

**ONLINE BANKING STRATEGIES AND COMPETITIVE ADVANTAGE OF
COMMERCIAL BANKS IN KENYA**

BY

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DECLARATION

I, Ruth Mbeti Venza, declare that this research project is my original work and has not been presented for examination in any other university.

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

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DEDICATION

This is a special dedication to my beloved parents for the sacrifice, support and endless encouragement.

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I wish to thank The Almighty God for His grace and favor upon me all this while. I wish to express my gratitude to my supervisor, Professor Martin Ogutu for his professional guidance and motivation that enabled me compile this project. I also extend gratitude to my parents for their unending support throughout my education. Special thanks go to my family for believing in me, the moral support and prayers during the entire period.

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ABBREVIATIONS AND ACRONYMS

AIBK- Association of Insurance Brokers of Kenya

AIK- Association of Kenya Insurers

CBK- Central Bank of Kenya

CMA- Capital Markets Authority

CRB- Credit Reference Bureau

DBS- Development Bank of Singapore

ERP- Enterprise Resource Planning

GOK- Government of Kenya

KBA- Kenya Bankers Association

KCB- Kenya Commercial Bank

SACCO- Savings and Credit Co-operative

SAP- Symposium on Applied Perception

SASRA- Sacco Societies Regulatory Authority

ABSTRACT

Competitive advantage is created through implementing unique value-creating strategies based on unique combinations of internal organizational resources and capabilities that cannot be replicated by competitors. Competitive advantage is important because it has a significant impact on the success and sustainability of the business. The creation of competitive advantage through online banking strategy implementation is not assured. The objective of the study was to determine the online banking strategies and competitive advantage of commercial banks in Kenya. The study used primary data which was collected using questionnaires from 43 commercial banks in Kenya. The data was then analysed qualitatively to derive findings, conclusions and recommendations. The results indicated that most commercial banks implemented online banking strategies, although there are challenges faced such as inadequate technological skills, lack of commitment from senior management, security fears and hesitance of organization to recruit specialized staff. Recommendations called for the increased investment in the research and development of technology required for online banking to enhance competitive advantage.

CHAPTER ONE

INTRODUCTION

This section will seek to introduce various concepts arising in the topic of study. It shall focus on online banking strategies implemented by commercial banks, strategy implementation challenges, and competitive advantage. The research problem will also be stated as well as the study objectives from where the research questions will be derived. The value of the research will also be discussed in this section.

1.1. Background

Strategy is a management game plan for strengthening an enterprise's performance in the future. The process of strategic thinking involving two processes which are creativity and analysis. Creativity in strategic development involves the critical divergence and convergence of organizational management and leadership's perspectives of what they want their company to look like in the future. The creativity process is achieved through management engagements in conferences and in appropriately arranged group discussions, often away from company premises. Strategic analysis, on the other hand, involves creating tactical plans, including budgeting and resources allocation, to implement the strategy (Thompson, 2008).

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of performance. It adopts two assumptions in analysing sources of competitive advantage Fred(1997).The theory seeks to explain how the population takes up a new idea or innovation and provides insights on what qualities make an innovation

spread, the importance of peer-peer conversations and peer networks, and understanding the needs of different user segments (Robinson, 2009). Reasoned action theory, Martin, (1967) emphasizes the need to understand the relationship between attitude and behavior through its assumption that human beings are rational and make systematic use of available information, and also people consider the implications of their actions before they decide whether or not to perform a given behavior.

The financial industry in Kenya is very competitive hence online banking services have become part of the integrated bank offering of services designed to improve customer experience, reduce costs and generate revenues. Performance against these parameters is the true test of a successful strategy. Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives amid the competitors' existence.

Online banking services in Kenya have become part of the integrated bank transactions designed to improve customer experience, reduce costs and generate revenues, all of which give a competitive advantage to the respective banks (Kamau and Were, 2013). Understanding the challenges faced by banks in rolling out online banking strategies is therefore a key input into overall bank strategy for competitiveness.

1.1.1. Online Banking Strategies

The history of online banking is marked with numerous false starts and failures. The first offering for online banking was made in 1981 when large US banks Citibank, Chase Manhattan, Chemical and Manufacturers Hanover made available some online banking

functions through the defunct videotext system. These services never caught on and it was not until the early 2000s that online banking made a return on the back of the then celebrated .com era (Woods, 2014).

Today virtually all banks offer interactive internet banking, enabling customers varying degrees of functionality from checking account balances to carrying out simple to complex transactions. Some corporate online banking platforms can integrate into client ERP systems allowing payment authorisations, bank reconciliations and other treasury functions to be done seamlessly (Citi Bank, n.d.; DBS Bank, n.d.; SAP, n.d.) The ambition of online banking has varied too, some banks sought to set themselves up as purely online banks with no physical branches.

Many pioneers in this sector failed quite quickly (Correspondent, 2012). Several purely online banks known as virtual banks are in operation, however their existence is regarded with scepticism partly because they offer limited services compared to the conventional 'brick and mortar' banks. Some virtual banks are in reality distributors for services provided by conventional banks (Tynan, 2015). In the initial stages online banking was seen as a way of increasing bank efficiency, cutting the costs of customer interaction by removing the need for branches (Correspondent, 2000).

1.1.2. Strategy Implementation Challenges

Strategy be 'the match an organisation makes between its internal resources and skills and the risk and opportunities created by its external environment' (Grant, 2001) then strategy implementation by definition is a dynamic and uncertain enterprise. While an accurate

and stable assessment of the firm's internal resources and can be made the external environment is more difficult to estimate and changes unpredictably often to respond to the very implementation of the firm's strategy.

Competitive mimicry can rapidly erode any edge a firm hoped to gain by replicating an advantage widely (Lee & Pennings, 2002). For online banking services this trend has been widely observed; when banks came to appreciate the potential in mobile banking many were able to get into the game by quickly hiring developer companies to develop apps (Mitch Siegel, Fred Schneidereit, & Daniel Houseman, 2011).

There is little precedent to guide the evolution of online banking, even as the technology evolves to great sophistication banks struggle to balance their digital and traditional channels of customer engagement but trend is that digital platforms will only support not supplant traditional channels (Riddle, 2015). There is also the niggling challenge of making money from online banking (Jaipurian, 2013).

1.1.3. Competitive Advantage

The concept of competitive advantage was popularized by Porter (1985) who observed that it is the prolonged benefit of implementing some unique value-creating strategy based on unique combination of internal organizational resources and capabilities that cannot be replicated by the industry competitors especially in the immediate market. Sustainable competitive advantage allows the maintenance and improvement of the firm's competitive position in the market. It is an advantage that enables business to survive against its competition over a long period of time. As Johnson and Scholes (2007) have added,

sustainable competitive advantage is, a position a firm occupies against its competitors.

Porter (1985) indicates that sustainable competitive advantage is derived from the following sources; unique competitive position, applicability to multiple situations, sustainability, superiority to competition and difficulty to replicate. He adds that the development of sustainable competitive advantage is possible through cost leadership, differentiation and focus. Sustainable competitive advantage involves every aspect of the way that organization competes in the market.

Its real benefits come from advantages that competitors cannot easily imitate. According to Porter (1985), competitive advantage needs to be more deeply embedded in the organization in terms of resources, skills, culture, and investment over time. This involves seeking something unique and different from competitors. Again, this is based on stability and continuity in relationships between different parts of an organization. The main reason for analyzing competitors is to enable the organization or firm develop competitive advantage against them, especially advantage that can be sustained over time (Pearce & Robinson, 2007).

1.1.4. Online Banking Strategies and Competitive Advantage

To be competitive, companies must develop good strategies and appropriately realign the organizational structure, systems, leadership behavior and human resource policies. However between ideal strategic alignment and implementation lie many challenges.

Many managers believe that a well-conceived strategy that is communicated to the organization equals implementation.

Alexander (1985) points out that there are many problems which over half of the companies experience frequently, such as the involved employees have insufficient capabilities to perform their jobs, lower level employees are inadequately trained and departmental managers provide inadequate leadership and direction. These are the most frequent strategy implementation problems in relation to human resources. Line level employees may use delay or prevent attempts toward change that they find particularly threatening.

Challenges in strategy implementation can arise from sources internal or external sources. The internal sources to the organization are behavioral challenges such as resistance to change; inadequacy of resources such as inadequate funds, equipment and facilities, human resources skills and experience; and inappropriate systems of structure, culture, leadership, policies, support and reward.

Strategy implementation challenges are also found in sources external to the organization such as Macro-environmental forces which are usually include economic forces, political-legal forces, social-cultural forces, technological forces and ecological forces; Industry forces is yet another external source of challenge, here efforts to implement strategy can be greatly impaired by powerful buyers, powerful suppliers and stiff rivalry from competitors; operating environmental forces arising from pressure from stakeholders like

customers, government and shareholders can impose challenges that could impair strategy implementation.

1.1.5. Banking Industry in Kenya

The financial services sector in Kenya comprises of the Banking, Insurance, Pensions industries, SACCOs and the capital markets. Of these the banking sector is by far the biggest in terms of assets and capitalization(Central Bank of Kenya, 2013, p. 39). This study is restricted to the operations of commercial banks.

