

**STRATEGIC RESPONSES BY COMMERCIAL BANKS TO COMPETITION IN
PROVISION OF RETAIL BANKING SERVICES IN KENYA**

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DECLARATION

This research project is my original work and has not been submitted anywhere for examination in any other university or institute of higher learning.

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

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DEDICATION

This research project is dedicated to my family for accepting and understanding my absences while undertaking my research project. For this I say thank you all and God bless.

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I wish to thank the Almighty God for giving me wisdom to conduct this study. I also appreciate my supervisors for their guidance in conducting the research and the management of Nairobi University for their understanding and support.

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ABSTRACT

In the globalized business, companies require strategic thinking and only by evolving good business strategies can they become strategically competitive. In order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. The role of strategy is to match external environment with the firm's internal capabilities. Organizations exist in the context of complex commercial, economic, technological, cultural and social world. Competitive environment in the banking industry is changing rapidly to the extent that banks must change by crafting strategies to move the retail banking business forward or face the consequences of inability to fit in the turbulent environment. The research objective of this study was to establish the strategic responses by banking organizations to competition in provision of retail banking services in Kenya. The study employed descriptive cross sectional survey design. This study collected primary data from a target population of all the 43 commercial banks based in Nairobi County. An interview guide was used where senior managers were interviewed. Qualitative data collected through a detailed questionnaire/interview guide was analyzed using conceptual content analysis technique. The responses from different respondents was compared and summarized according to the objectives of the study. From the findings, competitive environment of a business is the part of a company's external environment that consists of other firms trying to win customers in the same market. The interviewees confirmed that in the banking industry, competitive environment has been based on the following elements. Customer products and services includes savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards superannuation, and travel and international payments, evening banking, largest 24-hour ATM network, Internet banking, e-statements, SMS banking and 24-hour Bills Pay service. The study established that most of their organization's main competitive edge has been based on the huge un-bankable rural poor in Kenya as well as the most banks strong financial base and good reputation in the financial sector due to increased profitability. The study established that foreign banks possess comparative advantages in terms of a sound financial base and a better reputation than local banks. The following conclusions were drawn; Financial implications is a major consideration while formulating and implementing the choice of strategies adopted by financial institutions while financial resources are determinant in implementation of response strategies. The study recommends that business strategies in response to changing business environment should involve managers in the formulation of such strategies and give them adequate decision making authority in the implementation of the respective response strategies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations are facing exciting and dynamic challenges in the 21st century. In the globalized business, companies require strategic thinking and only by evolving good business strategies can they become strategically competitive (Ansoff and McDonnell 2000). As a result of this trend the business environment is becoming more competitive, particularly in terms of prices. Pearlson and Saunders (2006) define a business strategy as a “well-articulated vision of where a business seeks to go and how it expects to get there. In an organizational setting, the term strategy covers more than just intended or planned strategy, it also includes the “sequence of decisions” that exhibit a “posteriori consistencies in decisional behavior (Mintzberg, 2008). Business of all sizes practice some form of strategic management. Businesses use strategy to formulate as well as implement strategy in order to compete successfully, Thomas and Wheelen (2002) stressed that strategy management is applied for the purposes of moulding, directing and relating an organization effectively to its environment. Strategic decision making is at the heart of the organization- environment – co-alignment process so heavily emphasized in both the business policy and organization theory.

It is often stressed that because the environment is always changing, this has to be a continuous process (Pfeiffer, 2003). Pearce and Robison (1997) state that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. This means that organizations should constantly change their

strategies in order to remain competitive. It also requires that organizations should continuously learn, adapt and re-orient themselves to the changing environment. The process has to be deliberate and coordinated leading to gradual or radical systematic realignments between the environment that result in improvements in performance and effectiveness. Where an organization fails to effectively adapt to its environment, it leads to a strategic problem (Ansoff and McDonnell, 2000). It is therefore through strategic response that a firm will be able to relate itself to the environment to ensure its success. Further resources can be obtained by means of exchange with the environment across the boundaries of the organization. In the supposedly competitive and “non–controllable” environment, the effectiveness or exchange potential of an organization will depend on its relative efficiency in combining its internal resources. Internal resources can be reallocated in order to adapt to environmental conditions, thus enhancing effectiveness (Pennings, 2002).

The large number and wide variety of business strategy decisions required to strategize and deliver a service are made at several levels in the organization, from the strategic level to the operational and service encounter levels. A major challenge for service organizations is ensuring that decisions at each of these levels are made consistently, focused on delivering the correct service to targeted customers (Boone, 2000). Businesses of all sizes practice some form of strategic management. Businesses use strategy to formulate as well as implement strategy in order to compete successfully. Chandler (2002) stressed that strategy management is applied for the purposes of moulding, directing and relating an organization effectively to its environment. Strategic decision

making is at the heart of the organization- environment – co-alignment process so heavily emphasized in both the business policy and organization theory.

1.1.1 Concept of Strategy

Strategic management literature emphasizes on the important role of business strategy in both large and small firms (David, 2004). Firms use business strategy to outline the fundamental steps that they plan to follow in order to accomplish their objectives. The literature indicates that organizations can have a single strategy or many strategies, and that these strategies are likely to exist at three levels; business level strategies (such as grand or master strategies); business level strategies (competitive strategies); and functional level strategies. Although the literature suggests that strategies are developed at the three different levels, theoretical and empirical studies of the relationship between strategy and organizational performance have mainly emphasized on business strategy (Lee, 2003).

The role of strategy is to match external environment with the firm's internal capabilities. Organizations exist in the context of complex commercial, economic, technological, cultural and social world. An understanding of the historical and environmental effects, as well as opportunities and other well exact threats to the organization is critical. Strategy crafting is therefore largely influenced by top manager's perception of their organization's environment. Every organization has a unique environment, even organization within the same industry have environments unique to them (Mintzberg and Quinn, 2008).

Thompson and Strickland (2003) pointed out that an organization's strategy consists of moves and approaches devised by management to produce successful organizational performance. That strategy is a management's game plan for the business. Without a strategy, there is no established course to follow, no roadmap to manage by and no cohesive action plan to produce the intended results. The 2000s and 2000s were characterized by discontinuous and unpredictable business environment. This, of essence, calls on an organization to restructure itself to meet the new activities and to adequately respond to external environment.

