STRATEGIC RESPONSES TO COMPETITION AT THE NATIONAL BANK OF KENYA LIMITED

BY

EMILY ATIENO ODIWUOR

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESSADMINISTRATION (MBA) SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university for the award of any degree or academic credit.

Signed______________________ Date x r h n

Emily Atieno Odiwuor **REG.NO D61/P8270/05**

The proposal has been submitted for examination with my approval as the appointed University supervisor.

SUPERVISOR: JEREMIAH KAGVVE

Signed______________________ Date •i-s 1' u / œqI

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DEDICATION

To my Parents

Husband. Sons and Daughter

With all my love

ACKNOWLEDGEMENT

First I would like to appreciate the works of all those who participated in one way or another towards the completion of the research project.

To my supervisor. Mr. Jeremiah Kagwe. I extend my sincerest thanks for his guidance, suggestions, comments, criticism and support during the preparation of the research project.

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Thank you Heavenly Father.

ABSTRACT

The environment in which businesses operate faces stiff competition due to the existence of other firms producing and/or selling the same products or services. Businesses have as a result to cope with the competition by adopting strategic responses to it or risk being thrown out of the market by the same competition. In the contemporary world, owing to the increasing need for financial security of money earned by individuals or corporates many banking and financial firms have been established and are increasing being established which call for adoption of strategic responses in the sector. The purpose of the study was to find out strategic responses to competition adopted by National Bank of Kenya.

This research utilized a case study design in which an interview guide was used on 10 departmental heads in the NBK Ltd head office in Nairobi. Qualitative analysis on the qualitative data obtained from the interviews was done using content analysis.

Findings from the study indicated that National bank of Kenya used customer service, technology and differentiation strategy to a very great extent. Most of the strategies focused on the banks financial performance and technology improvement. Findings from the study also found out that NBK also has appropriate marketing channel that enables it to reach current and potential customers. The study recommends that NBK focus on using providing it services at a lower cost and extensively use differentiation advantage to gain competitive advantage over competitors.

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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Competition

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies developing meaning that new products can be made, a world or countrywide event happening e.g. war, and government introducing new legislation e.g. increases minimum wage. Strategy scholars have found that operating in a global industry context is an important element in determining the organizational environmental fit (Hambrick and Lei. 1985). For domestic firms facing global competition, industry position imposes an additional competitive challenge that differs from purely domestic competition (Ghoshal, 1987). AcCording to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Mahoney and Pandian. 1992).

The business environment within which the commercial banks in Kenya operate has been very volatile. Markets that were thought secure now look vulnerable to competition from the local and international banks. Therefore managers must decide how best to respond to this competition: which markets to compete in (and which not so) and on what basis to compete-price. quality, customer service, availability. The dynamism of the banking environment in the current times is posing many challenges to banks. Following the background of this study, national banks can only survive if it devices means of coping up with the environment.

Environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive.

Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson. 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations now realize that their services and products, regardless of how good they are, simply do not sell themselves (Kiotler, 2000).

1.1.2 Strategic Responses

A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long-term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics first it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals.

The strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources. This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a 'strategy' designed to keep the organization in business (Tim and Hannagan .2005). According to Drucker.(l 961) strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

In the banking industry, increased*competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector. It exerts pressure on banks to be proactive; and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage. According to Johnson and Scholes (1997), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

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Drucker (1958) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. One of the environmental influences to a business normally arise form competition.

In the banking industry. Young (1999) concludes that understanding market structure is a key determinant to the successful implantation of a differentiation or cost leadership strategy and Devlin (1995) suggests that distribution systems provide one way to differentiate banking services and Farrance (1993) identified distribution, technology, segmentation, pricing, product development, branding, service quality, and relationship banking as areas where financial institutions currently pursue differentiation strategies. However. Devlin and Ennew (1997) caution that a differentiation strategy may be difficult to implant in a service industry because services are easily copied and fruitful options for achieving differentiation may be limited due to the simplicity and duplicabilitv of financial service, unless the target market is highly sophisticated and knowledgeable.

In a meta analysis of strategy research. Campbell-Hunt (2000) found that Porter's (1980) generic strategy classifications are capable of discriminating between competitive strategy designs in empirical research and called for repetition of prior studies in different industries using identical competitive methods on which a principal component solution can be employed. Our study accomplishes this in the banking industry.

Thus, strategy refers to the matching of the resources and activities of an organization to'the environment in which it operates (Johnson and Scholes 2001). According to Ansoff and McDonnell (1990). it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, systematic management of resistance during strategic implementation. Therefore strategic management is vital to a firm's success and, indeed, for its continued survival, thus this study focuses on National Bank's responses to challenges posed by competition in the banking industry.

1.1.3 Banking industry in Kenya

The Companies Act, the Banking Act. the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking sector was liberalised in 1995 and exchange controls lifted. The CBK. which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. Banks in Kenya have come together under the Kenya Bankers Association (KBA). which serves as a lobby for the banks' interests and addresses issues affecting its members.

There are forty-six banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned and yet some partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange (CBK, 2007).

The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

The Kenyan Banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate. The spread between deposits and loans continues to be around 8.5%, offering much profit potential. Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from Kshs 13.15 billion in December 2005 to Kshs 18.22 billion in December 2006. This growth is a continuation of the strong growth in profit after taxes that the industry has achieved for the past several years. The increase in profit reflected an increase in interest income on loans and advances, which rose by 14.36% or Kshs 5.51 billion to Kshs 43.9 billion in December 2006 from Kshs 38.39 billion in December 2005. The increase in interest income was due to the growth of 16% in loans given out. The rate on loans in the industry has been stable at an average of 11% (CBK. 2007).

1.1.4 The National Bank of Kenya Limited

National Bank of Kenya Limited (NBK). which was incorporated on 19th June 1968 and officially opened on Thursday November 14th 1968, is a major player in Kenya's banking industry. It is one of the largest banks in the country giving financial services to all sectors of the economy. The bank covers the financial landscape and responds positively to the needs of its customers. Shareholders and the economy.The objective for which it was forriied was to help Kenyans to get access to credit and control their economy after independence (www.nationalbank.co.ke, 12/09/2008).

