

**STRATEGIES ADOPTED BY KENYA COMMERCIAL BANK
GROUP LTD TO GAIN COMPETITIVE ADVANTAGE**

BY

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Declaration

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

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D61/64383/2013

This research project has been submitted for examination with my approval as a University Supervisor.

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DEDICATION

This project is dedicated to:

To my Almighty God, who is the strength of my life.

To my parents Gabriel Thuo and Jacinta Thuo who taught me the virtue of hard work and shaped me to whom I am today. They have seen me through my education and constantly encouraged me to strive for excellence.

To my dear husband Francis, for his unfailing belief in my potential.

To my dear son Smith and daughter Naomi for constantly encouraging and offering emotional support to complete my research project and who have over the years put a smile in my heart.

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ABSTRACT

Strategy is key in developing competitive advantage. Competitive advantage is key for success of organisations. Different organisations use different strategies to achieve competitive advantage derived from their capabilities. The Kenyan banking industry has been affected immensely by the business environmental changes such as technological innovations, globalization, privatization, implementation of economic reforms, increased customer demands and liberalization of both domestic and foreign markets that has led to increased competition, forcing banks to adjust their strategies in order to survive. It has had a drastic change where many non-banking financial institutions such as microfinance institutions (MFIs), building societies and Saccos are converting into fully fledged banks. This has led to a tremendous increase in the number of banks to the current 43 thereby setting in increased competition. KCB has risen to becoming the best performing bank in the banking industry in Kenya surpassing other banks in the industry that had consistent performance over the years. This study was therefore aimed at understanding what strategies KCB has adopted to gain competitive advantage over its peers in the Kenyan banking industry. The study adopted a case study design to carry out this research where an interview guide targeting 5 senior managers of the bank was used to collect data. Both primary and secondary data were sourced and analyzed through the Content Analysis method. The study revealed that KCB has adopted strategies such as invention and innovation of new products and services, quick and convenient sales and channels for more coverage, aggressive brand and targeted marketing, excellent customer experience, reliable and agile technology and systems, employee training and development, good corporate governance, risk management and customer centric operations to gain competitive advantage in the Kenyan banking industry. The study recommended that the bank should focus more on utilizing its large asset base more efficiently to generate higher profits than it is currently making. Through its operations, it should further improve efficiency in the delivery of its product and services to its customers, and reduce costs hence achieving higher profits as well. The major limitation of the study was that some respondents withheld some information they considered confidential and sensitive on the fear that it can leak to their competitors.

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CHAPTER ONE INTRODUCTION

1.1 Background of the Study

Strategy is a unifying (integrating) pattern of decisions and defines organization purpose, goals, objectives and priorities. The concept of strategy is a multi-dimensional concept viewed as a means of establishing the organizational purpose in terms of its long-term objectives, action programs, and resource allocation. Every organization has some form of strategy whether explicit or implied and it is these differences in strategy that determine whether an organization can gain competitive advantage or not. Competitive advantage is the strategic advantage one business entity has over its rival entities within its competitive industry. It relates to how effectively and efficiently a firm meets the wants and needs of its customers in the marketplace, relative to other organizations that offer similar products or services.

Strickland (2003) view strategy as a deliberate search of ways of doing things in order to develop competitive advantage for the firm. The competitive advantage created by such strategies defines the difference between a firm and its competitors. Competitive advantage can therefore be defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment. Strategy is key in developing competitive advantage while competitive advantage is key for the success of an organisation. Different organisations therefore use different strategies to achieve competitive advantage

Kenyan banking sector has had a drastic change where many non-banking financial institutions such as microfinance institutions (MFIs), building societies and Saccos are converting into fully fledged banks. This has led to a tremendous increase in the number of banks to the current 43 thereby setting in increased competition. Kathuni and Mugenda (2012), states that players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. KCB Group Ltd have survived over the

years as the most profitable bank in Kenya, establishing a sustainable and profitable position against the competition forces in the industry.

1.1.1 Concept of Strategy

Johnson and Whittington (2008) define strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. Ansoff (1990) says that strategy is the link between an organization and its external environment and must be consistent with an organization's goals and values, with its external environment, with its resources and capabilities and with its organizational structures and systems. Koch (2006) defines Strategy as the commercial logic of a business that defines why a firm can have a competitive advantage. Strategy is what a company does and how it actually positions itself commercially and conducts the competitive battle.

Ansoff (1987) says that strategy is a rule for making decisions determined by product/market scope, growth vector, competitive advantage, and synergy. Strategy is therefore about where the business is trying to get to in the long-term (direction), which markets the business should compete in and what kind of activities are involved in such markets, how can the business perform better than the competition in those markets, what resources are required in order to be able to compete, what external environmental factors affect the business's ability to compete and finally the values and expectations of those who have power in and around the business. Thompsons et al (2007) think that strategy is a long-term plan of action designed for the sole purpose of winning. Pearce and Robinson (2007), viewed strategy as a large scale, future oriented plan for interacting with the competitive environment to achieve company objectives. Porter (1985) views strategy as a process of creating a unique and valuable position for a firm using a set of activities through well-defined objectives. Mintzberg (2003) argues that the term strategy is used to mean a plan, a ploy, a pattern, or a perspective. Strategy therefore entails building defences against competitive forces in an industry as well as finding a position in the industry where competitive forces are weakest.

1.1.2 Concept of Competitive Advantage

Competitive advantage is a position of superiority on the part of a company in relation to its competitors in any of the functions performed by the company (Rumelt, 2003). A company has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces in the industry. Porter, (1980) developed four generic strategies that can be viable in the long term business environment. They are cost leadership strategy, differentiation strategy, cost focus strategy and differentiation focus strategy.

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of its strategic business areas. According to Bharathwaj et al (1993), competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. 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 that are sustainable. Sustainable competitive advantage is obtained through core competencies that yield the long term benefit to the company. Prahaland and Hamel (1990) define a core competence as an area of specialized expertise that is as a result of harmonizing complex streams of technology and work activity. Competition exerts pressure on a firm to be proactive and formulate winning strategies to respond to the competitive business environment in order to gain competitive advantage (Awuah, 2011). Competitive strategy is concerned with how a company can gain advantage through a distinctive way of competing by establishing a profitable and sustainable position against the forces that determine industry competition. Competitive advantage therefore enables an enterprise to create superior value for customers and itself (Porter, 1985).

1.1.3 The Banking Industry in Kenya

The Banking industry in Kenya comprises of commercial banks, microfinance institutions, foreign exchange bureaus, money remittance providers, credit reference bureaus and representative offices of foreign banks. The Kenyan banking sector is

governed by the Companies Act, the Banking Act and the Central Bank of Kenya Act. The Banking sector comprises of 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 7 representative offices of foreign banks, 94 foreign exchange bureaus, 7 money remittance providers and 2 credit reference bureaus. (CBK Bank supervision report, September 2014). 31 institutions are locally owned and 13 are foreign owned. (CBK, 2015)

The Kenyan banking sector has been affected immensely by the business environmental changes. Technological innovations, globalization, privatization, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets has forced banks to adjust their strategies to survive (Chiteli, 2013). Despite these environmental changes, there has been an increase in the number of banks in the industry with an increase in the variety of banking products and services targeting various customer segments. Kathuni and Mugenda (2012) pointed out that the Kenyan banking industry is characterized by intense competition for customers and this has led to increased innovation of products and services to gain and retain market share. However, new products and services are easily replicated among the rival banks with the only differentiation being service quality and bank charges.

