# STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL ENVIRONMENT: THE CASE OF COMMERCIAL BANKS IN KENYA

**BY**

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**OCTOBER, 2009**

# DECLARATION

This management project is my original work and has not been presented for a degree in any other university.

Signed................................................ Date.......9/11/09.......

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**D61/70003/2007**

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

Signed................................................ Date.....10/11/2009.....

**PROFESSOR AOSA**

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# DEDICATION

To my lovely wife Regina who has patiently supported me all the way.

## ACKNOWLEDGEMENT

Firstly, I thank the Almighty God for the gift of life. Thank you for being with me all through. I acknowledge my family for being beside me all the way. Your support and encouragement has seen me this far. I also acknowledge my supervisor Professor Evans Aosa who guided me throughout the research period. I also acknowledge the entire staff and management of Commercial Banks for allowing me to gather information from them concerning their company. Your contribution to this research cannot be underestimated.

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# ABSTRACT

The changing global environment has led to increased competition, diverse product choice, rising customer demand, lower prices, rapid product innovations in addition to accelerated development and deployment of advanced Information Communication Technology (ICT) to bolster efficiency. Companies face increasingly intense competition from domestic and foreign brands resulting in rising promotional costs and shrinking profit margins. Due to changes in the marketplace, companies must adapt to the dynamic environment in order to survive.
The banking sector in Kenya plays a pivotal role in the economy. The rapidly changing environment described above is especially pronounced in this sector. This state of affairs compelled the researcher to conduct this study on the strategic responses by commercial banks in Kenya to the changing environment.

The study was modeled on a descriptive design. The population of interest in this study consisted of forty five commercial banks. No sampling was done, as a census of all the commercial banks operating in Kenya shall be considered. The proposed population of forty five commercial banks is small enough to accommodate a census study and give a clearer picture of the findings that can be subsequently used to arrive at justified generalizations on the findings from the study. Primary data was collected using semi-structured questionnaires.

The questionnaires were personally administered by the researcher to the commercial banks managers or equivalent. The questionnaire was divided into two parts. Part A contained questions on general information of the respondents. Part B contained questions on business strategies used by the banks.

Based on the findings it can be concluded that banks target a new customer segment as far as market development and growth strategy is concerned. This is followed closely by seeking additional distribution channels. It was also revealed that the least used market development strategy used by commercial banks are; opening new geographical branches

nationally, Opening new geographical branches regionally, and Opening new geographical branches internationally.

Based on the findings it may be recommended that commercial banks should not only concentrate on targeting new customers but also emphasize on developing extensive distribution channels in order to gain a competitive edge in the market. Commercial banks management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

The changing global business environment has led to rising competition, increased product choice, increased customer demand, lower prices, product innovations and advancements in Information Communication Technology (ICT). Companies continually face intense competition from domestic and foreign brands which is resulting in rising promotional costs and shrinking profit margins. Due to the changes in the marketplace, companies must adapt to the dynamic environment in order to survive and even thrive.

### 1.1.1 Environment and Organizations

An industry environment consists of a particular set of competitive forces that establish both opportunities and threats. The pattern of forces changes due to the actions of competitors. Porter (1980) uses this term to reference buyers, suppliers, substitute products (services), potential industry entrants, as well as strategic groups of directly competing firms. Strategic moves by any of these competitors can alter prevailing relationships and thereby change the pattern of forces in the firm's environment.

The concept of dependence is useful in understanding how organizational decision making is constrained by the environment. If organizations achieve their own ends by using their power to affect the behavior of other organizations, then it is possible to conceive of organizational behavior as the consequence of influences. While it is more common to view organizations as self-directed, making strategic decisions and vigorously pursuing courses of action, the concept of dependence suggests that organizations are partly directed by elements in their environment. Organizations formulate their own actions in response to the demands placed upon them by other organizations (Pfeffer and Salancik, 1978).

Response to environmental change can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness; secondly, use of real time response through issue management and thirdly, systematic management of resistance to

change during strategic implementation (Ansoff and McDonnell, 1990). Randal (1973) posits that the firm has to learn, adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, brought about by globalization and trade liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

Rapid technological change has created a new business environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (1990), increased competition has created a fundamental shift in the economic environment. Failure to come up with proper strategic responses would be catastrophic to the firm.

Industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changing environment. They adopt strategies such as improved customer services, credit facilities, post-paid cards and provision of convenience goods and services (Aosa, 1992).

### 1.1.2 Strategic Responses

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization have further opened up the markets to environmental forces. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

Rapid technological change has created a new business environment where innovation has become a top competitive strategy. Ansoff and McDonnell (1990), describe a market environment where no organization can hope to stay afloat if it fails to come up with

proper strategic responses. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become routine for survival means.

Strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment (Ansoff and McDonnell, 1990). Pearce and Robinson (1997) saw strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Thus strategic responses are a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies for utilizing the resources of a firm to best support its long term competitive strategy.

### 1.1.3 Kenya's Banking Industry

The commercial banking business in Kenya is guided by the banking Act Chapter 488 that provides for the licensing and regulation of commercial banks within its jurisdiction. The Central Bank of Kenya regulates the sector and has licensed forty three commercial banks that are tiered into peer groupings as large, medium and small depending bank sizes. The Kenyan government has in the last couple of years pursued a financial sector deepening program that also ensures a stable banking industry. This has been emphasized in the annual government budgetary proposals to have the individual bank capital base raised to Kes. 1 billion by the year 2010. This requirement has attracted interest that may see bank consolidations through mergers and acquisitions in the industry to meet the targeted capital base especially for small banks and intensified competitions that target both the banked and the non banked (Ochieng', 2008).

The Kenyan banking system has grown enormously in the last decade keeping pace with the country's economic growth. There has been significant improvement in the payments and settlements with electronic payments and RTGS (Real Time Gross Settlements) gaining quick acceptance. Information technology has played a major role in these achievements. Today, the banks have centralised operations, network based computing,

and new delivery channels such as networked ATMs, internet banking, smart card based products and mobile access (Beck and Fuchs, 2004).

The liberalization during the 1990s in the Kenyan financial Markets has led to more vigorous competition among banks for deposits and in providing services. However, it is not clear that the liberalization has improved the efficiency of credit allocation in the presence of widespread distortions elsewhere in the economy (Brownbridge and Harvey, 1998).

Although by regional standards, Kenya's financial system is relatively well developed and diversified, major structural impediments prevent it from reaching its full potential (Beck and Fuchs, 2004). The banking sector in Kenya consists of three main segments; large domestic banks, subsidiaries or branches of international banks, and small banks. The international banks account for about 40 percent of the banking system's assets and deposits, while large domestic banks account for about 25 percent. The share of state-owned banks in Kenya is currently standing at about 28 percent. This ratio has declined in recent years, but this was mainly due to the stagnation in the state-owned banks rather than their privatization. All the banks are lending more actively, with loans accounting for about half of their total assets. The aggregate loan to deposit ratio of the banking system is about 80 percent in Kenya (Beck and Fuchs, 2004).

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and product offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African Community region, automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (CBK, 2007).

As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks

have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members (CBK, 2009).

The main challenges facing the Banking sector today include; New regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of Kshs 1 billion by December 2010. This requirement will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply, Global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets alongside declining interest margins (CBK 2009).

