FACTORS INFLUENCING COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented for academic purposes in any other university.

Signed : ____________________ Dated: 8th Nov 2012.

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

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I thank the Almighty God, for granting me wisdom as I went through my MBA Course.

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May God bless you all!

DEDICATION

I dedicate this work to my dear parents Cyprian and Rocila for their love, encouragement and support. To my husband Alex and our dear daughter Wangu for their love, support and patience through my thirst for knowledge.

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ABSTRACT

Currently, there are forty three licensed commercial Banks in Kenya (as at 13th December 2011) offering generic products. They are in the business of accepting money from members of the public on current account and payment on acceptance of cheque and employing of money held on deposit or on current account or any part of the money by lending, investment or any other manner for the account and at the risk of the person so employing the monies. Each Commercial Bank needs to present itself in a unique way to the market so as to have an edge. For the Commercial Banks to present themselves uniquely, they need to identify their target market and find out the mix of factors which will give them an edge and ensure their survival within the industry. This study therefore sought to find out and document the types of competitive advantages enjoyed by Commercial Banks in Kenya and the factors influencing the competitive advantages. The research design was a survey which looked at all the forty three commercial banks in Kenya. Closed ended questionnaires were used to collect data. The research revealed that the main types of competitive advantages enjoyed by commercial banks are Brand Loyalty, Differentiation targeting the market in general, differentiation targeting a specific market, strategic alliances and ease of cross border transactions. Strategic partnerships like mergers and acquisitions, low cost strategy targeting the market in general, presence attributed to branch network as types of competitive advantage are generally not enjoyed by Commercial Banks in Kenya. The study further revealed that the Number of Products offered by each Commercial Bank, Marketing strategy adopted, Advances in Technology, Customer satisfaction surveys and ownership structure are some of the main factors influencing they types of Competitive advantages enjoyed by Commercial Banks in Kenya. On the other hand staff turnover rate, Corporate Social responsibility activities, Decision making process, the financial results of the Bank and the years that the commercial bank has had its operation in Kenya do not have a major influence on the type of Competitive advantage enjoyed by Commercial Banks in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Winning business strategies are grounded in sustainable competitive advantage. A company has a competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. There are many routes to competitive advantage but the most basic is to provide buyers with what they perceive as superior value, a good product at a low price, a superior product that is worth paying more for, or a best value offering that represents an attractive combination of price, features, quality, service and other attributes buyers find attractive. Delivering superior value whatever form it takes, nearly always requires performing value chain activities differently than rivals and building competencies and resource capabilities that are not readily matched (Thompson, 2003)

The banking industry in Kenya has forty three Commercial Banks and one Mortgage Finance company (Think Business Vol.). With the forty three commercial banks the industry is dynamic and faced with a lot of competition. In order for any bank to survive within the industry they need to ensure that they have adopted a sustainable competitive advantage.

1.1.1 The Concept of Competitive advantage

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business' cost structure and its ability to differentiate the business from competitors (Pearce & Robinson, 2007).

Businesses that create competitive advantages from one or both of these sources usually experience above average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below average profitability. Businesses that do not have either form of competitive advantage perform the poorest among their peers, while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability within their industry (Peers & Robinson 2007).

A company achieves sustainable competitive advantage when an attractive number of buyers prefer its products over the offerings of competitors and when the basis for this preference is durable(Thompson, Stickland & Gamble, 2007). Creating sustainable competitive advantage depends on unique resources and capabilities that a firm brings to competition in its environment. To discover these resources and capabilities, managers must look inside their firm for valuable, rare and costly to imitate resources and then export these resources through the organization (Thompson, Stickland & Kramer, 1998).

1.1.2 Commercial Banks in Kenya

According to Chapter 488 of the Banking Act, a Commercial Bank is a company which carries on or purposes to carry on banking business in Kenya and includes the Co-operative Bank of Kenya Limited but does not include the Central Bank. Banking business means accepting from members of the public money on demand deposit repayable on demand or at the expiry of a fixed period or after notice. It entails the accepting from members of the public money on current account and payment on and acceptance of cheque and also involves the employing of money held on deposit or on current account or any part of the money by lending, investment or any other manner for the account and at the risk of the person so employing the monies. The commercial banks are regulated by the Central Bank of Kenya.

There are currently forty three licensed Commercial Banks in Kenya and only four million Kenyans are banked this is excluding the private and public sector. The forty three Commercial Banks thus compete to offer their generic products to the four million Kenyans as well as the institutions in the Private and Public sectors. The Kenyan banking sector is bracing for a challenging 2012 and 2013. The impact of tighter monetary policy by Central Bank of Kenya and rising non-performing loans are bound to cause several challenges to banks' operations in Kenya. A sector study carried out by an investment bank project a not so rosy picture.

Renaissance Capital foresees a slump in credit growth, which is an integral function of every commercial bank, continuing the trend that begun mid last year and whose effects will be seen in months to come as banks declare their annual and quarterly financial results. Whereas the trend in growth in loans has been impressive in the last couple of years, it is likely to take a dip this year. The annualized growth witnessed in 2010-2011 of up to 50% will not be repeated. The bank is confident this will not happen in 2012 and forecasts that loan growth will fall to 10% (Think Business Vol.1 No.1).

Renaissance Capital says it has stress-tested the Kenyan banking sectors balance sheet and estimates that Non performing Loans(NPLs) would have to rise close to 15% from current levels of 4.8% (September 2011) before the sector's profitability falls into the red. While such an event cannot be ruled out, it is highly unlikely. Further, the growth prospects for the sector are encouraging as more than 50% of the Kenyan population lacks access to any banking or financial services products. This has been pointed out by virtually all bank CEOs in Kenya. Nonetheless despite uncertainties in the market in 2012 going to 2013, majority of bank leaders continue to be optimistic about growth (Think Business, Vol1, No.1).

1.2 Research Problem

Competitive advantage comes from an ability to meet customer needs more effectively, with products or services that customers value more highly or more efficiently at lower costs. Meeting customer needs more effectively can translate into the ability to command a higher price, which can improve profits by boosting revenues. Meeting customer needs more cost effectively can translate into being able to charge lower prices and achieve higher sales volumes, thereby improving profits on the revenue side as well as the cost side. Furthermore if a company's competitive edge holds promise for being sustainable (as opposed to just temporary), then so much the better for both the strategy and the company's future profitability. What makes a competitive advantage sustainable, as opposed to temporary, are elements of the strategy that give buyers lasting reasons to prefer a company's products or services over those of competitors – reasons that competitors are to nullify or overcome despite their best efforts(Thompson, Petraf, Gamble & Strickland, 2010).

