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson and Strickland, 2003). It concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) outlined the three approaches to competitive strategy these being maintaining low costs, i.e. low cost leadership strategy. Secondly, seeking to differentiate one’s product offering from that of its rivals that is differentiation strategy and lastly focus on a narrow portion of the market, focus or niche strategy (Porter, 1980).

Porter (1985) argues that superior performance can be achieved in a competitive industry through the pursuit of generic strategy, which he defines as the development of an overall cost leadership, differentiation or focus approach to industry competition. Every bank has to consider how to enter a market and then build and protect its competitive position. Ansoff strategies success formula emphasizes that there is linkage between organization and external environment. Organizations depend on external environment for procurement of resources and depend on it to accept their products and value (Ansoff andMcDonnel1990).

It has made customers become more discerning. Owing to these challenges, banks have led to the re-engineering of their processes via restructuring; engaging in cost reduction initiatives, adoption of customer oriented marketing philosophy, employee empowerment and community empowerment. In the recent past, the banking industry has faced increased competition and tremendous challenges globalization, privatization of government owned banks, adverse changes in economic and political patterns and narrowing of profit margins. This has prompted the industry players to take competition to a higher level. Increased competition is critical advancing economy growth in banking industry.

Previous research studies have concentrated on the implementation of the competitive strategies adopted by various institutions like banks. For example Chege (2008) researched on the competitive strategies adopted by Banking industry. Kiptugen, (2003) identified strategic responses by Kenyan commercial bank to a changing competitive environment. Wambugu,(2011) carried out a research of the strategic responses adopted by Kenyan commercial bank to cope with the competition in banking industry. Warucu (2004) studied the competitive strategies employed by commercial banks. Nyakang'o (2007) carried out a research on the competitive strategies adopted by audit firms in Nairobi and found out that audit firms are able to perform better when they adopt competitive strategies.

Gakenia (2008) surveyed on the strategy implementation in Kenya Commercial Bank. No one has researched on the strategic response of Kenya commercial bank to environmental challenges. This study focuses on carrying an investigation on strategic response of Kenya Commercial Bank to environmental challenges. There is a gap between theoretical background and operation of the Strategic Responses of KCB to Environmental Challenges. The problem therefore is to find out the Strategic Response to Environmental Challenges by KCB in Kenya.

1.3 Research Objectives

To determine the Strategic Responses by KCB to Environmental Challenges in Kenya.

1.4 Value of the Study

This research will be beneficial to KCB in that it will expose the gaps in its strategy, which if addressed in time will help it to deter competition. It will also identify the strategies it can leverage to sustain its competitive edge, it will be creative enough in the strategies they uphold in order to cope with different dynamic changes that are spontaneous and the demand paradigm shift.

The study will also make significant contribution to current and potential investors of Kenyan banking industry, as it will provide a lot of insight on the strategies they can use to respond to competition. The investment bankers and investors (existing and potential) will benefit from this research as it will give them gainful insight on KCB Bank business model.

The government will benefit in that it will focus on the different policies it seeks to keep relax or bring on board as it will also foresee whether we need to borrow any funds from different countries that we usually seek to borrow from which the economic development of the country will increase and improve independence in terms of funds which will trickle to reserve thus a paradigm shift from borrowing to lending to other countries.

The academia will benefit in that they strive to brain storm to come up with new methods of banking in relation to the competition experienced as they will eventually come through to the market and as they come up with different competitive strategies that can be embraced in different organizational scenario to suit their needs. The study findings will be of benefit for further theoretical review and development on the topic under review.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In order to attain the objective of the study, this chapter discusses theoretical foundation, strategy, strategic response that firms adopt so as to curb competition and environmental challenges facing the banking industry.

2.2 Theoretical Foundation

The strategic management discipline originated in the 1950s and 1960s, among the numerous early contributors, the most influential were Alfred Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years. Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, structure follows strategy. In 1957, Philip Selznick formalized the idea of matching the organization's internal factors with external environmental circumstances.

This core idea was developed into what we now call SWOT analysis by Learned, Kenneth Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment. Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic *Corporate Strategy*, he developed gap analysis to clarify the gap between the current reality and the goals and to develop what he called gap reducing actions.

