THE EFFECTS OF DISTRIBUTION CHANNEL SYSTEMS ON THE ACHIEVEMENT OF SUSTAINABLE COMPETITIVE ADVANTAGE AMONG COMMERCIAL BANKS IN KENYA

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REG: D61/81596/2012

RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENT OF MASTERS IN BUSINESS ADMINISTRATION

UNIVERSITY OF NAIROBI

2014

DECLARATION

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

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The project has been submitted for presentation with our approval as the University Supervisor

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Chairman

ACKNOWLEDGEMENTS

I would like to thank my husband Mr. Atuto Angána for his encouragement and support he offered. It was his hard work as my acting research assistant that ensure that data collection was finalized in time.

My Supervisor Dr. Raymond Musyoka who kept on guiding me throughout this journey and was most helpful in scrutinizing the research study to this level.

My many friends, individuals in commercial banks under study, and co-workers who supported me in data collection and analysis.

DEDICATION

This project is dedicated to my husband Gilbert Angana for his love, support and encouragement during the entire course duration. I also dedicate to my children Gilbert O. junior and Alicia Imani as this will be a motivation for hard work as they grow up. To my parents Mr. Mwatu Mutie Manthi and Ann Muvoye Mulwa for they instilled in me the value of discipline and hard work and their sacrifice in educating me.

Above all to the almighty God who has given me the strength throughout my life and has seen me to where I am today and who I am. His grace and mercies have been sufficient and I give him all glory and honor.

ABSTRACT

The purpose of the study was to investigate the effects of distribution channels on sustainable competitive advantage of commercial banks in Kenya. The study was guided by the following objective: To find the effects of distribution channels systems on the achievement of sustainable competitive advantage among commercial banks in Kenya. To meet the above objective, the research design used was descriptive survey. The target population was 44 commercial banks in Kenya as registered under the Central Bank of Kenya. Random sampling was used to select the commercial banks to participate in the study. Both secondary and primary data was collected and analysed. Secondary data was collected through internet, articles, reports and professional information while primary data was collected through a detailed questionnaire comprised of four sections filled by marketing managers. In administering the questionnaires, the respondents were contacted by mail, or drop and pick later method. The researcher sent an introductory letter on email to 20 commercial banks and the questionnaires were delivered to respective 20 commercial banks by point men of the researcher and 17 fully filled questionnaires were collected back for analysis. Data analysis involved preparation of the collected data - coding, editing and cleaning of data in readiness for processing using Statistical Package for Social Sciences (SPSS) package. Qualitative data was analysed using content analysis. To better understand the characteristic of each variable, descriptive statistical analysis was used to illustrate the means, and the standard deviation of each research variable. Presentation of information was done with the aid of frequency tables, percentages, standard deviations and mean scores. The information was presented and discussed as per the objective. Findings indicate that the indeed distribution channels have a positive effect to sustainable competitive advantage of commercial banks in Kenya. The key areas mentioned include as competitive advantage are; customer growth, customer retention and loyalty and improve efficiency and service delivery. Based on the findings of this study, it's recommended that the stakeholders (who include marketing managers, commercial banks top management and technical teams) adopt distribution channel systems that are user friendly to the various market segments and should also create awareness by training their customers on how to protect their secret codes when using their various channels available.

ABBREVIATIONS

ATM- Automated Teller Machine

CBA- Commercial Bank of Africa

DCS- Distribution Channel systems

ICT- Information Communications Technology

SCA- Sustainable Competitive Advantage

PC- Personal Computer

USA- United States of America

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CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Distribution in financial services marketing is concerned with how the service is delivered to the consumer, making sure that it is available in a place, at a time and in a format that is appropriate and convenient for the customer. The nature and types of financial services provided to customers and the ways in which they are provided vary considerably across countries as a consequence of different institutional and regulatory structures. Notwithstanding these countries specific differences, there are many aspects of financial services marketing worldwide which point to a series of common drivers of change and development. In a growing number of countries, the expansion of the financial services sector has been accompanied by a significant blurring of lines between different institutional types. As a consequence, individual organization can no longer claim a distinctive market position based on the products they offer. Rather, they have had to rely on growing their understanding of customers and being responsive to their needs Ennew and ChaKrabathy (2007)

As businesses and governments look to the future, they would do well to remember that executing on their existing strategy may no longer be good enough. They must think more deeply about the opportunities and risks presented by the evolving trends, and the driving forces behind them. With a different mindset, they can re-imagine what is possible, discovering what they can do that is new, and how best to do it.

Global economies are so tightly interconnected that companies, governments and industries will soon be forced to cooperate in ways we could not have imagined just a few years ago. Ernst & Young believe that there are six trends which are connected by three underlying drivers that have helped establish each trend and perpetuate it. The first driver is demographic shifts which are manifested by population growth, increased urbanization, a widening divide between countries with youthful and quickly aging populations and a rapidly growing middle class are reshaping not only the business world, but also society as a whole. Secondly there is reshaped global power structure in that the world recovers from the worst recession in decades, the rise of relationships between the public and private sector has shifted the balance of global power faster than most could have imagined just a few years ago. The third driver is Disruptive innovation. Innovations in technology continue to have massive effects on business and society. We're now seeing emerging markets become hotbeds of innovation, especially in efforts to reach the growing middle class and low-income consumers around the globe.

In recent years, the adoption of e-banking began to occur quite extensively as a channel of distribution for financial services due to rapid advances in IT and intensive competitive banking markets (Mahdi and Mehrdad, 2010). The driving forces behind the rapid transformation of banks are influential changes in the economic environment include among others innovations in information technology, innovations in financial products, liberalization and consolidation of financial markets, deregulation of financial inter-mediation.

These trends change the ways in which businesses operate, grow and compete. The last two decades have changed the way business is getting conducted. Some businesses are still using traditional channel systems but advent of the Internet has revolutionized distribution channels. Companies are changing business models to leverage Internet advantage. With open proliferation of information, customer expectations are reaching new heights. Companies need to figure out the right channel mix with multi channels' strategies. The marketing channel is one of the key drivers for strategies around the marketing mix that is product, price, place and promotion.