The products offered by Commercial Banks are generic hence making the competition very stiff. In order for the firms to survive they need to employ a unique strategy which is difficult to imitate and is sustainable. In order to remain competitive Commercial Banks in Kenya over the years have structured their products to suite the market needs. We have also seen acquisitions like Commercial Bank of Africa acquiring ABN Amro Bank, Equatorial Commercial Bank acquiring Southern Credit Bank, Cfc Bank merged with Stanbic Bank to form CfC Stanbic Bank all in a bid to strengthen their competitiveness. Commercial Banks have gone through phases as they try to ensure their survival; Barclays Bank closed several Branches upcountry only to try and tap into that market again. Building Societies like East African Building Society have evolved to a Commercial Bank. We have also had several Banks exit the market examples include Delphis Bank, Euro Bank, Kenya Post office savings bank, all which collapsed with Depositors funds. For Commercial Banks to survive, they need to ensue that they have identified a specific target market and come up with the right products for that market and created a sustainable structure to support their strategy.

Related studies have been done on Competitive Advantage including an MBA Project done by Asava (2009) Knowledge management for Competitive Advantage of Commercial Banks in Kenya, Kitua(2009) studied The internet as a source of competitive advantage for Insurance Firms in Kenya, Muketi (2009) studied

Technological Resources for Sustainable Competitive Advantage in manufacturing. Njeri (2009) researched on Direct sales strategy and Competitive advantage of Commercial Banks in Kenya, Nyatichi (2009) studied Competitive Strategies adopted by Multinational banks in Kenya, Kimari (2010) wrote about Sustainable competitive advantage in the mobile telephony sector in Kenya, Oori (2010) studied Strategies employed by Commercial Banks in Kenya to build Competitive advantage and Mbewa (2010) studied Factors employed by Barclays Bank of Kenya to achieve competitive advantage.

From the studies on Competitive Advantage of Commercial Banks, it is found that Competitive advantage is important for survival of Commercial Banks. The studies also indicate that different strategies may be used by different commercial banks depending on their size, presence and market share. However no study has been carried out on The Factors influencing Competitive Advantage of Commercial Banks in developing countries. It is therefore important to study and document the Factors influencing Competitive advantage of commercial banks in Kenya. The study therefore seeks to answer the question: What factors influence competitive advantage of Commercial Banks in Kenya?

1.3 Research Objectives

This study has two major objectives:

i. To determine the competitive advantages enjoyed by Commercial Banks in Kenya.

ii. To determine the factors influencing competitive advantages enjoyed by Commercial Banks in Kenya.

1.4 Value of the study

The banking industry in Kenya has evolved over time, the products offered by Commercial Banks have also evolved to meet the change in market trends, the technology used has also had to change to support the products offered. Given the change the Banking Sector has gone through it is important for the various commercial Banks to know what it is that they are doing right or what they need to change so as to ensure their survival. This study will add to existing knowledge on types of competitive advantage enjoyed by Commercial Banks in a developing country like Kenya and the factors that influence the competitive advantages. Scholars academicians and researchers can use the study as a reference point in evaluating the factors that influence competitive advantage of Commercial Banks in Kenya or when looking at competitive advantage in general.

Following from his framework on analyzing competitive forces in an industry, Michael Porter suggested four generic business strategies that could be adopted in order to gain competitive advantage. The four strategies include Differentiation, Low cost, Differentiation focus and low cost focus. This study seeks to contribute further to this wealth of knowledge and find out other business strategies that can be adopted to gain competitive advantage. Commercial banks and other organizations shall be able to borrow from these other factors while formulating their strategies.

There are many routes to competitive advantage. The route a firm adopts would be based on its position within the industry. While formulating its policy, it is important for the firm to understand where it is so as to adopt the best strategy in a bid to achieve its competitive advantage. From this study, the commercial banks will be able to identify the various types of competitive advantages that there are and given their resources and position within the environment they can be able to have the best mix of strategies to give them an edge over their competitors.

From this study, Commercial Banks can be able to find out whether they have adopted the best strategy compared to there peers. They shall be able to find out what they are doing right and continue doing it or what they are doing wrong and what they need to do so as to give them an edge. Once the Commercial Banks identify the types of competitive advantage and the factors that influence the types of competitive advantage they shall be able to position themselves well within their environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter has focused on literature pertinent to the study. The study seeks to find out the factors influencing competitive advantage of commercial banks in Kenya. Competition is pertinent in any industry, it is important to understand the industry in which a firm operates so that the firm can position itself strategically. It is also important to understand how a strategic unit or a company creates value for its users which is both greater than the costs of supplying them and superior to that of rivals. A company achieves competitive advantage when it can meet customer needs more effectively or efficiently than rivals and when the basis for this is durable. despite the best efforts of competitors to match or surpass this advantage. We shall look at Industry Competition and our focus shall be on Porter's 5 force model of Industry Competition. We shall also look at Competitive advantage and finally we shall look at the factors influencing Competitive advantage.

2.2 Industry Competition

The essence of strategy formulation is coping with competition yet it is easy to view competition too narrowly and too pessimistically. While we sometimes hear executives complaining to the contrary, intense competition in an industry is neither coincidence nor bad luck. Moreover, in the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry (Pearce & Robinson, 2011).

Porter's five forces framework helps identify the attractiveness of an industry in terms of five competitive forces: the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and the extent of rivalry between competitors. These five forces together constitute an industry's structure, which is typically fairly stable. For Porter, an attractive industry structure is one that offers good profit potential. His essential message is that where the five forces are high, industries are not attractive to compete in. There will be too much competition and too much pressure to allow reasonable profits (Johnson, Whittington & Scholes, 2011).

In addition to keeping an eye on existing rivals, established firms in an industry, which are called incumbents, also have a vested interest in keeping out potential new entrants. New entrants are motivated to enter an industry because of the lucrative above average returns some incumbents earn (Peng, 2009). New entrants to a market bring new production capacity, the desire to establish a secure place in the market, and sometimes substantial resources. Just how serious the competitive threat of entry is in a particular market depends on two classes of factors; barriers to entry and reaction of incumbent firms to new entry. Industry incumbents that are willing and able to launch strong defensive maneuvers to maintain their positions can make it hard for a new entrant to gain a sufficient market foothold to survive and eventually become profitable. Entry candidates may have second thoughts if they conclude that existing firms are likely to give newcomers a hard time by offering price discounts, spending more on advertising, running frequent sales promotions, adding attractive new product features, or providing additional services to customers. Such defensive maneuvers on the part of incumbents raise an entrants cost and risks and have to be considered likely if one or more incumbents have previously tried to strongly contest the entry of new firms into the marketplace (Thompson, Peteraf, Gamble & Strickland, 2010)

The seriousness of the threat of entry depends on the barriers present and the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a new comer can expect sharp retaliation from the entrenched competitors, he or she obviously will not pose a serious threat of entering (Pearce & Robinson, 2011). Porter describes eight major sources of barriers to entry, the presence or absence which determines the extent of threat of new industry entrants. The first barrier, economies of scale refers to the decline in per unit product costs as the absolute volume of production per period increases (Keegan & Green, 2008). The second barrier is product differentiation or brand identification which creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being first in is perhaps the most important entry barrier (Pearce & Robinson, 2011).

