COMPETITIVE STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented to any other university fo

a degree.

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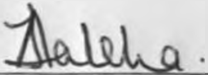
DECLARATION BY THE SUPERVISOR

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



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DEDICATION

This research project proposal is dedicated to my friend Tony and our twin daughters, Raya and Renee.

ABSTRACT

Strategic management ensures organisational performance by creating and shaping effective strategy to outwit competition. The primary objective of banks is to maximize the performance overtime leading to profitability. Superior performance can be achieved in a competitive industry through pursuit of a generic strategy. The banking industry has witnessed the rise of many banks which are all competing for the same market. This has demanded that banks formulate and implement competitive strategies to be able to cope with the competitive pressures. Following the changes in the environment, banks have been forced to come up with competitive strategies that will deal with the forces in the environment in order to gain a competitive advantage in terms of performance.

This study therefore aimed at determining the influence of competitive strategies to the firm's performance. Despite the challenges and changes in the environment facing the banking sector, banks have continued to be among the formidable firms in the financial sector operating profitably. This is as a result of the various strategies the banks have been putting in place in order to attain superior performance. The choice of strategies by commercial banks have determined the direction of the bank and the performance.

The study used a survey study to assist in achieving the objectives of the study. The study involved a collection of both primary and secondary data. Primary data was collected by use of a structured questionnaire which was distributed to corporate strategy managers or operations managers of the banks who's positions and roles gives them the ability to respond effectively to most of the questions. To achieve this objective, respondents were issued with a number of competitive strategies and were required to score on 5 point likert scale the extent to which the strategies were adopted by their respective banks. The population of the study consisted of all

the 43 commercial banks operating in Kenya as at 31st December 2010. Out of the 43 banks targeted, 30 responded by returning filled questionnaires. This formed 70% response rate.

Secondary data in form of various performance measures was obtained from the respective banks financial and management statements of banking institutions operating in Kenya as well as from the Central Bank of Kenya's Website on performance and strategies being adopted. Measures of central tendency and measures of dispersion, proportions and percentages were used to describe the data. Pearson correlation analysis was used to examine the relationship between independent variables (low – cost leadership, differentiation and focus) and the dependent variable (Firm Performance).

The study was able to establish that despite the challenges faced by banks in implementing competitive strategies, they are very important since they enable the remain competitive. In the banking industry, understanding the market structure is a key determinant for successful implementation of competitive strategies. Banks following differentiation strategy statistically achieved significant superior performance compared to those that pursued cost leadership and focus strategies. The cost leadership strategy has since been employed by close to all commercial banks hence cannot be sufficient in itself to deal with competition. Commercial banks have to keep differentiating their services from those of other banks to achieve competitive advantage. The researcher highly recommends that banks shift their focus to differentiation strategy to enable them achieve superior performance.

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ABBREVIATIONS & ACRONYMS

CAMEL	-	Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity.
CBK	-	Central Bank of Kenya
CRB	-	Credit Reference Bureau
KYC	-	Know Your Customer
ROA	-	Average Economic Profitability
ROE	-	Return on Equity
ROI	-	Return on Investment
R & D	-	Research and Development
WAR	-	Weighted Assets Ratio
YOI	-	Year of Incorporation

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CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Organizations exist as open systems hence they are in constant interaction within the environment in which they operate. In this era of ever changing global economy with every organization striving to achieve a competitive advantage the changes present both opportunities and challenges. Johnson and Scholes (2003) notes that organizations must find ways of operating by developing new competencies as the old advantage and competencies gained are quickly eroded due to changes in both internal and external environment. Since organizations cannot run away from innovation that sustains them, there is need for them to change with the changes in the environment otherwise, they would be irrelevant. To ensure survival and success, organizations need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of competitive strategies that match the capabilities and environmental requirements. Thus, a competitive strategy refers to the positioning of a firm to maximize the value of the capabilities that distinguishes it from its competitors.

The Kenyan business environment has experienced many changes among them; internationalization, privatization, increased competition, accelerated implementation of economic reforms, increased customer demands privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets (Aosa, 1992). All these changes require that organizations make adjustments in their strategies in order to survive. The banking industry is no exception and has also been affected immensely by the environmental changes.

1.1.1 Competitive Strategies

A competitive strategy is the search for a favourable competitive positioning in the industry. It is concerned with how a company can gain advantage through a distinctive way of competing. It aims at establishing a profitable and sustainable position against the forces that determine industry competition. According to (Porter, 1980), developing a competitive strategy is developing abroad formula on how business is going to compete, what its goal should be and what policies would be needed to carry out these goals. He observed a competitive strategy as a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. He further points out that the intensity of competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors. According to him, the state of competition depends on five basic competitive forces. It is these five industry-level competitive forces, the bargaining power of buyers and sellers, the threat of new entrants ,potential substitute products and rivalry among existing competitors, that determine the inherent profit potential of an industry.

Every organization needs a competitive strategy. However most of these strategies are implicit, having evolved over time, rather than explicitly formulated, thinking and planning process. Implicit strategies result to inconsistent decisions, lack focus and become obsolete over time. Without strategy that guides a firm, organizations will be driven by current operational issues rather than by a planned future. Competitive strategies of a firm should address the core business of the firm. The intensity of competition in an industry determines its profit potential and competitive attractiveness hence strategy should be able to spell out how the organization responds to the competitive forces in this industries or markets (Porter 1990).He notes

that competition is at the core of every success or failure of firms. This means that it is necessary for every firm to craft competitive strategies that will enable it gain competitive advantage over their rivals. Competitive strategy is that part of business strategy that deals with management's plan for competing successfully- how to build a sustainable competitive advantage, how to outmaneuver your rivals, how to defend oneself against competitive pressure or how to strengthen the firms market positioning (Thompson and Strickland, 1996). Competitive strategy is the distinctive approach which a firm uses or intends to use in order to succeed in the market place and it involves positioning the business to maximize the value of capabilities that distinguish it from its competitors (Porter, 1980).

Thompson and Strickland (1998) define company strategy as the game plan that management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance. They continue to say that it consists of competitive moves and business approaches that managers employ in running the company. This shows that strategy is all about competition. Porter (1990) maintains that in coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation and focus. The essence of strategy, the development of sustainable competitive advantages, is the identification, development and application of key resources, and ultimately the resource most likely to lead to a sustainable competitive advantage is the firm's unique knowledge base (Barney, 1991; Grant, 1996; Peteraf, 1993). This knowledge base is comprised of the firm's intellectual capital, which can be defined as the tangible and intangible knowledge, experience, and skills of employees in an organization. The set of strategic choices addressing knowledge creation in an

organization comprise the firm's knowledge strategy, which provides the firm with guidelines for developing intellectual capital and therefore creating competitive advantage (Bierly & Chakrabarti, 1996; Zack, 1999)

1.1.2 Firm Performance

Business performance is the total economic results of the activities undertaken by an organization. The performance of any business organization is affected by the choice of strategies made (Mutuku, 2005). Hunger and Wheelen (1995) say that strategies, which are a set of managerial decisions and actions, determine the long term performance of an organization. Performance in organizations takes many forms depending on whom and what the measurement is meant for. Different stakeholders require different performance indicators too enable them make informed decisions (Manyuru, 2005).

In measuring a firm's performance generally one takes into account performance indicators such as sales, profits, cash flow, return on equity and growth (Dress and Robinson, 1984). On the other hand, Thompson et al., (2007) notes that using financial measures alone overlooks the fact that what enables a company to achieve or deliver better financial results from its operations is the achievement of strategic objectives that improve its competitiveness and market strength. Non financial measures include innovativeness (Goldsmith and Clutterbuck, 1984) and market standing (Saunders and Wong, 1985; Hooley and Lynch, 1985). Performance is therefore measured by both financial and non financial measures. In the banking industry the performance measures include: profits, having a large market share compared to other banks, increase in customer base, increase in network of branches, sales made by the banks, turnover, innovativeness, market standing, a strong market

base, return on investment, total assets, customer satisfaction index, employee satisfaction index, overall competitive position and average economic profitability (ROA) (Bahaee 1995).

The measures of bank performance are usually ratios fashioned from financial statements or stock market prices. Factors that have had a bearing on the resources of affirm and in turn efficient deployments are; Liquid assets; Proportion of resources deployed as investments; Proportion of resources deployed as advances; and proportion of other assets which generate relatively low yields. These have been used as the main indicators of performance in many firms. For banks, financial soundness is vital and is a situation where depositor's funds are safe in a stable banking system. The Central Bank CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CBK 2010).

The solvency of financial institutions typically is at risk when their assets become impaired therefore it is important to monitor indicators of quality of their assets in terms of exposure to specific risk tends in non-performing loans, and the health and profitability of banks borrowers. The sector has registered a reduction in non-performing loans due to enhanced credit appraisal standards and the introduction of CRB (Credit Reference Bureau). Continued viability of a bank depends on its ability to earn adequate return on its assets and capability. Good earnings performance enables a firm to fund its expansion and remain competitive in the market, replenish and/or increase its capital. For banks to survive, they need higher returns on assets (Earnings before interest but after tax/Average total assets) and a better return on equity (Earnings available for common stockholders\Average equity).Liquidity which represents the ability to fund increases in assets and meet obligations as they fall due

is also crucial to the continued viability of any banking institution. The importance of liquidity which goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBK 2009).

In measuring profitability of banks, bank regulators and analysts have mainly used ROI $ ROE to assess industry performance and to forecast trends in market structure as inputs in statistical models to predict bank failures. Capital adequacy has also been the focus of many studies as it is considered as one of the main drivers of any financial institutions profitability. While profitability and capital adequacy measures provide significant information regarding a firm's return, individual variables representing asset quality and earnings are informative (CBK 2009).

1.1.3 Competitive strategies and Firm Performance

The basic argument underlying the contingency theory is that the organisation neither functions in isolation of the external environment (*i.e.* level of uncertainty may change) nor does it remain static or constant with respect to its internal environment, as for example, size or technology may change (Otley 1980). As one or more of these factors change, they are likely to cause the company to redesign at least some aspects of its strategy. Early studies applied the contingency theory approach to the design of organisational structures. Later, this approach was expanded to the design and use of management accounting and performance measurement systems.

Johnson and Scholes (2002), state that competitive strategy is the basis on which a business might achieve competitive advantage in the market place. Thompson et al., (2007) add that competitive advantage is the key to above average profitability and financial performance. This he says is because strong buyer preferences for the company's products translate into higher sales volumes or ability to command higher

prices, thus driving up earnings, return on investments and other financial performance indicators. Management systems have to be tailored explicitly to support the strategy of the business to lead to competitive advantage and superior performance. There is evidence (Govindarajan 1988; Govindarajan & Gupta 1985) that high organisational performance results are due to matching of an organisation's environment, strategy and internal structures and systems.

Looking for consistency between strategy-actions-measures implies the use of financial and non-financial performance measures. If quality and time become essential strategic criteria, financial performance measures are less effective to manage a company in the long run. This does not mean that accounting data are not useful, but they have to be complemented by nonfinancial performance measures. Ideally, the role of strategy is dynamic, involving managers in continually assessing the way combinations of environmental conditions, technologies and structures enhance performance.