1.1.4 Kenya Commercial Bank Group Ltd

KCB Group Ltd roots can be traced back to 1896 when it established its first outlet in Mombasa as the National Bank of India (“NBI”). In 1904, NBI extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. In 1958, NBI merged with Grindlays Bank (“Grindlays”) to form the National and Grindlays Bank (“NGB”). Upon Kenya’s independence in 1963, the Government of Kenya acquired a 60% stake in NGB. The Government acquired full control in 1970 and renamed the bank, Kenya Commercial Bank Limited. Over the years the Government has gradually reduced its stake in KCB to 35% and more recently to 26.2% on the back of a rights issue in 2004 (which raised KShs2.5bn). A second rights issue in 2008 reduced Governments shareholding to 23.1% (raising

Kshs5.5bn additional capital). A third rights issue in 2010 raised Kshs12.5bn and further reduced the Government's stake to 17.7%. KCB is listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

KCB serves as the holding company of the Group's subsidiaries and associates, having established a presence in five East African countries i.e. Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi. KCB has 100% ownership in Kenya Commercial Finance Company Ltd, Kenya Commercial Bank Nominees Ltd, Kencom House Ltd, KCB Tanzania Ltd, KCB Sudan Ltd, KCB Rwanda, KCB Uganda Ltd, KCB Burundi Ltd and 45% ownership in United Finance Ltd. To promote cross border trading, KCB Tanzania was established in Dar-es-Salaam in 1997. In May 2006, KCB Southern Sudan was established to provide conventional banking services. KCB Uganda and KCB Rwanda commenced operations in 2007 and 2008 respectively. In 2012, KCB opened a subsidiary in Burundi. (KCB corporate profile, 2013)

Today KCB Group Ltd has the largest branch network in the Region of 240 branches, 962 ATMs and 9,238 agents offering banking services on a 24/7 basis in East Africa. This is complemented by mobile banking and internet banking services with a 24 hour contact centre services for the customers to get in touch with the Bank. The Bank has a wide network of correspondent relationships totalling to over 200 banks across the globe and the customers are assured of a seamless facilitation of their international trade requirements wherever they are. KCB Group Ltd has risen to becoming the best performing bank in the banking industry in Kenya surpassing other banks in the industry that had consistent performance over the years. It has remained the most profitable bank in Kenya against its rivals in the banking industry.

1.2 Research Problem

A strategist must at all times seek to position the firm to occupy the best place in the industry to influence the operating environment in the firm's favour (Cobb, 2003). A firm can gain competitive advantage at the marketplace by leveraging on its capabilities thus influencing a firm's marketplace success (Porter, 1985). There are underlying set of fundamental economic and technical characteristics which give rise to competitive forces in every industry. A firm can improve or erode its competitive position within the industry through its choice of strategy. Porter (1985) explained that, strategy if well implemented can lead to a firm's improved operations and competitiveness. Survival and growth of a firm is therefore dependent on strategy and the competitive advantage it derives from its capabilities.

Jowi (2006) did a study on the strategies adopted by Mumias Sugar Company to gain competitive advantage. He found out that the main strategy used by the company was the differentiation strategy. Abishua (2010) did a study on strategic responses used by Equity bank to compete in the Kenyan banking industry and concluded that the bank relied on product offering diversification, branch expansion and information technology strategies. Musyoka (2012) did a study on competitive strategies adopted by KCB in retail Banking. In this study, expansion to more coverage, Information Technology (T24) and training of workforce appeared to be a strategic move by KCB to gain competitive advantage. Mwangi (2003) studied strategies employed by the National Bank of Kenya to gain competitive advantage. The study established that the main source of competitive edge over other banks was driven from the low bank charges for the range of services offered to the public. Onyoro (2011) studied competitive strategies and performance of multinational commercial banks in Kenya. The results of this study showed that Multinational banks in Kenya have moderate usage of low-cost leadership strategy with significant variations in its adoption. Due to the competitive nature of the industry, most banks were aiming at being the low-cost leader in the market to gain a competitive edge. It was also evident that most of them also used the differentiation strategy especially introduction of unique features to a product or service and unique products and services. Mutua (2013) studied competitive strategies adopted by National Bank of Kenya to cope with

environmental changes and concluded that the competitive strategies are in areas such as strategic transformation, corporate governance, strategic business growth and development, information communication technology, corporate social responsibility, risk management, market segmentation and product diversification.

All the aforementioned studies show that different companies do formulate strategies. They also show that different companies pursue different strategies to gain competitive advantage. What strategies have been adopted by KCB to gain competitive advantage?

1.3 Research Objective

The objective of the study was to establish the strategies adopted by the KCB Group Ltd to gain competitive advantage.

1.4 Value of the Study

Research in this area will reveal the current competitive strategies used by KCB to compete in the highly competitive banking industry. It will help KCB Senior Management in understanding what it needs to do to sustain and strengthen its competitiveness even further. This study will contribute widely to the banking industry as other commercial banks will be enlightened on the strategies they can undertake to gain competitive advantage in the industry.

The information from this study will be insightful in offering the empirical data that policy makers within the government can rely upon on developing policy directions for the banking sector in Kenya. The Central Bank of Kenya (CBK) may also use the information from this research to formulate comprehensive prudential guidelines that would address the various challenges within the banking sector.

The findings will also be critical for scholars who are interested to further explore the concept of competitive strategies and use this research as a source of reference material. This research will therefore add to the existing body of knowledge in this

area and may stimulate further research on different aspects of response to competition in various industries.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter is structured based on the research objective. It summaries the information from books, journals, magazines and other publications carried out in the same or closely related fields of study.

This chapter looks at the Theoretical Foundation of the Study which is based on The Resource Based View Theory and the Porters Generic Strategies. It also looks at the Strategy in Organisations and the Organisational Competitive Advantage.

2.2 Theoretical Foundation of the Study

Different Scholars have come up with different theories to explain the phenomena of using strategy to gain competitive advantage. These include the Resource Based View Theory and the Porters Generic Strategies.

2.2.1 The Resource Based View Theory

Resource Based View encourages organizations to identify and develop resources that give them an edge over their competitors. The resources that have been identified and developed can only achieve a competitive advantage if they have value and cannot be imitated by the competitor. The theory postulates that a firm's ability to enjoy a position of advantage solely relies on the resources it possesses which may be human, financial, technological or physical (David, 1997). It is the efficient utilization of these resources that gives the firm the power to defeat its competition and therefore theorists who support this view encourage the firm to keep improving their resources in order to stay ahead of competition. Grant (2005) supports this argument by adding that the resources and capabilities of a firm form the first basis of the firm's profitability, that is, before a firm looks at other avenues, it must first work with the resources it owns.

Resource Based View (Stretch) was first coined by Wernerfelt (1984) to advance the idea that strategy of a firm is a function of the complement of the resources held. The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors. Companies are different collections of resources (tangible and intangible assets/capabilities) and no two companies are alike in terms of the resources they hold. The resources a company holds determine how well that company perform its activities and a company will be positioned to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy. Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the company perform its activities better than competitors. Organizational capabilities are defined by the complex combination of assets, people and processes that companies use to transform inputs into outputs. Resources Based View is inimitable as it is in the form of physical uniqueness like location, patent rights, skills that are unique gained through learning over time and refined by practice. Competitive superiority requires that the firm's resources should be assessed and evaluated relative to those of competitors.

According to the Resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm is doing and any advantage quickly would disappear. Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily. Capabilities on the other hand refer to the firm's ability to utilize its resources effectively. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate. The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage (Porter, 1998). Competitive advantage is created by using resources and capabilities to achieve either a lower cost structure or a differentiated product. A firm positions itself in its industry through its choice of low

cost or differentiation. This decision is a central component of the firm's competitive strategy. Firms that are in a position to accumulate resources and capabilities which are rare, valuable, non substitutable, and not easy to imitate will be able to achieve competitive advantage over rival firms.

2.2.2 Porters Generic Strategies

Porter (1980) argues that competitive advantage is the superior position a firm occupies in a market, vis a vis its competitors. Porter (1980) further says that in order for a firm to occupy this position of superiority, it must employ the use of what he calls the generic strategies; low cost strategy, differentiation strategy and focus strategy. A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. It is rewarded for its uniqueness with a premium price.