A third barrier is capital requirements. Capital is required not only for manufacturing facilities but also for financing research and development, advertising, field sales and service, customer credit, and inventories. A forth barrier to entry are the one time switching costs caused by the need to change suppliers and products. These might include retraining, ancillary equipment costs, the cost of evaluating a new source. The perceived cost to customers, preventing industry new comers from achieving success. Switching costs, government policy, cost advantages from independent of scale of economy and expected competitor response also determine the extent of threat of new entrants (Keegan & Green, 2008).

Substitutes are products of different industries that satisfy customer needs currently met by the focal industry (Peng, 2009). A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits (Kotler, 2003). Managers often focus on their competitors in their own industry, and neglect the threat posed by substitutes. Substitutes can reduce demand for a particular type of product as customers switch to alternatives – even to the extent that this type of product or service threatens to have an effect. The simple risk of substitution puts a cap on the prices that can be charged in an industry. There are two important points to bear in mind about substitutes; the price performance ratio is critical to substitution threats and extra industry effects are the core of substitution concept (Johnson, Whittington & Scholes, 2011).

The increase in customer power and knowledge is perhaps the single biggest threat posed by electronic trading. The bargaining power of customers is greatly increased when they are using the internet to evaluate products and compare prices (Chaffey, Chadwick, Mayer & Johnston, 2009). According to Pearce & Robinson, 2011 customers likewise can force down prices, demand higher quality or more service, and play competitors off against each other – all at the expense of industry profits. A buyer group is powerful if, it is concentrated or purchases in large volumes, the products it purchases from the industry are standard or undifferentiated, the products it purchases from the industry form a component of its product and represent a significant fraction of its cost. They buyer group is also powerful if it earns lower profits, which create great incentive to lower its purchasing costs. Highly profitable buyers, however, are generally less price sensitive. The buyers pose a credible threat of integrating backward to make the industry's product. Most of these sources of buyer power can be attributed to consumers as a group as well as to industrial and commercial buyers; only a modification of the frame of reference is necessary. Consumers tend to be more price sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes, and of a sort where quality is not particularly important.

Suppliers are organizations that provide inputs, such as materials, services, and manpower to firms in the local industry. The bargaining power of suppliers refers to the ability to raise prices and/or reduce the quality of goods and services (Peng, 2009). Most organizations have many suppliers so it is necessary to concentrate the analysis on the most important ones or types. If their power is high, suppliers can capture all their buyers own potential profits simply by raising their prices. Star football players have succeeded in raising their rewards to astronomical levels, while even the leading football clubs, their buyers, struggle to make money (Johnson, Whittington & Scholes, 2011).

Rivalry among firms refers to all the actions taken by firms in the industry to improve their positions and gain advantage over each other. Rivalry manifests itself in price competition, advertising battles, product positioning, and attempts at differentiation (Keegan & Green, 2008). Rivalry becomes more intense as product lifecycles decrease and lead times for new product development decrease (Dave, Chadwick, Mayer & Johnston, 2009). According to Kotler, 2003, A segment is unattractive if it already contains numerous strong, or aggressive competitors. It is even more unattractive it if is stable, or declining if plant capacity additions are done in large increments, if fixed costs are high, if exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new product introductions, and will make it expensive to compete.

2.3 Competitive Advantage

Companies must not only be able to create high absolute value, but also high value relative to competitors at a sufficiently low cost. Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match (Kotler & Keller, 2006). Competitive Advantage exists when there is a match between a firm's distinctive competencies and the factors critical for success within its industry. Any superior match between company competencies and customers' needs permits the firm to outperform competitors (Keegan & Green, 2008). When a company matches a core competency to opportunities it has discovered in the marketplace it is said to have a competitive advantage. In some cases, a company may possess manufacturing, technical, or marketing skills that it can match to market opportunities to create a competitive advantage (Pride & Ferrell, 2010)

When a firm possesses capabilities that allow it to serve customer's needs better than the competition, it is said to have a competitive advantage. Competitive advantages are critical because they set the tone, or strategic focus, of the entire marketing program. When these advantages are tied to marketing opportunities, the firm can offer customers a compelling reason to buy their products. Without a competitive advantage, the firm and its products are likely to be just one more offering among a sea of commoditized products (Ferrell & Hartline, 2008). To be competitive at all, the strategic business unit(SBU) must ensure that users see sufficient value that they are prepared to pay more than the cost of supply. To have an advantage, the SBU must be able to create greater value than competitors. In the absence of competitive advantage, the SBU is always vulnerable to attack by competitors with better products or services or offering lower prices and could be driven out of business (Johnson, Whittington & Scholes, 2011).

According to Pears &Robinson, 2011, Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. Two most prominent sources of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from competitors. Businesses that create competitive advantage from one or both of these sources usually experience above average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below average profitability. Two well recognized studies found that businesses that do not have either form of competitive advantage perform the poorest among their peers, while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability within their industry.

What makes a competitive advantage sustainable (or durable) as opposed to temporary, are elements of the strategy that give buyers lasting reason to prefer a company's products or services over those of competitors – reasons that competitors are unable to nullify or overcome despite their best efforts (Thompson, Petraf, Gamble, Strickland, 2010). A sustainable competitive advantage is one that competition cannot copy. Walmart for example, maintains a sustainable competitive advantage in groceries over super markets because of its highly efficient and low cost distribution system (Pride & Ferrell, 2010)

Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. Competitive advantage in one industry can be strongly enhanced by interrelationships with business units competing in related industries, if these interrelationships can actually be achieved. Interrelationships among business units are the principal means by which a diversified firm creates value, and thus provide the underpinnings for corporate strategy (Porter, 2004).

2.4 Sources of Competitive Advantage

In order to create a differentiated or lowest cost position, a firm needs to understand the nature and location of the potential sources of competitive advantage. The nature of these sources are the superior skill and resources of a firm (Jobber, 2007). Porter argues that there are two fundamental means of achieving competitive advantage. A Strategic Business Unit (SBU) can have lower costs than its competitors. Or it can have products or services that are so exceptionally valuable to customers that it can charge higher prices than competitors. In defining competitive strategies, Porter adds a further dimension based on the scope of customers that the business chooses to serve. Businesses can choose to focus on narrow customer segments, for example a particular demographic group such as the youth market. Alternatively they can attempt to target a broad range of customers, across a range of characteristics such as age, wealth or geography (Johnson, Whittington & Scholes, 2011).

Businesses using a low cost strategy attempt to be efficient and offer a standard, no-frills product. They often are large and try to take advantage of economies of scale in production or distribution (Bateman & Zeithmal 1993). Business success built on cost leadership requires the business to be able to provide its product or service at a cost below what its competitors can achieve. And it must be a sustainable cost advantage. Through the skills and resources such as sustained capital investment and access to capital, process engineering skills, intense supervision of labor or core technical operations, products or services designed for ease of manufacture or delivery and low cost distribution system, a business must be able to accomplish one or more activities in its value chain activities. (Pears & Robinson, 2011).