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. He stressed the value of managing by targeting well-defined objectives. This evolved into his theory of management by objectives (MBO). According to Drucker, the procedure of setting objectives and monitoring progress towards them should permeate the entire organization. Strategy theorist Michael Porter argued that strategy target either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business. Porter claimed that a company must only choose one of the three or risk that the business would waste precious resources. Chan Kim and Renée Mauborgne countered that an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the trade off by pursuing both differentiation and low cost

2.3 Strategic Responses Development

Ansoff and McDonnell (1990) define strategy as a set of decisions making rules to guide the organizational behavior. They add that it is a yardstick by which present and future performance of firm is measured. According to Lynch (1997) strategy is about winning. It is the organizations sense of purpose. Strategy is communication thread in a firm, giving direction and scope of organization in the long run (Ansoff,1987). A good strategy will help the organization to allocate resources into unique and viable posture based on its relative competencies and shortcomings, anticipated changes in the environment and the contingent moves by intelligent opponents.

Mintzberg,Quinn and Ghoshad(1998) define strategy as a plan, ploy, position and perspective. As a plan strategy specifies intended course of actions that is designed in advance of the actions it governs. As a ploy, strategy intends to outwit competitors.

Aosa(1992) found that formal strategic planning is practiced in Kenya s large manufacturing company with foreign companies being more involved in strategic planning than the local ones.

Strategy is the way by which a firm fulfills its mission and attains its objectives. According to Brandenburg and Stuart, the essence of strategy lies in creating favorable asymmetries between a firm and its rivals. According to Barney (1997), strategy is a pattern of resource allocation that enables firms to maintain or improve their performances. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and/or fixes weaknesses. According to Porter (1980), a company can outperform rivals only if it can establish a difference that it can preserve. He further wrote that a firm can be different by creating a unique and valuable position, involving a different set of activities and making trade-offs in competing e.g. choose what NOT to do (Porter 1980).

The ability of a firm to command a competitive advantage depends on the practicability of their strategic responses (Barney, 1997). The business environment in the country has drastically changed resulting in some banks opening a number of branches a cross borders and thus increasing competition in the industry globally. Banks have ended up hawking their services to potential clients and this has led to downward prices due to competition. Strategic management in the banking industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved (Hambrick, 1983). Therefore, venturing in this area gives hope that, areas of interest for further research can be identified and further understanding of the concept of competitive strategies particularly in the banking industry in Kenya will be enhanced.

Strategy is the sustained pattern of resource allocation by which companies align themselves effectively to their external environment. Hence, a useful place to start is to consider the macro environmental context in which industry finds itself. This is a period of unparalleled change, driven by factors such as genomics, information technology, demographics, health economics and globalization. Each of these factors individually would call for a considered response from the industry, but taken together they represent a fundamental change in the market environment. This implies a concomitant fundamental response by the industry.

2.4 Environmental Challenges

Organization depends on the external environment to survive. Environmental changes shape opportunity and challenges facing the organization. Organizations need to adjust to these changes to remain competitive in the future. A host of external factors influence a firms choice of direction an action and also its organizational structure and internal processes. Ansoff and McDonnell(1990)described organizations as environment serving in that they depend on environment for inputs and customers for their finished goods. Customers are highly valued in organizations environment since they are the end users. Their likes and dislikes changes rapidly therefore it is important to anticipate changes in users product requirement emerging technologies that can charge how the products are used. Competition from related industries with similar products and services, their geographic location and market form a critical part of organization environment. Its important for any organization to have knowledge on its competition so that to develop superior strategies to outwit them.

Technology acquired for production and technical tools, advancing in communication technologies have revolutionaries how organizations operate in current error. Porter (1985) stated that strategy is concerned with positioning a business to maximize the value of the capabilities that distinguishes it from its competitors. According to porter, a farm must formulate a business strategy that incorporates cost leadership, differentiation or focus in order to achieve sustainable competitive advantage and longtime success in its industry.

Competition is a term that encompasses the notion of firms striving for a greater share of a market to sell or buy goods and services. Merriam-Webster defines competition in business as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms" (Competition, 2008).Seen as the pillar of capitalism in that it may stimulate innovation, encourage efficiency, or drive down prices, competition is touted as the foundation upon which capitalism is justified (Kohn, 1986). According to microeconomic theory, no system of resource allocation is more efficient than pure competition. Competition, according to the theory, causes commercial firms to develop new products, services, and technologies. This gives consumers greater selection and better products. The greater selection typically causes lower prices for the products compared to what the price would be if there was no competition (monopoly) or little competition: oligopoly (Kohn, 1986). The primary objective of managers of profit seeking organizations like banks is to maximize the performance of the firm over time (Rappaport, 1981; Treynor, 1981;Van Horne, 1992).