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. (Porter, 1985)

2.3 Strategy in Organizations

Strategy is a multi-dimensional concept viewed as: a means of establishing the organizational purpose in terms of its long-term objectives, action programs and resource allocation; a definition of the competitive domain of the firm; a response to external opportunities and threats, and internal strengths and weaknesses in order to achieve a sustainable competitive advantage; a way to define managerial tasks with corporate, business and functional perspectives; a coherent, unifying, and integrative pattern of decisions; a definition of the economic and non-economic contribution the firm intends to make to its stakeholders; an expression of strategic intent by stretching the organization; a means to develop the core competencies of the organization; and a means of investing in tangible and intangible resources to develop the capabilities that assure a sustainable advantage. Drucker (1954), Strategy is analyzing the present situation and changing it if necessary. Incorporated in this definition is finding out what one's resources are or what they should be. Ansoff (1965), Strategy is a rule for making decisions determined by product/market scope, growth vector, competitive advantage and synergy. Thompson & Strickland (1993), Strategy is the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance. The essence of formulating a strategy is to relate a company to its environment. Strategy is therefore a direction and scope of an organization over the

long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholder expectations (Johnson and Scholes, 2002).

Strategy sets out the mission of the company. A mission is a general expression of the overall purpose of the organization, which ideally is in line with the values and expectations of major stakeholders and concerned with the scope and boundaries of the organization (Johnson and Scholes, 2002). Hitt et al (1997) define a strategy as an integrated and coordinated set of commitments and action, designed to exploit core competences and gain a competitive advantage. By strategy therefore, managers mean their large-scale, future oriented plans for interacting with the competitive environment to optimize achievement of organization objectives (Pearce and Robinson, 2002). Strategy response concerns what a firm is doing in order to gain a sustainable competitive advantage. Quinn and Mintzberg (2003) identified strategy as the pattern or plan that integrates an organization major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to allocate an organization's resources in a unique and viable posture based on its relative internal competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. Mintzberg (2003) introduced the 5 P of strategy where strategy is seen as a plan, ploy, pattern, position and perspective.

It is important that a company has to achieve a fit with its environment for it to succeed. Strategy is all about combining activities into a reinforcing system that creates a dynamic fit with the environment (Markides, 1999). This reinforcing system creates the requisite fit between what the firm needs and what its activities are. Porter (1996) has defined strategy as a creation of a unique and vulnerable position of tradeoffs in competing; involving a set of activities that nearly fit together and is consistent. Strategy is useful in helping managers tackle the daily problems that face organizations and thus ensure survival. It is a tool that offers significant help for coping with turbulence confronting many firms (Aosa, 1998). Before a company implements or re-evaluate its strategies it must carry out an environmental scanning to determine customer demand patterns and how the customers can be attracted.

Strategy in organizations is viewed from three levels: corporate, business, and functional levels. The characteristics of strategic management decisions vary with the level of strategic activity considered. Corporate Level Strategy involves the members of the board of directors, chief executive and administrative officers. They are concerned with the overall purpose and scope of an organization and how value will be added to the different business units of the organization. Business Level Strategy is the province of business and corporate managers. Decisions at this level help bridge decisions at corporate and functional levels. They are concerned on how to compete successfully in particular markets and aim at obtaining superior financial performance by seeking a competitive positioning that allows the business to have a sustainable advantage over the firm's competitors, achievement of competitive advantage. Functional Level Strategy decisions are meant to implement the overall strategy formulated at the corporate and business levels.

There are two basic frameworks that seem to inform the various models of strategy development in organizations. That is strategic fit and strategic stretch. Strategic fit involves developing strategies by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these opportunities while strategic stretch is the leverage of the resources and competences of an organization to provide competitive advantage and yield new opportunities. Strategic fit model also known as Competitive Forces Model argues that industry competition depends on five basic forces (Porter, 1980). The central tenet of this approach is the need to align or fit the organization to its environment, a key aspect of which is the industry in which it operates. Industry structure strongly influences the competitive rules of the game as well as the range of strategies open to the organization. This model has therefore greatly influenced the thinking in strategy practice within organizations. An organization matches the resources and activities to the environment to achieve strategic fit. Strategic fit is therefore developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these opportunities (Thompson and Strickland, 1993). Porter (1980) argues that there are five forces that determine the attractiveness of an industry: entry barriers, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and rivalry amongst the firms. Porter (1980)

further argues that a firm's ability to profit depends on its ability to influence the competitive forces in the industry depending on the five forces.

2.4 Organizational Competitive Advantage

The objective of an organization's strategy is to achieve competitive advantage, but additionally, the strategy itself is a source of competitive advantage. Hence Strategy is about ensuring the survival and prosperity of a firm by implementing strategies to fulfil stakeholder expectations in an uncertain future. The firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not (Jonsson & Devonish, 2009). To succeed in building competitive advantage, an organization must aim at providing buyers with what they perceive as superior value; Prices lower than competitors' for equivalent benefits and provision of unique benefits that more than offset premium price. Sustainable competitive advantage is a very significant contributor to superior profitability. Competitive advantage requires that an organization does certain activities better than competitors thereby creating superior value for customers. The basis of superior performance in the long run is sustainable competitive advantage. Competitive advantage is the ability of the firm to outperform rivals on the primary performance goal (Porter 1998).

To create competitive advantage, firms identify three or four competences around which their strategic actions will be framed. Core competences are the activities or processes that critically underpin an organization's competitive advantage (Thompson and Strickland, 1993). According to Thompson and Strickland (1993), core competences emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities. As a source of competitive advantage, competences distinguish a company competitively and reflect its personality. Sustainable competitive advantage is only achievable where the firm's capabilities are valuable, rare and costly to imitate. Johnson and Scholes (2002) recommend that, firms must exploit their current competitive advantage while simultaneously using their resources capabilities and core competences to develop advantages that will be relevant in the future. Porter (1980) also argues that

competitive advantage is the ability of the firm to outperform rivals on the primary performance goal. Ansoff and McDonnell (1990) argue that strategy is a set of decision-making rules for guidance of organizational behaviour. Strategy guides management decisions towards superior performance through establishing competitive advantage. When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of such business strategy is to achieve a sustainable competitive advantage.

Competitive advantage can be something a firm does that is different from its competitors, or superior to its competitors. Porter (1985) suggested that sustainability could be achieved when “advantage resists erosion by competitive behaviour”. This is because of the existence of barriers that make imitation difficult. Additionally sustainability can only be created when the resources and capabilities are durable, that is, they do not physically depreciate. For example, Grant (2005) considers the sustainability of the competitive advantage along the dimensions of durability, mobility and replicability. Durability determines how long the competitive advantage can be sustained and is considered in terms of the ability of competitors to imitate through gaining access to the resources on which the competitive advantage is built. This is because the speed at which the uniqueness of the resources of an organization becomes accessible by competitors dictates the speed at which the competitive advantage of an organization diminishes. In fast moving competitive environments, sustaining competitive advantage involves creating safe-havens from cut-throat competition by continuously creating gaps through unique resources that cannot be easily bridged by the competitors. Sustainable competitive advantage has a reasonable lasting effect and helps the company to achieve its strategic goals. To be sustainable, competitive advantage needs to be embedded in the organization; its resources, skills, culture, and investment over time (Porter, 1998).

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the various stages and phases that were followed in completing the study. It will cover research design, target population, data collection tools and data analysis techniques.

3.2 Research Design

A research design is a framework for specifying relationships among the study's variables and outlines procedures for every research activity. Kothari (2004) defines a research design as a blueprint for collection, measurement and analysis of data. This study employed the case study method to establish strategies adopted by KCB Group Ltd to gain competitive advantage in the industry.

Mugenda (2008) explains that a case study attempts to thoroughly investigate the concept at hand. In this case therefore, competitive strategies employed by KCB were investigated. The case study method was used because it enabled the researcher to have an in-depth understanding of the phenomena at hand as it is useful in describing the characteristics of a large population.