In 1994. the government of Kenya reduced its shareholding by 32% (40 Million Shares) to members of the public. Again in May 1996. it further reduced its

Shareholding by 40 million Shares to the public. The current Shareholding now stands at: National Social Security Fund (NSSF) 48.06%, General Public - 29.44%, Kenya Government 22.5%. During the 34th Annual General Meeting held on 25th April 2003 the bank increased its Share Capital by Kshs. 6 Billion i.e. from Kshs. 3 Billion to Kshs. 9 billion through the creation of 1,200,000,000 non-cumulative preference Shares of Kshs. 5 each.

At March 31 2007, the Company's total assets were KES 38 billion. Total loans and advances to customers were KES 27 billion by that time and total customer deposits were KES 30 billion. The Bank had KES22 billion in insider loans and advances a 22% increase from the 2006 (insider loans/advances - KES 18 million). The gross non-performing loan in the same period was KES 33.6 billion (www.finance.nairobist.com, 30/09/08).

NBK operates two subsidiary Companies; NatBank Trustee and Investment Services Limited incorporated in Kenya on 21 St Jul 1995 with a Share Capital of Ksh.10 Million and Kenya National Capital Corporation Limited, (www.nationalbank.co.ke, 12/09/2008).

Besides offering traditional financial services and products, NBK has taken a leading role in the issuance and promotion of modem delivery and payment systems. The Bank has also been involved in the stock market playing multiple roles as an arranger, underwriter and placing agent. NBK is an appointed fiscal agent, registrar and market maker in the secondary market.

In spite of its portfolio highlighted above, National Bank of Kenya must realize that in order to survive in the competitive business environment where the competitors closely watch every move, strategic response is of essence. Successful strategies lead to superior performance and sustainable competitive advantage. The ability of a firm like NBK Ltd to command a competitive advantage depends on the sustainability of the competitive advantages that they command which has a direct link to the strategic responses it has formulated.

1.2 Problem Statement

The environment in which businesses operate faces stiff competition due to the existence of other firms producing and/or selling the same products or services. Businesses have as a result to cope with the competition by adopting strategic responses to it or risk being through out of the market by the same competition.

In the contemporary world, owing to the increasing need for financial security of money earned by individuals or cooperates many banking and financial firms have been established and are increasing being established. However the rate of establishment of the new firms is not commensurate with the existing market demand for the services enough to fully ensure that the firms be profitable. It is in the face of the rise in competition in the banking sector that banks need to adopt strategic response to this competition.

Though these challenges pose a major problem to the individual banking firms, scanty research has been done on the industry which further exacerbate the problem for individual firms don't know the way forward for lack of academic justification of the strategic response to competition that they should adopt. There is a need, therefore, to formulate a study on banking sector in Kenya, specifically to understand the strategic responses that the banks in Kenya have adopted to curb the ever-increasing competition. It is in this light that the researcher seeks to fill the existing gap in this area of study by answering the question: what are the strategic responses to competition by National Bank of Kenya.

1.3 Objective of the Study

The objective of the study is to identify the strategic responses to competition adopted by the National Bank of Kenya Limited.

1.4 Importance of the Study

This research aims to determine the strategic response adopted by National Bank in Kenya. The study will be invaluable to the various stakeholders in the banking industry:

The study will provide information on strategic responses in National Banks in Kenya to potential and current scholars. This will expand their knowledge on strategic responses in financial institutions and identify areas of further study.

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The policy makers will obtain knowledge of the financial sector dynamics and the responses that are appropriate: they will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector participation

The study will be invaluablbe to the stakeholders for they would: identify how competition factors affecting the operations of National Banks in Kenya Ltd as well as determining the extent to which this and other environmental factors affect operations of commercial banks. The stake holders would determine ways in which National Banks respond to increased competition.and identify the impediments that face National Bank of Kenya Ltd in responding to increased competition

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In order to attain the objective of the study, this chapter discusses strategy, competition and strategic responses that firms adopt so as to curb competition.

2.2 Competition

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

The primary objective of managers of profit seeking organizations like banks is to maximize the performance of the firm over time (Rappaport, 1981; Treynor, 1981; Van Home, 1992). Bowman and Helfat (2001) found that corporate strategy is an essential management tool and is important to firm performance, and achieving a performance advantage through strategic initiatives is increasingly important in the financial services industry (Farrance, 1993: Wilkinson and Balmer, 1996; Young, 1999; Devlin. 2000).

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Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition which is among the strategic responses that a firm can adopt. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980).

Day and Wensley (1988) argue that competitive methods consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation. Examples include operating scale, location, comprehensiveness of a distribution system, brand equity, or manufacturing or processing assets. They conclude that establishing a generic strategy based positional advantage in the marketplace will provide a firm with superior performance.

Bharadwaj et al, (1993) suggest that a competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the achievement of above average industry performance.

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Some contend that firms can follow both cost leadership and differentiation strategies simultaneously (Murray, 1988: Hill. 1988: Cronshaw et al., 1994); however the issue remains unresolved. Indeed. Miller (1992) argues that the pursuit of a pure strategy (i.e. a strategic response that does not mix emphasis on both cost and differentiation competitive methods), as compared to a hybrid strategy where firms place similar emphasis on both differentiation and cost leadership competitive methods simultaneously, is beneficial in markets where consumers exhibit strong preferences for either quality or price. He states that "Pure cost leadership is most effective when customers are sensitive to price and when there is a fighting chance to maintain a cost advantage because of economies of scale, proprietary technology, or unique access to cheap materials or channels of distribution" (Miller, 1992, p. 40). Because banking customers are sensitive to both loan and deposit rates, banks following a cost leadership strategy may realize a performance advantage over competitors that pursue another generic strategy type or those that are stuck-in-the-middle.

