

**STRATEGIES USED BY COMMERCIAL BANKS TO GAIN
COMPETITIVE ADVANTAGE IN PROVIDING FINANCIAL
SERVICES TO OIL COMPANIES IN KENYA**

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DECLARATION

I hereby declare that this project is my own work and effort and that it has not been submitted anywhere for any award.

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DEDICATION

I hereby dedicate this research paper to my loving family, without whose support and constant encouragement I would not have undertaken this momentous task.

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CONTENTS

	Page
DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
ABBREVIATIONS AND ACRONYMS	ix
ABSTRACT	x
CHAPTER ONE: INTRODUCTION	1
1.1. Background of Study	1
1.1.1. The Concept of Strategy	3
1.2. Research Problem.....	9
1.3. Research Objectives	10
1.4. Value of the study	10
CHAPTER TWO: LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 Theoretical Foundation.....	12
2.2.1 Purchasing Power Parity Theory.....	12
2.2.2 International Fisher Effect Theory	13
2.3 Foreign Exchange Rate Risk and Volatility in the Oil Market	14
2.4 Foreign Exchange Risk Management.....	15
2.5 Industry Competitiveness	17
2.6 The Concept of Competitive Strategy	20
CHAPTER THREE: RESEARCH METHODOLOGY	24
3.1 Introduction.....	24
3.2 Research Design.....	24
3.3 Target Population	25
3.4 Sample Design.....	25
3.5 Data Collection	25
3.6 Data Analysis	26

CHAPTER FOUR : DATA ANALYSIS AND DISCUSSION	27
4.1 Introduction.....	27
4.2 Data Presentation.....	27
4.2.1 Response Rate.....	27
4.2.2 The Sample Companies	27
4.2.3 Challenges Faced by Commercial Banks When Serving Oil Companies	30
4.2.4 Strategies Used by Commercial Banks to Compete for Services to Oil Companies	32
4.3 Summary and Interpretation of Findings	34
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	399
5.1 Introduction.....	39
5.2 Summary.....	Error! Bookmark not defined. 9
5.3 Conclusion	40
5.4 Limitations of the study	411
5.5 Recommendations	40
5.6 Suggestions for Further Research.....	433
REFERENCES	44
APPENDICES	III
APPENDIX I: List of Commercial Banks in Kenya.....	III
APPENDIX II: Letter of Introduction	IV
APPENDIX III: Questionnaire	V

LIST OF TABLES

Table 4.1: Challenges Faced by Commercial Banks	31
Table 4.2: Chi Square Analysis of Challenges.....	32
Table 4.3: Strategies Used by Commercial Banks	33
Table 4.4: Chi Square Analysis of Strategies	34

LIST OF FIGURES

Figure 4.1: Distribution of Banks by Labour Force	28
Figure 4.2: Distribution of Banks by Branches.....	28
Figure 4.3: Distribution of Banks by Age of Bank	29
Figure 4.4: Distribution of Banks by Market Share	29

ABBREVIATIONS AND ACRONYMS

- IFE** - International Fisher Effect
- IMF** - International Monetary Fund
- PIMS** - Profit Impact of Market Strategies
- PPP** - Purchasing power parity
- SPI** - Strategy Planning Institute
- OMC** - Oil marketing companies
- OTS** - Open Tender System
- KPRL** - Kenya Petroleum Refineries Limited
- RTPA** - Restrictive Trade Practices, Monopolies and Price Control Act
- R&D** - Research and Design

ABSTRACT

Competitive strategy provides a company with the actions to create offensive or defensive positions in an industry and thereby yield a superior return on investment. A business should adopt a competitive strategy to secure its competitive advantage. For commercial banks in Kenya to remain relevant and competitive in providing financial services to the companies in the oil industry, they have to change from basing their competition on the products they provide to oil companies in Kenya because the banks have almost similar products which would only make oil companies indifferent and get services from any available bank. This study aimed at establishing the challenges commercial banks faced when providing financial services to companies in the oil industry in Kenya and the strategic responses they use in responding to the challenges. The study was a survey focusing on the marketing managers of the 43 commercial banks in Kenya. 30 out of 43 marketing managers responded to the self-administered questionnaires that used the Likert scale of 1 to 5 to establish the challenges and the strategies they used responding to the challenges. The study established that the challenges were: the wide branches network of competitors; low cost services from competitors; loss of customers to other commercial banks; high costs of potential customers switching from a competitor; dominance of few commercial banks; strong brand name of competitors. They responded to the challenges by: widening network of branches; focusing on a segment of oil companies; price cuts; designing new services for the oil companies; diversifying into other countries with oil companies; increased marketing activities targeting oil companies; increased expenditure in R&D; increased financing; investing in information and communication technology; paying off employees and venturing into businesses outside oil industry. The research recommends that commercial banks should reposition their banks by coming up with defences against competitors. The commercial banks can also exploit industry changes and come up with strategies that will completely alter the way business is conducted in serving clients in the oil industry. Commercial banks should critically look deep into the oil industry and accurately define this industry.

CHAPTER ONE

INTRODUCTION

1.1. Background of Study

Competitive strategy provides a company with the actions to create offensive or defensive positions in an industry and thereby yield a superior return on investment. Skinner (1969) asserted that serious managers of business organizations have no choice but to give serious thought concerning the effect of strategy on their organization's competitive abilities and performance. Ever since, competitive strategy and competitive advantage are increasingly becoming inseparable.

According to Porter (1985) a business should adopt a competitive strategy to secure competitive advantage. Competitive advantage refers to things which give an organization an edge over and above its rivals with regard to the products or services it sells. However, the role of strategy in organizations is changing with changes in the nature of needs and competition in organizations.

For instance, till 2000 it was not uncommon for organizations to think of strategy in terms of five, seven, or even ten years. The works of Kim and Mauborgne (2005) perhaps provides a clear indication concerning a drastic change in the view of what strategy has become. In their Blue Ocean strategy, the responsibility of the company is making competition irrelevant. One way of doing this is by the company defining its market in a way that is uniquely different from the competition and in a way that cannot be aped. In this way competition becomes irrelevant.

For a long time, Kenya has had the privilege of being the gateway of East Africa for oil importers. This is despite facing significant competition from neighboring countries. This competition is considered good for it has focused on ensuring that Kenya remains at the top in the regional oil business. Most of the rest of east African countries import their oil through Kenya indicating how competitive the Kenyan oil industry is (Oduol, 2012).

For commercial banks in Kenya to remain relevant and competitive in providing financial services to the companies in the oil industry, they have to change the manner in which they conduct their business. They cannot continue basing their competition on the products they provide to oil companies in Kenya because the banks have almost similar products which would only make oil companies indifferent and get services from any available bank. For a bank to achieve and maintain high levels of revenue they must change strategy so that, though products are similar, there is a positioning that will make competition irrelevant.

The lucrative scenario of the oil industry in Kenya opens with commercial banks in Kenya providing services that make oil importing companies in Kenya establish a stronger presence. There is strong competition among commercial banks in Kenya to get a share of the benefits accruing from doing business with oil companies in Kenya. To keep revenues flowing to the commercial banks from the oil industry, banks have to change with the dynamics of the oil industry. This therefore leads to the need to have in place strategies that will enable the banks to survive competitively in an ever increasingly harsher competitively dynamic environment.

1.1.1. The Concept of Strategy

Johnson and Scholes (2008) describe 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. Strategy can also be seen as the matching of resources and activities of an organization to the environment in which it operates according to Johnson and Scholes (2002). Organization Strategy enables an organization differentiate itself as compared to its competitors.

Competitive advantage over rival organizations in terms of cost, time and quality of services or products is only assured when these strategies are well formulated. The study of strategy entails identifying establishing and sustaining competitive advantage according to Porter (1980). Porter (1980) simplifies the concept of strategy as the creation of a unique and valuable position, involving a different set of activities. Strategy is about differentiating one's activities in order to deliver a unique mix of value added products and services.

Chandler (1962) contends that strategy is the determination of the long run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Ansoff (1967) argued that a firm's mission should be to exploit an existing need in the market, rather than using the consumer as the common thread in business. According to Tyge (2008), strategy can achieve success, but it doesn't guarantee it certain success features of strategy directly contribute to success, such goals must be simple consistent and long-term.