3.3 Data Collection

This study utilized both secondary and primary data sources whereby secondary sources included documented publications in form of newspapers, books, journals, magazines and research papers that were available in libraries and websites. The most common methods for collecting primary data were; interviews, observations and use of questionnaires.

In this case, an interview guide was used since it allowed a more in depth interaction with the study respondents. It was developed by listing a set of questions covering issues on strategies employed by the Bank and the competitive advantage gained from

such strategies. The interview guide was used to interview five senior managers all based at the KCB headquarters, KENCOM building along Moi Avenue in Nairobi. The interview guide method made it easier to analyze the information collected as well as allowed the researcher to corroborate the information with data collected from secondary sources.

3.4 Data Analysis

After all the data had been collected from secondary and primary sources, it was then processed and analyzed with the objective of interpreting the findings. Data processing involved data editing, coding, classification and data entry (Manoj, 2006). Nearly 90% of the data collected in this study was qualitative in nature and was therefore analyzed through the content analysis method.

According to Mugenda (1999), content analysis method is the systemic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the study. This technique was used since it is the best method for analyzing data in a case study and enabled the researcher to achieve the objectives of the study. This technique enriched the research content as it did not limit the responders from giving diverse views that brought out a different angle to the research.

CHAPTER FOUR DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter covers data analysis, findings and discussions on data gathered from the field. The collected data was analyzed and interpreted in line with the main objective of establishing strategies adopted by the KCB Group to gain competitive advantage. The respondents were senior managers of KCB.

4.2 Background Information

The Bank is incorporated in Kenya under the Kenyan Companies Act (Cap.486) and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The address of its registered office is, Kencom House Moi Avenue P.O. Box 48400 – 00100. Nairobi, Kenya

The study sought to establish the ownership of the bank. It was revealed that the institutional and private investors owned a larger share of KCB Group while the remaining lesser shares are owned by the Government of Kenya. The Bank has a 100% ownership in Kenya Commercial Finance Company Ltd, Savings and Loan Kenya Ltd, Kenya Commercial Bank Nominees Ltd, KCB Capital Ltd, Kencom House Ltd, KCB Bank Tanzania Ltd, KCB Bank South Sudan Ltd, KCB Bank Rwanda Ltd, KCB Bank Uganda Ltd, KCB Bank Burundi Ltd, KCB Insurance Agency Ltd and a 45% ownership in United Finance Ltd. The shares of the Bank are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange. The Government has over the years reduced its shareholding to 23.6%. In the rights issue of 2010, the Government further reduced its shareholding to 17.31%. National Social Security has 7.52% ownership while other investors have 75.17% ownership.

The Shares of Kenya Commercial Bank Group are listed on the Nairobi Stock Exchange (NSE), under the symbol "**KCB**". The Group's stock is also cross listed on

the Dar es Salaam Stock Exchange (DSE), the Rwanda Stock Exchange (RSE) and the Uganda Securities Exchange. The companies that comprise the KCB Group Ltd include the following: Kenya Commercial Bank - Nairobi Kenya, KCB Burundi - Bujumbura Burundi, KCB Rwanda - Kigali Rwanda, KCB Sudan - Juba South Sudan, KCB Tanzania - Dar es Salaam Tanzania, KCB Uganda - Kampala Uganda, KCB S&L Mortgages – Nairobi Kenya, KCB Foundation Limited - Nairobi Kenya and KCB Sports Sponsorship Limited - Nairobi Kenya.

The history of KCB Group dates back to July 1896 which is 120 years ago when its predecessor, the National Bank of India opened a branch in Mombasa to handle the business that the port was attracting at that time. In 1958, Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of shareholding in the Bank to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank.

Respondents cited a variety of products and services offered at the bank. KCB Group has three categories, the product banking solutions, borrowing and investing, and saving products. Product banking Solutions comprises of advantage and diaspora banking current, transaction and savings accounts, KCB M-Benki credit, debit and prepaid cards, foreign exchange and money market services. Borrowing products include: mortgages, commercial loans, special schemes, investment group loans, diaspora home loans, personal, masomo, secured and unsecured loans, salary advances. Lastly, Investing and saving products include fixed and call deposits, treasury bills and bonds, and dual currency deposits. These different varieties of products and services gives KCB customers a wide range of alternatives in making choices on type of services or products they prefer. This indicates it has capacity to hold better competitive advantage than other banks.

In response to the number of branches KCB has, respondents shared that KCB has 233 branches distributed as follows; Burundi with two branches, Kenya with 175

branches, Rwanda with 11 branches, South Sudan with 20 branches, Tanzania with 11 branches and Uganda with 14 branches. This shows that its customers can bank conveniently across a large network of branches. All branches offer conventional banking services while others offer additional unique products and services specific for target customers. For example it has premium branches for its high end customers who are given exemplary services.

4.2.1 Strategic Direction of KCB

In providing feedback on whether the bank has a formal documented mission and vision statements, respondents shared the KCB Mission statement and Vision Statement, and the KCB Values that form the basis of KCB culture.

The Vision of KCB Group is ‘To be the preferred financial solutions provider in Africa with a global reach’. This Vision has been communicated and shared widely in the bank. In response as to whether this is reviewed, it was noted that the Vision continues to guide KCB and the Board, Management and staff remain fully committed to strive towards achieving the Vision. The Management however identified some key areas of improvement required in fulfilling its vision; improvement in Customer Service, improvement in cost efficiency through exploitation of technology and improved processes, Improvement in the Run rate which is slightly behind budget and improvement on staff productivity.

The Mission of KCB Group is ‘To drive efficiency while driving market share in order to be the preferred financial solutions provider in Africa with a global reach’. This mission sets out what, where and how of KCB. As to whether the mission is reviewed, respondents cited that this mission remains relevant as the purpose of KCB is driven by the infinite potential it sees in Africa. Walking with their customers, KCB is committed to making a difference through partnership and shared success through matching local know how and global thinking. It was revealed that KCB measures its success when banking improves lives as its purpose is to enable a brighter future together with its customers.

In response to what values KCB has, the following values were shared with the researcher; Putting the customer first, working together as a team, being professional in everything they do and committed to deliver world class performance, willingness to change and caring for the community by being socially responsible. The respondents also shared that these Values are regarded strongly as beliefs and convictions which substantially drive the behavior of staff in KCB and forms the basis of its culture. These have also been communicated and shared widely with the staff.

The next question on how often the Mission and Vision is reviewed, it was revealed that the Mission and Vision does not change and what changes is the strategy for the bank. The Vision and Mission remains relevant and does not change, however the bank has a five year plan strategy, 2011 to 2015 which is currently being used and is normally reviewed every five years. The respondents shared the current 2011-2015 strategic plan with the researcher.

Feedback on who is responsible in the formulation of strategies at KCB, respondents reported that KCB has a three phased strategy approach. In the first approach, the exercise is carried out by the Board and EXCOM in formulating the KCB Corporate and Business Strategy. This strategy shows how KCB will strengthen its competitive advantage and actions to build competitive capabilities. In the second approach, the exercise is carried out by Divisional Directors to formulate Functional Area Strategies with each division. This approach adds relevant detail on the how of the overall KCB strategy and provides a game plan for management of activities to support the business. Finally, in the third approach, the exercise is carried out by the heads and managers within each division. This covers operating strategies within each division. It also adds details and completeness to the Business and Functional Strategy and provides a game plan for managing strategic pillars and activities with strategic significance.

In response to the strategic planning process KCB undertakes in the formulation of its strategy, it was revealed that KCB Strategy is a blend of proactive initiatives, known as 7 pillars which are underpinned by innovation, and reactive initiatives which emanate for changing market dynamics. The seven pillars are Customer, Risk

intelligence, Finance, People, Technology and Processes, Regional growth and Social relevance. The 2011 – 2015 Strategy paper was developed on the back drop of a very competitive market with all banks changing their focus and adopting a customer first approach. As a result of this environment, the 2011 – 2015 strategic planning process was broken into three main themes so as to capture the dynamic nature of the business environment that KCB operates.