Bowman and Helfat (2001) found that corporate strategy is inessential management tool and is important to firm performance, and achieving performance advantage through strategic initiatives is increasingly important in the financial services industry (Farrance, 1993; Wilkinson and Balmer, 1996; Young,1999; Devlin, 2000).Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition which is among the strategic responses that a firm can adopt.

2.5 Organizational Responses

The ability of a firm to command a competitive advantage depends on the practicability of their strategic responses (Barney, 1997). The business environment in the country has drastically changed resulting in some banks opening a number of branches across borders and thus increasing competition in the industry globally. Banks have ended up hawking their services to potential clients and this has led to downward prices due to competition. Strategic management in the banking industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved (Hambrick, 1983).

Pearce and Robinson (1997) define strategic responses as the set of decisions and actions that result in the formulation and implementation of plan designed to achieve a firm's objectives. According to Johnson and Scholes (2002) after the environmental analysis, the firm will choose a strategy in response to opportunities and threats it is facing. Strategy is a bridge between firm's resources, opportunities and risks it is facing in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stake holders.

Well developed and targeted responses are formidable weapons for a firm in acquiring and sustaining competitive edge. Some of the strategic responses may include; development of new product and services, new processes, new markets, abandoning unprofitable markets, new competition strategies for new market penetration, business processed re-engineering, Information and communication technology and leadership.

Porter (1980) defines cost leadership as the achievement of “overall cost leadership in an industry through a set of functional policies aimed at this basic objective. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. Essentially, low cost relative to competitors becomes the theme running through the entire strategy. It is worth noting that Porter does not focus on the possible pricing tactics related to cost, instead focusing on overarching strategic considerations and the importance of achieving lower costs than rivals, regardless of pricing method used. Researchers have associated cost leadership with mass merchandisers such as the retail firms K-Mart and Wal-Mart or fast food restaurants such McDonald's and Kentucky Fried Chicken (Helms et al., 1992).

There are some environmental conditions that form the foundation of cost leadership. First, the target customers need to be industry-wide; i.e. demand should be market wide, not segmented (Porter, 1980). Also, the customers demanding the product(s)need to be price sensitive (Murray, 1988). To meet this broad and substantial demand, considerable resources are needed. This generally prevents small firms from successfully following a cost strategy (Wright, 1987).

According to Porter, (1980), firms often drive their cost lower through investments inefficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising. They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984).Cost leadership is valuable if; buyers do not value differentiation very much, buyers are price-sensitive, competitors will not immediately match lower prices (do gametheoretic analysis**)** and it is sustainable if; there are no changes in consumer tastes, technology and exogenous prices/costs and the activities taken to achieve low costs are rare and costly to imitate

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980).It is the ability to sell its differentiated product at a price at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Ireland et al., 2001; Dess and Davis, 1984;Porter, 1985).

Successful differentiation is based on a study of buyers' needs and behavior in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals□ products. Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand. Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes.

Kotler (2001) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain. Currently, technology is fundamentally re-aligning business relationships between banks and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels. This is because consumers no longer express the preference to any single channel. As banks face new challenges in the electronic payment (e-payment) world, they need to leverage their information technology (IT) strategy to be aligned with business strategy**.** The traditional strategy of banks in the payment innovations is competitive strategy aiming to compete based on the size. Banks with extensive branch networks tend to capture more customers than those with fewer branches. Currently, the Internet and the World Wide Web have impacts on the way banks doing the business. The traditional brick and mortar banks are moving towards integrated delivery channels and the adoption of the click strategy (Pennathur, 2001; Hensmans, et al., 2001).

The changing landscape of electronic payments requires banks to change their strategies to collaborative strategy in order to meet e-payment demands. Banks faced competitive pressures, which forced them to migrate their branch network system towards the development of integrated service channels (from isolated channels to an integrated one) (Vishal, 1997). This is because the competitive alternatives in the bank "payment transmission system (Internet, mobile phones) mean that banks cannot use a network for clearing and settlements to achieve competitive advantage. The overall thrust is that banks realize the importance of having control over the payment networks so that banks have market power, and accordingly, competitive advantage over other competitors. For many banks in Kenya, information and communication technology is viewed as potentially capable of helping achieve competitive advantage (Mcforlan, 1984).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter covers the research design, the population, sample and sampling technique, data collection methods and data analysis.