1.1.4 Commercial Banks in Kenya

The banking sector in Kenya operates in a relatively deregulated environment governed by the Companies' Act, the Banking act, the CBK Act and the various prudential guidelines issued by the CBK. The financial performances of banks have in a general increasing trend and these have mainly been attributed to proper management and proper formulation and implementation of strategy. In Kenya there are a total of 43 commercial banks which are all competing for the same market share (CBK, 2011).

The Kenyan banking industry has faced some challenges including: stiff competition among the existing local banks as they offer substitute products and offering loaning

services at different rates. Micro finance and Savings and Credit Societies (Sacco) institutions are emerging key players in delivery of financial services. However, it is expected that the banking sector will continue to grow especially in retail banking segment, as major consumer segments remain largely unbanked. According to the CBK Annual Report (2010) the banking sector has continued to experience significant local and regional growth amidst increased competition. There is need for an integrated approach to develop within the sector; addressing social, economic and environmental factors simultaneously. A bank needs to establish a sustainable strategy which integrates this approach into its core business activity in the markets and communities where it operates.

1.2 Statement of the Problem

Over time there has been an acceleration and pace of change across the globe. These changes, be they political, social, economic and or technological have not spared the banking sector. The various forces for change have combined to create a vastly more competitive environment for banks (Harper & Chan, 2002). The banking sector has become very dynamic and banks have reacted in a variety of ways, including strategy reformulation to ensure that they gain the competitive advantage. Competitive performance is the main motivation to establish any business. By knowing the variables that affect a bank's profit, the bank's management can concentrate their effort to optimize performance. Some researchers have blamed the performance gap in firms on poor strategy execution while others have blamed it on poor strategy formulation.

In the modern market economy, the banking industry is one of the crucial elements in the financial market and is reputed as the engine of growth in any country's economy. It is therefore vital for banks to operate in an efficient manner. The industry is largely

impacted upon by the external conditions largely beyond their control. Still, the Kenyan banking industry is said to be more stable than it has ever been in the recent past. Banks have been using strategies that would ensure they maximize returns to its shareholders, attract investors and sustain its development amidst tremendous challenges of stiff competition, substitute products and industry globalization. Each bank is out to outperform the other hence would like to establish how the strategies are influencing the performance.

Locally a number of studies have been carried out on strategies adopted by various companies. Most of them have focused on strategy formulation, strategic choices, strategy implementation and strategic responses to the changes in the environment. Little focus has been put on the impact of the strategies to the performance of the firms. The studies include: Karanja (2010) discussed competitive strategies adopted by the Standard Limited, Obiero (2008) studied Competitive strategies applied by cement manufacturing firms in Kenya and Okoth (2005) focused on competitive strategies employed by sugar manufacturing firms in Kenya. Kitoto (2005) discussed competitive strategies adopted by universities in Kenya, Mulaa (2004) studied competitive strategies adopted by small scale enterprises in exhibition stalls in Nairobi while Karoney (2008) dwelt on competitive strategies adopted by KTN of the Standard Group. None of these studies linked the strategies to performance of the firms. In addition the researcher is not aware of any research that was carried out on commercial banks in Kenya regarding competitive strategy and performance. The researcher main aim was to find out: Why do banks adopt competitive strategies? What are the strategies they adopt? Do they lead to superior performance? The study provided a suitable analysis in understanding competitive strategies and their

influence to performance in Kenyan Commercial Banks. purpose of the study was to explore competitive strategies and performance of commercial banks in Kenya

1.3 Objectives of the study

This study was guided by the following objectives;

i. To determine the competitive strategies employed by commercial banks in Kenya

ii. To establish the influence of competitive strategies to the performance of commercial banks in Kenya.

1.4 Significance of the Study

The study hopes to add into the body of knowledge of theories of competitive advantage by exploring competitive strategies and their influence to success. The study determined whether the application of competitive strategies is adequate to enable an institution create a defendable position in the long run and outperform its competitors. The study will also be of help to Commercial Banks policy makers in identifying the key challenges in the external environment and coming up with strategies that will lead to improved performance of the firm. This will in turn help banking institutions in identifying and understanding the external environment and competitive strategy that can be applied to ensure both superior performance and competitive advantage. The study may also be helpful to academicians who will use this study as a source of reference. The findings of this study can be compared with strategic management practices in other sectors to draw conclusions on various ways a company can respond to competitive forces in the environment and achieve superior performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature which is related to the study based on the key thematic areas namely the concept of strategy and competitive strategies and their effect on performance.

2.2 The Concept of Strategy

The concept of strategy can be seen as a multidimensional one and therefore its definition is not limited to one. Some of the elements of strategy can apply universally while some are largely dependent not only on the nature of the firm but also on its structure and culture (Hax and Majluf, 1996). Andrews (1971) defines strategy as the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals which enable the company to define what business the company is pursuing, the kind of economic contribution it intends to make to its shareholders, employees and the community at large.

Thompson and Strickland (1998) define strategy as the game plan that the management has for positioning the company in its chosen market in order to compete successfully, please its customers and also achieve good business performance. It thus involves choosing among alternatives. This shows that organizations must be aware of the competition in order to position themselves successfully.

Ansoff and McDonnell (1990) have defined strategy as a set of rules for decision making that guide organization behaviour which can be in either of the following forms: Yardsticks also called objectives, product or business strategy, rules for establishing internal relations called organizational concept, or rules for conducting day to day activities also known as operating policies. Chandler (1962) refers to it as the determination of the basic long term goals and objectives of an organization and

the adoption of courses of action and allocation of resources necessary for meeting the goals.

To sustain a competitive advantage, a firm must keep learning how to do things better and keep spreading that knowledge throughout its organization. Firms must leverage the power of knowledge. Day and Wensley (1998) argue that all knowledge is not the same and that there is explicit knowledge that can be written down. Such knowledge as patents, procedures, formulations or engineering designs are referred to as explicit. Implicit knowledge is far less tangible and is deeply embedded into an organization's operating practices. This may be referred to as the organizational culture. Compared to explicit knowledge, implicit knowledge can be a sustainable source of competitive advantage that is quite difficult for competition to emulate.

Ansoff (2006) observes that for a firm to optimize its competitiveness and profitability and indeed long-term sustainability, it has to match its strategy and supporting capability with the environment. According to him, strategy formulation and strategies are context sensitive which might explain that fact that there are many competing models in strategic development and strategic planning.

Management of strategy whether explicitly or implicitly defined, deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilisation of resources to enhance the performance of organisations in their external environments, with financial outcomes dominating performance (Nag, Hambrick & Chen 2007). These major intended and emergent initiatives can be achieved by using a formal/deliberate or informal/emergent approach, or a combination approach (Mintzberg 1994). Deliberate/formal approaches have been suggested by various authors (Ansoff 1965; Boston Consulting Group, in Boyett & Boyett 1998; Burgelman & Doz 2001; Carpenter & Sanders 2009; Chan & Mauborge

2002; David 2009; Mintzberg 1994; Pearce & Robinson 2009; Porter 1996; Hough, Thompson, Strickland & Gamble 2008; Treacy & Wiersema, in Boyett & Boyett 1998). In essence, these approaches suggest that strategic management is a process consisting of three major, interrelated phases, namely strategy formulation, implementation/execution and control.

This implies that if one phase, or a step in a phase, is neglected, it will invariably have an adverse effect on the total process. Consequently, the strategic outcome may suffer. Even if the organisation uses strategic management tools in formulating, executing and controlling strategy, the dynamic nature of the competitive landscape may result in the intended and realised strategy being different (Mintzberg 1994). If followed well the whole process can lead to superior performance of an organization. Strategy is therefore a tool that offers significant help for coping with turbulent environment, that organizations are confronted with everyday. It therefore merits serious attention as a managerial tool not only for the firm but also for other social organizations (Ansoff and McDonnel, 1990)

2.3 Competitive Strategies

A company's competitive strategies consist of the business approaches and initiatives it undertakes to attract customers and fulfil their expectations, to withstand competitive pressures and to strengthen its market position. It deals with management action plan for competing successfully and providing superior value to the customers. This enables it to differentiate the company from its competitors (Thompson and Strickland, 2003). Competitive strategy is concerned with how a firm competes in a given industry (Grant, 1998).

Two schools of thought have emerged on the conceptualization and adoption of competitive strategies. One school of thought has predominantly considered that

viable firms can either seek efficiency of differentiation. The more efficiency is sought by management, the less differentiated the firm would be. While the more differentiation is sought by management, the less efficient the firm would be (Dess and Davies, 1984). Hambrick (1993) and Porter (1980) representing this school of thought, conceptualized low costs vs. differentiation in terms of a continuum, with low costs at one end and differentiation at the other end. According to Porter (1990) a firm will ultimately reach the point where further cost reduction requires sacrifice in differentiation. It is at this point that generic strategies become inconsistent and a firm must make a choice.

The members of this school of thought have considered that the value chain required for low cost strategy is qualitatively different from the value chain required for the differentiation strategy. The emphasis of the differentiation strategy would be on gaining superior quality and image through out the value chain while the emphasis on low cost strategy would be on the lowering costs whenever possible. Because of different thrusts of the strategies, according to this school of thought, viable firms tend to compete with one strategy only. Porter (1990) says that sustained commitment to one of the strategies as the primary target is usually necessary to achieve success. Later on he hedged this position by stating that a cost leader must achieve parity or proximity in the bases of differentiation even though it relies on cost leadership for its competitive advantage. A differentiator cannot ignore its cost position because its premium prices will be nullified by a markedly inferior cost position. Murray (1998) regarded this hedging by Porter (1985) as implying an inconsistent logic and that a cost leader that competes against a product differentiator must also be a product differentiator and vice versa.

Hambrick (1983) excluded the possibility of firms competing with more than one strategy. He proposed that even though the competitive strategies may be found among various industries, not all of them would be found within any one industry setting. He argued that the low cost strategy would be unlikely to be found in a dynamic industry environment. According to Dess and Davis (1984) competitive strategies represent broad strategy types of strategic groups. Consequently, the choice of strategy can be viewed as the choice of which strategic group to compete in.

The second school of thought has considered that the low cost strategy and the differentiation strategy may be adopted simultaneously by an enterprise (Buzzell and Wiersema, 1981), Jones and Butler (1988), Philips et al. (1983) and White (1986). According to them, the adoption of the differentiation strategy would entail promoting higher product quality. This would likely mean higher costs across a number of functional areas in order to support the differentiation strategy and quality products would presumably channel greater market demand toward the firm.

The nature and degree of competition in an industry lies on five forces: the threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power of suppliers and stiff competition among the current contestants in the market. The collective strength of these five forces determines the ultimate profit potential of an industry (Pierce and Robinson 2002, Porter 1998). Rivalry occurs when players use tactics like price competition, advertising battles, product introductions and increased customers service warranties. It occurs because one or more competitors feel the pressure or sees the opportunity to improve position. Pressure from substitute products because substitute products limit the potential returns of an industry by placing ceilings on prices firms in the industry can charge. Suppliers can exert bargaining power over participants by threatening to raise prices or reduce quality of

purchased goods and services. They can thus squeeze profitability out of an industry. New entrants bring new capacity and the desire to gain market share and often substantial resources which can inflate prices or bid prices down. Buyers on the other hand can exercise power by forcing prices down and bargaining for higher quality or more services and playing competitors against each other all at the expense of industry profitability.

