STRATEGIES FOR ACHIEVING COMPETITIVE ADVANTAGE IN COMMERCIAL BANKS IN KENYA

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

OCTOBER: 2011

DECLARATION

This is to declare that this research project is my original work and has not been presented to any other University or Institution of Higher Learning for examination.

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D61/72819/2009

This is to declare that this project has been submitted for examination with my approval as the university supervisor

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ACKNOWLEDGEMENT

Sincere gratitude to my supervisor Mr. Jeremiah Kagwe for his tireless efforts, guidance and commitment especially in development of research proposal. Special thanks to all my lecturers in the MBA program for their wise counselling and encouragement throughout the duration of the course.

Appreciation and profound thanks to my family members for their inspiration and love for education. My wife Anastasia for her patience especially the times when I had to spend long hours reading through books and preparing various elements of the research. My son, Jayden for time I was not in a position to be with him.

Special gratitude to my classmates the MBA 2009 for their support and encouragements. My friends too who stood by me during the course period.

Thanks to all respondents of the banks who cooperated and participated in my study. I would specifically thank Jackson Maira for assisting in printing and distribution of research questionnaire.

Thanks to Almighty God for giving me life through which all things are possible.

Thank you and God bless you all.

DEDICATION

I dedicate this study to my wife Anastasia and son Jayden for their inspiration, support and patience. Our entire family of Mr. and Mrs Daniel Gathege Maira, they are my principal motivation to keep on striving higher for excellence.

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ABSTRACT

In the setting of modern business companies are persistently striving to create mechanisms for differentiating themselves from their competitors within given markets. Because many markets are quite saturated with numerous firms endeavoring toward like core competencies, organizations are forced to dissect their business processes for the purpose of determining what strategies can be used to achieve competitive advantage. Commercial banks like any other firms strive to survive and succeed in competition by pursuing strategies that enable them to perform better than their competitors. Therefore this research study sought to establish specific strategies used by commercial banks to gain competitive advantage in efficiency and effectiveness.

The study used a descriptive survey approach in collecting data from the respondents. The number of the respondents was 38 senior managers out of the 44 commercial banks operating in Kenya which was sufficient for the study as Mugenda and Mugenda (2003) indicated that a population of more than 30 is sufficient for the studies. A questionnaire which was drop and pick was used in gathering of primary and secondary data. The qualitative data was analyzed using content analysis and finding presented in prose form.

The study established that commercial banks needs to adopt superior techniques, unique strategic measures that match the challenges from the environment in order to cope with the explosive growth in information technology, introduction of new financial instrument, intense competitions in the market and rapid evolution of innovation. From the findings the study concluded that banks need to firm review their strategies more often to ensure that the adopted strategies were effective in order to gain large market, provide high customer loyalty, quality financial services and customers need as it focuses on offering financial service to segment of the market.

From the findings the study finally concluded that bank need to have a process engineering skills, strong research, development, creativity and marketing skills and incentives based largely on subjective measures in order to maintain the strategy implementation in the firm.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

A competitive strategy which emanates from strategic planning is not a new management tool as its origins can be traced to the late 1950s and early 1960s. Under conditions of extreme competitive turbulence the rediscovery of the competitive advantage concept is not unusual. In a stable environment, firms can explain their historical strength and any emerging opportunities, but with increased level of competition, what used to work perfectly, may now fail (Kaplan and Norton, 2001). The competitiveness of a firm in an industry depends on its ability to organize its overall policies cutting across planning, organizing, controlling, staffing, leading, motivating, directing and communication in order to increase its productivity and efficiency in the management of resources (Johnson and Scholes, 2006).

Turbulence in the external environment, market competition and more discerning customers have made it a necessity that commercial banks constantly re-appraise their competitive strategies. In a strategic review of the Kenya banking industry it is postulated that the emerging trends and evidence suggest that significant change will most likely occur where there are, prospects for exploiting economies of scale, low levels of domestic concentration and institutional investors as the key facilitators of bank disintermediation and asset securitization (Nyakang'o, 2007). Moreover, new delivery channels are commoditizing commercial bank products and changing customers' loyalty when deciding to purchase certain types of financial products (Hyatt, 2001).

In today's fast-changing competitive environment, banking ' competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful commercial banks apply them in new organizational strategies that put into question many conventional tenets on banks and it management (Johnson and Scholes, 2002). These strategies involve a decentralized and responsive work organization, based on co-operative relations not only within the bank but also in its relations with customers, suppliers and competitors. However, firms are also increasingly resorting to traditional market mechanisms through the use of contingent workers and arms'-length subcontracting relations. Ansoff argues that for a commercial banks need successful it has to adapt to its environment, which leads to growth and profitability by linking its internal capability which includes resources, goals, values and systems to its external environment which relates to political situation, technology, competition and Social pressure of the commercial banks as well as saturations of the markets (Porter, 2004).

1.1.1 Concepts of competitive advantage

According to Barney, (2001), an organization that has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces (Thompson and Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield the long term benefit to the company. Prahaland and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics; one it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly, it is hard for a competitor to imitate. Competitive advantage is also defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment (Barney, 2001).

To understand why certain competitive strategies are more effective than others, one must consider the distribution of resources in competing firms. Although a given firm may possess more or less of any particular resource, only those resources that are rare, valuable, and difficult to imitate provide a sustainable competitive advantage (Thompson and Strickland ,2002).

When the strategies employed are successful in leveraging the firm's rare, valuable, and difficult-to-imitate resources that firm is likely to gain an advantage over its competitors in the marketplace and thus earn higher returns .Competitive advantages that are sustained over time lead to higher performance (Njagi, 2003). Thus, if a firm could modernize its plant, or develop a more efficient distribution process, or access cheaper credit, it could compete successfully and prosper.

1.1.2 Commercial banks in Kenya

The commercial banks in Kenya are regulated by Central Bank of Kenya (CBK) Act Cap 491 and the Banking Act Cap 444. These acts are intended primarily to facilitate the development and maintenance of sound monetary policy (GOK 1989). The competition for survival and growth within the industry is extreme. This poses a major challenge owing to poor performance of the economy, decline of inflow of investments and shrinkage of profits. Kenya's banking sector has been said to be evolving quite fast and adapting to the challenges in its environment which include a poor and a declining economy, cyclical interest rates, high incidence of non-performing loans, changes in regulatory environment and a fluid and volatile political environment. The issues and challenges facing the corporate sector have never been as turbulent and unpredictable as they are today, following the globalization, intensive competition, emerging multilateral trading order and hence the need for sustainable development (The Banking survey, 2009).

As banking industry faces stiff competition, the need to identify and develop a competitive advantage becomes even more critical. The banks may develop sustainable competitive advantage through efficient and effective strategic services. Although competitive strategies is not a physical product, it can be taken apart, examined, tested and re-engineered to go faster, cost-less or perform new tricks to help the bank gain competitive advantage. It is multi-dimensional, it comprises of different facets from attitude to infrastructure, all which must be addressed in the quest for excellence (Njagi, 2003).

Generally the Kenya banking industry is more stable than it has ever been with 17 % core capital/ deposit; with improved solvency of 8 % as required by CBK and liquidity margin far beyond 20 % which is total required reserve with most banks having 40 % or more in the reserves. The future looks promising with financial and legal sector restructuring (The Banking Survey, 2010).

Different banks use different methods in to gain competitive advantage, i.e. achieving efficiency and effectiveness. For example "Out Serve" according to Standard Chartered bank is a commitment to build customer loyalty in all its market by delivering on its brand promise of being the right partner by consistently out serving competition and exceeding customer expectations. "Stellar" service according to Kenya Commercial Bank entails the following:

exceed a customer's expectation, do something that makes customer feel special and valued, and create positive and memorable experience for customer. By delivering stellar service you not only build customer loyalty and associated feeling of trust and confidence, but also enhance efficiency and effectiveness required in gaining competitive advantage (Mbobua, 2007).