3.2 Research Design

The research design applied in the study was a case study. A case study is a qualitative study that has been narrowed down to a specific unit but comprehensive enough to give representative information for similar units operating in the same environment. It is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The use of case study in research was of particular importance taking into account the advantages that come along with it. It enables one to study intensively a particular unit.

3.3 Data Collection

In this study, emphasis was given to primary data. The primary data was collected using interview guide attached as appendix II which was done on ten interviewees who are the head of departments at the KCB head office. An interview guide is a setoff questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It makes it possible to obtain data required to meet objective of the study which was solely primary data. Interview method was efficient, flexible, cheap and easy to administer.

3.4 Data Analysis

The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the sample. This technique uses a set of categorization for making valid and replicable inferences from data to their context, Baulcomb, 2003).Content analysis was used considering the qualitative nature of the data to be collected through in-depth personal interviews. The data was broken down into the different aspects of strategy responses, arranged into logical groups and analyzed. This offered a systematic and qualitative description of the objectives of the study.

The collected data was examined and checked for completeness. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data. This was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information was clearly understood by describing what the respondents are saying. The qualitative data was analyzed using content analysis and finding presented in prose form.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The study`s data collection was done by the use of an interview guide which was designed in line with the objectives of the study. The main objective of this study was to determine the strategic responses by KCB to environmental challenges in Kenya.

A total of the 10 targeted top managers at KCB responded to the interview. This represents 100% response rate which is sufficient enough and could be used as a basis for drawing conclusions and recommendations . Content analysis and inferential statistics were utilized in the analysis of data. Also, descriptive statistics were used to analyze the data with the results of the analysis being summarized in tables, percentages and figures.

4.2 Data on the Interviewees

All the interviewees were from the senior management category of the KCB. The respondents were heads from the departments of business development, human resources, claims, accounts, ICT, legal and customer relations among others. From the findings it is indicated that 75% of the top management staff had more than 9 years' experience in the banking industry; 15% had between 6-9 years' experience and only 10% had less than 6 years experience in the banking Industry. Staff experience is necessary in the delivery of the desired goals of the firm in relation to making relevant response strategies to environmental challenges. This is because experienced staff takes relatively less time to deal with emerging and new environmental issues at the work place than those with little or no experience. At KCB results shows that more than 70% of the top management are highly experienced, qualified and competent in their work.

4.3 Environmental Challenges facing the Organization

The respondents identified various environmental challenges faced by KCB in the business environment. The environmental challenges that were stated by the respondents include political, economic, technological, socio-cultural, competitive challenges as well as ecological factors. Other external environmental factors that affected KCB include competition, regulatory, customer preferences and customer needs among others. From the study findings competition was identified as the greatest challenge facing KCB. More than 75% of the respondents identified competition as being a key challenge requiring the need for KCB to change to accommodate various factors that do with competition for business survival. According to the study findings this factor was followed by customer changes and technological changes respectively.

Economic, political, ecological and socio-cultural challenges were ranked numbers 4, 5, 6 and 7 respectively as the environmental challenges that are influencing response strategies at KCB. Table 4.1 below best illustrates challenges identified in the external environment.

Table 4.1 Challenges in the External Environment

Main Environmental Challenges	Challenge Influence	Major Challenge Issues	Rank
Increased Competition	55%	-New competitor products -competitor price undercutting -Competitor staff poaching -aggressive advertising and marketing -competitor innovations -more competitor entry e.g. SACCOS	1
Changes in Customer Tastes and Preferences	15%	Customer need for: -short term products -quality products -quality services -expert presentations -new products -personalized services -prompt loan services -prompt complaints resolution -brand preference -e- transactions	2

		-improved customer care -substitute products	
Rapid Technological changes	10%	-e-commerce e.g. mobile transactions such as MPESA -internet services through the web and SMS facilities -e-banking -Technological platforms	3
Changing Economic conditions	6%	Unpredictable economic conditions: -inflation -weakened power of investors -high fuel costs -increasing wage rates -high taxation -exchange rates	4
Political and regulatory factors	8%	-Regular regulatory amendments -political and investor confidence -differing objectives between regulators and the regulated -planned change in NHIF and NSSF Acts -Regional conflicts e.g. Somalia -terrorism threats	5

