STRATEGIC RESPONSES ADOPTED BY COMMERCIAL BANKS TO ENHANCE MARKET PENETRATION OF THE UNBANKED POPULATION IN KENYA

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DECLARARATION

This research project is my original work and has not been submitted for examination to any other university.

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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 study is dedicated to my late Mother who got her Angel wings too soon. A wise man once said, 'Offspring are the living messages we send to a time we will not see'.

ABSTRACT

The business environment is constantly changing and has shifted considerably over the past several years, presenting both; Threats and Opportunities to the banking sector in Kenya. In light of this dynamic landscape, commercial banks must manage rapid environmental changes and make difficult decisions in order to survive, navigate and compete effectively in the Kenyan banking industry. Organizations need to create and implement an effective strategy in order to excel in today's marketplace. While setting and implementing strategy is never easy, organizations that make the investment in time, effort, and thinking are better equipped to excel in the marketplace and outperform their competitors. On the other hand, the quest for financial inclusion is generating a lot of interest, not just in Kenya but throughout developing economies. Financial exclusion is thus a key policy concern, because the options for operating a household budget, or an enterprise, without mainstream financial services can often be expensive. This study sought to determine what strategic responses commercial banks are adopting in order to reach the unbanked population in Kenya and the influence of these strategic responses on enhancing market penetration of the unbanked population in the country. The descriptive research design was used for the purpose of this study, which allows the researcher to describe the phenomena under study. The population of this study was drawn from the Heads of strategy or their equivalent in 43 commercial banks registered and licensed under the Banking Act of Kenya as at June 2014. Primary and Secondary data were used for the purpose of this study. Primary data sources were through self-administered drop and pick questionnaires for quantitative and qualitative data. Secondary data sources, Articles, books, Newspapers, the internet, journals and magazines were also used where the banks had granted interviews on their competitive strategies. The data collected was edited for completeness and accuracy, coded and entered in SPSS for analysis. Descriptive statistics were used to understand the characteristics and relationship between the established strategic responses and market penetration of the unbanked population in Kenya. Statistical tests such as independent sample t-test and ANOVA were used to analyse the differences in the data. Correlation and simple regression models were also used to understand the relationship between the dependent and the independent variables. The study concluded that Commercial banks employed strategic responses like, Market Segmentation, Mobile Banking, Agency Banking and Microfinance to reach the unbanked population in the country. This is testament to the fact that Commercial banks were indeed, embracing technological advances to get around cost barriers and help in reaching customers where they are located - overcoming infrastructural deficiencies and costs involved in physically reaching out to clients. Organizational strategy is one of the broadest and most complex concepts used in studying organizations. Many, if not most, organizations simultaneously pursue a combination of two or more strategies, but a combination strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the organization. Difficult decisions must be made and priorities established. In short, organizations just like individuals have limited resources.

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LIST OF ACRONYMS

CBK	Central Bank of Kenya
FSD	Financial Sector Deeping
KBA	Kenya Bankers Association
HDFC	Housing Development Finance Corporation
SME	Small and Medium Enterprises
CAK	Communication Authority of Kenya
R & D	Research and Development
ANOVA	Analysis of Variance
MFI's	Microfinance Institutions

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The business environment is constantly changing and has shifted considerably over the past several years, presenting both; Threats and Opportunities to the banking sector in Kenya. In light of this dynamic landscape, commercial banks must manage rapid environmental changes and make difficult decisions in order to survive, navigate and compete effectively in the Kenyan banking industry. Some of these changes include shifts in regulatory compliance requirements, challenges in improving asset quality, efforts to enhance customer centricity, focus on digital convergence, emerging technological trends in banking and the need to tackle, stiff competition from non-banks (Rishi & Vanshi, 2013).

Strategic management provides a framework that ensures decisions concerning the future of organizations are taken in a systematic and purposeful way. It offers a methodology by which a firm can anticipate and project the future and be internally equipped to face it. Strategic management also helps to develop processes, systems, mechanisms and managerial attitude that are essential for this purpose. Since business environments are constantly changing, strategy needs to be continuous and the very formulation of strategy should be based on a long-term approach. For this to happen, and borrowing from Chandler (1962), a firm needs to clearly define its long-term goals and objectives and how it would attain them through some predefined courses of action and resource allocation decisions. Strategy lends a frame of reference for investment decisions and aids in the concentration of resources on vital areas of best potential. The resource-based view, as described by Barney (2001) and others, provides a framework for firms to invest in valuable, rare, and inimitable resources. This is possible, only if, the focus is on heterogeneous resources that are not perfectly mobile (Peteraf, 1993).

If an organization understands the environment in which it operates, then half the problem is solved. It is for this reason that commercial banks are continuously making business and technological investments, in order to adapt to new business models.

These efforts position the banks to revolutionize the industry, comply with new regulatory requirements, enhance capital adequacy benchmarks, sustain steady roll out of new channels such as agency banking, mobile money, internet banking, social media presence, and leverage on customer data analytics and predictive analytics to further customer understanding and reach. Indeed, these are just some of the many strategies adopted by commercial banks in Kenya to retain their existing customers and reach out to unbanked populations in the country. This is a study on, 'strategic responses adopted by commercial banks to enhance market penetration of the unbanked population in Kenya'.

1.1.1 The Concept of Strategy

According to Lewis (1999), the term strategy derives from the Greek word 'strategos', meaning the art of the general. The concept of strategy has been borrowed from the military and adapted for use in business. The term strategy has been defined by many authors and has evolved systematically over the years. Strategy involves the formulation and implementation of major goals and initiatives by an organization based on the consideration of available resources and an assessment of the internal and external environments in which the organization operates. The development of resources and capabilities should be carried out with the objective of creating sustainable competitive advantage.

Advanced by Mintzberg (1994), Strategy can be defined as the process through which organizations develop plans for the future and also evolve patterns out of their past. Intentions that are fully realized are known as deliberate strategies and he goes on to recognize emergent strategies where a realized pattern was not expressly intended by the organization. That is to say, actions were taken, one by one, which converged in time into some sort of consistency or pattern. He implies, few, if any, strategies can be purely deliberate or purely emergent and that organizations need a mix of both; deliberate intended strategies and emergent strategies, in order to succeed. He argues that corporate strategy consists of plan, pattern, position, perspective and ploy.

In a 1996 Harvard Business Review article and in an earlier book (1987), Porter argues that competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value for an organization. He postulates that strategy is about competitive position, about differentiating yourself in the eyes of the customer and about adding value through a mix of activities different from those that are used by competitors. Thus, Porter seems to embrace strategy as both plan and position.

Robert takes a somewhat different view of strategy in, Strategy Pure & Simple (1997). He argues that the real issues are strategic management and thinking strategically. For Robert, this boils down to decisions pertaining to four factors. He claims that decisions about which products and services to offer, the customers to be served, the market segments in which to operate, and the geographical areas of operation should be made on the basis of a single driving force. The 10 driving forces cited by Robert are: product-service, sales-marketing method, user-customer, distribution method, market type, natural resources, production capacity-capability, size/growth, technology and return/profit.

From the definitions above, it is clear that many authors define strategy in many different ways, and it can be safely deduced that there is no one universally agreed definition for the concept of strategy (Lynch, 2006).

1.1.2 The Concept of Strategic Response

Organizations need to create and implement an effective strategy in order to excel in today's marketplace. While setting and implementing strategy is never easy, organizations that make the investment in time, effort, and thinking are better equipped to excel in the marketplace and outperform their competitors. Mike Freedman in The Art and Discipline of Strategic leadership offers business strategists an integrated five-phase model for setting and implementing strategy. Proven effective at a diverse range of organizations worldwide, the model provides executives with a powerful framework for assessing and tweaking current strategy, or charting a bold new strategic course using five phases as follows; Strategic

Intelligence gathering and analysis, Strategy Formulation, Strategic master project planning, Strategy Implementation and Strategy monitoring, reviewing and updating (Freedman, 2004).

Strategic intelligence gathering and analysis is important as it ensures that the depth and breadth of information on which strategic decisions are based is up to date, accurate, and relevant. The quality of strategic decisions heavily depends on this process. The intelligence gathered includes; competition, technology, markets, macroeconomic, political and social trends, and regulations among other subjects of more specificity to each organization. Key to this phase is the determination of the implications of the intelligence gathered to the organization during its strategic life time if implemented (Freedman, 2004).

Strategy formulation and choice. This sequence coming after intelligence gathering and analysis, results in the creation of a strategic vision or profile. Here, strategic choices are made. Strategy choice is the evaluation of alternative strategies and selection of the best alternative for the organization. Once a choice has been selected, a strategic plan is crafted. During this stage, the plan for strategy implementation is developed and helps in guiding the organization on how these projects should be prioritized, defined in detail, sequenced, scheduled, researched, executed and monitored. The formulation of a strategic plan document provides a means not only to formalize the effort that goes into strategic planning, but also for communicating to insiders and outsiders what the company stands for, and what it plans to do in the given time period. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined (Mintzberg et al, 1996).

Strategy implementation is the process by which strategies and policies are put into action through the development of programs. This might involve changes within the overall culture, structure and/or management system of the entire organization. Strategies are implemented through a set of programs, budgets and procedures. Planned actions are taken, implementation is monitored, and the strategic master project plan is modified as circumstances change and projects are amended, completed, or abandoned and new ones added. During strategy implementation, the involvement of a significant number of employees is a vital ingredient in its successful execution (Tregoe, 2004).

Evaluation, monitoring and control is the final process through which corporate activities and results can be compared with the desired performance. An important phase, it can pinpoint weaknesses in previously implemented strategic plans which in turn, stimulates control towards achieving desired performance. Based on performance results, management may need to make adjustments in its strategy formulation or implementation or both. Given the rate and pace of change in the 21st century, continuous monitoring of strategic progress, goals, and indicators of success is a full time task and a key input for regular reviews. Such reviews examine whether the assumptions underpinning the strategy are still valid and whether the organizations strategic direction is still robust and viable to move the organization forward (Kepner-Tregoe, 2001).