Kenya's banking industry is evolving at a rapid rate due to the effects of globalization and liberalization of the world economies. In the early 1990's, the sector was weak and turbulent. The declining economy and continuing political uncertainty resulted in high interest rates which turned banking into a very risky business. The high interest rates precipitated the problem of non-performing loans, eventually leading to the collapse of several banks (Market Intelligence, Banking Survey, 2004).

According to the Central Bank of Kenya (2008), there are 45 licensed banks operating in Kenya. The overall financial performance of the banking industry improved in 2008 compared with 2007. Institutions operating in the sector were financially sound, solvent, profitable, liquid, adequately capitalized and prudently managed. The sector achieved relatively strong performance in terms of growth in assets, deposits and profitability. Total deposits held by the commercial banks grew by 16.8%; total assets recorded a growth rate of 18.2%, while non-performing loans declined by 4.5%. The sector also recorded impressive growth in pre-tax profits which rose by 43.1%. The stability in the sector is attributed to the stable macro economic environment and improved supervisory

oversight. The general outlook for the sector is positive in view of the adequate capitalization, sound risk management systems, strong asset quality and profitability.

The banking sector has embraced changes occurring in Information Communication Technology (ICT) with most banks having already achieved branchless banking as a result of the adoption of advanced communications options. According to The CBK (2003), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures. Advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, and a wider network of merchants that accept payment through credit/debit cards.

Several banks have also entered into the Internet Banking and established websites. Internet banking however is still in its infancy and more in terms of utilization is expected in this sector. The level of competition between banks is therefore very high to attract the retail customers who come with deposits and take loans. There has been a shift from waiting for the customers to come to the banks, to now the bank going out of its way to look for the customers. Commercial banks have now adopted strategic issue management to succeed in a world of competition (CBK, 2007).

## 1.2 The Research Problem

In responding to global competition and a rapidly changing business environment, firms have employed diverse corporate strategies that have interested various scholars who have studied them over the years. Lessard (1990) indicates that the challenges faced by a company can be from economic, political, legal, social and cultural factors. Ansoff and McDonnel (1990) observe that environmental development such as liberalization and globalization have intensified competition in the local market. These developments in the external business environment have resulted in internationalization. They add that a firm usually follows a strategy that is intended to create competitive advantage in the market place which is a set of decision making rules for guidance of organization behavior.

According to Ansoff and McDonnell (1990), successful environment serving organizations are open systems in that continued organizational survival depends on their ability to secure rewards from their environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy. They further argue that a major escalation of environmental turbulence in the 1990's has meant a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new consumer's attitudes and new dimensions of social control and above all unprecedented questioning of firm's role in society.

Dependence results from exchange processes and from the requirements of organizations to acquire resources and engage in exchange with their environments. In this way, dependence measures the potency of the external organizations or groups in the given organization's environment. It is a measure of how much these organizations must be taken into account and, also, how likely it is that they will be perceived as important and considered in the organization's decision making (Pfeffer and Salancik, 1978).

Several studies have been carried out in Kenya, addressing the aspects of Kenyan firms and economic liberalization (Oyoo, 2002; Owiye, 1999; Yatich, 2001 and Kombo, 1997). The literature cited above indicates that there has been no study focusing on the strategies adopted by commercial banks in Kenya in response to environmental changes. The Kenyan banking industry has seen a paradigm shift in the last couple of years with intensified competition and entry of new well established players, changing regulatory provisions and prudential guidelines, financial sector deepening processes, changing consumer tastes and preferences and technological advancements. These changes in the business environment lead to the question; how do commercial banks in Kenya respond to the changes in the business environment? What are the environmental challenges facing Kenyan commercial banks and which strategies are adopted by Kenyan commercial banks in response to environmental changes?

## 1.3 Research Objectives

The objectives of this study are to:

(i) To identify the environmental challenges facing Kenyan commercial banks.

(ii) To identify the strategies adopted by Kenyan commercial banks in response to environmental changes.

## 1.4 Importance of the Study

This study will provide managers and board of directors of commercial banks with information on the general factors that influence the activities in the industry and the types of strategies employed by their peer commercial banks. They will be able to infer the challenges faced by the commercial banks and thus assist them accordingly in developing and implementing strategies that may help them deal with the challenges identified.

The study is intended to add to the body of knowledge, specifically with regard to strategies in the Kenyan banking industry and hopefully ignite the need for further research especially looking into competition arising in the sector. Policy makers would infer from the study on government initiatives for financial deepening and regional integration.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Environmental Dependence

According to Johnson and Scholes (2003), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

Ansoff (1980) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

Systems delay typically occurs in large firms due, in part, to the time consumed in observing, interpreting, collating and transmitting information to responsible managers. In another part, it due to the time consumed by these managers in communicating with one another and establishing a common understanding as well as the time necessary for processing the decisions among the responsible groups and decision levels. A verification delay may be invoked because some managers will argue that, even though the level of

impact has reached unacceptable proportions, there is never an ironclad assurance that the threat is real and that the impact is permanent. They will opt for waiting a little longer to see if the threat will 'blow itself out.'

A political delay may occur if certain managers, whose domain contributes to the crisis, feel that the recognition of a crisis will reflect on their reputation and/or will cause them to lose power. Even if they are convinced that the threat is real, they will want to fight a delaying action to avoid becoming scapegoats, to gain breathing space to develop a line of defense, or to line up a line of retreat. Unfamiliarity rejection delay would contribute to other three if, as is typical in the Western managerial culture, the managers are trained to trust prior and familiar experiences and reject unfamiliar ones as improbable and invalid.

These delays will substantially increase the total cost to the firm. Such response is referred to as reactive management. The organization will incur two types of costs as a result of delayed response to discontinuous changes. These are the cumulative loss of profit and the cost incurred in arresting or reversing the loss. Management problem is to minimize the total losses (Ansoff and McDonnell, 1990).

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. One such strategy is the corporate turnaround strategy. A turnaround situation is one of pointing out to a new direction. It is a complete change in strategic direction of a firm after it has faced a corporate distress. Such a situation can easily lead to collapse of a company unless a plan of corporate survival and renewal is devised and successfully executed. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson (1997).

### 2.1.1 Concept of strategy

In 1965, Professor Ansoff looked at strategy as the common thread among the organizations activities and product, markets that defines the essential nature of business that the organization was planned to be in future. Igor Ansoff et al. (1990) saw strategy as a unified, comprehensive and integrated plan designed to ensure that the basic objectives

of the enterprise are achieved. The three adjectives that Glueck used make the definition quite adequate. 'Unified' means that the plan joins all parts of an enterprise together; 'comprehensive' means it covers all the major aspects of the enterprise, and 'integrated' means that all the parts of the plan are compatible with each other (Kotter, 2007).

Strategy is the direction and scope of an organization over the long-term, which ideally matches resources to its changing environment and its particular markets so as to meet stakeholders' expectations. This definition identifies three key components of strategy. First, the need to define the scope and range of an organization's activities within the specific environment it faces. Second, the needs of customers and markets are matched against resource capability to determine long-term direction; and third, the roles that stakeholders have on the strategy articulation due to their influence over the values, beliefs and principles which govern organizational behavior and business conduct (Johnson and Scholes, 1993).

Thus strategy refers to the machinery of the resources and activities of an organization in relation to the environment in which it operates (Johnson and Scholes, 2001). According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

The purpose of strategy is to provide directional cues to the organization that enable it to achieve its objectives while responding to the opportunities and threats in the environment. According to this definition, strategy is a match between organization's resources and skills and the environmental threats and opportunities as it endeavors to achieve its targeted goals and objectives (Schendel and Hofer, 1979). Chandler (1992) sees strategy as the determination of basic long term goals and objectives, the adoption of action to achieve them and the allocation of resources.