1.2 Research problem.

Organizations operate in a stiff competitive environment due to existence of other firms producing and /or selling the same products or services. Moreover, Barney (2001) highlights the importance of implementation competitive strategies which lead to attainable of competitive advantage results from a firm's unique capabilities that are valuable, rare and inimitable (Barney, 1991). The strategy implementation approach involves viewing strategy as affecting organizational dimensions, or organizational dimensions are adapted to strategy, which then results in higher firm performance (Mbobua, 2007).

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing dramatically aggressive competition in a new deregulated environment. Banking industry are realizing that stiff competition within the banking industry necessitating the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage. The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command (Kotler and Armstrong, 2002).

The business environment in the country has drastically changed resulting in some local and multintional banks opening a number of branches across borders and thus increasing competition in the industry globally. Commercial banks have ended up 'hawking' their services to potential clients and this has led to downward prices due to competition (Galliers and Leidner 2006). Competitive advantage calls for firms adopting superior techniques to outperform their rivals, as a result of this competition, firms must adopt unique strategic measures to cope or risk being thrown out of the market by the same competition because of the linkage of competitive strategies and competitive advantage.

In the contemporary world, owing to the increasing need for financial security of money earned by individuals or corporate, many banking and financial firms have been established and are increasingly being established. However the rate of establishment of the new banks is not commensurate with the existing market demand for the services enough to fully ensure that the banks are profitable. Commercial banks in Kenya are currently facing increasing competition and tremendous challenges due to industry globalization, privatization of government-owned banks, adversely changing economic and political patterns despite widening profits margins. For them therefore to survive, they must develop competitive advantage to continue attracting customers (The Banking Survey, 2010).

The concepts of competitive strategies and competitive advantage have been studied by many scholars due to their increased importance in modern day management of the firms. For example, Omondi, (2006) carried out a research on the structures and growth of the banking industry in Kenya. Ndegwa (2006) looked at the commercial banks and financial institutions from a marketing point of view by assessing the quality of service. Nyakang'o (2007) carried out a researched on the competitive strategies adopted by audit firms in Nairobi and found out that audit firms are able to perform better when they adopt competititve strategies. Gakenia (2008) surved on the strategy implementation in Kenya Commercial Bank. Gitonga (2008) studied on the various response strategies of Banking industry Ltd to competition in the Kenyan banking industry. Kibe (2008) researched on the strategy implementation at Equity Bank Limited. There is no known study that has focus on determining influence of competitive strategies in achieving competitive advantage in commercial banks in Kenya. Therefore by seeking to answer the following question, what are the causes of increased competition to commercial banks in Kenya? What are the strategies adopted by the commercial banks in Kenya to gain competitive advantage? What are the challenges encountered?

1.3 Research Objectives

i. To identify the causes of increased competition in commercial banks in Kenya.
ii. To establish specific strategies used by the commercial banks to gain competitive advantage in efficiency and effectiveness.
iii. To identify challenges that hinder the implementation of competitive advantage in the commercial banks in Kenya.

1.3.1 Value of the Study

The banks are interested in creating a sustainable competitive advantage through efficiency and effectiveness of services provided to their customers. Banks will be able to understand the impact of competitive advantage and invest more in long term strategies to outsmart their rivals.

The general public will want to know the best banks that will give them value for their money and the same time, offering efficient and effective services without compromising the quality of the products and services.

The study is important as a catalyst to explore the area further. This is particularly so because the study is suitable for further research. It would also facilitate the conduct of other studies that requires the results of their study on their information. Students and academicians who wish to carry out further research in creating sustainable competitive advantage in organization using competitive strategies will greatly benefit from this study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the concept of strategy and competitive advantage put forward by various scholars and early researchers in explaining their use in strategic management to a business.

2.2 The concept of Strategy

According to Mintzberg et. al. (1998), there is five main and interrelated definitions of strategy: Plan, Ploy, Pattern, Position and Perspective. Andrew (1998) defined strategy as a pattern of decisions in a company that determines and reveals its objectives, goals, plans for achieving those goals, and defines the range of business the company is to pursue. Mintzberg et al (1998) draws distinction between planned or deliberate strategy and emergent ones. Deliberate strategy focuses on controls while emergent strategy emphasizes learning. Whittington (1993) attempted to make sense of the many definitions and categories of strategy by identifying four generic approaches to strategy: Classical, Evolutionary, Processional and Systematic. The resource based model, sees profitability as coming from the effective deployment of unique resources that allows firms to have lower costs or better products, rather than firm tactical maneuvering or product market positioning (Fahy, 2000).

Strategies are the means by which long-term objectives are achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, joint ventures among others. Strategies are potential actions that require top management decisions and large amounts of the firm's resources. In addition, strategies affect an organization's long-term prosperity, typically for at least five years, and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both external and internal factors facing the firm (Bharadwaj, 1997).

The strategic process can be viewed through the lens of design (planned), experience (entrepreneurial) and idea (innovation) (Johnson and Scholes, 2007). However there has been no consensus on the various views and any organization normally finds itself employing the different views at any given time for its strategy development. It is vital to note that eventually, strategies may end up being intended or realized (emergent). Intended strategies are those that tend to follow the more formal process of planning while the realized strategies are those that undergo cultural and political process as well as learning and logical instrumentalism.

Hoskin (1990) agreed with chandler's view of the development of modern business strategy since the industrial revolution. Hoskin however does take issue with both Chandler and Bracker in two crucial points. First he argues that the modern concept of organization strategy bears little resemblance to military strategy, at least as it existed up to the First World War. Secondly, he challenges the view that the origin of business strategy is untraceable. When investing the emergence of modern strategy, he did find a link with the military world, though it was not quite the link that Bracker and Chandler proposed.

2.3 Competitive advantage.

A company has a competitive advantage whenever it has an edge over its rivals in securing customer and defending against competitive forces (Thompson and Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield the long term benefit to the company. Prahaland and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics; one it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly, it is hard for a competitor to imitate. Competitive advantage is also defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment.

According to Bharadwaj (1997), competitive advantage can be developed from a particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the achievement of the firm to be able to perform above average industry performance (Bracker, 1980).

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology either to be included as a part of the product, or to assist making it. Information technology has become such a prominent part of the modern business world that it can also contribute to competitive advantage by outperforming competitors with regard to internet presence from the very beginning (Porter, 1985).

2.4 Strategy and Competitive Advantage

Amit and Schoemaker, (1993), noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Porter (1998), defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy (Hyatt, 2001)

Jowi (2006) says that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Hoskin, (1990), asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Burnes (1998) the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. He also observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm.

According to Hambrick, (1986) there is no agreed all embracing definition of strategy. Indeed, strategy is an elusive and somewhat abstract concept. He argues that this is expected when dealing with an area that is constantly developing. Strategy is the direction and scope of an organization over a long term. Strategies are systematic choices bout how to deploy resources to achieve goals. A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Thompson, 2007).

2.4.1 Link between Strategies and competitive advantage.

A relationship exists between competitive strategy and competitive advantage. By definition, competitive advantage has been defined by Porter (1985) as an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Porter further defines competitive strategy as to how a company competes in a particular business (overall strategy for diversified firms is referred to as corporate strategy). Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing.

A firm's strength ultimately falls into one or two categories: Cost advantage and Differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result as a form of creating a competitive strategy, cost leadership, differentiation and focus. The firm can use these strategies to sustain a competitive advantage. They are called generic because they are not firm or industry dependent and are applied at the business unit level (Porter, 1980).

The cost leadership strategy involves the organization aiming to be the lowest cost producer within their industry. The organization aims to drive cost down through all the elements of the production of the product from sourcing to labor costs. Some organization may aim to drive down cost but will not pass on these cost savings to their customers aiming for increased profits clearly because their brand can command a premium rate.

With a differentiation strategy, organizations focus their efforts on a particular segment of the market and charge for the added differentiated value. New concepts which allow for differentiation can be patented. However, patents have a certain life span and organizational ways face the danger that their idea that gives the competitive advantage will be copied in one form or another (Gupta and Govindarajan, 1994). Firms that succeed in differentiation strategy often have access to leading scientific research, highly skilled and creative product development team, strong sales team with the ability to successfully communicate the perceived strengths of a product and a corporate reputation for quality and innovation.