A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower cost and lower price than those of rival competitors. This strategy has considerable attraction when a firm can lower cost significantly by limiting its customer base to a well defined buyer segment. The avenues to achieving a cost advantage over rivals also serving the target market niche are the same as those for low cost-leadership: outmanage rivals in keeping the cost of value chain activities contained to a bare minimum and search for innovative ways to bypass certain value chain activities (Thompson, Petraf, Gamble, Strickland, 2010).

Differentiation is the process of adding a set of meaningful and valued differences to distinguish the company's offering from competitors offerings. The number of differentiated opportunities varies with the type of industry. The Boston Consulting group has distinguished four types of industries based on the number of available competitive advantages and their size; volume industry, stalemated industry, fragmented industry and specialized industry (Kotler, 2003). Differentiation focus strategy is one where customers are prepared to spend a lot of money in order to acquire luxury goods or services (Capon, 2008). Differentiation requires that the business have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. A successful differentiation strategy allows the business to provide a product or service of perceived higher value to buyers at a differentiation cost below the value premium to the buyers. In other words, the buyer feels the additional cost to buy the product or service is worth it compared with other available alternatives.

A focused strategy keyed to differentiation aims at securing a competitive advantage with a product offering carefully designed to appeal to the unique preferences and needs of a narrow, well defined group of buyers (as opposed to broad differentiation strategy aimed at many buyer groups and market segments). Successful use of a focused differentiation strategy depends on the existence of a buyer segment that is looking for a special product attributes or seller capabilities and on a firm's ability to stand apart from rivals competing in the same target market niche.

A strategic business alliance is some form of contractual relationship designed to secure an international venture without involving shareholding. Benefits include cost savings and market access (Lynch, 2009). Thompson, Strickland & Gamble, 2008 said that, Strategic Alliances are collaborative arrangements where two or more companies join forces to achieve mutually beneficial strategic outcomes. They further added that the competitive attraction of alliances is in allowing companies and resources that are more valuable in a joint effort than when kept separate.

2.5 Factors Influencing Competitive Advantage

A company's strategy is increasingly effective the more it provides some insulation from competitive pressures and shifts the competitive battle in the company's favor (Thompson, Strickland & Gamble, 2007). Some of the factors that influence competitive advantage are discussed below.

Superior resources are the tangible requirements for advantage that enable a firm to exercise its skills. Superior resources include the number of sales people in a market, the expenditure on advertising and sales promotion, distribution coverage, expenditure on R&D, scale of and type of production facilities, financial resources, brand equity and knowledge (Jobber, 2007). Employees are a key resource to any organization. Low turnover rate is likely to increase the sustainable competitive advantage of an organization. According to Torrington, Hail & Taylor, 2005, training opportunities enhance commitment to an employer on the part of individual employees, making them less likely to leave voluntarily than they would if no training were offered. To determine the strategic relevance and competitive power of a firm's resources and capabilities, it is necessary to go beyond merely identifying a company's resources and capabilities.

The second step in resource and capability analysis is designed to ascertain which of a company's resources and capabilities are competitively valuable and to what extent they can support a company's quest for a sustainable competitive advantage over market rivals. This involves probing the caliber of a firm's competitive assets relative to those of its competitors. When a company has competitive assets that are central to its strategy and superior to those of rival firms, it has a competitive advantage over other firms. If this advantage proves durable despite the best efforts of competitors to overcome it, then the company is said to have sustainable competitive advantage. While it may be difficult for a company to achieve a sustainable competitive advantage, it is an important strategic objective because it imparts a potential for attractive and long-lived profitability. The competitive power of recourses is measured by how competitively valuable the resource is, how rare the resource is; whether it is something rivals lack, how hard the resource is to copy and whether there are good substitutes available for the resource (Thompson, Peteraf, Gamble & Strickland, 2010).

Technology refers to the way that we accomplish specific tasks or the process that we use to create the things we consider as new (Ferrell & Hartline, 2008). Dramatic changes in information technology have occurred in recent years. Personal computers, cellular phones, artificial intelligence, virtual reality, and massive databases are a few examples of how information is used differently as a result of technological developments (Hitt, Ireland & Hoskisson, 1997). The link between technological change and competitive advantage suggests a number of tests for a desirable direction of technological change. Technological change by a firm will lead to sustainable competitive advantage under the following circumstances: the technological change itself lowers cost or enhances differentiation and the firm's technological lead is sustainable. A technological change enhances competitive advantage if it leads to lower cost or differentiation and can be protected from limitation. Technological lead is sustainable if technological change shifts cost or uniqueness drivers in favor of a firm. Changing the technology of a value activity, or changing the product in ways that affect the value activity, can influence the drivers of cost or uniqueness in that activity. Even if the technological change is imitated, therefore it will lead to a competitive advantage for a firm if it skews drivers in the firm's favor (Porter, 1998).

Product differentiation refers to the uniqueness of the product that customers value. Its two underlying sources are brand identification and customer loyalty (Peng, 2009). Differentiation usually arises from one or more activities in the value chain that create a unique value important to buyers (Pears & Robinson, 2011). It requires that the business have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. A successful differentiation strategy allows the business to provide a product or service of perceived higher value to buyers at a "differentiation cost" below the "value premium" to the buyers. In other words, the buyer feels the additional cost to buy the product or service is well below what the product or service is worth compared with other available alternatives (Keegan & Green, 2008).

Patents give greater certainty to future revenue streams by protecting a brand from competitive threat over the lifetime of the patent (Jobber, 2007). Governments set out rules about what may and may not be patented and for how long. In some countries few products are patentable, so that companies are left open to have their products copied at a fraction of the cost of the genuine product (Blythe, 2009). For patented products the firms will be able to sustain a competitive advantage as no other firm will be able to duplicate their product for as long as the patent holds.

Brands and company reputation are among the most defensible assets the company has, provided they are managed well and protected (Hooley, Piercy & Nicoulaud, 2008). Brands may also take a personality trait. A brand like a person can be characterized as being modern, old fashioned, lively or exotic. Brand personality reflects how people feel about a brand as a result of what they think the brand is or values (Keller. Aperia. Georgson. 2008). Some believe that a strong brand name is the ultimate source of competitive advantage. especially for companies producing and selling either consumer durable products (Hitt. Ireland & Hoskisson. 1997). Consumers frequently develop close relationships with brands. partly because the brand reflects their self-image (Blythe. 2009).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at the techniques and ways used to conduct the research. It constitutes the research design, the study population, data collection technique and the method of data analysis.