		-country governance structure -increased regulatory controls e.g. KRA, IRA, RBA, CMA & CBK	
Changes in the Ecological conditions	4%	-climate change and unpredictable weather patterns -informal settlements, Poor sanitation and garbage leading to diseases -Deforestation	6
Socio-Cultural changes	2%	-Demography – More than 60% below 35 years -Gender issues and employment -increased old age and retirement age -increased poverty, crime and violence	7

The above table highlights the major issues and challenges outlined for example the increased competition punctuated with new entrants in the banking industry such as SACCOS and increased substitutes paraded by indirect competitors such as non banking institutions, the NHIF and the NSSF among others. On the other hand, findings indicated changes in customer tastes and preferences were a challenge that is facing KCB in it operating environment. The findings show that 65% of the responses indicate that the KCB customers have challenges that need to be addressed strategically. These include, expert presentations, e-transactions and personalized service, among others.

The study findings indicate that technological factors were found to be the third most important challenge that is facing KCB. The increased use of mobile application in such as Mpesa, Yu cash and other mobile money transfer facilities, the internet and e-commerce call for proper response by the KCB management. Other key challenges that the respondents stated were issues such as the weather patterns, increased crime, increased taxation and the change in the regulatory framework. This is best elaborated in table 4.1 above.

The above environmental challenges affect the firms in the banking industry and KCB is not an exception. Increased competition reduces profitability and the overall market share of the firm while challenges in technology present both of opportunities for investment as well as the need for the significant capital outlays. Regular and ad hoc changes in the regulations of the banking industry in Kenya create consistent planning hiccups while increased taxation creates low investor power. Terrorism threats and disease lead reduced financial transactions as does calamities occasioned by floods and drought. The findings also point out that change in customer preferences and service offering, advanced and unique customer care as well as innovative products among others are the environmental challenges facing KCB that require response strategies.

4.4 Strategic Responses to the Environmental Challenges

The researcher sought to find out strategic responses adopted by KCB to environmental challenges facing them. The findings indicate that KCB has strategically responded in various ways to the various environmental challenges facing them.

4.4.1 Strategic Leadership

KCB has all along employed 80% experienced and highly qualified staff from the middle level management upwards. Findings indicate that top management alone has managers with a minimum Diploma qualification while the CEO is experienced to spur the organization to higher levels. More than 75% of the top management has more than 9 years industry experience. The company therefore has a grip on staff with capability and ability of waging strategic response and management of change as and when required to do so. The findings indicate that this high calibre of staff in the management category has in the past and is responsive to the environmental challenges all the time. Hence strategic leadership has been a key response to the challenges in the environmental conditions.

4.4.2 Product Diversification

KCB has been on top of the game on matters to do with product diversification strategy in order to wade of competition and satisfy customer tastes and preferences. Again and again KCB has developed various market / product diversification strategies. Findings indicate that so far KCB product portfolio has varied revenue contributions to the firm. The products and markets serve various competitive reasons. Some of the reasons stated by the respondent as to why the bank is turning to product diversification strategy to include core business, diversification and market share which have led to improved customer base and profitability.

Their products target both individual and corporate clients countrywide and regionally. To endear itself further to its current and potential customers, the findings indicate that KCB has entered into new markets spreading into the counties in Kenya and in Eastern African Region and has plans to cover the Sub-Saharan Africa. KCB is also a socially responsible corporate citizen as it is involved in several areas. These findings indicate that KCB sponsors CSR activities to a tune of Kshs 100 Million annually for various social projects along their rally routes and they serve hundred of thousands of pupils and adults annually who cannot afford to pay for high medical bills elsewhere.

From the findings this positive gesture has earned the company customer goodwill which indirectly translates into indirect sales. The company has also increased new products such as KCB Amana Account, KCB Diaspora Banking among others which gives one access to the account 24 hours a day enabling one to conduct financial transactions on a secure Internet platform. It is a safe and convenient money management service from anywhere in the world. KCB has also undertaken product quality improvements to attract more customers and deal with competitors by embracing use of modern technology platforms.