On the niche strategy or focus strategy, the organization focuses its effort on one particular segment of the market and becomes well known for providing products or services within the segment. They form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiator within a particular segment. With both of these strategies the organization can also focus by offering particular segments differentiated products or service or a low cost product or service. The key is that product or service is focused on a particular segment (Porter, 1980).

Another of Porter's generic strategies that could be adopted by commercial banks is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1996). In order to achieve a low-cost advantage, commercial banks must have a low-cost leadership strategy, low-cost servicing and a workforce committed to the low-cost strategy. The banks must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage. For an effective cost leadership strategy, commercial banks must have a large market share (Hyatt, 2001). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. Porter (1985) purports only one firm in an industry can be the cost leader and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role.

Lower costs and cost advantages result from process innovations, learning curve benefits, and economies of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs.

Commercial banks do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Brenes, Mena, and Molina, 2007). Lower prices lead to higher demand and, therefore, to a larger market share. As a low cost leader, commercial banks can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions. Cost leadership strategy does have disadvantages, it creates little customer loyalty and if a firm lowers prices too much, it may lose revenues.

According to Miles and Snow, (1978), commercial bank may focus its efforts on providing a unique financial product or service. Since, the financial product or service is unique; this strategy provides high customer loyalty. Product differentiation fulfils a bank customer need and involves tailoring the product or service to the customer. This allows banking institutions to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the commercial banks provide unique or superior value to the customer through service quality, features, or after-sale support. Commercial banks following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality services and willing to pay a higher price.

The key step in devising a differentiation strategy is to determine what makes local and multinational banks different from a competitor's (Mintzberg and Quinn, 1994). Factors including market sector, quality of work, the size of the firm, the image, geographical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm. To be effective, the message of differentiation must reach the clients as the customer's perceptions of the bank are important (David, 1997).

Lewin, and Volberda, (1999) indicated that some key concepts for establishing differentiation strategies in the commercial banks include speaking about the product to select panels, writing on key topics affecting the company in the association's magazine or newsletter, becoming involved in the community, being creative when composing the company's portfolio, offering something the competitor does not or cannot offer, providing e-commerce, making access to bank information and products both quick and easy, using bank size as an advantage, training employees with in-depth product and service knowledge, offering improved or innovative products, emphasizing the bank's state-of-the-art technology, quality service, and unique services, using photos and renderings in brochures and selecting products and services for which there is a strong local need (Dulo, 2006).

Banking institutions may targets a specific segment of the market (Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line. Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements.

A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms.

Commercial bank may also choose a combination strategy by mixing the aforementioned generic strategies. For example, a firm may choose to have a focused differentiation strategy. This means the commercial banks has a unique service offered to a targeted market segment. The Commercial banks may also choose to have a focused cost-leadership strategy. In this instance, banks would use a cost leadership strategy targeted to a specific market segment. There is much debate as to whether or not a bank can have a differentiation and low-cost leadership strategy at the same time. Porter, (1980) felt differentiation and cost-leadership were mutually exclusive.

Kumar et al. (1997) in their study of generic strategies used in the hospital industry found that when hospitals follow a focused cost leadership hybrid strategy they exhibit higher performance than those following either cost leadership or differentiation alone. Lower cost and differentiation are directly connected with profitability.

2.5 Factors Influencing Choice of Strategy

Although managers ideally prefer to formulate decisions through a systematic approach, the concept of bounded rationality would suggest that the managers might be forced to make these important decisions by giving considerations to only a limited number of issues (Jowi, 2006). Criteria that should be used to evaluate and ultimately choose a strategy include; clarity, motivational impact, internal consistency, compatibility with the environment, appropriateness in light of resources, degree of risk, time horizon and workability (Mintzberg et.al.2002). Commercial banks in Kenya really need to consider their resources, degree of risk, customer profiles and workability of strategies before they settle on the strategy.

Traditional strategy of banks in the payment innovations was concentrated on the basis of size (brick and mortar). Banks with extensive branch networks used to capture more customers than those with fewer branches. Currently, the Internet and the World Wide Web have impacts on the way banks doing the business. The traditional brick and mortar banks are moving towards integrated delivery channels and the adoption of the click strategy. The changing landscape of electronic payments requires banks to change their strategies to collaborative strategy in order to meet e-payment demands.

Banks faced competitive pressures which forced them to migrate their branch network system towards the development of integrated service channels ; that is from isolated channels to an integrated one (Miles and Snow, 1978). This is because the competitive alternatives in the bank's payment transmission system Internet, mobile phones mean that banks cannot use a network for clearing and settlements to achieve competitive advantage. The overall thrust is that banks realize the importance of having control over the payment networks through e-banking which gives a competitive advantage over other competitors.

The nature of the local environment influences adoption of competitive strategies by commercial banks. Although defined as a critical factor in the strategic management literature, only two studies of subsidiary roles (Prahalad and Hamel 1994) identified the environment as a key factor affecting banks in Kenya. Firm environments may represent opportunities or threats in the formulation of strategy (Brenes, Mena and Molina, 2007). Moreover, environments are greatly subdued by political or economic barriers such as local content and ownership regulations which may constrain autonomy for banks decisions in that environment.

2.6 Challenges of implementing competitive strategies.

The role of appropriate management in strategic success is highly significant. It has been observed that leadership plays a critical role in the success and failure of an enterprise (Kazmi, 2002). Adequate leadership is needed for effective implementation of strategy as this will ensure that all company efforts is united and directed towards achievement of company goals (Nixon and Coyne, 1999). Chief executives should play a leading role by helping in setting company values and giving a positive lead.

Each of the generic strategies discussed have their own risks. For the cost differentiation strategy, when the firm lowers cost, it does not stop other firms from lowering their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets are able to achieve an even lower cost within their segments and as group gain significant market share.

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. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better (Porter, 1998).

Lewin and Volberda (1999) stated clearly that most of the individual barriers to strategy implementation that have been encountered fit into one of the following interrelated categories: too many and conflicting priorities, the top team does not function well; a top down management style; inter-functional conflicts; poor vertical communication, and inadequate management development. These categories can be translated into the following problems: competing activities distracted attention from implementing this decision, changes in responsibilities of key employees were not clearly defined, key formulators of the strategic decision did not play an active role in implementation and problems requiring top management involvement were not communicated early enough (Burnes,1996)

Chege (2008) argues that in implementing competitive strategies in organizations, management must consider some challenges that are bound to arise. He identifies some of these challenges as follows: Lack of market knowledge in which a firm want to operate in, industrial factors like legal challenges within the locality of the business, Resources that include financial and social, competences of individuals working within the firm and those responsible of implementing the strategies, language and cultural barriers especially for a foreign firm that wants to establish a niche in a local market and finally the local circumstances like the customer perception of new strategies, how workable are the strategies in a given environment.

2.7 How Organizations deals with the challenges of competitive strategies.

In marketing, product differentiation is the modification of a product to make it more attractive to the target market. This involves differentiating it from competitors' products as well as one's own product offerings with the conditions for perfect competition, which include the requirement that the products of competing firms should be perfect substitutes (Porter, 1998). The changes are usually minor; they can be merely a change in packaging or a change in advertising theme. The physical product need not change, but it could. The major sources of product differentiation to be applied by the company are as follows. Differences in quality or design among output , Ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing, Pervasive sales promotion activities of sellers and advertising, Possibility of developing significant product differentiation through advertising is greatly enhanced and Differentiation in the locations of sellers of the same good where the product fills no technical function but rather can satisfy many different sort of personal needs Porter (1985).

The objective of differentiation strategy is to develop a position that potential customers will see as unique. If the company's target market sees their product as different from the competitors then, New World will have more flexibility in developing your marketing mix. A successful product differentiation strategy will move their product from competing based primarily on price to competing on non-price factors. Differentiation has been shown to impact firm performance positively both theoretically and empirically. Differentiation primarily impacts performance through two mechanisms reduced price sensitivity and reducing directness of competition

In Cost Leadership Strategy, (Porter 1985) emphasizes efficiency by producing high volumes of standardized products; the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is 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 aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features (Day and Wensley, 1999).