By law SACCOS are regulated by the Sacco Societies Regulatory Authority (SASRA) as provided by the corporation established under the Sacco Societies Act (Cap 490B) (GoK, 2008; SASRA, 2015).The insurance industry comprise of 53 licensed insurance companies regulated by the Insurance Regulatory Authority as provided for by law(GoK, 1985). The Association of Kenyan Insurers (AKI) represents insurance companies, while brokers are represented by the Association of Insurance Brokers of Kenya (AIBK, 2015). The capital markets are regulated by the Capital markets Authority under the framework provided by the headline laws and subsidiary regulations. The main laws for the sector are the Capital Markets Act and the Central Depositories Act (GoK, 1989, 2000a).

Capital markets include all market intermediaries and products such as the stock exchange, the central depository and settlement system, all publicly traded equity and investments such as Shares, Bonds and Unit Trusts etc. The Nairobi Stock Exchange is the main fixture of the sector. Microfinance Institutions are regulated by the Central Bank of

Kenya under the Microfinance Act and the Microfinance (Deposit- Taking Microfinance Institutions) There are currently 12 licensed microfinance banks (Central Bank of Kenya, 2015). According the regulator at the end of 2014 Microfinance banks held assets of KES 56.9 Billion, these banks are ranked into three peer groups on the same criteria as described for commercial banks below. Currently there are 3 large microfinance banks with an aggregate market share of 92.74 per cent, 2 medium microfinance banks with a market share of 5.09 per cent and 4 small microfinance banks with a market share of 217 per cent.

1.1.6. Commercial Banks in Kenya

The banking sector in Kenya is overseen by the Central bank of Kenya as the regulatory authority as provided for by law. The legal framework for banking services is provided by the Banking Act and the Microfinance banking act. As of July 2015 end of 2014 the regulator listed 44 banking institutions as holding current licenses, these being 43 commercial and 1 mortgage finance company. There were also 8 representative offices of foreign banks 9 Microfinance banks, 2 Credit Reference Bureaus, 13 Money Remittance Providers and Eighty Seven Foreign Exchange Bureaus. The banking industry association is the Kenya Bankers Association, at the beginning of July 2015 it listed 46 institutional members, (Kenya Bankers Association 2015).

Commercial banks are classified into three peer groups by the CBK, classification is based on a weighted composite index for net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A banks score is proportional to its share of the sector and the total scores add up to 100%. Banks scoring over 5% are

classified as large, medium banks have scores of 1-5% and small banks have scores below 1%. There were 6 large, 16 medium and 21 small banks at the close of 2014.

The distribution of market share between the tiers was 49.90%, 41.70 and 8.40 % from the in descending peer groups respectively (Central Bank of Kenya, 2014).The sector is vibrant, competitive and dynamic and has enjoyed robust and sustained growth over the period 2000 to 2014 the sector consistently outpaced growth in the wider economy, (Kamau & Were, 2013, p. 46).

Financial services have facilitated economic growth and grown their contribution to the economy. In 2000 commercial banks reported total profits of KES 2.8 Billion, in 2014 the amount was 141.145 Billion. Over the same period commercial bank gross loans and advances expanded form 209.729 Billion to 1 .940 Trillion, branches increased from 407 to 1,443, Net assets increased from KES 434.5 billion to 3.2 Trillion. Between 2002 and 2014 number of deposit bank accounts increased from 1, 682,916 to 2 8,438,292.

1.2. Research Problem

The skilled and efficient use of quality online banking facilities can greatly contribute to a better competitive edge, in terms of increased market share, expanded product range, customized products and better response to client demand. These critical dimensions can contribute to reduction of overall costs and consequently, improvement of profitability which increases shareholders wealth in the long-run. Understanding these challenges provides commercial banks with the opportunity to work on their weaknesses and provide functional internet banking platforms that work for the clients.

Commercial banks in Kenya have aggressively adopted online banking strategies and are increasingly competing in providing the best online banking platform, despite the various challenges facing its implementation. Also with the increase in smartphone usage in the country, online banking includes mobile banking applications which enables clients to access their bank accounts from wherever they provided they have network coverage. The applications have even been given fancy names to attract attention with examples of KCB with MobiBank and Chase Bank with mfukoni.

Through the online platform clients can access various services without physically visiting the bank including checking account balances and statements, make account to account transfers, make transfers to mobile money platforms such as Mpesa, and even pay salaries for corporations. Therefore, the online banking platform is a major and expansive investment by commercial banks and more study is required to understand its challenges and develop ways of improving it. Egland et al. (1998) estimated the number of US banks offering electronic banking and analysed the structure and performance characteristics of these banks, the study found no evidence of major differences in the performance of the group of banks. Furst(2002)found that banks in all size categories offering e-banking were generally more profitable and relied less on traditional banking activities, DeYoung et al.(2006) found that electronic adoption improve community banks profitability particularly through increased revenues.

Hasan et al. (2002) found that e banking institutions were performing significantly better than traditional banks. According to Koivu (2002), uptake of online banking in Kenya has been unprecedented and the study found that online banking in Kenya affects performance

of organization, behaviour and decision making of the entire economy. Kigen (2010) studied the impact of online banking on transaction costs of microfinance institutions where he found out that online banking had reduced transaction costs considerably though they were not directly felt by the banks because of the then small online banking customer base. Mutua (2011) studied the impact of online banking on competitive advantage of commercial banks in Kenya.

The study concluded that there is a weak but positive relationship between online banking and competitive advantage of commercial banks in Kenya. Okiro & Ndungu (2013) studied the impact of online banking on competitive advantage of financial institutions in Kenya. This study focused on financial institutions as a whole, unlike this study which seeks to examine the challenges of implementation online banking strategies and the competitive advantage of commercial banks in Kenya, hence the study seeks to answer the research question; What are the challenges of the implementation of online banking strategies on competitive advantage of commercial banks in Kenya?

1.3. Research Objectives

To determine the online banking strategies and competitive advantage of commercial banks in Kenya.

1.4. Value of the Study

The study uses Robert Grant's resource based theory of competitive advantage. In this theory Grant postulates that firms can analyse and refine their strategy by first analysing their resources and capabilities relative to competitors, appraising the rent generation

potential of resources and capabilities in terms of competitive advantage and the extent to which returns can be attributed to each resource and then developing a strategy that best exploits its resources and capabilities relative to the operating environment (Grant, 2001).

To the theory, contribute significantly by providing empirical evidence on the relationship between analysis of resources and capabilities of online banking relative to competitors in terms of competitive advantage and best strategy implementation. Online banking implementation by commercial banks faces numerous challenges. However, studies on these challenges are few and this study will contribute by building the knowledge base on the challenges facing online banking strategy implementation and creating an understanding of the importance of online banking. The study will also add more knowledge in the field by providing a basis for future research.

The study will also contribute to managerial policies by shedding more light on the inefficiencies of online banking strategy implementation. This will help in providing a framework for the development of efficient and effective managerial policies in relation to online banking that will enable commercial banks achieve the intended objectives. Finally, by determining how commercial banks deal with the challenges of online banking strategy implementation, the study will add on more knowledge available to managers and therefore help shape managerial practice with regards to online banking implementation.

1.5. Summary

This chapter gave an introduction of the study and background of online banking strategies, strategy implementation challenges, and competitive advantage. It also outlined the research problem, objectives of the study, research questions, and value of the study. Chapter two discusses the theoretical framework of this study by reviewing relevant literature.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviews the literature on the challenges of implementation of online banking strategies by commercial banks in Kenya. The chapter also addresses the theoretical framework guiding the study, online banking strategies of commercial banks, an analysis of local and global empirical studies and finally a summary of the chapter.

2.2. Theoretical Foundation

This section reviews the theories that guided the study. It includes the theories governing innovations such as mobile and internet banking as well as theories governing strategy implementation by commercial banks.

2.2.1. Resource-Based View Theory

This theory examines the link between strategy and the firm's resources and skills. Central to the resource-based view is that firms compete on the basis of their resources and capabilities (Peteraf and Bergen, 2003). In describing this theory, Grant (2001) identified a five stage procedure for strategy formulation which includes: analyzing the firm's resource base; appraising the firm's capabilities; analyzing the profit-earning potential of firm's resources and capabilities; selecting a strategy; and upgrading the firm's pool of resources and capabilities.

Anantadjaya (2015), resource based theory points out that firms' performance is not driven by any characteristics of industry settings, but rather the firm's performance portrays the unique firm's resources and capabilities of the firm in making a good use of market opportunities and staying ahead of competition. Early studies showed attractiveness of the industry was an important factor in the profits of the firm, however, international competition, technological change and diversification by firms across industry boundaries have meant that industries which were once cozy havens for making easy profits are now subject to vigorous competition (Grant, 2001).

Grant (2001) further argued that the case for making the resources and capabilities of the firm the foundation for its long-term strategy rests upon two premises: internal resources and capabilities provide the basic direction for a firm's strategy and secondly, resources and capabilities are the primary source of profit for the firm. This model assumes that firms within an industry may be heterogeneous with respect to the bundle of resources that they control and that this heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (Bridoux, 2004).