The turning point in the outlook to strategy as the world of strategic management turned into the 21st century was marked by Kim and Mauborgne (2005) who argued that companies could use strategies that make competition irrelevant. While the former models of competition derived strategy from companies playing in the same congested market, the red ocean, Kim and Mauborgne (2005) suggested that better strategic approaches involved getting out of the red ocean and into the wide unexplored clean blue ocean.

A company that adopts the blue ocean strategy gets out of the crowded market. The strategy is to get a company out of the crowded market into being in a league of its own that is not in competition with the others. To discover the blue ocean Kim and Mauborgne (2005) suggested the Four Actions Framework. This framework is used to reconstruct buyer value elements to break away from the traditional trade-off between differentiation and low cost and into creation of a whole a new value curve. To create this new value curve, a company should look for what factors to raise above others; which factors the industry has long competed on and that should be eliminated; which factors should be reduced below market standard; and which factors should be created that the industry has never offered. Kim and Mauborgne (2005) argue that putting these four positions together should move the company in to the blue ocean.

1.1.2. Competitive Advantage

Competitive advantage refers anything which gives an organization an edge over and above its rivals in selling its products or services. Competition has always been contentious in banking. Regulators have traditionally tried to restrict competition in the sector with the

aim of restricting excessive risk taking (Vives, 2001). According to Porter (1985) a business should adopt a competitive strategy to secure a competitive advantage.

The term “sustainable competitive advantage” emerged when Porter (1980) discusses the basic types of competitive strategies that a firm can pursue; these are, cost leadership, differentiation, and focus, in order to achieve a long-run sustainable competitive advantage. In his book *Competitive Advantage: Creating and sustaining superior performance*, Porter explains the requisite approach to business success. Sustainable competitive advantage means sustainable superior performance. He goes ahead to state that structural conditions of an industry as proposed in his Five Forces model determine average industry performance. Relatively strong competitive position and performance of a particular firm in an industry is derived from two types of competitive advantage i.e. low costs and differentiation (Porter, 2008). The two approaches are not however alternatives because even when competition is based on differentiation, costs still do matter.

Barney (2002) argued that a firm experiences competitive advantages when its actions within a given industry or market create economic value and when few competing firms are engaging in similar actions. According to Barney, competitive advantage is tied to performance. A firm obtains above-normal performance when it generates greater-than-expected value from the resources it employs. However, Porter (1996) argues that competitive strategy is simply about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. Competitive strategy refers to strategic positioning which can be based on customers’ needs, customers’ accessibility, or the product mix. Strategy therefore is the creation of a unique and valuable position involving a different set of activities (Spulber, 2009).

Porter (1985) suggests the five forces model as the key to gaining competitive advantage for a company. The Five Forces simply define the rules guiding competition in any industry. A firm should manipulate these rules to come up with a position that is unique so that it copes with and, ideally, change the rules for the advantage of the company. The five-forces framework indicates what is important to a company and directs a company's manager's towards aspects that will lead to long-term advantage.

Moore (1991, 1995) suggested the use of technology to create competitive advantage. He examines how communities respond to a discontinuity in innovations or any new products requiring the customer to drastically change their behavior. The models, Crossing the Chasm (1991) and Inside the Tornado (1995), argue that companies must position their products differently through their cycles if they are to reach their full sales potential and set industry standard instead of being mere novelty. To Moore, competitive advantage is that position where the company has effectively utilized technology to reach maximum sales potential and has set industry standard with regard to some product.

1.1.3. The Kenya Oil Industry

The market structure of the Kenyan oil industry is highly oligopolistic. About 85.3 per cent of the market is controlled by the major oil companies, namely, Shell/Vivo energy, Total, Kenol/Kobil and National Oil. The major oil companies are vertically integrated with a stake of 51.4 percent of the 1,153 retail outlets in Kenya. The remaining retail outlets are controlled by new entrants and independent owners (Kieyah, 2011).

Kenya's petroleum products are supplied from refined imported crude oil brought to Kenya Petroleum Refineries Limited (KPRL) through direct importation of refined products.

Importation of crude and refined oil products is coordinated by the Ministry of Energy through an Open Tender System (OTS). The OTS winner allocates refined product based on calculated cargo participation. The cargo participation allocation is calculated by the KPRL two months' in advance, considering the existing stock of the licensed importers (Kieyah, 2011).

While 70 per cent of the imported refined products are conducted through OTS. The remaining 30 per cent is left to the discretion of licensed importers. Unlike OTS used for crude oil, cargo participation is based on the demand of licensed importers. The Restrictive Trade Practices, Monopolies and Price Control Act (RTPA) encourages competition in the oil business by prohibiting restrictive trade practices, controlling monopolies. This makes the oil companies compete in the oil business in a relatively fair manner (Kieyah, 2011). These few oil companies are a source of fierce competition for providers of financial services.

1.1.4. The Banking Industry in Kenya

The banking sector in Kenya is governed by the company's Act, the Banking Act and the Central Bank Act and the various prudential guidelines issued by Central Bank of Kenya. The banking sector was liberalized in 1995 when exchange controls were lifted. The Central Bank of Kenya is responsible for formulating and implementing monetary policy directed to achieving stability in the general level of prices and fosters the liquidity, solvency and proper functioning of a stable market based financial system while supporting the economic policy of the Government (Central Bank of Kenya, 2013).

During the quarter ended 30th June, 2014, the sector comprised 43 commercial banks, 1 mortgage finance company, 9 microfinance banks, 8 representative offices of foreign banks, 97 foreign exchange bureaus, 5 money remittance providers and 2 credit reference bureaus. The Kenyan Banking Sector recorded improved performance with the size of net assets standing at Kshs. 2.97 trillion, loans & advances worth Kshs. 1.78 trillion, while the deposit base was Kshs. 2.15 trillion and profit before tax of Kshs. 71.03 billion as at 30th June 2014. Over the same period, the number of bank customer deposit and loan accounts stood at 25,328,428 and 3,841,666 respectively (Central Bank of Kenya, 2013).

Kenyan commercial banks are classified into three peer groups using a weighted composite index that comprises assets, deposits, capital, number of deposit accounts and loan accounts. A bank with a weighted composite index of 5 percent and above is classified as a large bank, a medium bank has a weighted composite index of between 1 percent and 5 percent while a small bank has a weighted composite index of less than 1 percent. For the period ended 31st December 2013, there were 6 large banks with a market share of 52.4 percent, 16 medium banks with a market share of 39.1 percent and 21 (Central Bank of Kenya, 2013).

The market shares for the large peer group banks declined by 1.3 percent whereas banks in the medium peer group registered an increase in market share by 2.3 percent and banks in the small peer group recorded a decrease of 1.0 percent. The changes in the market share were mainly occasioned by levels of customer deposits as banks deployed various strategies for deposits mobilization. Banks branches rose by 70 to 1342 branches in 2013. Banks in large peer group were 6 and accounted for 52.4% of the market share (Central Bank of Kenya, 2013).

The banking sector is deeply entangled in the oil business. The commercial banks play a key role in ensuring the smooth functioning of the oil market. They participate in this market by contributing towards its liquidity and financing, thereby assisting in meeting the needs of the oil companies and its customers. They do this by financing physical oil trade, working capital, provision of risk management services, providing fuel supply outsourcing solution, and extension of credit. This highlights that curtailment of their roles would impair liquidity, increase risk for market participants, reduce energy investment, and make disruptions more likely, (IHS Global Incorporated, 2013).

1.2. Research Problem

According to IHS Global Incorporated (2013) commercial banks ensure the smooth functioning of the oil market through providing liquidity and ensuring financial stability in the sector. They finance physical oil trade, working capital, provide risk management services, provide fuel supply outsourcing solutions and provide credit. According to De Haas, Ferreira and Taci (2007) bank characteristics and their institutional environment determine the choice of the customer concerning where to get required financial services.

In Kenya, banks offer similar services to the various types of customers they serve. To the oil industry the banks assure provision of liquidity and stability thereby assisting in meeting the needs of the oil companies and its customers. This helps cushion the industry from the high volatility inherent in the market (Kembe 2013). The banks provide similar services to oil companies in Kenya.