Johnson and Scholes (2002) argues that to be successful, the strategy usually requires a considerable market share advantage or preferential access to raw materials, components and products without one or more of these advantages; the strategy can easily be mimicked by competitors. Successful implementation also calls among others the following: process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital close supervision of labor tight cost control , incentives based on quantitative target, strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics and stress continuous improvement and innovation.

more than 30 is sufficient for the studies. The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information.

3.4 Data Analysis.

The collected data was well examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data. This was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information is clearly understood by describing what the respondents are saying. The qualitative data was analyzed using content analysis and finding presented in prose form.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design and setting

In this study, a survey design adopted. The research problem was best studied through the use of a census survey. Census is to the study of the total population where all the items under study are investigated and this is applicable where the population was so small that selecting a sample was meaningless (Mugenda and Mugenda, 2003).

3.2 Target population

According to Kothari (2004), a population refers to the entire group of subjects that conform to a given specification that can be used as a data for research purposes. A population also refers to the total collection of elements about which the researcher wishes to make some inferences (Cooper and Schindler, 2003). In this study the population was all the 44 commercial banks operating in Kenya as at May 2011 (CBK, 2011).

3.3 Data Collection

The study used the questionnaire as the data collection tool. The questionnaire contained both close ended and open- ended questions. Close –ended or structured questions gave a respondent limited and pre determined response option to choose from. The advantage of structured questions was that they would be easier and leave no room for other possible responses.

A questionnaire is a data collection instrument that sets out in a formal way the questions designed to elicit the desired information. It consisted of a list of structured questions, un-structured questions and Likert rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Close ended questions has the advantage of collecting viable quantitative data while open-ended questions allows the respondents freedom of answering questions and the chance to provide in-depth responses. Questionnaire method was preferred because it was efficient, cheap and easy to be administered. The questionnaire was administered through drop and pick to respondents with a brief explanation on their purpose and importance.

The respondents for this study were one senior bank managers from each commercial bank making a total of 44 respondents. Mugenda and Mugenda (2003) indicated that a population of

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretations and presentations of the findings. The objectives of this study were to establish specific strategies used by commercial banks to gain competitive advantage in efficiency and effectiveness. This chapter discusses data analysis, interpretation and presentation and presents the discussion and conclusion of the study.

4.2 Response rate

From the study, the study population was 44 where 44 respondents responded and returned the questionnaires. This constituted an 87% response rate. Mugenda and Mugenda (2003) indicated a respondent rate of 50%, 60% or 70% is sufficient for a study and therefore a respondent rate of 44% for this study was very good.

4.2.1 Background information

The study sought the background of the study respondents on the basis of their positions, level of their education and their Working period in the bank

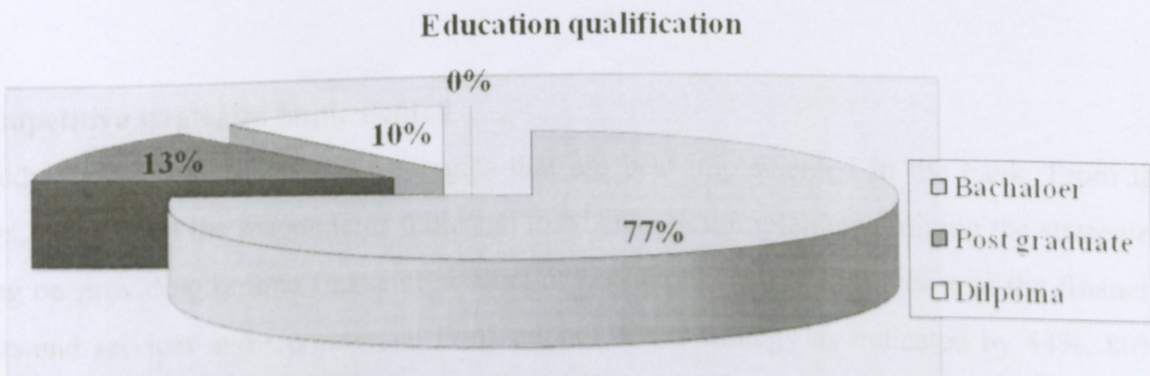
4.2.2 Respondent's position

The study sought to investigate respondents' position in the bank. Form the findings, most of the respondents indicated that they were senior bank managers in operation, accounting, manufacturing, logistics, engineering, retail, wholesale and government accounts departments. This implies that the commercial banks had grouped its activities into departments and assigned all of its rights and obligations pursuant to its staffs which enable it to pursue economies of scale as well as meeting the common set of problems and needs of customers through the well placed specialists.

4.2.3 Respondent's level of education

The study sought to investigate the respondent's level of education. From the findings, majority 44% of the respondents indicated that they had bachelors' level of education, 13% of the respondents were post graduates while most 10% of the respondents indicated to be diploma holders. This implies that the study had the information from literate and competent personnel who were able to adopt strategies to gain competitive advantage in efficiency and effectiveness.

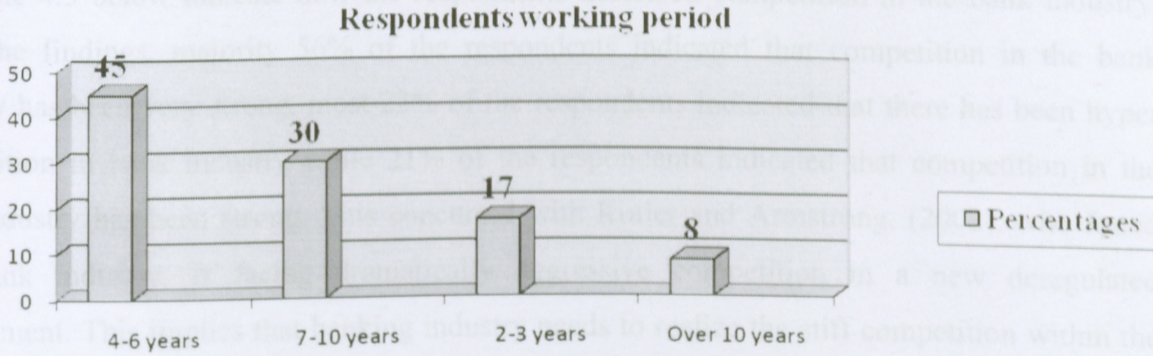
Figure 4. 1 Respondent's level of education



4.2.4 Working period in the bank

The study sought to investigate the period of year respondents had been working in their bank from the findings, most 45% of the respondents indicated that they have been working in the bank for a period of 4-6 years, 30% of the respondents indicated that they have been working in the bank for a period of 7-10 years, 17% of the respondents had been working for a period of 2-3 years while 8% of the respondents indicated that they have been working in the bank for over 10 years. This implies that respondents had worked in the bank for a period of more that 2 years therefore were well experienced of the strategies adopted by the bank for the purpose of competitive advantages.

Figure 4. 2 Working period in the bank



4.3 Competitive strategies implemented

The study sought the competitive strategies that are best implemented in the bank. From the findings, majority of the respondents indicated that banks best implements mixing the strategies, focusing on providing unique financial product or service, focusing on the cost of the financial products and services and Commercial Bank adopt focus strategy as indicated by 44%, 80%, 78% and 72% of the respondents. This implied that Banks are able to understand the impact of competitive advantage and invest more in long term strategies to outsmart their rivals. This concurred with Kumar et al. (1997) who found that commercial bank may also choose a combination strategy by mixing the aforementioned generic strategies.