Retail banks should identify profitable customer segments attracted to branch banking, telephone banking, PC banking and internet banking or combination of this, this is according to the rational planning model (Stern et al,2006). They have to decide which distribution channels they want to offer their present and future customers. They need to predict both customer acceptance of these distribution channels and the dominating distribution channels strategies of their competitors. (Stern et al, 2006) also observes that the problems of the retail banks are even more complex because the different distribution channels have different cost structures and different degree of face to face interaction. This creates an inter relationship of distribution channel strategy and other elements of the banks marketing mix, such as pricing, level of personal service and the array of services offered. Hence banks should be able to identify appropriate distribution strategies that will give them necessary competitive advantage.

1.1.1. Sustainable Competitive Advantage

Competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter 1980). The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player (Barney 1991).

Competitive advantage is the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership. Also it provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage. (Powell 2001) views business strategy as the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique resources that has the ability to create such a unique advantage. Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market. Superior performance being the ultimate desired goal of a firm, competitive advantage becomes the foundation highlighting the significant importance to develop same.

1.1.2. The concept of distribution channel systems

A key area of strategic importance for retail banks is distribution channel management (Capgemini et al., 2008). Fundamentally, a distribution channel can be described as any delivery method through which a bank can provide services to customers. Each individual bank typically operates an array of distribution channels, collectively termed the bank's multi-channel mix. Across the multi-channel mix, those channels that do not involve physical face-to-face contact with bank staff members have been called 'direct channels.' Examples of the most commonly employed direct channels include: call centers, web banking, direct mail, and automated teller machines.

Historically, banks have actively sought to migrate simple transactions, products and services away from tellers towards direct channels. This global trend has been driven by a combination of three underlying forces. Firstly, migration towards direct channels represents a cost saving opportunity for banks, particularly migration towards web banking (Peppard, 2000). Secondly, the migration of simple, low-value activities away from in-branch tellers, allows staff to focus instead on the sale of high-value products and services. Thirdly, direct channels have the potential to offer customers enhanced levels of service and convenience (Peppard, 2000). As a result, most clicks and mortar banks must now manage innovation across a broad range of both direct and indirect distribution channels.

Alternative delivery channels can dramatically reduce costs and greatly expand outreach of financial services to the poor. These channels help in customer acquisition and retention as they penetrate into new markets and also service hard to reach areas. They also provide product diversification by offering valuable products in an efficient way and thus increasing profitability. They support operational efficiency by reducing congestion and hence maximizing efficiency of branch staff.

Globalization of markets is a phenomenon that has received much attention and been extensively debated both at the general societal, institutional/cultural levels and at market and business levels. In any globalization process, distribution of goods and services between and within local industrial and consumer markets is of great importance. Globalization of markets and reorganization of distribution are mutually dependent processes that involve changes in market structures. Distribution excellence has become a powerful source of competitive differentiation. In the 1980's and 1990's at USA, companies began to view distribution channels as more than simply a source of cost savings and recognize it as a source of enhancing products or serve offerings.

1.1.3. Banking Industry

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

For the quarter ended June 30,2012 the sector comprised of forty three commercial banks, one mortgage finance company, six deposit taking microfinance institutions , five representative of foreign banks, one hundred and fifteen foreign exchange bureaus and two credit reference bureaus. The Kenyan banking sector continued on a growth trajectory with the size of the assets standing at Ksh. 2.2 trillion, loans and advances worth Ksh. 1.3 trillion while the deposit base was Ksh. 1.7 trillion and profit before tax of Ksh. 53.2 billion as at 30th June 2012. During the same period the number of bank customer deposit and loan accounts stood at Ksh. 14,893,628 and Ksh. 2,051,658 respectively. (Central Bank of Kenya, 2012)

Stress test conducted by the Central Bank of Kenya indicated that the sector remains sound and resilient. It is noteworthy that the financial sector is developing and deepening faster than the overall economy. It grew by 9.0 percent in 2010 and 7.8 percent. As at 30th June 2012, there were ten commercial banks that had contracted 12,054 active agents facilitating over 18.7 million transactions valued at Ksh. 93.1 billion. This was an increase from 8 banks that had contracted 10,006 agents facilitating over 13 million transactions valued at 64.8 billion in March 2012.

The challenge today for banks is to move from a retail model that emphasizes transaction processing and operational capabilities to one that focuses more effectively on the needs of customers, recognizing that they often vary across segments. In an endeavour to optimize services and diminish costs, banks are regularly migrating towards a twenty four hour service where clients are enjoying the superior sense of independence that this creates. Accessibility is the central pillar as customers demand instant access to deposits, loans and status of their account. In an effort to drive even superior differentiation from the competition, financial services organizations are currently exploring alternative banking channels. The global banking industry has revolutionized over the past three decades by an onslaught of latest technologies in addition to an extensive change in the rules governing the application of this technology (Saxena, 2010). Therefore many banks have began adapting their delivery channels and shifting from frontal individual service to direct sales and marketing through email, phone and other electronic transactions. The broad understanding is that this generates value both for banks and its customers (Valluri, 2012).

1.2. Research problems

The development of various technology-enabled modes of financial service distribution has reduced the importance of traditional branch network as a direct channel of distribution in many developed and developing country markets. Whilst in the past various studies highlighted the importance of branch location as primary in consumer choice of retail banks, recent research suggests that this may no longer be such important predictor of buyer behavior (Devlin 2004).

Retail banks are under pressure to improve their quality of service, while also reducing costs to remain competitive in an extremely volatile and uncertain market. Improving customer service is imperative for banks in the current market and economic scenario, where product and price no longer provide a clear competitive edge. Distribution channels play a key role in delivering an enhanced customer experience as customer interactions begin and end with channels. Banking customers are increasingly expecting more convenience, accessibility, personalization and reliability across distribution channels network. Banks need to deliver these features by leveraging innovative technologies and solutions for a seamless and personalized experience. There is a clear demand for banks to invest in their channel networks to make them more customers' centric and user-friendly, while in the process improving the channel efficiencies for better return on investments and increased profitability.