Competition arises between firms if they sell goods or services to the same customers or if they employ factors that are sourced from the same suppliers or group of suppliers (Nyokabi, 2001). Bauer (1995) states that a company that manages to develop a style of management that seeks sustained leadership by out thinking the competition with more effective strategies and outperform the competition with superior quality and satisfaction is therefore able to achieve competitive advantage. The core of a a company's strategy thus consists of its internal initiatives to deliver superior value to customers but also includes offensive and defensive moves to counter the maneuvering of rivals and tactical effort to respond to whatever conditions prevail in the market (Thompsom and Strickland, 2003). An effective competitive strategy as Porter (1980) contends takes offensive and defensive actions in order to create a defendable position against the five competitive forces.

2.3.1 Porter's Generic Strategies

The generic strategies were initially used in the 1980's, and seem to be more popular today. The primary determinant of a firm's profitability is the attractiveness of the industry in which it operates; an important secondary determinant is its position within that industry. Even though a firm may have below average profitability, a firm that is optimally positioned can generate superior returns.

The generic strategies are illustrated in figure 1 below and how they work both industry wide and in a narrow market segment.

Target Scope	Advantage	
	Low cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiated Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Figure 1: Porter's Generic Strategies **Source: Porter (1998)**

According to Porter (1980), a firm's strengths ultimately fall into one or two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies emerge: cost leadership, differentiation and focus.

These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. They are the basic types of competitive advantage since either type translates to higher productivity than that of competitors (Porter 1990).

2.3.2 Cost Leadership Strategy

The cost leadership strategy emphasizes efficiency. This strategy aims at becoming the lowest cost producer in the industry. The product is often produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This strategy is usually associated with large-scale business offering standard products with relatively little differentiation and that are perfectly acceptable to the majority of customers.

According to Allen et al. (2006), when a firm designs, produces and markets a product more efficiently than its competitors such a firm has implemented a cost leadership strategy. Cost reduction strategies across the activity cost chain will represent low cost leadership, Tehrani (2003), Behest (2004). Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product .Any processes that do not contribute towards minimization of cost base should be outsourced to other organizations with the view of maintaining a low cost base, Akan et al. (2006), Low costs will permit a firm to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share (Porter 1980, Srivannnboon 2006, Porter 1987,Bauer,Allen and Helms 2006).These explains that the cost efficiency gained in the whole process will enable a firm to mark up a price lower than competition which will ultimately results in high sales since competition could not match such a low cost base. If the low cost base could be maintained for longer periods of time it will ensure consistent increase in market share and stable profits hence consequent in superior performance. However all writings direct us to the understanding that sustainability of the competitive advantage reached through low cost strategy will depend on the ability of a competitor to match or develop a lower cost base than the existing cost leader in the market.

A firm attempts to maintain a low cost base by controlling production costs, increasing their capacity utilization, controlling material supply or product distribution and minimizing other costs including advertising (Prajogo 2007). Mass production, mass distribution, economies of scale, technology, product design, learning curve benefit, work force dedicated for low cost production, reduced sales

force, less spending on marketing will further help a firm to maintain a low cost base (Freeman 2003;Trogovicky et al.2005). Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm. Maintaining the low cost base will become the primary determinant of the cost leadership strategy. For low cost leadership to be effective a firm should have a large market share (Robinson and Chiang 2000; Allen and Helms 2006). New entrants or firms with a smaller share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms.

According to Kim et al.2004 a low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader. Further some factors such as technology which may be developed through innovation (mentioned as creative accumulation in Schumpeterian innovation) and some may even be resources developed by a firm such as long term healthy relationships build with distributors to maintain cost effective distribution channels or supply chains. Similarly economies of scale may be an ultimate result of a commitment made by a firm such as capital investments for expansions. Also raising barriers for competition by virtue of the low cost base that enables the low prices will result in strong strategic positioning in the market. Low leadership could be considered as a competitive strategy that will create a sustainable competitive advantage.

However, low cost leadership is attached to a disadvantage which is less customer loyalty (Vokurka and Davis 2004, Cross 1999 cited by Allen and Helms 2006) Relatively low prices will result in creating a negative attitude towards the quality of the product in the mindset of the customers (Priem 2007).Customer's impression regarding such products will enhance the tendency to shift towards a product which

might be higher in price but projects an image of quality. Considering analytical in depth view regarding the low cost strategy, it reflects capability to generate a competitive advantage but development and maintenance of a low cost base becomes a vital, decisive task.

2.3.3 Differentiation

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique (Porter, 1998). The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network or customer's service. Barney (1997) states that though a company may have several basis of differentiation, at the end it is only a matter of customer perception. To build competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rivals to match (Thompson and Strickland, 2003).

Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customer's sensitivity to price. Increased costs can usually be passed on to the buyers. Buyer's loyalty can also serve as an entry barrier-new firms must develop their own distinctive competence to differentiate their products in some way in order to compete successfully. A successful differentiation strategy may attract competitors to enter the company's market segment and copy the differentiated product (Lynch, 2003).

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments. The emphasis can be on brand image, proprietary technology, special features, superior

services, a strong distributor network or other aspects that might be specific to an industry. The shareholder value model holds that the timing of the use of specialized knowledge can create a differentiation advantage as long as the knowledge remains unique. This model suggests that customers buy products or services from an organization to have access to its unique knowledge. The advantage is static, rather than dynamic, because the purchase is a one-time event.

The unlimited resource model utilizes a large base of resources that allows an organization to outclass competitors by practising a differentiation strategy. An organization with greater resources can manage risk and sustain losses more easily than one with fewer resources. This deep-pocket strategy provides a short-term advantage only. If a firm lacks the capacity for continual innovation; it will not sustain its competitive position over time.

This strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation (Pierce and Robinson, 1997).It is hoped that by focusing its marketing efforts on one or two narrow market segments and tailoring its marketing mix to these specialized markets, a firm can better meet the needs of that target market. The firm typically looks to gain competitive advantage through product innovation and/or brand marketing rather than efficiency. It is most suitable for relatively small firms but can be used by any company.

2.3.4 Focus strategy

A focus strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment. Organizations can make use of the focus strategy by focusing on a specific niche is sometimes referred to as the niche strategy (Lynch, 2003). Firms pursuing this strategy are willing to service isolated geographic areas, satisfy needs of customers

with special financing, inventory or servicing problems or even to tailor the products to somewhat unique demands of the small to medium sized customers.

According to Porter (1980), a firm's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance (Porter, 1980).Kay (1993) and Miller (1992) disagreed with this aspect of the analysis as they cited examples of companies which have become successful after adopting more than one generic strategy. Both Toyota and Benetton companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of these companies.

The generic strategies were regarded as fundamental to strategy and the ideas suggested by Porter (1980) were extensively. It became clear over time that in reality there were some shades of grey in the distinction between differentiation and cost, compared to the black and white that is projected in theory. It is very difficult for most companies to completely ignore cost, no matter how different their product offering is. Similarly, most companies will not admit that their product is essentially the same as that of competitors (Macmillan et al, 2000).

It is important for the analysis therefore to bear in mind that Porter's (1980) generic strategies should be considered as a part of a broader strategic analysis. The generic strategies only provide a good starting point for exploring the concepts of cost leadership and differentiation. Perhaps a major limitation of the generic strategies is that they may not provide relevant strategic routes in the case of fast growing markets (Lynch 2003). It is clear that the competitive environment is continually changing and such changes have led to increased competition forcing many firms to respond by adopting strategies to ensure they achieve sustainable competitive advantage.

Sustainable competitive advantage leads to long term success of firms. No single competitive strategy is guaranteed to achieve success. Cost leadership, despite of the advantages it achieves for the firm, imposes severe burdens on the firm to keep up its position which means re-investing in modern equipments, ruthlessly scrapping off obsolete assets, avoiding product line proliferation and being alert for technological improvements. For the firms pursuing differentiation, as times goes by competitors imitate products and perceived differentiation narrows (Hunger and Wheelen 1995).

2.3.2 Ansoff's product / market matrix

The Ansoff Product-Market Growth Matrix by Igor Ansoff portrays alternative corporate strategies. It focuses on the company's present and potential products and markets. The matrix is meant as help for companies to understand what actions need to be carried out given current performance. Ansoff's matrix is shown below:

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure 1.2: Ansoff's product / market matrix **Source**: Ansoff (1990)

Market penetration is an effort to increase company sales without departing from an original product-market strategy. The company seeks to improve business performance either by increasing the volume of sales to its present customers or by

finding new customers for present products. Companies often penetrate markets in one of three ways: by gaining competitors customers, improving the product quality or level of service, attracting non-users of the products or convincing current customers to use more of the company's product, with the use of marketing communications tools like advertising etc.

Market development is a strategy in which the company attempts to adapt its present product line (generally with some modification in the product characteristics) to new missions. A market development strategy means that the company moves beyond its immediate customer base towards attracting new customers for its existing products. Other aspect of this strategy often involves the sale of existing products in new international markets, exploration of new segments of a market, or moving into new geographical areas. One aspect to take into account when considering a market development strategy are barriers to entry, which has relation to one of Porter's five forces. These barriers to entry to the market may exist which might have implications for the short and long- term contribution to overall profitability.

A product development strategy, on the other hand, retains the present mission and develops products that have new and different characteristics such as will improve the performance of the mission. It is argued that this strategy will be most effective if the company's strengths are related to its specific customers rather than to the specific product itself. The reasons for wanting to implement a product development strategy can be to utilize excess production capacity, counter competitive entry, maintain the company's reputation as a product innovator, exploit new technology, and to protect overall market share. One appropriate step in developing a new product to its existing customers could be to identify a customer need either by looking at competition or discovering a need-opportunity. Proctor (1997), also say that the introduction of new

products can have a positive impact on sales growth, but indicate a danger during the initial period of time following the launch of new products. Successfully implemented, a product development strategy can in my opinion lead to customer retention increased brand loyalty, especially if customers are involved in the process. Diversification is the final alternative. It calls for a simultaneous departure from the present product line and the present market structure. Moving simultaneously into new products and new markets is a risky strategy, but with careful selection of the right kind of business considerable improvements in profitability can be achieved (Proctor 1997). It is important to note that diversification may be into related and unrelated areas. Related diversification may be in the form of backward, forward, and horizontal integration. Ansoff (1957), states that each of the above strategies describes a distinct path which a business can take toward future growth. He claims that simultaneous pursuit of market penetration, market development, and product development is usually a sign of a progressive, well-run business and may be essential to survival in the face of economic competition. It is the diversification strategy stands apart from the other three. While the first three strategies are usually followed with the same technical, financial, and merchandising resources that are used for the original product line, diversification generally requires new skills, new techniques, and new facilities.

Pierce and Robinson (2002), state that a good company strategy has to have at least four components: Scope has to define companies and business such as the present and planned interactions of the company with its environment, Competence- this is an indication of the level and the patterns of the company. Competitive advantage – the unique position a company will develop vis-à-vis its competitors through its resource

deployments and scope decisions, Synergy the joint effects that are sought from the company's resources deployment and the company scope decisions. It is paramount that a company has to achieve a fit with its environment for it to outperform its competitors leading to performance.

2.4. Competitive Strategies and Firm Performance

Performance is the accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. Concern has been expressed, over the years; about the financial management strategies adopted by firms. The performance of any business organization is affected by the strategies in place within that firm (Mutuku, 2005). Business performance measures are an important element of these financial management strategies.