The centralized planning view of strategy was countered by Henry Mintzberg who saw strategy as a pattern that can be observed from a stream of actions and decisions. He



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introduces the concept of emergent strategy, which holds that strategy can only be observed after the event that it governs. There are two extremes of strategy; the completely deliberate strategy and the completely emergent strategy. In practice however, strategy tends to be a mix of the two (Mintzberg, 1983). Thomson and Strickland (1992) advance that strategy is the managerial action plan for achieving the objective. It is a pattern of moves and approaches devised by management to produce the targeted outcomes.

### 2.1.2 Strategic responses

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization have opened up markets to environmental forces. Coping with an increasingly competitive environment has compelled firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

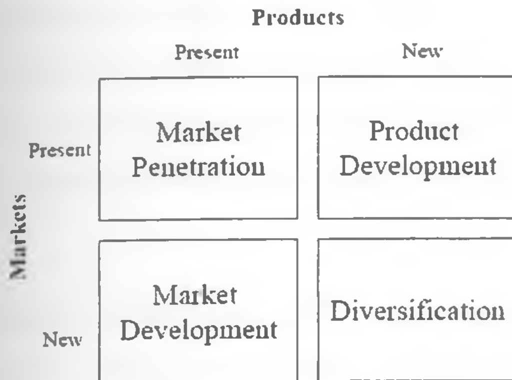
According to Ansoff and McDonnell (1990), strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to best support its long term competitive strategy.

## 2.2 Growth Strategies

Ansoff's growth strategy matrix was first published in the Harvard Business Review in 1957 and remains a popular tool for analyzing growth. It is a strategic grid that can help

firms identify their future strategic direction, and is often used when firms are planning for growth. Ansoff's Matrix categorizes four separate strategies, but importantly also emphasizes the degree of risk of each approach. To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers) as shown below:

Figure 1 Ansoff's Growth Strategy Matrix




*Source: Kotler (2000). Marketing Management, Millennium Edition, New Jersey Prentice Hall, pp7*

By considering growth via existing products and new products, and in existing markets and new markets, four possible product-market combinations from Ansoff's matrix presents four main strategic choices - Market penetration, Market development, Product development and Diversification.

### 2.2.1 Market Penetration Strategy

Lancaster (1988) stated that Market Penetration is a strategy of expanding sales based on existing products in existing markets. This is the strategy of penetrating more deeply into the same market. Essentially the same good or service is being promoted / pushed harder onto the same target customer group. This strategy is reliant on the fact that there is some untapped potential to increase sales in the same market. This may mean that customers can be persuaded to buy the product more regularly, switch from a competitor, or encourage customers in the target market who may not have yet started to buy the

product to do so. In this cell, the products remain unchanged and no new customer segments are pursued. Instead, the company repositions the brand, launches new promotions or otherwise tries to gain market share and accordingly, increase revenue (Kotler, 2000).

There is increased product availability and awareness by encouraging current customers to buy more per period, attracting competitor's customers, and /or convincing non-customers of their need to become customers. This strategy is easiest to pursue in the introduction and growth stages of an industry, as all competitors can grow together and the perceived level of rivalry is low. At the mature and decline stages, however, continued growth comes through taking a share from competitors (Kotler, 2000).

Johnson and Scholes (2002) argue that this strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. The strategy also probably requires the least amount of finance for expansion, although resources may need to be channeled into promotional campaigns to appeal to and then persuade customers. This could be in the form of advertising, sponsorship, special promotions and even temporary price discounts.

Some factors the firm should take into account in the deliberations on whether to pursue this strategy are the growth of present market, strength of competition, ability to increase volume of sales, ability of customers to consume more of the product more frequently and strength of brand awareness. Egan and Thomas (1998), advance that brand building is one way of achieving greater penetration of existing markets with existing products. Brand building can be achieved by such means as improved quality, better communications and positioning, providing consistently high levels of brand investment rather than making short-term cutbacks. The objective of this is to make existing customers more brand loyal (brand switching less often) and or make new customers in

the same market begin to buy the brand. Higher penetration can be achieved by increasing brand usage through frequency or quantity. Where the total market is still growing, the strategy may be achieved for example through "natural" market growth. In markets that are static or declining, a market penetration strategy can be achieved only by increasing market share at the expense of competitors.

### 2.2.2 Market Development Strategy

According to Pearce and Robinson (2001), Market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographic or other new opportunities. The company targets new geographic areas, domestically and internationally, identifying potential new customer groups, seeking additional distribution channels and developing new locations both domestic and abroad.

Doyle (1994) advanced that market development strategy consists of marketing present products, often with only cosmetic modifications to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media. Several specific approaches are: Opening additional geographic markets (regional expansion, national expansion and international expansion), attracting other market segments (developing product versions to appeal to other segments, entering other channels of distribution and advertising on other media).

Market development involves the firm moving into new segments of the same market, or even into entirely new markets. Therefore, there is a greater degree of risk, as the firm does not have the same understanding, knowledge and experience of the new segment / market. This suggests to some extent, that the firm is more vulnerable to making an inappropriate judgment that could damage profitability. The firm, therefore, needs to decide whether it is worthwhile targeting new markets. What the firm needs to consider is the ability to distribute to new geographical locations (towns, regions or countries), utilization of unused distribution channels, reasons why some consumers are not using

the product and the different applications for the product that will attract new markets (Blackpool, 2002) .

### 2.2.3 Product Development Strategy

According to Pearce and Robinson (2001), this Strategy involves marketing new products to existing customers. The company grows by innovating, gradually replacing old products with new ones; the firm develops potential new products based on customer wants and needs through new product technologies and developing different product quality levels. This strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share (Gultinan and Madden, 1997). Egan and Thomas (1998) stated that loyal customers are return customers and therefore are very valuable to the business. Many could be very receptive to new products produced by the business. The firm could investigate the ability to add new features to the product, possibility of expanding the product line and possibility of creating a new version. According to these authors growth can come through developing new products for existing markets. New products giving extra benefits based on new features can be the motor for increased sales and market share.

Thompson and Strickland (2001) advance that when product life cycles are short- as with software or consumer electronics, Product development becomes an essential requirement of an organization's strategy. Product development involves substantial modification of existing products or creation of new but related items that can be marketed to current customers through established channels. The product development strategy is often adopted either to prolong the life cycle of current products or take advantage of favorable reputation and brand name. The idea is to attract satisfied customers to new products as a result of their positive experience with the company's initial offering.

According to Doyle (1994), some of the many specific options available to business undertaking product development are developing new product features, developing quality variations and developing additional models and sizes (product proliferation). Product development involves selling additional products to current customers; examples include salads at Pizza Hut, software and laser printers from Apple Computer, tax planning and management consulting from auditing firms and amplifiers from Fender Guitar Company. Whereas market development requires marketing and selling skills, product development requires technical, research and development skills. An alternative approach to new products for current customers is to use licensing agreements with other firms to provide their products under one's brand, such as IBM's Canon-produced printers. This requires strategic alliance skills.

### 2.2.4 Diversification Strategy

Johnson and Scholes (2002) define Diversification as a strategy which takes the organization away from its current market or product or competencies. Adapting this strategy entails taking the greatest risk; here, the company markets new products to new customers. There are two types of diversification; related and unrelated. In related diversification, the company enters a related market or industry. In unrelated diversification, the company enters a market or industry in which it has no relevant experience. Strategy in diversification growth is to identify opportunities that would add attractive businesses that are unrelated to the company's current business and the pursuit or the acquisition of additional brands to broaden product offering. Gultinan and Madden (1997) add that diversification strategy involves the development of new products for new markets and consequently is the most risky of the four options.