Competitive strategy, in contrast with generic strategy focuses on the differences among firms rather than their common missions. In most firms comprehensive strategy evaluation is infrequent and, if it occurs is normally triggered by a change in leadership or financial performance. The fact that comprehensive strategy evaluation is neither a regular event nor part of a formal system tends to be deplored by some theorists, but there are several good reasons for this state of affairs (Ward and Duray, 2000).

1.1.2 Strategic Responses

Strategic management literature suggests that a successful firm's strategy must be favourably aligned with the external environment. The relationships between business-level strategy and environment have been widely discussed in the extant literature (Hambrick, 1983; Kim and Lim, 1988, Miller, 1998). Organizations face significant constraints and contingencies from their external environment and their competitiveness depends on their ability to monitor the environments and adapt their strategies accordingly (Pennings, 2002). In the field of strategic management, the majority of

studies analyze competitive environments from an economic standpoint, based on the implicit notion that business environments are formal and objective. As such, the human element is assumed and the role that managers play in creating and changing competitive environments is neglected. However, given that people take business decisions and drives organizations; to ignore such an important dimension of the competitive landscape is a considerable limitation to developing more holistic understanding about competitive landscapes (Pennings, 2002).

Despite the level of knowledge generated regarding the structure and dynamics of organizations, there remains little appreciation about how managers perceive their competitive environment and the impact of managerial cognitions on industry dynamics. Given that managerial cognitions influence decision-making and therefore competitive strategies, the cognitive aspect of management is integral to understanding how competitive structures develop or respond to the environment. Through their competitive activities, managers create and after the dynamics of an organization (Bukzar, 1999).

Organizations require guidance on the most effective functional areas in which to invest in order to improve and sustain environmental performance. As managerial practices progress from concerns with compliance towards practices seeking competitive advantage, more theory is needed regarding the manner in which business strategy, organizational structure and operational practices influence competitive environmental performance of business strategy processes (Ward and Duray, 2000). Organizations large and small are environment-dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan

the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 2003). Failure to do this will lead to serious strategic problem characterized by the maladjustment of the organization's performance growth (Ansoff and McDonnell, 2000).

When a firm operates in a stable domestic environment, the primary focus of management attention is on competitive and technological factors which determine success in the market place. When such a firm moves abroad, its management expects to encounter new competitive dynamics. But beyond the competitive variables, success in the new market may equally be determined by a number of other factors which remain in the background (and are taken for granted) so long as the firm confines its attention to domestic markets (Mintzberg, 2008).

1.1.3 Industry Competition

Each business operates among a group of companies that produces competing products or services known as an industry. Competition intensifies when a firm identifies the opportunity to improve its position or senses competitive pressure from other businesses in its industry, which can result in price wars, advertising battles, new product introductions or modifications, and even increased customer service or warranties (Graham, 1994). Rivalry can be intense in some industries. Competitive intensity often evolves over time and depends on a number of interacting factors. Industries with few firms tend to be less competitive, but those with many firms that are roughly equivalent in size and power tend to be more competitive, as each firm fights for dominance. Competition is also likely to be intense in industries with large numbers of firms because

some of those companies may believe that they can make competitive moves without being noticed (Wright, Kroll & Parnell, 1998).

Firms in industries that grow slowly are more likely to be highly competitive than companies in fast growing industries. In slow-growth industries, one firm's increase in market share must come primarily at the expense of other firms' shares. Competitors often attend more to the actions of their rivals than to consumer tastes and trends when formulating strategies.

1.1.4 Banking Organizations in Kenya

As at 31st December 2013, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, forty four banking institutions (forty three commercial banks and one mortgage finance company - MFC), four representative offices of foreign banks, six Deposit-Taking Microfinance Institutions (DTMs), one hundred and eighteen Forex Bureaus and two Credit Reference Bureaus (CRBs) (CBK, 2013). Out of the forty four banking institutions, thirty one locally owned banks comprise three with public shareholding and twenty eight privately owned while thirteen are foreign owned. The six DTMs, two CRBs and one hundred and eighteen forex bureaus are privately owned. The foreign owned financial institutions comprised of nine locally incorporated foreign banks and four branches of foreign incorporated banks.

According to Central Bank of Kenya (2012) out of the forty three commercial banks thirty of them are domestically owned and thirteen are foreign owned. In terms of asset holding, foreign banks accounted for about 35% of the banking assets as of 2012. In Kenya the commercial banks dominate the financial sector. In a country where the

financial sector is dominated by commercial banks, any failure in the sector has an immense implication on the economic growth of the country. This is due to the fact that any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations.

1.1.5 Retail Banking Services

The banking industry is experiencing renewed interest in retail banking services. Retail banking services are activities broadly defined as the range of products and services provided to consumers and small businesses. Retail banking services positions now account for larger shares of commercial bank balance sheets, and the number of bank branches continues to grow. Retail banking traditionally offers two major categories of services namely deposits and advances. These two core banking services have been the main gauge for performance and source of profit for banks worldwide. Service system design provides a needed insight into the issues relating to the service products themselves and the effect of this service concept on suitability of a given product and its performance.

1.2 Research Problem

Organizations are facing exciting and dynamic challenges in the 21st century. In the globalized business, companies require strategic thinking and only by evolving good business strategies can they become strategically competitive (Ansoff and McDonnell, 2009). As a result of this trend the business environment is becoming more competitive, particularly in terms of prices. Management constructs this plan in response to market forces, customer demands, and organizational capabilities.

Competitive environment in the banking industry is changing rapidly to the extent that banks must change by crafting strategies to move the retail banking business forward or face the consequences of inability to fit in the turbulent environment. Recent studies carried out in Kenya concentrated on business strategies in insurance industry and the petroleum industry. Kiptugen (2003) undertook a study on business strategies to the changing environment in GA insurance limited and established that changes in the environment has led to intense competition in the insurance industry through availability of substitute products. He established that the insurance industry has responded adequately to changes in the environment through re-organizing its organizational structure, improving its service delivery, developing new products and cultural transformation. Mwaura (2004) addressed environment as moderator of the relationship between business strategy and performance a case of Small and Medium Enterprises in Kenya. Ndungu (2002) undertook a study on an investigation of the relationship between human resources systems, business strategy implementation and performance.