It should be noted that Porter (1980) indicates that firms cannot focus solely on a cost leadership or differentiation strategy to the exclusion of other strategies. He contends that cost leaders must devote some resources to differentiation activity, and those that pursue a differentiation strategy cannot do so to the detriment of their cost structure. Prior research has identified hybrid strategies, which are those with simultaneous emphasis on both cost and differentiation competitive methods (Wagner and Digman, 1997). A stuck-in-the-middle position is difficult to identify and prior research may have incorrectly classified hybrid generic strategies and stuck-in-the-middle positions as equivalent. Also, these classifications may have been inconsistently interpreted and applied from study to study (Wagner and Digman, 1997).

Research on generic strategies has identified a tenuous link between an organization's attention to one of the Porter (1980) generic strategy types and performance. Some studies have found support for a single-strategy performance benefit (Hambrick, 1983; Dess and Davis, 1984; Calingo, 1989). Other research has shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods (Miller and Friesen. 1986a; Kim and Lim. 1988; Robinson and Pearce, 1988; Roberts et al., 1990; Bush and Sinclair, 1992; Miller and Dess, 1993; Wagner and Digman, 1997) although a performance benefit is not always evident. In a service industry, Kumar et al. (1997) found that hospitals follow five generic strategy groups and conclude that a 'focused cost leadership strategy is the best route to superior performance.

2.3 Strategy and Strategy Response

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

, The ability of a firm to command a competitive advantage depends on the practicability of their strategic responses (Barney. 1997). The business environment in the country has drastically changed resulting in some banks opening a number of branches a cross borders and thus increasing competition in the industry globally. Banks have ended up 'hawking' their serv ices to potential clients and this has led to downward prices duetto competition.

Strategic management in the banking industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved (Hambrick. 1983). Therefore, venturing in this area gives hope that, areas of interest for further research can be identified and further understanding of the concept of competitive strategies particularly in the banking industry in Kenya will be enhanced.

2.4 Essence of Strategic Response to Banks

The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment which more than often is characterized by intense competition of all sorts (Porter 1980). Hence strategic response to changes in the business environment is important as outlaid below:

2.4.1 Improve profitability

The most direct result of the above changes is increasing competition and narrowing of spreads and its impact on the profitability of banks. The challenge for banks is how to manage with thinning margins while at the same time working to improve productivity, which remains low in relation to global standards. This is particularly important because with dilution in banks' equity, analysts and shareholders now closely track their performance (Hambrick, 1983). Thus, with falling spreads, rising provision for NPAs and falling interest rates, greater attention will need to be paid to reducing transaction costs. This will require tremendous efforts in the area of technology and for banks to build capabilities to handle much bigger volumes (Bush and Sinclair, 1992).

2.4.2 Reinforce technology

Technology has thus become a strategic and integral part of banking, driving banks to acquire and implement world-class systems that enable them to provide products and services in large volumes at a competitive cost with better risk management practices (Day and Wensley, 1988).

The pressure to undertake extensive computerization is very real as banks that adopt the latest in technology have an edge over others. Customers have become very demanding and banks have to deliver customized products through multiple channels, allowing customers access to the bank round the clock (Day and Wensley, 1988).

2.4.3 Risk management

The deregulated environment brings in its wake risks along with profitable opportunities, and technology plays a crucial role in managing these risks. In addition to being exposed to credit risk, market risk and operational risk, the business of banks would be susceptible to country risk, which will be heightened as controls on the movement of capital are eased (Day and Wensley, 1988). In this context, banks are upgrading their credit assessment and risk management skills and retraining staff, developing a cadre of specialists and introducing technology driven management information systems.

2.4.4 Sharpen skills

The far-reaching changes in the banking and financial sector entail a fundamental shift in the set of skills required in banking. To meet increased competition and manage risks, the demand for specialized banking functions, using IT as a competitive tool is set to go up Special skills in retail banking, treasury, risk management, foreign exchange, development banking, etc., will need to be carefully nurtured and built (Hambrick, 1983). Thus, the twin pillars of the banking sector i.e. human resources and IT will have to be strengthened.

2.4.5 Greater customer orientation

In today's competitive environment, banks will have to strive to attract and retain customers by introducing innovative products, enhancing the quality of customer service and marketing a variety of products through diverse channels targeted at specific customer groups (Lamont, Marling and Hoffman, 1993).

2.4.6 Corporate governance

Besides using their strengths and strategic initiatives for creating shareholder value, banks have to be conscious of their responsibilities towards corporate governance (Kim and Lim, 1998). Following financial liberalization, as the ownership of banks gets broadbased, the importance of institutional and individual shareholders will increase. In such a scenario, banks will need to put in place a code for corporate governance for benefiting all stakeholders of a corporate entity.

2.4.7 International standards

Introducing internationally followed best practices and observing universally acceptable standards and codes is necessary for strengthening the domestic financial architecture (Bush and Sinclair, 1992, Kim and Lim, 1998). This includes best practices in the area of corporate governance along with full transparency in disclosures. In today's globalised world, focusing on the observance of standards will help smooth integration with world financial markets.

2.5 Cost Leadership

Porter (1980) defines cost leadership as the achievement of "overall cost leadership in an industry through a set of functional policies aimed at this basic objective. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on," (p. 35). Essentially, "low cost relative to competitors becomes the theme running through the entire strategy,"' (p. 35). It is worth noting that Porter does not focus on the possible pricing tactics related to cost leadership, instead focusing on overarching strategic considerations and the importance of achieving lower costs than rivals, regardless of pricing method used.

Researchers have associated cost leadership with mass merchandisers such as the retail firms K-Mart and Wal-Mart or fast food restaurants such McDonald's and Kentucky Fried Chicken (Helms *et al,* 1992).

There are some environmental conditions that form the foundation of cost leadership. First, the target customers need to be industry-wide; i.e. demand should be market wide, not segmented (Porter, 1980). Also, the customers demanding the product(s) need to be price sensitive (Murray, 1.988). To meet this broad and substantial demand, considerable resources are needed. This generally prevents small firms from successfully following a cost strategy (Wright, 1987).

A high degree of price sensitive demand alone is not enough for cost leadership to be effective. Consider the example, from Murray (1988), of the gasoline retailing business. In this industry, consumers are price-sensitive and there is enormous demand. Unfortunately for gas companies, the cost structure of firms is fairly homogeneous. This prevents any one firm from being able to create a cost leadership advantage.

