

**ALTERNATIVE BANKING STRATEGIES APPLIED BY
COMMERCIAL BANKS IN KENYA TO DEVELOP
COMPETITIVE ADVANTAGE**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
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DECLARATION

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

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate this work to my loving husband and my wonderful sons Justin and Timothy for their support and perseverance during the many hours I spent away from them and for the encouragement they gave that greatly contributed to the successful completion of this study.

ABSTRACT

The purpose of the study was aimed at establishing the alternative banking strategies applied by commercial banks in Kenya with respect to developing competitive advantage. Over the years the revolution of Information technology has consistently made steady inroads into the banking institution in the world economy. An extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent market place has thus become inevitable (Al-Mansour, 2007). The study was conducted using cross sectional survey design. The population of interest for this study comprised all 43 commercial banks of Kenya. Primary data was collected using questionnaires which were administered through 'drop and pick' method and respondents targeted were the corporate strategy managers or marketing managers of the banks. Data analysis was by use of descriptive tools of analysis. The findings of the study indicated banks are operating in a dynamic business environment and thus the researcher recommended the need for the commercial banks to always be a step ahead in terms of being very current and move according to the changing technology because everybody and everything is moving with the pace and failure to that it will lead to low or no competitive advantage. The researcher also recommend as a result of the findings that banks should adopt new technologies through alternative banking channels within the banking sector so as to improve their level of competition. This is because technology makes everything easier, quicker and effective. On the findings on the challenges that banks face while investing and implementing the alternative banking challenges the researcher recommends that banks should have adequate capital before making the decision on implementing the various alternative banking strategies. Banks also need to continuously carry out research on customer needs and combine the various alternative banking strategies so as to gain competitive advantage.

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List of Acronyms

POS-Point of Sale

EPOS - Electronic Point of Sale

RTGS - Real Time Gross Settlement

ATM - Automated Teller Machines

SWIFT - Society for the Worldwide Interbank Financial Telecommunication

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Pearson (1985) a strategy is a game plan. It basically is the companies large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. A strategy therefore, reflects on a company's awareness of how, when and where it should compete, against whom it should compete and for what purpose it should compete. Strategic management therefore is the set of decision and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. Overall strategic management involves the planning, directing, organizing and controlling of a company's strategic related decisions and actions.

Large amounts of the firm's resources are required for the implementation of strategic decisions and or strategic issues. These decisions ostensibly commit the firm for a long time, say a period of five years, but the impact of such decisions often last much longer. It is important to note that once a firm has committed itself to a particular strategy, its image and competitive advantages are usually tied to it. Seiler (1983) states that all business firms operate in an open system and as such are affected by external conditions largely beyond their control. Therefore to successfully position a firm in a competitive situation, its strategic managers much look beyond it operations.

Further, Allen (1988) stated that in making strategic decisions the managers should consider what the relevant others for example, the competitors, customers, government and labor are likely to do. Since strategies are based on what managers forecast rather

than what they know, the emphasis of such decisions is thus placed on the development of projections that would enable the firm select the most promising strategic options. Needless to say, in the turbulent and competitive environment in which any business operates, its success would thus be pegged on its proactive and or anticipatory stance that it takes towards change.

1.1.1 Concept of Competitive Advantage

According Gartner (2012) the difference between a company and its competitors that matters to the customers is what we can term as competitive advantage. The perceived difference is what forces competitors to transform their business just to compete. The competitors are forced to transform if only to maintain viability and relevance when one company introduces competitive advantage. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

This the competitors accomplish either by copying that advantage thus nullifying it and leveling the playing field or by introducing a new, unique competitive advantage of their own, Gartner (2012) It is worth noting that no competitive advantage can be sustained other than by ceaselessly pursuing new ways to compete, and changing one's culture/norm to match the new needs. The beauty about competition is that it creates a cycle that drives business and industry transformation. In the banking industry opportunities ahead reside in the big culture technology initiatives that require cultural

and technological alignment to build a competitive advantage that erects a powerful barrier to entry.

According to Claire (1988) to formulate competitive strategies that would deliver competitive advantage is an inexact process in that the achievement of competitive advantage and hence superior profits are central of any organization. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competition or to generate a larger margin on sales. A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers. Differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior.

Developing a competitive strategy is thus basically developing a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out those goals. It is therefore a combination of the ends (goals) for which the firm is striving and means (policies) by which it is seeking to get there. According to Porter (1980) the formulation of competitive strategies is based on relating the company to its environment which broadly encompasses the social as well as the economic forces. However, critical to the firms' environment is the industry or industries in which it competes as it determines the competitive rules of the game as well as the strategies potentially available to the firm.

In order for a business to achieve competitive advantage its competitive strategy should involve positioning a business to maximize the value of the capabilities that distinguish it from its competitors. Therefore the successful achievement of competitive advantage would result if a company is clear about its competitive strategy which may be cost leadership, differentiation or focus or a combination of competitive strategies. Customers are now looking for multiple delivery channels and flexible as well as convenient working hours where neither the clock nor the geographical locations are constraints, Vijay (2009). Therefore, as a means of survival banks have no choice but to engage in application of alternative banking channels by taking banking services where customers are using mobile phones and internet technology.

1.1.2 Alternative Banking Strategies

Alternative banking is a new face of banking activities which is a developing concept and or technology that is taking root in Kenya. These modern banking includes automated delivery and traditional financial products and services offered directly to customers through electronic interactive communication channels, Maymand (2005). They are systems that enable financial institutions customers, individuals or businesses to access accounts, transact business or obtain information on financial products and services through a public or private network including the internet. Through use of intelligent electronic device such as automated teller machine, kiosk/agency/branchless banking, net banking, home banking and mobile banking customer now enjoy convenient access to e-banking services. According to Cronin (1997) the precursor for the modern home online banking services were the distance banking services over electronic media from the early 1980s. The term online gained popularity in the late '80s and referred to the use of a

terminal, keyboard and TV (or monitor) to access the banking system using a phone line. Over the years the revolution of Information technology has however, consistently made steady inroads into the banking institution in the world economy. Significant change has become noticeable in various aspects in form of computerization of transactions and new delivery channels such as internet banking, phone banking, EFT and RTGS, just to mention a few. This has led to the migration of traditional paper based funds movements to quicker and more efficient electronic mode, making transfer of funds easy and efficient to perform, Davis (2000). Globalization, liberalization, technological advancements and changing customer expectations are some of the challenges that banks among other organizations are faced with creating a global competitive business scenario (Moreno et al., 2005).

In particular, banks are now faced with a dynamic business environment that is technologically driven, globally unbounded and customer focused Peschel (2008). This has thus caused ICT in the banking sector to be considered one of the most crucial tools as it provides the many suitable alternative banking channels to the customers. It does not only contribute to customer centricity, convenience, enhance service quality but it is viewed as most cost effective by banks. Banks are under pressure from customers, as the latter is evaluating banks based on availability of high tech services. An extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent market place has thus become inevitable (Al-Mansour, 2007).

1.1.3 The Banking Industry

The world banking industry has experienced a substantial change in competitive conditions caused by various factors. The banking industry has gone international thus

resulting in market interpenetration by established overseas competitors thus leading to challenges experienced by the indigenous banks. Secondly new capital markets by the end of the 1970s led to large percentages of bank deposits being provided by funds from other banks through the interbank market.

The banking industry has also experienced a challenge caused largely due to the regulatory constraints by a growing number of non banks as being attractive to corporations with potential operating advantages in specific areas of activities, Channon (1985). An example being the general motors who not only have they engaged in dealer and personal finance for automobile purchase but has also grasped the opportunity to extend lease and credit business to its existing account holders at little additional cost.

Most of these changes were the development of new technology and substitute products which threatened the traditional mode of banking operations. These was most notable in retail banking as it was faced with a mounting tide of paper and rising administrative costs, banks turned to plastic cards and electronic machinery in an effort to maintain their ability to handle an increase in transaction volumes while controlling costs. The need to provide increased service especially outside opening hours led to the increased use of first cash dispensers and later automated teller machines. The back office gradually became more automated and from the operations centres of many banks the possibility of selling information processing services began to emerge as a potential new product market in its own right, Channon (1985).

In the 1980s, after a major review of delivery systems strategy by Citibank having identified a particular trend fundamental on bank delivery system concluded, as a result

of development of new and particularly electronic, delivery system by the end of the decade, the customer, whether individual or corporate, would determine the time, the place and the method of the banking transaction. This in turn would drastically change the traditional delivery system strategy of banks based on branch banking. Many banks are now vying to rebuild customer trust and confidence through the various channels offered, while attempting to turn their prospects into customers. In order to achieve this, there shall be need to apply the global insights and multi-channel management strategies, that will aim to keep the individual banks one step ahead of their competitors. According to Marcus (2011) as bank managers it is important to be exposed to the fundamentals that would assist in creating the ultimate channel distribution management which would in turn increase the banks' retail and sustain customer experience. This would then provide a platform that would ensure that banks not only ride out the storm but make it strategically critical to effectively maximize on the channels available with their products.