As observed from the above, the studies conducted have focused attention more in business strategies in other sectors and there has been no study done specifically on strategic responses by banking organizations to competition in provision of retail banking services in Kenya. The study therefore sought to answer the question: What are the strategic responses by banking organizations to competition in provision of retail banking services in Kenya?

1.3 Research Objective

The research objective of this study was to establish the strategic responses by banking organizations to competition in provision of retail banking services in Kenya.

1.4 Value of the study

In a nutshell this study would assist in addressing issues relating to business strategy in response to changes in the business environment in which firms operate in, particularly in the following areas:

Policy makers at various levels of management would gain value added information on adapting business strategies in response to changing competitive environment. For instance, the managers responsible for strategy would use the findings to formulate effective monitoring and control systems to mitigate against the challenges while formulating and adopting business strategies.

Academics and business researchers would be able to borrow from the findings of this research to support literary citations as well as develop themes for further research. Specifically, the study hopes to make theoretical, practical and methodological contributions. The findings would contribute to professional extension of existing knowledge in business strategy management by helping to understand the current challenges for adopting strategy and their effects on environmental response in various organizations in general. The findings would also enable the business people to

understand how business strategy and structure relationship contributes to a firm's performance in a changing environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section draws on literature in the area of strategic response to changing business environment. Secondary material such as books, journals, and articles which carry previous research work on the study topic are analyzed. The material is of importance to this study as it forms a basis for observations which will be made during the study in line with the aims and objective of the study.

2.2 Theoretical Foundation

The study was based on the systems theory. This is a concept that originated from biology, economics, and engineering, which explores principles and laws that can be generalized across various systems (Yoon and Kuchinke, 2005; Alter, 2007). A system is a set of two or more elements where: the behavior of each element has an effect on the behavior of the whole; the behavior of the elements and their effects on the whole are interdependent; and while subgroups of the elements all have an effect on the behavior of the whole, none has an independent effect on it (Skyttner, 1996). In other words, a system comprises of subsystems whose interrelationships and interdependence move toward equilibrium within the larger system (Martinelli, 2001; Steele, 2003).

The concept of general systems theory (GST) is primarily concerned with how systems operate, and integrates a broad range of systems by naming and identifying patterns and processes common to all of them (Bausch, 2002). An important aspect of GST is the distinction between open and closed systems. All conventional models and theories of organizations typically embraced the closed systems approach to the study of

organizations by assuming that the main features of an organization are its internal elements. While closed systems approach consider the external environment and the organization's interaction with it, to be for the most part inconsequential, open systems approach views the organizations' interaction with the external environment as vital for organizational survival and success. In open systems, any change in any elements of the system causes changes in other elements (Wang, 2004). The lack of coordination between the organization and its external environment in closed systems inhibit the organization's capacity to import sufficient energy from its environment for sustenance.

Daniel Katz, (1954) and Robert, (1966, 1978) collaboratively viewed organizations as comprising of patterns of behavioral events. These patterns are interdependent, cyclical, and consistent over time, and must be understood in terms of their interaction with each other, and with the external environment. Indeed, Katz and Kahn summarize the idea of systems theory as a knowledge framework that focuses on structures, relationships, and interdependence between elements (Katz and Kahn, 1978). Since systems theory considers the input-throughput-output component and their interactions both within themselves and with the external environment, the elements of purpose, people, structure, techniques and information must be coordinated and integrated by the managerial system, in order to maximize value for the organization (Montouri, 2000). In open systems, the goal of transformation is to improve horizontal and vertical fit of the subsystems with each other, and within the organization. There must also be a fit between the organization and its external environment.

Therefore, the ability of organizations to change rapidly in response to intra and inter relationships is at the heart of an adaptive organization and the external environment is generally beyond the control of any organization and comprises of the competition, the economy, social-cultural-demographic factors, political legal- governmental aspects, technology, and the natural environment. Since organizations are complex systems, an implication is that the organization is able to learn from its environment and change its internal structure and its functioning over time, thus changing the behavior of individual elements (Sherif, 2006). These changes in environmental factors can lead to turbulence in the organization in response to rapid, unexpected change in the environmental (Sherif, 2006). Growth in environmental turbulence can be the result of a reduction of orderly competition, an increasing need for information, innovation, quicker cycles of development, and more difficulty in predicting customer, product and service requirements (Beeson and Davis, 2000).

2.3 Competitive Strategies

Hitt et al. (2003) holds that a winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and reengineering (Safford, 2005).

Njau (2000) argues that as managers push to improve on all fronts, they move further away from viable competitive positions. Michael Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match. According to Mintzberg et al (1998), there are five main and interrelated definitions of strategy: a plan, which involves some form of consciously-intended course of action which is created ahead of events; ploy, a maneuver to outwit an opponent; pattern, where after an event, an organization acts in a consistent manner over time; a position, which involves positioning the organization in order to achieve or maintain a sustainable competitive advantage. Therefore, firm strategic managers needs to work extra hard to ensure that they formulate or adopt strategies that will allow the firm to achieve competitive advantage by remaining ahead of the changing business environment.

2.4 Strategic Responses

According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of the stakeholders and value addition to the organization. Porter recommends three generic competitive strategies. These are cost leadership which aims at being efficient in production and operations to reduce costs by having controls in place, differentiation which means targeting different market segments and catering for each individually to gain maximum value, and thirdly focus

which involves concentrating on one particular market niche to position oneself in the market.

Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, more often than not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer satisfaction.

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage in the industry. He brings forward the five forces driving industry competition which are threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat from substitute products or services and rivalry among existing firms.

Porter (1980) believes that once these five forces have been identified clearly in a particular industry, a SWOT analysis of the firm should be done to determine the firm's competitive position in the industry. This will then enable the firm to decide which strategies to apply in order to combat the competition.

Johnson and Scholes (1997) postulate that organizational strategies exist at three levels: corporate level, business or competitive level and operating level. Corporate level strategies involve the overall structural scope of the organization while business level

strategies use strategic business units (SBU's) to compete successfully. Operational level strategies deal with internal procedures and standards.

The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, Porter (1980) points out that a diversification strategy stands apart from the other three strategies.

The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit, (Ansoff 1980).

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the

organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization.