How then is cost leadership created? It is mainly created through a focus on efficiency (Green *et al.,* 1993). This efficiency can be rooted in various economies in the production or distribution process (e.g. economies of scale, scope, marketing, etc.) (Murray, 1988, Wright, 1984). It can also be generated from extra-beneficial access to distribution channels or resources (Murray, 1988). In some cases, the efficiency is the result of proprietary manufacturing technologies or innovations (Porter, 1980; Marques *et al.,* 2000; Murray, 1988). Lastly, efficiency can be the simple result of a managerial focus on cost control, employee productivity and economical asset use (Hambrick, 1983). In all cases, cost leadership is the result of some extra efficiency in the cost structure in comparison to competitors.

Cost leadership has been more prevalent and effective in stable environments. In contrast, discontinuous, unpredictable, and dynamic markets have been found to be better served through a differentiation or focus strategy (Lamont *et al.,* 1993; Lee and Miller, 1996; Miller, 1988). Diversity or heterogeneity is also better served through differentiation or focus (Miller, 1988).

The results of these studies on cost leadership have been mixed. Some have found that a hybrid of cost leadership and differentiation is most effective (Gopalakrishna and Subramanian, 2001; Svatopluk *et al.,* 2001) while others support the focus on one specific strategy (Green *et al.,* 1993; Kim and Lim, 1988). These articles leave several gaps in the literature. First, it is unclear as to the effectiveness of a cost-leadership strategy in emerging markets. Can this strategy be successfully transferred? Second, articles often fail to discuss emerging markets as a group. *Third,* articles do not *clearly* support either the use of one generic strategy globally or the use of different strategies in different markets.

According to Porter, (1980). firms often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising. They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984).

Cost leadership is valuable if; buyers do not value differentiation very much, buyers are price-sensitive, competitors will not immediately match lower prices (do game theoretic analysis) and it is sustainable if; there are no changes in consumer tastes, technology and exogenous prices/costs and the activities taken to achieve low costs are rare and costly to imitate

2.6 Differentiation Strategy

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter. 1980).

It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter. 1980).

Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Ireland et al., 2001; Dess and Davis. 1984: Porter. 1985)

Successful differentiation is based on a study of buyers' needs and behaviour in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals' products.

Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes. Kotler (2001) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the product's performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain.

2.7 Technology

Currently, technology is fundamentally re-aligning business relationships between banks and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels. This is because consumers no longer express the preference to any single channel. As banks face new challenges in the electronic payment (e-payment) world, they need to leverage their information technology (IT) strategy to be aligned with business strategy.

The traditional strategy of banks in the payment innovations is competitive strategy aiming to compete based on the size. Banks with extensive branch networks tend to capture more customers than those with fewer branches. Currently, the Internet and the World Wide Web have impacts on the way banks doing the business. The traditional brick and mortar banks are moving towards integrated delivery channels and the adoption of the click strategy (Pennathur. 2001: Hensmans. et al., 2001). The changing landscape of electronic payments requires banks to change their strategies to collaborative strategy in order to meet e-payment demands. Banks faced competitive pressures, which forced them to migrate their branch network system towards the development of integrated service channels (from isolated channels to an integrated one) (Vishal. 1997). This is because the competitive alternatives in the bank's payment transmission system (e.g. Internet, mobile phones) mean that banks cannot use a network for clearing and settlements to achieve competitive advantage. The overall thrust is that banks realize the importance of having control over the payment networks so that banks have market power, and accordingly, competitive advantage over other competitors.

For many banks in Kenya, information and communication technology is viewed as potentially capable of helping achieve competitive advantage. The high rate at which organizations are buying mobile phones, computer hardware and software as well as using the Internet for information and communication is evidence of the increasing awareness of information and communication technology in the Kenyan market. The business benefits of using information and communication technology include efficiency and attainment of increased returns. Mcforlan. (1984). The vast opportunities brought by the Internet to the banking industry have therefore attracted much attention from researchers whose efforts apparently group on certain areas of interest.

While the area of information technology is very wide, the most applicable and highly used is the mobile phone, which is used by majority of Kenyans, both individuals and corporations. A large number of people now use mobile phones for communication purposes this implies that banks can reach a large number of persons through their mobile phones, which are always with them. The adoption of short messages services banking will, if effectively implemented, lead to substantial cost savings by banks in the areas of telephone calls and personnel time.

Technological developments particularly in the area of Telecommunications and Information Technology are revolutionizing the way business is done. Electronic commerce (e-commerce) is the activity in which consumers get information and purchase products using Internet technology (Olson and Olson 2000). E-commerce is now thought to hold the promise of a new commercial revolution by offering an inexpensive and direct way to exchange information and to sell or buy products and services. This revolution in the market place has set in motion a revolution in the banking sector for the provision of a payment system that is compatible with the demands of the electronic marketplace. Consequently, the potential benefits of e-commerce have been widely touted (e.g. Geffen ET al.2003).

The electronic revolution in banking centres 011 changes in the distribution channels of financial institutions. The presence of computer and information technologies in today's banks has expanded dramatically. Some estimates indicate that, since the 1980s, about 50 percent of all new capital investment in organizations has been in information technology (Westland and Clark 2000). Yet. for technologies to improve productivity, they must be accepted and used by employees in those organizations.

Computerization in the Kenyan banking industry (Marketing Intelligence 2003. p.81) got off to a slow start and only picked up momentum in the 2000"s. The increasing' volume of banking transactions was the inevitable motivator for the introduction of computers in Kenyan commercial* banks. Then, by linking up technological developments in telecommunications and Information Technology, real-time on-line electronic funds transfer came into existence. A large part of the electronic funds transfer process takes place within the banking premises and thus may be invisible to the layperson.

The banking sector has embraced changes occurring in Information Technology with most banks having already achieved branchless banking as a result of the adoption of communications options. According to The Central Bank Annual Supervision report (2003). the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures. The Central Bank notes that advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards. Several banks have also entered into the Internet Banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected in this sector.