The being the link between competitive strategies used to the performance achieved, it is evidenced that strategy is the game plan that creates a match between a firms capability and the environment. It is an action plan that a firm takes in order to achieve a set of goals. Competitive strategies guide firms to superior performance through establishing competitive advantage. In this process, companies consider alternative courses of action and choose a set of strategies for their business units. Firms employ these strategies in a dynamic environment in order to adapt to new realities such as increased competition.

According to Cooper (2003), both the quantitative and qualitative criteria in the measurement of performance in firms should be taken into account when establishing a firm's performance. When presented together, qualitative data and quantitative data can make compelling statements of program results. Qualitative data is mainly the descriptive information from clients that is documented through open-ended

questions, interviews, or structured focus groups. Details provided in these open-ended responses' create a fuller picture of a program, and can add vitality to program reports. Qualitative data can add value to performance measurements by providing more in-depth information that can be obtained solely from quantitative data (numbers). Qualitative data provides more detailed descriptive information about the results being measured, as this information provides "the meaning behind the numbers". Methods to obtain qualitative data include interviews, journals, structured focus groups and open-ended questions on surveys.

Qualitative data can be used to; Add descriptive richness to program outcomes; provide insights into why outcomes happened; Validate results measured quantitatively; Reveal unintended outcomes of your program; and provide additional information on needed improvements. Rich descriptive information provided by reporting qualitative data allows the reader to feel the impact of the program on a more personal basis, helping to contextual targets and outcomes in the programs performance measures. Some of the main qualitative measures of bank's performance include organizational effectiveness, customer satisfaction, innovation and creativity (Gefen 2003).Quantitative data determines the extent of an outcome in numbers. It provides an exact approach to measurement (Cooper 2003).

Both the literature and some of the studies carried out do not reveal a conclusive relationship between competitive strategy and performance and this therefore necessitates the need for further research. This requires managers to look beyond limits of the firm's own operations (Pearce and Robinson, 2002). Strategy therefore come in as the actions and moves in the market that managers are undertaking to improve the firm's performance, strengthen its long term competitive position and

gain a competitive edge against the rivals (Thompson et al, 2007). There is therefore need to study the impact of competitive strategies on the performance of a firm.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a description of the procedures which were used in conducting the study. It focuses on research design, the study population, data collection and data analysis.

3.2 Research Design

The research design was a cross sectional survey intended to establish the influence of competitive strategies to the performance of commercial banks in Kenya. Bordens & Abbort (1998) define a survey as an attempt to collect data from members of a population with respect to one or more variables. They state that a descriptive study determines and reports the way things are and commonly involves assessing attitudes, and opinions towards individuals, organizations and procedures. According to Donald and Pamela (1998) a study concerned with whom, what, which and how of a phenomenon is called a descriptive design.

3.3 Study Population

The population was all the commercial banks in Kenya. There were 43 commercial banks in Kenya as at 31st December 2010 (CBK, 2010). Hence the use a census survey where data was collected from all members of the population. Since the population was small there was no need to sample.

3.4 Data Collection

The study involved a collection of both primary and secondary data. Primary data was collected by use of a structured questionnaire which was distributed to corporate strategy managers or operations managers of the banks who's positions and roles

gives them the ability to respond effectively to most of the questions. A drop and pick method was used to administer the questionnaires. To improve the response rate follow up was done through telephone calls. Cooper and Emory (1995) cite this approach as a way of improving on the response rate.

Secondary data was obtained from the respective banks financial and management reports on performance and strategies being adopted. Through reviews of internal documentation relating to the strategic decisions made by the bank; annual reports and internal circulars. Some data was obtained from the CBK Annual Reports. This data was collected to compliment information collected by the questionnaires.

3.5 Data Analysis

On completion of fieldwork, data were analysed in various ways. Data from questionnaires were coded and entered into the Statistical Package for Social Sciences (SPSS). Data from secondary sources were used to confirm and support data obtained from questionnaires. Descriptive and inferential statistics were used to analyse data. Descriptive statistics such as frequency, mean, standard deviation and percentage were used to summarise the data collected for general comparisons of variables. Since the study was investigative in nature it used measures of central tendency and measures of dispersion, proportions and percentages to describe the data. The data analysis technique will involve use of excel to calculate mean, standard deviation and skewness of data collected.

The simple Pearson correlation matrix was used to establish that in general the inter-correlations among the independent variables and independent variables. Scatter plots were obtained to show the linear relationships between the variables. Pearson correlation analysis was used to examine the relationship between independent

variables (low – cost leadership, differentiation and focus) and the dependent variable (Firm Performance).

The understated formula was used.

$$Y=a + b_1X_1 + b_2X_2 + b_3X_3$$ Where

Y - Value of the Dependent variable (Firm Performance)

a - Constant or intercept

b_1 - Slope (Beta coefficient) for X_1

$\mathbf{X_1}$ - First independent variable that is explaining the variance in Y (Low Cost Leadership

b_2 - Slope (Beta coefficient) for X_2

X2 - Second independent variable that is explaining the variance in Y (Differentiation)

b_3 - Slope (Beta coefficient) for X_3

$\mathbf{X_3}$ - Third independent variable that is explaining the variance in Y (Focus)

CHAPTER FOUR: DATA FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers analysis of data and presentation of results from the study of influence of competitive strategies on performance of commercial banks in Kenya. The data for the study was collected in two weeks using questionnaires. The questionnaires were administered in all commercial banks which have presence in Nairobi and Kisumu. The response rate was at 70%. Analysis of the profiles of the organizations was based on demographic characteristics of the respondents in terms of size of the bank (branch network), years of operation, ownership structure and product range.

4.2 Organizational Bio-data

The study sought data from respondent banks on aspects that were considered to have a potential impact on the study. These aspects were in respect of the size of the bank, years of operation, ownership structure and gender of respondents.

4.2.1 Size of the Bank and Gender of respondents

The study aimed at assessing the geographical branch network and the network of the thirty branches under review as well as the gender of the respondents are presented in Table 4.1 below.

Table 4.1: Gender of Bank Manager and size of the bank

Gender of bank Manager	Size of The Bank				Total
	2 - 10 Branches	11 - 20 Branches	21 - 30 Branches	Above 30 Branches	
	f (%)	f (%)	f (%)	f (%)	f (%)
Male	4 (13.33)	6 (20.00)	5 (16.67)	4 (13.33)	19(63.33)
Female	2 (6.67)	4(13.33)	3(10.00)	2 (6.67)	11 (36.67)
Total	**6 (20.00)**	**10 (33.33)**	**8 (26.67)**	**6 (20.00)**	**30(100.00)**

Majority of the banks had 21-30 branches countrywide indexed by 26.6%, while those with above thirty branches and between 2-10 branches followed with 20%. Those with 11-20 branches were at 10%. Majority of the respondents were male 19(63.33%).

4.2.2 Ownership Structure

The study was able to enumerate the ownership structure as indicated below:

Table 4.2 Bank, ownership, size

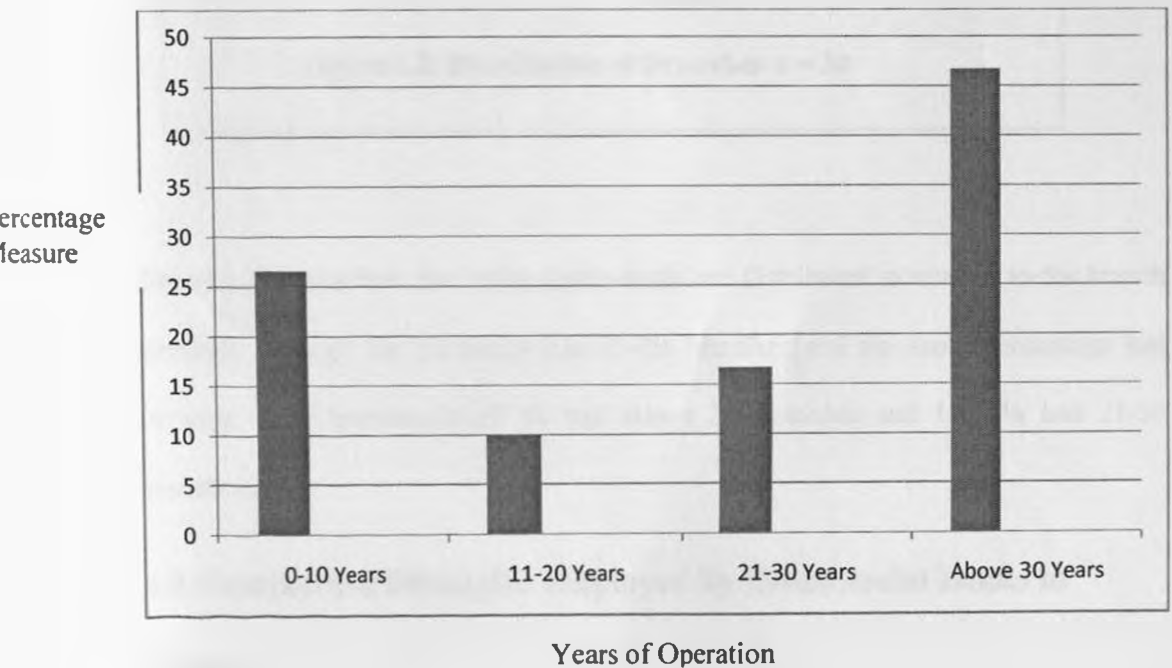
Bank	YOI	Years in Operation	Ownership
African Banking Corporation	1984	27	Private
Bank of Africa	2004	7	Foreign
Bank of Baroda	1953	58	Foreign
Bank of India	1969	42	Private
Barclays	1946	65	Foreign
Chase Bank (K) Ltd	1995	16	Private
Citibank	1974	37	Private
Commercial Bank of Africa	1967	44	Private
Consolidated Bank of Kenya	1989	22	Private
Cooperative bank of Kenya	1965	46	Private
Credit Bank	2002	9	Private
Diamond Trust Bank	1946	65	Private
Eco Bank	1989	22	Private
Equity	2005	6	Private
Family Bank	1984	27	Private
Fina Bank	1986	25	Private
First community bank	2004	7	private
Giro Bank	1980	31	Private
Guardian Bank of Kenya	1970	41	Foreign
Gulf African Bank	2005	6	Private
I & M Bank	1974	37	Private
Imperial Bank of Kenya	1993	18	Private
K - Rep Bank	2008	3	Private
Kenya Commercial Bank	1896	115	Private
National Bank of Kenya	1968	43	State
Nic Bank	1958	53	private
Oriental Commercial Bank	2002	9	Private
Prime Bank (Kenya)	1992	19	Private
CFC Stancbic Bank	2008	3	Private
Standard Chartered	1911	100	Foreign
Total		**30 banks**	

YOI – Year of Incorporation

Table 4.2 shows the ownership structure of banks in terms of private, state and foreign.

4.2.3 Years of Operation

46.7% of the 30 banks (14 banks) have been in operation for thirty years and above, 26.6% (8 banks) have been in operation for periods between 0-10 years, while 16.7% (5 banks) have been in operation for periods between 21-30 years and finally 10% (3 banks) have been in operation for periods between 11-20 years. This indicates that majority of the banks have been in operation for more than 30 years.



Years of Operation

It emerged clearly from the study that those banks that have been in operation for long had many branches compared to those with fewer years of operation. Banks therefore develop over time. Below is figure 1.3 showing the distribution of branches in the banks.