Porter prescribes three generic competitive strategies. These are cost leadership, differentiation and focus. Cost leadership aims at being efficient in production and operations to reduce costs by having controls to this effect. Differentiation means targeting different market segments and catering for each individually to gain maximum value. Focus involves concentrating on one particular market niche to position oneself in the market.

Hill and Jones (1999), argue that focus strategy concentrates on serving a particular market niche, which can be defined geographically, or through the type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovative product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at

improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, more often than not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

2.5 Strategy and Environment

An elaboration of the concepts of strategy and environment into its objectives and perceived states, and by subdividing strategy according to content (outcomes) or process. The objective environment can be further categorized into “task” and “general”. An alternative subdivision of strategy is primary (domain selection) and secondary (competitive approach). The concepts of strategy and environment are integrated in that primary strategy concerns opportunities in the general environment and secondary strategy involves navigating within a task environment (Bourgeois, 2000). Until recently, the field of business strategy has been characterized by two types of literature. Normative works of several writers (Ansoff, 2000; Andrews, 2007; Ansoff, 2003; Katz, 2001) have typically instructed managers on how to formulate strategy by scanning the firm’s environment to seek opportunities that could be matched with the firm’s capabilities.

This instruction was typically followed by a primer on organization design and on the selection of “competitive weapons” and allocation of resources. Strategy content and environment have been joined empirically, but there has not been much work that joins the strategy formulation process and environment. One of the few examples of work that does so was a study by Khandwalla (2006), who found that when managers perceived the

environments of their firms as “rich in contingencies”, as when they are dynamic and uncertain, their strategies are likely to be more comprehensive or multifaceted. These results agree with those of Miles and Snow (2005) and Paine and Anderson (2004), which indicate that strategic managers in more uncertain environments tend to be more proactive and innovative and they tend to assume a higher degree of risk.

According to Porter (2002), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before.

Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

Ansoff (2000) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is

serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 2000). Systems delay typically occurs in large firms due, in part, to the time consumed in observing, interpreting, collating and transmitting information to responsible managers. In another part, it due to the time consumed by these managers in communicating with one another and establishing a common understanding as well as the time necessary for processing the decisions among the responsible groups and decision levels. A verification delay may be invoked because some managers will argue that, even though the level of impact has reached unacceptable proportions, there is never an ironclad assurance that the threat is real and that the impact is permanent. They will opt for waiting a little longer to see if the threat will 'blow itself out.'

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. One such strategy is the business turnaround strategy. A turnaround situation is one of pointing out to a new direction. It is a complete change in strategic direction of a firm after it has faced a business distress. Such a situation can easily lead to collapse of a company unless a plan of business survival and renewal is devised successfully executed. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into business crisis (Pearce and Robinson1997).

Bourgeois (2000) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because they take into consideration fundamental changes in the environment thus making firms proactive rather than reactive (Bukhszar, 1999).

Ohmae (2002) states that strategy has an important role in helping businesses position themselves in an industry. Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition (Ansoff, 2003). Ansoff (2003) also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Hofer and Schendel (2005) say that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over managed and others under-led. In this regard therefore it was necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methodology to be employed in the study. It discusses the research design, data collection and analysis and why they are the most preferred for the study.

3.2 Research Design

The study employed descriptive cross sectional survey design. The design was used to gather information on a population at a single point in time. This study was about establishing strategic responses by banking organizations to competition in provision of retail banking services in Kenya. It is therefore justified that a cross-sectional surveys was most suited in this study. Cross sectional survey are based on a single examination of a cross-section of population at one point in time. Additionally, high reliability is easy to obtain by presenting all subjects with a standardized stimulus which ensures that observer subjectivity is greatly eliminated (Mugenda and Mugenda, 1999). In this type of research study, either the entire population or a subset thereof is selected, and from these individuals, data are collected to help answer research questions of interest (Robson, 2002).

3.3 Data Collection

This study collected primary data from a target population of all the 43 commercial banks based in Nairobi County see appendix III. Target population in statistics is the specific population about which information is desired (Mugenda & Mugenda, 1999). The data was collected using an interview guide which were administered to respective head of

strategy in all commercial banks headquarters in Nairobi County. An interview guide was used as it enables oral administration of questions in a face-to-face encounter therefore allowing collection of in depth data.

This involved in-depth discussion through individual meetings with the senior managers. With unstructured questions, a respondent's response may give an insight to his feelings, background, hidden motivation, interests and decisions and give as much information as possible without holding back (Copper and Schindler, 2006).

3.4 Data Analysis

The qualitative data collected through a detailed questionnaire/interview guide was analyzed using conceptual content analysis technique. According to Mugenda and Mugenda (2003) the main purpose of conceptual content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. According to Kothari (2000), conceptual content analysis uses a set of categorization for making valid and replicable inferences from data to their context.

The responses from different respondents was compared and summarized according to the objectives of the study. Content analysis is the best method of analyzing the open-ended questions because of its flexibility and allows for objective, systematic and quantitative description of the content of communication (Cooper and Schindler, 2006).

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and discussions. The study objective was to establish the strategic responses by banking organizations to competition in provision of retail banking services in Kenya. Primary data was collected through in-depth interviews administered to respective head of strategy in all commercial banks headquarters in Nairobi County. The data was thereafter analyzed based on the objectives of the study and the findings are as presented as per the different classes underlined below.

4.2 Competition and response

4.2.1 Competitive environment

The study asked the interviewees how they viewed a competitive environment and obtained various responses. The interviewees' responded by explaining that a competitive environment of a business is the part of a company's external environment that consists of other firms trying to win customers in the same market. It is the segment of the industry that includes all immediate rivals.

This was meant to indicate their level of understanding of the issues that are fundamental in the functioning of the organization. The competitive environment, also known as the market structure, is the dynamic system in which the business competes.

4.2.2 Business environment in the last five years in provision of retail banking services in Kenya

There has been a lot of competition amongst industry players and the dynamic business environment means that for a company to do well financially, they had to outdo their rivals. The interviewees confirmed that in the banking industry, competitive environment has been based on the following elements. Customer products and services includes savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards superannuation, and travel and international payments, evening banking, largest 24-hour ATM network, Internet banking, e-statements, SMS banking and 24-hour Bills Pay service..