4.4.3 Marketing Strategies

From the study findings 73% of the respondents indicate that KCB has also intensively entered into new markets through new sales channels such as establishing branch and agency offices, increased distribution through agents and bank agencies and increased customer interaction on Facebook and Twitter. The company also undertakes extensive advertising and improved customer care as a means of remaining competitive. In the past five years for example, KCB has undertaken various multimedia marketing promotions and campaigns such as Bill Boards, print media and TV adverts with the intention of increasing customer awareness of its product portfolio and new emerging products. In its pricing strategy, KCB has embraced flexible transaction options and offered a wide range of product variations to fit customer needs and financial ability.

4.4.4 Information Technology Use

Proper utilization of ICT is a competitive edge creation tool for firms. To effectively respond to the ever changing technological conditions in the environment 97% of KCB staff in the in all branches and departments are IT Compliant. This means they are able to utilize IT skills for cost reduction for competitiveness. KCB has also embraced IT for easy and faster communication with the clients and as a cost reduction strategy. The firm has established a fully operational IT department and has computerized all its operations. There is also use of IT in procurement, and record keeping. The findings indicate that the IT department is upgraded on a continuous basis to keep up with technological changes. KCB also uses technology in transaction processing for all its product range. The head office is the hub and all the branch and agency offices are linked and thus, all transactions are real time. All the operating systems are integrated with the finance and accounting system for effective reporting.

4.4.5 Responses to Economic Changes

The findings indicate that KCB has not done so much to deal with the challenges in the economic environment. This is because more of these changes are external to the firm and the firm has little if any influence over them. However, to mitigate itself from the adverse effects of a slow economic growth in Kenya, KCB has undertaken prudent investments such as investments in property buildings, associate companies in unquoted shares and in quoted stocks at the Nairobi Securities Exchange. It has entered new markets like Rwanda, Southern Sudan Burundi, Uganda, Tanzania and intends to expand further into the rest of Africa. The company has also undertaken to develop new products and services for clients thereby increasing its profitability. This is in addition to having risk and compliance managers who not only ensures that the company mitigates against market risks but also complies with the law and regulatory frameworks of the land. At the same time some of the company products are customer pocket friendly in line with the hard economic time facing Kenyans.

4.4.6 Generic Strategies

The study findings point out to the use of generic strategies of cost leadership, differentiation and focus by the firm as a response to changes in the environment and particularly to competition. The cost leadership strategy has widely been used by KCB. KCB has undertaken staff restructuring whereby staff are only deployed in areas where they add maximum value. The top management has strategically cut down on the number of vehicles and drivers. Routine works like cleaning, security and courier services are outsourced to cut down on head count and related cost of employment.

The company has also embraced ICT which has cut down expenses especially in communication, filing and paper work, which is a great saving for the firm. The installation of CCTV cameras has also reduced drastically incidents of equipment theft and firm insecurity. The clock-in clock-out IT strategy for all staff has reduced the levels of lateness and improved on the employee performance. Again, procurement is done only from reliable and cost effective suppliers. This has the consequence of reducing the overall wastes associated with cheap procurement of goods and services.

KCB has also adopted differentiation strategy. Differentiation strategy has involved creating a product that is being perceived as being unique or of superior value to the customer and therefore, attracts customer loyalty pricing not withstanding. The additional costs of differentiating the products could require a premium pricing strategy there by increases the fortunes of the firm. Strong creativity and innovativeness coupled with strong Research and Development has made it possible for KCB to come up with differentiated products and markets.

Focus strategy has also been utilized by KCB as a response to the environmental challenges. Focus strategy encompasses the selection of a few market segments. KCB to some point focuses on the specific rather than the general client needs. The company has products for the corporate, the family, the aged, the middle aged the youth. It also has products for car owners, pensioners and savers. All these are specific market niches.

4.4.7 Other Strategies

Other response strategies that KCB embraced in beating its competitors include rigorous selection, ongoing competence based training, on job mentoring and coaching programmes, exchange programmes within the group as well as access to an expansive e-learning database. The study findings also indicate that KCB alignments its structure to follow its strategies and has a greater focus on having a strong business structure with focus on each key business line. The bank also adopted financial strategies such as acquisition of a large capital base which enabled the bank increase the size of deals it can book and even the single borrower limit. In addition to the above the bank with the large capital and deposit base, it has been able to acquire deals no other banks in the market can handle and the ability to book large deals from the regional businesses is been made possible.