- Theme 1: Global look at the 2010 – 2014 Strategic and Financial Plan with a view of reviewing the common themes and retiring certain strategic themes that informed KCB growth over the last five years
- Theme 2: The development of Strategic approach including Corporate and Business strategy together with the functional and operating strategies across the various business divisions, using the strategic themes and pillars as the bedrock of the divisional operating strategies for 2011 – 2015.
- Theme 3: Develop strategic themes through engagement between Board and management in order to cement the KCB Seven pillars.

On the question of what External factors influence the formulation of strategy, some respondents said that the following factors are considered as strategically relevant components of the KCB's External Environment; General economic conditions, technology, changes in legislation and regulation, population demographics and societal values and lifestyle. Other respondents mentioned that other forces that affect KCB include: Changes in the banking long-term growth rate, Increasing globalization, Emerging new internet and mobile capabilities and applications, Changing consumer behaviour, Innovation and threat of product substitutes like MPESA and Airtel Money, New entrants like Ecobank and UBS and rival firms like Equity Bank, finding new opportunities for revenue growth, changes in cost and efficiency and managing business uncertainty and business risk. This is demonstrated in figure 1. Considering the environment under which KCB operates, there is need to respond to the environment in order to remain competitive in offering its banking services.

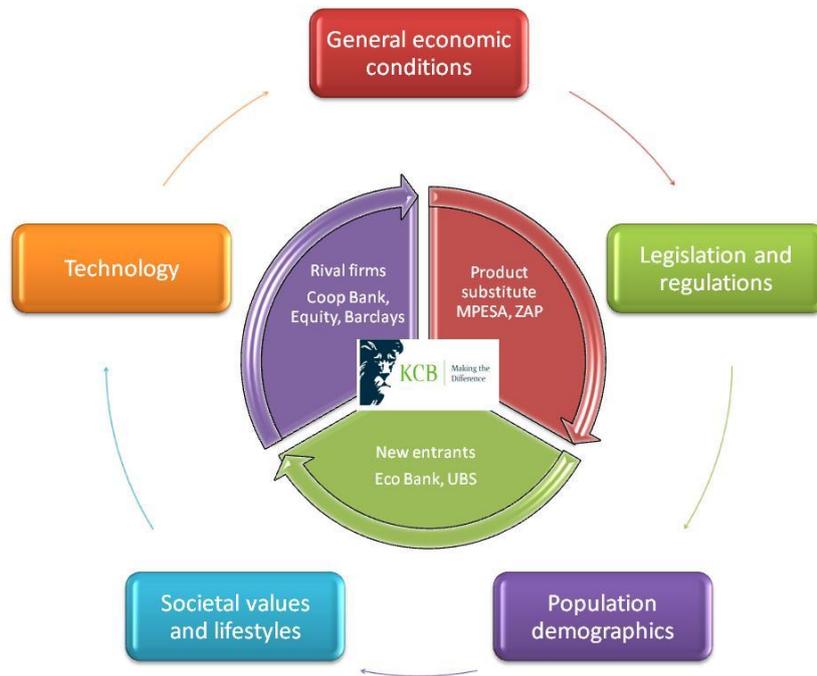


Figure 1: The main components of KCB Macro environment

The responses on who KCB's competitors are revealed that there is stiff competition from other banks, competition from microfinance organizations, mobile banking and SACCOs.

The researcher wanted to know what are the guiding principles and strategic focus for KCB while formulating strategy in such a competitive environment. According to respondents, KCB's strategy is underpinned on various guiding principles that inform the Bank's endeavours to meet its strategic objectives as embodied in the Vision statement, these principles were revealed as: Increasing shareholder value that continues to be the overarching objective of the Bank's operations, with new focus on investor relations, championing a customer centric culture and enhancing human resources capacity and culture to position the bank for future growth, focus on core activity of providing banking services and solutions to customers, taking innovation at the centre of all banking delivery mechanisms to ensure efficiency and a high level of productivity and continuity of living the KCB values.

Feedback on the objective of the KCB Strategic Plan reveals that it is meant to drive efficiency across the Group with a view of maximizing returns. This is achieved through initiatives to manage the cost base and bring them down to the industry norms while at the same time sweating the balance sheet and the infrastructure to draw maximum revenues there from. As such initiatives around cross-selling KCB products and services and expanding the suite of services is implemented. These initiatives help drive profitability, earnings per share, dividend per share as well as returns on equity and assets.

4.3 Strategies for Achieving Competitive Advantage at KCB

4.3.1 Introduction

This study sought to establish strategies adopted by KCB to gain competitive advantage. The study reveals a number of strategies used by KCB to gain competitive advantage. According to respondents, they are good corporate governance, risk management, new products and service, brand and marketing, sales and channels, Customer-centric operations, excellent customer services and experience, employee training and development, technology and systems and invention and innovation.

4.3.2 Good Corporate Governance

Respondents cited that the Board and Management structures must be aligned with the strategy of the bank. It is through governance from these offices that the rest of the institution drives the strategy. With clarity of purpose and harmony of the goals, the bank is in a strong position to deliver on the strategy with the board giving oversight and direction and management execution with accuracy and speed.

The Board continuously reviews its corporate governance focus in light of international best practice, and local guidelines and legislation. During 2014 the Group Board: Updated its Memorandum and Articles of Association, in line with applicable laws; Performed ongoing research into local and international corporate governance best practices ; Monitored and where appropriate adopted regulatory

developments such as those in the Finance Act, 2014; Appointed two new non-executive directors with strategy development and audit quality assurance experience, in line with the Board's succession plans; Introduced a secure online portal to enable directors to access Board papers electronically; Performed a corporate governance review across the Group to assess the adequacy of its governance (policies, structures, processes and information) and regulatory compliance mechanisms.

The Group's governance programme for 2015 includes: Continuing to implement the Board's succession plans with regard to, among others, diversity and the need to ensure gender balance; Rolling out director education on relevant topics including Basel III and its implications on operations, recovery and resolution plans and an in-depth analysis of IT strategy. This continuous oversight and leadership of the Board and management gives KCB a competitive advantage.

4.3.3 Risk Management

Respondents mentioned that the management of risk is the primary responsibility of the governance structures at the Bank and is used to gain competitive advantage. During 2014, the bank expanded its risk management capabilities in the following ways: The introduction of risk modelling, using collected data to anticipate customers' needs or concerns, and provide feedback on customer behaviour. This allows greater mitigation of the fraud risk, and facilitates the credit application process while providing useful business information. The information is also used to target specific markets with particular products through focus channels and adoption of the focus product differentiation strategy. KCB has built its own proprietary, customised risk model for its specific business needs. Greater reliance has been placed on technology to promote a pro-active approach by the Bank. Such an approach delights customers while controlling risks. Internal ratings for SMEs and bench-marking against global ratings allow the use of risk adjusted pricing. A credit scorecard has been developed for first-time applicants. Once captured, the applicants' details remain available on the system and can be referenced for future engagements with the customer or applicant. Loans are approved faster and risk is mitigated hence giving KCB a competitive advantage against its peers.

4.3.4 New Products and Services

Responses revealed that KCB have simple, relevant and modern products for their customers. KCB recognises that for its products to simplify their customers' worlds and enable their progress, they need to be easy to use, relevant and fresh. They need to take greater consideration of what the customer wants and needs. As a result, it has segmented its market and has different products for different segments. This reveals that KCB has adopted market segmentation with product differentiation strategy for different segments.

Respondents mentioned that KCB has over 100 products today that are designed to ensure versatility across different platforms including technology channels. KCB products have the added feature of being simple to use, making them appealing across all segments. With the focus on promoting financial inclusion and maintaining the broad view of the market, KCB introduced new services such as Islamic Banking, the KCB Insurance Agency, KCB Capital, Biashar@Smart for small and medium size enterprises (SMEs) and Mpesa in 2014.