The study also established that retail banking also encompasses a wide variety of products and services, including: Checking and savings accounts where customers are generally charged a monthly fee for checking accounts; savings accounts offer slightly higher interest rates than checking accounts but generally cannot have checks written on them. Automobile financing where banks offer loans for new and used vehicles, as well as refinancing for existing car loans. Foreign currency and remittance services – the increase in cross-border banking transactions by retail clients, and the higher spreads on currencies paid by them, makes these services a profitable offering for retail banking. Retail banking clients may also be offered the following services, generally through another division or affiliate of the bank: Stock brokerage (discount and full-service), Insurance, Wealth management as well as Private banking.

4.2.3 Competitive environment in retail banking services in their respective banks

The interviewees were asked to describe the competitive environment in their respective banks. The respondents indicated that most of their organization's main competitive edge has been based on the huge un-bankable rural poor in Kenya as well as the most banks strong financial base and good reputation in the financial sector due to increased profitability. The respondents also indicated that the high and consistent customer service and product innovation promotes customer retention and business referrals therefore serving as an indicator of competitiveness in most banks. Equally the study established that the high staff retention and continuous capacity building through trainings of staff is an indicator of the company's competitiveness as an employer of choice in the industry.

4.2.4 Duration banks review response strategies adopted in provision of retail banking services

The study sought to find out the duration taken by banks to review response strategies adopted in provision of retail banking services. The respondents indicated that most banks review their response strategies quarterly after posting their quarterly financial performance.

The study also sought to know whether banks consider financial implications in choosing retail banking strategies. The study established that beyond the competitive variables, success in the new market may equally be determined by a number of other factors which remain in the background (and are taken for granted) so long as the firm confines its attention to retail banking markets. The respondents felt that financial implications in

terms of revenues and expenses are considered in the choice of the response strategies in which most bank uses.

The study also sought to establish whether banks have enough financial resources to implement retail banking response strategies. The respondents indicated that most organizations had enough financial resources from retained earnings, strong asset base and affiliation to lending institutions to implement their retail banking response strategies.

4.2.5 Competition from other players and business strategies

The respondents felt that to a large extent most banks considers competition on retail banking services from other players in the industry while formulating business strategies. While some respondents felt that some banks considered competition from other players in the industry to a moderate extent.

4.2.6 Factors influencing the adoption and implementation of retail banking strategies

The study aimed to establish factors influencing the adoption and implementation of retail banking strategies by financial institutions. The respondents indicated that organization's exists in the context of complex commercial, economic, technological, cultural and social world. The study established the following factors: The overall economic performance and industry growth, financial penetration in the market, company market share, products innovation and profitability, available skills and competencies, organization financial position to facilitate handling of its liabilities. The study also established that understanding of the historical and environmental effects, as well as

opportunities and other well exact threats to the organization is real and cannot be assumed or ignored. Strategy crafting is therefore largely influenced by top manager's perception of their organization's environment.

4.2.7 Management to implement the business strategies

The study aimed to establish whether banks had the appropriate and adequate management to implement the business strategies. The study established that all the necessary departments in the organizations are managed by a team of highly competent, experienced and knowledgeable managers who meets the regulator's requirements.

4.2.8 Changes in the external environment and response to business strategies in retail banking

Political, economic, social and technological analysis allows a company to identify and understand the broad general factors impacting upon it, such as legislation and social behavior of current or potential customers. The study in this area sought to identify the effect of these and several other changes in the external environment on the effectiveness of response to business strategies in the organization. According to the study the respondents indicated that economic changes pose the greatest effect on the effectiveness of the response to business strategies in retail banking in most banks. The study also established that social and cultural changes also affect the effectiveness of response to business strategies in retail banking in most banks.

4.2.9 Effects of changes in technology, economic downturn, and consumer behavior

The study sought to establish how banking organizations have been affected by the rapid change in the environment such as advances in technology and changing consumer

behaviour in retail banking services. The study established that technology has an influence on all aspects of business from the very general to the very specific. The advent of technology has made it easier for people to communicate with each other, whether they operate in the political, economic, social or general business arena. Communications technology takes the form of mobile phones, fax machines, video conferencing, the internet and the World Wide Web, and its key benefit is that staff are contactable all the time while at work, and should be able to contact customers and clients without having to return to an office. The respondent's noted that capabilities are a company's proficiency in combining people, process and technology which allow it to continually distinguish itself along the dimensions that are important to its customers. For example, in a high-tech industry, the ability to quickly develop new state-of-the-art products with features and performance that deliver value to customers creates an enduring advantage.

4.2.10 Financial and marketing problems in banking organizations

The study investigated the marketing problems encountered by independent banks emanating from banks set-ups, organization structure and legislation. The study reported that economic changes pose the greatest effect on the effectiveness of the response to business strategies in the organization and that social and cultural changes affects the effectiveness of response to business strategies in the organization hence affecting marketing activities.

4.2.11 Survival during a period of rapid business environmental change

The study aimed to establish how banks have been able to survive business environmental changes. The respondents identified several survival strategies that have

enabled their respective organization to compete more effectively with the changing business environment which are as follows: Focusing completely on satisfying the customers, studying the success of others, gathering and analyzing management information regularly, sharpening marketing skills, increasing the customer's perception of value and embracing change with a positive attitude. The study noted that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements.

4.2.12 Competition between local banks and foreign banks in provision of retail banking services in Kenya

The study aimed to establish how local banks compete between foreign banks in provision of retail banking services in Kenya. The study established that foreign banks possess comparative advantages in terms of a sound financial base and a better reputation than local banks. Given their plunging ability to remain competitive, local banks have gone an extra mile in developing products for the un-bankable rural poor in Kenya providing opportunities for access to financial services to the poor thereby raising their economic wellbeing and social development alike and on the other hand one could argue that financial institutions all over the world have not been able to produce very significant impact.

The study noted that provision of financial services to poor can thus be regarded as one of the main strategies and efforts by local banks while the foreign banks are reluctant to supply financial services to the poor considering higher costs and risk involved when transacting with the destitute. The study noted that by considering the impediments which

lie in the way of institutions in establishing their outreach or presence in all corners of the country, the government amended the Banking Act through the Finance Act, 2009, to permit institutions to contract third parties to provide certain retail banking services on their behalf in the manner prescribed by the central bank.