It is important to note that reference is made to a bundle of resources being heterogeneous. A single resource, though it may be expensive, valuable and unique cannot produce firm's competitive advantage by itself, rather what is required is a combination of the right resources to achieve the competitive advantage (Anantadjaya, 2015). The individual resources of a firm include items of capital equipment, skills of individual employees, patents, brand names, finance, firm's system procedures and information management (Grant, 2001; Anantadjaya, 2015).

2.2.2. Theory of Reasoned Action

This is a theory that was developed by Martin Fishbein in 1967 in an effort to understand the relationship between attitude and behavior. According to Tlou (2009), the theory of reasoned action is based on the assumption that human beings are rational and make systematic use of available information, and also people consider the implications of their actions before they decide whether or not to perform a given behavior. Behavior toward a particular object is approximated by an intention to perform that behavior, which in turn is predicted by two factors: the individual's attitude towards the outcome of the behavior and by the opinions of the person's social environment also referred to as the subjective norm (Fishbein and Ajzen, 1975).

An individual's intent to adopt an innovation is influenced by his attitude toward performing the behavior, with the attitude being an individual's positive or negative belief about performing the specific behavior (Sadeghi and Farokhian, 2011).

On the other hand, subjective norm refers to beliefs about what others will think about the behavior or the perceived influences of social pressure on an individual to perform or not perform the behavior (Fishbein and Ajzen, 1975; Sadeghi and Farokhian, 2011). An example is when one is confronted with a moral situation such as cheating in an exam, the decision on whether to cheat or not is based on individual's attitudes towards the behavior and their perceptions of what it is that important referents such as parents and friends feel that they should be doing. The issue of online banking may not be a moral situation but understanding how individuals' attitudes towards an idea or environments influence on

people's decisions can be applied to help in analyzing the adoption of new ideas and innovations.

2.3. Factors in Successful Strategy Implementation

Strategy implementation can basically be described as making the strategy work. Formulating an innovative and unique strategy is critical but itself is not sufficient in leading a firm to success in today's business world, ensuring the strategy works is equally important (Rajasekar, 2014). This is not an easy task as a lot of factors come into play in the process of turning strategic plans into organizational action in order to achieve the organizational goals. According to Noble (1999), strategy implementation, rather than being a science is more of a craft and thus it is not surprising that even after a comprehensive strategy or single strategic decision has been formulated, significant difficulties usually arise during the subsequent implementation process.

Rajasekar (2014) describes strategy implementation as a connecting loop between formulation and control. In between this connecting loop there are many factors that influence the success of strategy implementation ranging from the people who communicate or implement the strategy to the systems or mechanisms in place for coordination and control (Li et al, 2008). These factors can be categorized into main groups as leadership style, information availability and accuracy, uncertainty, organizational structure, organizational culture, human resources and technology (Rajasekar, 2014). Various studies have identified these factors of strategy implementation but the effect and importance differs based on the sector or industry of study.

Despite recognizing the above mentioned factors, Rajasekar (2014) identifies leadership as by far the most important factor influencing successful implementation strategy in the service sector of Oman. The strategy formulation process, the strategy executors (managers, employees), the communication activities, the level of commitment of the strategy, the consensus regarding the strategy, the relationships among different departments, the employed implementation tactics, and the administrative system in place also act as factors influencing strategy implementation (Li et al, 2008). In a study on Arabian banks, Al-Kandi et al (2013) found that factors that significantly influences strategy implementation included process and personnel factors; project factors such as time and the priority of the decision; and organizational factors such as top management support, religion and organizational structure.

In studies performed in Kenya, organizational culture and organizational structure stand out as the most important factors influencing strategy implementation. Kirui (2013) identified in addition to the above factors financial resources which affected strategic implementation through budgeting allocations, financial controls, revenue efficiency, and external donor support in a study of local authorities in Migori County. Similarly, Mukhalasie (2014) in an analysis of Kenya Commercial Bank found that organizational processes, organizational culture and organizational structure influence strategy implementation to a great extent.

2.4. Challenges of Strategy Implementation in an Organization

Strategy implementation is riddled with a lot of challenges which make it hard for organizations to achieve their objectives. According to Brinkschroder (2014), a lack of

understanding of the context and aim of the new strategy by the employees would make them sabotage its implementation. The study also pointed out the challenge of a steady information exchange in subsidiaries which further makes it difficult for strategy implementation. Beer and Eisenstat (2000), also lists challenges which are termed as killers of strategy implementation as: ineffective senior management team, unclear strategies and conflicting priorities, top down or laissez faire senior management style.

Elwak (2013) found that a lack of processes to aid in evaluating all the dimensions of competitors was a big challenge and highlighted the importance of organizations having competitive advantage. Okumus (2003) found that the main barriers to the implementation of strategies include lack of coordination and support from other levels of management and resistance from lower levels and lack of or poor planning activities. Inadequate human resources to implement the strategy was a major constraint since without the resources to implement the strategy was a major constraint since without the people to work towards an organization's vision and mission, it is not possible by all means to succeed in strategy implementation even if the budgetary allocation is sufficient (Chemwei et al. 2014). From the same study Chemwei et al. (2014) underlines the importance of clarity of the vision to the implementers.

Polle (2012) distinguished challenges as internal and external. The internal sources of challenges to the organization are behavioral such as inadequate funds; equipment and facilities; human resource skills and experience; and inappropriate systems of structure, culture, leadership, policies, support and reward. External sources of challenges are

identified as macro environmental forces which usually include economic forces, political-legal forces, socio-cultural forces, technological forces and ecological forces.

2.5. Indicators of Competitive Advantage

The determinants of competitive advantage of commercial banks can be classified into bank specific (internal) factors and macroeconomic (external) factors (Al-Tammie, 2010; Aburime, 2005). These factors are basically influenced by internal decisions of management and the board. The internal factors which influence the profitability of a specific bank are within the scope of the bank to manipulate and they differ from bank to bank. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labor productivity, and state of information technology, risk level, management quality, bank size and ownership. The size of the firm has a bearing on competitive advantage.

Large banks have the ability to generate high revenues and profits. Commercial banks with high market share and large asset base exhibit high competitive advantage. High performance on the commercial banking industry is determined and driven mainly by the acquisition of new customer and retention of existing ones, as well as adoption of winning strategies innovations, product differentiation and competitive pricing. The bank's asset quality is another bank specific variable that affects the profitability of a bank. Bank assets include current assets, credit portfolio, fixed assets, and other investments. Loan is the major asset of commercial banks from which they generate income. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the

losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Management efficiency is one of the key factors that determine a bank's competitive advantage. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems and quality of staff. Some financial ratios such as total asset growth, loan growth rate and earnings growth rate act as a proxy for management efficiency.

External factors include the macroeconomic policy stability, gross domestic product, inflation, interest rate, political instability and other sector-wide variables that affect the performances of banks. For instance, the trend of GDP affects the demand for banks asset. During the declining GDP growth the demand for credit falls which in turn negatively affect the profitability of banks. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for credit is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005).

2.6. Empirical Studies and Research Gaps

A number of empirical studies exist in the literature, which have examined the relative performance of banks offering internet and mobile banking services. England et al. (1998) was the first important study, which estimated the number of US banks offering electronic banking and analysed the structure and performance characteristics of these banks. It found no evidence of major differences in the performance of the group of banks offering

internet banking activities compared to those that do not offer such services in terms of profitability, efficiency or credit quality. However, transactional internet banks differed from other banks primarily by size. In contrast to the results of England et al. (1998), Furst et al. (2002) found that banks in all size categories offering e-banking were generally more profitable and tended to rely less heavily on traditional banking activities in comparison to traditional banks. Similarly, Hasan et al. (2002) found that the e-banking institutions were performing significantly better than the traditional banking groups.

DeYoung et al. (2006) observed the change in competitive advantage of Internet community banks in U.S. during 1999-2001. The results found that electronic adoption improved community banks' profitability, particularly through increased revenues from deposit service charges. Internet adoption was also associated with movements of deposits from checking accounts to money market deposit accounts, increased use of brokered deposits and higher average wage rates for bank employees. It found little evidence of changes in loan portfolio mix. The findings suggested that internet adoption was associated with an economically and statistically significant improvement in bank profitability.

Tiwari, Buse and Herstatt (2006) studied mobile banking as business strategy, more specifically, the impact of mobile technologies on customer behaviour and its implications for banks. The study sought to examine the opportunities for banks to generate revenues by offering value added innovative mobile financial services while retaining and even

extending their base of technology-savvy customers and found a positive correlation. According to Koivu (2002), uptake of mobile phone in Kenya has been unprecedented. Mobile banking in Kenya affects performance of organization, behaviour and decision making of the entire economy. The trend of continued reliance on mobile devices to execute monetary transaction is steadily gaining momentum. Mobile banking is one innovation which has progressively rendered itself in pervasive ways of cutting across numerous sectors of economy and industry.