1.1.4 Commercial Banks in Kenya

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK) Act and other various prudential guidelines issued by the CBK. The banking sector comprised of 46 institutions, 43 of which are commercial banks, 2 mortgage finance companies and 1 licensed deposit taking microfinance institution. Out of the 46 institutions, 33 are locally owned and 13 are foreign owned.

According to research carried out by Eva (2010), in order to survive banks have embraced the use of information and communication technologies both in their service provision and as a strategy they have invested large sums in implementing self and

virtual banking so as to improve customer service. The CBK overall objective as provided under section 4 A (i) d of the Central bank of Kenya Act it to formulate such policies as to best promote the establishment, regulation and supervision of efficient, effective payment, clearing and settlement systems.

According (CBK 2011) it uses it payment system known as KEPSS (Kenya Electronic Payment and Settlement System) to facilitate real time transactions ensuring that payment systems do not generate high level of risks to participants and user of financial services, continue to operate without major disruptions, offer efficient, reliable and safe payment services to customers, have the necessary and regulatory legal framework. Stiff competition has continued to be experienced by commercial banks thus necessitating that they re-package their services and products with the sole purpose of satisfying their customers as well as retain their market share. According to CBK (2005), commercial banks are thereby increasing e-banking services for both residents and non residents as the competition intensifies and the banks experience a back drop in declining profits, the institutions went out more aggressively with the aim of capturing the retail depositors as well as maintain their corporate clients.

1.2 Research Problem

According to Porter (1980) Competitive strategy is one of primary concern to managers this critically dependant on a subtle understanding of industries and competitors. Statistics have it that approximately 76% of the Kenyan youths access the internet through use of their mobile phones. It therefore is evident that to able to tap into this market which currently comprises of young professional, the banks would require not

only appreciating the dynamism of the banking industry but also be able to gather competitor intelligence for both the purpose of gaining competitive advantage and for survival. It is thereby prudent for every firm and or organization competing in an industry to have a competitive strategy whether explicitly through a planning process or it may have evolved implicitly through the activities of the various functional department of the firm.

To manage e-brands effectively and efficiently and in order to gain competitive advantage, banks may have to employ promotion strategies different from those used by traditional marketing. According to Gulati and Garino (2000), one of the most serious challenges for traditional firms, to going online is deciding how much to integrate their traditional operations with online business which leads to businesses cannibalizing each others customers. In any case, corporate managers who best understand the impact of the Internet and e-commerce on marketing mix and competitive forces will be best prepared to meet the challenges of the e-business marketplace and in essence for survival.

According to Koivu (2002), the rising need for convenient ways of accessing financial resources beyond the conventional norms has thus seen the recurrent expansion and modernization of banking patterns which has led to use of alternative channels gaining popularity as a competitive tool in the banking industry. The threat of none banking institutions and the dynamism that has become of the business environment, has left banks with no other choice other than to integrate the application of alternative channels in their strategies as a competitive tool. This provides the motivation for this study which intends to provide commercial banks in Kenya with the necessary answers they may

require to successfully apply alternative channels of banking for the achievement of competitive advantage.

Whereas a number of studies been carried out on different channels such as Kalunge (2009) who researched on application of internet within the context of the five forces model in determining the nature of competition in the commercial banks in Kenya. Asewe (2010) Application of ICT strategy in enhancing competitive advantage among commercial banks in Kenya. Nduta (2010) carried out a study of the challenges of E-banking Adoption just to mention a few.

Though there are various research studies carried out on internet and mobile banking inclusive of the ICT strategies applied in the banking sector none has indicated how these channels can be combined with the goal of formulating alternative banking strategies so as to maximize on the developing competitive advantage. This study therefore intends to bridge that knowledge gap by answering the following question. What alternative banking strategies are in place and how are the banks employing these to develop competitive advantage?

1.3 Research Objective

The study had three objectives.

- i. To determine the alternative banking strategies applied by commercial banks in Kenya
- ii. To establish how the commercial banks are applying the alternative banking strategies to develop competitive advantage.

- iii. To establish the challenges faced by commercial banks in applying the alternative banking strategies

1.4 Value of the study

To the banking industry the study will be of importance to the Corporate Strategic Managers who are the decision makers when it comes to the most suitable alternative banking channels strategy for their bank. The findings will also provide insight to the commercial banks that are cautious on implementation of these strategies. It will also help in defining the most suitable channel for their niche market in consideration of their opportunities and strengths.

To the government who act as both the regulators and policy makers, the findings will provide reference when formulating policy guidelines on management of the alternative banking channels. The regulatory framework will be enhanced from the findings and control mechanisms will be well laid out to curb any aspect or loop holes that may be deemed to threaten the advancement of this alternative banking channels.

To the researchers and the academicians the findings of the study will not only enrich the existing knowledge but will also provide a basis for academicians to explore and carry out further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter encompasses the literature review which provides the secondary data for this research. The literature review is aimed at obtaining detailed knowledge on the alternative banking strategies which is the topic of study. The information gathered is important to the researcher as it will facilitate the interpretation of the study on whether they contrast or support previous findings.

2.2 Competitive Advantage

Competitive advantage is attained when a company moves into a position where it has an edge in coping with competitive forces and in attracting customers, Porter (1980). The positioning advantages or the competitive edge possibilities then would be said to include the highest quality product or services in the market, offering of superior customer service in comparison to rivals, having a product that does the best job in performing a particular function and offering the most value for money in terms of a combination of good quality, good service and acceptable price. According to Porter (1980) competitive strategy would therefore entail three generic approaches namely, being the overall low cost producer in the industry, product differentiation and focusing on a narrow portion of the market rather than going out after the entire market.

In today's' intensely competitive global economy, speed or rapid response to customers requests or market and technological changes is currently considered a major source of competitive advantage for numerous firms, banks included, Pearch and Robinson (1991).

Although speed is a form of differentiation, it also does involve the availability of a rapid response to a customer by providing current products quicker, accelerating new product development or improvement, quickly adjusting production process and making decision quickly. In order for any bank to survive in the industry it must place into consideration the fact that tomorrows successful institutions will require basing their strategies on creating technological innovations that are speed based so as to develop competitive advantage.

According to Pearce and Robinson (1991), speed based competitive advantage can be created around several activities. One such activity would be to attract customer responsiveness. Any customer at any one time has encountered hassles, delays and frustrations while dealing with various businesses, banks included. The surest way therefore of building customer loyalty and thus attaining competitive advantage would be by providing quick response with answers to customer needs, information and solutions to their current challenges/needs.

Secondly, companies that rapidly adopt their products or services in a way that benefits their customers or creates new customers, tend to enjoy a major competitive advantage over their rivals that are unable to do so. Speed in delivery or distribution of banks services and products in terms of what the customers need and when (convenience) also contributes to competitive advantage. It is therefore paramount to note that the speed at which information is shared forms the basis within which the customer makes decision, Robinson (1991). The rapid response capabilities creates competitive advantage in various ways such as allowing the business to charge more, engender loyalty, enhance the

banks position relative to its customers and makes it difficult for rivals and new entrants, thus forcing the rivals to keep up with the rapid change rather than introduce it.

According to Pearce and Robinson (1991) focus is the extent to which a business concentrates on a narrowly defined market which in turn enables a business to learn its target customer in terms of meeting their needs, special considerations that they may want to be accommodated and indeed establish personal relationships in ways that would result to differentiation. The aspect of competitive advantage is thus achieved through low costs by fulfilling niche needs in a customers/buyers operations that larger rivals either do not want to bother with or cannot do so cost effectively. The Internet has significantly changed the basis of competition by radically altering product/service offerings and the cost structure in terms of cost reductions in production, distribution, and transaction. The Internet also changes the balance of power in relationships with buyers and suppliers by increasing or decreasing the switching costs of these buyers and suppliers. By reducing customers' search costs, the Internet has made price comparison easy for customers, and thus increases price competition (Bakos 1998).

The Internet creates new substitution threats by enabling new approaches to meeting customer needs and performing business functions Porter (2001). The Internet also facilitates an electronic integration of the supply chain activities, achieving efficient distribution and delivery. It also facilitates partnerships or strategic alliances by networking partners or allies. An alternative is for companies to make consumers' product comparison more difficult by differentiating their products from others. One possible competitive strategy is product bundling. Product bundling promotes the benefits of the whole package, thus keeping buyers from comparing individual items (Sinha 2000).