3.2 Research Design

The research was carried out using a cross sectional survey design. Surveys require asking people, who are called respondents, for information, using either verbal or written questionnaires. Surveys provide quick, inexpensive, efficient, and accurate means of assessing information about a population (Zikmund, 2003). For this study a Cross Sectional Survey design was carried out by administering questionnaires to the respondents. It was most appropriate as the study was descriptive. According to Kothari (2004) descriptive research studies are concerned with specific predictions with narrations of facts and characteristics concerning individual group or situations.

This study was specific as it aimed to provide information on the various types of competitive advantages enjoyed by commercial banks in Kenya and the specific factors that influence the types of competitive advantages enjoyed by the Commercial Banks. This study clearly defined the population and what the study measured. Thus the cross sectional survey design was the most appropriate for this study.

3.3 Study population

The target population for this research was all the Commercial Banks in Kenya. According to The Central Bank of Kenya there are forty three licensed Commercial Banks in Kenya and one mortgage finance institution as at 13th December 2011 (list as documented in Apendix II). Of the forty three commercial Banks, one Bank Charterhouse Bank was not studied as it is under statutory management.

3.4 Data Collection

The primary data was collected through closed ended questionnaires given to the respondents. (See appendix I). The questionnaire was structured into three sections. Part A of the questionnaire looked to obtain general information on the organization. Part B of the questionnaire sought to find out the various types of competitive advantage enjoyed by Commercial Banks in Kenya. Part C of the questionnaire provided a response to the factors influencing Competitive advantage of Commercial Banks in Kenya.

As the study was very specific, a questionnaire was the most appropriate technique for data collection as this helped avoid any ambiguity from the data collected. Closed ended questionnaires are very direct and leave no room for the respondent to deviate or respond to a question that was not asked thus making it difficult when analyzing data.

The respondents to the questionnaires were the head of business development, head of finance, head of operations and relationship managers of the commercial banks. The respondents were notified in advance before forwarding the questionnaire. It was important to notify the respondents in advance so that they prepare for the meeting or anticipate the questionnaire which was being delivered to them to avoid getting negative response or no response at all. The data collection was done through both emailing the questionnaire and by personally 'dropping and picking' the questionnaires.

3.5 Data Analysis

The data collected was used to find out the types of Competitive advantage enjoyed by Commercial Banks in Kenya and the factors that influence competitive advantages. A statistical analysis was used to analyze the data. The choice of the appropriate method of statistical analysis depends on the type of question to be answered, the number of variables and the scale of measurement (Zikmund, 2003). When seeking to find out the types of competitive advantages enjoyed by Commercial Banks in Kenya, we used multivariate data analysis as we were looking at different variables. Each Commercial Bank enjoys more than one type of Competitive Advantage and the extent to which each competitive advantage is enjoyed by different commercial banks differs. Similarly, when looking at the factors influencing competitive advantage of Commercial banks in Kenya, there are several factors that influence Competitive advantage of the Commercial Banks but the extent to which each factor influences the competitive advantage differs from bank to bank.

Multivariate data analysis was relevant to this study as we had some explanatory variables. According to Kothari (2004) if X is considered to be the cause of Y then X is described as explanatory variable. The factors influencing competitive advantage of commercial banks in Kenya have an impact on the types of competitive advantage enjoyed by each commercial bank and the degree to which the commercial bank enjoys the competitive advantage. From the study we were able to find out which factors have an influence on the types of competitive advantage enjoyed by the commercial banks in Kenya.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the findings of the study based on the analysis and interpretation of the data collected from the various respondents interviewed. The data analyzed pertains to the general information on the commercial banks in Kenya, the types of competitive advantages enjoyed by the commercial banks in Kenya and finally the factors influencing the competitive advantages enjoyed by the Commercial Banks in Kenya.

4.2 Commercial Banks in Kenya

A total of 43 questionnaires were issued targeting the forty three commercial Banks in Kenya. Of the forty three commercial Banks thirty eight banks responded which means that thirty eight questionnaires were completed and returned representing a response rate of eighty eight percent.

The findings were represented in percentages and frequency distributions, mean and standard deviation narratives.

4.2.1 Ownership Structure of Commercial Banks in Kenya

As shown in table 4.1 below, of the thirty eight Commercial Banks that responded, seventy six percent of them are locally owned with twenty three percent having both local and foreign investors. From the respondents we were able to see that ownership structure has an impact as one of the factors that influence Competitive advantage of Commercial Banks in Kenya.

Table 4.1 Ownership structure of commercial Banks

Nature of Bank Ownership	Frequency	Percentage
Local	29	76.32
Local and foreign	9	23.68
	38	100

Source: Research data

4.2.1 Target Market

From table 4.2 below we can see that of the thirty eight Commercial Banks that responded, twenty nine percent focus on retail banking, twenty six percent on corporate banking and forty four percent on retail and corporate banking. The target market segment will influence the type of Competitive advantage enjoyed by the Commercial Banks. Depending on the target market, the commercial Bank would then need to have the right products, the right branch network ad the appropriate marketing strategy to attract and retain clients within their target market.

Table 4.2 Target Market

Market segment	Frequency	Percentage
Retail Banking	11	28.95
Corporate Banking	10	26.32
Retail and Corporate Banking	17	44.74
	38	100

Source: Research Data

4.2.3 Years of Operation in Kenya

The results presented in table 4.3 shows that the number of years of operation in Kenya varied from a period of less than five years to over fifty years. Five percent of the commercial banks have had their operations in Kenya for less than five years, another five percent have had their operations for between five and ten years, twenty one percent have been in Kenya between eleven and twenty years, twenty eight percent have had their operations in Kenya between twenty one and thirty five years, between thirty six and fifty years we have fifteen percent and twenty three percent of the commercial banks have been in Kenya for over fifty years.

Table 4.3 Years of Operation in Kenya

Years of Operation in Kenya	Frequency	Percentage
Less than 5 years	2	5.26
5 to 10 years	2	5.26
11-20 years	8	21.05
21 - 35 years	11	28.95
36 - 50 years	6	15.79
over 50 years	9	23.68
	38	100.00

Source: Research Data

4.2.4 Presence of the Commercial Banks in Africa

From the results presented in table 4.4 below, we can see that majority of the Banks have only got a presence in Kenya with no other Branches in other parts of Africa. Twenty three percent of the commercial banks have a presence in not more than five countries in Africa, five percent have a presence in six to ten countries in Africa, seven percent of the commercial banks have a presence in eleven to twenty countries, while on five percent have a presence in twenty one to thirty countries in Africa. The presence a Commercial Bank holds helps to enhance cross boarder activities.

Table 4.4 Banks with a presence in other countries in Africa

Other countries in which you have a presence	Frequency	Percentage
None	22	57.89
1 to 5	9	23.68
6 to 10	2	5.26
11 to 20	3	7.89
21 to 30	2	5.26
Over 30	0	0.00
	38	100.00

Source: Research Data

4.3 Competitive Advantages of Commercial Banks in Kenya

Businesses become successful because they possess some advantage relative to their competitor. The study therefore sought to find out the types of competitive advantage enjoyed by Commercial Banks in Kenya. The extent to which each competitive advantage is enjoyed by commercial Banks in Kenya varies as shown in the table below.