Porter emphasized the use of technology to empower the firm's capabilities. He argued that technology would enable the firm to excel in the competition. Bank is regarded as a vanguard in the use of information and communication technology (ICT) (Barras, 1986, 1990). In the context of banking, the advancement in technology presents a new opportunity to improve service quality in response to volatile economic environment and changing competitive conditions. At the firm level, apart from adopting technology to integrate delivery channels to develop a close relationship with customers, banks also adopt technology to enable the analysis of information about customer segmentation, demographics, product usage, transaction behaviour that thereby help them to improve the profitability and increase market share. With the use of information technology (IT), the banks can use the cross-selling strategies to sell new banking innovations to their existing customer base. It can be seen that banks' adoption of technology changes from improving efficiency of back office banking functions towards improving the service quality in servicing the

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customers. Such changing strategy demonstrates the situation where banks compete to own the potential customers.

2.8 Quality Customer Service

In today's competitive banking industry characterized by existence of many products and services with different branding which have similar characteristics, development and maintenance of product differentiation becomes increasingly difficult to realize for banks. Consequently, non-price competition particularly by offering high quality customer services becomes increasingly important as a marketing instrument by financial institutions towards distributors.

Quality customer service is the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Lewis and Booms. 1983; Lehtinen and Lehtinen. 1982; Gronroos. 1984: Parasuraman *et al.,* 1985, 1988. 1994). Companies have become increasingly conscious of the need to improve the quality of their service provision as a result of increasing customer expectations, growing competition and government legislation (Lewis and Booms. 1983). Lehtinen and Lehtinen (1982) give a three-dimensional view of serv ice quality. They see it as consisting of what they term "interaction", "physical"" and "corporate" quality. At a higher level, and essentially from a customer's perspective, they see quality as being two-dimensional, consisting of "output" and "process" quality. The model proposed by Gronroos (1984. 1990) highlights the role of technical (or output) quality and functional (or process) quality as occurring prior to. and resulting in. outcome quality. In this model technical quality refers to what is delivered to the customer, be it the meal in a restaurant, the solution provided by a consultant, the home identified by the estate agent, the efficiency of money withdrawal or banking. Functional quality is concerned with how the end result of the process was transferred to the customer. This concerns both psychological and behavioral aspects that include the accessibility to the provider, how service employees perform their task, what they say and how the service is done. Thus while technical quality can often be quite readily evaluated objectively, this is more difficult to do with functional quality. The model also recognizes that customers also have some type of image of the firm, which has a quality impact in itself and functions as a filter. The customers' perceived quality is the result of the evaluation they make of what was expected and what was experienced, taking into account the influence of the organization's image.

There can be little doubt that quality is. nowadays, among the most critical aspects for the strategic management of service firms. Customer satisfaction and loyalty - secured through high-quality products and serv ices providing value for money for the consumer - are essential for long-term survival, let alone long-term success (Cina. 1990; Daniel. 1992; Gale. 1994; Reicliheld and Sasser. 1990: Shycon, 1992; Zeithaml *etal.,* 1985, 1990; Robledo, 1996, 1998).

Because of its importance, researchers have devoted a great deal of attention to service quality, but there are still some hot debates going on in the area of the best use of service quality as a strategic response to competition. One of the more controversial ones refers to the conceptualization and measurement of service quality.

From the foregoing one can elicit customer service to be the manner in which a product or service is conveyed to the buyer. Good customer care and strategies involve choosing strategically to serve only a specific type of customers or serving all types of customers, Murage. (2001). According to Turban et al. 2002 "Customer service is a series of activities designed to enhance the level of customer satisfaction - that is. the feeling that a product or service has met the customer expectation". Customer service may be provided by a person (e.g.. sales and service representative), or by automated means called self-serv ice. Examples of self service are Internet sites. Customer service is normally an integral part of a company's customer value proposition.

Models have been developed to find'measure and assess the determinants of service quality. SERVQUAL is based on the notion of a gap between what customers expect in terms of service quality from the providers of the service and their assessment of the actual performance of that particular service provider. Since Parasuraman et al, (1988) introduced the SERVQUAL instrument, many researchers have used, extended and developed this 22-item scale to study service quality in different sectors of the services industry (Fick and Ritchie, 1991; Babakus and Mangold, 1992; Coyle and Date, 1993; Cronm and Taylor. 1992; Lewis and Peseetto, 1996; Smith, 1995; Buttle. 1996; *Lam* et al., 1997; Lim and Tang. 2000; Oldfield and Baron, 2000; Gounaris et al., *2003).*

In the studies within the banking industry, Avkiran (1994) found a 17-item. four-factor scale that measures customer service quality in branches of an Australian commercial bank. Newman and Cowling (1996) studied sendee quality in the retail-banking sector of the United Kingdom (UK) by comparing two British clearing banks. They concluded that banks have a greater strategic interest in service quality, partly because of the link between quality, productivity and profitability and partly due to a drive to reduce costs within the sector. Caruana (2002) evaluated service loyalty over 1000 retail banking customers in Malta. Results showed that customer satisfaction played a mediating role in the effect of service quality on service loyalty. Zhu *et al.* (2002) explored the impact of information technology (IT) on service quality in a large consumer bank. Their results showed that IT based services have a direct impact on the SERVQUAL dimensions and an indirect impact on customer perceived service quality and customer satisfaction. They also concluded that the evaluations of customers for IT based services were affected by their preference towards traditional services, experiences in using IT based services and perceived IT policies. Lewis (1991) evaluated student's assessment of banks and building societies with respect to overall satisfaction. Goode and Moutinho (1995) analyzed the effects of free banking (ATM services) on overall satisfaction of students and normal bank customers. Wang et al. (2003) evaluated the antecedents of service quality and product quality, and their influences on bank reputation in the banking industry of China, using a structural equations model. They concluded tHkt both service quality and product quality had a significant influence on bank reputation.