Despite this provision of similar financial services to oil companies by commercial banks, the oil companies do not choose where to obtain financial services randomly, but prefer

some banks to others. This indicates that the commercial banks' responses, to the needs of oil companies, are not addressing the underlying issues. This creates the need to establish, what are the strategic challenges in the provision of financial services to oil companies and how do commercial banks respond to these challenges. To fill this research gap, the study answered the question: what are the strategies used by commercial banks to gain competitive advantage in the provision of financial services to companies in the oil industry in Kenya?

1.3. Research Objectives

This study was guided by the following two objectives:

- i. To determine the challenges faced by commercial banks in providing financial services to oil companies in Kenya.
- ii. To establish the strategies used by commercial banks to compete for the provision of financial services to oil companies in Kenya.

1.4. Value of the study

To the scholars and researchers, this study will provide a basis for future studies on the area of foreign currency pricing and costing of risk management derivatives in local banks. The study will contribute to the body of empirical literature on how local commercial banks fit in risk management, in particularly exchange rate risk and financing strategies of oil companies in the Kenyan market.

To financial institutions the study will provided useful insights on the factors to be considered when formulating strategies on pricing forex derivatives as tools on exchange

rate risk management and foreign currency to customers in the local banks. This will be specifically useful when designing financial products for companies in the oil industry.

To the policy makers in the governments and central banks the study provides the regulators with a deeper understanding of financing in the oil industry that can be used to facilitate best practices and regulatory policy formulation. It also provides useful management information on the extent to which derivatives as a hedging instrument should be adopted in the banking sector when contributing to risk management strategies in the oil sector.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

The literature focused on in this chapter includes the theories explaining the concept of foreign exchange that is; the purchasing power parity theory and the international fisher effect. Literature on foreign exchange rate risk and volatility in the oil market as well as the process, of hedging, foreign exchange rate risk exposure, undertaken by firms as a result of international trade is also discussed. The chapter concludes by looking at industry competitiveness as well as the effects of strategy in creating competitive advantage.

2.2 Theoretical Foundation

This research was guided by the purchasing power parity theory and the international fisher effect theory. These two theories are discussed below.

2.2.1 Purchasing Power Parity Theory

Ansi and Ouda (2009) noted that the Purchasing power parity (PPP) theory posit that under a floating exchange regime, a relative change in purchasing power parity for any pair of currency calculated as a price ratio of traded goods would tend to be approximated by a change in the equilibrium rate of exchange between these two currencies (Shapiro and Rutenberg, 1996).The relationship between relative interest rates and foreign exchange rates is explained within the interest rate theory of exchange rate expectations. Nominal interest rate differentials between two countries tend to reflect exchange rate fluctuations.

Purchasing power parity (PPP) is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the

exchange rate between countries in order for the exchange to be equivalent to (or on par with) each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate. Using that PPP rate, an amount of money thus has the same purchasing power in different countries (Lawrence, 1992).

2.2.2 International Fisher Effect Theory

Named after its proposer, the U.S. economist Irving Fisher (1867-1947), the International Fisher Effect (IFE) theory suggests that foreign currencies with relatively high interest rates will tend to depreciate because the high nominal interest rates reflect expected rate of inflation (Madura, 2010). Available evidence is mixed as in the case of PPP theory. In the long-run, a relationship between interest rate differentials and subsequent changes in spot exchange rate seems to exist but with considerable deviations in the short run. The international Fisher effect is known not to be a good predictor of short-run changes in spot exchange rates (Cumby and Obstfeld, 1981).

IFE states that the currency of a nation with a comparatively higher interest rate will depreciate in value in comparison to the currency of a nation with a comparatively lower interest rate. It further implies that the extent of depreciation will be equal to the difference in interest rates in those two nations. It is based on the observation that the level of real interest rate in an economy is closely linked to the level of local inflation rate and is independent of a government's monetary policies. Thus, in general, the higher the inflation rate, the lower the value of currency (Hill, 2004).

2.3 Foreign Exchange Rate Risk and Volatility in the Oil Market

The oil and gas industry is a highly volatile industry. The volatility arises from, but not limited to: political environment, geological context, price, supply and demand, costs, the bottom line, the general industry competition and the credit or financial risk of partners, customers, vendors or suppliers. These interrelated risk sources of risk that affect oil business companies also affect the strategies that banks have to use to maintain their competitiveness in providing financial services to companies in the oil industry (Van Thuyet and Ogunlana, 2012).

According to Stern and Chew (1987), foreign exchange risk is one of the risks driving oil price volatility and is one of the risks they help oil companies mitigate. Foreign exchange risk is the chance that fluctuations in the exchange rate will change the profitability an oil company. Shapiro (2006) defines foreign exchange risk as the variability in the value of a firm resulting from uncertain exchange rate changes. In Madura's (1989) view, exchange rate risk relates to the direct loss resulting from unexpected changes in exchange rates.

Shapiro (2006) identifies three main types of foreign exchange risks: the translation exposure, the transaction exposure and the economic exposure. The translation exposure, arises from the need, for purposes of reporting and consolidation, to convert the financial statements of foreign operations from the local currencies involved to the home currency. The transaction exposure results from transactions that give rise to contractually binding future foreign-currency-denominated cash inflows or outflows. As exchange rates vary, so does the value of their associated foreign currency cash flows. The economic exposure

results from changes in present value of the firm resulting from unexpected change in the exchange rates.

There are many potential sources of foreign exchange exposure. Having assets and liabilities with net payment streams denominated in a foreign currency may be the most obvious source of risk (Popov and Stutzmann, 2003). Financial activities such as foreign currency borrowing, lending, guarantees, etc. represent another kind of source of foreign exchange risk. Allayannis and Ofek (2000) find that, for example, exchange rate exposure is positively related to the level of foreign debt that the firm has.

After identifying the types of exchange rate risk and measuring the associated risk exposure, a firm needs to decide whether or not to hedge these risks. The decision to hedge and the mechanisms of hedging lie in the company finding the necessity of such actions. However, the strategies depend, on the prevalence of a certain type of risk and the size of the firm (Allen, 2003).

2.4 Foreign Exchange Risk Management

Radja (1997) defines risk management as a systematic process for the identification and evaluation of pure loss exposure faced by an organization or an individual, and for the selection and implementation of the most appropriate techniques of treating such exposure. Schmit and Roth (1990) describe risk management as the performance of activities designed to minimize the negative impact (cost) of uncertainty (risk) regarding possible losses.

Methods of managing risk vary with time, company and nature of risk. Allen (2003) suggests an operational framework of five best practices. First, a company has to identify

the types of exchange rate risk it is exposed to and measurement of the associated risk exposure. Secondly, the company decides on the risk management strategy. The firm identifies the currency hedging objectives and then a detailed hedging approach is established. Third step entails the creation of a centralized entity in the firm's treasury to deal with the practical aspects of the execution of exchange rate hedging. This entity will be responsible for exchange rate forecasting, the hedging approach mechanisms, the accounting procedures regarding currency risk, costs of currency hedging, and the establishment of benchmarks for measuring the performance of currency hedging.

In the fourth stage, a set of controls to monitor a firm's exchange rate risk are developed to ensure appropriate position taking. This includes setting position limits for each hedging instrument, position monitoring through market-to-market valuations of all currency positions on a daily basis. Finally, the firm establishes a risk oversight committee to approve limits on hedging position taking, to examine the appropriateness of hedging instruments and to regularly review the risk management policy (Allen, 2003).

Some foreign exchange risk mitigation strategies include internal hedging techniques such as matching inflows and outflows, inter-company netting of receipts and payments, transfer pricing agreement, etc. External hedging tools involve the usage of different kinds of derivatives including forwards, futures, debt, options and swaps. When choosing between different types of hedging, the risk manager must compare costs, tax and cash flow effects.

2.5 Industry Competitiveness

An industry is that group of firms producing products that are close substitutes to each other. According to McFetridge (1995), a competitive industry is one comprising firms operating profitably in open markets on a sustained basis. Cost, profit and productivity are some possible indicators of competitiveness at the industry level. The term competitiveness is applicable to the industry or to the sector too. In modern business, however, many companies produce more than one product or service making it often difficult to clearly define an industry.