Table 4. 1 Competitive strategies best implemented

	Frequency		% of yes
	Yes	No	
Focusing on providing unique financial product or service	26	12	68
Focusing on the cost of the financial products and services	27	11	71
Commercial Bank adopt focus strategy	25	13	65
Mixing the strategies	34	4	89

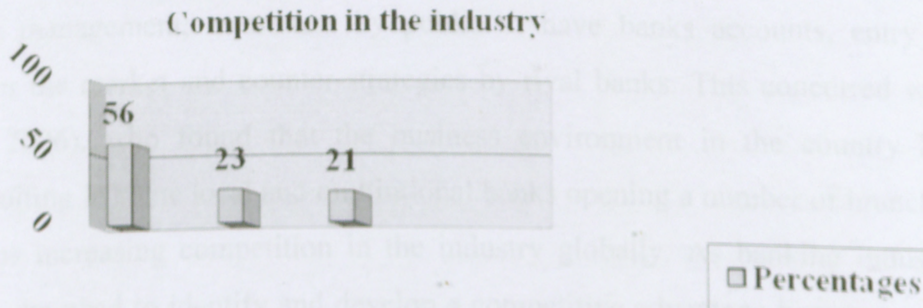
4.4 Causes of increased competition in commercial banks

The study sought the causes of increased competition in commercial banks in Kenya.

4.4.1 Describing competition in the industry

The table 4.3 below indicate how the respondents described competition in the bank industry. From the findings, majority 56% of the respondents indicated that competition in the bank industry has been very strong, most 23% of the respondents indicated that there has been hyper competition in bank industry while 21% of the respondents indicated that competition in the bank industry has been strong. This concurred with Kotler and Armstrong, (2002), who found that bank industry, is facing dramatically aggressive competition in a new deregulated environment. This implies that banking industry needs to realize the stiff competition within the banking industry necessitating the design of competitive strategies to guarantee their performance.

Figure 4. 3 Describing competition in the industry



4.4.2 Factors affecting competition in the commercial banks

The table 4.5 indicates the factors that caused competition in the commercial banks. On the factors that caused competition, a five point likert scale was used to interpret the respondent's extent. Accorded to scale those issues that were rated as no extent were awarded 1 while those which were to a very great extent were awarded 5. Within the continuum are 2 for less extent, 3 for neutral and 4 for great extent. Mean and standard deviation were used to analyze the data. According to the researcher, those factors with a mean close to 4.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to no extent or even not considered at all. From the finding, majority of the respondents indicated that the changing consumers demand, government policies, introduction of new financial instrument, prices of product/services, increased banking services demand, well remunerated staff by competitor, efficient and effective management and awareness by public to have banks accounts were the factors that caused competition in the commercial banks to a very great extent as indicated by a mean of 4.97, 4.89, 4.84, 4.76, 4.75, 4.63, 4.60 and 4.53 with standard deviation of 0.83, 0.64, 0.87, 0.54, 0.59, 0.51, 0.55 and 0.51. The study further found that most of the respondents indicated that entry of foreign-owned banks in the market and counter-strategies by rival banks caused competition in the commercial banks to a great extent as indicated by a mean of 4.49 and 4.47 with standard deviation of 0.59 and 0.41.

This implied that factors influencing competition in the commercial banks were changing consumers demand, government policies, introduction of new financial instrument, prices of product/services, increased banking services demand, well remunerated staff by competitor, efficient and effective management, awareness by public to have banks accounts, entry of foreign-owned banks in the market and counter-strategies by rival banks. This concurred with Galliers and Leidner 2006), who found that the business environment in the country has drastically changed resulting in some local and multintional banks opening a number of branches across borders and thus increasing competition in the industry globally. As banking industry faces stiff competition, the need to identify and develop a competitive advantage becomes even more critical. The banks may develop sustainable competitive advantage through efficient and effective strategic services

Table 4. 2 Factors causing competition in the commercial banks

	Mean	Std dvt
Well remunerated staff by competitor	4.63	0.51
Government policies	4.89	0.64
Changing consumers demand	4.97	0.83
Awareness by public to have banks accounts	4.53	0.51
Entry of foreign-owned banks in the market	4.49	0.59
Counter-strategies by rival banks	4.47	0.41
Introduction of new financial instrument	4.84	0.87
Increased banking services demand	4.75	0.59
Efficient and effective management	4.60	0.55
Prices of product/services	4.76	0.54

4.4.3 Factors influencing adoption of competitive strategies in bank

The study sought the extent to which respondents agreed on the given statement concerning factors influencing adoption of competitive strategies in the bank. On the factors influencing adoption of competitive strategies in the bank, a five point likert scale was used to interpret the respondent's extent. Accorded to scale those issues that were strongly disagreed on were awarded 1 while those which were strongly agreed on were awarded 5. Within the continuum are 2 for disagree, 3 for neutral and 4 for agree. Mean and standard deviation were used to analyze the data. According to the researcher, those factors with a mean close to 4.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to no extent or even not considered at all. On the same note the higher the standard deviation the higher the level of disagreement or dispersion among the respondents.

From the finding, majority of the respondents strongly agreed that the need to sustain competitive advantage, explosive growth in information technology, introduction of new financial instrument, intense competitions in the market, Rapid evolution of innovation, changing consumers demand and availability of resources for creation of valuable, rare and imitable products influenced the adoption of competitive strategies in the bank as indicated by a mean of 4.95, 4.93, 4.86, 4.80, 4.44, 4.69 and 4.67 with standard deviation of 0.91, 0.81, 0.89, 0.69, 0.71, 0.63 and 0.64. This clearly indicates commercial banks need to adopt superior techniques to outperform their rivals, as a result of this competition this concurred with The Banking Survey, (2010), which stated that firms must adopt unique strategic measures to cope or risk being thrown out of the market by the same competition because of the linkage of competitive strategies and competitive advantage. Pearce and Robinson (2005), says that there is need to adopt new strategies that match the challenges from the environment

Table 4. 3 Factors influencing adoption of competitive strategies in bank

	Mean	Std dvt
The need to sustain competitive advantage	4.95	0.91
Availability of resources for creation of valuable, rare and imitable products	4.67	0.64
Changing consumers demand	4.69	0.63
Explosive growth in information technology	4.93	0.81
Intense Competitions in the market	4.80	0.69
Rapid evolution of innovation	4.44	0.71
Introduction of new financial instrument	4.86	0.89

4.5 Strategies adopted to gain competitive advantage.

The study sought to know the extent to commercial banks adopted the given strategies to gain competitive advantage.

4.5.1 Extent to which the strategies used to gain competitive advantage

On the strategies used to gain competitive advantage, a five point likert scale was used to interpret the respondent's extent. Accorded to scale those issues that were rated very low were awarded 1 while those which were rated very high were awarded 5. Within the continuum are 2 for little extent, 3 for moderate and 4 for highly. Mean and standard deviation were used to analyze the data. According to the researcher, those factors with a mean close to 4.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to no extent or even not considered at all. On the same note the higher the standard deviation the higher the level of disagreement or dispersion among the respondents. From the finding, majority of the respondents indicated that bank adopted product differentiation, high level of service quality, great customer service, a wide range of product base, maintain a good brand image, continuous training of staff and quick delivery timelines strategies to a very high use as indicated by a mean of 4.96, 4.89, 4.79, 4.61, 4.59 and 4.53 supported by standard deviation of 0.44, 0.74, 0.61, 0.51 and 0.50. Most of the respondents indicated that bank adopted the corporate social responsibility, quick delivery timelines, intense competitions in the market and take advantage of IT opportunity strategies highly as indicated by a mean of 4.49, 4.46, 4.39 and 4.34 supported by standard deviation of 0.53, 0.48, 0.49 and 0.37. The study further found that most of the respondents indicated that bank used were low cost products strategies moderately as indicated by a mean of 4.37 with a standard deviation of 0.33.

From the findings, respondents stated that bank used cost leadership strategy with the aim of being the lowest cost producer within their industry, competitive strategy in order to gain a competitive advantage through a distinctive way of competing and cost advantage differentiation. This implied that bank institution were aware of the relationship that exists between competitive strategy and competitive advantage. These concurred with Porter (1985), who argued that a firm's strength ultimately falls into cost advantage and differentiation for the three generic strategies result as a form of creating a competitive strategy, cost leadership, differentiation and focus. The firm can use these strategies to sustain a competitive advantage.