KCB successfully rolled out a five-year Bancassurance strategic business plan for KCB Insurance Agency. It recruited 66 experienced insurance personnel to drive the insurance business, which enabled KCB to operationalise the offering of insurance products and services across approximately 50 branches. It partnered with a number of strategically aligned underwriting partners to develop and roll-out a suite of diversified products to address diverse market needs. It also acquired Turnquest IT Suite to ensure efficient Bancassurance operations and the automation of all functions in the insurance agency. This has led to the substantial growth in insurance sales and income, positioning KCB as one of the most profitable Bancassurance business in the country.

Respondents also mentioned that KCB was among the first banks that introduced Islamic banking following the approval from the CBK and the commissioning of the

Sha'riah advisory council. KCB introduced Sha'riah compliant products and services to address specific customer needs and enhance financial inclusion.

Respondents also mentioned that KCB has KCB Capital, which is a subsidiary of the KCB group and was launched in 2014 with working capital of Kshs 250 million, to provide Capital Raising Advisory Services to debt, Equity and Project finance markets, Mergers and Acquisitions Advisory Services, and Capital Markets Research. Even though there is tough competition from new multinationals, KCB have positioned itself to leverage on the regional penetration quickly and effectively hence gaining competitive advantage.

4.3.5 Brand, Marketing and Sales Channels

Respondents revealed that KCB strives to be a bank that is admired, authentic and loved. KCB's intention is to implement initiatives that demonstrate its passion and authenticity to everyone and that make sense to people across all generations and socio-economic strata. Its large footprint in the region means it is accessible to all of their customers, wherever they are. KCB shows its commitment to their customers by backing them up with excellent service and targeted marketing campaigns. In addition, it sponsors several sporting events, which have the three-pronged purpose of supporting Kenya's sports achievers, promoting KCB brand and growing its customer base. It sponsors KCB Rally, KCB Golf and KCB teams.

KCB hosts eight rallies throughout the year, seven of which are part of the Kenya National Rally Championships and the Safari Rally, which is part of the East African Rally Championship. Each event attracts between 1,000 and 3,000 spectators, depending on location and it is able to activate its alternative channels. In addition, KCB sets up a shop to sell coveted rally merchandise at the various events and KCB Foundation ran medical checks for the public and drivers at some of the events to raise health awareness.

KCB hosts four golf events in Royal, Thika Green, Nyanza and Nyali clubs. These events are aimed at its corporate banking and high net worth customers and conducted

in conjunction with Professional Golfers of Kenya (PGK). KCB also sponsors rugby, football and volleyball teams.

KCB sales channels are quick, accessible and convenient for its customers. KCB understand its customers and provide solutions that fit their needs wherever they are. As a result it has continued to invest in various channels across the Group. Today KCB is accessible through the branches, ATMs, mobile phones, agents and the internet. The proximity and availability of these channels remain critical to KCB's strategy, especially with the younger generation who use these channels to engage with the Bank. Not surprisingly therefore, that most respondents mentioned that the highest numbers of transactions are conducted via mobile banking, POS and agency banking, followed by M-Benki, internet banking, branch tellers and ATMs. With the youth's preference for conducting transactions via mobile, agency and card platforms the Bank expects to grow transactions on these channels exponentially.

4.3.6 Customer-Centric Operations

Respondents quoted that KCB focuses on operations that is customer-centric, robust and simple. It is committed to creating a customer-centric culture and establishing itself as the leader in proactive customer service excellence in the region. A recent KCB customer survey revealed 80% satisfaction with its products and service and its aim is to improve this to 90% over the next three years. This means putting their customers first, listening to them more attentively and offering them more of what they want, rather than what they think they want.

KCB not only focus more effectively on its customers, but ensures that as products and technology evolve, the Bank is able to provide reliable products and service without exposure to additional costs. The automation has lead to efficiency in operations and as such KCB is able to offer similar products and services to customers at a lower cost than its competitors. This demonstrates that KCB adopts the cost leadership strategy.

Respondents mentioned that KCB established a Customer Experience Division in 2014 as part of its commitment to its customer-centric approach. It incorporates two

major arms: service experience compliance and contact experience. Its promise to its customers is to make every customer contact a delightful and memorable experience. Its service experts are required to understand who their customers are and the role they themselves play in delivering the overall experience to customers at every touch point. The touch points include the Head Office, Contact Centre, Mtaani agents, branches, ATMs, Mobi Bank, I-Bank, social media and website.

4.3.7 Employee Training and Development

To successfully implement its strategy, respondents cited that KCB recognises that it needs to develop its employees to enable them to support its purpose. KCB has a world class human resource function to enable employees to deliver on its promise to its customers. Over the last five years, KCB has implemented a staff transformation programme based on recommendations from McKinsey & Co. Further, every year, KCB engages external HR consultants to deploy an online survey to all staff to collect feedback on satisfaction and engagement. As a result, The HR function is enhanced by establishing a new central staff committee to improve availability of the HR function to staff and a thorough review of employment including: industry benchmarking remuneration, wellness programmes, and recruitment procedures, improving communication with employees, access to leadership and management programmes.

Respondents mentioned that KCB recognises that it requires engaged and skilled employees to enable it gain competitive advantage in the market through delivering outstanding customer service. To ensure this, KCB embarked on a development programme aimed at aligning employees with KCB's core purpose of simplifying its customer's world and enabling them progress. KCB organises seminars and trains its resource people on the new markets, marketing of their products and services which helps the bank to compete well in the banking industry. This is an indication that KCB has invested in creating conducive environment which enables their resource people to get more skills and knowledge, therefore increasing its chances of gaining more

returns in the competitive markets as its employee learn new ideas and new way of running businesses.

4.3.8 Technology and Systems.

Respondents mentioned that KCB ensures that its systems are consistently reliable, secure and agile. It understands that a large part of its future depends on how it deploys various technological enhancements. It is committed to ensuring that existing and future applications of technology will allow its employees to do their jobs to the best of their ability and its customers to get the best service possible, irrespective of what channel they choose to engage with the bank. KCB has used technology to design different technological products for different segment market as mentioned below by the respondents.

KCB cash-lite focus allows the Bank to offer financial services to the over Kshs 200 billion-turnover public service vehicle (PSV) industry through the introduction of the Pepea Transit Card. This enables customers to pay for transport using cards instead of cash, offering them a secure and convenient way of paying their fares.

Respondents also mentioned that the bank has introduced a new CRM system that assists with gathering information on customers and being able to predict their needs with a single view of the customer. This has not only helped in Know Your Customer (KYC) concept as part of regulatory requirements, real time problem resolution but also proactive problem resolution rather than reactive.

The bank has also introduced an electronic queuing management system (eQMS) with the goal of reducing queuing time of its customers before they are able to speak to a teller for making deposits, withdrawals, remittances and foreign exchange transactions. This system has not only helped to reduce the waiting and service time to no more than ten and five minutes respectively, it has also achieved in fast tracking of selected account types, Improved efficiency when allocating duties to branch team and gathering of real-time transaction data from each branch. As a result, respondents

cited that KCB now understands the customer experience so much better than before. eQMS has being linked to the core banking system, giving tellers more information about the customer and enabling them to anticipate customer needs and behaviour, thereby enhancing cross selling opportunities, a great means used by KCB to gain competitive advantage against its competitors.

4.3.9 Invention and Innovation

Respondents mentioned that KCB embraces invention and innovation strategy and want to be known as the bank that adopts and introduces new services, technologies, products and processes. As the largest bank by assets and profitability, it has an opportunity to reach as many people as possible using a wide range of resources and relationships to improve the access to finance across the region. The invention and innovation initiatives are geared to creating opportunities for the Bank and its customers in whichever field, segment, age group or geography they may operate within. In 2014, KCB introduced the KCB Insurance Agency, Biashar@Smart and the Pepea electronic commuter cards – all aimed at making their customers' lives easier.