The growing customer complains of traditional banking channels, supported by changing customers demand for quick service patterns, and has resulted in need for a role transformation of traditional channels such as branches. Though customers continue to see that branches as an important for carrying out financial transactions, they expect their role to gradually evolve to one which focuses on providing more advisory and relationship based services. The issues related to queue management and waiting times across traditional channels such as the branches and call centers are key to warrant a change in service delivery by commercial banks if they are to remain competitive and successful noting that a number of Mobile network Operators (MNOs) have come to take a big share of the financial sector.

Little research has been done on the area of distribution channels and sustainable competitive advantage from the banks perspective with most studies dwelling on the customer's perspective, Wan, Luk and Chow (2004) studied the customers' adoption of banking channels in Hong Kong.

The study sought to investigate factors that influenced Hong Kong banks customers' adoption of four major banking channels; branch banking, ATM, telephone banking and internet. Specifically, it aimed at focusing on the influences of demographic variables and psychological beliefs about the positive attributes possessed by the channels. In Denmark, Katz and Aspeden (2007) found out that the internet banking customers are similar to PC segment. Locally, Nyangosi, Arora and Singh (2009) considered Kenyan banks as being at initial stages of adopting technology to users. Ouma's (2012) study on electronic banking adoption by Kenyan commercial banks found that the usage of e-banking was high with full utilization by customers in major commercial banks, the study however focused on mobile banking, ATM and internet banking, not all the distribution channels systems which is the focus of this study. This study seeks to find the effects of these distribution channels systems on achievement of sustainable competitive advantage among commercial banks in Kenya. Distribution channels systems are being introduced to banks thanks to technological innovation at alarming rate and thus this leads to our research question what is the effect of distribution channels systems on the achievement of sustainable competitive advantage among commercial banks in Kenya.

1.3. Objectives of the study

This study aims to find the effects of distribution channels systems on the achievement of sustainable competitive advantage among commercial banks in Kenya.

1.4. Value of the study

The study is useful to commercial banks in Kenya as the banks can evaluate how effective distribution channels are to their operations and for those who have not adopted them they can consider introducing the same and for those who have the various distribution channels they will be able to identify better ways of innovating this distribution channels to better serve their customers and to increase their market share.

This study will benefit the government and especially the Ministry of Finance for making policy decisions whose overall objectives are to reduce bottlenecks in distribution of banking services and at the same time accelerate the rate of growth in the banking industry sector and take advantage of the improved economy thus more lending to individuals and institutions.

To the scholars, the study is value-added to the existing body of knowledge as it recommends ways for improvement of financial performance by leveraging on technology innovations. Nevertheless, this study serves as a stepping stone for newer research on distribution channels.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This section contains literature review drawn from past studies and arguments related to the factors influencing distribution channels in the banking industry. It covers the distribution strategies in the banking sector, sustainable competitive advantage and the effects of the distributions channels in the achievement of sustainable competitive advantage among commercial banks in Kenya.

2.2. Distribution strategies in the banking sector

The economic distribution channel theory posit that the normative distribution channel can be determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Stem and Sturdivant, 1987). Thus it is imperative that business units establish an appropriate distribution system that is most efficient in meeting the customers' wants. Thus, an economic distribution channel model takes a customer's perspective, analyses the output from the commercial part of the different distribution channels and relates it to the customers' costs and benefits from the different levels of service output offered by the available distribution channels.

According to Frei et al., (2007), the interaction between the adoption and promotion of electronic channels by the banks and the changes in the customer segments is input to a change process where the structure of the distribution channel is adapted to the new environment. However, they note that this is not likely to happen overnight because of barriers and temporal constraints. For example, some banks will have invested in a huge branch network, which will be of no use if all or most of its customers want to switch to an electronic channel, and the customers will be tied to their present bank and its distribution channel because of habits, and perceived social, psychological and financial risks associated with switching banks. Besides, they will have to spend time searching and evaluating alternative banks in order to find a more suitable bank. Therefore, the existing distribution strategy will also influence the changes in the distribution channel structure. The change process will end when the new distribution strategy is the normative distribution channel (Bucklin, 1996).

Several different distribution channels are used by the retail banks. They offer their services through branch networks, automatic teller machines, the telephone and PC Internet-based home banking systems. Also channels such as car dealers, mobile branches (buses), and retailers are used for distributing bank services.

2.3. Competitive Advantage

Scholars who adhere to a resource-based view of the firm believe that resources contribute to competitive advantage but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources. Barney (1991) observes that particular combinations of these resources deliver a particular type of competitive advantage. He suggested that not all of a firm's resources hold the potential to deliver a competitive advantage. Rather, the firms resources must possess the attributes of rareness, value, the inability to be imitated and inability to be substituted if a SCA is to be realized. However, in the real world of business, it is unlikely that all firms will have the capacity to possess or access all the resources that satisfy Barney's (1991) conditions. In addition, firms may not have the capacity to utilize these resources in the right combination even if they were accessed in an appropriate manner. On his part, Oliver 1997), argues that both resources and institutional capital are indispensable to creating SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

Competitive advantage is the ability of a firm to earn returns on investment consistently above the average for the industry (Porter, 1985). On his part, Barney (1991) observed that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. According to Meso and Smith (2000), sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of sustainable competitive advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating a SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

2.4. Distribution Strategies and Competitive Advantage

Promotion and distribution strategies play a crucial role in the launch of new products to the market. Distribution is crucial in the eventual acceptance and sales of a new product in the market as it determines the availability of the new product to customers. Distribution decisions are far reaching because changing them is both resource and time demanding and hence firms have to take great care in designing their distribution systems during the launch of innovations (Stem and Sturdivant, 1987). As distribution strategy plays a role in enabling the availability and application of the product in the marketplace, therefore the distribution strategy employed by the organization would impact the nature of "market support" capability that can be provided to the innovation.

Accordingly, the focal point in channel management when taking innovations to the marketplace would be the planning and implementation of positive consumer experiences through selection of channel mix, retail training in terms of physical stores, enriching experience at customer touch points, value-added services and consumer research would provide long term competitive advantage for the firm. In addition, value chain management would focus on partnering with up-stream and down-stream activities for efficiency enhancement and cost control.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

Zikmund, Babin, Carr and Griffin (2010) describe a research methodology as a part that must explain technical procedures in a manner appropriate for the audience. It achieves this by addressing the research and sample designs used for the study, the data collection and fieldwork conducted for the study and the analysis done to the collected data. Dawson (2009) states that research methodology are the philosophy or general principle which guides research.