According to Doyle (1994), it is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact this quadrant of the matrix has been referred to by some people as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification

include the potential to gain, a foothold in an attractive industry and reduction of overall business portfolio risk. Whether or not the firm promotes this strategy will depend on the situation of the market, the business' cash reserves and the skills of staff to take on new product lines. Kotler (2000) states that diversification growth makes sense when good opportunities can be found outside the present. A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful.

Diversification can take a number of forms; for example a company might choose to diversify into new products markets by moving through the channel of production and distribution. Alternatively, the diversification may be into an entirely unrelated form of business activity. Different routes can achieve diversification. Internally, by the firm developing a new activity or externally, by the firm acquiring another firm whose activities are distinctive from its existing activity. Internal diversification may involve the firm using its technological expertise to develop products, which take it into new areas of activity, such as ICI in chemicals and plastics. Or it could involve a firm exploiting its "brand name" to enter new activities as when Marks and Spencer moved into financial services. Lancaster and Massingham (1988) Diversification may also involve internationalization; so many diversified firms are also international in scope (Schulz, 1999).

Related diversification is strategy development beyond current products and markets, but within the value system or 'industry' in which the company operates. For example, Unilever is a diversified corporation, but virtually all of its interests are in the fast-moving consumer goods industry. Under related diversification there is vertical integration that describes either backward or forward integration into adjacent activities which are concerned with the inputs into the company's current business. For example, raw materials, machinery and labor are all important inputs into a manufacturing company, so the acquisition by a car manufacturer of a component manufacturer would be related diversification through backward integration. Forward integration refers to development into activities that are concerned with a company's outputs, such as

transport, distribution, repairs and servicing (Johnson and Scholes, 2002).

According to Thompson and Strickland (2001), horizontal integration, which is also a related diversification, deals with development into activities that are competitive with or complementary to, a company's present activities. For example, many organizations have realized that there are opportunities in other markets for the exploitation of the organization's competences-perhaps to displace the current providers as a new entrant For example the Automobile Association (A.A) had been founded club for motorists in the UK and extended into providing rescue services for breakdowns. As this market came under fierce attack from specialist breakdown organizations in the 1990s, the AA extended into new markets by exploiting its expertise in rapid response to crisis.

Unrelated Diversification also referred to as Conglomerate is diversifying into a completely different industry. Example: The snow ski firm acquires a firm that designs and makes women's evening gowns Kotler (2000). Occasionally a firm, particularly a very large one plans to acquire a business because it represents the most promising investment opportunity available. The principal and often sole concern of the acquiring firm is profit pattern of the venture. There is little concern given to creating product/ market synergy with existing business (Pearce and Robinson, 2001).

Studies of big business in many countries suggest that there was an increasing trend towards diversified firms from the 1950's onwards. The typical large firms, nowadays, are therefore diversified, although some are a lot more diversified than others. During the 1980s, according to Schulz (1999), the fashion for diversification slowed down somewhat and some diversified firms went into reverse and began to divest themselves of some of their activities. This trend was called "getting back to basics", concentrating on the core, and more graphically, "sticking to the knitting". These trends, first to greater diversity, and later away from diversification, were closely related to changes in acquisition activity in the US and the UK.

There is no shortage of reasons available for firm diversification. Many authors give long lists of "reasons" which purport to "explain" diversification. Whiteley (1997) illustrates a good example of the genre. It rounds up and describes all the usual suspects for diversification. These include risk reduction, earnings stability, synergy, growth, adapting to customer needs, and the use of "spare" resources. Asking whether extending the scope of the firm adds value we are led to focus on the ability of the firm to achieve either higher prices or lower costs as a result of such a strategy. There are some arguments about the possibility of firms extending the exercise of their market power in one area to another area through diversifying but these are not very convincing (Schulz 1999).

Hill and Jones (1995) however suggest that firms that grow through diversification into more unrelated business, will do so by sacrificing profitability, as the competencies of the company to produce adequate returns on investments in business ventures that they have little expertise in can lead to a decline in profitability. Furthermore, growth brings in positive return only to a certain extent, beyond which the firm's managers will sacrifice the wealth of its stockholders to achieve higher growth. By testing the relationship between firm growth strategies and performance, it would be clear if there exists a significant relationship between the two constructs.

### 2.2.5 Effectiveness of growth strategy

Several researchers have suggested that growth strategies need to be managed well so that the firm can maneuver its orientation towards its market as well as its stakeholders appropriately. For instance, "aggressive and rapid growth could increase risk by straining a firm's human resources and its ability to develop efficient controls and an effective internal structure. Growth ought to be carefully managed while developing an internal structure that is capable of coping with that growth while maintaining control of the firm's operations" (Borde, 1998; p 68).

A study by Prakash (2002) used three measures of growth in order to test the effectiveness of the strategy. These measures included sales growth, asset growth, and

growth potential of the firm. Prakash (2002) observes that though researchers have used growth in earnings before interest and taxes as a proxy for growth, the assumption of these researchers while using this measure is that sales growth, asset growth and growth potential of the firm translate into earnings growth, which may not be the case (Prakash, 2002). A firm that does not pursue aggressive sales or asset growth may in fact grow in earnings, based on how its managers are able to manage the firm's profitability. To this extent Hill and Jones (1995) suggested that firms might grow at the expense of their stockholders' wealth. In other words, the excessive growth that a firm pursues may be at the expense of overall firm profitability.

The relationship between business risk and firm growth, vis-a-vis sales and assets was tested by Shepherd (1972), who found a negative correlation between the two variables. Oviatt and Baurschmidt (1991) saw that variability in the rate of business growth is likely to be accomplished by variability in returns or high risk. Growth strategies can be achieved through related or unrelated diversification strategies (Rumelt, 1974), which may in turn result in better firm performance, an outcome with mixed yet inconclusive results as far as past research in this area is concerned (Hoskisson and Hitt, 1990). Moreover, according to Kim et al. (1998), industry effects may lead to different performance outcomes, vis-a-vis the relationship between growth and firm performance. Hall and Weiss (1983) tested profitability to have a positive relationship with asset growth. The concept of growth in this case is based on firms' capabilities to increase their asset base in order to meet the market growth opportunities.

## 2.3 Expansion Strategy

Aldrich (1979) advanced that corporate expansion into a new market is one of the fundamental forms of strategic variation among business organizations. He further observed that it is also among the least understood outcomes of the inter - organizational environment, where incentives and constraints abound. He concluded that one can view corporate expansion as a form of constrained adaptation to growth opportunities.

To be able to strategically plan and implement growth strategies, firms need to plan what types of growth strategies suit their market orientation. Firms need to effectively choose the optimal growth strategy from the various alternatives that they have. These alternatives include expansion into existing businesses, diversification into new businesses, internal development, acquiring firms, and collaborative ventures.

Firms that undertake major, discrete expansion moves exert strategic choice, in the sense that managers have substantial influence in determining and selecting among multiple options about the occurrence, timing, and direction of organizational growth (Child, 1972). The object of such expansion is typically to improve corporate performance by increasing profitability, business growth, and the chances of survival. Some combination of these goals plausibly describes the incentives for firms to expand into new markets (Penrose, 1959).