Table 4.5 Types of competitive advantages enjoyed by commercial banks in Kenya

Types of Competitive Advantage	Mean	Std. Deviation
Differentiation targeting the market in general	3.71	1.38
Differentiation targeting a specific market	3.5	1.26
Strategic alliances	3.28	1.23
Product innovation	3.08	1.12
Low cost strategy targeting the market in general	2.17	0.98
Low cost strategy targeting a specific market	3.07	0.97
Brand Loyalty	4.16	1.32
Ease of Cross Border transactions	3.32	1.21
Presence attributed to your branch network	2.84	0.86
Out sourcing of the support services	3.24	0.54
Strategic partnerships e.g mergers and acquisitions	1.37	1.9

Source: Research Data

This section aimed at accessing the types of competitive advantages enjoyed by Commercial Banks in Kenya. This has been shown in table 4.5 above. The types of competitive advantage were analyzed on a scale of one to five where one meant not at all. two meant little. three meant moderate. four meant great and five very great.

Brand loyalty seems to be the most popular type of competitive advantage enjoyed by commercial banks in Kenya with a mean of 4.16 and a standard deviation of 1.32. Differentiation targeting the market in general also seems to be quite popular with a mean of 3.71 and a standard deviation of 1.38. The two would go hand in hand as the products offered by the bank are differentiated to suite their customers such that customers are not inclined to switch from one bank to another.

Differentiation occurs when the products of an organization meet the needs of some customers in the market place better than others (Lynch, 2009) Differentiation can be actual and real or merely perceived by a customer. Perceived differentiation occurs when a company provides products or services which appear different and distinctive compared to competitors offering by virtue of the way they are presented to the market place (Capon, 2008). Some of the commercial banks enjoy the benefits of offering differentiation targeting a specific market. These are mainly the commercial banks which have prestige branches or offer certain products and services to a select few of their customers and charge a premium price. This also enhances brand loyalty as their clients are very happy with that unique feature be it perceived or real which their bank gives them and it would be very difficult for them to be lured by the competitor.

The results in table 4.5 above indicate that Ease of cross border transactions exists as competitive advantage for the commercial Banks in Kenya. Majority of the banks i.e fifty eight percent as shown in table 4.4 above do not have a presence outside Kenya. However, most of the banks are able to enjoy ease of cross boarder transaction as they have partnered with other banks outside Kenya through whom they can be able to transact with on behalf of their clients.

Strategic alliances are fairly popular with the commercial banks with a mean score of 3.28 and a standard deviation of 1.24. Strategic alliances aide organizations to expedite the development of new technologies or products, to overcome deficits in their own technical and manufacturing expertise, to bring together the personnel and expertise needed to create desirable new skills and capabilities, to improve supply chain efficiency, to gain economies of scale in production and marketing and to acquire or improve market access through joint marketing agreements (Thompson, Strickland & Gamble, 2008). Outsourcing of support services, which is one of the routes to strategic alliances assist the commercial banks focus on their core business. This was seen as one of the competitive advantages enjoyed by commercial banks in Kenya with a mean of 3.24 and a variance of 0.54.

Low cost strategy targeting the market in general and low cost strategy targeting a specific market are also seen as types of competitive advantages enjoyed by commercial banks in Kenya with a mean of 2.17 and 3.07 and a standard deviation of 0.98 and 0.97 respectively. Achieving lower costs than rivals can produce a durable competitive edge when rivals find it hard to match the low cost leader's approach to driving costs out of the business (Thompson, Strickland & Gamble, 2008).

Presence attributed to branch network is among the competitive advantages enjoyed by commercial banks in Kenya with a mean of 2.84 and a standard deviation of 0.86. Having identified their target market and worked on brand loyalty, branch network may not offer much of a competitive edge.

Strategic partnerships e.g mergers and acquisitions have given some banks in Kenya a competitive edge by increasing their asset base. In the recent past we have seen a couple of banks go through mergers and acquisitions. In the processes they may loose some of their customer's to the competition as they gain some. From this research strategic partnerships can be seen as one of the types of competitive advantage with a mean of 1.37 and a standard deviation of 1.9.

4.4 Factors influencing Competitive advantages of commercial banks in Kenya

Table 4.6 Factors influencing competitive advantage

Factors influencing competitive advantages	Mean	Std. Deviation
Marketing strategy adopted	3.84	0.76
Advances in technology	3.83	1.42
Decision making process	2.24	0.54
Staff turnover rate	1.61	0.62
Years of operation in Kenya	3.05	1.83
Ownership structure	3.16	1.76
Corporate social responsibility activities	2.30	1.07
No. of products offered by your bank	3.91	1.07
Customer satisfaction surveys	3.71	1.85
Financial results of the Bank	2.53	1.33

Source: Research Data

The findings of the study as shown in table 4.6 above indicate that the extent to which each factor influences competitive advantage enjoyed by the Commercial Banks varies. The factors were looked at on a scale of one to five where one meant not at all, two meant little, three meant moderate, four meant great and five very great.

From the response received from the respondents, number of products offered by their respective commercial Bank has the greatest influence on the factors influencing competitive advantage with a mean score of 3.91 and a standard deviation of 1.07. The Marketing Strategy Adopted by each Commercial Bank also influences the competitive advantage enjoyed by the Bank with a mean score of 3.84 and a standard deviation of 0.76. Advance in technology influences was also one of the factors seen to influence Competitive Advantage of Commercial Banks with a mean of 3.83 and a standard deviation of 1.42.

Customer satisfaction surveys also influence the competitive advantage of commercial Banks in Kenya with a mean score of 3.71 and a standard deviation of 1.85. From further information provided by the respondents, some Banks outsource these services from various firms while majority have internal surveys. Ownership structure of the Bank also has an influence on the type of competitive advantage enjoyed by that Bank.

Corporate social responsibility activities are amongst the factors influencing competitive advantage enjoyed by commercial banks in Kenya with a mean of 2.3 and a standard deviation of 1.07. This affected both the banks that have gone through mergers and acquisitions and those that have not. The ownership structures of the Banks also influence the competitive advantage enjoyed by the commercial Banks with a mean of 3.16 and a standard deviation of 1.76.

The number of years a commercial Bank has had its operations in Kenya influences the competitive advantage enjoyed by the Commercial Bank with a mean of 3.05 and a standard deviation of 1.83. From the research findings the Financial results of the Bank also has an influence on the competitive advantage enjoyed by the Commercial Banks with a mean of 2.53 and a standard deviation of 1.33.

Decision making process within the Bank also has an influence on the competitive advantage enjoyed by the Commercial Bank with a mean of 2.24 and a standard deviation of 0.54. The least common factor which influences the competitive advantage of the Commercial Banks is Staff turnover rate with most respondents specifying that a low staff turnover rate does not have a significant impact on their competitive edge.