From the study findings it was found out that KCB Retained profits build on the capital base which in turn enables the bank lend more, the bank has run a strong cost management culture over the last decade which has seen the efficiencies lead to a competitive structure, automation of processes across the group has led to improved cost ratios and process reengineering initiatives have flattened many activities leading to better cost ratios. On the other hand lower charges to transact on m/e channels, high availability and convenience and training and demonstrations at branch level have been used to improve on its competitiveness while responding to environmental challenges.

4.5 Discussion

The study findings are in agreement with findings by Aosa(1992) who found out that formal strategic planning is practiced in Kenya`s large manufacturing company with foreign companies being more involved in strategic planning than the local ones. Commercial banks and more relevantly KCB has strategic plans revised regularly According to Barney (1997), strategy is a pattern of resource allocation that enables firms to maintain or improve their performances. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and/or fixes weaknesses. These study findings were also able to illustrate the same about a good strategy.

As Barney (1997) stated the ability of a firm to command a competitive advantage depends on the practicability of their strategic responses (Barney, 1997). The findings indicate that business environment in the country has drastically changed resulting in some banks opening a number of branches a cross borders and thus increasing competition in the industry globally. Banks have ended up hawking their services to potential clients and this has led to downward prices due to competition. Strategic management in the banking industry demand that companies have put in place effective systems to counter unpredictable events that can sustain their operations and minimize the risks involved.

Like Kotler (2001) insisted that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain. This was the same with these study findings.

CHAPTER FIVE

SUMMARY, CONLUSION AND RECOMMENDATION

5.1 Introduction

This chapter dealt with the summary, conclusions and recommendations of the study for further research. It also covers the limitations and recommendations for policy and practice.

5.2 Summary

The main objective of this study was to determine the strategic responses by KCB to environmental challenges in Kenya. This study also sought to determine the challenges in the external environment of KCB. A study was subsequently carried out and the 10 top managers responded to the interview. This represents 100% response rate which could be used as a basis for conclusions.

The results indicated that KCB has been experiencing environmental turbulence. The major threat to KCB was found to be the increased levels of competition that could lead to a declining market share. This was followed by the change in customer preferences and needs. Economic problems such as inflation and the weakening currency were also found to be conditions creating business problems to the KCB to a large extent. Other environmental challenges facing KCB were found to be the political changes especially political legislations such as the proposed changes of the NHIF and NSSF Acts.

This is in addition to international terrorism, ecological, demographic and technology factors among others. Competition was also posed by firms which were not full commercial banks that offer similar services such as SACCOs. Changes in technology, such as e-mobile, mobile internet as well as WIFI internet and website also called on KCB to change in tandem with the changing times. The customer preferences and tastes changes also called for KCB to change. So far increased competition, changing customer tastes and preferences and changes in technology were found to be the top three challenges affecting KCB. Hence major attention on the strategic responses to these environmental challenges by KCB concentrated on these three key factors.

KCB is continuously crafting various strategies in response to these changing environmental challenges. The company`s key strategy was adoption of strategic leadership. This is especially in relation to the top managers of the firm who were found to be professionals and highly experienced to deliver on the mission and vision of KCB firm. The strategic leadership at KCB was found to be always on the alert to the changes in the environment. The capability of KCB to create a learning organization was found to give it a competitive edge in its responses to the environmental conditions.

KCB was also bale to respond to the challenges in the environment through diversification of products and markets. The company has entered in Tanzania, Uganda, Burundi and is expanding further to other countries. In terms of products, KCB has continued to come up with new products to serve their clients better.

The other responses are on the applied use of ICT in its operations and e-commerce in general. The prudent management principles by KCB management also involve corporate governance, management by objectives and the inclusion of stakeholders especially management in strategy formulation and implementation. By doing so there is little resistance from employee during times of change. Employee benefits including medical and group life covers, educational loans, retirement fund, car and mortgage loans, among others, go a long way in boosting employee motivation to surpass their targets year on year.

The findings also indicated the utilization of marketing strategies by the firm. The firm uses aggressive advertising, marketing and customer care, among others. The company has also managed to come up with low priced products to attract the low income category of consumers. Similarly KCB has also applied generic strategies of cost leadership, differentiation and focus strategies. Under cost leadership the firm has embraced modern technology, restructuring and business processing re-engineering to cut on overall costs. This is in addition to the use of e-commerce to do business. For product differentiation KCB has branded its products and modified their specific characteristics to suit certain market segments. The focus strategy by KCB has been to come up with products that target certain niche markets for example the SMEs, youths among other distinct groups. In addition KCB`s corporate social responsibility has gone along way in endearing the public and customers to the firm.