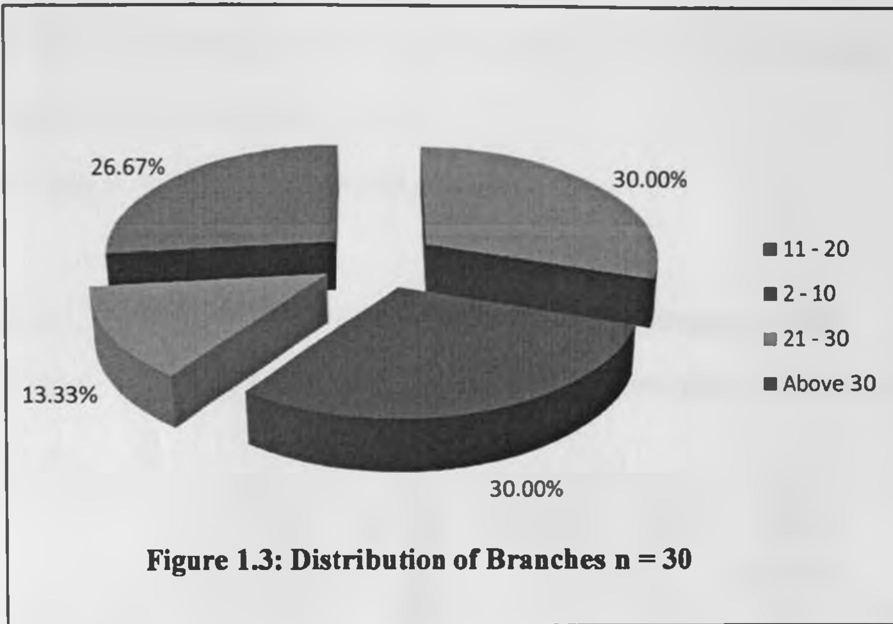


Figure 1.3: Distribution of Branches n = 30

Figure 1.3 shows how the banks under study are distributed in relation to the branch network. 30% of the 30 banks had 11-20 branches and the same percentage had between 2-10 branches.26.67 % had above 30 branches and 13.33% had 21-30 branches.

4.3 Competitive Strategies Employed By Commercial Banks in Kenya

The first objective of this study was to determine the competitive strategies employed by commercial banks in Kenya. Therefore to determine he competitive strategies employed by commercial banks in Kenya, the bank managers were asked to indicate the extent to which listed competitive strategies were being used in their banks.

4.3.1 Cost Leadership Strategy

The responses indicated that majority of the banks have adopted cost cutting techniques as a competitive strategy.

Their responses were as indicated in Table 4.3.

Table 4.3: Managers responses on Cost Leadership Strategy. n = 30

Not at all = 1, little extent = 2, moderate extent = 3, great extent =4, very great extent = 4

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent		
	f (%)	f (%)	f (%)	f (%)	f (%)	Mean	Standard Deviation
Fees charged lower than other banks	3 (10.00)	2 (6.67)	9 (30.00)	4 (13.33)	12 (40.00)	3.6667	1.317
Achieving economies of scale	0 (0.00)	6 (20.00)	10 (33.33)	8 (26.67)	6 (20.00)	3.4667	1.076
Introduced cost cutting measures	1 (3.33)	5 (16.67)	9 (30.00)	8 (26.67)	7 (23.33)	3.5000	1.071
Enhanced process efficiencies	0 (0.00)	4 (13.33)	10 (33.33)	8 (26.67)	8 (26.67)	3.6667	0.995
		Overall				**3.5750**	**0.7229**

The results in Table 4.3 indicate that cost leadership was in existence as competitive strategy in the commercial banks in Kenya. The average response was 3.5750 in the likert scale, this was approximately equal to 4 (great extent). This implies that the cost leadership is employed to a greater extent in the commercial banks. Fees charged lower than other banks as well as enhanced process efficiencies scored highest with a mean of 3.6667 followed by introduction of cost cutting measures which scored 3.5000. Achieving economies of scale came last with 3.4667.

4.3.2 Differentiation Strategy

Assessing the differentiation strategy, the responses indicated that majority of tha banks had introduced unique features to existing products and services as a competitive strategy hence achieving the highest mean of 3.6600.

Table 4.4: Managers' Responses on Differentiation Strategy. n = 30

Not at all = 1, little extent = 2, moderate extent = 3, great extent =4, very great extent = 5

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent		Standard
	f (%)	f (%)	f (%)	f (%)	f (%)	Mean	Deviation
Unique market driven products and services	1 (3.33)	2 (6.67)	10 (33.33)	8 (26.67)	9 (30.00)	3.7333	0.9735
Improved branch networks	0 (0.00)	5 (16.67)	11 (36.67)	8 (26.67)	6 (20.00)	3.5000	0.9952
Introduced unique products and services	0 (0.00)	2 (6.67)	7 (23.33)	11 (36.67)	10 (33.33)	3.9667	0.8891
Differentiating services from that of other banks	1 (3.33)	3 (10.00)	4 (13.33)	10 (33.33)	12 (40.00)	3.9667	0.9952
Advertising and promotion on radio and television	4 (13.33)	6 (20.00)	8 (26.67)	6 (20.00)	6 (20.00)	3.1333	1.3381
			Overall			**3.660**	**0.7668**

The results in Table 4.4 indicate that differentiation was employed as competitive strategy in the commercial banks in Kenya more as compared to cost leadership

(3.5750).The average response for differentiation was 3.6600 in the likert scale, this was approximately equal to 4 (great extent). This implies that the differentiation is employed to a greater extent in the commercial banks. However aspect of differentiation that had leading considerations were Introduced unique products and services (3.9667), Differentiating services from that of other banks (3.9667) and unique market driven products and services (3.7333).

4.3.3 Focus strategy

Similarly, the study revealed that focus strategy was used in commercial banks in Kenya to a great extent.

Table 4.5: Managers' responses on Focus Strategy. n = 30

Not at all = 1, little extent = 2, moderate extent = 3, great extent =4, very great extent = 5

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent		Standard
	f (%)	f (%)	f (%)	f (%)	f (%)	Mean	Deviation
Focused on products and services not offered by other banks	0 (0.00)	4 (13.33)	6 (20.00)	9 (30.00)	11 (36.67)	3.9000	1.0713
Custom made products and services offered to corporate customers	1 (3.33)	5 (16.67)	4 (13.33)	8 (26.67)	12 (40.00)	3.8333	1.0911
Identified a specific niche in the market	2 (6.67)	3 (10.00)	7 (23.33)	7 (23.33)	11 (36.67)	3.7333	1.2209
Concentrating in one market segment	7 (23.33)	9 (30.00)	4 (13.33)	5 (16.67)	5 (16.67)	2.7333	1.4800
		Overall				**3.5500**	**0.8879**

The results in Table 4.5 show that focus strategy was used in commercial banks in Kenya to a great extent with an overall score of 3.5500. Focus on services no offered by other banks scored highest with a mean of 3.9000 followed by custom made products offered to corporate customers with a mean of 3.8333. Identification of a niche market followed with a mean of 3.73333 whereas concentrating on one market segment scored lowest with a mean of 2.7333.

In addition the bank managers had different opinions on what they considered important for the bank to enhance its competitive strategies. Their responses were recorded and reported as follows.

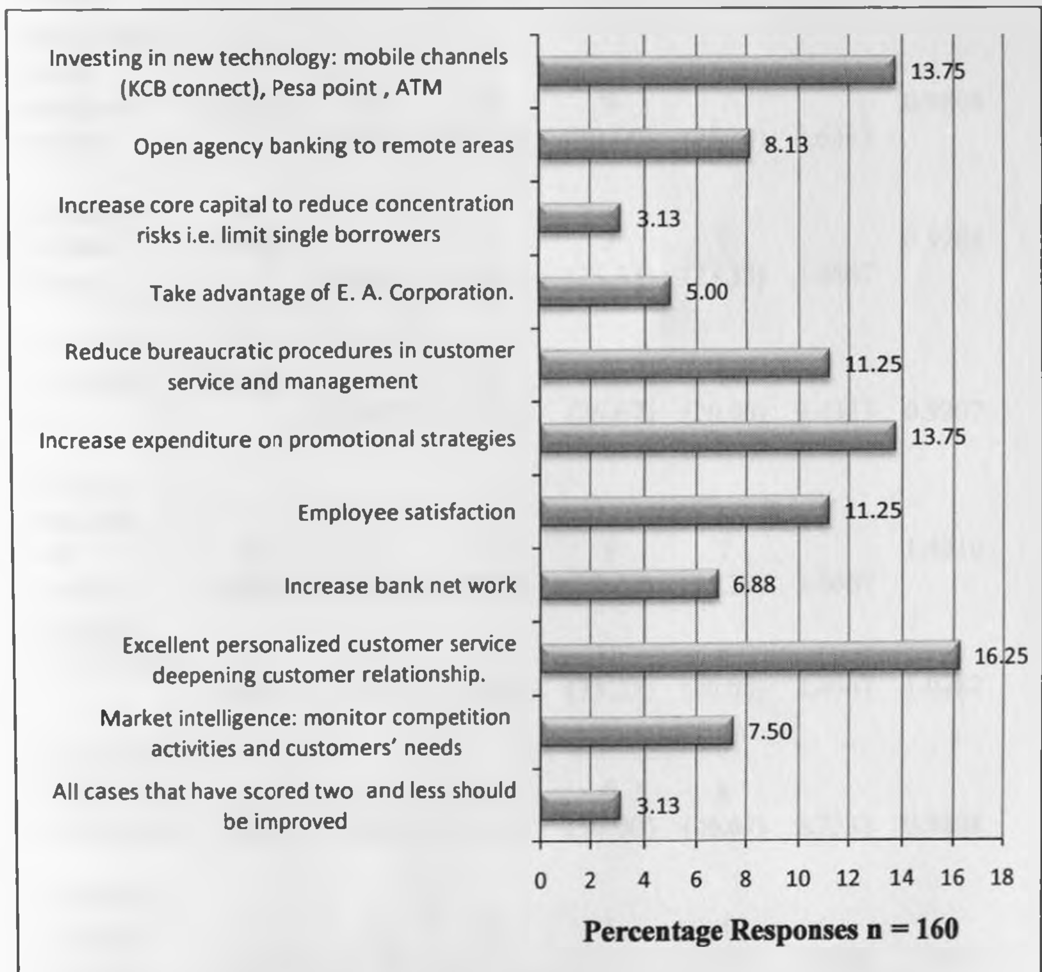


Figure 1.4: Managers' opinion on what they consider important for the banks to enhance its competitive strategies

Ensuring personalized customer service scored highest with 16.25% an indication that the customer defines the banking industry. Increase in core capital scored lowest with 3.13% hence the latter is less important in enhancing competitive strategies.