## 2.4 Generic Competitive Strategies

The best strategy for an organization is ultimately a unique construction, which reflects its particular circumstances. Porter (1990) has presented three internally consistent generic strategies, which can be used singly or in combination to create a strong position in the long run. The three strategies are; overall cost leadership, differentiation and focus. The three generic strategies are alternative approaches to dealing with the competitive markets.

The organization failing to develop its strategy, in at least one of the three directions, is in an extremely poor strategic situation. Such an organization is almost guaranteed low profitability and quality. The organization stuck in this position should make a fundamental decision to develop its strategy. An organization stuck in the middle of competitive strategies must either take steps to achieve cost effectiveness or at least cost parity, which involves aggressive measures to develop the process. Alternatively, it must differentiate itself to achieve some uniqueness. The third strategy is to focus itself on a particular target market. Effectively implementing any of these strategies requires total commitment and supporting arrangements. A large organization can, however, have more

than one primary target in its departments or subunits and pursue more than one approach, if there are different environments, competitive situations and supporting organizational arrangements in these sub units (Kettunen, 1999).

### 2.4.1 Overall Cost Leadership

The strategy of overall cost leadership is achieved through a set of functional policies aimed at this basic objective. Cost leadership requires the construction of efficient-scale facilities and a vigorous pursuit of cost reductions in areas such as research and development, service and marketing. A great deal of managerial attention is necessary in order to achieve cost efficiency. A low-cost position provides substantial entry barriers in terms of cost advantages or scale economies. A low-cost position defends the organization against powerful buyers. A strategy of overall cost leadership is an appropriate choice in markets where the price level is relatively low defined by the public sector funding bodies or due to a hard competition in the market. Low cost also provides a defense against input cost increases. Achieving a low overall cost position often requires favorable access to input (Kettunen, 1999).

### 2.4.2 Differentiation

The differentiation strategy is achieved by creating something perceived as being unique in the market. An organization may differentiate itself within several dimensions. Differentiation can be achieved by brand image, technology, customer service or other dimensions. The differentiation strategy does not allow ignoring costs, but rather they are not the primary strategic target. Differentiation is a viable strategy for earning above-average returns, because it creates a defensible position for coping with competitive forces. Differentiation yields higher margins, since brand-loyal buyers lack comparable alternatives and are thereby less price sensitive. The resulting customer loyalty and uniqueness provide entry barriers for the competitors, because the organization is better positioned against substitutes than its competitors. Differentiation requires a perception of exclusivity (Kettunen, 1999).

### 2.4.3 Focus

The strategy of focusing on a particular customer group or segment of the product line may take several forms. The focus can be on a geographic market, an occupational group, at organizational level or a type of education. The functional policy is developed to serve a particular target very well. It is assumed that it is possible to serve the narrow strategic target more efficiently or effectively than other organizations which are operating more broadly. Even though the focus strategy does not aim to achieve low costs or differentiation, it does achieve one or both of these positions. As a result of the focus strategy the organization achieves lower costs, because of low-cost production or its distribution system. Alternatively, the organization is better able to meet the specialized needs of the particular customer. The focus strategy implies limitations on the over-all market share achievable, because it involves a trade-off between profitability and sales volume. The focus strategy may mean reducing the customer list to the main leading customers or chains. The focus strategy approaches the concept of collaboration. Cardno (1990) defines collaboration as a term employed to express partnership, cooperation, agreement, and consent, working in combination to accomplish institutional objectives. A close collaboration with one specific customer is an extreme form of focus strategy (Kettunen, 1999).

Kotler (2003) explains that in the case where the company targets the whole market, the targeting is referred to as extensive. The company has to design an offering and image to occupy a distinct place in the mind of the target market. This is referred to as product or service positioning. The result of positioning is the successful creation of a customer-focused value proposition that explains why the target market should buy the service (Barkowitz et al., 2003: Johansson, 2002). The positioning strategy that would give a company such advantage requires adequate market research (Middleton, 1998; Craven, 1991).

# CHAPTER 3: RESEARCH METHODOLOGY

## 3.1 Research Design

The research design for this study was a cross sectional survey. Donald and Pamela (1998) observe that a cross sectional survey design is concerned with finding out who, what, which and how of a phenomenon. The survey was preferred to a case study that would call for observations of characteristics of individual commercial banks.

## 3.2 Population

The target population of interest was all registered Commercial banks operating in Kenya. The commercial banks are as listed in the banks and financial institutions directory (Appendix I), obtained from the central bank of Kenya as at June, 2009. There are 45 banks in total. All the banks were considered in the study.

The study was carried out in Nairobi. Nairobi was chosen as the area to be covered by the study mainly due to the fact that all the commercial banks have their head office in Nairobi where the researcher could reach conveniently.

## 3.3 Data Collection

The names and addresses of commercial banks in Kenya were obtained from the Central Bank of Kenya as outlined in the banks and financial institutions directory. Primary data that is quantitative and qualitative was collected from primary sources through a structured questionnaire, self administered to the senior level management of the forty three commercial banks using face to face interviews. The senior level management were considered as the respondents because they are involved in the strategy formulation and implementation processes in their organizations.

Face to face interviews were deemed appropriate because they give the researcher an opportunity to interact with the respondent and get an optimal response rate while

allowing for review of the questionnaire for completeness in responses at the end of each session. Secondary information was obtained to reinforce collected data through desk research on review of bank's strategy documents.

### 3.4 Data Analysis

The data was entered using a worksheet. Data cleaning was undertaken to ensure that all questions are filled and done so correctly. It also included consistency check to ensure that instructions were followed especially for routing questions.

Since the study was descriptive in nature, the researcher proposed to use descriptive statistics. Data in Part A was analyzed using frequencies and percentages to summarize the demographic profiles of the respondents. Data in part B and C was analyzed using mean scores, standard deviations, frequencies and percentages to outline the various strategies adopted by the commercial banks in response to environmental changes.

# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

## 4.1 General Information

### 4.1.1 Position/ Title of the Respondents

**Table 1: Position/ Title of the Respondents**

| | Frequency | Percent | Valid Percent | Cumulative Percentage |
|---|---|---|---|---|
| Business Development Manager | 10 | 23 | 23 | 23 |
| Human Resource Managers | 5 | 11 | 11 | 34 |
| Marketing Managers | 15 | 33 | 33 | 67 |
| Relationship Mangers | 5 | 11 | 11 | 78 |
| Operations Manager | 5 | 11 | 11 | 89 |
| Finance and Accounting | 5 | 11 | 11 | **100** |
| **Total** | **45** | **100** | | |

*Source: Research data*

Table 1 shows the positions held and the percentage scores for each position held. The percentages ranged from (5-33) %. The positions held by the respondents were as follows: Business Development Manager (23%), Human Resource managers (11%), marketing Mangers (33%), operations Managers (11%) and lastly Finance and Accounting Managers (11%). It is quite evident from the findings that majority of the interviewed respondents were Marketing Managers.

## 4.2 Characteristics Commercial Banks

### 4.2.1 Bank classification

**Table 2: Bank classification**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Government owned domestic bank | 5 | 11 | 11 | 11 |
| Privately owned domestic bank | 30 | 67 | 67 | 78 |
| Foreign Owned Private bank. | 10 | 22 | 22 | 100 |
| **Total** | **45** | **100** | | |

*Source: Research data*

Results on organization classification revealed the following scores: Government owned domestic bank (11%), privately owned domestic bank (67%), and Foreign Owned Private banks at 22%. The findings imply that majority of the commercial banks interviewed were large privately owned.