Respondents mentioned that for KCB to ensure sustainable innovation, it recognises that it needs to innovate to remain competitive and it is cognisant of the fact that the staff skill sets and systems need to be able to cope with this level of innovation so as to ensure the stability and risk management upon which KCB has built its reputation. In this regard, three overarching approaches have been adopted: To on-board customers on a targeted approach, thereby limiting the amount of above the line communication and information which requires to be managed, To invest in upgrading its systems to handle larger volumes of transactions, and in a more secure yet connected business environment, and to invest in up skilling staff to support all these new initiatives.

KCB introduced Biashar@ Smart in mid-2014 in partnership with Safaricom to provide SMEs with access to bundled financial and Pepea electronic commuter cards. This product was innovated to provide solutions to the challenges SMEs encounter

which include limited access to finance, lack of know-how on internal capacity building, lack of effective communication skills and tools as well as inability to scale up operations for future growth.

In 2014 KCB launched the Pepea Card, an electronic commuter card in partnership with over a dozen bus companies. The card, which is also a MasterCard debit card, allows travellers to pay for their transport fares as well as make purchases at retailers and petrol stations and conduct online payments. The Point Of Sale system used to read Pepea is a standard digital device that can read any EMV card. This means customers can also use other cards to pay for their fares. This makes the KCB proposition unique as most other systems are card specific. The multi- functional transit debit card uses emerging Near Field Communication (NFC) technology, allowing commuters to pay for their travels through a cashlite payment.

KCB's technology-driven mobile banking product, M-Benki, which was launched in 2013, was the first in Kenya and the region of its kind and aimed at banking the unbanked in the country. KCB M-Benki allows users to open a KCB account via their mobile phones and to access banking services through KCB Mobi Bank. Notably, M-Benki was made possible through a strategic partnership with Safaricom, which facilitates the opening of bank accounts and other transactions via its M-PESA menu. In 2014, over 750,000 customers accessed KCB services via M-Benki.

4.4 Discussion

4.4.1 Comparison with Theory

To attain a competitive position in a competitive environment, Porter, (1980), advocated three generic competitive strategies namely cost leadership, differentiation and focus. The study sought to find out whether these three generic strategies are adopted by KCB to gain competitive advantage. The study confirms that KCB adopts competitive strategies in form of cost leadership, differentiation and focus strategies to attract and retain its customers.

In cost leadership, a firm sets out to become the low cost producer in its industry. A low cost producer must find and exploit all sources of cost advantage. KCB has achieved and sustained overall cost leadership, becoming an above average performer in the Kenyan banking industry. KCB not only focus more effectively on its customers, but ensures that as products and technology evolve, the Bank is able to provide reliable products and service without exposure to additional costs. The automation has lead to efficiency in operations and as such KCB is able to offer similar products and services to customers at a lower cost than its competitors. This demonstrates that KCB has adopted the cost leadership strategy.

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. KCB understand its customers and provide solutions that fit their needs wherever they are. As a result it has continued to invest in various channels across the Group. Today KCB is accessible through the branches, ATMs, mobile phones, agents and the internet. The proximity and availability of these channels remain critical especially with the younger generation who use these channels to engage with the Bank. KCB branches offer conventional banking services while others offer additional unique products and services specific for target customers. For example it has premium branches for its high end customers who are given exemplary

services. KCB has over 100 products that are designed with added feature of being simple to use, making them appealing across all segments.

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. The differentiation focus exploits the special needs of buyers in certain segments. (Porter, 1985). KCB has unique products for different target segments such as Sha'riah compliant products and services to address specific customer needs and enhance financial inclusion of Islam, Bancassurance products to address diverse insurance market needs, KCB Capital to address investment needs, Biashara@Smart for small and medium size enterprises (SMEs), M-Benki, aimed at banking the unbanked in the country and The Pepea transit card which allows travellers to pay for their transport fares as well as make purchases at retailers and petrol stations and conduct online payments. KCB also shows its commitment to their customers by backing them up with excellent service and targeted marketing campaigns. KCB is rewarded for its uniqueness with a premium price

Resource Based View (Stretch) was first coined by Wernerfelt (1984) to advance the idea that strategy of a firm is a function of the complement of the resources held. The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. Resource Based View also encourages organizations to identify and develop resources that give them an edge over their competitors. The resources that have been identified and developed can only achieve a competitive advantage if they have value and cannot be imitated by the competitor. The theory postulates that a firm's ability to enjoy a position of advantage solely relies on the resources it possesses which may be human, financial, technological or physical (David, 1997). It is the efficient utilization of these resources that gives the firm the power to defeat its competition and therefore theorists who support this view encourage the firm to keep improving their resources in order to stay ahead of competition. The results of this

research support this theory. KCB continuously improves its employee through training and development. KCB invests in creating conducive environment which enables their resource people to get more skills and knowledge.

KCB also understands that a large part of its future depends on how it deploys various technological enhancements. It is committed to ensuring that existing and future applications of technology allows its employees to do their jobs to the best of their ability and its customers to get the best service possible, irrespective of what channel they choose to engage with the bank. KCB has a strong brand and continuously strives to be a bank that is admired, authentic and loved, and implements initiatives that demonstrate its passion and authenticity to everyone and that make sense to people across all generations and socio-economic strata. KCB shows its commitment to their customers by backing them up with excellent service and targeted marketing campaigns. It sponsors several sporting events, which the purpose of supporting Kenya's sports achievers, promoting KCB brand and growing its customer base. Therefore, KCB efficiently utilizes and improves its resources such as employees, technology and systems, and KCB brand to defeat its competition and stay ahead of its competition. As a result, KCB has gained competitive advantage through developing unique competencies using these resources.

4.4.2 Comparison with other Studies

Studies conducted on the use of strategy to gain competitive advantage have confirmed that all firms operating in any industry adopt some sort of strategy in order to gain competitive advantage. This was evidenced by results of Jowi (2006) who did a study on the strategies adopted by Mumias Sugar Company to gain competitive advantage and found out that the main strategy used by the company was the differentiation strategy. Abishua (2010) did a study on strategic responses used by Equity bank to compete in the Kenyan banking industry and concluded that the bank relied on product offering diversification, branch expansion and information technology strategies. From the findings of this study, it is evident that KCB uses differentiation strategy in offering unique products and services specific for target customers.

Musyoka (2012) did a study on competitive strategies adopted by KCB in retail banking and concluded that expansion to more coverage, information technology (T24) and training of workforce were used to gain competitive advantage. The results are in line with this study which has established that KCB utilizes and continuously improves resources such as employees, technology and systems, and KCB brand to develop unique competencies for gaining competitive advantage.

Mwangi (2003) studied strategies employed by the National Bank of Kenya to gain competitive advantage and established that the main source of competitive edge over other banks was driven from the low bank charges for the range of services offered to the public. Onyoro (2011) studied competitive strategies and performance of multinational commercial banks in Kenya. The results of this study showed that Multinational banks in Kenya have moderate usage of low-cost leadership strategy with significant variations in its adoption. It was also evident that most of them also used the differentiation strategy especially introduction of unique features to a product or service and unique products and services. This study has revealed that for KCB to further gain competitive advantage, it uses the cost leadership strategy that ensures that as products and technology evolve, the Bank is able to provide reliable products and service without exposure to additional costs. KCB also uses the differentiation focus strategy to exploit the special needs of buyers in specific segments.

Mutua (2013) studied competitive strategies adopted by National Bank of Kenya to cope with environmental changes and concluded that the competitive strategies are in areas such as strategic transformation, corporate governance, strategic business growth and development, information communication technology, corporate social responsibility, risk management, market segmentation and product diversification. The findings of this study have revealed that KCB also uses similar competitive strategies with additional strategies such as sales and channels, customer centric operations, innovation and invention and brand and marketing.

CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the scrutiny of data collected, the following discussions, conclusions and recommendations were made. The analysis was based on the objective of the study.

5.2 Summary

The summary was drawn from the results and findings of the study. It is based on objective of the research on the strategies used by Kenya Commercial Bank to gain competitive advantage.