3.2. Research Design

Miller and Yang (2008) and Kothari (2004) describe a research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Kothari (2004) states that research designs facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible, yielding maximal information with minimal expenditure of effort, time and money.

This study used descriptive research design. According to Lavrakas (2008) descriptive survey research design is a systematic research method for collecting data from representative sample of individuals using instruments composed of closed-ended and/or open-ended questions, observations and interviews. It is one of the most widely used non-experimental research design across disciplines to collect large amounts of survey data from representative sample of individual's sampled from the targeted population.

3.3. Population of the study

According to Zikmund et al. (2010) and Kothari (2004), a population refers to all items in any field of inquiry and is also known as the 'universe'. The population for this study was the 44 licensed commercial banks in Kenya. The target population was the top marketing managers of the various commercial banks.

3.4. Sample of the study

Polit and Beck (2003), strongly recommend that it is more practical and less costly to collect data from a sample than from the entire population. The study adopted a purposive random sampling procedure that identified the sample units. Lavrakas (2008) states that a purposive sample also referred to as judgmental or expert sample is a type of non-probability sample. The main objective of purposive sample was to produce a sample that can be logically assumed to be representative of the population. The method was appropriate since the population of study was homogenous. Mugenda and Mugenda (2003) argue that if well chosen, samples of about 20% of a population can often give good reliability. The sample included the 13 listed commercial banks in Kenya which represents a sample of 30% of the population which was above the minimum and gave sufficient information to support generalisation of the results since the commercial banks operations in Kenya as guided by the Central Bank of Kenya are guided under similar framework and have similar operational models.

3.5. Data Collection

To achieve the objectives of the study both primary and secondary data were collected. The secondary data was obtained from archived sources such as published material, journals, and internet sources while primary data was collected by use of questionnaire which had both open and close ended questions. Mugenda and Mugenda (2003) and Kothari (2004) define a questionnaire as a document that consists of a number of questions printed or typed in a definite order on a form or set of forms.

Kothari (2004) defines secondary data as data that is already available, referring to the data which have already been collected and analyzed by someone else. This secondary data was collected from the Central Bank of Kenya and annual reports of the banks.

To improve validity of the study the questionnaire was sent to selected academicians as well as 5 randomly selected banks for perusal and to assess the structure, length, and appropriateness of the questions used.

The purpose of this initial test was to obtain a feedback on the clarity of the questions and the suitability of it eliciting the expected responses so as to make adjustments. After the pre-testing of the questionnaire, modifications such as making question 1 optional, removing some of the questions presented in the proposal in part 1 and having part 2 to 4 represent the objective of the study, were made in the questionnaire to reduce the possibility of ambiguity of some of the questions before delivering them to the respondents. At the end of the exercise, the items in the questionnaires were considered to be satisfactory in terms of both wording and format.

3.6. Data Analysis

Marshall and Rossman (1999), data analysis is the process of bringing order, structure and interpretation to the mass of collected data. The collected data from the questionnaire and secondary sources was systematically organized in a manner to facilitate analysis. Data analysis involved preparation of the collected data - coding, editing and cleaning of data in readiness for processing using Statistical Package for Social Sciences (SPSS) package. The coded data was keyed into the SPSS program where they were developed into a database and hence analyzed. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. Computation of frequencies in tables was used in data presentation.

3.7. Ethical Considerations in the Study

Ethical considerations are important in research. The researcher explained the purpose of the study and that the records will be used solely for this research and not for any other purpose.

The respondents were therefore asked to provide information voluntarily and at their own consent. They were also asked if their names, sex and bank name could be included in the research document for them to give their consent.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

This section undertakes to present the quantification of the primary data collected based on the responses of marketing managers of selected banks as well as the interpretation of results of the analysis of the data. The information is presented and discussed as per the objectives and research questions of the study.

4.1. Response Rate and descriptive Statistics

The questionnaire comprised of four sections. The questionnaire section one comprised of introductory mostly optional questions on name of organization & a multiple choice question on experience of respondent in banking. Section two comprises of list of channels for respondents to choose the ones that exist in their banks. Section three comprises of explanatory questions on customer acquisition relationship with the banks channels. Section four comprises of scale questions based on the frequency of use of different services available through the banks channels. The purpose of asking these questions in part two and four was to know the effects of the distribution channels on the achievement of sustainable competitive advantage in the banks. This information would provide further insight as to the importance of channels to customer acquisition and retention (Part three).

Out of the 20 questionnaires that were sent out, 17 were returned completed with valid responses which represents 85% response rate and is within the sample size for analysis. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out.

The questionnaire was developed based on the objective of the study. The process of administration was the personal delivery and email, which allowed for a one-on -one approach in delivery of questionnaires and feedback on possible collection date or time.

Correlation statistical technique was used to show whether and how strongly pairs of independent and dependent variables are related. The results show that all the correlation coefficients are positive. The highest correlation of 0.619 exists in ATMs, while the least correlation coefficient of 0.377 exists in e-statements. The conclusion therefore is that each of the distribution channels under study is distinct from the others and is likely to impact positively on achievement of sustainable competitive advantage on the banks.

4.2. Results and Discussion

The findings of this study indicate that commercial banks distribution channels systems and its robustness are key to their sustainable competitive advantage and that marketing managers have to devote more time on creating awareness of their banks channels and services offered through the channels which are the key to customer acquisition and retention. Details of the findings are as per the questionnaire and objectives.

4.2.1. Most popularly used distribution channels among customers.

The respondents were asked to indicate the extent to which they agreed/disagreed that each of the listed distribution channels is popular with customers in their organization by ranking the factors on a five point scale as shown in Table 4.1. The responses are summarized and presented in Table 4.1 (where: SD = Strongly Disagree; D = Disagree; SHA: Somehow Agree; A = Agree; SA = Strongly Agree). Findings of the study as presented in the Table indicate as follows:

Internet Banking: Findings indicate that the respondents (6%) either agreed or strongly agreed. Mobile Banking: The respondents (23%) either agreed or strongly agreed. Agent Banking: The respondents (12%) either agreed or strongly agreed. ATMs: Majority of the respondents (53%) either agreed or strongly agreed. Cards: The respondents (18%) either agreed or strongly agreed. E-statements: None of the respondents (0%) either agreed or strongly agreed.