### 4.2.2 Duration of operations in Kenya

**Table 3: Duration of operations in Kenya**

| Years of operation | Frequency | Percent |
|---|---|---|
| Less than 1- 5 years | 5 | 11 |
| 5-15 years | 20 | 44 |
| 16-30years | 10 | 23 |
| 31-50 | 5 | 11 |
| Over 50 | 5 | 11 |
| **Total** | **45** | **100** |

*Source: Research data*

Table 3 shows that majority of the commercial Banks firms have operated in Kenya for between 5 to 15 years. The findings were as follows: Less than one to 5 years (11%), 5-15 years (44%), 16-30years (23.0%), and 31-50 years (11%) over 50 years at 11%.

### 4.2.3 Number of branches

**Table 4: Number of Branches**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 1-5 | 0 | 0 | 0 | 0 |
| 5-15 | 5 | 11 | 11 | 11 |
| 16-30 | 5 | 11 | 11 | 22 |
| 31-50 | 10 | 23 | 23 | 45 |
| Over 50 | 25 | 55 | 55 | **100** |
| **Total** | **45** | **100** | | |

*Source: Research data*

Results on the number of branches were as follows; Less than one to 5 branches (0%), between 5-15 (11%), between 16-30 employees (11%), between 31-50 branches (23%) and over 50 branches at 55% implying that most of the commercial banks in Kenya have over 50 branches countrywide.

### 4.2.4 Branch network distribution

**Table 6: Branch network distribution**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Wide geographic distribution | 10 | 22 | 22 | 22 |
| Sparse geographic distribution | 5 | 11 | 11 | 33 |
| Concentrated in the cities/ major urban centers | 30 | 67 | 67 | 100 |
| **Total** | **80** | **100** | | |

*Source: Research data*

It is quite evident from table 6 that most of the commercial banks are concentrated in the cities and major urban centers. This is quite evident from the results which were as follows; wide geographic distribution (22%), sparse geographic distribution (11%) and concentrated in the cities/major urban centers at a much higher percentage of 67% implying that majority of the Kenyan commercial Banks are concentrated in the cities.

## 4.3 Bank Business Strategies

### 4.3.1 The extent to which commercial banks use market development growth strategy

**Table 4: The extent to which commercial banks use market development growth strategy.**

| | Frequency | Percent | Valid Percent | Cumulative Percent | **SD** |
|---|---|---|---|---|---|
| Target a new customer segment | 25 | 55 | 55 | 55 | 0.89 |
| Open new geographical branches nationally | 2 | 4 | 4 | 59 | 1.23 |
| Open new geographical branches regionally | 3 | 7 | 7 | 66 | 1.50 |
| Open new geographical branches Internationally | 5 | 11 | 11 | 77 | 0.99 |
| Seek additional distribution channels | 10 | 23 | 23 | 100 | 0.45 |
| **Total** | | **100** | | | |

*Source: Research data*

From Table 4 it can be deduced that majority of the commercial banks pursue the strategy of targeting a new customer segment as far as market development and growth strategy is concerned. Results on market development strategy and growth strategy were as follows: Target a new customer segment (55%), Open new geographical branches nationally (4%), Open new geographical branches regionally (7%), Open new geographical branches internationally (11%) and Seek additional distribution channels at 23%. From the standard deviations scores, it can be deduced that there were no significant variations in the responses given by the respondents during the interviews.

**4.3.2: The extent to which commercial banks use product development growth strategy**

**Table 5: The extent to which commercial banks use product development growth strategy**

| | Mean | Std. Deviation | percentage |
|---|---|---|---|
| Develop new bank products targeted to existing Customer | 4.32 | 0.92 | 80 |
| Develop bank products according to the needs of the Customers | 4.27 | 0.72 | 88 |
| Differentiate bank product features for different customer | 3.87 | 1.59 | 66 |
| Develop different bank product quality levels to suit Your customer pocket. | 4.87 | 0.35 | 90 |

*Source: Research data*

Results on the extent to which commercial banks have applied product development strategies were as follows; Develop new bank products targeted to existing Customer 4.32 (very large extent), (0.92), (80%), Develop bank products according to the needs of the Customers 4.27 (very large extent) , (0.72) and (88%), Differentiate bank product features for different customer 3.87 (large extent), (1.59) and (66%), and Develop different bank product quality levels to suit Your customer pocket 4.87 (very large extent), (0.35) and (90%). The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses given.

### 4.3.3: Application of Diversification Growth Strategy,

**Table 6: Application of Diversification Growth Strategy**

| | Mean | Std. Deviation | percts |
|---|---|---|---|
| Carrying out another business related to the Current banking business | 3.50 | 0.72 | 58 |
| Carrying out business unrelated to the Current banking business | 4.32 | 0.92 | 80 |

*Source: Research data*

Results on the extent to which commercial banks have applied diversification growth strategy were as follows; Carrying out another business related to the Current banking business 3.50 (moderate extent), (0.72) and 58% and Carrying out business unrelated to the Current banking business 4.32 (very large extent), (0.92), (80%). The findings imply that commercial banks have diversified their offerings to include even areas not related to the current banking business.

### 4.3.4: Application of cost leadership generic strategy,

**Table 6: Application of cost leadership generic strategy**

| | Mean | Std. Deviation | Percentage |
|---|---|---|---|
| Provide the services at lowest possible costs | 4.32 | 0.92 | 80 |
| Provide the services at the lowest possible price | 4.27 | 1.72 | 88 |
| Develop organizational cost efficiency | 3.87 | 1.59 | 66 |
| Develop efficient scale facilities | 4.87 | 1.35 | 90 |

*Source: Research data*

Results on the extent to which commercial banks have applied cost leadership and generic strategies were as follows; Provide the services at lowest possible costs 4.32 (very large extent), (0.92), (80%), Provide the services at the lowest possible price 4.27 (very large extent) , (0.72) and (88%), Develop organizational cost efficiency 3.87 (large extent), (1.59) and (66%), and Develop efficient scale facilities 4.87 (very large extent), (0.35) and (90%). The scores on standard deviations were less than one in most cases implying that there were significant variations in the responses.

**4.3.5: Application of focus generic strategy**

**Table 7: Application of focus generic strategy**

| | **Mean** | **Std. Deviation** | **percentage** |
|---|---|---|---|
| Target a specific geographic market | 3.32 | 1.92 | 80 |
| Target a specific sector in the economy | 4.27 | 1.72 | 88 |
| Concentrate on main leading customers | 4.87 | 1.59 | 66 |
| Open new geographical branches | 2.87 | 1.35 | 90 |

*Source: Research data*

Results on the extent to which commercial banks have apply focus generic strategy were as follows; Target a specific geographic market 3.32 (moderate extent), (0.92), (80%), Target a specific sector in the economy 4.27 (very large extent) , (0.72) and (88%), Concentrate on main leading customers 4.87 ( very large extent), (1.59) and (66%), and Open new geographical branches 2.87 (small extent), (0.35) and (90%). The scores on standard deviations were greater than one in most cases implying that there were significant variations in the responses.