Through the addition of more services to a bundle, the company could command a higher price for its bundling service. Moreover, adding services to bundles is financially attractive because it is less expensive to sell an additional service to an existing customer than it is to attract a new customer (Schiesel 2001). Allan and Fjermestad (2000) also argue that the benefits of personalized promotions will be greatest when customers are interested in detailed product information or the product is marketed as state-of-the-art. The Internet encourages companies to employ this marketing based on direct, personalized relationships with customers (so-called 'relationship marketing').

According to Sealey (2000), the Internet also provides customers with an unprecedented degree of control over the entire marketing process. As consumers become proficient at using the Internet, they will only buy products that precisely match their needs. Thus, companies must formulate customer-centric promotion strategies that respond to this new customer power. Allen and Fjermestad (2000) suggest that brand management will be successful only when it is associated with beliefs and experiences such as feelings, associations, and memories. Thus, Internet promotion must also focus on presenting information about the experiences and beliefs of consumers associated with each brand. Porter (1996) also argues that the fit among activities substantially reduces cost or increase differentiation. According to him, strategy is not only about how to configure individual activities, but also about how to combine or relate activities. Competitive advantage comes from the entire system of activities.

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2.3 Alternative Banking as a basis of developing competitive advantage

According to Choudhury, (2007) core banking solution enables banks to extend the full benefits of ATM, tele-banking, mobile banking, internet banking, card banking and other multiple delivery channels to all customers allowing banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities. Indian banks have been known to invest heavily in the technologies such as branch automation and computerization, core banking, tele-banking, mobile banking (M-banking), internet banking, automated teller machine (ATMs), data warehousing and more. Notably, the landscape of banks in India have in the previous years been changed due to ICT innovations (Mittal and Dhingra, 2007; Kaur and Kaur, 2011). Today both public and private owned banks in their strategy on selecting the various alternative channels to provide easy and any where banking are properly thought of.

During the 1960s, there was a notable increase in labour costs thus placing pressure on labour intensive industries like banking to look towards automating some of their functions. Barclays Bank was the first to envisage the potential of ATMs, and introduced the first ever ATM in 1967. Initially, ATMs were not very sophisticated, and served only as cash dispensers. Originally, large banks offering an ATM service achieved an advantage over their competitors O' Hanlon et al., (1993). There was scant understanding of the customers' needs or expectations and the role of ATMs in banks' retail delivery system was vague Violano et al., (1992).

Swinyard and Ghee (1985) found that a successful bank strategy during this phase involved segmenting the customers according to attitudinal variables, and focusing on the requirements of these customers. At this stage most banks began to consider an ATM as a prerequisite for staying in business. Developments in networking technologies also helped reduce the costs of setting up and maintaining ATM networks thus contributing to 40,000 ATMs being in operation in the year 1983. The economies of scale necessary for tornado market success were achieved by advances in digital technology and network consolidation among different banks (O' Hanlon et al., 1993).

Online banking electronic banking (e-banking) includes the conducting of various banking activities through the internet from home, business or on the road rather than at a physical bank location. E-banking is used by consumers to check their accounts, pay bills online, secure a loan electronically and much more, saving the user both time and money. Needless to say online, banking has in the recent years become a mainstream internet activity offering banks an inexpensive alternative to branch banking and a chance to enlist remote customers, Fox and Bayer (2006). A faster rate of increase in these activities according to the analysts is being held back by lack of trust in the internet banking security.

The term Virtualisation as used by Baldock (1997) means the removal of the constraints of time, place and form. This is made possible through the convergence of computing, telecommunications and visual media to describe the benefits offered to both the bank and the customer by electronic banking. In addition to regular banks adding online services, virtual banks have emerged. However, according to Dandapani (2004), 97% of the hundreds of pure play virtual banks failed by 2003 due to lack of financial viability.

Currently, most banks provide their large business customers with personalized service by allowing them to access to the banks' intranet which enables the customers access to accounts, historical transactions and other data which may be of interest to customers.

According to Moules (2006), paying bills from online banking accounts, which is payment from one bank account, can be made into any other bank account and therefore customers can use this mode of payment to pay their monthly rent and other bills directly to the payees' bank account. Credit cards and smart cards are also another mode of e payment/commerce transactions which have become a common form of payment. Over the years, credit cards have become one of the most common forms of payment for e-commerce transactions. Turban et al.(2008) goes on to explain that it would be difficult for an online retailer to operate without supporting credit and debit cards due to their widespread use.

A more recent bill payment method that is currently being practiced in some commercial banks in Kenya is the Electronic bill presentment and payment (EBPP). Indeed this technique is fairly new and it allows consumers to view and pay bills electronically. There are a significant number of bills that consumers pay on a regular basis, which include: power bills, water, oil, internet, phone service, mortgages, car payments etc. EBPP systems send bills from service providers to individual consumers via the internet. The systems also enable payments to be made by consumers, given that the amount appearing on the e-bill is correct. The main difference between EBPP systems and the traditional method of bill payment is that of technology, substituting the receipt of bills through mail to a prompt to visit a website to view and pay their bills.

Kenya after the launch of Safaricom M-Pesa in 2007 is currently the largest mobile provider. According to Hughes (2007) since its launch, M-Pesa has grown astoundingly quickly capturing a significant market share of 6.5 million subscribers recording 2 million daily transactions in Kenya alone in the 2009 and have continued to grow. The growth of the service forced formal banking institutions to take note of the new venture as M-pesa was able to penetrate the money flows to rural and hard to reach areas Morawczynski, (2008). Mobile banking through M-Pesa has contributed positively to the economy according to the recent study which showed that the income of Kenyan household using M-pesa has increased by up to over 30 per cent since they started using mobile banking.

2.4 Factors influencing Alternative Banking Strategies

On demographic characteristics, younger consumers are seen to value the convenience of online and mobile banking more than older consumers. This is according to Howcroft et al (2002) who further according to his study found that younger consumers regarded the lack of face to face contact as less important than older consumers. The findings of the study also revealed that educational levels of respondents did not affect the use of telephone or online banking

Karjaluoto et al (2002) found that a typical user of online banking in Finnish Market was highly educated, relatively young and wealthy person with good knowledge of computers and the internet. The study proposed that demographic factors have an impact on online banking behavior. His study also revealed that prior experience with computers and technologies and attitude towards computers influence both attitudes towards online

banking and actual behaviours. The study revealed that prior computer experience had a significant impact on online banking usage while positive banking seemed to have had an effect on both attitude and usage and satisfied customers tend to keep up with the current delivery channel.

The quality of infrastructure is yet another factor that would affect the adoption of e banking as an alternative channel. Satuye (1998) used internet access as one of the factors affecting adoption of internet banking. According to Pikkarainen et al (2004) he placed great emphasis on the importance of a decent internet connection and its quality as playing a major role in adoption of internet banking by costumers. He therefore concluded that without a proper internet connection, the use of internet banking would be rendered impossible. According to Dholakia and Kshetri (2004) ICT industry readiness is essential in the adoption of ICT related innovations. ICT infrastructure, which includes telecommunications network, internet connectivity, availability of computer, other hardware and software, technology environment both electronic and telecommunication and where a particular firm operates have influence on ICT adoption.

On the aspect of perceived regulatory support, Kilonzo (2007) found that there were no specific laws governing the electronic commerce or electronic payments in Kenya. Larpsiri et al (2002) indicated that customers tend to hesitate to use e- banking services if there are no adequate laws governing it. There is also the aspect of perceived risk which according to Pavlov (2002) refers to perceived system risk as the overall amount of uncertainty perceived by an organization in a particular purchase situation.

According to Adi (2009) it is essential to define a common channel strategy before adding an alternative channels to the banks portfolio to as to avoid conflicts that may lead to confusion when dealing with the customer. This channel strategy must support the bank's corporate strategy and create value for both the organization and the customer. Furthermore, since banking services are generally similar between the institutions, the strategy must ensure that each channel is intelligently positioned to optimize its contribution to the bank's differentiation from the competition. The dilemma that banks strategists find themselves in is in finding out which customer groups the organization wishes to address and through which channels and services it aims to accomplish this.

On customer segmentation when considering the most suitable alternative channel according to Kohali (2009), it important to be knowledgeable to the fact that customers generally fall into four main groups: those who prefer human interaction; those who are open to new channels; those who are unsure and therefore undecided and those who have differing preferences, depending on the individual services in question. The second group is generally made up of younger, wealthier and highly educated clients, who have less time to visit a branch (a situation often exasperated by a lack of branches in their vicinity) and who feel at home with the new technologies used in the alternative channels. The "anywhere, anytime" availability and accessibility of alternative channels coupled with the time saving and lower costs involved, makes life easier for them and therefore increases their customer loyalty.