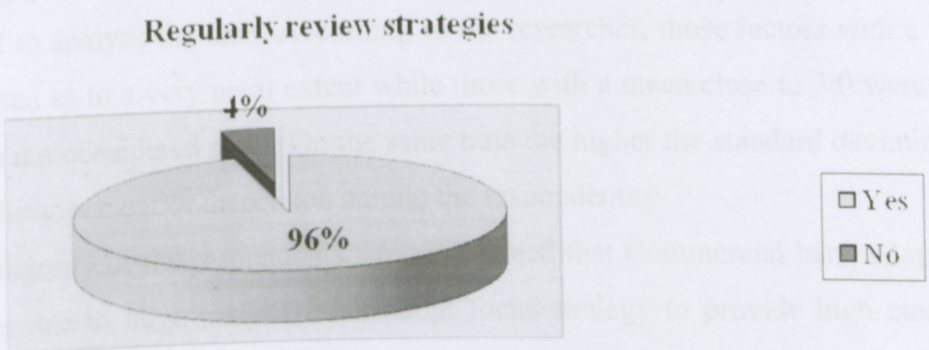
Table 4. 4 Extent to which the strategies used to gain competitive advantage

	Mean	Std dvt
Product differentiation	4.96	0.44
A wide range of product base	4.61	0.64
Low cost products	4.37	0.33
Continuous training of staff	4.53	0.50
Intense Competitions in the market	4.39	0.49
Maintain a good brand image	4.59	0.51
Take advantage of IT opportunity	4.34	0.37
Corporate social Responsibility	4.49	0.53
Quick delivery timelines	4.46	0.48
High level of service quality	4.89	0.74
Great customer service	4.79	0.61

4.5.2 Whether regularly review strategies

The study sought to know whether the firm regularly reviewed its strategies. From the findings majority 96% of the respondents indicated that the firm used the given strategies regularly while 4% of the respondents indicated that the firm did not used the strategies regularly.

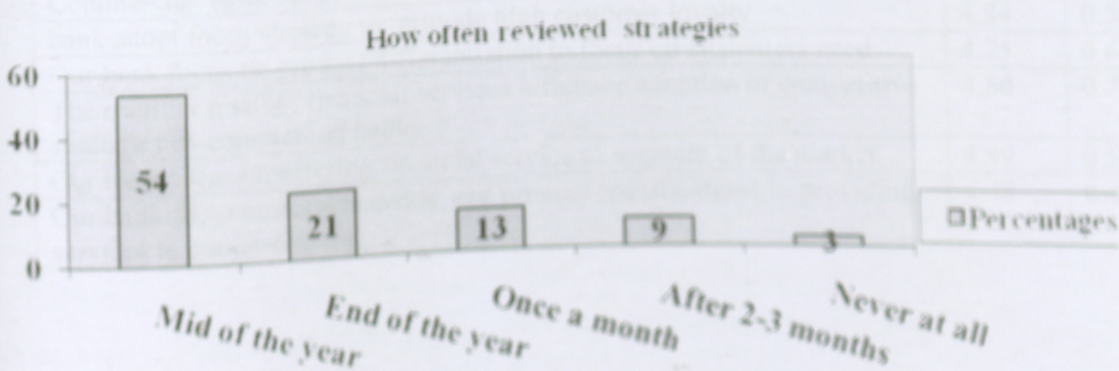
Figure 4. 4 Whether regularly review strategies



4.5.3 How often the firm reviewed its strategies

The study sought to investigate how often the firm reviewed its strategies. From the findings, majority 54% indicated that the firm reviewed its strategies at the mid of the year. 21% of the respondents indicated that firm reviewed its strategies at the end of the year. 13% indicated once a month, 9% of the respondents indicated after 2-3 months while 3% of the respondents indicated that the firm never at all reviewed their strategies. This implied that firm reviewed their strategies.

Figure 4. 5 How often the firm reviewed its strategies



4.5.5 Extent to which respondents agreed the given statement

The study sought to know the extent to which respondents agreed the given statement concerning competitive strategies in the bank. On the competitive strategies in your bank, a five point likert scale was used to interpret the respondent's extent. Accorded to scale those issues that were strongly disagreed on were awarded 1 while those which were strongly agreed on were awarded 5. Within the continuum are 2 for disagree, 3 for neutral and 4 for agree. Mean and standard deviation were used to analyze the data. According to the researcher, those factors with a mean close to 4.5 were rated as to a very great extent while those with a mean close to 3.0 were rated to no extent or even not considered at all. On the same note the higher the standard deviation the higher the level of disagreement or dispersion among the respondents.

From the finding, majority of the respondents strongly agreed that Commercial bank adopt cost leadership strategies due to large market, bank adopt focus strategy to provide high customer loyalty, the need for quality financial services influence adoption of competitive strategies by commercial banks and that the bank focus on product differentiation to focus on customers need as indicated by a mean of 4.44, 4.84, 4.80, and 4.75 supported by a standard deviation of 0.87, 0.76, 0.71 and 0.63. The study further found that most of the respondents agreed that bank focus on offering financial service to segment of the market and focus customers needs and product specifications in providing services to our customers as indicated by a mean of 4.49 and 4.48 supported by standard deviation of 0.53 and 0.40.

Table 4. 5 Competitive strategies in bank

	Mean	Std dvt
Commercial bank adopt cost leadership strategies due to large market	4.44	0.87
bank adopt focus strategy to provide high customer loyalty	4.84	0.76
Our bank focus on product differentiation to focus on customers need	4.75	0.63
The need for quality financial services influence adoption of competitive strategies by commercial banks	4.80	0.71
Our bank focus on offering financial service to segment of the market	4.49	0.53
Our bank focus customers needs and product specifications in providing services to our customers	4.48	0.40

4.6 Challenges in implementing strategies

The study sought the challenges in implementation strategies in Commercial Banks in Kenya.

4.6.1 Challenges faced in adopting competitive strategies

The table below indicates the response of the respondents on the challenges banks faced in adopting competitive strategies. From the findings, majority of the respondents strongly agreed that weak management roles in implementation, unaligned organizational systems and resources insufficient resources, ineffective management styles, inflation challenges were faced by the commercial banks. Most of the respondents agreed that improper or inadequate planning, lack of commitment, lack of communication, lack of coordination and stringent partnership requirements challenges were faced by the banks as indicated by a mean of 4.44, 4.36, 4.21, 4.11 and 4.01 with standard deviation of 0.51, 0.43, 0.33, 0.34 and 0.22. This concurred with Lewin and Volberda (1999) who clearly stated most of the individual barriers to strategy implementation are too many and conflicting priorities, the top team does not function well; a top down management style; inter-functional conflicts; poor vertical communication, and inadequate management development.

Table 4. 6 Challenges faced in adopting competitive strategies

	Mean	Std dvt
Lack of communication	4.21	0.33
Improper or inadequate planning	4.44	0.51
Lack of commitment	4.36	0.43
Unaligned organizational systems and resources insufficient resources	4.83	0.80
Lack of coordination	4.11	0.34
Weak management roles in implementation	4.92	0.95
Ineffective management styles	4.44	0.64
Stringent partnership requirements	4.01	0.22
Inflation	4.61	0.61

4.6.2 Solutions to the challenges of strategy implementation

The study sought to investigate the possible solutions to the challenges of strategy implementation at the bank. From the findings, respondents indicated that banks need to have the objective of differentiation strategy in order to develop a position that potential customers will see as unique, have pervasive sales promotion activities of sellers, considerable market share, preferential access to raw materials, components advantage, advertise it products and services in order to move their product from competing based primarily on price to competing on non-price factors. The study found that maintaining the strategy implementation the firms requires to always searching for cost reductions in aspects of the business. This implied that firms needs to be strategic in implementing the strategy to be successful. These findings concurred with Johnson and Scholes (2002), who argued that successful implementation calls for process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital close supervision of labor tight cost control, incentives based on quantitative target, strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics and stress continuous improvement and innovation.