Most bankers would like to believe that banks are in the finance industry, and not in the service industry. Thus, they tend to compete in terms of financial prowess rather than service quality. People, resources, time, and systems are devoted more to managing assets and cash rather than managing customers and sendee, Amel, D.F. (1997). In fact, most bank systems are designed to control customers rather than satisfy customers. Products and procedures are set up for the convenience of the bank rather than that of the customer. A big bank may have as many as three vice presidents responsible for guarding its assets, but no one to take care of customer service and complaints. Banks usually give customer service and satisfaction very low priority, and accordingly assign it to a low level, if not lowly paid, manager. Few or none of the bank's elaborate systems and structures is designed to monitor and maintain customer loyalty. Dick. Astrid A. (2002).

Banks differ greatly in terms of the service quality they provide to their customers. Within a given market, a set of very diverse banks tend to coexist, with some being small, local banks with a few branches, and others large and covering extensive geographic areas, with extensive ATM and branch networks. Banks also differ in terms of the expertise and customer care offered at the branch, the size of branch personnel (which is related to waiting times and the availability of human interaction), financial advice, as well as advertising/brand investments and overall service quality. Endogenous sunk costs, indeed, are expected to be a significant component of total banking costs, Williams. C.A. (1997).

Bank institutions in Kenya have always had an eye towards retaining core deposits. However, community banks and credit unions are realizing that deposits grow in direct proportion to customer satisfaction, which is a delicate balance to strike. In today's hypercompetitive banking market, achieving this balance is taking new shape. Knowing this, bankers struggle to differentiate their offerings, yet consumers have more choices than ever. As customer relationships evolve, many financial institutions are unsure how to best adapt their approach, eventually finding themselves outdistanced by competitors. To attract new customers and strengthen existing relationships, leading banks are introducing innovations across the board in service delivery, technology, customer retention programs and operational efficiency gains.

One of the ways banks are shifting their strategies is in how they handle overdrafts. Quality overdraft-protection programs help financial institutions maintain balance between enhanced Customer service and revenue generation. Leading overdraft programs are fully automated to ensure protection for all enrolled customers. Perhaps most importantly, they go beyond covering overdrafts to identify consumers who may be using overdraft programs as a routine extension of income, rather than as occasional oversight protection. Banks can work with these customers to help them get back on track financially while encouraging fiscal responsibility. With automation, full disclosure, personalized service and ongoing support, consumers feel like they are being treated fairly, which increases satisfaction, loyalty and retention. In turn, banks can better balance customer sendee and increased revenue while curbing potential abuse.

Fee-based services like overdraft programs, which provide customers with a valuable service, are only half the battle. Bankers must also take time to decipher what is truly important to a target in constant motion.

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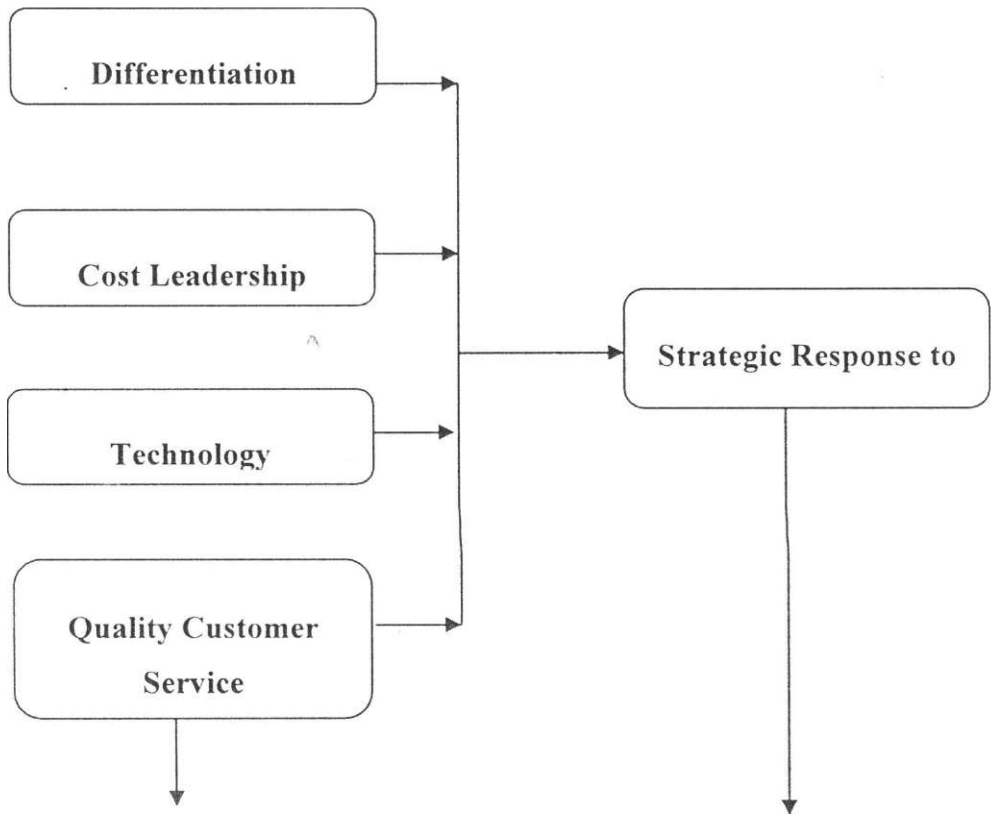
2.9 Path Diagram of Strategic Response to Competition



Dependent Variable **Independent Variables**

Source: Author, 2008

Conceptual framework is a type of intermediate theory that has the potential to connect to all aspects of inquiry (e.g.. problem definition, purpose, literature review, methodology, data collection, and analysis). A conceptual framework acts like maps that give coherence to empirical inquiry. Because conceptual frameworks are potentially so close to empirical inquiry, they take different forms depending upon the research question or problem. Conceptual definitions define a concept by means of other concepts, making them difficult to measure. For example, a conceptual definition of a serial publication is *that it is issued in successive parts at regular intervals and intended to be continued indefinitely.