**4.3.6: The Extent to which commercial banks use differentiation generic strategy**

**Table 8: The Extent to which commercial banks use differentiation generic strategy**

| | Mean | Std. Deviation | Percentage |
|---|---|---|---|
| Develop services targeted to existing Customers | 4.52 | 0.92 | 88 |
| Develop unique customer service Levels | 4.27 | 1.72 | 88 |
| Develop services according to the needs of the Customers | 4.87 | 1.59 | 96 |
| Differentiate service features for different customers Preferences | 4.80 | 1.35 | 87 |
| Develop different service quality levels that suit The customer pocket | 4.67 | 0.45 | 80 |
| Develop organizational brand image to Create uniqueness | 3.80 | 0.55 | 69 |
| Develop organizational technology leadership Positioning | 3.99 | 0.49 | 75 |

*Source: Research data*

Results on the extent to which commercial banks have applied differentiation generic strategy were as follows; Develop services targeted to existing customers 4.52 (very large extent), (0.92), (88%), Develop unique customer service Levels 4.27 (very large extent), (1.72), (88%), Develop services according to the needs of the Customers 4.87 (very large extent), (1.59), (96%), Differentiate service features for different customers Preferences 4.80 (very large extent), (1.35), (87%), Develop different service quality levels that suit The customer pocket 4.67 (very large extent), (0.45), (80%), Develop organizational brand image to Create uniqueness 3.80 (large extent), (0.55), (69%) and Develop organizational technology leadership Positioning 3.99(large extent), (0.49) and 79%.The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses.



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### 4.4 Discussions

The objectives of this study were identify the environmental challenges facing Kenyan commercial banks and identify the strategies adopted by Kenyan commercial banks in response to environmental changes. This section gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

Results on the use of market development growth strategy revealed that commercial banks pursue the strategy of targeting a new customer segment as far as market development and growth strategy is concerned. Results on market development strategy growth strategy were as follows: Target a new customer segment, Open new geographical branches nationally, Open new geographical branches regionally, Open new geographical branches internationally and Seek additional distribution channels. From the standard deviations scores, it can be deduced that there were no significant variations in the responses given by the respondents during the interviews.

Results on the extent to which commercial banks have applied product development strategies were as follows; Develop new bank products targeted to existing Customer, Develop bank products according to the needs of the Customers, Differentiate bank product features for different customer and Develop different bank product quality levels to suit Your customer pocket. The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses given.

Results on the extent to which commercial banks have applied diversification growth strategy revealed that commercial banks Carrying out business unrelated to the Current banking business. The findings were as follows; carrying out another business related to the current banking business and Carrying out business unrelated to the Current banking business. The findings imply that commercial banks have diversified their offerings to include even areas not related to the current banking business.

Results on the extent to which commercial banks have applied cost leadership and generic strategies were as follows; Provide the services at lowest possible costs, Provide

the services at the lowest possible price, Develop organizational cost efficiency, and Develop efficient scale facilities. The scores on standard deviations were less than one in most cases implying that there were significant variations in the responses.

Results on the extent to which commercial banks have apply focus generic strategy were as follows; Target a specific geographic market, Target a specific sector in the economy, Concentrate on main leading customers, and Open new geographical branches. The scores on standard deviations were greater than one in most cases implying that there were significant variations in the responses.

Results on the extent to which commercial banks have applied differentiation generic strategy were as follows; Develop services targeted to existing customers, Develop unique customer service Levels, Develop services according to the needs of the Customers, Differentiate service features for different customers Preferences, Develop different service quality levels that suit The customer pocket, Develop organizational brand image to Create uniqueness and Develop organizational technology leadership Positioning. The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses.

Several studies have been carried out in Kenya, addressing the aspects of Kenyan firms and economic liberalization (Oyoo, 2002; Owiye, 1999; Yatich, 2001 and Kombo, 1997). The literature cited above indicates that there has been no study focusing on the strategies adopted by commercial banks in Kenya in response to environmental changes. The Kenyan banking industry has seen a paradigm shift in the last couple of years with intensified competition and entry of new well established players, changing regulatory provisions and prudential guidelines, financial sector deepening processes, changing consumer tastes and preferences and technological advancements.

# CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

## 5.1 Summary

### 5.1.1 Environmental Challenges Facing Kenyan Banks

The ever evolving banking sector in Kenya presents numerous environmental challenges to the various players. The main hurdle is increasing competition which has seen a rise in the number of players. Increased competition comes not only from traditional sources like other banks and financial houses but from the unlikeliest of sources-Telecom operators. The incredible uptake of mobile banking in Kenya is testament to the disruption of the traditional banking and the advent of the technology driven industry. Increasing competition has also seen banks move from traditional trade finance and medium term commercial loans to long term mortgage lending further upsetting established industry dynamics.

The regulatory environment has also changed and the rules for example have been altered to allow Bank assurance. This has necessitated the banks to rethink their business models so as to exploit the immense opportunities opened by this change.

Advances in technology have further altered the industry environment by offering unprecedented access to consumers via the internet. The traditional banking model cannot maximize on these developments without radically altering its outlook and processes.

The results of this study show that banks are cognizant of the environmental changes occurring and are adapting in several ways to these challenges.

### 5.1.2 Strategies Adopted to Respond to The Environmental Challenges

Results on market development strategy growth strategy were as follows: Target a new customer segment, Open new geographical branches nationally, Open new geographical branches regionally, Open new geographical branches internationally and Seek additional distribution channels. From the standard deviations scores, it can be deduced that there

were no significant variations in the responses given by the respondents during the interviews.

Results on the extent to which commercial banks have applied product development strategies were as follows; Develop new bank products targeted to existing Customer, Develop bank products according to the needs of the Customers, Differentiate bank product features for different customer and Develop different bank product quality levels to suit Your customer pocket. The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses given.

Results on the extent to which commercial banks have applied diversification growth strategy revealed that commercial banks Carrying out business unrelated to the Current banking business. The findings were as follows; carrying out another business related to the current banking business and Carrying out business unrelated to the Current banking business. The findings imply that commercial banks have diversified their offerings to include even areas not related to the current banking business.

Results on the extent to which commercial banks have applied cost leadership and generic strategies were as follows; Provide the services at lowest possible costs, Provide the services at the lowest possible price, Develop organizational cost efficiency, and Develop efficient scale facilities. The scores on standard deviations were less than one in most cases implying that there were significant variations in the responses.

Based on the findings Commercial banks have applied the following differentiation generic strategy; Develop services targeted to existing customers, Develop unique customer service Levels, Develop services according to the needs of the Customers, Differentiate service features for different customers Preferences, Develop different service quality levels that suit The customer pocket, Develop organizational brand image to Create uniqueness and Develop organizational technology leadership Positioning. The scores on standard deviations were less than one in most cases implying that there were no significant variations in the responses.

## 5.2 Recommendations

Based on the findings it may be recommended that commercial banks should not only concentrate on targeting new customers but also emphasize on developing extensive distribution channels in order to gain a competitive edge in the market. Commercial banks management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

Recent advances in the ICT sector that offer greater convenience and flexibility to the consumers for example Internet Banking need special attention. These advances promise a multi-faceted advantage in satisfying customer demand for convenience and innovation whilst simultaneously satisfying managements need for increased distribution channels and cost reduction. In such a scenario banks stand to achieve higher sales while costs would reduce. Profits would soar.

## 5.3 Limitations of the study

The study was limited to the perspective of the top level management point of view only. Therefore the findings may have a marginal error as a result of this. The human factor in responses cannot be overlooked. Top level management is very tight lipped especially in the high stakes banking sector where intense battles for market share are played out daily. The fear and suspicion of collecting data on strategic responses may lead respondents to compromise on the accuracy of their responses. Bias is inevitable.

Finally getting hold of the management team to answer the questionnaires was also a big challenge due to lack of time to fill in the questionnaires. This forced the researcher to make several call backs in order to get hold of the respondents. This had cost and time implications on the researcher.