Table 4.6: Managers' responses on their level of Performance n = 30

Very Poor = 1, Poor = 2, Average = 3, Good = 4 and Very Good = 5

	Very Poor	**Poor**	**Average**	**Good**	**Very Good**		
	f (%)	f (%)	f (%)	f (%)	f (%)	**Mean**	**Standard Deviation**
Quality of products or services	1 (3.33)	1 (3.33)	9 (30.00)	7 (23.33)	12 (40.00)	3.9333	0.8891
Development of new products or services	0 (0.00)	4 (13.33)	10 (33.33)	9 (30.00)	7 (23.33)	3.6333	0.9808
Increase in sales and revenue	2 (6.67)	3 (10.00)	11 (36.67)	7 (23.33)	7 (23.33)	3.4667	0.9284
Increase on the market share	1 (3.33)	5 (16.67)	10 (33.33)	8 (26.67)	6 (20.00)	3.4333	0.9207
Ability to attract and retain essential employees	4 (13.33)	4 (13.33)	6 (20.00)	9 (30.00)	7 (23.33)	3.3667	1.4310
Product range	2 (6.67)	4 (13.33)	8 (26.67)	10 (33.33)	6 (20.00)	3.4667	1.0282
Satisfaction and retention of customers	0 (0.00)	3 (10.00)	10 (33.33)	9 (30.00)	8 (26.67)	3.7333	0.9808
Advertising, Promotion and sales	5 (16.67)	3 (10.00)	13 (43.33)	5 (16.67)	4 (13.33)	3.0000	1.1670
		Overall				3.5042	**0.7394**

The results in Table 4.7 show that the attributes in question are used to rate performance to a great extent with an overall mean of 3.5042. Quality of products and services scored highest with a mean of 3.9333 an indication that banks have to maintain high quality of products and services if they are to remain competitive. Advertising, promotion and sales scored lowest with a mean of 3.000 an indication that it has as well led to performance to a great extent but with a weak relation as compared to the other attributes. The quality of products is therefore very important.

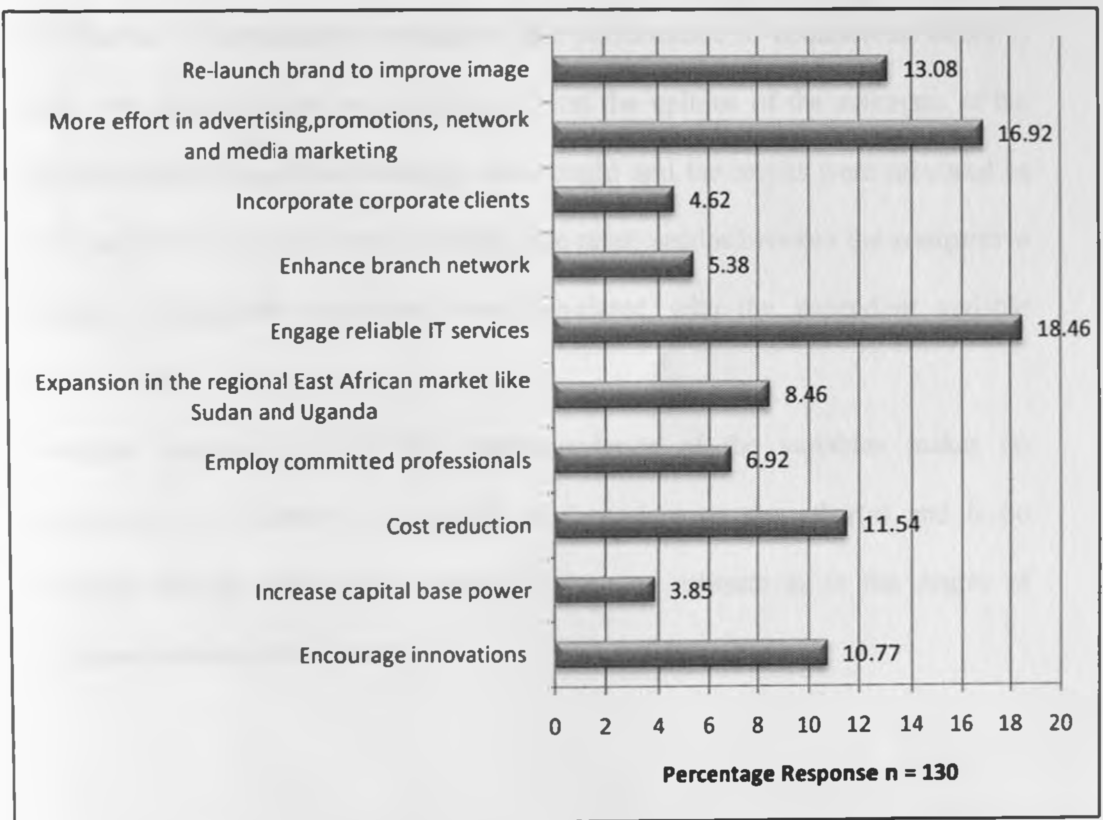


Figure 1.5: Managers' opinion on what they consider important for the banks to enhance its performance

The results in figure 1.5 shows that 18.46% of the managers were of the opinion that engaging in reliable IT services would enhance performance of commercial banks. 3.85% were of the idea that there was need to increase capital base power. Others had

views like improve brand image (13.08%), advertising, promotions and media marketing (16.92%),incorporate corporate clients 94.62%), enhance branch network (5.38%), expansion in the regional market(8.46%), employ committed professionals (6.92%), cost reduction (11.54%) and encourage innovations (10.77%).

4.4 The influence of competitive strategies to the performance of commercial banks in Kenya.

The second objective of the study was to establish the influence of competitive strategies to the performance of commercial banks in Kenya. Therefore to establish the influence of competitive strategies to the performance of commercial banks in Kenya, two methodologies was employed. First the opinion of the managers of the influence of the competitive strategies was sought and the results were tabulated as shown in Table 4.7, 4.8 and 4.9. Secondly, the relationships between the competitive strategies (independent variables) were correlated with the dependent variable (performance).

Correlation analysis tests for the interdependence of the variables makes no assumption as to whether one variable is dependent on the other(s) and is no concerned with the relationship; instead it gives an estimate as to the degree of association between the variables.

4.4.1 The influence of differentiation on the performance of commercial banks in Kenya.

Table 4.7: The managers' opinion on the influence of differentiation as a competitive strategy on performance n = 30

Not at all = 1,little extent = 2,moderate extent = 3, great extent = 4, very great extent = 5

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent	Mean	Standard Deviation
	f (%)	f (%)	f (%)	f (%)	f (%)		
Anticipating customer needs and expectations	1 (3.33)	3 (10.00)	5 (16.67)	12 (40.00)	9 (30.00)	3.8333	0.9487
Wide range of products	0 (0.00)	3 (10.00)	8 (26.67)	13 (43.33)	6 (20.00)	3.7333	0.8309
Advertising and promotions	4 (13.33)	2 (6.67)	7 (23.33)	9 (30.00)	8 (26.67)	3.5000	1.3093
New product development	1 (3.33)	4 (13.33)	6 (20.00)	12 (40.00)	7 (23.33)	3.6667	0.9103
Branding	2 (6.67)	5 (16.67)	6 (20.00)	11 (36.67)	6 (20.00)	3.4667	1.2383
Exploitation of Mergers and Acquisitions	8 (26.67)	5 (16.67)	10 (33.33)	5 (16.67)	2 (6.67)	2.6000	1.2498
Adaptation of IT	4 (13.33)	1 (3.33)	5 (16.67)	11 (36.67)	9 (30.00)	3.6667	1.3956
Branch network	3 (10.00)	2 (6.67)	12 (40.00)	5 (16.67)	8 (26.67)	3.4333	1.2873
Overall						**3.4875**	**0.7769**

The results in table 4.7 above show that differentiation influences performance to a great extend with an average mean of 3.4875.

4.4.2 The influence of cost leadership on the performance of commercial banks in Kenya.

Table 4.8: The managers' opinion on the influence of cost leadership as a competitive strategy on performance n = 30

Not at all = 1, little extent = 2,moderate extent = 3, great extent =4, very great extent = 5

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent		Standard Deviation
	f (%)	f (%)	f (%)	f (%)	f (%)	Mean	
Cost cutting measures (costs and overhead	1 (3.33)	4 (13.33)	13 (43.33)	7 (23.33)	5 (16.67)	3.3667	1.0305
Reduction of advertising and promotion costs	3 (10.00)	5 (16.67)	10 (33.33)	8 (26.67)	4 (13.33)	3.1667	1.1952
Cost minimization in R & D	2 (6.67)	7 (23.33)	5 (16.67)	11 (36.67)	5 (16.67)	3.3333	1.2071
Low cost relative to competitors	3 (10.00)	6 (20.00)	8 (26.67)	10 (33.33)	3 (10.00)	3.1333	1.1106
Overall						**3.2500**	**0.7370**

The results in table 4.8 show that cost leadership influences performance to a great extend but not as much as differentiation since the average mean of 3.2500 is lower than that of differentiation (3.4875).

4.4.3 The influence of focus on the performance of commercial banks in Kenya.

Table 4.9: The managers' opinion on the influence of focus as a competitive strategy on performance n = 30

Not at all = 1, little extent = 2,moderate extent = 3, great extent =4, very great extent = 5

	Not At All	Little Extent	Moderate Extent	Great Extent	Very Great Extent		
	f (%)	f (%)	f (%)	f (%)	f (%)	Mean	Standard Deviation
High market share	3 (10.00)	3 (10.00)	9 (30.00)	5 (16.67)	10 (33.33)	3.5333	1.1972
Market segmentation	2 (6.67)	4 (13.33)	5 (16.67)	9 (30.00)	10 (33.33)	3.7000	1.2306
Concentrating in one market segment	9 (30.00)	7 (23.33)	9 (30.00)	2 (6.67)	3 (10.00)	2.4333	1.2780
Custom products and services to meet market needs	3 (10.00)	2 (6.67)	11 (36.67)	5 (16.67)	9 (30.00)	3.5000	1.2498
Branding	4 (13.33)	3 (10.00)	9 (30.00)	5 (16.67)	9 (30.00)	3.4000	1.4007
Overall						**3.3133**	**0.8536**

Similarly, focus strategy influences performance to a great extend with an average mean of 3.3133. It therefore comes after differentiation in terms of the extent of influence to performance. Market segmentation leads with a mean of 3.7000.