4.2.13 Weaknesses, strength, opportunities and threats in provision of retail banking services

The study identified the following strengths: The bank Board directors is responsible for the management of the bank's business. The board in addition to monitoring performance also carries out functions such as approving the business plan, reviewing and approving the annual budgets and borrowing limits and fixing exposure limits. Growing retail & SMEs thrust would lead to higher business growth. Strong economic growth generate higher demand for funds pursuant to higher retail demand for credit on account of capacity expansion. Continued effort to increase costless deposit ensure improvement in earnings.

The respondents observed main weaknesses within the banking industry were: Insufficient capital may restrict the growth prospects of banks going forward. Stiff competition, especially in the retail segment, could impact retail growth of most banks and hence slowdown in earnings growth. Contribution of retail credit to total bank credit is on the increase and a significant thrust on growing retail book poses higher credit risk to banks. Delay in technology upgrade could result in loss of market shares. Slowdown in domestic economy would pose a concern over credit off-take thereby impacting earnings growth.

The respondents mentioned some opportunities during the interviews. They mentioned new products development and regional expansion. The respondents observed that increased regulatory rules and compliance costs as well as to other pressures on their business models by further increasing fees and by steering unprofitable customers to other institutions as the main threats in the banking industry.

4.2.14 Central Bank of Kenya and banking organizations

The study established that Kenya Bankers Association (KBA) was registered as a Trade Union with the main aim catering for interests of the member banks in negotiating terms and conditions of service of its unionisable employees and as far as possible, standardize management practices so as to ensure harmony in the Industry.

Over time, the study established that the core function of the Association was to negotiate on behalf of employers with the union on labour matters changed to include promoting member banks' interests -- in the financial sector particularly and the economy generally -- by engaging the government and sector regulator, Central Bank of Kenya (CBK).

The further established that the Association has undertaken major initiatives towards the development of banking, including aligned standards for the industry; the Modernisation of the Payments Systems; and the Automated Clearing House, which it operates in conjunction with the Central Bank of Kenya. In line with the Government's Policy of Public Private Partnerships, the study noted that the Association works closely with the Regulator to ensure that Government initiatives and policies are implemented smoothly. Under this partnership, the Association and the Central Bank of Kenya have

been able to implement key milestone projects such as the Real Time Gross Settlement System, and the Currency Centre projects.

Through its close coordination and liaison with the CBK, the study noted that the Association established the Kenya Credit Information Sharing Initiative (KCISI) in August 2009. This unit operates under the ambit of the Association to coordinate the efforts of members to share credit information through Credit Reference Bureaus licensed by the CBK. Formal exchange of credit data among banks commenced with effect from August 2010. Through this initiative, the Association hopes to ensure that lenders make use of vital information on their debtors to differentiate between low and high risk borrowers. This will enhance credit risk management and eventually lead to granting of more favourable terms to low risk customers.

Among other key milestones is the recent implementation of a Cheque Truncation System. This system is expected to reduce the cost of clearing cheques as well as minimize the turn-around times for cheque clearing across the country while delivering a more efficient service to the banking public.

The study finally established that as the umbrella body of the commercial banks licensed under the Banking Act, with a current membership of 44 banks, KBA has endeavoured to reinforce a reputable and professional banking sector in a bid to best support Kenyans, who entrust their ambitions and hard-earned resources with its member banks. The banking system in Kenya is regulated by the Central Bank of Kenya (CBK) Act Cap 491 and the Banking Act Cap 488. These Acts are intended primarily to facilitate the development and maintenance of a sound monetary policy (GoK, 1989). The central issue

of interest by the central bank to the commercial banks is how best to promote access to the financial system by a wider segment of the Kenyan populace.

4.2.15 Future for retail banking in Kenya

Many banks in Kenya are putting in more efforts by trying to differentiate their products and services to suit and innovating more. Therefore banks are employing strategies by offering several services and products that are fruitful especially to retail bankers.

4.2.16 Challenges that the retail banking sector is currently facing in Kenya

New entrants to retail banking confront significant challenges even in a purely domestic environment, in particular due to economies of scale and network effects that apply to the industry. At low volumes and numbers of clients, new entrants suffer higher marginal and average costs. Retail banks firstly face challenges achieving profitability while financing the large fixed investments often needed in order to establish a service and acquire clients. Although the Internet has reduced the importance of having a local presence, branch networks continue to be important, and costly. Secondly, the study established that retail banks may be subject to important constraints on competition and innovation in the provision of payment services. A new entrant working through existing networks may be unable to diverge from established practices and pricing. But in seeking to introduce new payment instruments, they would face very significant challenges due to the strong network features of payment services and the market power of the existing collaborative payment organizations that dominate the country.

Too risky: the study noted that bankers perceive individuals with low income can cause a bad credit risks. This is because clients cannot repay their loans. The perception is that

clients with low income do not have stable, viable businesses for which for which to generate repayment. Moreover, these potential clients lack traditional collateral to guarantee their loans. Banks also do not appropriate technologies to serve these clientele i.e correct screening mechanisms to separate good from bad credit risks.

Heavy investment: Retail financial services require heavy investments in information technology and branch network IT systems represent significant fixed costs for retail banks. And the investments can be important even if a bank is serving just a small numbers of clients. IT systems have increasingly enabled banks and other financial services providers to automate processes for large volume standardized services, increasing the role of economies of scale. New entrants may need to acquire a large number of clients before they are able to break even while charging competitive market rates.

Branch networks are still important means of acquiring and serving clients, in particular for higher margin products for which clients still demand (or require) advice. And within a limited area, there may be increasing returns to branch network size – i.e. clients may be more inclined to choose a bank that has numerous branches in the areas in which they work and live. This will be costly for banks to initiate.

Client acquisition can be slow and expensive. Acquiring clients is expensive, both in terms of time and money. Marketing costs can represent a significant portion of total costs during the early stages of development for a new financial services provider. The quicker a critical mass of clients can be acquired, the sooner a new operator can break even. Hence many foreign expansion strategies are based on a ‘stepping-stone’ model,

building on existing networks or following other strategies associated with smaller up-front investments and lower risks; alternatively, expansion abroad is conducted through acquisition of an existing client base

Socio-economic and Cultural Barriers: According to bankers, micro and small enterprise clients have difficulty approaching a bank because they lack education and do not possess business records to demonstrate cash flow. In many developing countries, social, cultural, and language barriers do not allow for an easy relationship with a modern banking institution. It is hoped, however, that with a wider spread diffusion of innovations in financial methodologies, reducing the risks and costs of micro lending, more banks will begin to incorporate micro entrepreneurs into their portfolios.