2.10 Conclusion

This chapter dealt with the various competitive strategies that commercial banks adopt. These include the differentiation, cost leadership, technology, as well as the quality customer services. Competitive methods used by banks in the financial service industry conform to generic strategy types and banks following a cost leadership strategy realize statistically significant superior performance when compared to banks that are stuck-in-the-middle. While some banks that, pursue a broad differentiation, customer service differentiation, or focus strategy report above average returns, these returns are reported less frequently. This suggests that superior performance is more difficult to realize for banks following one of these strategic directions than it is for banks following a cost leadership strategy. In fact, as a group, banks that follow a broad differentiation, quality customer service differentiation, or technology are not able to achieve a statistically significant performance advantage when compared to other strategy and stuck-in-the-middle groups.

CHAPTER THREE: RESEARCH METHODOLOGY

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3.1 Introduction

This chapter sets out the methodology that was used to achieve the objective of the study. The methodology used in the study included the research design, the population of interest, the sample, data collection instruments and the data analysis technique that was used.

3.2 Research Design

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

3.4 Data Collection

In this study, emphasis was given to primary data. The primary data was collected using interview guide attached as appendix II which was done on ten interviewees who are the head of departments at the NBK head office. An interview guide is a set of questions that the interviewer asks when interv iewing (Mugenda and Mugenda, 2003). It made it possible to obtain data required to meet objective of the study which was solely primary data.

Primary data was collected from the interviewees who were the head of departments in the NBK Ltd. Interview method was chosen because it is efficient, flexible, cheap and easy to administer.

3.5 Data Analysis

The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda. 2003). It involves observation and detailed description of objects, items or things that comprise the sample. This technique uses a set of categorization for making valid and replicable inferences from data to their context, Baulcomb, J. (2003).

Content analysis was used considering the qualitative nature of the data to be collected through in-depth personal interviews. The data will be broken down into the different aspects of strategy responses, arranged into logical groups and analyzed. This would offer a systematic and qualitative description of the objectives of the study.

CHAPTER FOUR: DATA FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the analysis and findings of the study of the data collected using interviews done on 10 interviewees who were the head of departments in the NBK Ltd's Nairobi head office. All the interviewees responded appropriately to the interview. The data obtained from the interviews is analysed below.

4.2 Environmental Challenges

The researcher interviewed the management on the environmental challenges that they have encountered that has necessitated the strategic responses adopted. According to the interviewees economic environment has really affected their operations and hence the need of strategic responses. The fiscal and monetary policies also affect the operations of the bank since it determines the amount of money to be loaned and the loaning terms.

According to the interviewees political-legal environment affected the bank's normal operations extensively. References were made to the 2007 scenario when the bank was almost brought to its knees when it had huge debts of Ksh20.4 billion due to default in the payment of loans. This according to the interviewees was the culmination of the government's 1980s directives for state parastatals to borrow money directly from NBK coupled by political interference were by politically correct persons were awarded huge loans by the bank. These loans were defaulted and the bank had to litigate the defaulters in court. The recent post election violence brought insecurity in the some regional areas where the bank had established branches and hence their operations came to a stand still.

Social environment has for years affected the bank operations according to the employees. According to the interviewees some cultures shun saving especially in the bank with the belief that they savings are in heaven hence they resort to either engage in unhealthy consumption or put their money at home. They also advanced that since the NBK is a government's bank many people shy away from transacting with it since they view it as inferior as compared to other foreign-owned banks.

According to the interviewees technological environment has affected the banks operations hence they need to respond to it. According to the interview technology has always had a say on the bank's services efficiency vis a vis that of its competitors; this has an effect on the clients perception of the bank in general. Technology according to the interviewees has led to increase in fraudster and at times the bank has to suffer from the losses emanating from these frauds. Data obtained also showed that technology affects the banks internal control system and managerial control.

Globalization has affected the NBK Ltd according to those interviewed. Globalization has led to entry of many banks into the country and hence impacting on the banks customer base. According to the interviewees, globalization also leads to the rise of many firms in the country and a general need of saving and accessing loans. The latter according to the interviewees has led to the rise of market and the bank has had to adopt tailor-made products that can meet this market need.

Competition is a major factor that has had impact on the bank's operations according to the interviewees. Competition has had a say on how customers perceive the bank; customers change loyalty when they perceive another bank as more efficient than NBK Ltd. They gave an example early 2000 when they bank lost many customers to Barclays Bank of Kenya Ltd when the bank made major product differentiation.

4.3 Strategic Responses

The researcher interviewed the respondents on the strategic responses that they have adopted to competition. On product innovation most of the interviewees attested to the bank intensively and extensively using the strategy due rise in competition. Following the indebtedness of the bank the management reverted to using product differentiation whereby the innovatively conceptualized and adopted provision of tailor-made products like Taifa account. According the interviewees this was adopted owing to its brand name and its low charges which were aimed at increasing the banks customer base. The bank had also adopted to the use of internet banking advancement in technology which is a requisite in the banking sector. Internet banking adopted by NBK Ltd, according to interviewees, brings banking services at the convenience of the clients who have money need secure banking services but don't have time. The bank has also introduced premium banking which is aimed at attracting low income earners who will view the services as cheap. According to the interviewees, premium banking will capture the aforementioned class which makes the majority of clients in the banking sector. Due to the market need of saving and withdrawing money at ones convenience, the bank has adopted the use of current account. This has increased it's customer base which , saw a pretax increase in banks net profit since 2007 when the service was introduced. The bank has provided timely services like unsecured loans to investors during the cooperative bank limited IPO which according to the interviewees have increased the banks expected revenue (current assets)

The bank according to the interviewees, has also invested heavily on use of ATMs countrywide according to the interviewees. For instance there was a 9% increase in pre-tax profit in 2006 due to extensive investment in ATxM through partnership with Pesa point while operating expense increased by 6%.

The bank has also gone through extensive restructuring in late 2006 owing to its poor performance according to the interviewees. The interviewees mentioned the bank establishing more branches; some of the banks top managers have shifted positions or retrenched the bank have changed its image so as to restore the shareholders and customers confidence to the bank. This according to the interviewees so the restoration of confidence led to the rise in share prices from Ksh.43 in June 2007 to Ksh.61 before stabilizing at between Ksh50 and Ksh53 in the same year.