Kigen (2010) studied the impact of mobile banking on transaction costs of microfinance institutions where he found out that mobile banking had reduced transaction costs considerably though they were not directly felt by the banks because of the then small mobile banking customer base. Mutua (2011) studied the impact of mobile banking on competitive advantage of commercial banks in Kenya. The study concluded that there is a weak but positive relationship between mobile banking and competitive advantage of commercial banks in Kenya. This could be attributed to the trends which showed that competitive advantage of commercial banks was affected majorly by macro-economic variables like post-election violence, inflation and foreign exchange rates fluctuations among other macro-economic variables.

Okiro & Ndungu (2013) studied the impact of mobile and internet banking on performance of financial institutions in Kenya. Okiro & Ndungu (2013) surveyed a representative sample of financial institutions within Nairobi and found that commercial banks had the highest rate of usage of internet banking among the financial institutions sampled. SACCOS are slowly adopting internet banking, while micro finance institutions

have not yet adopted internet banking. The study found that mobile banking faces various challenges among them being, system delays by the mobile money transfer service providers, slow processing of transactions, high transactions costs, limit on the amount of money that can be withdrawn in a day and fraud.

2.7. Summary of the Literature Review

This chapter began by looking at the theoretical foundation for the study. The theories discussed included the resource-based view theory and the theory of reasoned action. Resource-based view examines the link between strategy and the firm's resources and argues that firms can be able to compete based on their resources. The theory of reasoned action examines the relationship between attitude and behaviour and how this affects how people adopt new innovations such as online banking.

Various authors identified factors necessary for successful strategy implementation. Rajasekar (2014) identified these factors as leadership style, information availability and accuracy, uncertainty, organizational structure, organizational culture, human resources and technology, but went on to note that leadership style was the most important. The main challenges in strategy implementation were also discussed. Brinkschroder (2014), a lack of understanding of the context and aim of the new strategy by the employees would make them sabotage its implementation. Beer and Eisenstat (2000), also list challenges which are termed as killers of strategy implementation as: ineffective senior management team, unclear strategies and conflicting priorities, top down or laissez faire senior management style.

On the relationship between online banking strategy implementation and competitive advantage or financial performance of commercial banks, most of the studies pointed towards a positive relationship with online banking improving the financial performance of banks. Studies by Furst et al. (2002), Hassan et al. (2002), and De Young et al. (2006) all pointed towards a positive effect on the competitive advantage and financial performance of commercial banks through use of online banking. Mutua (2011) found a weak but positive relationship between online banking and competitive advantage of commercial banks in Kenya. However, Egland et al. (1998), found no major effect of online banking on the competitive advantage of commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The chapter details the research methodology that was used in the study to evaluate the challenges facing online banking strategy implementation in commercial banks in Kenya. It focuses on the research design, the study population, data collection methods and data analysis.

3.2. Research Design

Cross-sectional data from all the 43 commercial banks in Kenya was used for the study in order for the data to be representative. The study adopted a descriptive research design. The descriptive research design worked for the study as it sought to build a profile about the challenges influencing online banking implementation strategies in commercial banks in Kenya.

3.3. Population of the Study

The target population of the study was all the commercial banks operating in Kenya, which according to the Central Bank of Kenya website (2015) are 43 in number. The staff targeted to give responses were specifically from the IT and strategy departments.

3.4. Data Collection

The study used primary data obtained from a questionnaire developed by the researcher. Questionnaires were convenient for the study as they could be dropped and picked at a

later date to provide the respondents time to fill them given their busy schedules. The questionnaire had 4 sections.

Section A has questions seeked to find out details about the organization and the expected respondents. Section B collected information on the extent of online banking strategy use. Section C collected information on the challenges faced while implementing online banking, and section D was concerned mainly with the possible responses to the challenges faced while implementing online banking strategy.

3.5. Data Analysis

Both the primary and secondary data was descriptive in nature. Given this fact, content analysis was used to analyse the data. Data analysis means the categorizing, ordering, manipulating and summarising data to obtain answers to research questions. Its purpose is to obtain meaning from collected data, Cooper, (2008).

The study used numerical codes assigned to the various close ended responses after the questionnaires were administered, while coding for open ended questions was done after the responses in the filled questionnaires were obtained. Data from section A was analyzed using descriptive statistics to give the general overall picture about the organization and the expected respondents. Section B data was analyzed by factor analysis and tabulation.

Factor analysis is a statistical technique for classifying a large number of interrelated variables into a limited number of factors which are derived such that the maximum amount of information available in the original variables is retained (Njuru, 2007). This

analysis helped in establishing the extent of online banking strategy use. Section C data was also analyzed through descriptive statistics to indicate the challenges faced while implementing online banking strategy. Finally section D was analyzed using factor analysis and tabulation.

CHAPTER FOUR

ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter comprised of data analysis, findings and interpretation on the data gathered to address the study. Results were presented in tables and diagrams. The analysed data was arranged under themes that reflected the research objectives.

4.2. Response Rate

The number of questionnaires that were administered were 43. 41 of the questionnaires were properly filled and returned. This represented an overall response rate of 95.35% as shown on Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	41	95.35%
Unreturned	2	4.65%
Total	43	100%

4.3. Demographic Characteristics

This section consists of information that describes basic characteristics such as gender of the respondent, age of the respondent, level of education and years worked in their current position.

4.3.1. Respondents Demographics

Gender

The respondents were asked to indicate their gender. Majority of the respondents were male who represented 71% of the sample while 29% were female.

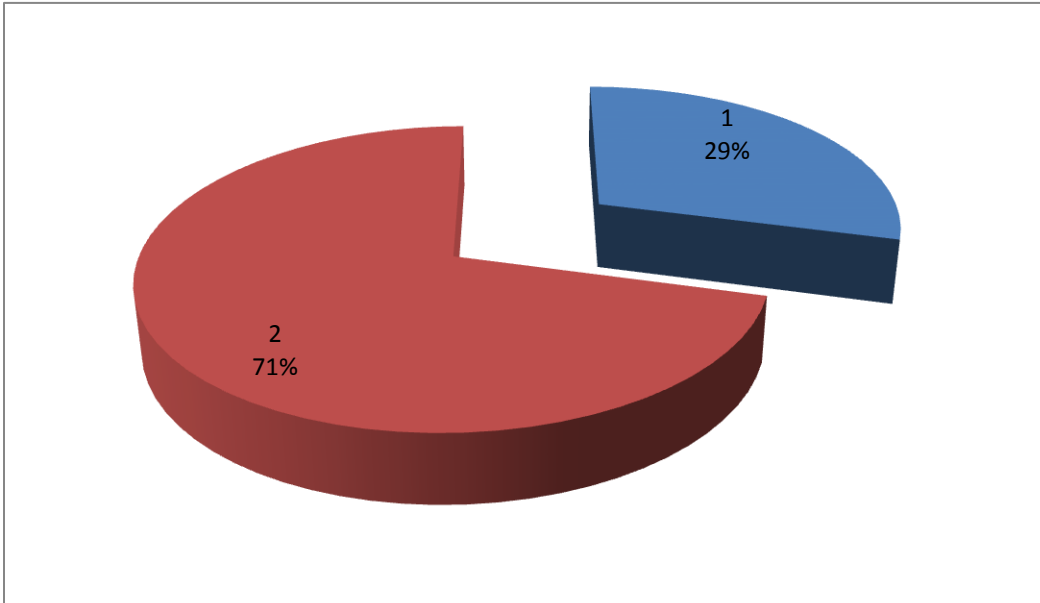


Figure 4.1: Gender of Respondents

Age

Respondents were requested to indicate their age brackets. Majority of the respondents which was 46% were on age bracket of 36-45 years. 20% were on age bracket of 26-35 years, 17% were above 50 years, 15% were on age bracket of 18-25 while 2% were on age bracket of 46-50%.

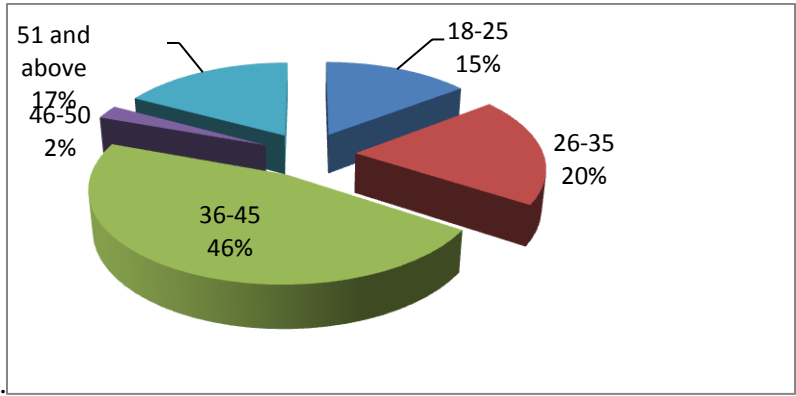


Figure 4.2: Age

Department

The respondents were asked to indicate the departments they work. Majority of the respondents who were 63% worked in strategy department, 22% worked in operations department while 15% worked in IT department.