Adi (2009) further explains that customers from the other three groups tend to focus on the risks posed by the alternative channels and therefore need to be reassured by the banks before they will feel happy using these channels. These customer groups tend to be

worried about possible mistakes and the problems these may cause, a fear brought about by their viewing of these services as being complex. The banks assurance through emphasizing the security safety net behind such transaction and continued availability of human interaction when necessary helps put the customer at ease.

Customer perception of the channel and their perception of the organization offering it and their identifying with the bank as a brand is a key success factor. Kohali (2009) emphasized that it is important that the bank addresses each group of customers with the channels they require and then actively sell these alternatives to those customers. This process is made easier if the organization already has a good reputation for handling its various channels and is well trusted by its customers. The technology employed should also be perceived as reliable and simple to use. Indeed, customer perception of the channel is a key success factor.

The potential of a channel before adding it to the banks portfolio must be measured as well as investigate how to lever synergies between the channels. Despite the expectation of banks that alternative channels will reduce, costs and generate additional income, the high investment costs and fixed running costs of establishing new channels are not guaranteed to have a positive effect on the bottom line, although the cost of individual transactions may be lower, Adi (2009). This must be taken into account when selecting channels and weighed up against labor cost savings due to reduced branch activity at rush hours.

However, the more complex a service is and the more importance, risk or cost that customers attribute to it, the greater their reservations will be and the more likely they are to prefer human interaction and a personal meeting with a consultant. According to

Kohali (2009), while it is easy to view ones investment status online it is difficult to be able to commit oneself to a perceived high-risk, long-term commitment without professional advice and support. This is why services such as mortgages or life insurance therefore, tend to remain a branch activity or at least one requiring some form of greater human interaction.

During the operationalizing stage volume of business for each channel needs to be forecasted, the required investment planned and the resources made available. According to Kohali (2009) the specific channel portfolio which has been implemented should be flexible enough to enable the banking institutions closely monitor market developments and regularly review their range of services and channels to ensure that they keep pace with new trends and still provide for all customer needs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided an account of the procedures and methods that were used in carrying out the research. The researcher had the study guided by the research objectives as stated in chapter one. The chapter covers the research design, population of the study, the sampling method data collection methods and instruments and analysis which the research used.

3.2 Research Design

The researcher used cross sectional research design. This involved collecting standardized information from population. The survey design was most appropriate for this study as it had the advantage of producing comparable information across the surveyed population. It was also particularly useful where the populations is large as it gave a cross sectional picture of the phenomenon.

The reason for using cross sectional survey design was because the research included cutting across all banks and thus use of survey design would lead to superior understanding of alternative channels being applied by commercial banks.

3.3 Population of Study

The target population for this study included all the commercial banks in operation in Kenya. According to CBK (2011) there are 43 commercial banks in Kenya. The

population is widely spread but all having their head office located in the country's capital city, Nairobi. All the 43 commercial banks were studied.

3.4 Data Collection

The primary data was collected through structured questionnaires with both closed and open ended questions. These were dropped to the various banks for the attention of the corporate strategy managers or the marketing manager, and were collected later. The collecting instrument consisted of structured as well as semi structured questions. The questionnaire was divided into three sections.

Section A captured the profile of the banks and its respondents. Section **B** focused on determining the alternative strategies being applied by the various commercial banks in Kenya. It also sought to investigate the challenges being faced by the commercial banks in the implementations of the alternative channels strategies. Section C focused on how banks are applying the alternative banking strategies to develop competitive advantage.

3.5 Data Analysis

The research method from the study was both qualitative and quantitative. The quantitative method provided the in depth explanations while qualitative methods provided the hard data needed to meet the required objectives. The completed questionnaires were thus edited for completeness, consistency and coherence and were also used to identify the scales of measurement for various questionnaire items. The responses where the five point scale form was used 1=strongly agree to 5=strongly disagree, descriptive statistics through use of measures of central tendency in particular

mean scores was also used to generate percentages which were presented in tables and figures. Qualitative data from open questions was interpreted and presented in prose/text.

The primary data collected from all the banks in the country data part A of the questionnaire was analysed to establish the availability of the alternative banking services offered, the ownership of the bank and the number of years it has been in operation via the number of branches it has in operation. Section B of the questionnaire was analysed using both qualitative and quantitative method in determining the effect of introduction of the various alternative banking channels with regards to competition and in essence in developing competitive advantage over other the players in the industry.

Section C the data collected sought the view of the participants with regards to their perceived benefits and challenges of Alternative banking channels and was analysed using qualitative method to determine between the benefits and the challenges which outweighs the other or which were balanced. The data was also analysed to determine the reliability, cost factors, environmental factors and also in terms of security which was important as a guide in determining and developing Alternative banking strategies that indeed enable the banks achieve competitive advantage.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on establishing the alternative banking strategies applied by commercial banks in Kenya. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted to sample 43 respondents in collecting data with regard to establishing the alternative banking strategies applied by commercial banks in Kenya. From the study, 33 out of 43 sampled respondents filled in and returned the questionnaire contributing to 76.3%. This commendable response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires.

Table 4.1.1: Response Rate

Response	Frequency	Percentage
Responded	33	76
Not responded	10	24
Total	43	100

Source: Survey Data, 2012

4.2 Background of the study

4.2.1 Ownership of the bank.

This section of the study sought to establish the ownership of the bank.

Table 4.2.1 ownership of the bank.

Ownership	Frequency	Percentage
Locally owned	5	15%
Foreign owned	7	21%
Both locally and foreign	21	64%
Total	33	100%

Source: Survey Data, 2012

From the findings, majority of the respondents indicated that the bank was both locally and foreign owned represented by a percentage of 64, followed by 21% foreign owned and 15% locally owned shown above.

4.2.2 Duration of operation in Kenya

This section of the study was aiming to establish how long the bank been operating in Kenya.

Table 4.2.2 duration of operation in Kenya

Duration	Frequency	Percentage
I-10 years	8	30%
II-20 years	15	45%
Over 21 years	8	25%
Total	33	100%

Source: Survey Data, 2012

Majority of the respondents indicated that the bank have been operating in Kenya between 11 to 20 years represented by 45%, followed by 1-10 years represented by 30% and lastly over 21 years shown by 25%.

4.2.3 Number of the branches

This section of the study sought to establish the number of branches the commercial banks have.

Table 4.2.3 Number of the branches.

No. of branches	Frequency	Percentage
1-5 branches	3	10%
6-10 branches	7	23%
Over 10 branches	23	67%
Total	33	100%

Source: Survey Data, 2012

From the findings, the majority of the respondents indicated that the commercial banks have over 10 branches represented by 67% such as Barclays Bank, CFC Stanbic Bank, Chase Bank (Kenya), Citibank, Commercial Bank of Africa, Consolidated Bank of Kenya, Cooperative Bank of Kenya, Credit Bank, Development Bank of Kenya, Diamond Trust Bank, chase bank , Ecobank, Equatorial Commercial Bank, Equity Bank, Family Bank, Fidelity Commercial Bank Limited, Fina Bank, First Community Bank, Giro Commercial Bank, Guardian Bank, Gulf African Bank, Habib Bank, Habib Bank AG Zurich, I&M Bank, Imperial Bank Kenya, Jamii Bora Bank, Kenya Commercial Bank, K-Rep Bank, Middle East Bank Kenya, National Bank of Kenya, NIC Bank, Oriental Commercial Bank, Paramount Universal Bank, Prime Bank (Kenya), Standard Chartered Kenya, Trans National Bank Kenya, United Bank for Africa, Victoria

Commercial Bank , followed by 23 % of 6-10 branches such as ABC Bank (Kenya), Bank of Africa, Bank of Baroda, Bank of India, while 1-5 branches was represented by 10% such as Bank of India, Bank of Baroda, Dubai Bank Kenya.

4.2.4 Banking channels offered

This section of the study was aiming to establish the alternative banking channels offered by the commercial banks in Kenya.

Table 4.2.4 banking channels offered.

Banking channels	Frequency	Percentage
Agency banking	2	6%
ATM	9	28%
c-banking	1	3%
Internet banking	2	7%
POS	1	3%
EPOS	3	9%
Mobile banking	7	22%
Credit/debit cards	3	9%
Swift/RTGS	5	13%
Total	33	100%

Source: Survey Data, 2012

From the findings, the majority indicated that ATM was the commonly used banking channel being offered by the banks in Kenya. This was indicated by 28%, followed by 22% mobile banking, 13% swift/RTGS, 9% credit cards/debit cards and EPOS, 7% internet banking, 6% agency banking, while 3% represented POS and e-banking.

4.3 Application of the alternative banking strategies to develop competitive advantage by commercial banks.

4.3.1 Extent to which respondents agree with the usage of alternative banking strategies

The study sought the respondents' level of agreement with the utilization of alternative banking strategies in commercial banks.