Table 4.1: Most popularly used distribution channels among customers

Distribution channels		SD	D	SHA	A	SA	Mean score	Std. deviation
Internet Banking	Frequency	1	8	7	1	0	3.33	1.213
	Percentage	5.8	47.1	41.1	5.8	0.00		
Mobile Banking	Frequency	1	1	11	3	1	3.57	1.135
	Percentage	5.8	5.8	64.7	17.6	5.8		
Agent Banking	Frequency	2	5	8	2	0	3.38	1.269
	Percentage	11.7	29.4	47.1	11.7	0.0		
ATM	Frequency	0	3	5	2	7	3.83	1.085
	Percentage	0	17.6	29.4	11.7	41.2		
Cards [Prepaid & Credit]	Frequency	2	5	7	2	1	3.47	1.252
	Percentage	11.7	29.4	41.2	11.7	5.8		
E-statement	Frequency	15	1	1	0	0	3.31	1.241
	Percentage	88.2	5.8	5.8	0.0	0.0		

Source: survey data (2014)

4.2.2. Reasons for popularity in usage of the distribution channels.

The respondents were asked to indicate the extent to which they agreed/disagreed that each of the listed reasons of why the distribution channels mentioned is popular among customers in their banks by ranking the factors on a five point scale. The responses are summarized and presented in Table 4.3 (where: SD = Strongly Disagree; D = Disagree; SHA: Somehow Agree; A = Agree; SA = Strongly Agree). Findings of the study in Table 4.2 indicate the following: Ease of accessibility: Findings indicate that majority of the respondents (65%) either agreed or strongly agreed. Affordable: Findings indicate that the respondents (41%) either agreed or strongly agreed. Convenient: Findings indicate that majority of the respondents (71%) either agreed or strongly agreed. User friendly: Findings indicate that the respondents (35%) either agreed or strongly agreed.

Table 4.2: Reasons for popularity in usage of the distribution channels.

Reasons		SD	D	SHA	A	SA	Mean score	Std. deviation
Ease of Accessibility	Frequency	1	3	2	5	6	3.77	1.165
	Percentage	5.8	17.6	11.7	29.4	35.3		
Affordable	Frequency	3	4	3	5	2	3.63	1.189
	Percentage	17.6	23.5	17.6	29.4	11.7		
Convenient	Frequency	1	1	3	5	7	3.83	1.183
	Percentage	5.8	5.8	17.6	29.4	41.2		
User Friendly	Frequency	3	2	6	5	1	3.57	1.194
	Percentage	17.6	11.7	35.3	29.4	5.8		

Source: survey data (2014)

4.2.3. Contribution of Distribution channels on Bank's competitive advantage.

The respondents were asked to indicate the extent to which they agreed/disagreed that their distribution channels have given their bank a competitive edge in the market [increased customer acquisition, customer retention and improve operational efficiency] by ranking their responses on a five point scale. The responses are summarized and presented in Table 4.3 (where: SD = Strongly Disagree; D = Disagree; SHA: Somehow Agree; A = Agree; SA = Strongly Agree). Customer Acquisition: Findings of the study in the Table indicate that majority of the respondents (77%) either agreed or strongly agreed. Customer Retention: Findings indicate that majority of the respondents (71%) either agreed or strongly agreed. Improve Operational Efficiency: Findings indicate that majority of the respondents (65%) either agreed or strongly agreed.

Table 4.3: Contribution of distribution channels on Bank's competitive advantage.

Competitive advantage		**SD**	**D**	**SHA**	**A**	**SA**	**Mean score**	**Std. deviation**
Customer Acquisition-Have the distribution channels assist in more customer acquisition?	Frequency	1	1	2	7	6	4.00	1.050
	Percentage	5.8	5.8	11.7	41.2	35.3		
Customer Retention-Do the various distribution channels support customer retention?	Frequency	2	1	2	6	6	3.87	1.167
	Percentage	11.7	5.8	11.7	35.3	35.3		
Efficiency & Service-Have the distribution channels contributed to improved efficiency and service delivery?	Frequency	1	2	3	6	5	3.73	1.202
	Percentage	5.8	11.7	17.6	35.3	29.4		

Source: Survey data (2014)

4.2.4. Most popularly used services through distribution channels.

The respondents were asked to indicate the extent to which they agreed/disagreed on their banks popularly used services through their distribution channels by ranking their responses on a five point scale. The responses are summarized and presented in Table 4.4 (where: SD = Strongly Disagree; D = Disagree; SHA: Somehow Agree; A = Agree; SA = Strongly Agree). Airtime Top Up: Findings of the study in the Table indicate that majority of the respondents (90%) either agreed or strongly agreed and it tops list of services sought more by customers followed by Balance enquiry and Mini statement enquiry majority of the respondents (over 80%) either agreed or strongly agreed. Findings indicate that list sought for services are Transfer to other banks locally and overseas (6%) either agreed or strongly agreed.

Table 4.4: Most popularly used Services through the channels

Distribution channels		**SA**	**A**	**SHA**	**D**	**SD**
Balance Enquiry	Frequency	9	5	2	1	0
	Percentage	52.9	29.4	11.7	5.8	0
Mini statement	Frequency	4	11	1	1	0
	Percentage	23.5	64.7	5.8	5.8	0
Utility Payment	Frequency	0	5	7	2	3
	Percentage	0	29.4	41.2	11.7	17.6
Transfer between accounts	Frequency	4	9	3	1	0
	Percentage	23.5	52.9	17.6	5.8	0
Transfer to other Banks locally	Frequency	0	1	4	6	6
	Percentage	0	5.8	23.5	35.3	35.3
Transfer to other banks overseas	Frequency	0	1	9	6	1
	Percentage	0	5.8	52.9	35.3	5.8
Airtime top-up	Frequency	11	4	2	0	0
	Percentage	64.7	23.5	11.7	0	0
Request stop payment	Frequency	0	4	9	3	1
	Percentage	0	23.5	52.9	17.6	5.8

Source: Survey data (2014)

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter seeks to give a summary account of the findings, and draw a conclusion to this research so as to bring the objective of the research to light. Recommendations to be adopted for practice in order for commercial banks in Kenya to leverage on their distribution channels for their sustainability of competitive advantage are given and also suggest further recommendations for future study in the context subject.