5.3 Conclusion

In summary competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. The researcher concludes that the best three approaches to competitive strategy that the commercial banks can embrace should revolve around maintaining low costs, such as low cost leadership strategy. Secondly, seeking to differentiate one's product offering from that of its rivals that is differentiation strategy and lastly focus on a narrow portion of the market, focus or niche strategy in order to be able to handle environmental challenges.

In conclusion superior performance can be achieved in a competitive industry through the pursuit of generic strategy, which he defines as the development of an overall cost leadership, differentiation or focus approach to industry competition. Every bank has to consider how to enter a market and then build and protect its competitive position. Banks should focus on re-engineering of their processes via restructuring; engaging in cost reduction initiatives, adoption of customer oriented marketing philosophy, employee empowerment and community empowerment.

Banking industry strategic management demand that they should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved. Therefore, if they venture in this area gives hope that, areas of interest for further research can be identified and further understanding of the concept of competitive strategies particularly in the banking industry in Kenya will be enhanced.

5.4 Limitations of the Study

The unwillingness of the respondents to supply the right response was another limitation factor. The respondents were suspicious that such study could expose their competitive advantage to their competitors who may have access to this project and could easily implement the study response strategies recommended. Limited resources on the part of the researcher were another limitation. The research lacked adequate funding for conducting the research and more especially in data collection.

Time was a limiting factor. The researcher is in full time employment and therefore did not have adequate time especially in the collection of data. Equally, the top management to whom the interview guide was directed is a very busy category and did not have adequate time at their disposal to adequately respond to the issues raised in the interview guide. This has a scholarly disadvantage.

5.5 Recommendations for Further Research

Owing to the limitations above, the researcher was not able to cover the study objective conclusively. Thus, the researcher recommends the following topics to researcher on:-the impact of the government regulations on response strategies adopted by banks in Kenya, the effect of internal challenges on the response strategies adopted by commercial banking, the role of organizational culture on strategic response and growth among financial institutions and the benefits that accrue to the organization as a result of competitive response strategies on environmental challenges.

5.6 Implications for Policy and Practice

KCB needs to put in place a Research and Development department. This will be charged with not only gathering and analyzing competitor intelligence information but also exploring new markets and new products. R & D will also be charged with innovations and environmental monitoring and possible firm investment. The firm should also consider additional outsourcing of non-core functions such as auditing, archiving, public relations and information technology, among others.

The company should review technology needs, have in house group and individual training, improve on a learning culture and reward and implement innovations. More fundamentally, all employees should be turned into marketers of the firm. Also short term products should be developed as well as empowerment of employees to work from wherever they are. IT improvement such as teleconferencing and working from outside the official roofed home should be encouraged.

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APPENDIX I: INTERVIEW GUIDE

1. What is your managerial position in your firm?..

2. For how long have you been in charge of this department? Please tick

1-3 Years ( ) 3-6 Years ( ) 6-9 Years ( ) Over 9 Years ( )

3. For how long have you been working with this company?

   ....

   ....

4. Does your company collect information on its environmental challenges? Who`s responsible? After how long does the company collect this information?

5. Which challenges have you observed in each of the following environmental factors that affect the company? Please explain

Environmental Factors	**Challenges in the environment**
Substitute products	
Competition in the industry	
Economic factors	
Customer preferences	
Political factors	
Technological factors	
Socio-cultural factors	
Ecological factors	
Regulatory factors	

Customer needs	
Employee satisfaction	

6. What do you think have been the implications of the challenges in each of the environmental factors in (5) above
7. For each of the challenges mentioned in (5) above, how has your company strategically responded to them?
8. Has your company developed any internal capability to effectively and successfully execute the strategic responses explained in (7) above?
9. Overall do you think the company has competitively positioned itself favourably to environmental challenges? Please explain how?
10. Given a chance to become the CEO of this firm what do you think are some of the additional response strategies you will deploy to create a sustainable competitive advantage for you firm?
11. How does strategic responses in KCB influence achieving high profits, increased sales and large clientele compared to its competitors?