Table 4.3.1 Extent to which respondents agree with banking strategies usage

Banking strategies	Mean	Std Dev.
Agency banking	2.2951	1.45309
ATM	2.6885	1.48931
e-banking	2.7869	1.30531
Internet banking	2.8689	1.56499
POS	2.9180	1.40588
Mobile banking	3.0492	1.56446
Credit /debit cards	2.3934	1.32008
Swift/RTGS/TT	2.0164	1.24488
Total	19.7377	10.26037
Average	2.62705	1.4185

Source: Survey Data, 2012

From the study, majority of the respondents indicated that the utilization of alternative banking strategies was effective shown by a mean score of 2.2951 agency banking, ATM as shown by a mean score of 2.6885, e-banking as shown by a mean score of 2.7869, swift/RTGS/TT as shown by a mean score of 2.0164, POS as shown by a mean score of

2.9180, mobile banking as shown by a mean score of 3.0492, credit/debit cards as shown by a mean score of 2.3934, while internet banking had a mean score of 2.8689.

4.3.2 Effect of usage of alternative banking strategies on competition

This study sought to establish the effect of usage of alternative banking strategies to the level of competition.

Table 4.3.2 Effect of usage of alternative banking strategies on competition

Rating	Frequency	Percentage
Significantly increased competition	15	47
Slightly increased competition	6	19
No major impact	3	6
Slightly reduced competition	5	16
Significantly reduced competition	4	12
Total	33	100

Source: Survey Data, 2012

On the rating how the level of competition faced by the banks due to the introduction of the alternative banking channels within the banking sector, 47% of the respondents indicated to Significantly increased competition, 19% said to a Slightly increased competition, 16% of the respondents said to a Slightly reduced competition, 12% of the respondents indicated to Significantly reduced competition, while 6% of the respondents represented No major impact.

4.3.3 Increase in the number of products options available

The researcher also asked the respondents to state if the number of products options has increased due to the adoption of alternative banking channels. According to the figure below, 69% indicated that the adoption of alternative banking channels has caused an increase in the number of product options available to the bank customers while 32%of the respondents indicated that there was no any increase in the number of products options available.

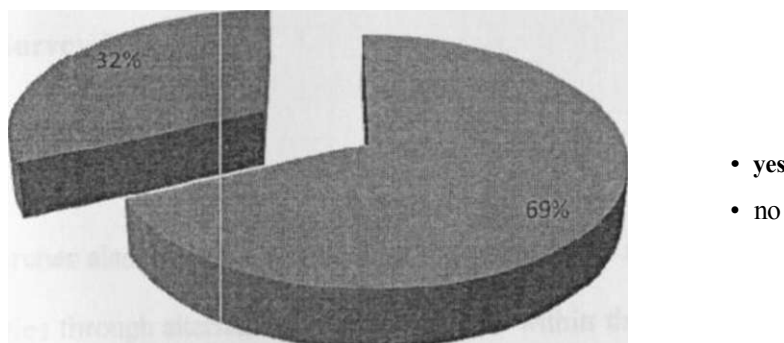


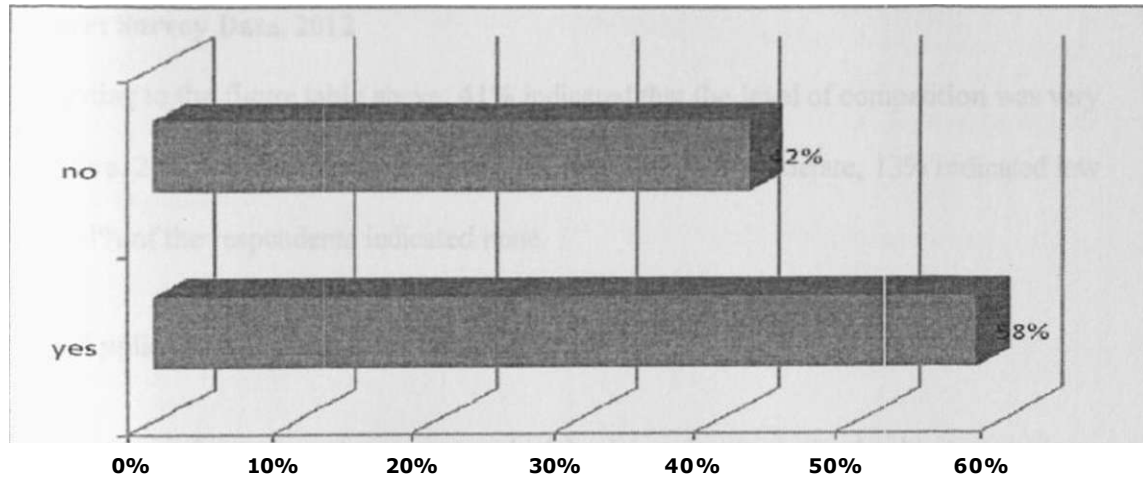
Figure 4.3.3 Number of products available

Source: Survey Data, 2012

4.3.4 Increase in the level of profitability

The researcher also requested the respondents to indicate the level of profitability experienced by the banks due to the adoption of alternative banking. From the results as shown in figure below, 58% indicated that the level of profitability has increased and 42% of the respondents indicated that there was no increase in the level of profitability.

Figure 4.3.4 Increase in the level of profitability



Source: Survey Data, 2012

4.3.5 Level of competition

The researcher also asked the respondents to state how the adoption of the usage of new technologies through alternative banking channels within the banking sector affected the level of competition they faced from other banks.

4.3.5 Level of competition

Level of competition	Frequency	Percentage
Very intensive	13	41
Intensive	8	25
Moderate	6	18
Low	4	13
None	2	3

Total **33** **100**

Source: Survey Data, 2012

According to the figure table above, 41% indicated that the level of competition was very intensive, 25% of the respondents indicated intensive, 18% moderate, 13% indicated low while 3% of the respondents indicated none.

4.3.6 Application of alternative banking strategies

The study sought to show the extent to which banks apply alternative banking strategies.

Table 4.3.6 Application of alternative banking strategies.

Level of competition	Frequency	Percentage
To a very great extent	9	25
Great extent	10	31
To moderate extent	9	28
To less extent	4	13
Not at all	1	3
Total	33	100

Source: Survey Data, 2012

The study disclosed that majority of the employees agreed to a great extent to the application of alternative banking strategies by 31%, followed by to a moderate extent 28%, followed by 25% very great extent, 13% to less extent, 3% not at all.

4.3.7 Extent to which the bank has used the alternative channels to distinguish itself from competitors.

The study also required the respondent to indicate the extent to which respondents agree the use of alternative strategies for competitive purposes.

Table 4.3.7 **Extent to which the bank has used the alternative channels to distinguish itself from competitors.**

Considerations	Mean	Std dev
To a very great extent	2.0164	1.24488
Great extent	3.0656	1.40082
To moderate extent	1.5410	2.77833
To less extent	2.3934	1.32008
Not at all	3.1256	1.40082
Total	12.142	8.14493
Average	2.4284	1.62899

Source: Survey Data, 2012

From the study, majority of the respondents indicated that the extent to which respondents agree with the use of alternative strategies for competitive purposes to a moderate extent as shown by a mean score of 1.5410, to a very great extent as shown by a mean score of 2.0164, and to less extent as shown by a mean score of 2.3934 while great extent as shown by a mean score of 3.0656 and not at all as shown by a mean score of 3.1256.

4.3.8 Competitive measures that ensures rapid and on time service delivery

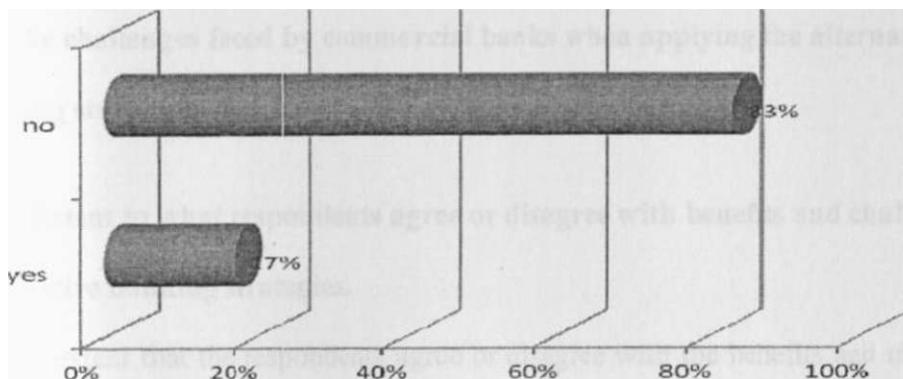
From the Findings, it was disclosed that majority of the respondents indicated that understanding Customer Expectation; Consumer research provides the basis for the development of new service concepts to meet targeted consumer needs (Lovelock et al, 1996). Finding out what customers expect is essential to providing service quality, and marketing research the key to understanding customer expectations and perceptions of service (Kotler 1999). Also market segmentation; service organization cannot serve an entire market for a particular service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segments consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes (Kotler, 1999). Also service positioning; once a company has identified a specific market segment to serve, the next phase is to position the service in the market place. How the service is designed (service blueprinting and physical evidence) will impact the image of the service in the consumers mind (Ziethmal et al, 1996).