Since the bank is facing too much competition from SACCOs, it has been forced to repackage its products and invest much on innovation. This has actually decreased there turns since most of it is used in capital investments. The bank has found out that socio-economic and cultural barriers have hindered their operations. While trying to serve the under banked, this market segment has difficulty.

4.3 Discussion of the findings

The study identified several survival strategies that have enabled the organization to compete more effectively with the changing business environment which includes: Focusing completely on satisfying the customers, studying and benchmarking with the success of others, gathering and analyzing management information regularly, sharpening marketing skills, increasing the customer's perception of value and embracing change with a positive attitude. The study findings are in line with Harker (1999) and Gardenne

(1998) that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements.

The study also found that changes in the external environment affect the effectiveness of response to business strategies in the organization. The findings are in line with Capon, (2008) that Political, economic, social and technological analysis allows a company to identify and understand the broad general external factors impacting upon it, such as legislation and social behavior of current or potential customers.

The study established the following factors influencing the adoption and implementation of business strategies by financial institutions: The respondents indicated that organization's exists in the context of complex commercial, economic, technological, cultural and social world. The study established the following factors: The overall economic performance and industry growth, financial penetration in the market, company market share, products innovation and profitability, available skills and competencies, organization financial position to facilitate handling of its liabilities. The study also established that understanding of the historical and environmental effects, as well as opportunities and other well exact threats to the organization is real and cannot be assumed or ignored. Strategy crafting is therefore largely influenced by top manager's perception of their organization's environment. This was emphasized by Mintzberg and Quinn, (1988) that every organization has a unique environment, even organization within the same industry have environments unique to them.

The study established that foreign banks possess comparative advantages in terms of a sound financial base and a better reputation than local banks. Given their plunging ability to remain competitive, local banks have gone an extra mile in developing products for the un-bankable rural poor in Kenya providing opportunities for access to financial services to the poor thereby raising their economic wellbeing and social development alike and on the other hand one could argue that financial institutions all over the world have not been able to produce very significant impact. Sharplin (1985) stressed that strategy management is applied for the purposes of moulding, directing and relating an organization effectively to its environment. Through their competitive activities, managers create the dynamics of an organization (Bukszar, 1999). These earlier findings were confirmed in this study.

The study the respondents indicated that economic changes pose the greatest effect on the effectiveness of the response to business strategies in retail banking in most banks. The study also established that social and cultural changes also affect the effectiveness of response to business strategies in retail banking in most banks. Political, economic, social and technological analysis allows a company to identify and understand the broad general factors impacting upon it, such as legislation and social behavior of current or potential customers. Analysis of the competitive environment considers the role of regulation and the factors driving competition (Capon, 2008).

The respondents identified several survival strategies that have enabled their respective organization to compete more effectively with the changing business environment which are as follows: Focusing completely on satisfying the customers, studying the success of

others, gathering and analyzing management information regularly, sharpening marketing skills, increasing the customer's perception of value and embracing change with a positive attitude. The study noted that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements. The study findings are in line with Harker (1999) and Gardenne (1998) that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, conclusions and recommendations of the study. This study focused on establishing the strategic responses by banking organizations to competition in provision of retail banking services in Kenya.

5.2 Summary of the findings

From the findings, competitive environment of a business is the part of a company's external environment that consists of other firms trying to win customers in the same market. It is the segment of the industry that includes all immediate rivals. This was meant to indicate their level of understanding of the issues that are fundamental in the functioning of the organization.

From the findings, there has been a lot of competition amongst industry players and the dynamic business environment means that for a company to do well financially, they had to outdo their rivals. The interviewees confirmed that in the banking industry, competitive environment has been based on the following elements. Customer products and services includes savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards superannuation, and travel and international payments, evening banking, largest 24-hour ATM network, Internet banking, e-statements, SMS banking and 24-hour Bills Pay service.

From the findings, the study established that most of their organization's main competitive edge has been based on the huge un-bankable rural poor in Kenya as well as the most banks strong financial base and good reputation in the financial sector due to

increased profitability. The respondents also indicated that the high and consistent customer service and product innovation promotes customer retention and business referrals therefore serving as an indicator of competitiveness in most banks. Equally the study established that the high staff retention and continuous capacity building through trainings of staff is an indicator of the company's competitiveness as an employer of choice in the industry.

From the findings, there is evidence of an existing management committee which reviews response strategies on monthly basis. The study found that cycle of the business review enhances the organizations speed and capability to put in mitigating strategies as well as reviewing the effectiveness of the business employed. The study reported that economic changes pose the greatest effect on the effectiveness of the response to business strategies in the organization and that social and cultural changes affects the effectiveness of response to business strategies in the organization hence affecting marketing activities.

From the findings, the study established that foreign banks possess comparative advantages in terms of a sound financial base and a better reputation than local banks. Given their plunging ability to remain competitive, local banks have gone an extra mile in developing products for the un-bankable rural poor in Kenya providing opportunities for access to financial services to the poor thereby raising their economic wellbeing and social development alike and on the other hand one could argue that financial institutions all over the world have not been able to produce very significant impact.

From the findings, the study established that all the necessary departments in the organizations are managed by a team of highly competent, experienced and

knowledgeable managers who meets the regulator's requirements. The study established that technology has an influence on all aspects of business from the very general to the very specific. The advent of technology has made it easier for people to communicate with each other, whether they operate in the political, economic, social or general business arena. Communications technology takes the form of mobile phones, fax machines, video conferencing, the internet and the World Wide Web, and its key benefit is that staff are contactable all the time while at work, and should be able to contact customers and clients without having to return to an office. The respondent's noted that capabilities are a company's proficiency in combining people, process and technology which allow it to continually distinguish itself along the dimensions that are important to its customers. For example, in a high-tech industry, the ability to quickly develop new state-of-the-art products with features and performance that deliver value to customers creates an enduring advantage.