1.1.3 The Concept of Market Penetration

Market penetration can be defined as the proportion of people in the target who bought -at least once in the period under review- a specific brand or a category of goods in the context of marketing metrics. Two key measures of a product's 'popularity' are penetration rate and penetration share. The penetration rate (also called penetration, brand penetration or market penetration as appropriate) is the percentage of the relevant population that has purchased a given brand or category at least once in the time period under study. A brand's penetration share, in contrast to penetration rate, is determined by comparing that brand's customer population to the number of customers for its category in the relevant market as a whole. Here again, to be considered a customer, one must have purchased the brand or category at least once during the period (Farris et al, 2010).

Market penetration is one of the four alternative growth strategies of the Product-Market Growth Matrix as defined by Ansoff. A market penetration strategy involves focusing on selling your existing products or services into your existing markets to gain a higher market share. This is the first strategy most organizations will consider because it often carries the lowest amount of risk. Market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. However, market penetration has its limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow **(**Harvard Business Review on Strategies for Growth 1998). There are four approaches an organization can adopt when implementing this strategy; Retain or increase your product's market share, dominate growth markets, drive out your competitors or increase existing customer usage (free management e-books).

Firming up on the concept, Market penetration is also a low pricing strategy adopted by companies for new and existing products to attract a larger number of buyers and a larger market share (Kotler and Armstrong, 2009). In the banking context, commercial banks can embrace technological advances to get around cost barriers and help in reaching customers where they are located - overcoming infrastructural deficiencies and the costs involved in physically reaching out to clients. In rapidly evolving financial markets, applied technologies and pricing can make the difference between a larger market share or decline in market share.

1.1.4 The Unbanked Population in Kenya

According to the Central bank of Kenya, Kenya's financial inclusion/exclusion landscape has undergone considerable transformation since 2006. This is largely due to emerging policy strategies, reforms and initiatives by the government of Kenya, the Central Bank of Kenya (CBK) as well as financial sector players' with regard to innovation. While the proportion of the financially excluded has been falling steadily from 39.3% in 2006 to 31.4% in 2009, the figure as at December 2013 still stood at 25.4%, providing tremendous opportunity for commercial banks. These are market segments of the Kenyan population that do not access financial services from formal, prudentially regulated institutions and financial services from any type of formal financial services provider (FSD Kenya, 2013).

A growing body of empirical evidence shows that access to the right financial service at the right time helps households build assets, generate income, smooth consumption, and protect themselves from risks. At the policy level, decision-makers have recognized that an inclusive financial system that reaches all citizens also allows for more effective and efficient execution of other social policies. And at the macro level, we know that deeper financial intermediation in an economy leads to more growth, and less inequality. It is therefore no surprise that the quest for financial inclusion is generating a lot of interest, not just in Kenya but throughout developing economies (CGAP, 2013).

1.1.5 The Banking Industry in Kenya

In Kenya, the Central Bank (CBK) is responsible for the regulation and supervision of banks. The Central Bank of Kenya is tasked with formulating and implementing monetary and fiscal policies in the country. The Central bank is the lender of last resort in Kenya and is the principal banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, controls liquidity in the country and monitors the solvency of the Kenyan shilling. The Central Bank of Kenya is guided by the following legislation; The Constitution of Kenya 2010, The Central Bank of Kenya Act 2014; The Banking Act 2014; The Microfinance Act 2006, The National Payment System Act 2011 and The Kenya Deposit Insurance Act of 2012.

As at 31st December 2013, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), 7 representative offices of foreign banks, 9 Microfinance Banks, 2 credit reference bureaus and 101 forex bureaus. Out of the 44 banking institutions, 30 were locally owned, comprising of 3 banks with public shareholding and 27 banks that are privately owned. The remaining 14 are foreign owned. These comprise of 10 locally incorporated foreign banks and 4 branches of foreign incorporated banks. The 9 microfinance banks, 2 Credit reference bureaus and 101 forex bureaus are privately owned (CBK Annual Report, 2013).

1.1.6 Commercial Banks in Kenya

Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. Currently there are 43 licensed commercial banks and 1 mortgage finance company in the country. The banks in Kenya have come together under the Kenya Bankers Association (KBA), which works as a lobby for the local banking industry. KBA also serves as a forum to address issues affecting the banking sector. The industry has over the past few years enjoyed exponential growth is assets, profitability and products offering, mainly attributed to automation of services and branch network expansion both locally and regionally. This growth has brought about increased competition among players and new entrants into the banking sector. Thanks to stiff competition, banks are now focusing on diverse customer needs rather than traditional banking products such as over the counter cash deposits and withdrawals (Kenyan Business Review, 2013).

Commercial banks in the country recorded improved performance as at end of June 2014, with the size of net assets standing at Ksh.2.97 trillion, loans & advances worth Ksh.1.78 trillion, while the deposit base was Ksh.2.15 trillion. Over the same period, the number of bank customer deposit and loan accounts stood at 25,328,428 and 3,841,666 respectively. During the 2nd quarter of 2014, the sector recorded Ksh.37.61 billion pre-tax profits, which was an increase of 12.5 percent from Ksh.33.42 billion registered in the quarter ending March 2014. Similarly, total income stood at Ksh.104.0 billion in the second quarter being an increase of 9.4 percent from Ksh.95.05 billion in the first quarter of 2014. On an annual basis, the profitability of the sector increased by 15.6 percent from the Ksh.61.47 billion registered in June 2013 to Ksh.71.03 billion in June 2014. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 58.5 percent, 19.4 percent and 15.1 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the main components of expenses, accounting for 32.7%, 28.4% and 24.3% respectively (CBK Banking sector performance report for the period ended 30th June, 2014).

1.2 Research Problem

The quest for financial inclusion is generating a lot of interest, not just in Kenya but throughout developing economies. Financial exclusion is thus a key policy concern, because the options for operating a household budget, or an enterprise, without mainstream financial services can be difficult. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas (Sharma, 2008**).** In the past decade or so, Kenyan banks have experimented with alternative service delivery channels to reduce costs, facilitate greater outreach to hard-to-reach areas, and increase customer convenience. While the proportion of the financially excluded has been falling steadily from 39.3% in 2006 to 31.4% in 2009, the figure as at December 2013 still stood at 25.4%. This can be attributed to mobile money services and more specifically, Mpesa (FSD Kenya, 2013).

Several studies have been done, both locally and internationally in the area of strategic responses adopted by commercial banks in different contexts. Internationally, Uma, Indra and Panchanatham (2012) did a study on strategies adopted by HDFC Bank in India. The study concluded that the bank's strategy is influenced by its business Banking products, Marketing Strategies, Customer satisfaction, Documentation, Interest rates and the Banks Marketing Strategy. Further across the seas, Hawkins and Dubravko (2001) have written a research paper on, the banking industry in the emerging market economies: competition, consolidation and systemic stability - an overview of East Asia, Latin America and Central Europe. The paper reviews the main forces for change in the emerging economies in the banking industry and then analyses how these forces are affecting the structure of their banking systems through privatizations, domestic mergers and entry of foreign banks. These raise a number of microeconomic questions about economies of scale and scope, competition within the banking market, and the business focus of domestic and foreign banks.

Closer home, Angara (2010) studied, strategic responses adopted by Kenya commercial bank to changes in the environment. The findings of the study indicated that the bank had succeeded in the adoption of its strategies by aligning strategies to the structure, adequate resource allocation to projects, ensuring supportive policies and staff commitment. Chepkiyeng (2011) did research on Analysis of strategic responses of commercial banks towards attaining competitive advantage in Kenya. The study established that commercial banks are faced with many challenges. Liberalization was established as one challenge that is the biggest threat to the industry. Among many others, there has also been a study by Abishua (2010) on Strategic Responses used by Equity Bank to compete in the Kenyan Banking Industry. The study found that Equity Bank uses the following strategies to respond to competition in the banking industry: product offering diversification, branch and regional expansion, relationship marketing, customer-care, innovation and information technology strategies. The study found Equity bank to be a very adaptive bank with a versatile reactionary mechanism to exploit any emerging gaps in the banking industry. It also found that historically, equity was focused on the low end market segment and that it had now created infrastructure and organizational structures that included SME's and Corporate banking in its evolving strategy.

Against this backdrop and to the best of my knowledge this study has never been done before, in the context of market penetration and the unbanked population in Kenya. This study seeks to obtain answers to the following research questions:

i. What strategic responses are commercial banks adopting in order to enhance market penetration of the unbanked population in Kenya?

ii. What is the influence of the strategic responses adopted by Commercial Banks on enhancing market penetration of the unbanked population in Kenya?

1.3 Research Objectives

i. To determine the strategic responses adopted by commercial banks in order to enhance market penetration of the unbanked population in Kenya.

ii. To determine the influence of the strategic responses adopted by commercial banks on enhancing market penetration of the unbanked population in Kenya.

1.4 Value of The Study

This study will be valuable to academia. The academic community can gain a greater understanding of the dynamics of strategic responses by commercial banks in an effort to deepen financial inclusion. The study will also help expand on existing body of knowledge with regard to financial inclusion and generation of hypotheses on the subject. This study will also serve to enrich The Resource-Based and The Resource Dependence theories of strategic management.

Management of Commercial banks will benefit immensely from this paper. Up until seven years ago, the formal financial system in the country (while not adequately inclusive) was mostly dominated by banks. This is not the case anymore as seen by competition from mobile money operators. This research will be useful in giving financial institutions insights into sustainable ways of reaching unbanked populations in light of competition from other quarters, like the telecommunication companies.

Policy makers. Innovation and the use of technology platforms are giving rise to new challenges on how to establish effective regulatory infrastructures to provide oversight for converging banking and non- financial sector players who offer financial solutions. This is a delicate balance between providing risk mitigating oversight and encouraging innovation in a bid to expand the primary and secondary industries. This research will assist the Central Bank of Kenya (CBK) and other regulators like the Communication Authority Kenya (CAK) to keep abreast with new developments in this sector and improve on oversight and overlapping interests within the industries.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter of the study explores, The Theoretical Foundation of the Study, literature review on different Types of Strategy, and the link between Strategy and Market Penetration.