A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings. To develop effective positioning strategies, managers need insights into how the various attributes of a service are valued by the current and prospective customers within that segment. An organization's service offering is successfully positioned if it has established and maintains a distinctive place for itself in the consumer's mind relative to competing organization's offerings. If a service is successfully positioned, the mention of the service will conjure up in the customer's mind an image that is distinct from images of similar service offerings (Ziethaml et al, 1996).

4.3.9 Specific Alternative Banking Strategies

The researcher requested the employees to indicate if the banks have specific alternative banking strategies for different niche markets. According to the figure below, it was observed that the most of the respondents did not indicate that the banks does have specific alternative banking strategies represented by 83%.and 17% were not of the same idea.

Figure 4.3.9 Specific Alternative Banking Strategies



Source: Survey Data, 2012

4.3.10 Level of branches due to application of alternative banking strategies

The study sought the respondents' level of agreement with the application of alternative banking strategies by the bank in terms of number of branches

Table 4.3.10 Level of branches due to application of alternative banking strategies

	Frequency	Percentage
Increased	22	67
No change	5	15

Decreased	6	18
Total	33	100

Source: Survey Data, 2012

From the study, it was disclosed that majority of the respondents 67% indicated that there was an increase in the number of branches due to application of the alternative strategies, followed by 18% decreased and 15% no change in the number of branches.

4.4 The challenges faced by commercial banks when applying the alternative banking strategies.

4.4.1 Extent to what respondents agree or disagree with benefits and challenges of alternative banking strategies.

On the extent that the respondents agree or disagree with the benefits and challenges of alternative banking strategies.

Table 4.4.1 Extent to what respondents agree or disagree with benefits and challenges of alternative banking strategies.

Statement	Mean	Std dev
Adoption of alternative banking strategies has a positive role in gaining competitive advantage.	2.9016	1.56743
It's no longer a choice, all banks must combine various alternative banking channels in order to excel.	2.5738	1.55412
The alternative banking channels keeps changing thus a bank strategies on this must be flexible enough to accommodate this	4.0333	5.61163

changes as and when they occur		
Banks require to invest heavily in carrying out research on alternative banking channels	3.0492	1.75524
Large capital is required in implementation of this alternative banking strategies	4.2410	2.77833
Existing customers fully utilize the available banking channels for their bank related transaction and in doing business	3.0000	1.50555
The alternative banking strategies have provided an avenue for banks to reach the unbanked Kenyans	4.5410	2.77833
Staff have adequate technical knowhow of the alternative banking channels	1.1967	1.44706
Total	25.5366	18.9977
Average	3.19208	4.22171

Source: Survey Data, 2012

From the study, it was disclosed that the majority of the respondents indicated that Staff have adequate technical knowhow of the alternative banking channels as shown by a mean score of 1.1967 and it's no longer a choice, all banks must combine various alternative banking channels in order to excel as shown by a mean score of 2.5738. Further, adoption of alternative banking strategies has a positive role in gaining competitive advantage as shown by a mean score of 2.9016. Existing customers fully utilize the available banking channels for their bank related transaction and in doing business as shown by a mean score of 3.0000 and Banks require to invest heavily in

carrying out research on alternative banking channels as shown by a mean score of 3.0492. However, most of the respondents indicated that The alternative banking channels keeps changing thus a bank strategies on this must be flexible enough to accommodate this changes as and when they occur as shown by a mean score of 4.0333, Large capital is required in implementation of this alternative banking strategies as shown by a mean score of 4.2410, The alternative banking strategies have provided an avenue for banks to reach the unbanked Kenyans as shown by a mean score of 4.5410.

4.4.2 Security measures to safeguard the customers and agents from security lapses of the system.

From the findings, it was disclosed that the majority of the respondents indicated that collection, usage and exchange of data should be only pertinent to the exact purpose, in an open and ethical manner. The information collected for one purpose shouldn't be used for another. Notify consumers of information you have on them, as well as its proposed use, handling, and enforcement policies. Also the company should use only non-personally identifiable information for marketing purposes and must certify that the customers' or agents' personal information will not be resold to third-party marketing firms. Ensuring the data is accurate, timely, and complete and that it should be collected in a legal and fair manner was also indicated. Allow customers the right to access, verify, and change their information in a timely, noncumbersome fashion. Inform customers of the data sources and allow them the option of removing their names from the marketing lists. Application of security measures to safeguard the data on databases. Establishment of employee training programs and policies on the proper handling of customer's and

agent's data. Limiting the access to a need-to-know basis on personal information and divide the information, so no one employee or unit has the whole picture. Following all government regulations concerning data handling and privacy.

4.4.3 Reliability of the channels

The study sought the respondents' level of agreement with the reliability of the channels.

Table 4.4.3 Reliability of the channels

Banking strategies	Mean	Std Dev.
Agency banking	2.2951	1.45309
ATM	2.6885	1.48931
e-banking	2.7869	1.30531
Internet banking	2.8689	1.56499
POS	2.9180	1.40588
Mobile banking	3.0492	1.56446
Credit /debit cards	2.0164	1.24488
Swift/RTGS/TT	2.3934	1.32008
Total	21.0164	11.384
Average	2.62705	1.4185

Source: **Survey Data, 2012**

From the study, majority of the respondents indicated that the utilization of alternative banking strategies was effective shown by a mean score of 2.2951 agency banking, ATM as shown by a mean score of 2.6885, e-banking as shown by a mean score of 2.7869, swift/RTGS/TT as shown by a mean score of 2.3934, POS as shown by a mean score of

2.9180, mobile banking as shown by a mean score of 3.0492, credit/debit cards as shown by a mean score of 2.0614, while internet banking as shown by 2.8689.

4.4.4 Factors to ensure service affordability.

From the findings, it was disclosed that the majority of the respondents indicated that reducing the amount of time it takes to provide services; the company uses standardized training processes for its employees and new drive-thru layouts. Along with speed, McDonald's also competes by offering prices at a low cost. Offering high quality products at low cost requires efficient processes hence providing great value to its customers. Planning a broad strategic partnership with big banks to hence stability of the business, focusing investments in next-generation disruptive technologies, creating new leadership team and organizational structure with a clear focus on speed, results and accountability.

4.4.5 Extent to what the bank has been forced to include factors with regard to the implementation of alternative banking channels.

The study sought the respondents' level of agreement with the extent to include factors with regard to the implementation of alternative banking channels.

Table 4.4.5 Extent to what the bank has been forced to include factors with regard to the implementation of alternative banking channels.

Factors performance.	Mean	Std Dev.
Technical training	1.2927	1.53183
Acquisition of machinery	2.8013	1.47743

Formation of project teams	1.7881	1.86417
Significant overhaul of the existing strategies	2.3415	1.45131
Total	8.2236	6.32474
Average	2.0559	1.58119

Source: Survey Data, 2012

From the study, majority of the respondents indicated that technical training was effective shown by a mean score of 1.2927, Acquisition of machinery as shown by a mean score of 2.8013, Formation of project teams as shown by a mean score of 1.7881, Significant overhaul of the existing as shown by a mean score of 2.3415.

4.4.6 Extent to which the alternative strategies help in attaining survival of the banks and competitive advantage

The study also required the respondent to indicate the extent to which alternative strategies help in attaining survival of the banks and competitive advantage

Table 4.4.6 Extent to which the alternative strategies help in attaining survival of the banks and competitive advantage

Considerations	Mean	Std dev
Significantly increased impact	2.0164	1.24488
Slightly increased impact	3.0656	1.40082
No major impact	1.5410	2.77833
Slightly reduced impact	2.3934	1.32008
Significantly reduced impact	3.1256	1.40082

Total	12.142	8.14493
Average	2.4284	2.71498

Source: Survey Data, 2012

From the study, majority of the respondents indicated that the extent to which respondents agree with the alternative strategies help in attaining survival of the banks and competitive advantage to a No major impact as shown by a mean score of 1.5410, to significantly increased impact a as shown by a mean score of 2.0164, and to slightly reduced impact as shown by a mean score of 2.3934 while slightly increased impact as shown by a mean score of 3.0656 and significantly reduced impact as shown by a mean score of 3.1256.

4.4.7 Impact of non-financial on banks profitability

The study also required the respondent to indicate the impact of non-financial banks on banks profitability.