5.2. Summary

5.2.1. Background Information

During the course of the research study the researcher was assisted by 5 volunteers who supported in data collection, 17 commercial banks from the range of 44 Authorized and listed commercial banks in Kenya participated and contributed fieldwork materials for the project. The research study centered on the effects of distribution channels to sustainability of commercial banks in Kenya with the banks distribution channels in context are: Internet banking, Mobile Banking, ATMs, Cards, Agent Banking and E-statements.

5.2.2. Commercial Banks distribution channels and usage

The distribution channels usage and popularity among customers from findings were ranked according to the mean scores recorded. These are summarized and presented in figure 5.1 .The findings indicate that the highest ranked channels that is more popular and frequently used by customers was: “Automated Teller Machines (ATMs)”, while the least ranked channels were: “Agent Banking”, “Internet Banking”, and “E-statements” respectively.

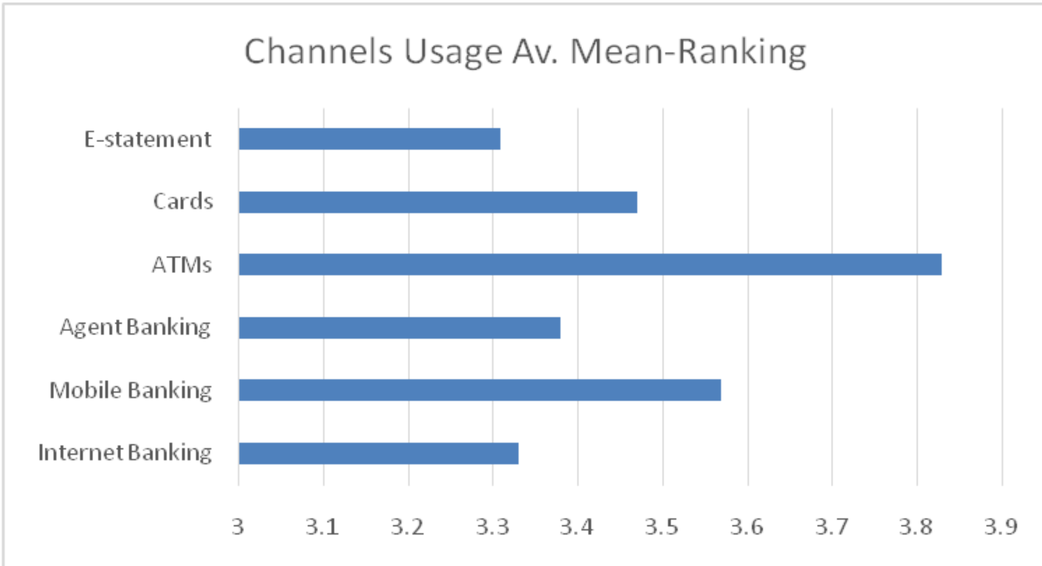

Figure 5.1: Popularity in usage (Ranking) for each of the distribution channels

Source: Survey data (2014)

The reasons for popularity of usage of the distribution channels mentioned above from the findings were ranked according to the mean scores recorded. The findings are summarized and presented in figure 5.2. Findings in the figure show that the highest ranked reason for usage of the distribution channels was “Convenience”, while the least ranked reason was “user friendliness”.

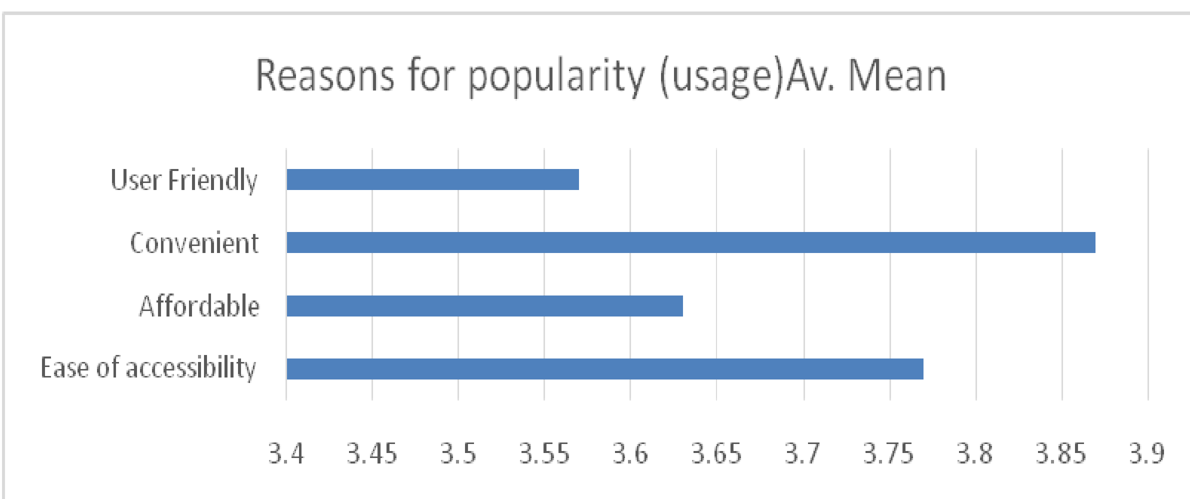

Figure 5.2: Reasons for popularity and usage (Ranking) for the distribution channels

Source: Survey data (2014)

5.2.3. Distribution Channels contribution to Sustainable competitive advantage

The effects of distribution channels on sustainable competitive advantage factors from the findings were ranked according to the mean scores recorded. The findings are summarized and presented in figure 5.3 All the factors positive to mean that distribution channels positively affect "Customer acquisition", "customer retention and operational efficiency" and "service delivery of commercial banks" with the highest ranked being channels contributing to increased customer growth at 77%, while "channels supporting improved efficiency and service delivery at 67%, and channels contribution to customer retention at 63%.