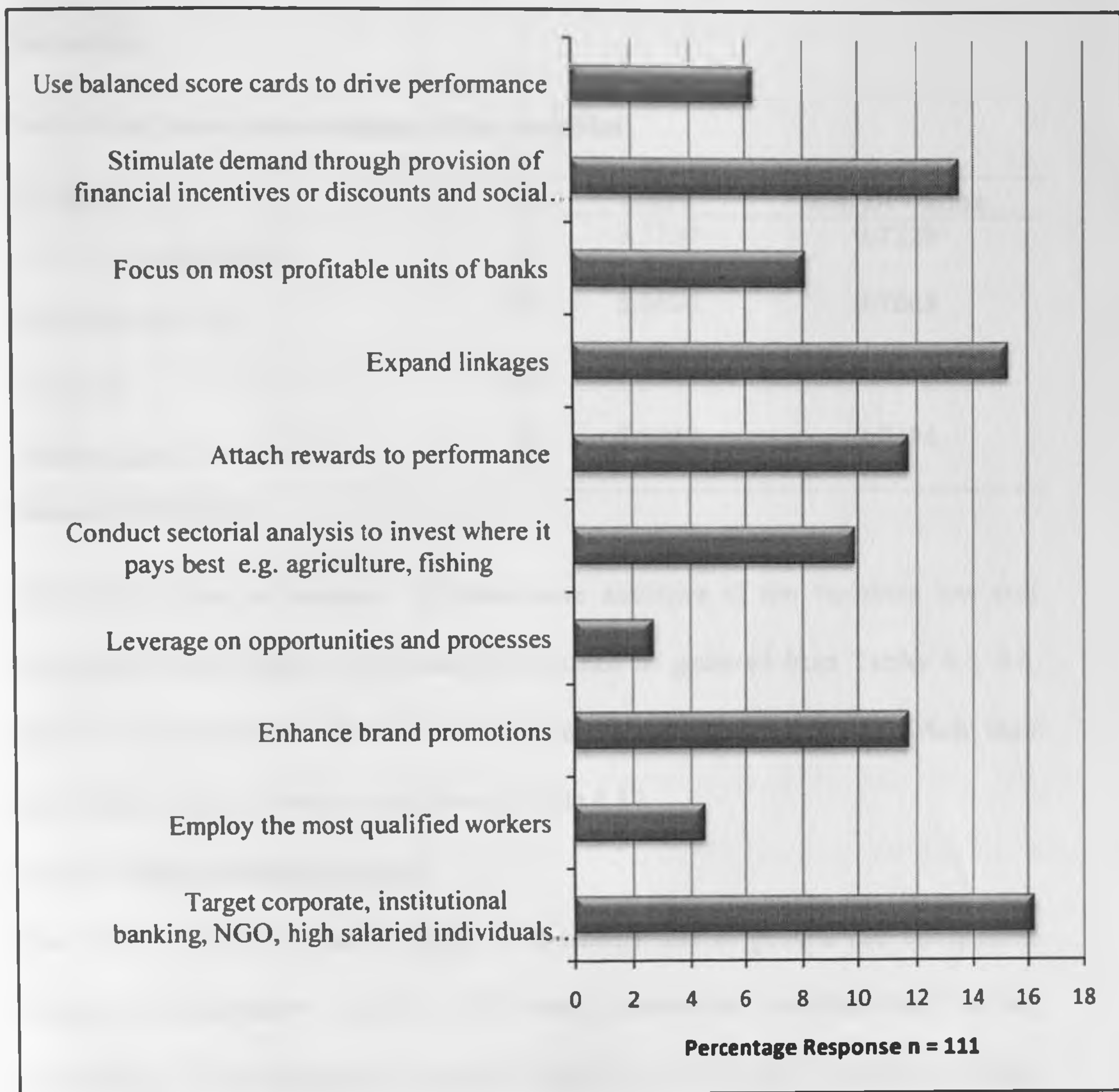


Figure 1.6: Managers opinion on what they consider important for this study.

The above mentioned views as stipulated in the table were considered important for the study. Target for corporate institutions, NGO's and high salaried individuals scored highest being the focus for all banks. Leverage on opportunities and processes scored lowest.

4.4.4 Correlation between the Independent Variables and Dependent Variable.

Table 4.10: Descriptive statistics of the variables

Variables	N	Mean	Std. Deviation
Low cost leadership(x_1)	30	3.5750	0.7229
Differentiation (x_2)	30	3.6600	0.7668
focus(x_3)	30	3.5500	0.8879
Performance (Y)	30	3.5042	0.7394

Source: Field data

Table 4.13 shows a summary the descriptive statistics of the variables low cost leadership, differentiation, focus and performance as gathered from Tables 4.3, 4.4, and 4.5. Consequently theses variables were then correlated to establish their relationship with performance as shown in table 4.14.

4.4.4.1 Simple correlation matrix

The simple correlation matrix helped to establish that in general the correlations among the independent variables. The three independent variables had varying correlations to the dependent variable. Table 4.14 shows the Correlation Matrix among Variables

Table 4.11: Correlation Matrix among Variables

Variables	Pearson Correlation	Sig. (2-tailed)	N
Performance (Y)	1.00	.00	30
Low cost leadership(x_1)	.529(*)	.014	30
Differentiation (x_2)	.877(**)	.000	30
focus(x_3)	.477(*)	.029	30

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Source: Field data

Positive correlation existed between Performance (Y) and Low cost leadership(x_1) ($r = 0.529$, $p = 0.014$), Differentiation (x_2) ($r = 0.877$, $p = 0.000$) and focus(x_3) ($r = 0.477$, $p = 0.029$). This finding indicates that low cost leadership, differentiation and focus and higher pupil book have influence on performance. Results in Table 4.9 also indicate that there was a statistically significant and stronger correlation between Performance (Y) and Differentiation (x_2) ($r = 0.877$, $p = 0.000$). Similarly Low cost leadership had a comparatively stronger significant relationship (($r = 0.529$, $p = 0.014$)

4.4.4.2 Regression Analysis

Regression analysis was used in data analysis of this study. It produces a regression model summary where R explains the correlation between the observed and predicted values of the dependent variable. R has values ranging from -1 to 1. The sign R indicates the direction of the relationship (positive or negative). The absolute R value indicates the strength, with larger values indicating stronger relationship. The proportion of the variation in the dependent variable explained by the regression model is represented by R^2. The values of R^2 range from 0 to 1. Small values indicate that the model does not fit the data well. R2 is also is used to determine which model is best. Table 4.15, shows correlation between a combination of independent variable and performance.

Table 4.12: Combined Linear Regression Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.894(a)	.799	.764	.35948

a Predictors: (Constant), focus (x_3), low cost leadership(x_1), differentiation (x_2)

Source: Field data

The correlation between the dependent variable was high 0.894. The R Square (R^2) is 0.799 is the proportion of the variance in the dependent variable which is associated

with variance in the independent variables. It shows that the independent variables explain 79.9% of the change in the dependent variable. This shows that low cost leadership(x_1), differentiation (x_2) and focus(x_3) contribute 79.9% towards performance. The contributions of these variables on performance as shown by the coefficient estimates are significant.

Regression equation derived from the model, the multiple regression analysis is employed to evaluate and interpret the relationship of the independent variables Low cost leadership(x_1), Differentiation (x_2) and focus(x_3) on performance (Y). When linear regression was used to analyse quantitative data in the study, the regression equation became as shown:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 \quad \text{........ Equation 1}$$

Where;

Y - Dependent variable (Firm Performance)

a - Constant or intercept

b_1 - Slope (Beta coefficient) for X_1

X_1 - First independent variable that is explaining the variance in Y (Low Cost Leadership

b_2 - Slope (Beta coefficient) for X_2

X2 - Second independent variable that is explaining the variance in Y (Differentiation)

b_3 - Slope (Beta coefficient) for X_3

X_3 - Third independent variable that is explaining the variance in Y (Focus)

Consequently the coefficients of, X_1, X_2 and X_3 were determined from the linear regression statistics to give the regression line equation (Equation 2). Table 4.16 presents the summary of the model after running linear regression analysis.

Table 4.13. Linear regression analysis results

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.067	.503		-.134	.895
Low cost leadership(x_1)	.147	.126	.144	1.169	.258
Differentiation (x_2)	.732	.127	.759	5.747	.000
focus(x_3)	.099	.100	.118	.984	.339

a Dependent Variable: Performance

The β column indicates the values of the standardised regression coefficient. β represents the effect that a standard deviation difference in the independent variable would have on the dependent variable in standard deviation (the standardized scores of the dependent variables). Therefore $a = -1.067$, $b_1 = 0.147$, $b_2 = 0.732$ $b_3 = 0.099$. Consequently the regression line for this model is specified as shown.

$$Y = -1.067 + 0.147 X_1 + 0.732X_2 + 0.099X_3 \ldots\ldots \text{ equation 2}$$

The coefficients of differentiation (x_2) was found to very significant ($p = 0.000$) at 0.05 level of significance. The other variables Low cost leadership ($p = 0.256$) and focus ($p = 0.339$) was not significant at 0.05. The contribution of the constant towards the performance was equally minimal and not significant ($\beta = -0.067$, $p = 0.895$)

The regression equation suggests that increasing low cost leadership by 1.0% increases the level of performance by 0.147%s, while increasing differentiation by

1.0 increases the level of performance by 0.732%, holding other factors constant. Similarly increase of focus by 1.0% would lead to a rise in performance by 0.099% other factors held constant.

4.4.4.3 Stepwise Regression Summary.

Stepwise regression analysis results into more than one model. The best model is chosen if it has a high value of R^2. A model with a large regression sum of squares in comparison to the residual sum of squares indicates that the model accounts for most of the variation in the dependent variable.

Stepwise multiple regression analysis was further used to determine the relationship between performance (Y) and Low cost leadership(x_1), Differentiation (x_2) and focus (x_3). This was important in showing the interactive effect of each independent variable as new variables introduced into the model on step by step basis. Stepwise multiple regressions eliminate the independent variables whose contribution to the regression model declines to a non-significant level. Table 4.17 presents the model summary for the stepwise regression analysis. It shows the individual correlation between the dependent variables and performance

Table 4.14- : Stepwise Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877(a)	.770	.758	.36389

a Predictors: (Constant), Differentiation (x_2)

Source: Field data

Table 4.17 shows that Differentiation (x_2) a lone contributed 77% to performance (model 1). The effect of Low cost leadership(x_1), and focus (x_3) and insignificant and they have been exclude in this model. The two variables' had about 2% contribution

towards performance since the a combination of low cost leadership(x_1), differentiation (x_2) and focus(x_3) contribute 79.9% towards performance.

4.5 Relationship between competitive strategies and firm performance

4.5.1 Correlation analysis of differentiation and performance indicators

Table 4.15 Correlations matrix between differentiation and performance indicators

Variables	**Pearson Correlation**	**Sig. (2-tailed)**	**N**
Differentiation	1.000	0.000	30
Profit	0.870**	0.002	30
ROA	- 0.195	0.616	30
Deposit	0.879**	0.002	30
ROE	0.552	0.123	30
Core Capital to R W A	0.063	0.021	30
Total Capital to RWA	0.227	0.129	30

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

RWA- Risk Weighted Assets

Correlations in Table demonstrate that differentiation has a strong positive relationship with banks profit and deposits with scores of 0.870** and 0.879** respectively.

4.5.2Correlation analysis of low cost leadership and performance indicators

Table 4.16 Correlations matrix between low cost leadership and performance indicators

Variables	**Pearson Correlation**	**Sig. (2-tailed)**	**N**
low cost leadership	1.000	0.000	30
Profit	0.833**	0.005	30
ROA	-0.013	0.973	30
Deposit	0.708*	0.033	30
ROE	0.532	0.141	30
Core Capital to R W A	.0630	0.031	30
Total Capital to RWA	0.231	0.028	30

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

RWA- Risk Weighted Assets

The results in Table 4.16 show a positive correlation between low cost leadership and performance indicators. Except for ROA with a score of -0.013. The relationship between low cost leadership and profits remain highest at 0.833**.

4.5.3 Correlation analysis of differentiation and performance indicators

Table 4.17 Correlations matrix between focus and performance indicators

Variables	Pearson Correlation	Sig. (2-tailed)	N
Focus	1.000	0.000	30
Profit	0.779(*)	.013	30
ROA	-0.414	.268	30
Deposit	0.612	.080	30
ROE	0.375	.320	30
Core Capital to R W A	0.310	0.129	30
Total Capital to RWA	0.524	0.076	30

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

RWA- Risk Weighted Assets

The results in Table 4.17 show appositive relationship between focus and performance indicators except for ROA with a correlation of -0.414.Indicating that the focus strategy affects firm performance but with less magnitude as far as return on assets is concerned.

4.6 Discussion

Those interviewed predicted a sustained level of performance through continuous implementation of competitive strategies. Competitive strategies have enabled banks to proactively evaluate future challenges in the banking industry. It should be however noted that though the competitive strategies were indicated to be very significant, there were degrees of variation among respondents. This is as indicated by the standard deviation.