4.4 Discussions of Findings

Michael Porter's Five Force Model helps us identify the attractiveness of an industry in terms of five competitive forces; the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and the extent of rivalry between competitors. From our research findings more than eighty five percent of the banks have been in operation for more than ten years. This shows that the entry rate into the banking industry is not high. The extent of rivalry between competitors in the banking industry is quite high as we have forty three commercial banks offering their generic products to about four million Kenyans. Threat of entry into the market exists. Of the respondents the five percent who have had their operations in Kenya for less than five years are foreign banks. Porter argues that if the five forces are high an industry becomes unattractive to compete in.

The banking industry is attractive to compete in as there is no threat of power of buyers, threat of substitutes and power of suppliers. It may not be possible for the clientele and suppliers of the banks to come up with the capital required to start their own bank. One of the sources of competitive advantages for commercial banks is number of products offered. It is unlikely that any of the near substitutes would come up with their product mix.

According to Keegan & Green (2008) competitive advantage exists when there is a match between a firm's distinctive competencies and the factors critical for success within its industry. This is consistent with our research findings. The types of competitive advantage enjoyed by commercial banks in Kenya are as a result of various factors. These factors include marketing strategy adopted by commercial banks, advances in technology, low staff turn over rate, number of products offered by the banks and customer satisfaction surveys. These in turn result to Brand loyalty, differentiation targeting the market in general, ease of cross border transactions and strategic alliances.

Brand loyalty is difficult to overcome when consumers feel that the brand consists of right product characteristics and quality at the right price (Pearce & Robinson, 2011). For commercial Banks to have their customers remain loyal, they need to ensure that they are abreast with technology which has been seen from the research findings. Low staff turnover rate is also key in ensuring customer loyalty. If staff leave to go to another commercial bank, they are likely to take some of the clients with them. so staff retention is key especially for frontline staff. Decision making process is also very important in retaining clients. There are forty three commercial banks all offering similar products if it takes long for a decision to be made the client is likely to move to the competitor who he will perceive to be more efficient.

Ownership structure also affects brand loyalty. We have some commercial Banks in Kenya that are listed in the Nairobi Securities Exchange. If you have purchased shares for the Bank you Bank with, you are likely to remain loyal to them for as long as you have shares in that Bank, and you are likely to market the Bank to your friends and family. In the same breathe, the government of Kenya only holds accounts with the state owned Commercial Banks.

For the commercial Banks to have an edge with the products they have systems that can support their products. It is very important to be advanced in technology. The alternative of having all the up to date technology in the organization is to have strategic alliances. The most common reasons why companies enter into strategic alliances are to expedite the development of promising new technologies or products, to overcome deficits in their own technical and manufacturing expertise, to bring together the personnel and expertise needed to create desirable new skill sets and capabilities, to improve supply chain efficiency, to gain economies of scale in production and/or marketing, and to acquire or improve market access through joint marketing segments (Thompson, Strickland & Gamble, 2007).

In a bid to facilitate international trade so as to ease cross border transactions, the commercial Banks need to create an environment where it would be easy to make payments for imports and receive funds for exports. From the response in this research a majority 57% of the commercial Banks do not have a presence outside Kenya. It is therefore paramount that they partner with other commercial Banks outside Kenya to form strategic alliances in order to facilitate international trade transactions so as to remain competitive.

Michael Porter suggested four generic business strategies that could be adopted in order to gain competitive advantage. The four strategies include Differentiation, Low cost, Differentiation focus and low cost focus. From the findings of this research, we can see that there are a mix of other factors which can be adopted to gain competitive advantage. From our research findings, Brand loyalty is one of the strategies that can be used to gain competitive advantage by Commercial Banks in Kenya. Strategic alliances as a strategy can also be used to gain competitive advantage within the banking industry. Ease of cross border transaction is also a strategy that may be used by commercial banks to gain a competitive edge.

According to Jobber (2007) superior resources are tangible requirements for advantage that enable a firm to exercise its skill. A low staff turnover rate has little or no impact on the type of competitive advantage enjoyed by commercial banks in Kenya because there is consistency within each commercial bank. You are not likely to start a project and not complete it due to staff exits leading to skills gap.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section of the research provides a discussion on the summary findings of the research based on the on the findings of the study as was obtained from the respondents. This chapter summarizes the findings of the study in relation to the objectives of the study which were to find out the types of competitive advantages enjoyed by commercial banks in Kenya and to find out the factors influencing the types of competitive advantages enjoyed by commercial banks in Kenya. The conclusion will form the basis on which the recommendation will be made. The recommendation will suggest other types of competitive advantages that commercial banks in Kenya can use to have an edge and what factors they may need to consider. This chapter will also highlight the limitations of the study and make suggestions for further research based on the knowledge gap identified.

5.2 Summary of Findings

The objective of the study was to find out the factors influencing competitive advantage of Commercial Banks in Kenya. The study was guided by the following research question: What are the factors influencing competitive advantage of Commercial Banks in Kenya? The study was a survey study and looked at all the Commercial Banks in

Kenya. Data was obtained by administering questionnaires to various respondents from the Commercial Banks.

The study established that the main type of competitive advantage enjoyed by commercial banks in Kenya is Brand loyalty. This implies that we have few customers moving from one bank to another. This must be as a result of customer satisfaction which can be attributed to various factors influencing competitive advantages such as the marketing strategy adopted by the commercial banks to attract and retain customers, product innovation supported by advances in technology, ownership structure of the bank and low staff turnover rate as other than branding the face of the bank is its staff members.

The study revealed that differentiation targeting the market in general is among the competitive advantages enjoyed by Commercial Banks in Kenya. The Commercial Banks through product innovation and the marketing strategy adopted are able to segment the market and come up with different products to suite their various clientele. Through customer service surveys, they are able to find out what the market needs and with advance in technology and innovation, they can respond to the markets needs adequately.

From the research findings Commercial Banks form strategic alliances within themselves and with other industries so as to come up with competitive products. An example is the strategic alliance between some commercial Banks and Mobile Telephone company Safaricom, who have partnered to make it easier for individuals to access their funds through their phone.

From the findings, Ease of cross border transactions is also a source of competitive advantage for commercial Banks in Kenya. Ease of Cross Border transactions is made possible through strategic alliances with other commercial Banks outside Kenya. From the research findings we can see that a majority 57.89% of the commercial banks do not have a presence outside Kenya (Table 4.4).

The study also revealed that Strategic partnerships such as mergers and acquisitions are not a major type of competitive advantage enjoyed by commercial banks in Kenya. Low cost strategy targeting the market in general is also not a major type of competitive advantage enjoyed by Commercial Banks in Kenya.