2.2 Theoretical Foundation of the Study

There are two distinct theories often cited on strategy among many others in literature. These are Resource Based Theory and Resource Dependence Theory.

2.2.1 Resource Based Theory

Known as 'Resource-based view' it is regarded by some, as a paradigm in the field of strategic management (Peteraf, 1993). Organisations are a bundle of resources and capabilities. These resources and capabilities are made up of physical, financial, human and intangible assets. This theory is conditioned on the fact that resources are not homogenous and are limited in mobility. Heterogeneity implies that firms of varying capabilities are able to compete in the market place and, at least, breakeven. Firms with marginal resources can only expect to break even. Firms with superior resources will earn rents (Peteraf, 1993). An organisation can translate these resources and capabilities into a strategic advantage if they are valuable, rare, inimitable and the firm is organized to exploit them. The classic approach to strategy formulation, for example, begins with an appraisal of organizational competencies and resources (Andrews, 1971). Those which are distinctive or superior relative to those of rivals, may become the basis for competitive advantage if they are matched appropriately to environmental opportunities (Andrews 1971; Thompson and Strickland, 2010).

The resource based model of strategy is fundamentally concerned with the internal accumulation of assets, with asset specificity, and, less directly, with transactional costs. Thus it lends itself naturally to the consideration of questions regarding the boundaries of the firm. A number of researchers have utilized a resource based view to analyse issues regarding the scope of the firm. For example Montgomery and

Hariharan (1991) have shown that firms with broad resource bases tend to pursue diversification. More generally, the prevailing theory of diversification can be characterised as resource-based (Peteraf, 1993). On the other hand Barney (2001) addressed the issue of whether bidding firms may realize abnormal returns from strategically related acquisitions.

Organisational strategy is one of the broadest and most complex concepts used in studying organisations. Many, if not most, organisations simultaneously pursue a combination of two or more strategies, but a combination strategy can be exceptionally risky if carried too far. No organisation can afford to pursue all the strategies that might benefit the organisation. Difficult decisions must be made and priorities established. In short, organisations like individuals have limited resources. (David, 2011)

2.2.2 Resource Dependence Theory

As much as organizations compete, they also cooperate in order to survive. Research writings by Pfeffer and Salancik in 1978 suggested that resources are often controlled by organizations not in the control of the organization needing them. They implied that no organization can secure the resources and capabilities required to survive without interacting with organizations and individuals beyond their boundaries as they seek to improve their chances of survival through adaptation to the environment. Organizations' are engaged in co-optition (a mix of cooperation and competition). Organizations' coordinate in many ways; co-optition, trade associations, cartels, reciprocal trade agreements, coordinating councils, advisory boards, boards of directors, joint ventures, and social norms. Each represents a way of sharing power and social agreement which stabilizes and coordinates mutual interdependence among firms (Pfeffer and Salancik, 1978). Coordination has the advantage of being more flexible than managing dependence through ownership. Relationships established through communication and consensus can be established, renegotiated, and re-established with more ease than the integration of organizations by merger can be altered. (P 144)

Direct ties, indirect ties, and innovation. The more direct ties that a firm maintains, the greater the firms subsequent innovation output. The number of direct ties a firm maintains can affect its innovative output positively by providing three substantive benefits: knowledge sharing, complementarity, and scale (Berg et al, 1982). When firms collaborate to develop a technology, the resultant knowledge is available to all partners. Thus, each partner can potentially receive a greater amount of knowledge from a collaborative project than it would obtain from a comparable research investment made independently (Arora and Gambardella, 1990). By tapping into developed competencies of other firms, firms can enhance their own knowledge base and thereby improve their innovation performance. A third positive effect of direct ties emerges through scale economies in research. If individual firms have the wherewithal to invest an amount X in a given project, then two firms combining resources can potentially invest twice as much. If the transformation technology is characterized by increasing returns, such an investment will lead to a more than proportionate return in terms of innovation output, benefiting both firms significantly (Ahuja, 2000).

2.3 Types of Strategies

The literature on the concept of strategic management and types of strategies is vast. Strategy making is not just a task for top executives. Middle and lower level managers must also be involved in the strategic planning process to the extent possible. Therefore, there are different alternatives of strategies that an organization could pursue (David, 2011). In this sub-topic, the study explores; Hierarchical levels of strategy, Ansoff's Product-Market growth matrix and Porter's Generic strategies most relevant to this study.

2.3.1 Hierarchical Levels of Strategy

Strategy can be formulated on three different levels as corporate level strategies, business level strategies and functional unit strategies.

Corporate level strategy is defined in terms of variation in the deployment of a firm's resources among the portfolios of industries within which all business firms compete.

Ireland, Hoskisson, Hitt (2003) defined corporate strategy as a mix of actions, undertaken by a business, aiming to gain a competitive advantage, through selecting and managing a group of different businesses competing in different markets. Hofer and Schendel (1978) propound this view: Corporate strategy deals with issues of strategic management at the level of the firm as a whole which involve the basic character, capability and competence of the firm; the direction in which it should develop its activities; the nature of its internal architecture; governance and structure; the nature of its relationships within its sector, its competitors and the wider environment. Corporate level strategies are mainly concerned with: what business are we in? What business should we be in? What are our basic directions for the future? What is our culture and leadership style? What is our attitude to strategic change and what should it be (Lynch, 2006, p 6)?

Brown and Blackmon (2005) have defined business-level strategy as a process of decision making at the strategic business level and succeeding in the chosen markets. According to them, it primarily identifies how strategic business units support the organizational goals. While corporate strategy deals with the question of what businesses the company should compete in, business unit level strategy decides on how to compete in these particular businesses (Beard, Dess, 1981). Johnson et al (2009) points out that business-level strategy deals with the ways in which various businesses included in the corporate strategy should compete in their particular market. Business level strategies are mainly concerned with: How do we compete successfully? What is our sustainable competitive advantage? How can we innovate? Who are our customers? What value do we add (Lynch, 2006, p 6)?

Functional Strategy is the approach that a functional area in an organization takes to achieve corporate and business unit objectives and strategies by maximizing on resources productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with competitive advantages. (Strategy Safari). Each function within a company (e.g., R&D, marketing or manufacturing) should strive to acquire and develop the resources necessary for it to become a functional-level core competency that can be converted into a competitive advantage for the company as a whole (Hendrickson and Psarouthakis, 1998).

2.3.2 Ansoff's Product-Market Growth Matrix Strategies

To portray alternative corporate growth strategies, Ansoff in 1957 presented a matrix that focused on the firm's present and potential products and markets. By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. One dimension of the matrix considers 'products' (existing and new) and the other dimension considers 'markets' (existing and new). The resulting matrix offers a structured way to asses potential strategies for growth. That is to say, Market penetration, Market development, Product development and diversification (Chisnal, 1995)

Market penetration is a strategy in which the organization is targeting new markets, or new areas of the market. In this strategy, the organization strives to sell more of the same product(s) to different people. It usually covers products that are already in existence and explores the full exploitation of the product without necessarily changing the product or the outlook of the product. This is usually possible through the use of promotional methods, introducing pricing policies that may attract more clientele, or expanding distribution channels and making them more extensive. The risks involved in market penetration are usually the least of the four strategies, since the products are already familiar to the consumers and so is the established market. However, market penetration has its limitations. At some point, the marketplace becomes saturated, meaning that almost all customers with interest in the product or service eventually become satisfied. It is also possible that the additional customers you gain through more investment in marketing don't provide enough return on investment to justify continuing with this strategy. Aggressive market penetration through competitive advertising methods may help attract some customers, but it can also lead to responsive attacks from competitors (Lambin, Jean-Jacques, 1996).

Market development options include the pursuit of additional market segments or geographical regions. It may also be known as market extension. The development of new markets for the product may be a good strategy if the organizations core competencies are related more to the specific product than to its experience with a specific market segment. This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited, thus the need to venture into new markets. The major risk of market development is that it typically requires capital investment in expansion, either to build new locations or to expand marketing efforts to new territories. If the new opportunity doesn't pay off, the company wastes capital and resources it could have invested in other strategies. A company may also spread itself too thin, by expanding into new markets and incurring cost associated with new distribution channels, new product packaging or different pricing policies (Wilson, 1992).

In product development growth strategy, new products are introduced into existing markets. Product development can involve the introduction of a new product in an existing market or it can involve the modification (changing its outlook or presentation, or increase the products performance or quality) of an existing product. This strategy is appropriate if the organizations strengths are related to its specific customers rather than to the specific product itself (Ansoff, 1957). Diversification is the most risky of the four growth strategies since it requires both product and market development that may be outside the core competencies of the organization. There are two types of diversification. There is related diversification and unrelated diversification. In related diversification, the organization remains in the same industry in which it is familiar with. In unrelated diversification, there are usually no previous industry relations or market experiences (Jain, 1997).

2.3.3 Michael Porter's five Generic Strategies

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen and Fahey 1984, Kay 1994, Porter 1980 cited by Chacarbaghi and Lynch, 1999, p. 45). Michael Porter defined types of competitive advantage an organization can achieve relative to its rivals as lower costs and/or differentiation, as well as focus.

A cost leadership strategy can sometimes revolutionize an industry in which the historical competitors are ill-prepared either perceptually or economically to take the steps necessary for cost minimization. The goal of Cost Leadership Strategy is to offer products or services at the lowest cost in the industry. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. A great deal of managerial attention to cost control is necessary to achieve these aims. However, the challenge of this strategy is to earn a suitable profit for the organization while maintaining these low costs (Porter, 1980 and cited by Gamble et al, 2010).