Theory has shown that competitive methods used by banks conform to generic strategy types. Banks following a differentiation strategy realize statistically a significant superior performance compared to those applying both cost leadership and focus. The findings also indicate that some competitive strategies had a weaker role on the capital ratios of commercial banks in Kenya. Competitive strategies as a whole had less impact on bank reserves. The study's findings is intuitive and consistent with the previous studies.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the results gathered from the analysis of the data, as well as the conclusions reached. It incorporates the various suggestions and comments analysed from the questionnaires. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and recommendations for action are also given.

5.2 Summary of Findings

The study obtained a 70% response rate which is considered to be sufficient so as to enable the objective of the study to be achieved. Majority of the respondents were male and majority had worked for the bank for a period of between 5-10 years. From the findings most of respondents were male as opposed to female.

Findings from the study showed that differentiation strategy as an independent variable recorded a statistically significant and stronger correlation between Performance (Y) and Differentiation (x_2) ($r = 0.877$, $p = 0.000$). Similarly Low cost leadership had a comparatively stronger significant relationship (($r = 0.529$, $p = 0.014$). Focus on the other had a weak correlation ($r = 0.477$, $p = 0.029$).

The study also established that correlation between competitive strategies and firm performance indicators that recorded a significant strong positive relationship were return on assets, profits, return on equity and firm deposits. Total capital to risk weighted assets, capitals and reserves and core capital had a weak positive relationship on performance. The strength of influence that each of the independent variable had on the dependent variable was determined by the use of multiple

regression analysis whose results showed that differentiation strategy had the strongest significant influence on performance.

5.3 Conclusion

The preceding empirical analysis allows us to shed some light on the relationship between competitive strategies and performance measures in commercial banks in Kenya. Competitive strategies used by commercial banks conform to generic strategy types. Commercial banks have employed different strategies to remain competitive in the industry. It should be noted that competitive strategies adopted by commercial banks provided different degrees of variation among the respondents with respect to the competitive strategy adopted.

From the summary of findings, the commercial banks profitability measures respond positively to the increase in competitive strategies that are driven by differentiation as opposed to cost and focus frameworks. Commercial banks following a differentiation strategy realized statistically significant superior performance as compared to those that pursued focus strategy and cost leadership strategy. The results revealed that larger return on equity and return on asset ratios led to high profit margins with well calculated competitive strategies. The study's findings also indicated that some competitive strategies have a weaker role on the capital ratios, return on assets and capital reserves of commercial banks in Kenya.

An examination of competitive strategy variables and their relationship to performance confirms that competitive strategies are relevant in the context of commercial banks' performance.

5.4 Recommendations for policy and practice

From the discussions and conclusions, the researcher recommends that although banks experience some challenges in implementing competitive strategies in the

banking sector such as stiff competition, competitive strategies are very important if the banks are to remain relevant and in business. Understanding the market structure is a key determinant of the successful implementation of a cost leadership, differentiation or focus strategy

Commercial banks operate in stiff competition hence they must strive to attract and retain the target market. While operating on profit basis, the type of products and services they offer are supposed to be the best compared to other commercial banks offering the same products and services. The banks hence need to employ strategies that would ensure superior value and performance. The differentiation strategy is highly recommended since there are a lot of substitute products in the market. This would mean that commercial banks offer services and products that differentiate them from others. Banking institutions have laboured to retain core deposits on the realization that deposits grow in direct proportion to customer satisfaction. To ensure success in this, commercial banks should consider differentiating their products to customers. This would lead to drawing of substantial deposit amounts.

Commercial banks with weak return on asset (ROA) and return on equity (ROE) should further strengthen their position of differentiation by improving their process efficiencies, producing high quality products and innovating new ways of operating in the competitive environment hence attaining customer loyalty. All commercial banks rely on the environment for survival. They therefore have to scan the environment continuously in an effort to spot changing conditions and trends that could affect the industry. Banks should be able to deliver the same products as competitors but at a lower cost (cost advantage) or deliver benefits that exceed those of competing products (differentiation advantage) to gain competitive advantage over other firms. Commercial banks need to position themselves against competition and strive to

defend their position. To achieve this, they can for instance, develop new products as well as innovate new financial products in line with the development trends in the industry.

Commercial banks should lay focus on customer oriented strategies instead of product oriented strategies. The contemporary trend in the banking industry focuses essentially on the customer. The availability of a wide range of banking services is not sufficient on its own; it is rather defined by the customer.

5.5 Limitations of the study

The respondents studied in this research were from one sector and conclusions drawn from this study may not be representative and therefore cannot be generalized to other industries.

Due to tight schedules, some respondents took a lot of time to submit their responses. This prompted the researcher to do a lot of follow up with the respondents to ensure feedback was given within the allotted time.

Some respondents were sceptical about the intentions of the researcher. Some managers were unwilling to divulge information that they deemed secretive and these led to no response from some respondents.

5.6 Suggestions for Further Study

The study recommends for further research to be conducted to establish the strategies employed to build competitive advantage and achieve superior performance in other related sectors in the industry such as the micro finance institutions and SACCOs.

This study recommends for further research to be conducted to establish the factors that influence the choice of competitive strategies being adopted by the Kenyan commercial banks. This will enable the bank strategy managers understand areas that

need emphasis when adopting the strategies.

Since the study was a census survey that achieved a response rate of 70%, a case by case study would assist in bringing out the particular findings in each bank to avoid generalizations. This would ensure that the data that was not captured is captured during the case study.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent

RE: **Questionnaire on Influence of Competitive Strategies to the performance of Commercial Banks in Kenya.**

My name is BEATRICE OYIELA. I am a student of the University of Nairobi in the School of Business studies at the Kisumu Campus pursuing a Master of Business Administration. My admission number is D61/60907/2010. I am carrying out research of establishing the influence of competitive strategies to the performance of commercial banks in Kenya.

I have identified your bank as a source of the required data to assist in the study of the competitive strategies and performance in Commercial Banks in Kenya. The information you provide will contribute to the study and the findings will be used to improve the situation. You have been requested to answer all questions honestly. Data will be used for study purposes only and respondents' confidentiality is highly assured.

Thank you for your cooperation,

Yours faithfully,

Beatrice Oyiela

MBA Student

University of Nairobi

APPENDIX II: QUESTIONNAIRE

This questionnaire seeks to collect information on the influence of competitive strategies to the performance of commercial banks in Kenya. Please provide information frankly and honestly. All information received will be treated confidentially and used for academic purposes only.

SECTION A: Background Information

1. Name of the bank ....
2. Year of incorporation ....
3. Size of the bank (Tick as appropriate)

a. 2 – 10 branches [ ]

b. 11 – 20 branches [ ]

c. 21 – 30 branches [ ]

d. Above 30 branches. [ ]

e. Please indicate your gender, Male [ ] Female [ ]

f. State whether your bank is foreign owned, state owned or private

....

SECTION B: Competitive Strategies

Please indicate (√) the extent to which you have used the following strategies to remain competitive in the market. Use a point of scale where

1. Not at all 2 Little Extent 3 Moderate Extent 4 Great Extent 5 Very Great Extent

	1	2	3	4	5
Cost Leadership					
Fees charged lower than other banks					
Achieving economies of scales					
Introduced cost cutting measures					
Enhanced process efficiencies					

Differentiation					
Unique market driven products and services					
Improved branch networks					
Introduced unique products and services					
Differentiating services from that of other banks					
Advertising and promotion on radio and television					
Focus					
Focused on products and services not offered by other banks					
Custom made products and services offered to Corporate customers					
Identified a specific niche in the market					
Concentrating in one market segment					

Provide any other information you consider important for the bank to enhance its competitive strategies

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Section C: Performance

How would you rate firm performance on the following attributes over the past 5 years to that of other banks? Use a point of scale where Very poor 1 Poor 2 Average 3 Good 4 Very Good 5

	1	2	3	4	5
Quality of products or services					
Development of new products or services					

Increase in sales and revenue					
Increase on the market share					
Ability to attract and retain essential employees					
Product range					
Satisfaction and retention of customers					
Advertising ,Promotion and sales					

Provide any other information you consider important for the bank to enhance its performance

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Section D: Competitive strategies and Performance

Indicate the extent to which the strategies have led to performance in your business on a scale of 1 to 5 where: 1. Not at all 2 Little Extent 3 Moderate Extent 4 Great Extent 5. Very Great Extent

	1	2	3	4	5
Differentiation					
Anticipating customer needs and expectations					
Wide range of products					
Advertising and promotions					
New product development					
Branding					
Exploitation of Mergers and Acquisitions					
Adaptation of IT					
Branch network					
Cost Leadership					
Cost cutting measures (costs and overhead control)					
Reduction of advertising and promotion					

costs					
Cost minimization in R & D					
Low costs relative to competitors					
Focus					
High market share					
Market segmentation					
Concentrating in one market segment					
Custom products and services to meet market needs					
Branding					

Please provide any other information you consider important for this study?

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APPENDIX III: LIST OF COMMERCIAL IN KENYA

1. ABC Bank (Kenya)
2. Akiba Bank Ltd
3. Bank of Africa
4. Bank of Baroda
5. Bank of India
6. Barclays Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. Fina Bank
22. First Community Bank
23. Giro Commercial Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. Habib Bank AG Zurich
28. I&M Bank
29. Imperial Bank Kenya
30. Jamii Bora Bank
31. Kenya Commercial Bank
32. K-Rep Bank
33. Middle East Bank Kenya
34. National Bank of Kenya
35. NIC Bank
36. Oriental Commercial Bank
37. Paramount Universal Bank
38. Prime Bank (Kenya)
39. CFC Stanbic Bank
40. Standard Chartered Bank
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

(Source: CBK Supervision Annual Report, 2011)

APPENDIX IV: PERFORMANCE CAPTURE FORMS

The performance capture forms are designed to cover the following information:

Profitability of banking sector as at December 2010

RETURN ON ASSETS (ROA)

	TOTAL ASSETS AND CONTIGENCIES(Kshs. Million)					RETURN ON ASSETS(ROA)%				
Banks	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

RETURN ON EQUITY(ROE)

	SHAREHOLDERS' EQUITY(Kshs. Million)					RETURN ON EQUITY (ROE)%				
Banks	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

Capital and Risk Weighted Assets as at December 2010

CORE CAPITAL TO RISK WEIGHTED ASSETS RATIO

	CORE CAPITAL(Kshs.Million)					CORE CAPITAL TO RISK WEIGHTED ASSETS RATIO				
Banks	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

TOTAL CAPITAL TO RISK WEIGHTED ASSETS RATIO

	TOTAL CAPITAL (Kshs. Million)					TOTAL CAPITAL TO RISK WEIGHTED ASSETS RATIO				
Banks	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

Market Share as at December 2010

TOTAL NET ASSETS

	TOTAL NET ASSETS(Kshs. Million)					MARKET SHARE%				
Banks	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

NET ADVANCES

	NET ADVANCES(Kshs. Million)					MARKET SHARE%				
Banks	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

DEPOSITS

	DEPOSITS(Kshs. Million)					MARKET SHARE%				
Banks	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

CAPITAL & RESERVES

	CAPITAL & RESERVES(Kshs. Million)					MARKET SHARE%				
Banks	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-

PRE TAX PROFITS

	PRE TAX PROFITS (Kshs.Million)					MARKET SHARE%				
Banks	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	-	-