Table 4.4.7 Impact of non-financial on banks profitability

Impact	Mean	Std dev
Significantly increased profit	2.07891	1.24333
Slightly increased profits	3.0741	1.42474
No major impact	1.5781	2.65137
Slightly reduced profit	2.2794	1.32992
Significantly reduced profit	2.8178	1.47185
Total	11.8283	8.12121
Average	2.36566	1.62424

Source: Survey Data, 2012

From the study, majority of the respondents indicated that the extent to which respondents agree with the Impact of non-financial banks on banks profitability the majority indicated no major impact as shown by a mean score of 1.5781, Significantly increased profit as shown by a mean score of 2.07891, Slightly reduced profit as shown by a mean score of 2.2794 while Slightly increased profits as shown by a mean score of 3.0741 and Significantly reduced profit as shown by a mean score of 2.8178.

4.4.8 How often banks analyzes environmental factors.

The study also required the respondent to how often banks analyzes environmental factors.

Table 4.4.8 How often banks analyzes environmental factors

Factors	Mean	Std dev
Technological	2.3251	1.17861
Competitive	3.1674	1.41122
Economic	1.45781	2.74443
Total	6.95031	5.334226
Average	2.31677	1.77808667

Source: Survey Data, 2012

From the study, respondents indicated that the banks often analyze environmental factors. Economic as shown by a mean score of 1.45781, technological as shown by a mean score of 2.3251, while competitive as shown by a mean score of 3.1674.

4.4.9 Overcoming the challenges in faced in implementing the alternative banking strategies.

From the Findings, it was disclosed that the majority of the respondents indicated that driving rapid decision and creating a sense of urgency that is understanding risk averse, securing and mobilizing the right team at the outset of the project and managing a smooth transition for both employees and customers on day to day and beyond. Application of the latest technology since it helps in introducing innovative products according to the demand of customers, due to high competition, the banks should apply the best rates to suits their customers demand, product innovation is one of the major success factors in the banking industry, since all banks are offering similar products therefore differentiation should be applied, banks should also directly contact the customers due to which customers feel satisfied, brand image plays an important role in selecting the products so they should be keen on branding their products and services.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The general objective of this study was to investigate alternative banking strategies applied by commercial banks in Kenya to develop their competitive advantage.

5.2 Summary of findings

5.2.1 Background information

The research findings revealed that the bank was both locally and foreign owned, the majority indicated that it has operated in Kenya between 11-20 years, it also had over 10 branches. The respondents indicated that the alternative banking strategies used include, agency banking, ATM, e-banking, internet banking, POS, EPOS, mobile banking, credit/debit, and swift/RTGS.

5.2.2 Determining the alternative banking strategies applied by commercial banks in Kenya.

The study findings on the investigation of the alternative banking strategies applied by commercial banks in Kenya to develop their competitive advantage, it was found that the commercial banks use the ATM mostly, followed by swift/RTGS, mobile banking, credit/debit cards, internet banking, e-banking, agency banking, POS, and EPOS.

5.2.3 To establish how the commercial banks are applying the alternative banking strategies to develop competitive advantage.

The study revealed that the use of the alternative banking strategies, that is the use of ATMs, agency banking, e-banking, internet banking, POS, EPOS, mobile banking, credit/debit, and swift/RTGS, assist the banks a lot on developing their competitive advantage. The study also revealed that the investigation of the alternative banking strategies applied by commercial banks in Kenya to develop their competitive advantage was very effective to use since they attract many customer in the industry and they feel secured partnering with the banks.

It was also found that the adoption of new technologies through alternative banking channels within the banking sector has greatly improved the level of competition in the banks. This is because everything is changing and becoming computerized hence making job done easier, quicker and effective. Also the adoption of the alternative banking channels has increased and improved the number of product options available in the banks. In spite of increasing the level of competition, the alternative strategies has also increased the level of profitability experienced in the banks in the recent years. The level of competition the banks are currently facing due to the introduction of alternative banking strategies is very intensive, it is also to a great extend that the banks are applying the alternative strategies. From the findings, it was disclosed that majority of the respondents indicated that understanding Customer Expectation; Consumer research provides the basis for the development of new service concepts to meet targeted

consumer needs (Lovelock et al, 1996). Finding out what customers expect is essential to providing service quality, and marketing research the key to understanding customer expectations and perceptions of service (Kotler 1999). Also market segmentation; service organization cannot serve an entire market for a particular service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segments consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes (Kotler, 1999).

Also service positioning; once a company has identified a specific market segment to serve, the next phase is to position the service in the market place. How the service is designed (service blueprinting and physical evidence) will impact the image of the service in the consumers mind (Ziethmal et al, 1996). A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings. To develop effective positioning strategies, managers need insights into how the various attributes of a service are valued by the current and prospective customers within that segment.

An organization's service offering is successfully positioned if it has established and maintains a distinctive place for itself in the consumer's mind relative to competing organization's offerings. If a service is successfully positioned, the mention of the service will conjure up in the customer's mind an image that is distinct from images of similar service offerings (Ziethaml et al, 1996). It was discovered that the banks does not have specific alternative strategies for different niche markets. The application of alternative banking strategies has increased the number of branches in the recent years.

5.2.4 To establish the challenges faced by commercial banks in applying the alternative banking strategies.

The study established that the banks were facing challenges in the application on the banking strategies. It was disclosed that the majority of the respondents indicated that Staff don't have adequate technical knowhow of the alternative banking channels though it's no longer a choice, all banks must combine various alternative banking channels in order to excel. Further, adoption of alternative banking strategies has a positive role in gaining competitive advantage. Existing customers fully utilize the available banking channels for their bank related transaction and in doing business and Banks require to invest heavily in carrying out research on alternative banking channels. However, most of the respondents indicated that the alternative banking channels keeps changing thus bank strategies on this must be flexible enough to accommodate this changes as and when they occur, large capital is required in implementation of this alternative banking strategies and also the alternative banking strategies have provided an avenue for banks to reach the unbanked Kenyans.

Further, the study disclosed that the respondents indicated that the security measures that are put in place by banks to safeguard the customers and agents from security lapses are collection, usage and exchange of data should be only pertinent to the exact purpose, in an open and ethical manner. The information collected for one purpose should not be used for another. Notify consumers of information you have on them, as well as its proposed use, handling, and enforcement policies. Also the company should use only non-personally identifiable information for marketing purposes and must certify that the

customers' or agents' personal information won't be resold to third-party marketing firms. Ensuring the data is accurate, timely, and complete and that it should be collected in a legal and fair manner was also indicated. Allow customers the right to access, verify, and change their information in a timely, noncumbersome fashion. Inform customers of the data sources and allow them the option of removing their names from the marketing lists. Application of security measures to safeguard the data on databases.

Establishment of employee training programs and policies on the proper handling of customer's and agent's data. Limiting the access to a need-to-know basis on personal information and divide the information, so no one employee or unit has the whole picture and following all government regulations concerning data handling and privacy. The banks use the mobile, internet banking, e-banking, e-payments, agency banking, RGS/swift, debit/credit cards, POS and EPOS channels due to their high reliability. It is to great extent that the banks were forced to include technical training, acquisition of machinery and significant overhaul of the existing strategies factors in their strategies with regard to implementation of alternative banking channels. It is to a significant increased impact that the banks have attained their survival and their competitive advantage. The adoption of alternative banking strategies by non bank financial institutions has significantly increased profit.

Finally the respondents suggested that, in order for the banks to overcome the challenges in implementation of alternative banking strategies, it should have driving rapid decision and creating a sense of urgency that is understanding risk averse, securing and mobilizing

the right team at the outset of the project and managing a smooth transition for both employees and customers on day to day and beyond. Application of the latest technology since it helps in introducing innovative products according to the demand of customers, due to high competition, the banks should apply the best rates to suit their customers demand, product innovation is one of the major success factors in the banking industry, since all banks are offering similar products therefore differentiation should be applied, banks should also directly contact the customers due to which customers feel satisfied, brand image plays an important role in selecting the products so they should be keen on branding their products and services.

5.3 Conclusion

5.3.1 Determining the alternative banking strategies applied by commercial banks in Kenya.

From the study the researcher concludes that the commercial banks in Kenya are not clear on the investigation of the alternative banking strategies in developing their competitive advantage. It further concludes that the commercial banks do not exercise the use of ATM, mobile banking, credit/debit cards, internet banking, e-banking, agency banking, POS, EPOS and swift/RTGS for creating awareness and for promotion purposes since the new technology is expensive for the banks to adopt.

5.3.2 To establish how the commercial banks are applying the alternative banking strategies to develop competitive advantage.

The research study concludes that the commercial banks are not very current and do not move according to the changing technology because everybody and everything is moving with the pace and failure to that it will lead to low or no competitive advantage. The

banks have not adopted new technologies through alternative banking channels within the banking sector so as to improve their level of competition.