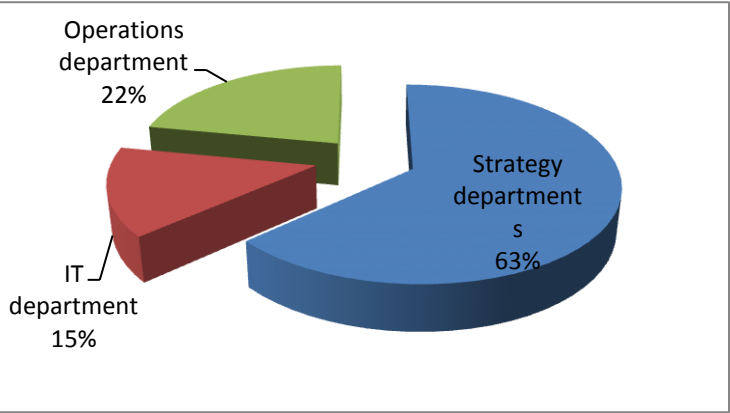


Figure 4.3: Department

Position

The respondents were asked to indicate the position they hold. Majority of the respondents who were 71% were financial managers while 29% were supervisory managers.

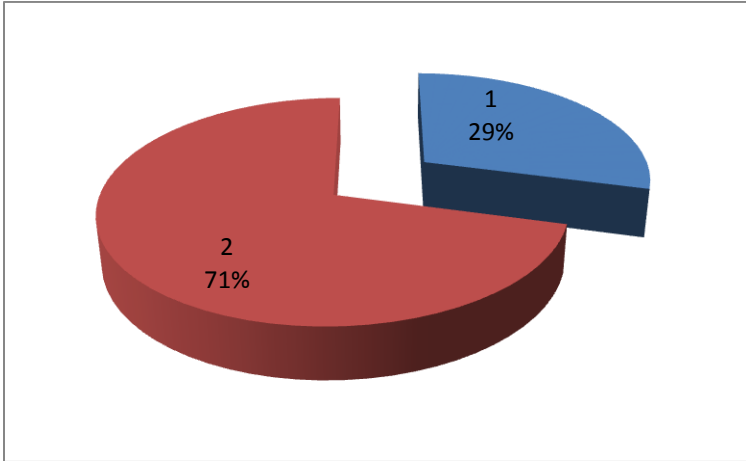


Figure 4.4: Position

Years Worked

The respondents were asked to indicate the years they have worked. Majority of the respondents who were 44% had worked between 6-10 years, 24% had worked between 2-5 years, 22% had worked over 10 years and 10% had worked for less than a year.

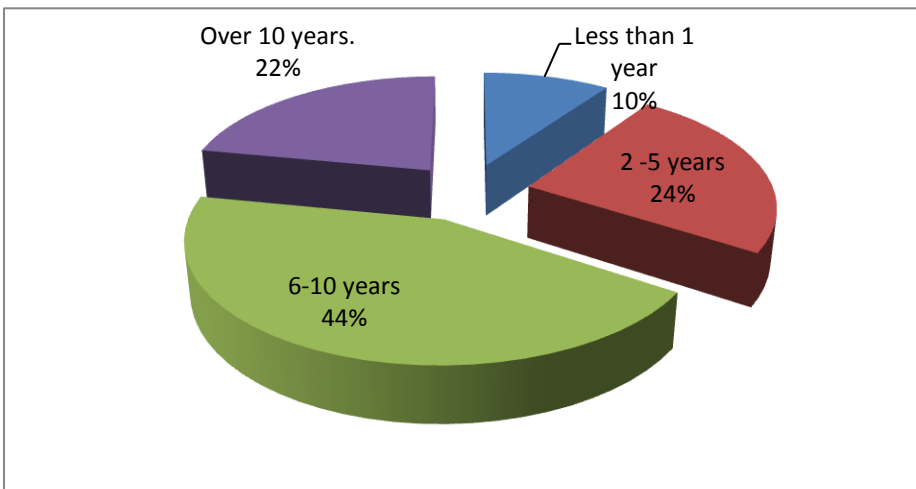


Figure 4.5: Years Worked

4.3.2. Company Profile

Bank Operations

On the question of the number of years the bank has been in operations, majority of the banks which were 49% had operated for 6-10 years, 22% had operated for 3-5 years, 15% had operated for over 10 years and 14% had operated for less than 3 years.

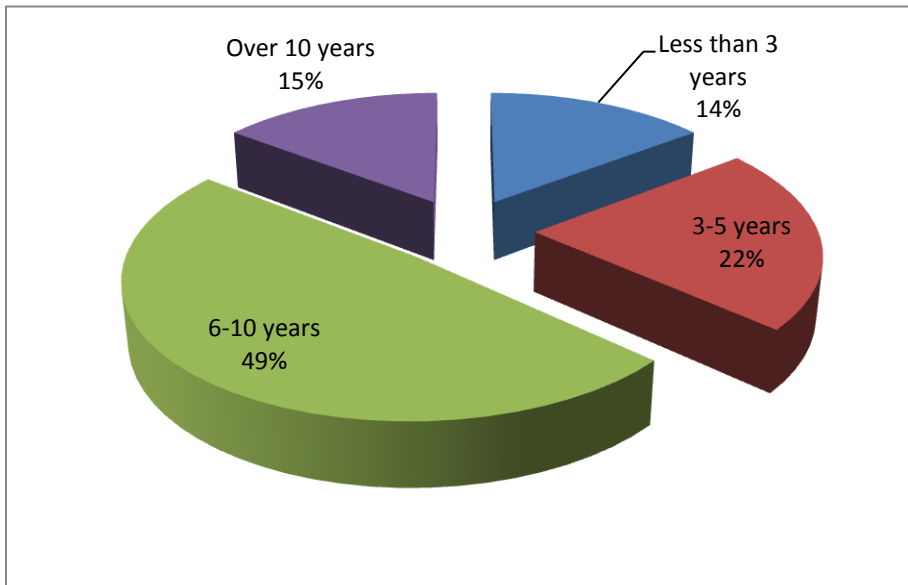


Figure 4.6: Bank Operations

Account Holder

The respondents were requested to indicate the account that their banks hold. Majority of the banks which were 75% hold both corporate and personal accounts, 15% hold corporate accounts while 10% hold personal accounts.

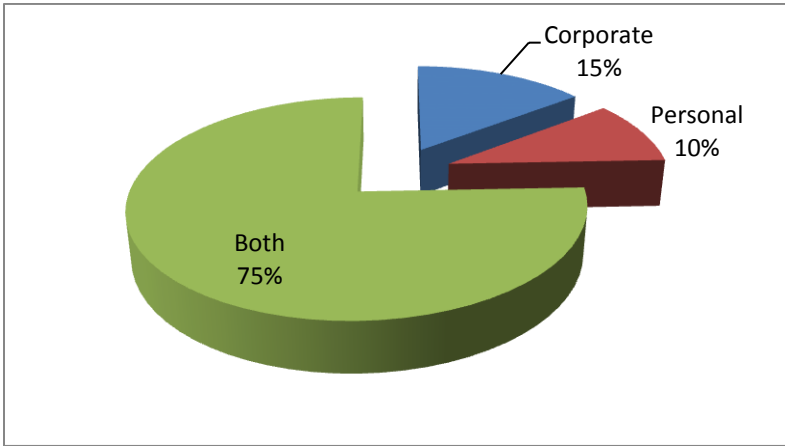


Figure 4.7: Account Holder

Number of Customers with Account

On the question of the number of customers who hold account with the bank, 46.3% who were the majority indicated that the number of customers were between 1001 and 1500 whereas only 7.3% indicated 1-500 as shown in figure 4.8

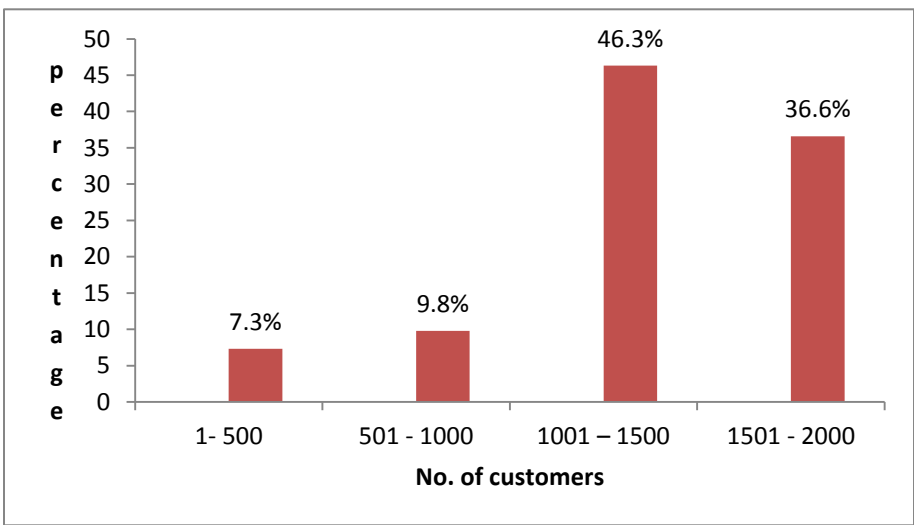


Figure 4.8: Number of Customers with Account

4.4. Extent of Electronic Banking Strategy Adoption

4.4.1. Extent of Services the Customers Have Access To

On the question of the extent of services the customers have access to majority which were 75.6% indicated the largest extent while 12.2% indicated the least extent as shown in figure 4.9 below.