In order to assess the current strategy of a company, and its appropriateness and potential for success, one must understand the dynamics of the industry in which the company competes. This requires great deal of careful thought and analysis. Porter argues that the essence of formulating competitive strategy is relating a company to its business environment. This means that one must thoroughly understand the company and its industry, as well as the outside environmental forces that affect the industry, in order to be successful in this pursuit (Porter, 1980).

In analyzing an industry, the main focus should be on the industry's dominant economic characteristics; the kinds of competitive forces the industry members are facing; the factors driving change and what impacts they have; the market positions that rivals occupy and knowing which firm is strongly positioned and which one is not; the strategic moves that rival companies are likely to make next; the key factors each company must have for future competitive success; and whether the outlook for the industry present an attractive opportunity (Thompson et al, 2005).

The Five Forces Model of Porter explains the competition facing any firm. According to Porter (1980) the competitive position of a firm is a compromise of supplier bargaining power, new market entrants, competitive rivalry, buyer bargaining power and substitute product and services. Suppliers provide inputs such as labor, parts, raw materials, and services and would prefer to supply at the highest price possible. Suppliers have the most power when: the inputs required are available only from few suppliers, the inputs required are unique, making it costly to switch suppliers, inputs the insurance firm purchases don't represent a significant portion of the supplier's business, suppliers can sell directly to customers, it is difficult to switch to another supplier, and the insurance firm does not have a full understanding of supplier's market.

The power of buyers describes the effect that customers have on the profitability of a business. The transaction between the seller and the buyer creates value for both parties. But if buyers have more economic power, the ability of the business to capture a high proportion of the value created will decrease, leading to lower profits. Buyers have more power when: the industry has many small companies supplying the product while buyers are few and large, the products represent a relatively large expense for the customers, Customers have access to and are able to evaluate market information concerning, say, the firm's costs, the firm's product is not unique and can be purchased from other and customers could possibly make your product themselves (Porter, 1980).

The threat of new entrants is the possibility that new firms will enter the industry. New entrants bring a desire to gain market share and often have significant resources. Their presence may force prices down and put pressure on profits. The threat of new entrants is greatest when: processes are not protected by regulations or patents, customers have little

brand loyalty, Start-up costs are low for new businesses entering the industry, the products provided are not unique, switching costs are low, the production process is easily learned, access to inputs is easy, access to customers is easy, and economies of scale are minimal (Olson & Boehlje, 2010).

Substitute products are those that can fulfill a similar need to the one a business' product fills. Usually substitutes place a price ceiling on products making it more difficult for a firm to try to raise prices and make greater profits. Substitutes are a greater threat when: a company's product doesn't offer any real benefit compared to other products, it is easy for customers to switch and customers have little loyalty (Thompson et al, 2005).

Rivalry among competitors is often the strongest of the five competitive forces, but can vary widely among industries. If the competitive force is weak, companies may be able to raise prices, provide less of a product for the price, and earn more profits. If competition is intense, it may be necessary to enhance product offerings to keep customers, and prices may fall below break-even levels. Rivalry looks at the extent to which the value created in an industry will be dissipated through head-to-head competition (Olson & Boehlje, 2010).

The response to the issues in the Five Forces model is the competitive strategy. In the Michael Porter framework, there are two high-level stages in the creation of competitive strategy, each stage corresponding to a high-level determinant of profitability. The first stage, called the five forces framework, five forces that influence industry attractiveness are identified, as well as the factors that determine the intensity of each force and therefore the cumulative intensity of the five forces. The purpose is to relate the degree of competition in a given industry, as qualitatively measured by the combined strength (or

intensity) of five forces, to the attractiveness of the industry, defined as its ability to sustain profitability. The second stage of strategy creation addresses the competitive strategy available to the firm in order to achieve a strong competitive position. After the two stages a firm can now design a competitive strategy (Porter, 1980).

2.6 The Concept of Competitive Strategy

Mintzberg (1987) defines competitive strategy in terms of what he calls 5 Ps. In his model, the Ps stand for Plan, Ploy, Pattern, Position and Perspective. To him, a competitive strategy is a plan, that is, a consciously intended course of action for dealing with a situation. A competitive strategy is also a ploy or a specific maneuver aimed at outwitting an opponent or competitor. Further, a competitive strategy is a pattern of behavior demonstrated by a stream of actions. The fourth P means that strategy is a position the firm takes in its competitive environment. The last P stands for perspective, which is the way the organization sees the world.

Porter (1996) argues that a competitive strategy is what makes the firm's whole add up to more than just the sum of its business unit parts. He defined corporate strategy as the overall plan for a company. In Porter's view a firm's competitive strategy is about being different, that is, the deliberate choice of a different set of activities aimed at delivering a unique mix of value to both the firm and the customer. A company can outperform rivals only if it can establish a difference that it can preserve.

2.7 PIMS Principles

According to (Leong, 2001) profit impact of market strategies (PIMS) principles were launched by the Strategy Planning Institute (SPI) in the United States of America (USA). PIMS is an acronym for Profit Impact of Market Strategies. Studies involving PIMS began in the USA and spread to Europe before getting to Japan and Singapore. Studies involving PIMS have identified a set of business principles regarding the relationship between performance and strategy (Leong, 2001).

PIMS programs explore many possible diversions of strategy and the market environment that might influence performance. Some of the principles are applicable to virtually all kinds of businesses while others are for specific conditions (Buzzell and Gale, 1987). PIMS address generally the relationships between market structure, market strategies and business performance (Kotabe et al. 1991). However, Buzzell and Gale (1987) specified six basic principles with predictive value on corporate performance. These principles include product quality, market share, investment intensity, business portfolio, vertical integration and long-term value. A firm that focuses on these principles gains competitive advantage.

2.8 Strategy and Competitive Advantage

Porter (1980) identifies three potentially successful generic approaches that can make a company outperform others. These are overall cost leadership, differentiation, and focus. A firm can outperform others by pursuing one or a combination of the generic strategies. The choice between these generic strategies is strongly influenced by the five competitive forces that he identified in industries.

The cost leadership strategy requires the sale of a standardized product supported with aggressive pricing. This strategy requires making a standardized product and putting its price below everybody else. This requires the use of the most modern equipment in the industry for the sake of cost reduction. This leads to the application of capital-intensive production techniques. This cost leadership can also be achieved as a benefit derived from its cumulative experience and learning. This can also be achieved when a firm has the advantage of controlling the larger market share (Kiechel, 1981).

A firm can also achieve competitive advantage through product differentiation. The basis of product differentiation is providing buyers with something that is different from what rivals are offering or unique. The assumption is that customers are willing to pay a higher price for a product that is distinctly satisfying in some important way. Competitive advantage is achieved because the product makes customers more loyal-and less price-sensitive (Bordes, 2009).

The final generic strategy is the focus strategy. The company focuses on a particular buyer group, a segment of the product line, or geographic market. The entire strategy is built around serving and satisfying the particular target fully. The firm is, therefore, able to achieve low cost position or differentiation or both with regard to narrow market. If achieved, the focus strategy beats competition by insulating the firm from all the five competition forces (Thenmozhi, 2012).

In most industries, some firms are more profitable than others. The superior performers have something special in their products that cannot be imitated by rivals or new entrants into the market (Barney, 1991). According to Coyne (1985), competitive advantage can be

achieved and sustained if the products produced are valuable, rare, difficult to imitate and having no strategically equivalent substitutes.

2.9 Summary of Literature Review and Research Gap

The literature review has shown a very close connection between challenges in the business environment and the strategic positions taken by firms when responding to the challenges in this environment. The oil industry is a field dominated by a few large players controlling majority of the oil business and seeking to get financial services from commercial banks in Kenya. Though banks have similar financial services for the oil companies, the oil companies do not seem to indifferently choose the banks they wish to get services from. This indicates that there are underlying challenges that direct the nature of business in this industry. The literature review has not provided an explanation of the forces that drive oil companies to seek services from certain financial institutions in Kenya. This study has filled this research gap by focusing on establishing the challenges facing the provision of financial services to oil companies in Kenya and the responses of commercial banks to these challenges.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that the researcher has used to conduct the research. It presents the research design, the target population, the sample, data collection methods and data analysis methods.