Differentiation, if achieved, is a viable strategy for marginally higher returns vis-à-vis competition in an industry because it creates a defensible position for coping with the five competitive forces by Michael Porter. The goal of Differentiation Strategy is to provide a variety of products, services, or features to consumers that competitors are not yet offering or are unable to offer. This gives a direct advantage to the company which is able to provide a unique product or service that none of its competitors is able to offer. This can be achieved by introducing completely new or better products or services into the market through innovation or use of exclusive technologies. Many companies invest heavily in their research and development departments in order to achieve exclusive differentiation with their innovations. Operational Effectiveness can also help differentiate a company. Operational Effectiveness aims to push the organization into performing internal business activities better than competitors, making the company easier or more pleasurable to do business with than other market choices. It often leads to brand recognition and uptake of the company’s products or services more easily in the market (Porter, 1980 and cited by Miller, 1992).

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market. As with differentiation, focus may take many forms. Although low cost and differentiation strategies are aimed at achieving their objectives industry wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both (Chacarbaghi and Lynch, 1999).

2.4 Strategy and Market Penetration

There is wide literature on market penetration that is often largely dependent on the context in which it is used. For instance, Kotler and Armstrong, opine that Market penetration is a low pricing strategy adopted by companies for new and existing products, to attract a larger number of buyers and a larger market share (Kotler and Armstrong, 2009). This strategy increases the product sales in the company's present markets through an aggressive marketing mix. It is usually introduced to: increase the rate of product/service usage; encourage repeat purchases; attract consumers away from competitors; or attract current non-users of the product (Drummond et al., 2008).

To increase market penetration, a business can employ the following strategies: price adjustments, increased promotions, increased distribution channels, and product improvements. One common market penetration strategy is to make price adjustments. By lowering prices, a business definitely hopes to generate more sales volumes by increasing the number of units purchased when prices are made more appealing to consumers when compared to competition. Companies may also pursue a strategy of higher prices in the hope to gain higher revenues per unit sold, which would translate into higher sales volumes and a resulting increase in market penetration. With this strategy, a concern is that higher prices could deter customers from making a purchase. Organizations may choose to increase market penetration through greater promotional efforts. They may launch an advertising campaign to generate greater brand awareness or implement a short-term promotion with a finite ending date. A promotion is often linked with pricing, such as advertising a special sale price for a limited period (McGrath, 2000).

Various schools of thought suggest two basic dynamic pricing strategies for new products; Skimming and Penetration strategy (kotler and Armstrong, 2005). A skimming strategy involves the charging of a high introductory price, which is subsequently lowered. The rationale of this strategy is to skim the surplus from customers early in the early stages of the product's life cycle in order to exploit a monopolistic position by the firm (Dean, 1976). A penetration strategy involves the charging of a low price to rapidly penetrate the market. Penetration pricing aims at exploiting economies of scale or experience (Nagle and Hogan, 2006). To expound further, if word of mouth is important in the market, then achieving a large amount of early sales, increases word-of-mouth and enables more rapid market penetration (Clarke, Darrough and Heineke, 1982)

A company can attempt to increase market penetration by increasing the methods it uses to get products into the hands of consumers, making them more readily available. For instance, a company that traditionally sells its products through retail outlets may add distribution channels such as sending direct mail offerings or instituting a telemarketing operation. It may also attempt to gain additional selling space in current distribution channels, by purchasing additional display space in retail stores. Making product improvements can be used to create new interest in a stagnating product or to offer an extra benefit to consumers when using the commodity. Manufacturers of consumer products have often used the "new and improved" claim to entice customers to give a product another fighting chance or to improve the perception of a products quality. Companies can also change the product's packaging to give it a more modern design that might appeal to a younger customer base (McGrath, 2000).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used for the study. Specifically it describes the research design, population of the study, sample size, data collection methods and the method of data analysis used in the study.

3.2 Research Design

The descriptive research design was used for the purpose of this study, which allows a researcher to describe the phenomena under study. Finding out relationships among variables in the descriptive research process is labeled as correlation study which, according to Cooper and Schindler (2003), is a subset of descriptive study. This design was the most suitable for this research since the study was about strategic responses adopted by commercial banks to enhance market penetration of the unbanked in Kenya.

3.3 Population of the Study

The population of this study was drawn from the Heads of strategy or their equivalent in 43 commercial banks registered and licensed under the Banking Act of Kenya as at June 2014 (CBK, 2014). According to Malhotra (1999), population is the aggregate of all the elements that share some common set of characteristics and that comprise the universe for the purpose of the research problem. This study took the form of a census given that the population was only 43 Heads of strategy or their equivalent in all the commercial banks operating in Kenya.

3.5 Data Collection Methods

Primary and Secondary data was used for the purpose of this study. Primary data was obtained through self-administered drop and pick questionnaires for quantitative and qualitative data. The structure of the questionnaire (4 parts) was used to collect data from the Heads of strategy or their equivalent in each commercial bank in the country whose headquarters are all situated in Nairobi. Secondary data sources, Articles, books, Newspapers, the internet, journals and magazines were also used where the banks had granted interviews on their competitive strategies.

3.6 Data Analysis

The data collected was edited for completeness and accuracy, coded and entered in SPSS for analysis. Descriptive statistics were used to understand the characteristics and relationship between strategic responses and market penetration of the unbanked population in Kenya. Statistical tests such as independent sample t-test and ANOVA were used to analyze the differences in the data. Correlation and simple regression models were also used to understand the relationship between strategic responses adopted by Commercial Banks and Market penetration of the unbanked population in Kenya.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings of the study based on the objectives which were; i) To determine the strategic responses adopted by commercial banks in order to enhance market penetration of the unbanked population in Kenya. ii) To determine the influence of strategic responses adopted by commercial banks on enhancing market penetration of the unbanked population in Kenya. It also presents the specific findings of the study. Namely; The studys' Demographic Characteristics of the respondents; Strategic Responses adopted by Commercial Banks; Market Penetration of the unbanked population in Kenya; The Influence of Strategy on market penetration; and The Correlation Analysis & Regression Analysis of the dependent and independent variables.

4.1.1 Response rate

Out of the forty three commercial banks that constituted the population of the study, 34 questionnaires were filled and returned to the researcher, representing a response rate of 79.1%. This response rate was considered adequate for the study and conforms to Babbie's (2002) stipulation that any response of 50% and above is adequate for analysis. Therefore the findings presented in this chapter are based on a 79.1% response rate.

4.2 Demographic Characteristics of the respondents

The study sought to establish the general information of the respondents. This included: The respondents job role or title; Their duration of service in that role; and Their level of involvement in their banks' strategy formulation process.

4.2.1 The respondents Job Role or Title

From the findings, most of the respondents' job titles were: operations managers, heads of branch customer service, chief managers, senior branch managers, credit officers, senior officers, customer service managers, relationship managers, portfolio managers and managers' finance.

4.2.2 Experience of the Respondents

To rate their level of credibility, the study sought to find out how long the respondents had worked in their current position.

Table 4. 1: The respondents' length of service in their Current Positions

Years	Frequency	Percentage %	Cumulative %
2	4	11.7	11.7
4	13	39.5	51.2
5	7	20.9	72.1
6	3	9.3	81.4
7	4	11.6	93.0
8	1	2.3	95.3
9	2	4.7	100.0
Total	**34**	**100.0**	**100.0**

Majority of the respondents (39.5%) had worked in their current position for 4 years. 20.9% for 5 years, 11.6% for 2 and 7 years. 9.3% for 6 years, 4.7% for 9 years and 2.3% for 8 years. These findings strongly suggested that all the respondents had held their current position for a substantial duration of time and were therefore credible for the purposes of this study, given their experienced knowledge and understanding of the institutions.

4.2.3 Level of the respondents Involvement in Strategy formulation process

Table 4.2 below, rated the respondents level of involvement in their banks' strategy formulation process.

Table 4. 2: Level of the respondents Involvement in the Strategy Formulation Process of Commercial banks

Involvement	Frequency	Percentage %	Cumulative %
A lot	6	17.6	17.6
Fairly	22	64.7	82.3
Slightly	4	11.8	94.1
A little	2	5.9	100.0
Total	**34**	**100.0**	**100.0**

Asked to rate their level of involvement in their banks' strategy formulation process, most of the respondents (64.7%) indicated that they were fairly involved in their banks' strategy formulation process. 17.6% said a lot, 11.8% slightly and 5.9% a little. This implies that majority of the respondents had a strong/fair grasp in their organizations strategy formulation process.

4.3 Background Information of the Commercial Banks

4.3.1 Size of Commercial Banks

The findings of the classification of commercial banks by size is presented in Table 4.3

Table 4. 3: Classification of Commercial Banks by size

Size	Frequency	Percentage %	Cumulative %
Large Bank	8	23.5	23.5
Middle tier Bank	15	44.1	67.6
Small Bank	11	32.4	100.0
Total	**34**	**100.0**	**100.0**

Majority of the Commercial banks (44.1%) that responded to the study were middle tier banks. 32.4% were small banks and 23.5% were large banks. This is consistent with the classification profiling by size, of commercial banks by the Central Bank of Kenya.

4.3.2 Innovation and Commercial Banks

The study further sought to find out whether Commercial banks encouraged innovation as presented in Table 4.4.

Table 4. 4: Whether Commercial banks encourage innovation

Innovation	Frequency	Percentage %	Cumulative %
Agree Strongly	25	73.5	73.5
Agree	6	17.7	91.2
Don’t Know/Neutral	3	8.8	100.0
Total	**34**	**100.0**	**100.0**

From Table 4.4 it is clear that a relatively large proportion of the respondents (73.5%) agreed strongly that their banks encouraged innovation. 17.6% just agreed while 8.8% were neutral. This represents a positive outlook and environment for strategy formulation in Commercial banks.

4.4 Strategic Responses to enhance the Market Penetration of the Unbanked

The researcher sought to establish the strategic responses adopted by commercial banks to enhance market penetration of the unbanked population in Kenya.