5.3.3 To establish the challenges faced by commercial banks in applying the alternative banking strategies.

The study concluded that there are challenges faced by commercial banks in the application of banking strategies and have become a hindrance in their competition advantage and affecting their profits gain. It was concluded that the majority of the respondents indicated that the staff do not have adequate technical knowhow of the alternative banking channels, all banks have not combined various alternative banking channels in order to excel, existing customers fully utilize the available banking channels for their bank related transaction and in doing business and banks require to invest heavily in carrying out research on alternative banking channels which makes it a risky business. Also, the alternative banking channels keeps changing thus bank strategies is not flexible enough to accommodate these changes as and when they occur. Finally large capital is required in implementation of this alternative banking strategies and also the alternative banking strategies have provided an avenue for banks to reach the unbanked Kenyans.

5.4 Recommendation

The following were recommendation base on the findings and conclusion of the research study.

5.4.1 Determining the alternative banking strategies applied by commercial banks in Kenya.

From the study the researcher recommended that the commercial banks in Kenya should plan and implement the alternative banking strategies in developing their competitive advantage. It further recommends that the commercial banks should exercise the use of ATM, mobile banking, credit/debit cards, internet banking, e-banking, agency banking, POS, EPOS and swift/RTGS for creating awareness and for promotion purposes.

5.4.2 To establish how the commercial banks are applying the alternative banking strategies to develop competitive advantage.

The research study recommends that the commercial banks should be very current and move according to the changing technology because everybody and everything is moving with the pace and failure to that it will lead to low or no competitive advantage. The banks should adopt new technologies through alternative banking channels within the banking sector so as to improve their level of competition. This is because technology makes everything easier, quicker and effective.

5.4.3 To establish the challenges faced by commercial banks in applying the alternative banking strategies.

The study recommends that these challenges faced by commercial banks in the application of banking strategies should be discussed keenly and encountered before they become a hindrance in their competition advantage and affecting their profits gain. It also recommends that the staff should have adequate technical knowhow of the alternative

banking channels and the management in the banks should help the staff in acquiring the relevant knowledge through training and seminars. All banks should combine various alternative banking channels in order to excel. Existing customers fully utilize the available banking channels for their bank related transaction and in doing business and banks require to invest heavily in carrying out research on alternative banking channels which makes it a risky business so the banks should have knowledge in risk and all types of risk in order to encounter risk effectively. Finally large capital is required in implementation of this alternative banking strategies so the commercial banks should be financial stable before trying to venture into these banking strategies and also the alternative banking strategies have provided an avenue for banks to reach the unbanked Kenyans so the study recommends intense promotion and publicizing of these strategies in every part of the country so as to fish out for the unbanked Kenyans.

5.5 Suggestions for Further Research

The study has investigated the alternative banking strategies applied by commercial banks in Kenya to develop their competitive advantage.

- Banks however are comprised of various other branches located in other areas in world which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the banks in the world and hence pave way for new policies.
- The study therefore recommends another study be done with an aim to investigate the factors influencing adoption of alternative banking strategies applied by commercial banks in Kenya.

- Further a study should also be carried out to investigate the factors influencing the existence of alternative banking strategies applied by commercial banks in Kenya.

5.6 Limitations

- There was reluctance of some respondents to complete the questionnaires promptly and others even failed to complete them at all. This thus limited the number of respondents involved in the study although the researcher geared up efforts and approaches to them explaining the potential benefits of the study.
- There was limited literature and data on establishing the alternative banking strategies applied by commercial banks in Kenya. Hence the study relies much on literature and data relating to the establishing the alternative banking strategies applied by commercial banks in other parts of the world especially the Western Countries. This factor thus limits the depth of discussions in the area of establishing the alternative banking strategies applied by commercial banks.

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APPENDIX 1

INTRODUCTION LETTER TO RESPONDENTS

Dear Sir or Madam

I am a post graduate student of the School of Business University of Nairobi pursuing a post graduate degree leading to MBA. In partial fulfillment of the requirement for the award of the degree am required to complete a management research project entitled Alternative Banking Strategies applied by Commercial Banks in Kenya to develop competitive advantage.

To achieve this, your organization has been selected for this study. I kindly request you to complete this questionnaire. The information will purely be for academic purposes and held in confidentiality. A final copy of this research project finding shall upon request be availed to you.

Your co-operation and assistance is highly appreciated.

Sophy Njoroge

APPENDIX 2

QUESTIONNAIRE

1. To Determine the Alternative Banking Strategies applied by commercial banks in Kenya
2. To establish how commercial banks are applying the alternative banking strategies to develop competitive advantage
3. To establish challenges faced by commercial banks in applying the alternative banking strategies

SECTION A

1. What is the name of your bank?
2. Indicate the ownership of your bank
Locally owned
Foreign owned
Both locally and foreign owned
3. How long has your bank been in operation in Kenya?
1 - 10 years
11 - 20 years
Over 21 years
4. How many branches does your bank have in Kenya?
1 - 5 branches
6 - 10 branches
Over 10 years
5. Below is a list of some of the alternative banking channels being offered by banks in Kenya. Please tick against those that your bank is currently using
 - a) Agency banking
 - b) ATM
 - c) E-banking
 - d) Internet banking
 - e) POS
 - 0 EPOS
 - g) Mobile banking
 - h) Credit/debit cards
 - i) Swift/RTGS
 - j) Others, please indicate

SECTION B

1. Please tick one of the boxes below that best describes how your bank has utilized the following Alternative banking strategies over the last 3 years.

Alternative banking channel	1				
	Very high usage	High usage	No significant increase in usage	Low usage	No usage
Agency banking					
ATM					
E-Banking					
Internet Banking					
POS					
Mobile Banking					
Credit/Debit cards					
Swift/RTGS/TT					

2. How has the adoption of the usage of new technologies through alternative banking channels within the banking sector affected the level of competition that your bank faces from other banks

Significantly increased competition	Slightly increased competition	No major impact	Slightly reduced competition	Significantly reduced competition
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• • • • •

3. Has the adoption of alternative banking channels increased the number of product options available to the bank customers

Yes •
 No •

If Yes, briefly explain

4. Has the adoption of alternative banking channels increased level of profitability experienced by the bank

Yes •
 No •

If Yes, briefly explain

5. Describe the level of competition your bank is currently facing due to the introduction of Alternative banking strategies

Very intensive Intensive Moderate Low None

6. To what extent does your bank apply alternatives banking strategies

To a very great extent Great extent To moderate extent To less extent Not at all

• • • • •

7. To what extent has your bank used the Alternative channels to distinguish itself or its product from competitors

To a very great extent Great extent To moderate extent To less extent Not at all

• • • • •

8. In terms of your delivery/time strategy what competitive measure have you put in place to ensure that delivery of services is rapid and on time?

9. Does your bank have specific Alternative banking strategies for different niche markets

Yes •
No •

10. If yes, what are the determining factors considered in selecting the most appropriate Alternative banking channels for the specific niche markets.

11. Due to the application of Alternative Banking Strategies by your bank, which of the following has your bank done in terms of number of branches

Increased •
No change •
Decreased **q**

SECTION C

1. Please complete by ticking to what extent you agree or disagree with the benefits and challenges of Alternative Banking Strategies implementation in your bank.

Benefit and challenges	1 Strongly agree	2 Agree	3 Moderately agree	4 Disagree	5 Strongly disagree
Adoption of Alternative banking strategies has a positive role in gaining competitive advantage					
It is no longer a choice, all banks must combine various Alternative banking channels in order to excel					
The Alternative banking channels keeps changing thus a banks strategies on this must be flexible enough to accommodate this changes as and when they occur					
Banks require to invest heavily in carrying out research on Alternative banking channels					
Large capital is required in implementation of this Alternative Banking Strategies					
Existing Customers fully utilize the available alternative banking channels for their bank related transaction and in doing business					
The Alternative Banking strategies have provided an avenue for banks to reach the unbanked Kenyans					
Staff have adequate technical knowhow of the Alternative Banking Channels					

2. What security measures has your bank put in place to safeguard the customers and agents from security lapses of the system?

3. How reliable are the following channels

Channel	Very reliable	Reliable	Moderately reliable	Slightly unreliable	Very unreliable
Mobile					
Internet Banking					
E- banking					
E- Payments					
Agency banking					
Rtgs/Swift					
Debit/Credit cards					
POS & EPOS					

4. In terms of operational strategy what cost factors have you put in place to ensure that the service is affordable to as many people as possible. Kindly indicate at least two.

5. To what extent if any has your bank been forced to include in its strategies the following factors with regards to implementation of Alternative banking channels

	To a very great extend	Great extend	To a Moderate extend	To less extend	Not at all
Technical training					
Acquisition of machinery					
Formation of project teams					
Significant overhaul of the existing strategies					

6. How would you rate the banks Alternative banking strategies with regards to attaining survival of the bank and in gaining competitive advantage