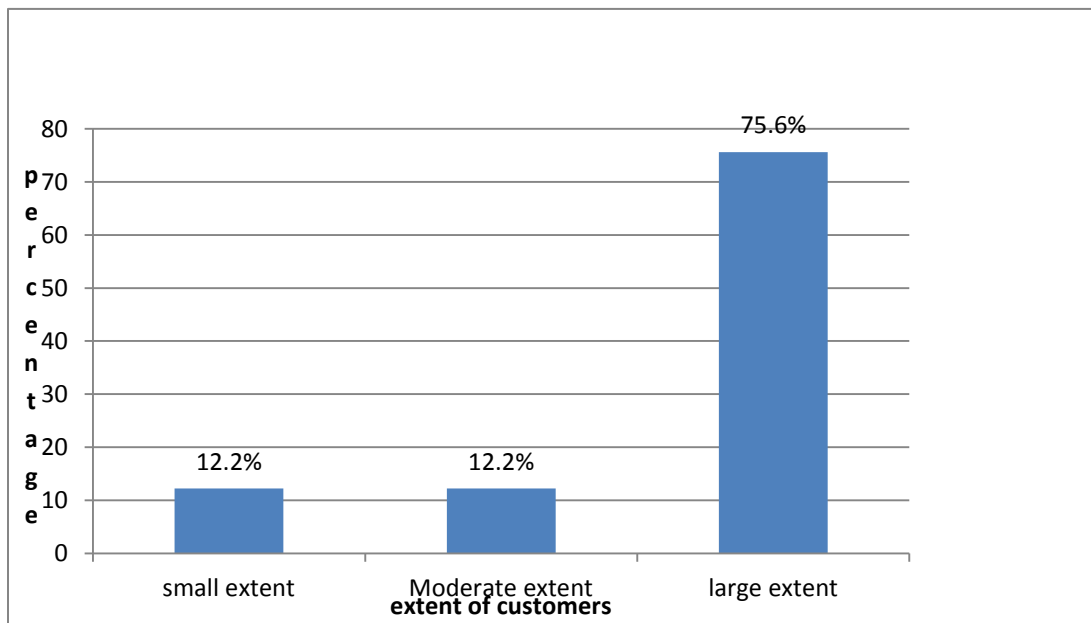


Figure 4.9: Extent of Services the Customers Have Access To

4.4.2. Electronic Banking Committee

On the question of availability of electronic banking committee, majority of the respondents who were 71% indicated that they had an electronic banking committee while 29% indicated that they did not have.

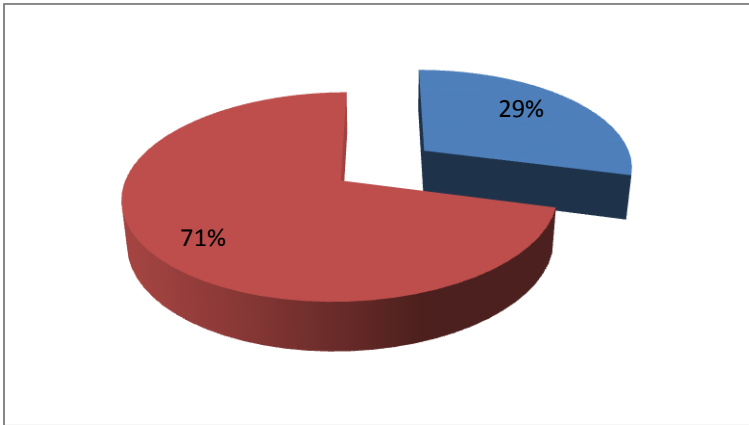


Figure 4.10: Electronic Banking Committee

4.5. Challenges Faced while Implementing Electronic Banking Committee

Results in table 4.1 revealed that 80.5% of the respondents indicated that inadequate technological skills within the organization. Results in table 4.1 also showed that 78% of the respondents indicated that the technology required is too expensive for the bank to budget for the cost. The results also showed that 80.5% of the respondents indicated that there was lack of corporation and commitment from the senior management. The results also showed that 78% of the respondents indicated that the current organizational structure does not allow changes in the bank processes. Results in table 4.1 also revealed that 80.5% of the respondents indicated that employees have negative attitude towards the use of the Internet banking systems. The results also showed 78% of the respondents indicated that there was resistance from the Customers who were being targeted during the implementation. Results in table 4.1 also showed that 78% of the respondents indicated that there was fear of current employees losing jobs after the strategy has been implemented. The results also showed that 80.5% of the respondents indicated that there was the fear that internet banking system is not very secure. The results also showed that

80.5% of the respondents indicated that the organization is hesitant to recruit specialized staff for the support of the electronic payment system. The results also revealed that 78% of the respondents indicated that there was a lack of the resources and infrastructure required to implement the strategy.

statement	Not at all	Less extent	Moderate extent	great extent	greatest extent	mean	std dev
Inadequate technological skills within the organization	7.30%	7.30%	4.90%	48.80%	31.70%	3.9	1.2
The technology required is too expensive for the bank to budget for the cost	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
Lack of Corporation and commitment from the Senior management	4.90%	9.80%	4.90%	43.90%	36.60%	3.98	1.1
Current Organizational structure does not allow changes in the bank processes	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
Employees have negative attitude towards the use of the Internet banking systems	7.30%	7.30%	4.90%	48.80%	31.70%	3.90	1.2
Resistance from the Customers who were being targeted during the implementation	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
Fear of current employees losing jobs after the strategy has been implemented	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
The fear that Internet Banking system is not very secure	7.30%	7.30%	4.90%	48.80%	31.70%	3.90	1.2
The organization is hesitant to recruit specialized staff for the support of the electronic payment system	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
Lack of the resources and Infrastructure Required to implement the strategy	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.0
Average						3.94	1.11

Table 4.1: Challenges Faced while Implementing Electronic Banking Committee

Risks Involved

The respondents were also asked to indicate whether the banks' management was fully informed of the risks involved with online banking and whether they understand those risks. Majority of the respondents which were 75% indicated yes while only 25% indicated no.

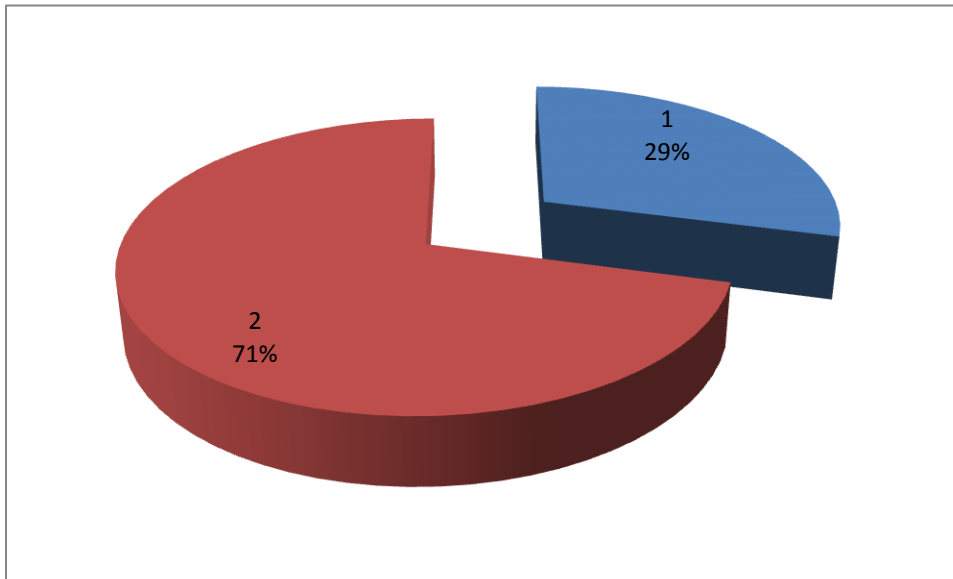


Figure 4.9: Risks Involved

4.6. Responses to the Challenges Faced while Implementing Online Banking

4.6.1. Review of Online Banking

The respondents were asked to indicate whether a review of online banking was included in the annual management general meeting. Majority of the respondents which were 71% indicated that review of online banking was included in the annual management general meeting while only 29% indicated that it was not included.