4.4.1 Strategic Responses Adopted by Commercial Banks

A diverse mix of strategic responses were presented to the respondents seeking to establish which major undertakings, commercial banks used to reach the unbanked populations. The findings are as presented in Table 4.5

Table 4. 5: Strategic responses adopted by commercial banks to reach unbanked populations

Strategic Response	Mean	Standard Deviation
Market segmentation	4.5	0.977
Mobile banking	4.5	0.921
Agency Banking	4.4	1.033
Microfinance	4.4	0.676
Cultural accommodation e.g. sharia compliant banking	4.4	0.676
Credit enticement	4.4	0.659
Loan enticements/emergency loans and advances	4.2	1.011
Social media presence	4.2	1.329
Heavy Advertising	4.1	0.897
Reduction in account opening requirements	4.1	0.545
Simplified engagement	4.1	1.035
Lower interest rates	4.1	0.584
Pleasant service	4.1	0.715
Savings group services/ solutions for chamas	4.1	0.715
Access to customer funds 24 hours a day 7 days a week	4.0	0.820
Partnerships and strategic alliances	4.0	0.625
Increased marketing	4.0	0.876
Mass market targeting	4.0	1.173
Free value addition services	3.9	0.662
Fast service	3.9	0.623
Employer bulk salary payment solutions	3.9	1.694
High interest on deposits	3.9	1.011
Internet banking	3.9	0.477
New product development	3.9	0.774
Mergers and acquisitions	3.8	0.871
Cost cutting	3.8	1.156
Plastic money/credit cards	3.8	1.035
Transaction facilitation	3.7	0.662
Project financing	3.7	0.962
Club Memberships	3.7	1.268
Higher cost of deposits	3.7	0.774
Improved core banking system quality/no downtimes	3.7	1.515
Diversification- Insurance/property development etc.	3.6	0.818
Business/Club Trips	3.6	1.420
CSR activities	3.5	1.035
Asset financing	3.5	1.152
Freebies	3.4	0.975
High deposit interest rates	3.4	0.852
Branch network expansion	3.2	0.964
Investment banking	3.2	0.680
Average of Average	**3.9**	**0.900**

To a large extent, Market segmentation was the most popular of the strategies adopted by commercial banks as shown by a mean score of 4.5. Mobile banking was the second most frequently chosen strategy as indicated by a mean score of 4.5. Agency banking came in third with a mean score of 4.4. Microfinance followed closely as indicated with a mean score of 4.383. Cultural accommodation e.g. sharia compliant banking was also rated among the top with a mean score of 4.4. The remaining strategies were ranked as follows with their corresponding mean scores; Credit enticement- 4.4, Loan enticements/emergency loans and advances- 4.2, Social media presence- 4.2, Heavy Advertising- 4.1, Reduction in account opening requirements- 4.1, Simplified engagement- 4.1, Lower interest rates- 4.1, Pleasant service- 4.1, Savings group services/ solutions for chamas- 4.1, Access to customer funds 24 hours a day 7 days a week- 4.0, Partnerships and strategic alliances- 4.0, Increased marketing- 4.0, Mass market targeting- 4.0, Free value addition services-3.9, Fast service- 3.9, Employer bulk salary payment solutions- 3.9, High interest on deposits- 3.9, Internet banking- 3.9, New product development- 3.9.

To a moderate extent, respondents were neutral on , Mergers & acquisitions- 3.8, Cost cutting- 3.8, Plastic money/credit cards- 3.8, Plastic money/credit cards- 3.8, Project financing- 3.7, Club Memberships- 3.7, Higher cost of deposits- 3.7, Improved core banking system quality/no downtimes- 3.7, Diversification- Insurance/property development etc.-3.6, Business/Club Trips- 3.6, CSR activities- 3.5, Asset financing- 3.5, freebies as shown by a mean score of 3.4, High deposit interest rates as indicated by a mean score of 3.4, Branch network expansion as expressed by a mean score of 3.2 and Investment Banking as shown by a mean score of 3.2.

To increase market penetration, a business can employ strategies like price adjustments and increased distribution channels (McGrath, 2000). Mobile banking helps to break-down cost barriers by reducing bureaucracy, paperwork and the need for customers' to physically interface with Commercial Banks. This in turn helps to reach unbanked populations due to the resultant cost reductions. On the other hand, Agency banking (as well as mobile banking) increases the distribution channels of the banks making banking services more available to previously hard-to-reach areas. Further, one of the generic strategies postulated by Porter (1985) is focusing on a particular buyer group, segment of the product line, or geographic market. The entire focus strategy is built around serving a particular target very well. This strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both (Chacarbaghi and Lynch, 1999). Hence, the predictable high rating on Market Segmentation and Microfinance.

4.4.2 Factors influencing Commercial banks' strategic responses

To further understand the concept of the study, the respondents were asked to rate their customers' perceptions that drove Commercial banks' strategic responses to reach the unbanked populations in the country. The findings are presented in table 4.6

Table 4. 6: Customer perceptions that drive Commercial banks' strategic responses to reach unbanked populations in the country

Perception	Mean	Standard Deviation
Unavailability of anywhere anytime banking	4.491	0.862
Distance from formal financial institutions	4.403	0.676
Ignorance on advantages of formal saving/savings	4.283	0.649
Minimum bank balance requirements	4.194	0.680
Numerous account opening requirements	4.176	0.968
High bank charges/ banking is too expensive	4.060	0.715
Complicated bank processes and procedures	3.955	1.173
Environment for the rich	3.910	1.011
Inflexible accessibility of funds	3.872	0.799
Inflexibility in operating an account	3.537	1.035
Poor customer service	3.368	0.948
Funds security concerns	2.914	1.093
Lack of transaction facilitation services	2.872	1.425
Lack of substantial finances to bank	2.863	1.143

A relatively large proportion of the respondents agreed that unavailability of anywhere anytime banking drove their banks strategic responses to reach unbanked populations in the country as shown by a mean score of 4.491. Second choice by majority of the respondents was distance from formal financial institutions as shown by a mean score of 4.403. And so on as follows; ignorance on advantages of formal saving/savings as indicated by a mean score of 4.283, minimum bank balance requirements as expressed by a mean score of 4.194, numerous account opening requirements as shown by a mean score of 4.176, high bank charges/ banking is too expensive as shown by a mean score of 4.060, complicated bank processes and procedures as shown by mean score of 3.955, environment for the rich as shown by a mean score of 3.910, inflexible accessibility to funds as indicated by a mean score of 3.872 and inflexibility in operating an account as shown by a mean score of 3.537.

The respondents were neutral on poor customer service, funds security concerns, lack of transaction facilitation services and lack of substantial finances to bank (with low mean scores of 3.368, 2.914, 2.872 and 2.863 respectively).

4.5 Market Penetration of Unbanked Populations in Kenya

The study sought to establish the extent of market penetration of the unbanked population in Kenya.

4.5.1 Customer Attrition

Customer attrition and retention is a major challenge for any business operating in any industry. The Commercial banks were asked to indicate how many customers their bank had lost in the last five years.

Table 4. 7: Customers lost in the last five years

Customer Attrition	Frequency	Percentage %	Cumulative %
Below 50,000	29	85.3	85.3
Over 50,000 but below 100,000	5	14.7	100.0
Total	**34**	**100.0**	**100.0**

According to the findings, majority of the respondents (85.3%) had lost below 50,000 customers while 14.7% had lost between 50,000 and 100,000 customers. These results are consistent with a net increase in acquired customers as hitherto established.

4.5.2 Customer Growth

Having established customer attrition levels, the study further sought to unravel customer growth levels in the last five years. The findings are as presented below;

Table 4. 8: Customers acquired in the last five years

Newly Acquired Customers	Frequency	Percentage %	Cumulative %
Below 500,000	19	55.9	55.9
Over 500,000 but below 1 million	12	35.3	91.2
Over 1 million but below 2 million	3	8.8	100.0
Total	**34**	**100.0**	**100.0**

Presented with choices on the number of customers acquired by commercial banks in the last five years, majority of the respondents (55.9%) indicated that their bank had acquired below 500,000 customers. 35.3% had acquired between 500,000 and 1 million customers while 8.8% of the banks had acquired between 1 million and 2 million customers. This is representative of the classification of the banks and their capabilities as small banks, middle tier banks and large banks. It also speaks to the huge potential that awaits commercial banks if they continue to pursue strategies that are targeted at the unbanked population in the country.

Customer growth numbers are significantly higher in comparison to the customer attrition numbers. This implies an increase in customers' industrywide, and also shows that previously unbanked populations have indeed been looped into the financial system, thus deepening financial inclusion. Market penetration is a strategy in which the organization is targeting new markets, or new areas of the market. In this strategy, the organization strives to sell more of the same product(s) to different people. It usually covers products that are already in existence and explores the full exploitation of the product without necessarily changing the product or the outlook of the product. (Lambin, Jean-Jacques, 1996).

4.5.3 Classification of newly acquired customers

To put into perspective whether newly acquired customers were exclusively, previously unbanked Kenyan populations or otherwise, the study sought to establish how the respondents would classify their newly acquired customers in the last one year.

Table 4. 9: Classification of newly acquired customers

Classification	Mean	Standard Deviation
Customers with regular incomes	4.057	0.757
Customers who formerly had accounts with other banks	3.975	0.804
Customers with irregular incomes	3.917	0.619
Customers who formerly had access to informal financial channels	3.781	0.574
Customers who formerly only had access to mobile money services	3.647	0.546
Customers who formerly had no accounts with other banks	3.563	0.822

The respondents indicated that their newly acquired Clients were Customers with regular incomes as indicated by a mean score of 4.057, followed by Customers who formerly had accounts with other banks as expressed by a mean score of 3.975, then Customers with irregular incomes as indicated by a mean score of 3.917, Customers who formerly had access to informal financial channels as indicated by a mean score of 3.781, Customers who formerly only had access to mobile money services as indicated by a mean score of 3.647 and lastly, Customers who formerly had no accounts with other banks as shown by a mean score of 3.563. This is an indication that while some of their strategies may specifically target unbanked Kenyan populations, commercial banks inadvertently attract other market segments in the process. It could also mean that commercial banks apply a wide array of strategies to all market segments. This brings to light the interesting concept of underbanked populations who opt to change banks, so as to access new, fresh and exciting products and services.