3.2 Research Design

This research used a survey design. McClosky (1969) defined a survey as any procedure involving systematic collection of data from a population or a sample from a population using some form or through direct solicitation like face-to-face interviews, telephone interviews or mail questionnaires. A survey research is also a method of descriptive research based on primary data collected using verbal or written communication with a representative sample of individuals or respondents from the target population.

In a survey data is collected in a consistent way. It aims at documenting the existing conditions in a population. Kish (1988) provides six primary purposes of surveys. A survey aims at calculation of diverse statistics; characterization of the diverse statistics; collection of multiple variables; multi-subject surveys; continuation of survey operations; and master frames. All these are generally focused on describing the population as accurately as possible regarding features of interest.

This research design is applicable for this study since the researcher aimed at using a sample to define the situation as it is in banks. The research collected primary data by use of self-administered interviews. In effect the study fits the description of a survey.

3.3 Target Population

Target population is depicted as the whole set of the study of all the members of both real or hypothetical be they people, events or subjects to which the investigator desires to generate the result from (Mugenda & Mugenda, 2003). The target population of this study was all the marketing managers of the 43 commercial banks in Kenya (see Appendix I). Since all the 43 marketing managers were to respond to questionnaires in this research, the study was a census.

3.4 Sample Design

Sampling is a process used by a researcher to identify people, places or things to study (Kombo and Tromp, 2006). The sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2003). The study used 30 commercial banks in Kenya out of the target population of 43 commercial banks.

3.5 Data Collection

The researcher used self-administered questionnaires in collecting information from the marketing managers of the 43 banks in Kenya. Since all the banks have their headquarters in Nairobi City, the researcher handed the questionnaire to each of the marketing manager in person and collect the completed questionnaires after a week. Some of the banks' marketing manager preferred the questionnaires to be delivered and collected electronically. To enable faster and high return rate, the researcher interviewed some of the marketing managers while completing the questionnaire. The data collected was coded in MS Excel software.

3.6 Data Analysis

Summary statistics like the mean and standard deviation were used to analyze the data. The mean, for instance, was used to find the average response of a respondent concerning a given item on challenges and strategies. The standard deviation was used to measure the variability of responses about a variable. Bar graphs were used to present the distribution of the banks according to the demographic data. The Cronbach's Alpha was used to measure the reliability of responses.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This section focuses on data presentation. It describes the characteristics of the sample used in the research, the challenges faced by commercial banks in providing financial services to oil companies in Kenya and the strategies they use in face of these challenges. The final subsection provides an interpretation of the findings vis-à-vis other scholars findings.

4.2 Data Presentation

This section focuses on data presentation. In the data presentation, the section describes the sample, and their summary statistics, the test results and interpretation of results.

4.2.1 Response Rate

The research targeted marketing managers of the 43 commercial banks in Kenya. However, only 30 marketing managers provided the data used in the analysis. This makes a response rate of 69.77 percent.

4.2.2 The Sample Companies

Figure 4.1 presents the distribution of commercial banks by the size of their labour force. As shown, 50 percent of the commercial banks indicated they had 150 workers or less. 30 percent indicated they had between 151 and 350 workers while the remaining 20 percent had more than 350 workers.

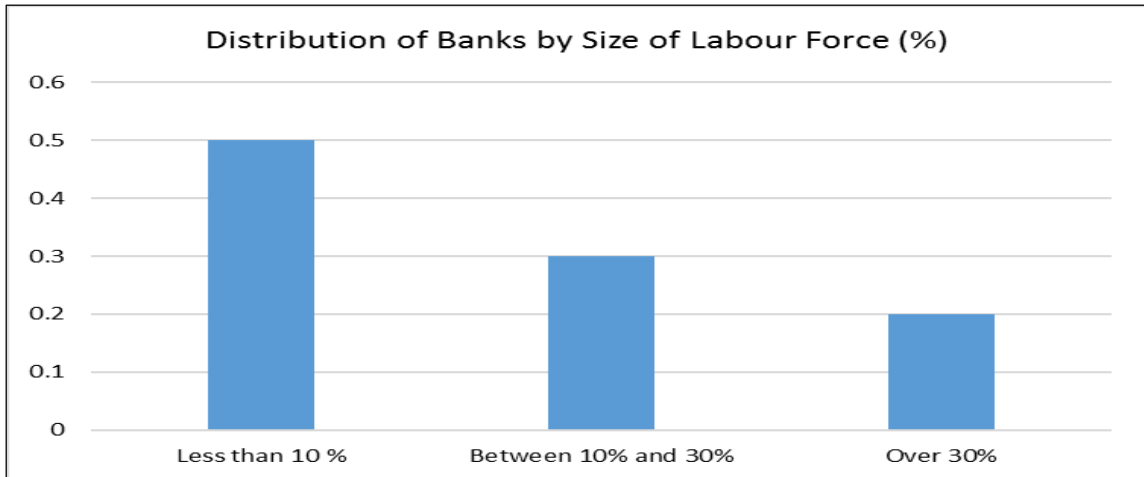


Figure 4.1: Distribution of Banks by Labour Force

Figure 4.2 presents the distribution of commercial banks by the number of branches they had. As shown, 30 percent of the commercial banks had 15 branches or less. 50 percent had between 16 and 30 branches while 20 percent had more than 30 branches.

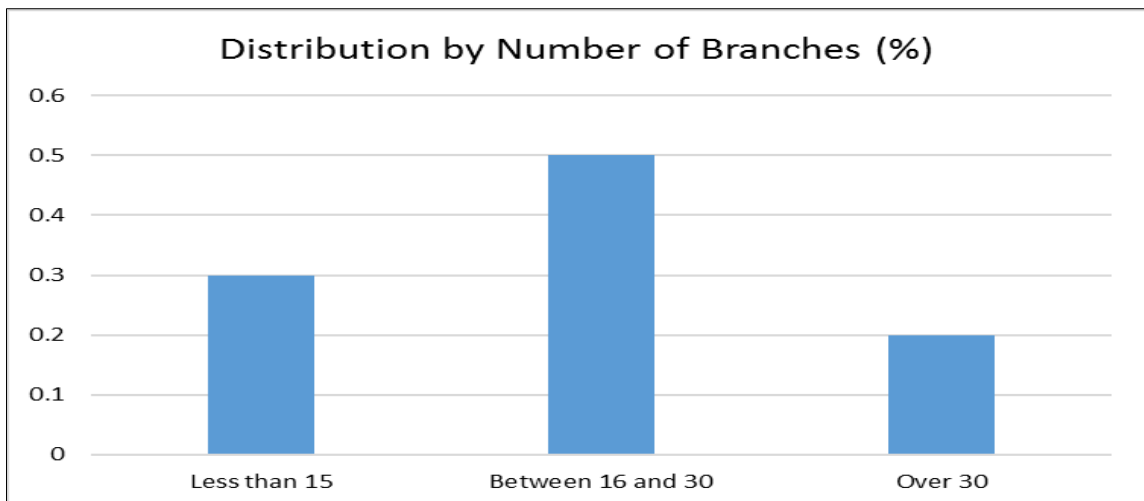


Figure 4.2: Distribution of Banks by Branches

Figure 4.3 is a presentation of the distribution of commercial banks by the age of the bank. As shown, 10 percent of the banks were less than 10 years old. 50 percent were between 10 and 30 years old while 40 percent were over 30 years old.