4.7 Discussion

The commercial banks faced stiff competition and from the findings, majority of the respondents indicated that banks best implements mixing the strategies, focusing on providing unique financial product or service, focusing on the cost of the financial products and services and Commercial Bank adopt focus strategy as indicated by 44%, 80%, 78% and 72% of the respondents. This implied that Banks are able to understand the impact of competitive advantage and invest more in long term strategies to outsmart their rivals. This concurred with Kumar et al. (1997) who found that commercial bank may also choose a combination strategy by mixing the aforementioned generic strategies.

From the finding, bank adopted product differentiation, high level of service quality, great customer service, a wide range of product base, maintain a good brand image, continuous training of staff and quick delivery timelines strategies to a very high use.

The study found that the need to sustain competitive advantage, explosive growth in information technology, introduction of new financial instrument, intense competitions in the market, rapid evolution of innovation, changing consumers demand and availability of resources for creation of valuable, rare and imitable products influenced the adoption of competitive strategies in the bank .This implied commercial banks need to adopt superior techniques to outperform their rivals. The study found that bank adopted product differentiation, high level of service quality, great customer service, a wide range of product base, maintain a good brand image, continuous training of staff and quick delivery timelines strategies to gain competitive advantage . The study further found that bank adopted the corporate social responsibility, quick delivery timelines, and intense competitions in the market and take advantage of IT opportunity strategies highly.

From the findings, majority of the respondents strongly agreed that weak management roles in implementation, unaligned organizational systems and resources insufficient resources, ineffective management styles, inflation challenges were faced by the commercial banks. Most of the respondents agreed that improper or inadequate planning, lack of commitment, lack of communication, lack of coordination and stringent partnership requirements challenges were faced by the banks.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter a summary of the findings from chapter four were, discussed, conclusions drawn and recommendations of the study based on the objectives of the study which were to establish specific strategies used by commercial banks to gain competitive advantage in efficiency and effectiveness.

5.2 Summary of the findings

From the findings, the study established that banks best implements mixing the strategies, focusing on providing unique financial product or service, focusing on the cost of the financial products and services and Commercial Bank adopt focus strategy as indicated by 44%, 80%, 78% and 72% of the respondents. This implied that Banks are able to understand the impact of competitive advantage and invest more in long term strategies to outsmart their rivals. This concurred with Kumar et al. (1997) who found that commercial bank may also choose a combination strategy by mixing the aforementioned generic strategies.

5.2.1 Causes of competition in commercial banks

The study established that the changing consumers demand, government policies, introduction of new financial instrument, prices of product/services, increased banking services demand, well remunerated staff by competitor, efficient and effective management and awareness by public to have banks accounts were the factors that caused competition in the commercial banks in Kenya to a very great extent.. The study further found that most of the respondents indicated that entry of foreign-owned banks in the market and counter-strategies by rival banks caused competition in the commercial banks to a great extent. This concurred with Galliers and Leidner 2006), who found that the business environment in the country has drastically changed resulting in some local and multintional banks opening a number of branches across borders and thus increasing competition in the industry globally.

From the findings, the study established that the need to sustain competitive advantage, explosive growth in information technology, introduction of new financial instrument, intense competitions in the market, Rapid evolution of innovation, changing consumers demand and availability of resources for creation of valuable, rare and imitable products influenced the adoption of competitive strategies in the bank. This clearly indicates commercial banks need to adopt superior techniques to outperform their rivals, as a result of this competition this concurred with The Banking Survey, (2010), which stated that firms must adopt unique strategic measures to cope or risk being thrown out of the market by the same competition because of the linkage of competitive strategies and competitive advantage. Pearce and Robinson (2005), says that there is need to adopt new strategies that match the challenges from the environment

5.2.2 Strategies adopted to gain competitive advantage

From the findings, the study established that bank adopted product differentiation, high level of service quality, great customer service, a wide range of product base, maintain a good brand image, continuous training of staff and quick delivery timelines strategies to a very high use. Most of the respondents indicated that bank adopted the corporate social responsibility, quick delivery timelines, and intense competitions in the market and take advantage of IT opportunity strategies to gain competitive advantage. The study further found that most of the respondents indicated that bank used low cost products strategies, cost leadership strategy with the aim of being the lowest cost producer within their industry, competitive strategy in order to gain a competitive advantage through a distinctive way of competing and cost advantage differentiation. This implied that bank institution were äware of the relationship that exists between competitive strategy and competitive advantage. These concurred with Porter (1985), who argued that a firm's strength ultimately falls into cost advantage and differentiation for the three generic strategies result as a form of creating a competitive strategy, cost leadership, differentiation and focus. The firm can use these strategies to sustain a competitive advantage.

From the findings, the study established that Commercial bank adopted cost leadership strategies due to large market, bank adopt focus strategy to provide high customer loyalty, the need for quality financial services influence adoption of competitive strategies by commercial banks and that the bank focus on product differentiation to focus on customers need. The study further found that most of the respondents agreed that bank focus on offering financial service to segment of the market and focus customers needs and product specifications in providing services to customers.

5.2.3 Challenges in implementing strategies

From the findings, the study established that weak management roles in implementation, unaligned organizational systems and resources insufficient resources, ineffective management styles, inflation challenges were faced by the commercial banks. Most of the respondents agreed that improper or inadequate planning, lack of commitment, lack of communication, lack of coordination and stringent partnership requirements challenges were faced by the banks. This concurred with Lewin and Volberda (1999) who clearly stated most of the individual barriers to strategy implementation are too many and conflicting priorities, the top team does not function well; a top down management style; inter-functional conflicts; poor vertical communication, and inadequate management development.

From the findings, the study established that banks need to have the objective of differentiation strategy in order to develop a position that potential customers will see as unique, have pervasive sales promotion activities of sellers, considerable market share, preferential access to raw materials, components advantage, advertise it products and services in order to move their product from competing based primarily on price to competing on non-price factors. The study found that maintaining the strategy implementation the firms requires to always searching for cost reductions in aspects of the business. This implied that firms needs to be strategic in implementing the strategy to be successful. These findings concurred with Johnson and Scholes (2002), who argued that successful implementation calls for process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital close supervision of labor tight cost control, incentives based on quantitative target, strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics and stress continuous improvement and innovation.

5.3 Conclusions of the study

From the findings the study concluded that banks need to understand the impact of competitive advantage and invest more in mixing the strategies, focus strategy, focusing on providing unique financial product or service and cost of the financial products.

From the findings the study concluded that banking industry needs to realize the aggressive competition in a new deregulated environment within the banking industry necessitating the design of competitive strategies to guarantee their performance. The changing consumers demand, government policies, introduction of new financial instrument, prices of product/services, increased banking services demand, well remunerated staff by competitor, efficient and effective management, awareness by public to have banks accounts, entry of foreign-owned banks in the market and counter-strategies by rival banks causes the competition in the commercial.

From the findings the study concluded that commercial banks needs to adopt superior techniques, adopt unique strategic measures that match the challenges from the environment in order to cope with the explosive growth in information technology, introduction of new financial instrument, intense competitions in the market, rapid evolution of innovation, changing consumers demand, rare and imitable products and be able to sustain competitive advantage.

From the findings the study concluded that

From the findings the study concluded that needs to be aware of the relationship that exists between competitive strategy and competitive advantage and adopt the product differentiation, high level of service quality, great customer service, a wide range of product base, maintain a good brand image, continuous training of staff, quick delivery timelines, corporate social responsibility, intense competitions in the market, take advantage of IT opportunity strategies, low cost products strategies, cost leadership strategy and competitive strategy in order to gain a competitive advantage through a distinctive way of competing.

From the findings the study concluded that banks need to firm review their strategies more often to ensure that the adopted strategies were effective in order to gain large market, provide high customer loyalty, quality financial services and customers need as it focus on offering financial service to segment of the market

From the findings the study concluded that barriers to strategy implementation were weak management roles in implementation, unaligned organizational systems and resources insufficient resources, ineffective management styles, inflation challenges, inadequate planning, lack of commitment, communication, coordination and stringent partnership requirements which conflicted with the firm's priorities resulting to poor top team function, vertical communication and inadequate management development.