4.5.4 Main Market segments targeted by Commercial Banks

The study sought to establish the main market segments targeted by strategic responses adopted by Commercial Banks to reach unbanked populations in Kenya. The findings are as below;

Table 4. 10: Main market segments targeted by strategic responses adopted by Commercial Banks to reach unbanked populations in Kenya

Market Segment	Mean	Standard Deviation
Customers in Rural Remote areas	4.492	0.826
Mobile money transfer users	4.457	0.742
Religious doctrine- e.g. sharia compliant populations	4.237	0.636
Students	3.831	0.743
Populations turning 18	3.671	0.784
Diaspora	3.252	0.744
Minors	3.126	0.683
Illiterate populations	3.047	0.747

The respondents agreed strongly that foremost, commercial banks targeted Customers in Rural Remote areas, shown by a mean score of 4.492. Mobile money transfer users were ranked second as indicated with a mean score of 4.457. Sharia compliant populations were rated third by a mean score of 4.237. Students came forth as expressed by a mean score of 3.831. The study also elicited, fair reactions on populations turning 18 as shown by a mean score of 3.671. The respondents were neutral on the banks strategic responses targeting the diaspora as indicated by a mean score of 3.252, minors as shown by a mean score of 3.126 and illiterate populations as demonstrated by a mean score of 3.047.

4.5.5 Alternative financial channels used by the unbanked population

The study recognized that the availability of alternatives to banking also affects the uptake of banking services among the unbanked populations. It therefore sought to establish the opinion of the respondents on alternative financial channels that majority of unbanked populations tended to use.

Table 4. 11: Alternative financial channels that majority of unbanked populations tend to use

Alternative Channel	Mean	Standard Deviation
Telecom companies e.g. Mpesa, Airtel money etc.	4.464	0.645
Hawalla Networks	4.122	0.500
Money transfer services e.g. MoneyGram, western union, Nation Hella etc.	4.106	1.113
Post office services	3.321	0.587
Shylocks	2.632	1.414

According to the findings in Table 4.12, the respondents indicated that the main alternatives to banking channels that unbanked populations tended to use included Mobile money services like: Mpesa, Airtel money, Tangaza etc. as shown by a mean score of 4.464, Hawalla networks as expressed by a mean score of 4.122 and Money transfer services like MoneyGram, western union, nation hella etc. as indicated by a mean score of 4.106. The respondents also expressed mild opinions on post office services and shylocks as indicated by mean scores of 3.321 and 2.632 respectively. This underscores the fact that Kenya is a developing economy with its unique peculiarities. A huge population of the citizens have access to a mobile phone but not similar access to formal banking services.

The quest for financial inclusion is generating a lot of interest, not just in Kenya but throughout developing economies. Financial exclusion is thus a key policy concern, because the options for operating a household budget, or an enterprise, without mainstream financial services can be difficult. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas (Sharma, 2008**).** While the proportion of the financially excluded has been falling steadily from 39.3% in 2006 to 31.4% in 2009, the figure as at December 2013 still stood at 25.4%. This can be attributed to mobile money services and more specifically, Mpesa (FSD Kenya, 2013).

4.6 Influence of Strategy on Market Penetration of the unbanked population

In this section the researcher sought to establish the influence of strategy on market penetration of the unbanked population in Kenya.

4.6.1 Impact of Strategy on Market Penetration of the unbanked population

The study sought to establish whether the strategies used by Commercial banks had succeeded in enhancing market penetration of unbanked populations in the country. The findings are as shown in Table 4.12.

Table 4. 12: Whether the strategies used by Commercial banks succeeded in enhancing market penetration of unbanked populations

Market Penetration	Frequency	Percentage %	Cumulative %
Agree Strongly	28	82.4	82.4
Agree	6	17.6	100.0
Total	**34**	**100.0**	**100.0**

The response to this parameter was hugely positive as a majority of the respondents (82.4%) strongly agreed that the strategies used by Commercial banks succeeded in enhancing market penetration of unbanked populations in the country. 17.6% just agreed, while the other options yielded no reactions.

4.6.2 Correlation Analysis between the Strategic Responses adopted by Commercial Banks and Market Penetration of the Unbanked Population

In order to establish the relationship between the strategic responses adopted by commercial banks and market penetration of the unbanked population in Kenya, Pearson product moment correlation analysis was used. A correlation is a number between -1 and +1 that measures the degree of association between two variables. The correlation coefficient value (r) ranging from 0.10 to 0.29 is considered to be weak, 0.30 to 0.49 is considered medium and 0.50 to 1.0 is considered strong. A positive value of the correlation implies a positive. A negative value of the correlation implies a negative or inverse association. The data presented on Market segmentation, Mobile banking, Agency banking and Microfinance were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlation analysis was then conducted at 95% confidence and 5% level of significance 2-tailed. The Table

4.13 below indicates the correlation matrix between the strategic responses adopted by commercial banks and market penetration of the unbanked.

Table 4. 13: Correlation Matrix

		Market penetration	Market Segmentation	Mobile banking	Agency banking	Microfinance
Market penetration	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Market Segmentation	Pearson Correlation	0.628*	1			
	Sig. (2-tailed)	0.011	.			
Mobile banking	Pearson Correlation	0.778**	0.503*	1		
	Sig. (2-tailed)	0.001	0.015	.		
Agency banking	Pearson Correlation	0.632*	0.843**	0.677*	1	
	Sig. (2-tailed)	0.018	0.01	0.048	.	
Microfinance	Pearson Correlation	0.609*	0.503*	0.629*	0.514*	1
	Sig. (2-tailed)	0.038	0.019	0.012	0.013	.

According to the correlation matrix, there is a positive and significant relationship between the market penetration of the unbanked and Market segmentation, Mobile banking, Agency banking & Microfinance, of magnitude 0.628, 0.778, 0.632 and 0.609 respectively. The positive relationship indicates that there is a correlation between the highlighted strategic responses and market penetration of the unbanked population. This is also strongly supported by P-values of 0.011, 0.001, 0.018 and 0.038 respectively at 5% level of significance and 95% level of confidence.

This infers that all the strategic responses positively and significantly influenced market penetration of the unbanked population in Kenya with Mobile banking having the highest effect on market penetration. This was followed by Agency banking, and closely by Market segmentation. Microfinance had the lowest effect on market penetration of the unbanked population. This notwithstanding, all the factors were significant (p-value <0.05) at 95% confidence level.

Mobile banking helps to break down unnecessary cost barriers by reducing bureaucracy, paperwork and customers' physical interface with the banks and in turn, reaching unbanked populations due to cost reductions. On the other hand, Agency banking (as well as mobile banking) increases the distribution channels of the banks, making banking services more available to previously hard-to-reach areas. Microfinance also featured strongly. Microfinance is the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. The target market for microfinance products is generally the unbanked, and by seeking ways to bring this population into the financial system/fold commercial banks can wrestle a piece of this important pie from MFIs.

Market penetration is a strategy in which the organization is targeting new markets, or new areas of the market. In this strategy, the organization strives to sell more of the same product(s) to different people. It usually covers products that are already in existence and explores the full exploitation of the product without necessarily changing the product or the outlook of the product (Lambin, Jean-Jacques, 1996).

4.6.3 Regression Analysis between the Strategic Responses adopted by Commercial Banks and Market Penetration of the Unbanked Population

For further investigation, a simple regression analysis was also conducted to test the relationship between the strategic responses adopted by commercial banks and market penetration of the unbanked population in Kenya. The findings are as computed in Tables 4.14, 4.15 and 4.16

Table 4. 14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8662	0.7503	0.6902	0.7325

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R^2, also called the coefficient of multiple determinations, is the percentage of the variance in the dependent variable explained uniquely or jointly by the independent variables. 69.02% of the market penetration of the unbanked population in Kenya could be attributed to the combined effect of the four strategic responses.

Table 4. 15: Summary of One-Way ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	**Regression**	9.223	4	2.306	3.334	0.15
	Residual	42.876	29	0.692		
	Total	52.099	33			

The probability value of 0.015 indicates that the regression relationship was highly significant in predicting how the different strategic responses affect market penetration of the unbanked population given P-value < 0.05. From the findings, there is also sufficient evidence to claim that there is a statistically significant difference in the effect of the different strategic responses on market penetration of the unbanked population as determined by the one-way ANOVA $F(4,29) = 3.334$ at 5% level of significance. This strongly suggests that the succeeding model is relevant.

Table 4. 16: Regression coefficients of the relationship between strategic responses adopted by commercial banks and market penetration of the unbanked population in Kenya

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	1.053	0.217		4.853	0.000
	Market segmentation	0.682*	0.149	0.613	4.577	0.011
	Mobile banking	0.763**	0.091	0.138	8.385	0.001
	Agency banking	0.701*	0.181	0.149	3.873	0.018
	Microfinance	0.599*	0.196	0.234	3.056	0.038

As per the SPSS generated table above, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3} + \beta_4 X_4 + \varepsilon$) becomes:

$Y = 1.053 + 0.682X_1 + 0.763X_2 + 0.701X_3 + 0.599X_4$

The regression equation above has established that taking all factors into account (Market segmentation, Mobile banking, Agency banking and Microfinance), the

Constant at zero market penetration of the unbanked population in Kenya will be 1.053. The findings presented also show that taking all other independent variables at zero, a unit increase in the scores for Market segmentation would lead to a 0.682 increase in the scores of market penetration of the unbanked population in Kenya. Similarly a unit increase in the scores of Mobile banking would lead to a 0.763 increase in the scores of market penetration of the unbanked population in Kenya. Further, the findings show that a unit increases in Agency banking would lead to a 0.701 increase in the scores of market penetration of the unbanked population in Kenya. The study also found that a unit increase in the scores of Microfinance would lead to a 0.599 increase in the scores of market penetration of the unbanked population in Kenya.