From the findings, The respondents identified several survival strategies that have enabled their respective organization to compete more effectively with the changing business environment which are as follows: Focusing completely on satisfying the customers, studying the success of others, gathering and analyzing management information regularly, sharpening marketing skills, increasing the customer's perception of value and embracing change with a positive attitude. The study noted that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements.

The study also found that Kenya Bankers Association (KBA) was registered as a Trade Union with the main aim catering for interests of the member banks in negotiating terms and conditions of service of its unionisable employees and as far as possible, standardize management practices so as to ensure harmony in the Industry. Over time, the study established that the core function of the Association was to negotiate on behalf of employers with the union on labour matters changed to include promoting member banks' interests -- in the financial sector particularly and the economy generally -- by engaging the government and sector regulator, Central Bank of Kenya (CBK).

Finally the study established that new entrants to retail banking confront significant challenges even in a purely domestic environment, in particular due to economies of scale and network effects that apply to the industry. Retail banks face challenge of achieving profitability while financing the large fixed investments often needed in order to establish a service and acquire clients.

5.3 Conclusion

This study focused on establishing the strategic responses by banking organizations to competition in provision of retail banking services in Kenya. In line with the findings the following conclusions are drawn; Financial implications is a major consideration while formulating and implementing the choice of strategies adopted by financial institutions while financial resources are determinant in implementation of response strategies. However other factors like finance, competence, creativity, speed cost implication, sustainability of strategies, human capital, technological advancement customer expectations and internal strength and capacity to implement strategies, all influence the adoption and implementation business strategies to some moderate extent.

Challenges in implementation of the business strategies range from involvement of valuable knowledge, supportive implementation instruments, resource constraints, problem with original technique, organization culture, poor monitoring and evaluation of performance, poor management and leadership.

5.4 Recommendations

The study recommends that business strategies in response to changing business environment should involve managers in the formulation of such strategies and give them adequate decision making authority in the implementation of the respective response strategies. The study also recommends that all the stakeholders in the banking industry should incorporate the findings of this study, especially on strategic response to changing business environment.

5.5 Implication on policy and practice

Some of the findings in this study call for a review in some of the policies and practices in the banking industry so as to take advantage of the business strategies as one way of responding to the environment within which banks operate in. Policy formulation and implementation needs to be reviewed to support business strategies among all other strategies adopted. This may call on banking institutions to adopt practices that place the various strategies in certain specific departments or managers. The practices adopted should be flexible to accommodate more business strategies in addition to all other strategic plans.

Organizational policies need to be appraised to recognize and direct review of strategies at specific intervals depending on the business undertaken. In the case of financial

institutions, retail banking strategies should be reviewed on quarterly basis considering that banks operates in a very dynamic and fast moving environment dictated by both the fast changing customer needs and maneuvers from the competition. Organizations may need to consider coming up with specific budgets to support and carry out both retail and corporate strategies. In this way, focus will be given to all the strategies without overlooking any.

5.6 Suggestion for Further Research

To augment the results of this study, the study recommends that another study should be done to investigate factors that influence volatility of business environment in the banking industry. This will be in a bid to understand the factors well for strategy and policy formulation.

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APPENDIX I: INTERVIEW SCHEDULE

- 1 Could you please explain how you view a competitive environment?
- 2 From your description above, can you describe the business environment in the last five years in provision of retail banking services in Kenya?
- 3 How would you describe the competitive environment in retail banking services in your organization?
- 4 How often do you review response strategies adopted by your organization in provision of retail banking services?
- 5 Do you consider the financial implications in choosing retail banking strategies?
- 6 Does your company have enough financial resources to implement retail banking response strategies?
- 7 Does your company consider the competition on retail banking services from other players in the industry before formulating business strategies?
- 8 What major factors influence the adoption and implementation of retail banking strategies in your organization?
- 9 Does your company have appropriate and adequate management to implement the business strategies?
- 10 What are the changes in the external environment that affect the effectiveness of response to business strategies in retail banking in the organization?
- 11 Can you explain how your organization has been affected by the rapid change in the environment such as advances in technology and changing consumer behaviour in retail banking services?

- 12 How serious have you experienced financial and marketing problems in your organization?
- 13 Could you please explain how you have managed to survive in provision of retail banking services during a period of rapid business environmental change?
- 14 In your opinion, how can local banks compete with foreign banks in provision of retail banking services in Kenya?
- 15 What are the weaknesses, strength, opportunities and threats in provision of retail banking services in your organization?.
- 16 Please explain how the Central Bank of Kenya can help banking organizations to survive and succeed?
- 17 What do you think about the future for retail banking in Kenya?
- 18 What are some of the challenges that the retail banking sector in the banking industry is currently facing in Kenya?

APPENDIX II: LIST OF COMMERCIAL BANKS

1. Barclays Bank
2. CFC Stanbic Holdings
3. Chase bank
4. Citi Bank
5. Commercial Bank of Africa
6. Consolidated Bank of Kenya
7. Co-operative Bank of Kenya
8. Diamond Trust Bank Kenya
9. Equatorial Commercial Bank
10. Equity Bank
11. Fina Bank
12. Guardian Bank
13. Kenya Commercial Bank
14. K-Rep Bank
15. National Bank of Kenya
16. NIC Bank Ltd
17. Oriental Commercial Bank
18. Standard Chartered Bank
19. Transnational Bank
20. African Banking Corporation Ltd
21. Bank of Africa Kenya Ltd.
22. Bank of Baroda (K) Ltd.

23. Bank of India
24. Charter House Bank Ltd
25. Credit Bank Ltd
26. Development Bank of Kenya Ltd
27. Dubai Bank of Kenya ltd
28. Eco Bank of Kenya Ltd
29. Family Bank of Kenya Ltd
30. Fidelity Commercial Bank ltd
31. First Community Bank Limited
32. Giro Commercial Bank Ltd
33. Gulf African Bank Ltd
34. Habib Bank A.G Zurich
35. Habib Bank Ltd
36. Imperial Bank Ltd
37. I & M Bank Ltd
38. Jamii Bora Bank Ltd
39. Middle East Bank (K) Ltd
40. Paramount Universal Bank Ltd
41. Prime Bank Ltd
42. Victoria Commercial Bank Ltd
43. UBA Kenya Bank Ltd

SOURCE: CENTRAL BANK, (2014)