On human resource management, "the interviewees attested to the bank reverting to viewing its human resources as important assets; a means to increasing its customer base and operations efficiency. On the same, bank has engaged in training its

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employees both senior management and junior employees in handling customers.

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CHAPTER FIVE: DISCUSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

In order to answer the study's principal objective which is to identify the strategic responses adopted by the National Bank of Kenya Limited to competitive pressure, the chapter analysis of the interviewee guide was divided into three sections; company's demographic, environmental and strategic responses adopted by NBK Ltd. The summary of the study finding will start with company's demographic. The data obtained from the interview showed that the company offered a variety of services for consumers which are; trading of shares, banking and providence of loans. This showed the extensive product differentiation strategy adopted by the bank.

On environmental challenges the study found out that various environmental factors have affected NBK Ltd operations with the worst been political environment which nearly grounded the bank had it not been for the governments intervention. The bank for instance gave out loans to parastatals as a government's directive which turned out to be bad debts. Economical environment also affect the banks operations according to the study.

Social environment, according to study, institutionalize the belief that savings are in heaven and as so potential clients revert to saving at home and blind consumption of surplus money. Technological environment which leads to the obsolesce of some of the banks' products and means of transactions has not spared the bank. Globalization which has led to increased market knowledge have affected they banks operations and the bank had to respond to it. The banks operations and hence strategic responses thereof have been affected by competition from various banks in the Kenyan banking industry according to the study.

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On strategic response, the study found out that the bank has been using both product innovation and differentiation as strategic responses to increased competition.

According to the study, the bank uses differentiated banking services like premium and internet banking which has been to the convenience of the customers. The bank ahs also used Taifa and current accounts which is very much differentiated for other accounts and as so has increased its customer base in the midst of competition. At the peak is the provision of unsecured loans to investors during the Co-operative bank IPO. The banks have also invested heavily on restructuring with the help of government according to the study. This has seen restoration of the clients and shareholders confidence in the bank. The bank has invested in human resource management whereby employees have been extensively trained to respond to customers needs professionally.

5.2 Conclusion

i The study can conclude that NBK engages in strategic responses to competition by extensively employing differentiation strategy and beefing up of its technology. This two strategies are of essence to banking industry since it is through the use of technology that transaction become quicker and efficient, fraud which is a common scenario in banking sector is also minimized. This is in line with (Vishal. 1997) contribution to the vjse of technology in banking which states that competitive pressures faced by banks force them to migrate their branch network system towards the development of integrated service channels since competitive alternatives in the bank's payment transmission system (e.g. Internet, mobile phones) mean that banks cannot use a network for clearing and settlements to achieve competitive advantage. With the emergence of E-commerce banks are under pressure to beef up their technology. Electronic commerce is the activity in which consumers get information and purchase products using Internet technology (Olson and Olson 2000). E-commerce is now thought to hold the promise of a new commercial revolution by offering an inexpensive and direct way to exchange information and to sell or buy products and services which fundamentally requires advanced technology. The use of differentiation strategy is also of essence since the unique attributes or perceptions of uniqueness and characteristics of the firm's product other than cost provide value to customers. Porter, 1980 also says that a firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers hence can easily stem competition.

The study can also conclude that the bank undertake to using customer service which comes from how, employees handle and view customers, as a strategic response to competition. Successful businesses the world over view their customer and as important assets since business revenue emanate from them. Banks, in the face of the contemporary competition in the sector, resort to caring for their customer through maintaining good relation ship with them whereby they are treated as kings and establishing of customer care centres. All these are geared towards providing quality customer service to them. Newman and Cowling (1996), advanced that banks have a greater strategic interest in service quality, partly because of the link between quality, productivity and profitability and partly due to a drive to reduce costs within the sector.

5.3 Recommendation

From the discussions and conclusions in this chapter, the researcher recommends that although there politics and commerce are somehow interrelated since the bank is a government owned, the bank should not base its success or failure on political environment by lend huge amount of loans too the politically correct.

The researcher also recommends that for the national bank of Kenya to beef up their competitiveness in the market, they should ensure that they also focus on human resource practices is increased. The staff should also be trained more so as to cope up with the rapid changes in the technology which is of fundamental importance to the banking industry.

5.4 Limitations of the Study

Limitation for this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses.

The first limitation was that the respondents targeted head of departments in the head office whose working schedules were very tight because of the nature of their work. The researcher had to take a long time to get an appoitment with them.

Another limitation was that every organization has its codes of conduct that restricts the employees even the senior employees to divulge confidential information to the public (secrecy of the company).

5.5 Areas for Further Research

The researcher suggests that for effective conclusive study on strategic response to competition adopted by National Bank of Kenya, a study should be carried out on National Bank of Kenya competitors to establish strategic responses to competition they use.

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APPENDICES

Appendix I: Introductory Letter

NAME,

P.O Box

Nairobi

Dear Sir/Madam

TO WHOM IT MAY CONCERN

I am a Postgraduate student at the University of Nairobi pursuing a Masters degree in Business Administration.

As a part of the requirement for the award of the degree, I am required to conduct a research on strategic response adopted by the banking industry in Kenya. The effect of this letter is to request you to avail the necessary information. The information that I will obtain from you will be used for academic purpose only and will be treated with at most confidentiality.

A prompt response to the attached questionnaire will be highly appreciated

Thank you

Yours faithfully

Name

Appendix II: Interview Guide

SECTION ONE: COMPANY DEMOGRAPHICS

1. What is your name (optional)

2. When did you start working at NBK Ltd?

3. What financial services does the bank offer to the consumers? List below

Section Two: Environmental Challenges

1. How has the Kenyan economic environment affected your operations?

2. Have political - legal factors been a challenge to the banking environment? How?

3. How has the social environment affected the banks operations i.e. lending and savings?

4. Has technology posed a challenge to the bank?

5. How has globalization affected the normal operation of the bank?

6. How has competition from other banks affected your operations?

Section Three: Strategic Responses

1. How has the bank used differentiation strategy to stem out increased competition?

2. How has the bank used product innovation as a strategic response to competition and how has that improved the banks performance?

3. How has the bank reverted to the use of human resource as a strategy of nipping competition in the bud.