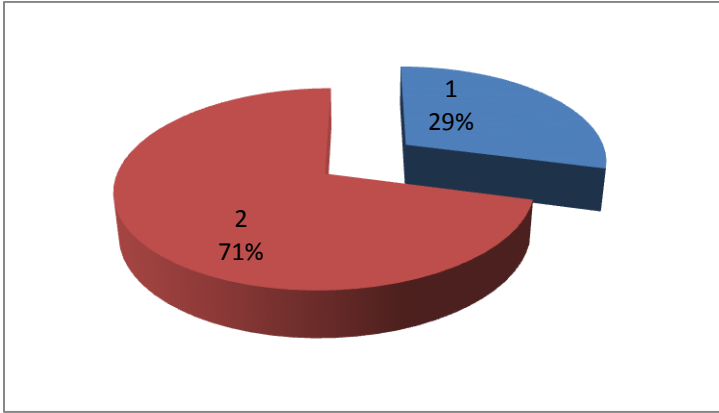


Figure 4.10: Review of Online Banking

In addition the respondents were asked to indicate if there has been exceptions found in the last meeting. Majority of the respondents which were 71% indicated that there has been exceptions in the last meeting while only 29% indicated that there has not been exceptions in the last meeting.

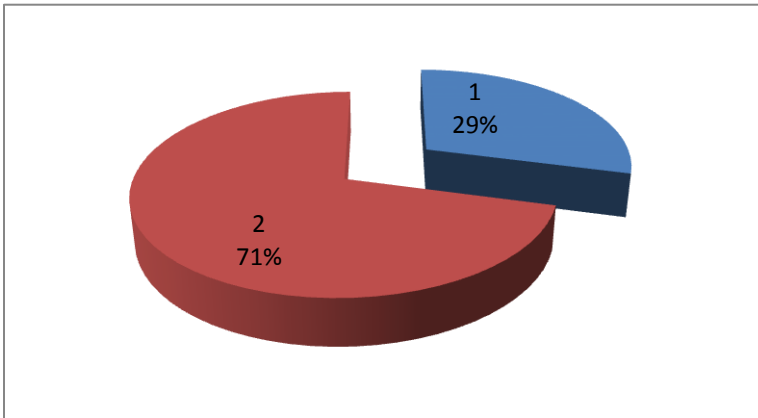


Figure 4.11. Exceptions Found

For those who answered yes they were further asked to indicate if the challenges had been addressed. Majority of the respondents which were 71% indicated that challenges had been addressed while only 29% indicated that the challenges had not been addressed.

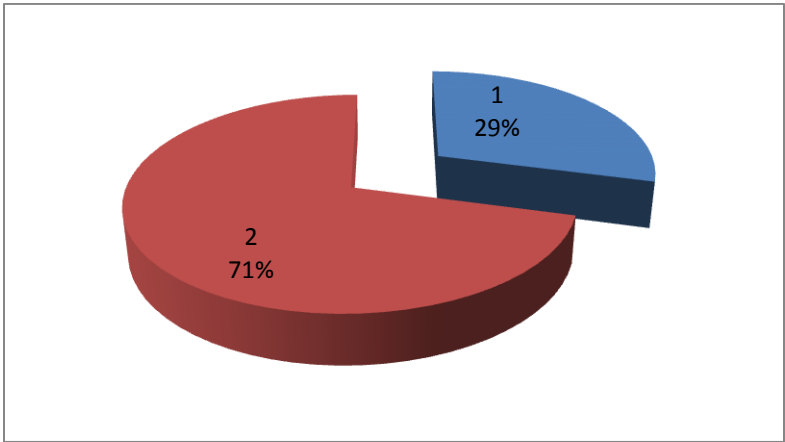


Figure 4.12. Challenges Addressed

4.6.2. Strategies Used by the Bank

The results in table 4.2 revealed that 80.5% of the respondents indicated that there was training of bank employees on the use of online banking. The results also revealed that 78% of the respondents indicated that there was sensitization of customers on the benefits of online banking. The results in table 4.2 also revealed that 80.5% of the respondents indicated that there was involvement of senior management in the implementation program. The results also showed that 78% of the respondents indicated that there was a budget allocated for online banking. The results also showed that 80.5% of the respondents indicated that there was government involvement on the implementation process. The results also showed that 80.5% of the respondents indicated that there was a specialized team for support of online banking to assist customers in their transactions. The results also showed that 78% of the respondents indicated that they entered into contract with a reliable stable internet service provider. The results also showed that 80.5% of the respondents indicated that there was collaboration with other banks in the

implementation of the strategy. The results in table 4.2 also revealed that 78% of the respondents indicated that there was outsourcing of the project to a specialized supplier. The results also showed that 80.5% of the respondents indicated that there reduction of the electronic payments transactions charges. The results in table 4.2 also revealed that 78% of the respondents indicated that implementation of the strategy was stopped

Table 3: Strategies Used by the Bank

statement	Not at all	Less extent	Moderate extent	great extent	greatest extent	mean	std dev
Training of Bank employees on the use of online banking	7.30%	7.30%	4.90%	48.80%	31.70%	3.9	1.158
Sensitization of Customers on the benefits of online banking	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.048
Involvement of Senior management in the implementation program	4.90%	9.80%	4.90%	43.90%	36.60%	3.98	1.129
A budget allocated for Online Banking	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.048
Government involvement on the Implementation Process	7.30%	7.30%	4.90%	48.80%	31.70%	3.9	1.158
Specialized team for support of online banking to assist customers in their transactions	7.30%	7.30%	4.90%	48.80%	31.70%	3.9	1.158
Entering into contract with a reliable stable Internet service Provider	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.048
.Collaborating with other banks in the implementation of the strategy	4.90%	9.80%	4.90%	43.90%	36.60%	3.98	1.129
Outsourcing the project to a specialized supplier	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.048
Reducing the electronic payments transactions charges	7.30%	7.30%	4.90%	48.80%	31.70%	3.9	1.158
Stopping the implementation of the strategy	4.90%	4.90%	12.20%	46.30%	31.70%	3.95	1.048
average						3.93	1.102

4.7. Discussion

The study found that there has been an increase in the adoption of online banking strategies by commercial banks in Kenya. The extent of services which could be accessed by the customers on the online banking platform reached a high of 75.6% for the commercial banks surveyed, while 71% of the respondents indicated the availability of Electronic Banking Committee. The increase in online banking strategy adoption may be as a result of increased mobile banking transactions due to increased development of mobile banking products by the local commercial banks and the increase in the number of people using mobile phones in the country. This is in line with the observations of Njiru (2014), who revealed that the uptake of mobile phone in Kenya has been unprecedented and that the trend of continued reliance on mobile devices to execute monetary transaction had steadily gained momentum across numerous sectors of economy and industry.

The study revealed that 80.5% of the respondents indicated that inadequate technological skills within the organization, and 78% indicated that the technology required is too expensive for the bank to budget for the cost. Such challenges make effective online banking implementation difficult and could lead to errors in the process of implementation resulting in undesirable results. This is in line with the observations of Muithya (2013) who established that technological risks such as system failure, processing errors, software defects, operating mistakes and inadequate recovery capabilities posed challenge to adoption and growth of online banking services.

The results also showed that 80.5% of the respondents indicated that there was the fear that internet banking system is not very secure and 78% indicated that there was resistance from the customers who were being targeted during the implementation. These findings are in line with those by Hutchinson and Warren (2001) who posited that the uptake is being challenged by concerns of users and potential users towards the security and privacy of internet banking transactions as well as confidentiality regarding the processing of personal information.

The study showed that 78% of the respondents indicated that the technology required is too expensive for the bank to budget for the cost and 78% indicated that there was a lack of the resources and infrastructure required to implement the strategy. This collates with the findings of Njuru (2007), on a study on the challenges facing commercial banks on online banking adoption in Kenya, which observed that the cost of implementation is the biggest cost challenge compared other costs such as the legal costs.

4.8. Summary

This chapter gave the findings from the analysis of the data collected for use in the study. It includes an analysis of the demographic characteristics, extent of electronic banking adoption, challenges faced while implementing online banking strategies, and the responses to the challenges faced. The chapter also includes a discussion of the findings and how they compare to previous literature in the same area of research. The next chapter will provide a summary, conclusion and recommendations for further research.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

Following the analysis of data from the commercial banks, various online banking strategies were identified and the corresponding challenges. These have been discussed in this chapter and conclusions reached at. Moreover, the researcher has also made recommendations to the various stakeholders following his understanding of the study and the facts exhibited in the process.

5.2. Summary

The study set out to achieve and achieved the established objective; to determine the online banking strategies and competitive advantage of commercial banks in Kenya, by examining and analyzing data from a representative sample of commercial banks within Kenya. Banking through the internet and mobile devices has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability.

Commercial banks in Kenya have adopted online banking which enables access of banking services on computers or mobile phones from wherever the client is without having to go to the banking hall. Given the increase in the number of commercial banks that have adopted online banking the results show an increase in the strategies employed by the commercial banks as they try to gain a competitive advantage.

Despite the implementation of online banking strategies by commercial banks, there have been several challenges that have been met by commercial banks in the process. The main challenges found in the implementation process included inadequate technological skills within the organization, lack of corporation and commitment from the senior management, fear that internet banking system is not very secure, hesitance from the organization to recruit specialized staff for the support of the electronic payment system

5.3. Conclusion

The study concludes that there has been tremendous increase in the online banking uptake in commercial banks in Kenya given that 95.35% of the banks who responded had online banking. This increase in online banking incomes may be as a result of increased innovations and increased use of mobile phones among customers. The high reliance on mobile phones and other communication devices have enhanced increased use in business transactions which also involves even the commercial banks.