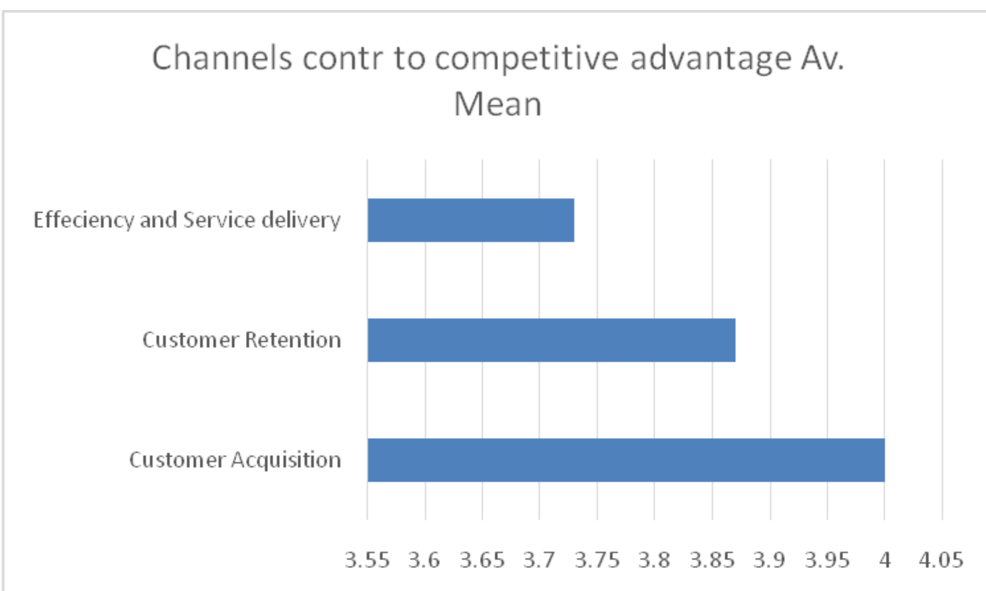

Figure 5.3: Contributions (Ranking) of channels to sustainable competitive advantage

Source: Survey data (2014)

5.3. Conclusion

Sustainable competitive advantage is a journey and not a destination, it is like tomorrow, which is inescapable but never arrives. Sustainable competitive advantage only becomes meaningful when this journey is experienced. For most organizations, however, the problem is how to identify where the journey lies. In fast moving environments, the nature of the journey itself keeps changing in an unpredictable fashion. As a result, the process of identifying the journey presents the main challenge (Chaharbaghi and Lynch, 1999)

The economic scenario gives banks an opportunity to identify channels that are most important to their customers, and provide a positive experience across them. Banks are shifting their customers from high-cost to lower cost channels, thus reducing their total cost to serve, a view supported by (Capgemini et al., 2008) that a key area of strategic importance for retail banks is distribution channel management. There is a growing trend to achieve seamless multi channel integration by banks who want to make their customers interactions channel agnostic noting that from the findings 71% respondents strongly agreed that their customers use channels because of convenience. This will help banks leverage their distribution channels by offering right products to the right customer segment through desired channel, resulting in overall cost savings and enhanced customer experience supported from the finding where 65% of respondents strongly agreed that channels helps to improve efficiency and service delivery to customers. Banks also face highly saturated markets where product and price no longer remain the key differentiators, thus pushing up retention costs. Innovations around better and faster delivery of the right products to customers will help banks provide a differentiated customer experience thus supporting better customer retention. A view backed by (Stem and Sturdivant, 1987) that a distribution strategy plays a role in enabling the availability and application of the product in the marketplace, therefore the distribution strategy employed by the organization would impact the nature of "market support" capability that can be provided to the innovation.

Retail banks are under pressure to improve their quality of service while also reducing costs to remain competitive in an extremely volatile and uncertain market. Improving customer service is imperative for banks in the current market and economic scenario, where product and price no longer provide a clear competitive edge. Distribution channels play a key role in delivering an enhanced customer experience as customer interactions begin and end with channels supported by findings where 65% of respondents strongly agreed that channels improve service delivery and efficiency. Banking customers are increasing expecting more convenience, accessibility, personalization and reliability across the distribution channel systems. Banks need to deliver these features by leveraging innovative technologies and solutions for seamless and personalized experience supported by findings that 65% strongly agreed that ease of accessibility is key to their customers' usage of the channels and thus consequently supports the bank to leverage on this as a customer retention strategy.

Distribution channels systems not only fill the need for anytime banking for customers, they also have the potential to reach out to large unbanked population which supports the financial institutions aim of leveraging on their channels to grow customer numbers and value as supported by the findings that 77% strongly agreed on. Low operating costs and higher penetration rates of mobile phones across all demographics make this a particularly attractive in developing markets. A view back by Meso and Smith (2000), sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness.

Therefore, for commercial bank to fully realize their investment on their channels they must ensure that they differentiate the services offered through them as compared to their competitors and make them more robust so that more customers can be attracted and existing customers can feel the value of sticking to their bank. This can be supported by (Porter, 1985) that competitive advantage is the ability of a firm to earn returns on investment consistently above the average for the industry and On his part, Barney (1991) observed that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This is strongly supported by findings where more than 60% of the respondents strongly agreed that channels gives them a competitive edge in the market they operate and majority of respondents over 80% agreed that some services through the channels are popularly used by the customers across board and thus the need for the banks to have more robust and improved additional services through their channels if they are to have a competitive edge in the market they operate.

5.4. Recommendations of the Study

This study recommends that the banks adopt distribution channel systems that are user friendly to the various market segments. The system should therefore adopt simple procedures .the banks should also train the customers on how to use the various channels so that they widely accepted widely and actively campaign to migrate customers to other channels especially for simple transactions and only leave the complex transactions at branch level.

Secondly with adoption of technology there are securities that are posed. The various distribution channels can be comprised and thus leading to huge losses for the customers and this will create reputational risks for the bank. The bank should therefore place security measures to curb this and protect is customers from losses. They should create awareness by training their customers on how to protect their secret codes.