## 5.4 Suggestions for further research

The study was conducted in commercial banks in Kenya. The study findings are according to the top management point of view. The middle managers views are as well

important and should be taken into account. Future researchers may conduct a study targeting both the middle and top level management.

Further research is also required into other sectors of the economy. It would be important to see the changes evolving in other industries and see how the players respond to change. Such studies would provide Government policy makers with invaluable insight into the common challenges facing firms across various industries and thus enable them to put in place policies that will ease the challenges and thus improve the nation's overall competitive advantage.

### 5.5 Conclusion

The objective of this study was to identify the strategies adopted by Kenyan commercial banks in response to environmental changes.Based on the findings it can be concluded that banks target a new customer segment as far as market development and growth strategy is concerned. This is followed closely by seeking additional distribution channels. It was also revealed that the least market development strategy used by commercial banks are; opening new geographical branches nationally, Opening new geographical branches regionally, and Opening new geographical branches internationally.

Based on the findings on the extent to which commercial banks have applied product development strategies, it can be concluded that commercial banks use the following strategies to a large extent; Develop new bank products targeted to existing Customer, Develop bank products according to the needs of the Customers and Develop different bank product quality levels to suit Your customer pocket. Results on the extent to which commercial banks have applied diversification growth strategy revealed that commercial banks Carrying out business unrelated to the Current banking business.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE:

**PART A**

**General Information.**

**Please tick or fill as appropriate**

1. Name ………………………………………………………………………(Optional)
2. Bank ………………………………………………………………………(Optional)
3. Job Title……………………………………………………………………………..
4. Department……………………………………………………………………………

**Commercial Bank Characteristics:**

**1. How do you classify your bank?**

- Government owned domestic bank ( )
- Privately owned domestic bank ( )
- Foreign Owned Private bank. ( )

**2. For how long has your bank operated in Kenya?**

- Less than five years ( )
- 5 – 15 years ( )
- 16 – 30 years ( )
- 31 -50 years ( )
- Over 50 years ( )

**3. How many branches does your bank have?**

- Less than 5 branches ( )
- 5 – 15 branches ( )
- 16 – 30 branches ( )
- 31 -50 branches ( )
- Over 50 branches ( )

4. **What is your branch network distribution?**

- Wide geographic distribution ( )
- Sparse geographic distribution ( )
- Concentrated in the cities/ major urban centers ( )

**PART B.**

**Bank Business strategies**

5. **In determining the extent to which your bank uses market development growth strategy, please indicate the extent to which each of the following is important to your bank on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Target a new customer segment | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Open new geographical branches nationally | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Open new geographical branches regionally | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Open new geographical branches Internationally | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Seek additional distribution channels | ( ) | ( ) | ( ) | ( ) | ( ) |

6. **In determining the extent to which your bank uses Product development growth strategy, please indicate the extent to which each of the following is important to your organization on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Develop new bank products targeted to existing Customers | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop bank products according to the needs of the Customers | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Differentiate bank product features for different customer Preferences | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop different bank product quality levels to suit Your customer pocket | ( ) | ( ) | ( ) | ( ) | ( ) |

7. **In determining the extent to which your bank uses diversification growth strategy, please indicate the extent to which each of the following is important to your bank on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Carrying out another business related to the Current banking business | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Carrying out business unrelated to the Current banking business | ( ) | ( ) | ( ) | ( ) | ( ) |

**8. To determine the extent to which your bank uses cost leadership generic strategy, please indicate the extent to which each of the following is important to your bank on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Provide the services at lowest possible costs | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Provide the services at the lowest possible price | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop organizational cost efficiency | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop efficient scale facilities | ( ) | ( ) | ( ) | ( ) | ( ) |

**9. To determine the extent to which your bank uses focus generic strategy, please indicate the extent to which each of the following is important to your bank on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Target a specific geographic market | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Target a specific sector in the economy | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Concentrate on main leading customers | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Open new geographical branches | ( ) | ( ) | ( ) | ( ) | ( ) |

**10. To determine the extent to which your bank uses differentiation generic strategy, please indicate the extent to which each of the following is important to your organization on a scale of 1 to 5.**

*5 – Very large extent*

*4 – Large extent*

*3 – Moderate extent*

*2 – Small extent*

*1 – No extent*

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| o Develop services targeted to existing Customers | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop unique customer service Levels | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop services according to the needs of the Customers | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Differentiate service features for different customer Preferences | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop different service quality levels that suit The customer pocket | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop organizational brand image to Create uniqueness | ( ) | ( ) | ( ) | ( ) | ( ) |
| o Develop organizational technology leadership Positioning | ( ) | ( ) | ( ) | ( ) | ( ) |

***THANK YOU ***

## APPENDIX II: COMPLEMENTARY LETTER TO THE RESPONDENTS:

**UNIVERSITY OF NAIROBI.** **Date:.......................**

**School of Business,**

**P. O. Box 30197,**

**Nairobi – Kenya.**

**Tel: +254 (020) 732160.**

***To Whom It May Concern:***

The bearer of this letter:..................................................................

Registration number........................................Telephone...........................is a master of Business administration (MBA) student at he University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today.

We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of academic research and in no way will your organization be implicated in the research findings.

A copy of the report would be availed to the interviewed organization(s) on request.

Thank you,

**The coordinator, MBA program.**

## APPENDIX III: LIST OF COMMERCIAL BANKS

| | | |
|---|---|---|
| | African Banking Corporation. | |
| | Bank of Baroda Kenya Ltd. | |
| | Bank Of India (K) Ltd. | |
| | Barclays Bank of Kenya Limited. | |
| | Bank of Africa. | |
| | CFC Stanbic Bank Limited. | |
| | Chase Bank (K) Limited. | |
| | City Finance Bank limited. | |
| | Commercial Bank of Africa Ltd. | |
| | Consolidated bank of Kenya Ltd. | |
| | Co-operative Bank of Kenya Ltd. | |
| | Credit Bank Ltd. | |
| | Development Bank of Kenya Ltd. | |
| | Diamond Trust Bank of Kenya. | |
| | Dubai Bank Ltd. | |
| | Equatorial Commercial Bank Ltd. | |
| | Equity Bank | |
| | Ecobank Ltd. | |
| | Family Bank Ltd. | |
| | Fidelity Commercial bank Ltd. | |
| | Fina Bank Ltd. | |
| | First Community Bank Ltd. | |
| | Giro Commercial Bank. | |
| | Guardian Bank. | |
| | Gulf African Bank Ltd. | |
| | Housing Finance Ltd. | |
| | Habib Bank A.G. Zurich. | |
| | Habib Bank Limited. | |
| | Imperial Bank Limited. | |

| | | |
|---|---|---|
| | Investments & Mortgages (I&M) Bank. | |
| | Kenya Commercial bank Ltd. | |
| | K- Rep Bank. | |
| | Middle east Bank Kenya Ltd. | |
| | National Bank of Kenya. | |
| | National Industrial Credit Bank. | |
| | Oriental Commercial Bank | |
| | Paramount – Universal Bank Ltd. | |
| | Prime Bank Limited. | |
| | Savings and Loan (K) Ltd. | |
| | Southern Credit Banking Corporation. | |
| | Standard Chartered Bank (K) Ltd. | |
| | Trans- National Bank Ltd | |
| | Victoria Commercial Bank Ltd. | |

**Source: Central Bank of Kenya (March, 2009)**