Overall, Mobile banking had the greatest effect on the market penetration of the unbanked population in Kenya, followed by Agency banking, then Market segmentation while Microfinance had the least effect on market penetration of the unbanked population in Kenya. All the variables were significant ($p<0.05$).

Organisational strategy is one of the broadest and most complex concepts used in studying organisations. Many, if not most, organisations simultaneously pursue a combination of two or more strategies, but a combination strategy can be exceptionally risky if carried too far. No organisation can afford to pursue all the strategies that might benefit the organisation. Difficult decisions must be made and priorities established. In short, organisations like individuals have limited resources. (David, 2011)

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key findings, conclusions drawn from the findings and recommendation made subsequently. This was a study on the strategic responses adopted by commercial banks to enhance market penetration of the unbanked population in Kenya. The conclusions and recommendations drawn were focused on addressing the objectives of the study which were; i) To determine the strategic responses adopted by commercial banks to enhance market penetration of the unbanked population in Kenya. ii) To determine the influence of strategic responses adopted by commercial banks on enhancing market penetration of the unbanked population in Kenya.

5.2 Summary and Discussion of the Findings

5.2.1 Strategic Responses Adopted by Commercial Banks

The study established that Market segmentation was the most popular of the strategies adopted by commercial banks in an effort to enhance market penetration of the unbanked population in Kenya. One of the generic strategies postulated by Porter (1985) is focusing on a particular buyer group, segment of the product line, or geographic market. The entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both (Chacarbaghi and Lynch, 1999).

Mobile banking was the second most frequently chosen strategy by the commercial banks followed closely by Agency banking. To increase market penetration, a business can employ strategies like price adjustments, increased distribution channels, and product improvements (McGrath, 2000). Mobile banking helps to break down cost barriers by reducing bureaucracy, paperwork and the need for customers' to physically interface with Commercial Banks. This in turn helps to reach unbanked populations due to the resultant cost reductions. On the other hand, Agency banking (as well as mobile banking) increases the distribution channels of the banks, making banking services more available to previously hard-to-reach areas.

The study also established that Commercial banks employed Microfinance as a strategy to reach the unbanked population in Kenya. This was despite the existence of MFI institutions licensed to operate in the country by the Central Bank of Kenya, alongside the commercial banks. This is in line with Wilson (1992) who propagated the view that market development options include the pursuit of additional market segments or geographical regions. It may also be known as market extension. The development of new markets for the product may be a good strategy if the organizations core competencies are related more to the specific product than to its experience with a specific market segment. This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited thus the need to venture into new markets.

The researcher’s interest was drawn to the customer perceptions that prompted commercial banks to develop strategic responses to reach the unbanked population in the country. The study established that unavailability of anywhere anytime banking drove Commercial banks' strategic responses to reach unbanked populations in the country. This was followed by customers' distance from formal financial institutions, ignorance on advantages of formal saving/savings, existence of minimum bank balance requirements, numerous account opening requirements and high bank charges. That is to say, unbanked populations in Kenya deemed banking to be inconvenient, too far, too expensive or they were simply ignorant on the advantages of formal banking.

In summary, Commercial banks employed strategic responses like, Market Segmentation, Mobile Banking, Agency Banking and Microfinance to reach the unbanked population in the country. This is testament to the fact that Commercial banks were indeed, embracing technological advances to get around cost barriers and help in reaching customers where they are located - overcoming infrastructural deficiencies and costs involved in physically reaching out to clients.

5.2.2 Market Penetration of the Unbanked Population

Presented with choices on customer growth, majority of the commercial banks indicated that they had all acquired additional customers in the last five years. These results were representative of the classification of the Commercial Banks and their capabilities as small banks, middle tier banks and large banks. It also speaks to the huge potential that awaits commercial banks if they continue to pursue strategies that are targeted at the unbanked population in Kenya. Customer attrition and retention is also a major challenge for any business operating in any industry. The Commercial banks were asked to indicate how many customers their bank had lost in the last five years. The results were minimal as compared to the number of customers gained. These results were consistent with a net increase in acquired customers industrywide.

To put into perspective whether newly acquired customers were exclusively, previously unbanked Kenyan populations or otherwise, the study sought to establish how the respondents would classify their newly acquired customers in the last one year. The respondents indicated that their newly acquired Clients were Customers with regular incomes, followed by Customers who formerly had accounts with other banks, then Customers with irregular incomes, Customers who formerly had access to informal financial channels, Customers who formerly only had access to mobile money services and lastly, Customers who formerly had no accounts with other banks. This is an indication that while some of their strategies may specifically target unbanked Kenyan populations, commercial banks inadvertently attract other market segments in the process. It could also mean that commercial banks apply a wide array of strategies to all market segments. This brings to light the interesting concept of underbanked populations who may opt to change banks, so as to access new, fresh and exciting products and services.

The study also established that foremost, commercial banks targeted Customers in Rural Remote areas. Mobile money transfer users were ranked second, followed by Sharia compliant populations, Students, populations turning 18, Kenyans in the Diaspora, minors and lastly- illiterate populations.

The study recognized that the availability of alternatives to banking also affects the uptake of banking services among the unbanked populations. It therefore sought to establish the opinion of the respondents on alternative financial channels that majority of the unbanked population tended to use. The findings established that unbanked populations tended to use; mobile money services like: Mpesa, Airtel money etc, Hawalla networks and Money transfer services like MoneyGram, western union, nation hella etc. These results reinforced the interesting choice of strategic responses employed by commercial banks to reach the unbanked population in the country.

The quest for financial inclusion is generating a lot of interest, not just in Kenya but throughout developing economies. Financial exclusion is thus a key policy concern, because the options for operating a household budget, or an enterprise, without mainstream financial services can be difficult. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas (Sharma, 2008**).** While the proportion of the financially excluded has been falling steadily from 39.3% in 2006 to 31.4% in 2009, the figure as at December 2013 still stood at 25.4%. This can be attributed to mobile money services and more specifically, Mpesa (FSD Kenya, 2013).

5.2.3 Influence of Strategy on Market Penetration

In order to establish the relationship between the strategic responses adopted by commercial banks and market penetration of the unbanked population in Kenya, Pearson product moment correlation analysis was used. The data presented on Market segmentation, Mobile banking, Agency banking and Microfinance were computed into single variables per factor by obtaining the averages of each factor. According to the correlation matrix, there was a positive and significant relationship between market penetration and Market segmentation, Mobile banking, Agency banking and Microfinance of magnitude 0.628, 0.778, 0.632 and 0.609 respectively. The positive relationship indicated that there was a correlation between the strategic responses employed by commercial banks and market penetration of the unbanked population. The correlation findings infer that all the factors positively and significantly influenced market penetration with Mobile banking having the highest effect on market penetration, followed by Agency banking, followed by Market segmentation, while microfinance had the lowest effect on market penetration. This notwithstanding, all the factors were significant. The regression analysis yielded similar strong relationships and inferences.

Organizational strategy is one of the broadest and most complex concepts used in studying organizations. Many, if not most, organizations simultaneously pursue a combination of two or more strategies, but a combination strategy can be exceptionally risky if carried too far. No organization can afford to pursue all the strategies that might benefit the organization. Difficult decisions must be made and priorities established. In short, organizations like individuals have limited resources (David 2011).

5.3 Conclusion

The study concludes that mobile banking positively and significantly influences market penetration of the unbanked population in Kenya. The mobile money revolution as exemplified by the unprecedented success of Mpesa is giving commercial banks in Kenya, a run for their money. Another noteworthy example is Mshwari. While banks have existed longer than mobile telecommunication companies, their appetite for financial inclusion has been very low until recently. Technological advancements in the area of mobile money is creating stiff competition from non-traditional banking sector players and creating overlapping interests with Commercial Banks. This is unfolding new regulatory and risk environments that have to be managed carefully while improving oversight and encouraging innovation within the sectors. By leveraging on mobile banking, commercial banks are in many ways already realizing some hallmarks of Kenya's vision 2030 blueprint as customers have access to their funds 24 hours a day 7 days a week. Effectively, mobile banking creates a 24 hour financial system, on course to supporting a robust 24 hour economy.

Agency Banking too, positively and significantly influences market penetration of the unbanked population in Kenya. In many ways it is the same platform (mobile money) that drives Agency banking, as mobile handsets are essential for the operations of bank Agents. By bringing banking services closer to the people (especially in the rural and marginalised areas) and having it accessible from other ordinary small time businesses, the perception of banking exclusivity is shattered, making the unbanked population more open to formal financial services. In short, Decentralized banking services through extensive Agent outlets enhances accessibility to previously hard-to-reach areas.

The study also concludes that Microfinance has a positive effect on market penetration among the unbanked population in Kenya. Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to formal banking services. Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. The target market for microfinance products is generally the unbanked, and by seeking ways to bring this population into the financial system/fold commercial banks, with their financial muscle can steadily wrestle a piece of this pie from MFI's.

All the strategies captured above are given impetus by market segmentation which also had a positive and significant effect on market penetration of the unbanked population in Kenya. To further contextualize the concept of market segmentation, the researcher chose to highlight the commercial banks' outreach to sharia compliant populations (also given favourable ratings by the respondents). The banking industry has seen an upsurge in institutions offering Islamic Finance products which have been driven by awareness of faith based concepts in financial markets globally. Kenya has an estimated population of 12 million people who profess the Islamic faith. Current market surveys indicate that a large proportion of this community remains unbanked as it has - not been fully catered for due to faith related issues which forbid the earning or payment of interest. Kenya has two fully fledged Islamic Banks and a few conventional banks which have dedicated Islamic Banking units to serve this market segment of the unbanked population (KCB Internal Circular, 2014).