From the findings the study finally concluded that bank need to have a process engineering skills, strong research, development, creativity and marketing skills and incentives based largely on subjective measures in order to maintain the strategy implementation in the firm.

5.4 Recommendations

From the findings, the study highlights the following recommendations.

5.4.1 Recommendations to the industry

From the conclusion the study recommended that management in commercial banks should adopt the implementation of strategies to create competitive advantage in efficiency and effectiveness. This would enable the firm to cope with the explosive growth in information technology, introduction of new financial instrument, intense competitions in the market, rapid evolution of innovation, changing consumers demand, rare and imitable products and be able to sustain competitive advantage.

From the conclusion the study recommended that management in commercial banks should emphasize on the use and reviewing of the product differentiation, service quality, wide range of product base, good brand image, continuous training of staff, quick delivery timelines, corporate social responsibility, IT opportunity, cost leadership strategy and competitive strategy more often. This would enable the firm to gain large market, provide high customer loyalty, quality financial services and customers need.

From the conclusion the study recommended that management in commercial banks need to have a process engineering skills, strong research, development, creativity and marketing skills and incentives based largely on subjective measures so as to maintain the strategy implementation in the firm. This would enable the firm to curb the challenges of weak management, unaligned organizational systems, ineffective management styles, inflation, inadequate planning and lack of commitment, poor communication and coordination

5.4.2 Recommendation for policy and practice

The study recommends that management in the Central Bank of Kenya and the policy makers in government should formulate effective policy to help commercial banks compete healthily and enable them gain competitive advantage and overcome challenges especially in weak management and unaligned institutional systems.

5.4.3 Recommendation for further study

The study investigated the strategies used by commercial banks to gain competitive advantage in efficiency and effectiveness. The study recommends that a further study should be carried out to establish ways through which banks could enhance competitive advantage so as to improve efficiency and effectiveness on banks.

5.4.4 Limitations of the study

The main limitation of study was inability to include more financial institutions such as Microfinance institutions and Savings and Credit Cooperative Societies. This study considered commercial banks in the banking industry. The study would have covered more institutions across all sectors so as to provide a more broad based analysis. However, resource constraints placed this limitation.

The study also faces challenges of time resources limiting the study from collecting information for the study particularly where the respondent delay in filling the questionnaire and travelling for collection the filled questionnaire.

The respondents were found to be uncooperative from the respondents whereby only 38 out 44 responded because of the sensitivity of the information required for the study. The research explained to the respondents that the information they provided was to be held confidential and was only for academic purpose only.

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APPENDIX 1: A QUESTIONNAIRE FOR STRATEGIES FOR ACHIEVING COMPETITIVE ADVANTAGE IN COMMERCIAL BANKS IN KENYA.

SECTION A: BANK AND RESPONDENT PROFILE

1. Kindly indicate your Position in the bank……………………………………………………

2. Indicate your level of education

i. Diploma [ ]

ii. Bachelor [ ]

iii. Post Graduate [ ]

iv. Any other …………………………………

3. Kindly indicate the period of year you have been working in your bank

i. 2-3 years

ii. 4-6 years

iii. 7-10 year

iv. Above 10 years

MAIN ISSUES

4 Indicates which of the given competitive strategies is best implemented in your bank

i. Focusing on providing unique financial product or service [ ]

ii. Focusing on the cost of the financial products and services [ ]

iii. Commercial Bank adopt focus strategy [ ]

iv. Mixing the strategies. [ ]

SECTION B: CAUSES OF COMPETITION IN COMMERCIAL BANKS

5. How do you describe competition in your industry?

a) Weak Competition ( )

b) Strong Competition ( )

c) Very Strong Competition ( )

d) Hyper Competition ( )

6. To what extent are the following factors caused competition in the commercial banks? Please tick the most appropriate.

	Very Great Extent	Great Extent	Moderately Extent	Less Extent	No Extent
Well remunerated staff by competitor					
Government policies					
Changing consumers demand					
Awareness by public to have banks accounts					
Entry of foreign-owned banks in the market					
Counter-strategies by rival banks					
Introduction of new financial instrument					
Increased banking services demand					
Efficient and effective management					
Prices of product/services					

7. To what extent do you agree with the following statement concerning factors influencing adoption of competitive strategies in your bank ((1-Strongly Disagree.2-Disagree. 3-Neutral.4-Agree and 5-Strongly agree)

	Strongly disagree	Disagree	Indifferent	Agree	Strongly Agree
The need to sustain competitive advantage					
Availability of resources for creation of valuable, rare and imitable products					
Changing consumers demand					
Explosive growth in information technology					
Intense Competitions in the market					
Rapid evolution of innovation					
Introduction of new financial instrument					

SECTION C: STRATEGIES ADOPTED TO GAIN COMPETITIVE ADVANTAGE

8. To what extent are the strategies below used in your bank to gain competitive advantage? (Gaining superior performance than competitors) please tick as appropriate.

1 -not at all 2-little extent 3-moderately 4-highly 5-very high use

.	Very Great Extent	Great Extent	Indifferent	Less Extent	No Extent
Product differentiation					
A wide range of product base					
Low cost products					
Continuous training of staff					
Intense Competitions in the market					
Maintain a good brand image					
Take advantage of IT opportunity					
Corporate social Responsibility					
Quick delivery timelines					
High level of service quality					
Great customer service					

Others please state...

....

....

9. Do you regularly review your strategies?

Yes ( ) No ( )

If yes. how often?

Once a month ( ) after 2-3 months ( )

Mid of the year ( ) End of the year ( )

Never at all ( )

10. To what extent do you agree with the following statement concerning competitive strategies in your bank ((1-Strongly Disagree,2-Disagree, 3-Neutral, 4- Agree and 5-Strongly agree)

	Strongly disagree	Disagree	Indifferent	Agree	Strongly Agree
Commercial bank adopt cost leadership strategies due to large market					
bank adopt focus strategy to provide high customer loyalty					
Our bank focus on product differentiation to focus on customers need					
The need for quality financial services influence adoption of competitive strategies by commercial banks					
Our bank focus on offering financial service to segment of the market					
Our bank focus customers needs and product specifications in providing services to our customers					

SECTION D: CHALLENGES IN IMPLEMENTING STRATEGIES

11. What challenges did you face in adopting competitive strategies ? Please tick as appropriate

	Strongly disagree	Disagree	Indifferent	Agree	Strongly Agree
Lack of Communication					
Improper or inadequate planning					
Lack of Commitment					
Unaligned Organizational Systems and Resources Insufficient Resources					
Lack of Coordination					
Weak management Roles in Implementation					
Ineffective Management Styles					
Stringent partnership requirements					
Inflation					

7. What are the possible solutions to the challenges of strategy implementation at the your bank ?

i...

ii...

Thank you for taking time to participate!

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (Kenya) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Kenya Limited
7. Chase Bank Limited.
8. Citibank N.A
9. City Finance Bank
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Limited.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank Ltd.
16. Dubai Bank Ltd.
17. Ecobank Kenya Limited.
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Ltd.
21. Fidelity Commercial Bank Ltd.
22. Fina Bank Ltd.
23. First Community Bank Ltd.
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd.
26. Gulf African Bank Ltd.
27. Habib Bank A.G Zurich
28. Habib Bank Limited
29. HFCK
30. I & M Bank Ltd.

31. Imperial Bank Limited.
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited.
34. Middle East Bank Kenya Ltd.
35. National Bank of Kenya Ltd.
36. NIC Bank Limited.
37. Oriental Commercial Bank Ltd.
38. Paramount Universal Bank Ltd.
39. Prime Bank Limited
40. Southern Credit Bank
41. Standard Chartered Bank of Kenya
42. Trans-National Bank Limited.
43. UBA Kenya Bank Ltd.
44. Victoria Commercial Bank Ltd.

Source: The Banking Survey, 2010.