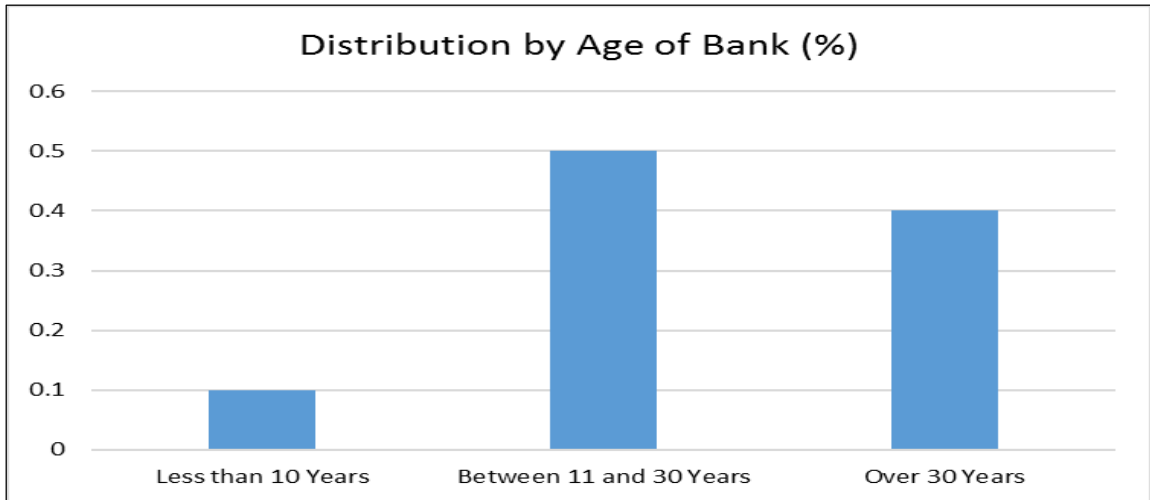


Figure 4.3: Distribution of Banks by Age of Bank

Figure 4.4: is a presentation of the distribution of commercial banks by their perceived share of control of the market. As shown, 40 percent of commercial banks controlled less than 10 percent of the banking market, 30 percent controlled between 10 percent and 30 percent of the market while 30 percent of the banks controlled over 30 percent of the banking market.

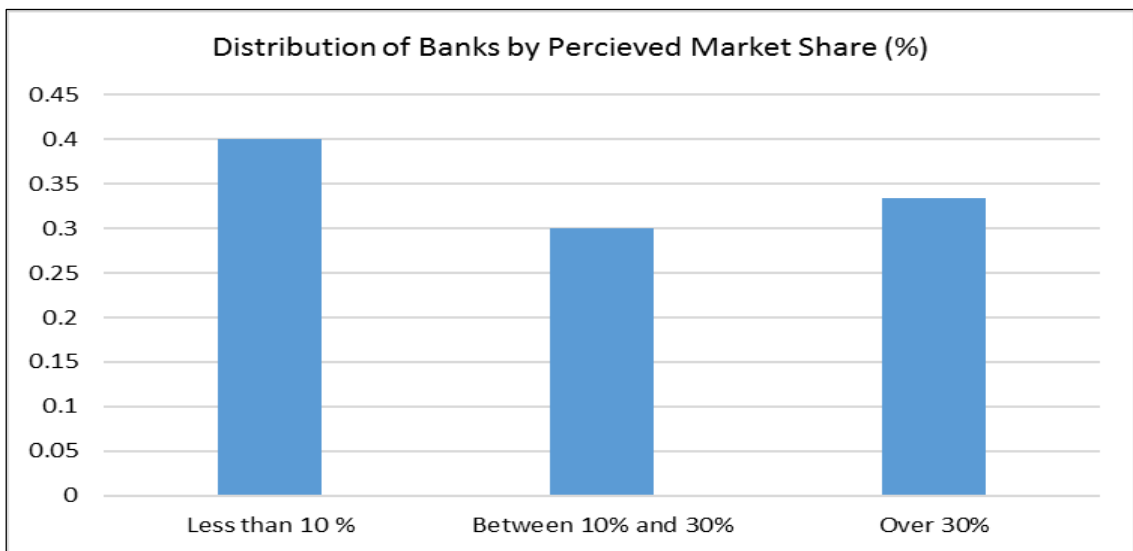


Figure 4.4: Distribution of Banks by Market Share

4.2.3 Challenges Faced by Commercial Banks When Serving Oil Companies

In the achievement of the first objective of this research, marketing managers responded to a self-administered questionnaire items regarding various challenges they face when providing financial services to oil companies in Kenya. They responded by selection of the best alternative from a Likert scales of 1 to 5 that best represented their position. In the Likert scale 1 indicated strong disagreement while 5 represented strong agreement. Mean responses were calculated, ranked and are presented in Table 4.1.

As shown in the table, a mean of between 3.50 to 4.49 indicated agreement that the item was a challenge to banks regarding providing financial services to oil companies. One of the most felt challenges was the wide branches of the competitor commercial banks ($\mu = 4.27, \sigma = 0.78$). The banks indicated that low cost services from competitor commercial banks ($\mu = 3.97, \sigma = 1.10$) and major customers in the oil business ($\mu = 3.97, \sigma = 0.81$) posted strong challenges. Other challenges include loss of customers to other commercial banks ($\mu = 3.77, \sigma = 0.90$); high costs of customers switching from a competitor to a given bank ($\mu = 3.60, \sigma = 1.07$); the dominance of few commercial banks in the oil market ($\mu = 3.60, \sigma = 1.22$) and the strong brand name of competitor commercial banks ($\mu = 3.50, \sigma = 1.14$). The marketing managers indicated that entry of new commercial banks into the oil market ($\mu = 2.83, \sigma = 1.09$) and the uniqueness of services offered by competitor commercial banks to oil companies ($\mu = 2.70, \sigma = 1.09$) did not pose serious threat.

Table 4.1: Challenges Faced by Commercial Banks

Challenges	MEAN	SD
Wider branch networks of competitor commercial banks	4.27	0.78
Low cost services from competitor commercial banks	3.97	1.10
Challenges from the major customers of the oil businesses	3.97	0.81
Loss of customers to other commercial banks	3.77	0.90
High costs of customers switching from a competitor to your bank	3.60	1.07
The dominance of few commercial banks in the oil market.	3.60	1.22
Strong brand name of competitor commercial banks	3.50	1.14
Challenges from competitors' marketing activities in the oil market	3.47	1.07
Challenges from the main providers of funds to your bank	3.07	1.05
Retaliation from competitors when your bank changes strategy	3.07	0.94
Competitors commercial banks offer a wider range of services	3.00	1.14
Price wars with competitor commercial banks	3.00	1.17
New commercial banks entering the oil market	2.83	1.09
The services offered by competitor commercial banks are unique	2.70	1.09
GRAND MEAN	3.41	
<i>Cronbach's alpha = 0.622543 (acceptable)</i>		

Table 4.2 presents the Chi square analysis of the variation in responses according to labor force size, number of branches, the age of the banks and their perceived market share. This was to determine whether there is variation in responses regarding these variables. As shown in the table, the responses did not show significant difference with regard to labor force size and number of branches. However, there was significant variation in responses with regard to age of bank and the perceived market share.

Table 4.2: Chi Square Analysis of Challenges

Categorization	Calculated Chi Square	Critical Chi Square (χ^2)	Remark
			Not
Labor Size	5.611	5.9915	Significant
			Not
Branches	5.611	5.9915	Significant
Age of Bank	8.891	5.9915	Significant
Market Share	7.828	5.9915	Significant

($\alpha = 0.05$)

4.2.4 Strategies Used by Commercial Banks to Compete for Services to Oil Companies

This subsection discusses the strategies used by commercial banks in face of the challenges they meet when providing financial services to oil companies in Kenya. The responses of the marketing managers to Likert scale items of 1 to 5 are summarized using the mean, ranked and presented in Table 4.3. According to the marketing managers, the strategies used to responded to challenges include: widening the current network of branches ($\mu = 4.27, \sigma = 0.98$); providing services to a certain segment of oil companies ($\mu = 4.13, \sigma = 0.86$); price cuts ($\mu = 3.87, \sigma = 1.07$); coming up with new services for the oil companies ($\mu = 3.80, \sigma = 1.03$); increased presence in other countries with oil companies ($\mu = 3.73, \sigma = 1.08$); increased expenditure in marketing targeting oil companies ($\mu = 3.70, \sigma = 1.24$); increased expenditure in R&D regarding products for the oil market ($\mu = 3.67, \sigma = 1.30$); increased financing for activities targeting oil companies ($\mu = 3.63, \sigma = 1.25$); expenditure in information and communication technology ($\mu = 3.63, \sigma = 1.30$); training of employees with regards to oil industry ($\mu = 3.60, \sigma = 0.97$) and marketing to businesses supporting oil industries ($\mu = 3.60, \sigma = 1.10$)