5.3 Conclusion of the study

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The objectives of this study were to find out the types of competitive advantage enjoyed by commercial banks in Kenya and the factors influencing these competitive advantages. Based on the findings it can be concluded that the main types of competitive advantages enjoyed by commercial banks in Kenya are Brand loyalty, Differentiation, Ease of Cross Border transactions, Strategic alliances, Outsourcing and Product innovation.

Each commercial Bank in Kenya needs to identify the types of competitive advantage which they enjoy and the factors influencing these competitive advantages. They can then build on these factors so as to have an edge. The main factors influencing these types of competitive advantages include the number of products offered by the Commercial Banks, marketing strategy adopted, advance in technology, customer satisfaction surveys and ownership structure.

Some of the competitive advantages enjoyed by Commercial Banks in Kenya are inter-related. As we have seen from our findings, Brand loyalty may be as a result of the years of operation in Kenya. When parents open savings accounts for their children in a certain commercial bank, the child once they attain adulthood is likely to continue banking with the same bank. Brand loyalty also results from the number of products offered by the bank. People want to consolidate their financial transactions. You want a bank that can give you a debit card, a credit card, a personal loan, a mortgage, a current account, savings account with attractive interest rates and be able to transfer funds at an affordable cost. Product innovation will also impact Brand loyalty because the clients will be assured of new products to keep up with the changing times and this in turn is influence by the advances in technology.

From the results of the study we can also see that customers want to be involved in the products which are being created for them. Through customer satisfaction surveys, the commercial banks are able to adequately cater for the needs of their target market. Marketing strategy adopted by the bank will also influence the competitive advantages enjoyed by the bank. They need to employ the right strategy to their target market so as to attract and retain the right clientele.

5.4 Limitations of the Study

While carrying out the research, there were some limitations encountered. Some of the respondents took a while to respond to the questionnaires especially the questionnaires which were sent via email. Not all the respondents gave their feedback hence the researcher was not able to study the whole population. Some of the commercial banks have very strict policies which do not allow research to be carried out on their organizations.

5.5 Recommendation for Policy and Practice

The study revealed that there were gaps in the types of Competitive advantages enjoyed by Commercial Banks in Kenya. As had been recommended by Onyoro (2011) Commercial Banks in Kenya should aim at investing to build their Branch network. The commercial Banks can also look at expanding outside Kenya, at least venture into Africa and later to other parts of the world. Venturing into other markets will further enable the commercial banks enjoy the competitive advantage of Ease of Cross Border transactions. It will create an opportunity for their clients who have branches outside Kenya consolidate their banking within the same brand.

The commercial Banks should also review their decision making process so as to turn this into a major strength. Commercial Banks also need to reinforce on their strengths and factor them in while preparing their strategic plans. Staff retention is key in ensuring continuity of an organization. Staff attrition rate was seen to be minimal from the findings of this research the Commercial Banks need to ensure that this is maintained.

5.6 Recommendations for further research

The study was aimed at finding out the factors that influence competitive advantage of Commercial Banks in Kenya. Further research may be carried out on the factors influencing Sustainable Competitive Advantages enjoyed by Commercial Banks in Kenya. It would be important to find out whether the types of competitive advantages enjoyed by Commercial Banks in Kenya are long term and the extent of their sustainability.

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APPENDICES

Appendix I: QUESTIONNAIRE

A. General Information

1. Name of Bank ____

2. Designation of Respondent__________________________________

3. Ownership of Bank

   a) Local ☐ b) Foreign ☐ c) Government ☐

4. How many staff do you have in your organizations?

   ____

5. What business does your bank specialize in?

   a) Retail Banking ☐ b) Corporate Banking ☐

   c) Retail and Corporate ☐

6. For how long have you had your operations in Kenya?

   a. Less than 5 years ☐
   b. 5 – 10 years ☐
   c. 10 – 20 years ☐
   d. 20- 35 years ☐
   e. 35 - 50 years ☐
   f. Over 50 years ☐

7. In how many other countries in Africa do you have a presence

   a) 1- 5 ☐ b) 6 – 10 ☐ c) 11 – 20 ☐

   d) 21- 20 ☐ e) Over 30 ☐

B. Types of competitive advantage

To what extent is each of the following a competitive advantage for your bank.

Please indicate the influence of each variable using a rating scale

1 = not at all; 2 little; 3 moderate; 4 = great; 5 very great

Types of competitive advantage	1	2	3	4	5
(i) Differentiation targeting a specific market					
(ii) Differentiation targeting a specific					
(iii) Strategic alliances					
(iv) Product innovation					
(v) Low cost targeting the market in general					
(vi) Low cost targeting a specific market					
(vii) Brand loyalty					
(viii) Ease of cross border coordination					
(ix) Presence attributed to your branch network					
(x) Out sourcing of the support services					
(xi) Strategic partnership e.g merges and acquisition					

Other Competitive Advantages (Kindly list below)

1. ....
2. ....
3. ....
4. ....

C. Factors influencing competitive advantage

To what extent does each of the following influence the competitive advantage enjoyed by your firm?

Please indicate the influence of each variable using a rating scale

1 = not at all; 2 little; 3 moderate; 4 = great; 5 very great

Factors influencing competitive advantage	1	2	3	4	5
(i) Marketing strategy adopted					
(ii) Advances in technology					
(iii) Decision making process					
(iv) Staff turn over rate					
(v) Years of operation in Kenya					
(vi) Ownership structure					
(vii) Corporate social responsibility activities					
(viii) No. of products offered by your bank					
(ix) Customer satisfaction surveys					
(x) Financial results of the Bank					

Other factors (Kindly list)

1. ………………………………………………………………………………………

2. ………………………………………………………………………………………

3. ………………………………………………………………………………………

4. ………………………………………………………………………………………

Appendix II : LIST OF COMMERCIAL BANKS IN KENYA

A: COMMERCIAL BANKS

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd
3. Bank of Baroda (K) Ltd
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CfC Stanbic Bank Ltd
7. Charterhouse Bank Ltd (Under statutory Management)
8. Chase Bank (K) Ltd
9. Citibank N.A. Kenya
10. Commercial Bank of Africa Ltd
11. Consolidated Bank of Kenya Ltd
12. Co-operative Bank of Kenya Ltd
13. Credit Bank Ltd
14. Development Bank of Kenya Ltd
15. Diamond Trust Bank Kenya Ltd
16. Dubai Bank Kenya Ltd
17. Eco bank Kenya Ltd
18. Equatorial Commercial Bank Ltd
19. Equity Bank Ltd
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First Community Bank Limited
24. Giro Commercial Bank Ltd
25. Guardian Bank Ltd
26. Gulf African Bank Ltd
27. Habib Bank A.G. Zurich
28. Habib Bank Ltd
29. Imperial Bank Ltd

30. I & M Bank Ltd
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank Kenya Ltd
41. Trans-National Bank Ltd
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Ltd

B: Mortgage Finance Companies

1. Housing Finance Ltd

Source:http://www.centralbank.go.ke/financialsystem/banks/register.aspx