On the adoption of formal strategies for achieving the bank's objectives, the results indicate that KCB had adopted product differentiation strategy, cost leadership strategy, focus product differentiation strategy and resource based view strategy in achieving the bank's overall objectives. Therefore it is easy for KCB to extend their different products and services to different segments of clients who have unique needs and wants. KCB also recognises its resources and capabilities and exploits them effectively to gain competitive advantage.

On the implementation and the development of the strategies, respondents indicated that this is done in three approaches, by the BOD and the EXCO, by divisional directors and heads of departments. This shows that all levels of staff are engaged and the adopted strategies are geared towards bank's progress.

On strategies adopted to gain competitive advantage, most responses indicated that the bank competes by inventing and innovating new and unique products and services for different segments coupled with aggressive brand and targeted marketing, accessible and convenient sales and channels and excellent customer experience. KCB also invests in training and developing it employees to get more skills and

knowledge; therefore it has great chances of gaining more returns in the competitive markets as employees learn new ideas and new way of running businesses.

Respondents also indicated that KCB has invested heavily in technology and systems, as it is committed to ensuring that existing and future applications of technology will allow its employees to do their jobs to the best of their ability and its customers to get the best service possible, irrespective of what channel they choose to engage with the bank. This enables KCB to have a competitive advantage over their competitors who are mainly other banks.

Through adoption of these strategies, KCB has been able to withstand competition and serve a larger market share and earn higher profits in comparison with its competitors. These strategies are directed by the Banks Vision and Mission. The strategies include good corporate governance, innovation and invention of new products and services, brand and marketing, excellent customer experience, customer centric operations, employee training and development, exploring new technologies and systems, convenient sales and channels and finally risk management. These strategies facilitate the bank to have a healthy competition in the banking industry leading to increase in profit margin, improved employee performance, growing market share through new products and services to satisfy customer needs, delightful and memorable customer experience, loved and authentic brand, loans are approved faster and risk is mitigated. KCB has great resources such as trained and developed employees, bank technology and systems and a strong brand among others which it uses to improve its performance. It uses sponsorship like KCB rallies and Golf to further market its brand. The study therefore established that KCB has come up with various strategies to enable the bank gain competitive advantage.

5.3 Conclusion

The study established that KCB had adopted various strategies to gain competitive advantage in the banking industry. In this study, Invention and innovation of new products and services, quick and convenient sales and channels for more coverage, aggressive brand and targeted marketing, excellent customer experience, reliable, secure and agile technology and systems, employee training and development, good

corporate governance, risk management and customer centric operations are strategies adopted by KCB to gain competitive advantage in the Kenyan banking industry. The results of this study support the Resource Based View which was first coined by Wernefelt (1984) to advance the idea that strategy of a firm is a function of the complement of the resources held. The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. KCB employees and technology and systems, as key resources are used to developing unique products and services that meet its customers' needs and wants.

Porter (1980) says that in order for a firm to occupy position of superiority, it must employ the use of what he calls the generic strategies; low cost strategy, differentiation strategy and focus strategy. From the findings, KCB uses a combination of these generic strategies; product differentiation strategy, cost leadership strategy and focus product differentiation strategy. The study therefore concludes that KCB is aware of the competition in the banking industry and has taken measures to ensure that the bank remains competitive and achieve above average performance in an industry, by adopting specific strategies for gaining competitive advantage.

5.4 Recommendations

From the discussions and findings it is clear that the KCB has strategies that it has adopted to be competitive in the industry. There is need for KCB to continue differentiating itself from the competitors if it is going to remain relevant and competitive in terms of the products and services which the bank offers. KCB has a large asset base which if well utilized, is able to generate higher profits than it is currently making. Through its operations, it should further improve efficiency in the delivery of its product and services to its customers, and reduce more costs hence achieving higher profits.

Banks should adopt strategies that enable them gain competitive advantage based on their capabilities. The findings from this study should enlighten other banks on the

strategies they can undertake to gain competitive advantage in the industry. The study recommends that banks should have a comprehensive strategic plan that clearly stipulate how the bank intend to gain competitive advantage and enhance performance through Invention and innovation of new products and services, quick and convenient sales and channels for more coverage, aggressive brand and targeted marketing, excellent customer experience, reliable, secure and agile technology and systems, employee training and development, good corporate governance, risk management and customer centric operations.

The study recommends that policy makers within the government can rely on these strategies while developing policy directions for the banking sector in Kenya. The Central Bank of Kenya (CBK) can also use this information to formulate comprehensive prudential guidelines that would address the various challenges within the banking sector, especially on how banks should adopt strategies that will enable them remain competitive.

The study recommends that scholars who are interested to further explore the concept of competitive strategies can use the findings of this study as a source of reference material. They can also further research on strategies adopted in other industries.

5.5 Limitations of the study

This study focused on KCB Group Ltd. The results of this study are therefore limited to KCB Group Ltd and may not necessarily be applicable in other financial institutions. The results may therefore not be a true representation of the banking industry in Kenya and the results should be interpreted with care.

The study also focused on strategies adopted to gain competitive advantage in KCB Group Ltd. Thus the scope of the study was limited to the strategies adopted for competitive advantage and not any other concept. This therefore limits the results of the study.

Due to limited resources, the number of respondents represented is relatively small and may not be a true representation of the population. There were difficulties in

getting respondents to interview due to their busy schedule. A few respondents quoted confidentiality and were not open during the interview as they withheld key information they considered confidential and sensitive on the fear that it can leak to their competitors.

5.6 Suggestions for Further Research

The study was limited to KCB Group Ltd and this study therefore suggests a further research covering other banks to find out the strategies they adopt to gain competitive advantage. The further research will help confirm whether other banks adopt similar strategies adopted by KCB Group Ltd, and whether there are factors that impact on their ability to gain competitive advantage.

The study focused only on strategies adopted to gain competitive advantage in KCB Group Ltd. The study recommends further research on other concepts necessary in formulating successful strategies for purposes of gaining competitive advantage. The further research will complement the findings of this study by providing information on what banks should consider while formulating strategies and guide them on how to come up with strategies that will enable them achieve their overall objectives.

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Appendix 1

Letter to Respondents

Dear Respondent,

RE: Strategies Adopted by KCB Group to Gain Competitive Advantage.

I am a student at the University of Nairobi pursuing a Masters of Business Degree in Strategic Management. I am conducting a research on the strategies adopted by the KCB Group Ltd to gain competitive advantage. Please take some time and go through the questions in appendix 2. These questions will be used as an interview guide and covers a number of important areas on KCB Group Ltd.

I would like to assure you that any information collected during the interview will be treated with utmost confidentiality for the sole purpose of this research. Kindly let me know when the most convenient date is and time to carry out the interview.

Thank you.

Yours sincerely,

Margaret Thuo (Researcher)

Appendix 2

INTERVIEW GUIDE

This Interview guide is designed to collect data from the KCB Group Ltd on Strategies adopted to gain competitive advantage. The data will be used for academic purposes only and will be treated with strict confidence.

The following sections provide sample questions to be asked while carrying out the interview.

PART 1: KCB BACKGROUND REVIEW

1. Ownership of KCB
2. History of KCB
3. Which products and services are offered at KCB
4. How many branches do KCB have?

PART 2: CONCEPT OF STRATEGY

5. Does your organization have a formal documented mission and vision statements?
6. How often are the missions and vision statements reviewed?
7. Does the bank have a strategy?
8. Who is responsible in formulating the strategy?
9. How is the strategy formulated?
10. What are the external factors that influence strategy formulation?

PART 3: COMPETITIVE ADVANTAGE

11. Who are KCB main competitors?
12. What are the KCB guiding principles and strategic focus in a competitive environment?
13. What is the objective of the KCB Strategic Plan?
14. What strategies has the bank adopted to gain competitive advantage?
15. Any other comments regarding strategies adopted by the bank in gaining competitive advantage.