5.4 Recommendations from the Study

In rapidly evolving financial markets, applied technologies can make the difference between a larger market share or decline in market share. Commercial Banks can embrace technologies like mobile banking to reach a larger market segment/specific market segments and provide the much needed convenience to their existing customers. For instance, in their outreach to the microfinance segment, commercial banks need to be more efficient and productive by decreasing the cost of due diligence mostly characteristic of Microfinance loans. Microfinance is a labour intensive proposition and involves lending in small incremental amounts to a large number of people. Essentially, it is about scale, in order to make a profit. This often means higher staff numbers and costs, higher processing, monitoring and administration costs as opposed to say lending the entire sum to one person. Due diligence is carried out for each individual loanee in order to safeguard the quality of lending and establish credit worthiness. Commercial banks need to get around these cost barriers by embracing technological advances like mobile money/banking. Mobile banking has the potential to help with customer data analytics and credit scoring. They also help in reaching customers where they are located - overcoming infrastructural deficiencies and related costs involved in physically reaching out to clients.

With the proliferation of cheaper mobile handsets by the day and the production of sophisticated mobile applications looming even larger in the future, Commercial banks in Kenya need to appreciate that customers and competitors alike are just a dial/tap away. How they respond to this Threat/Opportunity could possibly determine the future of their organizations.

Innovation and the use of technology platforms are giving rise to new challenges on how to establish effective regulatory infrastructures to provide oversight for converging banking and non- financial sector players who offer financial solutions. This is a delicate balance between providing risk mitigating oversight and encouraging innovation in a bid to expand the primary and secondary industries. The findings of this study establish that partnerships and cooperation among different industry players is inevitable in order to enhance the market penetration of the unbanked population in Kenya. As much as organizations compete, they also cooperate in order to survive. Research writings by Pfeffer and Salancik in 1978 suggested that resources are often controlled by organizations not in the control of the organization needing them. They implied that no organization can secure the resources and capabilities required to survive without interacting with organizations and individuals beyond their boundaries as they seek to improve their chances of survival through adaptation to the environment. It is not lost to the researcher that during the writing of this paper, there was much heated debate on the introduction of Thin-Mobile Sim technology into the market by one of the leading Commercial banks in Kenya.

5.5 Limitations of the Study

The respondents were purely drawn from Heads of Strategy or their equivalent in all the 43 Commercial banks registered and licensed under the Banking Act of Kenya. The researcher would have loved to interview segments of the unbanked population as well, but due to time constraints this was not possible.

5.6 Recommendations for further Studies

Other studies should be done to investigate the strategic responses adopted by commercial banks in order to reach the underbanked population in Kenya. A similar study should also be done on other sectors (mobile money services, microfinance and agency banking) and how they influence financial inclusion/performance of Commercial Banks in Kenya. Further studies should also be done on the influence of customer data analytics and credit scoring on Commercial Bank strategies.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited (Under Statutory Management)
8. Chase Bank (K) Limited
9. Citibank N.A Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co-operative Bank of Kenya Limited
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank Kenya Limited
16. Dubai Bank Kenya Limited
17. Ecobank Kenya Limited
18. Equatorial Commercial Bank Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Fidelity Commercial Bank Limited
22. Guaranty Trust Bank (K) Limited (Formely-Fina Bank Limited)
23. First Community Bank Limited
24. Giro Commercial Bank Limited
25. Guardian Bank Limited
26. Gulf African Bank Limited
27. Habib Bank A.G Zurich
28. Habib Bank Limited
29. Imperial Bank Limited
30. I & M Bank Limited
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank (K) Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Standard Chartered Bank Kenya Limited
41. Trans-National Bank Limited
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Limited

Appendix II: Research Questionnaire

This questionnaire is aimed at collecting data regarding the strategic responses adopted by commercial banks to enhance market penetration of the unbanked population in Kenya. You have been selected to participate in the study and are requested to take a few minutes of your time to kindly answer the questions presented. Kindly give your most accurate response to all the questions as requested. We assure you that your responses will be confidential. Your kind support is deeply appreciated.

SECTION A: GENERAL INFORMATION

1. What is your job role/title?
2. How long have you worked in your current position? (   ) years
3. How would you rate your level of involvement in your banks strategy formulation process? (tick as appropriate)

   A lot (   )   Slightly (   )   Fairly (   )   A little (   )   Not at All (   )

4. How would you classify the bank that you work for? (tick as appropriate)

   Large bank (   )   Middle tier bank (   )   Small bank (   )

5. Does your bank encourage innovation? (tick as appropriate)

   Strongly Disagree (   )   Disagree (   )   Agree Strongly (   )   Agree (   )
   Don't Know/Neutral (   )

SECTION B: STRATEGIC RESPONSES ADOPTED BY COMMERCIAL BANKS

6. Do your strategies fall into any of the following categories? (Key: 1 = To a large extent; 2 = To a moderate extent; 3 = to a slight extent; 4 = to no extent; 5 = Don't Know/Neutral)

	STRATEGY	1	2	3	4	5
i)	Branch network expansion					
ii)	New product development					
iii)	Increased marketing					
iv)	Market segmentation					
v)	Plastic money/credit cards					
vi)	Cost cutting					
vii)	Higher cost of deposits					
viii)	Improved core banking system quality/no downtimes					
ix)	Fast service					
x)	Pleasant service					
xi)	Mergers and acquisitions					
xii)	Out-sourcing of services e.g agency banking					
xiii)	Partnerships and strategic alliances					

xiv)	Simplified engagement					
xv)	Lower interest rates					
xvi)	Mobile banking					
xvii)	Diversification- Insurance/property development etc					
xviii)	Internet banking					
xix)	Mass market targeting					
xx	Investment banking					
xxi)	Cultural accommodation e.g Sharia Compliant Banking					
xxii)	CSR activities					
xxiii)	Reduction in account opening requirements					
xxiv)	Access to customer funds 24 hours a day 7 days a week					
xxv)	Loan enticements/emergency loans and advances					
xxvi)	Savings group services/ solutions for chamas					
xxvii)	Employer bulk salary payment solutions					
xxviii)	Transaction facilitation					
xxix)	Free value addition services					
xxx)	High interest on deposits					
xxxi)	Club Memberships					
xxxii)	Business/Club Trips					
xxxiii)	Freebies					
xxxiv)	Heavy Advertising					
xxxv)	Social Media presence					
xxxvi)	Credit enticement					
xxxvii)	High deposit interest rates					
xxxviii)	Microfinance					
xxxiv)	Asset financing					
XL)	Project financing					

7. Which customer perceptions drive your strategic responses to reach unbanked populations in the country? (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Agree; 4 = Strongly Agree; 5 = Don't Know/Neutral)

	PERCEPTIONS	**1**	**2**	**3**	**4**	**5**
i)	Complicated bank processes and procedures					
ii)	Numerous account opening requirements					
iii)	Lack of substantial finances to bank					
iv)	Ignorance on advantages of formal saving/savings					
v)	Distance from formal financial institutions					
vi)	High bank charges/ banking is too expensive					
vii)	Inflexible accessibility to funds					
viii)	Minimum bank balance requirements					
ix)	Poor customer service					
x)	Environment for the rich					
xi)	Inflexibility in operating an account					
xii)	Unavailability of anywhere anytime banking					
xiii)	Funds security concerns					
xiv)	Lack of transaction facilitation services					

SECTION C: MARKET PENETRATION OF UNBANKED POPULATIONS

8. How many customers has your bank lost in the last five years? (tick as appropriate)

Below 50,000 ( )

Over 50,000 but below 100,000 ( )

Over 100,000 but below 150,000 ( )

Over 150,000 but below 200,000 ( )

Over 200,000 ( )

9. How many new customers has your bank acquired in the last five years? (tick as appropriate)

Below 500,000 ( )

Over 500,000 but below 1 million ( )

Over 1 million but below 2 million ( )

Over 2 million but below 3 million ( )

Over 3 million ( )

10. How would you classify your newly acquired customers in the last one year? (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Agree; 4 = Strongly Agree; 5 = Don't Know/Neutral)

	TYPE	**1**	**2**	**3**	**4**	**5**
i)	Customers who formerly had accounts with other banks					
ii)	customers with regular incomes					
iii)	customers with irregular incomes					
iv)	customers who formerly had no accounts with other banks					
v)	Customers who formerly had access to informal financial channels					
vi)	Customers who formerly only had access to mobile money services					

11. Which populations do your strategies to reach unbanked populations target? (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Agree; 4 = Strongly Agree; 5 = Don't Know/Neutral)

	TARGET	**1**	**2**	**3**	**4**	**5**
i)	Customers in Rural Remote areas					
ii)	Populations turning 18					
iii)	Minors					
iv)	Students					
v)	Religious doctrine- eg sharia compliant populations					
vi)	Mobile money transfer users					
vii)	Diaspora					
viii)	Illiterate populations					

12. In your opinion, which alternative channels do unbanked populations use? (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Agree; 4 = Strongly Agree; 5 = Don't Know/Neutral)

	CHANNELS	1	2	3	4	5
i)	Shylocks					
ii)	Hawalla					
iii)	Money transfer services e.g moneygram, western union etc					
iv)	Telecommunication companies					
v)	Post office services					
vi)	Other					

SECTION D: INFLUENCE OF STRATEGY ON MARKET PENETRATION

13. Have your strategies succeeded in enhancing market penetration of unbanked populations? (tick as appropriate)

    Strongly Disagree ( ) Disagree ( ) Agree Strongly ( ) Agree ( )
    Don't Know/Neutral ( )

14. Would your attribute your answer above to your strategic responses? (tick as appropriate)

    Strongly Disagree ( ) Disagree ( ) Agree Strongly ( ) Agree ( )
    Don't Know/Neutral ( )

15. Please add any specific or general comments on the issues raised in this questionnaire that you feel have not been sufficiently addressed.
    …………………………………………………………………………………
    …………………………………………………………………………………

16. Would you be willing to take part in a short telephone interview to cover specific areas of the survey in more detail?
    If yes, please provide your telephone number
    ………………………………………………………

Thank you for taking time to complete this questionnaire. If you have any queries about specific questions, or if you would like to know more about the study, please do not hesitate to contact the researcher on elvisopiche@gmail.com

THANK YOU