Table 4.3: Strategies Used by Commercial Banks

Strategies	MEAN	SD
Widening the current network of your bank's branches	4.27	0.98
Provide service to a certain segment of oil companies	4.13	0.86
Big promotions/price cuts	3.87	1.07
Coming up with new services for the oil companies	3.80	1.03
Increasing presence in other countries with oil companies	3.73	1.08
Increase expenditure in marketing targeting oil companies	3.70	1.24
Expenditure in R&D regarding products for the oil market	3.67	1.30
Increased financing for activities targeting oil companies	3.63	1.25
Expenditure in information and communication technology	3.63	1.30
Training of employees with regard to oil industry	3.60	0.97
Marketing to businesses supporting oil industries	3.60	1.10
Effort in repositioning of the bank in regard to oil companies	3.53	1.36
Cost reduction regarding services to oil companies	3.53	1.01
Recruit more trained staff to serve oil companies	3.43	1.36
Effort towards Merger and Acquisition	3.23	1.04
Making the bank's products different from those of others	3.13	1.04
Raise service quality	3.07	1.08
Reduce service range/item for oil companies	2.93	1.17
Improve product quality	2.83	1.09
Out-sourcing of work meant for oil companies	2.73	1.20
GRAND MEAN	3.50	

Cronbach's alpha = 0.739402 (acceptable)

Table 4.4 presents the Chi square analysis of the responses with regard to labor size, number of banks' branches, age of bank and perceived market share. The chi square analysis was done to establish whether these variables influenced variation in responses. As shown in the table, none of the Chi square vales was statistically significant indicating

that the variable did not have any contribution to the responses from marketing managers of commercial banks.

Table 4.4: Chi Square Analysis of Strategies

Categorization	Calculated Chi Square	Critical Chi Square (χ^2_4)	Remark
Labor Size	2.686	9.4877	Not Significant
Branches	4.801	9.4877	Not Significant
Age of Bank	2.298	9.4877	Not Significant
Market Share	2.544	9.4877	Not Significant

($\alpha = 0.05$)

4.3 Summary and Interpretation of Findings

This research has established that commercial banks in Kenya are faced with various challenges in their provision of financial services to companies in the oil industry in Kenya. These challenges are: the wider branches of the competitor commercial banks; the low cost services from competitor commercial banks; the strength of major customers in the oil business; loss of customers to other commercial banks; the high costs of customers switching from a competitor; the dominance of few commercial banks in the oil market; the strong brand name of competitor commercial banks; and the entry of new commercial banks into the oil market.

The challenges faced by the commercial banks in Kenya fit the Five Forces model by Porter (1980). In the five forces model challenges are divided into supplier bargaining power, new

market entrants, competitive rivalry, buyer bargaining power and substitute product and services. The challenges of the wider branches of the competitor commercial banks and the low cost services from competitor commercial banks fall under what Porter called competitive rivalry. There is intense rivalry among commercial banks for the limited market for financial services to companies in the oil industry.

The challenge arising from the strength of major customers in the oil business is a manifestation of the buyer bargaining power of the oil companies. Since oil companies are few, they deal more frequently with commercial banks. According to Porter (1980) buyers of products are strengthened when the size of their business with a seller is significant or when there are few buyers. The focus of the commercial banks to the provision of financial services to oil companies is increasing their purchasing power thus posing a challenge to commercial banks.

The challenges of loss of customers to other commercial banks, the high costs of customers switching from a competitor, the dominance of few commercial banks in the oil market and the strong brand name of competitor commercial banks fit the force of substitutes. Banks whose products seem unique or are provided at lower costs strengthen their presence in the market. As a result, oil companies find it inconsequential or even a loss to switch to other banks. The brand of such banks becomes dominant in the market. According to Porter (1980) a company finds such organizations a challenge by losing customers, not attracting customers and becoming a weak brand on the market. Low loyalty to a bank by customers can explain the switching to other banks.

The entry of new commercial banks into the oil market is another challenge faced by commercial banks especially those already in the business of providing financial services to the few oil companies. According to Porter (1980), a market is easy to enter or exit depending on the barriers of entry. Provision of financial service to oil companies seems not to be saturated as other banks easily join the current players in the market. Further, there are no barriers to stop other banks from venturing into provision of services to oil companies. The commercial banks seem to have the required technology, can afford the costs and enjoy the economies of scale that enable them join the market easily to create stiffer competition (Deichert et al., 2006).

Strategy is about response to the five forces in a business environment. According to Porter (1980) organizations have to change in face of the changing forces in their business environment. Porter suggests that strategic response to the business environment is about positioning the company, exploiting industry change, shaping industry structure and defining the industry. Positioning the company is about building defenses against the competitive forces or finding a position in the industry where the forces are weakest. It also enables the firm to decide on exit or entry. Exit is a useful strategy where the industry is poor or declining and the firm has no prospect of superior positioning. Such a firm can analyze new industries with a good future. This is demonstrated by the commercial banks in this research when they use strategies such as coming up with new services for the oil companies, increased presence in other countries with oil companies, increased expenditure in R&D regarding products for the oil market and venturing into, targeting businesses supporting the oil industry thereby not focusing on the mainstream oil sector in the saturated geographical region.

Exploiting industry change is about carefully analyzing changes in the competitive forces to develop a sophisticated understanding their underpinnings and using the understanding to spot and claim promising new strategic positions (Porter, 2008). The application of this strategy is demonstrated by commercial banks when they provide financial services to companies supporting the oil industry, offering services to a certain segment of oil companies, example focusing on upstream or downstream oil segment. Increased expenditure in marketing targeting oil companies and expenditure in information and communication technology. This is with the view of spotting new opportunities or providing services in innovative ways.

When a company decides to shape the industry structure it focuses on recognizing and reacting to the inevitable. It means a firm leading its industry toward new ways of competing, in effect altering the five forces for the better. The firm aims at transforming the rules of competition into a new set of rules. This can be achieved expanding and re-dividing the profit pool. This is done through strategies such as change of technology and spotting latent buyers in the value chain. Commercial banks are using this strategy when they react to market forces by widening the current network of branches to access un-accessed markets, providing services to a certain segment of oil companies and investing in technology.

One other way of responding to market forces is by defining the industry. When defining the industry, the firm has to draw industry boundaries correctly around the arena in which competition actually takes place. The firm has to clarify the causes of profitability in that arena and come up with the appropriate unit for setting strategy. This calls for a firm coming up with a separate strategy for each distinct industry. Such strategies are applied

by the commercial banks when responding to market forces in the provision of financial services to oil companies. Price cuts, increased financing for activities targeting oil companies and training off employees with regards to the oil companies are some unique strategies that each bank has to come up with in respect of the unique circumstance it is faced with when serving oil companies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter briefly highlights the summary, conclusion and recommendations of the study. It starts by summarizing the purpose of the research and proceeds to look at the conclusion of the research findings as well as the Limitations of the study. Finally it closes by providing suggestions for further research.

5.2 Summary

The objectives of this research were two: establishing the challenges facing commercial banks and establishing the strategies they used to respond to these challenges when providing financial services to oil companies in Kenya. To achieve this objective, the researcher conducted a survey in which 30 marketing managers of commercial banks in Kenya responded to a questionnaire requiring them to indicate the challenges they faced in provision of financial services to oil companies.

The marketing managers indicated seven key challenges they faced when providing financial services to OMC's. The challenges are: the wide branches of competitors; low cost services from competitors; major customers in the oil business; loss of customers to other commercial banks; high costs of customers switching from a competitor; dominance of few commercial banks; strong brand name of competitors.

They responded to the challenges by: widening network of branches; focusing on a certain segment of oil companies; price cuts; designing new services for the oil companies; diversifying into other countries with oil companies; increased marketing activities

targeting oil companies; increased expenditure in R&D; increased financing; investment in information and communication technology; training of employees and marketing to businesses supporting oil industry.