Sophisticated and reliable technology in today's environment has made competitive forces to spread widely and today banks are not only facing competition from other banks but also telecommunication companies which are also offering financial services to the market. There are also strategic partnerships between banks and telecommunications services since most of the banks platform. Banks like commercial bank of Africa partnered with Safaricom and introduced 'mshwari' and today CBA is leading in customer number. Banks will therefore need to partner with other service providers and in order to retain and increase their customer numbers. From the findings we see that customers are using distribution channels for convenience and they are easily accessible to them. Other players in this industry like the Money transfer for example Western union and Money gram are also enhancing on their distribution services for sustainability. Distribution channels are thus a way of retaining and acquiring more customers and also improving on operational efficiency as banks and other money transfer providers do not need to have their physical presence in many geographical areas but having their channels in those areas and this thus saves resources.

5.5. Suggested areas of Further Research

The study confined itself to commercial banks in Kenya and the findings might not be replicated in other sectors. It is therefore recommended for further research on the same in other sectors of the economy so as ascertain whether there is an effect of distribution channels systems on sustainable competitive advantage in other sectors.

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APPENDIX 1: QUESTIONNAIRE

UNIVERSITY OF NAIROBI

Dear participant,

This study is aimed at analyzing the effects of distribution channels systems on achievement of sustainable competitive advantage among commercial banks in Kenya in meeting this objective you have been duly selected as a member of the sample to provide relevant and objective data needed to satisfy the quest for this knowledge. This questionnaire will take approximately 10 minutes to complete. Your answers will be treated in the strict confidence and used for academic purposes only.

Part I: General Information

Sex ( ) Male ( ) Female

Which bank do you work for (optional)?

…………………………………………………………………………………………………..

How long have you worked in the banking sector(tick as appropriate)

Period	Tick
Over 10years	
Between 5-10 years	
Between 1-5 years	
Less than one year	

Part II: Distribution Channels (*You may choose more than one option*)

1. Which distribution channels are employed by your bank?

[ ] Internet Banking

[ ] Mobile Banking

[ ] Agent Banking

[ ] ATM

[ ] Cards (Prepaid cards, Credit cards)

[ ] E statement

2. Please indicate the extent to which you agree/disagree that each of the listed distribution channels systems is most popular among your customers by ranking the answers on a five point scale. (Tick as appropriate)

Distribution channels	**Strongly disagree (1)**	**Disagree (2)**	**Somehow agree (3)**	**Agree (4)**	**Strongly agree (5)**
Internet Banking					
Mobile Banking					
Agent Banking					
Automated Teller Machines (ATMs)					
Cards (Prepaid & Credit)					
E-statements					

3. Please indicate the extent to which you agree/disagree that each of the listed reasons why these distribution channels systems popular with your customers by ranking the answers on a five point scale. (Tick as appropriate)

Reasons	**Strongly disagree (1)**	**Disagree (2)**	**Somehow agree (3)**	**Agree (4)**	**Strongly agree (5)**
Ease of Accessibility					
Affordable					
Convenient					
User Friendly					

Part III: Measures of Competitive Advantage

1. Please indicate the extent to which you agree/disagree that each of the listed measures of competitive advantage questions by ranking the measures on a five point scale. (Tick as appropriate)

Measures of competitive advantage	**Strongly disagree (1)**	**Disagree (2)**	**Somehow agree (3)**	**Agree (4)**	**Strongl y agree (5)**
Customer Acquisition: Have the distribution channels systems made your bank acquire more customers?					
Customer Retention: Do the various distribution channels factor in customer retention					
Operation Efficiency: Have distribution channels contributed to improved operational efficiency & service delivery					

PART IV: Service Delivery

1. What services are available through the your banks distribution channels

[ ] Balance inquiry

[ ] Mini statement

[ ] Utility payment

[ ] Transfer Between accounts

[ ] Transfer to Mobile Money

[ ] Transfer to other banks locally

[ ] Transfer to other banks overseas

[ ] Airtime Top up

[ ] Request Stop payment

[ ] Request for cheque book

[ ] Initiate loan request

[ ] Account opening

2. Please tick rate the frequency of use of the above services in your bank

Channels Services	**Strongly disagree**	**Disagree**	**Somehow agree**	**Agree**	**Strongly Agree**
Balance Inquiry					
Mini statement					
Utility Payment					
Transfer between accounts					
Transfer to other banks locally					
Transfer to other banks overseas					
Airtime Top up					
Request stop payment					
Request for cheque book					
Initiate loan request					
Account opening					

APPENDIX 2: LISTED COMMERCIAL BANKS

BANK NAME	% MARKET SIZE INDEX 2011	BANK NAME	% MARKET SIZE INDEX 2011
Kenya Commercial Bank	14.52	Consolidated Bank of Kenya	0.68
Barclays Bank of Kenya	8.9	Equatorial Commercial Bank Ltd	0.57
Cooperative Bank	8.41	African Banking Corporation Ltd	0.63
Standard Chartered Bank	7.74	Giro Commercial Bank Ltd	0.6
Equity Bank Ltd	9.98	Gulf African Bank Ltd	0.6
CFC Stanbic	5.1	Fidelity Commercial Bank Ltd	0.5
Commercial Bank of Africa	3.98	Habib AG Zurich	0.44
I & M Bank Ltd	4.09	Guardian Bank Ltd	0.44
Citi Bank N.A	3.96	K-rep Bank Ltd	0.47
National Bank of Kenya	3.59	First Community Bank Ltd	0.41
Diamond Trust Bank Ltd	3.77	Victoria Commercial Bank Ltd	0.4
NIC Bank Ltd	3.7	Habib Bank Ltd	0.32
Prime Bank Ltd	1.64	Trans-National Bank Ltd	0.44
Bank of Baroda Ltd	1.83	Oriental Commercial Bank Ltd	0.31
Eco Bank Ltd	1.02	Credit Bank Ltd	0.28

Bank of Africa Ltd	1.7	Paramount Universal Bank Ltd	0.28
Chase Bank	1.49	Middle East Bank Ltd	0.26
Family Bank Ltd	1.34	UBA Kenya Bank Ltd	0.16
Bank of India	1.17	Dubai Bank Ltd	0.15
Imperial Bank Ltd	1.27	Jamii Bora Bank Ltd	0.24
Fina bank	0.69	CharterHouse Bank Ltd	0.00
Development Bank of Kenya Ltd	0.46	Housing Finance Co. of Kenya Ltd	

Source Central Bank of Kenya (2012)