The study also concludes that commercial banks are implementing online banking strategies to gain competitive advantage as online banking given 75.6% of the respondents revealed that the extent of services customers have access to online banking is large. All the commercial banks implementing online banking strategies also face challenges, and to gain a competitive challenge involves addressing these challenges to improve the efficiency of the online banking process.

5.4. Recommendations to Policy and Practice

The study recommends that policy makers consider online banking in their formulation of strategies because of the technological developments and the expected switch from

physical branch networks to technologically supported banking services. The increased use of technology among the customers calls for commercial banks to develop products and services that are linked with these technological developments.

The banks also need to put in place or increase measures to become more competitive by training its staff, investing in research and development of technology. The government policy makers should also review policies related to promotion of innovation adoption and transfer of technology. Government should encourage adoption of innovations that will improve profitability of organizations because it will convert to better tax revenues for the government and healthy companies.

This study has shown that there are various challenges in implementing electronic banking. Commercial banks in Kenya should therefore be aware of what to expect during the implementation and maintenance of electronic banking. Banks also need to know the responses that work best to solve these challenges to ensure that the strategy implementation does not stall and that it works to reap the maximum benefits. All stakeholders should be involved in the implementation and this would include the customers. Both the internal and the external environment should also be considered during the implementation.

5.5. Limitations of the Study

The information on strategies of commercial banks is a sensitive topic and some staff members were not willing to share information freely. To deal with this, the researcher assured the respondents that the information will be treated confidentially and used only for purposes of the research.

The information collected involved the staff member's views on what they thought of online banking and other issues in their commercial banks and there was a possibility of the respondents being biased.

5.6. Suggestions for Further Research

The financial sector is continuously seeking to ensure financial deepening and inclusion in the country. The study therefore recommends that another study be conducted in Kenya to establish whether the existence of online banking have enhanced financial deepening among the unbanked population in Kenya.

The study can also be replicated in other sectors or industries that have adopted such innovations; not only in Kenya but also in other countries within the African region who are also highly adopting similar innovations; this would help in drawing a clear conclusion on the relationship between these variables.

There are several innovations that are currently being adopted by the bank; other than online banking, a number of banks have also adopted the agency banking model. In this regard, the study suggests that another study be conducted on the agency banking strategies and competitive advantage of commercial banks in Kenya.

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APPENDIX I: QUESTIONNAIRE

CHALLENGES OF IMPLEMENTING ONLINE BANKING STRATEGY AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

Research conducted with the authorization of the University of Nairobi, School of Business.

(Please tick responses as appropriate. where necessary tick as many items as you find relevant.)

Section A: Demographic information

1. Gender
 - a) male
 - b) Female

2. Age(Optional):
 - a)18 – 25
 - b)26– 35
 - c) 36 – 45
 - d) 46 – 50
 - e) 51 and above

- 2 What department do you work?
 - a) Strategy departments
 - b) IT department
 - c) Operations department

- 3 Your title or Position you hold
 - a) Financial Manager
 - b) Supervisory position

- 4 How many years have you worked for the firm?
- a) Less than 1 year
 - b) 2 -5 years
 - c) 6-10 years
 - d) Over 10 years.

Company Profile

1. How many years has the bank operated?
- a) Less than 3 years
 - b) 3-5 years
 - c) 6-10 years
 - d) Over 10 years
2. Does your bank serve both Corporate and personal account holders or only one group

a) Corpora

b) Personal

c) Both

3. Approximately how many customers hold accounts with you?

- a) 1- 500
- b) 501 - 1000
- c) 1001 – 1500
- d) 1501 - 2000
- e) More than 2000

Section B: Extent of Electronic Banking Strategy Adoption

1. Which of the services listed below do your customers have access to?
2. Large extent
3. Moderate extent
4. Less extent

a) Viewing of account balances ()	h) Transfer of funds between accounts ()
b) Ordering checks online ()	i) Dealing with other banks ()
c) 24/7 customer service by phone or Email ()	j) Online application for checking and savings accounts ()
d) Online mortgage and CD applications ()	k) Viewing of loan status and credit card account information ()
e) Direct debits ()	l) Accounts book reconciliation ()
f) Viewing of account history ()	m) Viewing of digital checks online ()
g) Importing bulk payments to the system ()	Issuing stop payment orders online ()

Others (Specify)

.....
 2. Does the bank have an Electronic Banking Committee (or something similar)?

Yes No

3. If yes, list the members' responsibilities.

Section C: Challenges Faced while implementing Electronic Banking

1. Please rate your opinion on the challenges that your bank faced during the *implementation of electronic banking or those which made the bank stop the Implementation process.*

5-Greatest extent; 4-Great extent; 3-Moderate extent; 2-Less extent; 1-Not at all

POSSIBLE CHALLENGES FACED DURING THE IMPLEMENTATION OF ONLINE BANKING STRATEGIES

	1	2	3	4	5
1. Inadequate technological skills within the organization					
2. The technology required is too expensive for the bank to budget for the cost.					
3. Lack of Corporation and commitment from the Senior management					
4. Current Organizational structure does not allow changes in the bank processes					
5. Employees have negative attitude towards the use of the Internet banking systems					
6. Resistance from the Customers who were being targeted during the implementation					
7. Fear of current employees loosing jobs after the strategy has been implemented					
8. The fear that Internet Banking system is not very secure					
9. The organization is hesitant to recruit specialized staff for the support of the electronic payment system					
10 Lack of the resources and Infrastructure Required to implement the strategy					

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2. Please specify any other challenges faced in the adoption of online banking strategy

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3. Is the Banks' management fully informed of the risks involved with online banking and do they understand those risks? (Strategic, reputation, transaction, compliance)

Yes () No ()

Section D: Responses to the Challenges Faced while implementing Online Banking

1. Is a review of Online banking included in the annual management general meetings? Yes No
2. Were any exceptions found in the last meeting? Yes No
3. Have they been addressed? Yes No
4. Please rate your bank's use of the following strategies to respond to the challenges faced while implementing Online Banking?

5-Greatest extent; 4-Great extent; 3-Moderate extent; 2-Less extent; 1-Not at all

Responses to Electronic Banking Implementation Challenges	1	2	3	4	5
Training of Bank employees on the use of online banking					
Sensitization of Customers on the benefits of online banking					
Involvement of Senior management in the implementation program					
A budget allocated for Online Banking					
Government involvement on the Implementation Process					
Specialized team for support of online banking to assist customers in their transactions to assist customers in their transactions					
7.Entering into contract with a reliable stable Internet service Provider					
8.Collaborating with other banks in the implementation of the strategy					
9.Outsourcing the project to a specialized supplier					
Reducing the electronic payments transactions charges (lower than manual transfers)					
11.Stopping the implementation of the strategy					

5. Kindly give any other responses that the bank can use to fight the challenges of implementing Online Banking strategy.

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THANK YOU FOR YOUR CORPORATION.

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. AFRICAN BANKING CORPORATION
2. BANK OF AFRICA (K) LTD.
3. BANK OF BARODA (K) LTD.
4. BANK OF INDIA
5. BANK
6. BARCLAYS BANK OF (K) LTD.
7. BANK BRANCH CODE
8. CFCSTANBIC BANK KENYA LTD.
9. CHASE BANK LTD.
10. CITIBANK
11. COMMERCIAL BANK OF AFRICA LTD.
12. CONSOLIDATED BANK OF (K) LTD.
13. CO-OP BANK OF (K) LTD.
14. CREDIT BANK LTD.
15. DEVELOPMENT BANK (K) LTD.
16. DIAMOND TRUST BANK LTD.
17. DUBAI BANK LTD.
18. ECOBANK LTD.
19. EQUATORAL COMMERCIAL BANK LTD.
20. EQUITY BANK LTD.
21. FAMILY BANK LTD.
22. FAULU KENYA
23. FINA BANK LTD.
24. FIRST COMMUNITY BANK LTD.
25. GIRO COMMERCIAL BANK LTD.
26. GUARDIAN BANK LTD.
27. GUARANTY TRUST BANK (KENYA) LTD.
28. GULF AFRICAN BANK
29. HABIB BANK A.G. ZURICH

30. HABIB BANK LTD.
31. HOUSING FINANCE.
32. I&M BANK LTD.
33. IMPERIAL BANK LTD.
34. JAMII BORA BANK LTD.
35. KENYA COMMERCIALIAL BANK LTD.
36. KENYA WOMEN MICROFINANCE BANK LTD.
37. K-REP BANK LTD.
38. MIDDLE EAST BANK (K) LTD.
39. NATIONAL BANK
40. NIC BANK LTD.
41. ORIENTAL COMMERCIAL BANK LTD.
42. PARAMAOUNT UNIVERSAL BANK LTD.
43. PRIME BANK LTD.
44. POST BANK.
45. STANDARD CHARTERED BANK (K) LTD.
46. TRANS-NATIONAL BANK LTD.
47. UBA BANK
48. VICTORIA COMMERCIAL BANK LTD

Source (CBK,2013).