5.3 Conclusion

From the results of the analysis of the data provided by marketing managers in commercial banks in Kenya, this research concludes that the following are the strategic challenges the commercial banks have to overcome when providing financial services to oil companies in Kenya. These challenges are: wide branch networks of competitor commercial banks, low cost services from competitor commercial banks, the strength of major customers in the oil business, loss of customers to other commercial banks, the high costs of customers switching from a competitor, the dominance of few commercial banks in the oil market and the strong brand name of competitor commercial banks.

According to the marketing managers, the banks use a set of strategies to respond to the business environment challenges. These strategies include: widening the current network of branches, focusing on a specific segment of oil companies, use of price cuts, customizing services to oil companies, penetration into markets outside Kenya, increased marketing activities in targeting oil companies; increased expenditure in R&D regarding products for the OMC's; increased financing; investment in information and communication technology and marketing directly to businesses supporting the oil industry.

5.4 Limitations of the Study

The study has not shown if the results are applicable universally. It has not, for instance, provided any indication of whether or not the challenges and strategies used by commercial

banks when providing financial services to oil companies are the same in Uganda, Tanzania Rwanda or any other of the member countries in the EAC. The results can only hold for the commercial banks in Kenya. Kenya being a member of the EAC requires information that will maintain relevance across East Africa.

The study focused on banks only. The research did not look into other non-bank providers of financial services to oil companies in Kenya. Questions that would arise would be, first, do the other providers of financial services (for instance, insurance companies) face the same challenges that banks face? How do they respond to the strategic issues while serving the oil companies? Are the services of these non-bank financial service providers in competition or in complementation to those provided by commercial banks? This can thus widen the strategic understanding regarding provision of financial services to oil companies.

Given the dynamic nature of strategy, there is no guarantee that the findings of this research will hold after some time. The findings are as true as the scenario was when the marketing managers of commercial banks completed the questionnaires and how accurately they understood the forces directing the oil industry. As a result the findings may not be true in future.

5.4 Recommendations

Basing on the conclusions, the following recommendations are made: commercial banks should reposition their banks by coming up with defences against competitors. This can be done by assessing positions where forces in the oil market are weakest and occupying those positions by fitting their internal structures for the identified positions.

Banks can also exploit industry change. This can be done by the banks critically analysing the forces that drive the financial services to the oil industry. Exhaustively analysing the forces will enable them come up with a strategic position that will help the banks to respond to the strength of the forces.

Banks can come up with strategies that will completely alter the way business is conducted in serving clients in the oil industry. This can be done by establishing how competitors serve their clients, what the clients want, what their customers require and coming up with a new approach to issues in way that will change the rules of trading with oil companies. This can be by way of coming up with new technology or reshaping the packaging of the current product in an innovatively different way or coming up with an entirely new product.

Banks should critically look deep into the oil industry and accurately define this industry. This will include defining the forces that define the oil industry and how the oil companies combine these forces into strategy. This will be useful in helping the banks sharply define this business environment before coming up with the required adjustments in their strategy.

Diversification is another possible response to the market forces in the oil industry. The diversification can be internal or external. In internal, banks will be required to widen the spectrum of the products they provide to oil companies. In this aspect the space for competitions will be widened. In external diversification, banks can expand their oil clientele to markets outside the country, or venture into non-oil businesses as a way of mitigating the risk arising due to serving the oil market.

5.5 Suggestions for Further Research

The findings of this study can be improved if the study is expanded to cover a longer period of time. A future research can be carried out on the same topic, but using data across a longer period of time. This is with the assumption that the data for a longer time will provide results that are better than those provided by the data used in this study. The possible higher objectivity that arises based on the sample period may be settled covering a longer period.

Also given that Kenya is a key player in the East African Community the study can be expanded to cover other financial and oil markets within the East African community in order to provide result that will be useful in that context. A study can be done to cover the entire East African region. Such a study would be used as a referential manuscript when coming up with plans regarding investment in any of the East African Community member countries.

The same research can be conducted after some period of time with the aim of establishing whether the scenario remains the same. If changes are established to have occurred, an explanation can be provided regarding the occurrence of the changes. If no changes occur, explanations can be provided as to why no change has occurred. The study can be done with inclusion of non-bank financial institutions serving the OMCs'.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Ltd.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank (K) Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Guarantee Trust Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd

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

(Source: Kenya Bankers Association, 2015)

APPENDIX II: Letter of Introduction

Letter of Introduction

UNIVERSITY OF NAIROBI

MBA PROGRAMME

TELEPHONE: 4184160/5 EXT. 208

P.O. BOX 30197

TELEGRAMS: "VARSITY", NAIROBI

NAIROBI, KENYA

TELEX: 22095 VARSITY

15th May, 2015

The Manager,

.....

Dear Sir/Madam,

RE: INTRODUCTION-GERALD MUNIU

I am a student of the University of Nairobi, pursuing a Masters of Business Administration degree. In partial fulfillment of the requirements for this degree, I am required to carry out a management research project on a real topic in my area of study. I am conducting a survey to find out competitive strategies adopted by Commercial Banks in Kenya to gain competitive advantage in providing financial services to oil companies in Kenya.

I kindly request you to provide the required information to the best of your knowledge by filling out the attached interview guide. The information is strictly for academic purposes only and will be treated in the strictest confidence. A copy of the research project will be made available to you on request. Your kind assistance will be highly appreciated.

Yours faithfully,

Gerald Muniu,

Researcher,

Sign _____ Date _____

APPENDIX III: Questionnaire

QUESTIONNAIRE

Please answer all questions honestly according to the given instructions

SECTION A: GENERAL INFORMATION

Complete this section by filling in the spaces

1. How many people has your bank employed? _____
2. How many branches do you have in Kenya? _____
3. For how many years has your bank been operating? _____
4. What is your bank's percentage market share of business with oil companies in Kenya? (Tick appropriately)

Less than 10%	
Above 10% but less than 30%	
Above 30% but less than 50%	
Above 50% but less than 70%	
Above 70% but less than 90%	
Above 90%	

5. Do you have a market research a specific business unit tasked to serve clients in the oil industry?
YES____ NO____
6. Does your bank offer commodity financing agreements? YES____ NO____
7. Does your bank offer line fill financing to oil marketing companies? YES__NO__
8. If your answer is YES to 6 and 7 above, does your bank require additional collateral to the oil commodity? YES____ NO____

SECTION B:

CHALLENGES FACED WHEN SERVING CLIENTS IN OIL INDUSTRY

To what extent does your bank experience each of the following challenges from competition? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

	1	2	3	4	5
1. Low cost services from competitor commercial banks					
2. Loss of customers to other commercial banks					
3. Competitors commercial banks offer a wider range of services					
4. New commercial banks entering the oil market					
5. The services offered by competitor commercial banks are unique					
6. Price wars with competitor commercial banks					
7. Challenges from the main providers of funds to your bank					
8. Wider branch networks of competitor commercial banks					
9. Challenges from the major customers of the oil businesses					
10. Challenges from competitors' marketing activities in the oil market					
11. Retaliation from competitors when your bank changes strategy					
12. High costs of customers switching from a competitor to your bank					
13. Strong brand name of competitor commercial banks					
14. The dominance of few commercial banks in the oil market.					

Other challenges (specify)

SECTION C
COMPETITIVE STRATEGIES

To what extent does your bank employ each of the following competitive strategies to cope with competition in providing financial service to companies in the oil industry? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

	1	2	3	4	5
Widening the current network of your bank's branches					
Coming up with new services for the oil companies					
Increase expenditure in marketing targeting oil companies					
Recruit more trained staff to serve oil companies					
Increased financing for activities targeting oil companies					
Expenditure in information and communication technology					
Effort in repositioning of the bank in regard to oil companies					
Cost reduction regarding services to oil companies					
Expenditure in R&D regarding products for the oil market					
Effort towards Merger and Acquisition					
Big promotions/price cuts					
Training of employees with regards to oil sector					
Raise service quality					
Improve product quality					
Out-sourcing of work meant for oil companies					
Reduce service range/item for oil companies					
Making the bank's products different from those of others					
Provide service to a certain segment of oil companies					
Increasing presence in other countries with oil companies					
Marketing to businesses supporting oil industry					

Other challenges (specify)
