

**STRATEGIC RESPONSES BY NIC BANK LIMITED TO
CHANGES IN THE BANKING INDUSTRY IN KENYA**

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree course in this, or any other University.

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This Research Project has been submitted with my approval as University Supervisor.

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DEDICATION

I dedicate this work to my lovely daughters Kalondu and Ndanu, my wife Winnie and my parents Joel and Alice for their immeasurable love, support and inspiration.

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This work would not have been possible without the encouragement, moral support and assistance given by my Lecturers, Friends, Family members, MBA colleagues and workmates. My special thanks go to my Supervisor Mr. Eliud O. Mududa for his positive criticism, support and insightful guidance. I thank all the lecturers of University of Nairobi, especially Prof. Ogutu and others in the School of Business for making me a better strategist.

I feel greatly indebted to my long time friend, Patrick Mutisya Nyamai for his guidance and support throughout the course of the Project. My brother, I say Thank You and may the Almighty God bless you always. I cannot forget to thank Dr. Maalu for challenging me to become the Entrepreneur i am today. Your words “It is better you fail my entrepreneurship course but apply the knowledge and become an entrepreneur” are still very fresh in my mind. Special thanks to the managers of NIC Bank for responding to my questions.

ABSTRACT

Due to changing Banking Industry in Kenya, banks operating in the country have been compelled to develop strategies that can help them navigate the turbulent business environment. This research project was a case study on NIC Bank Limited. The objective of the study was to determine the strategic responses adopted by NIC Bank Limited to deal with changes in the Banking Industry in Kenya. In order to meet these objectives, primary data was obtained through personal interviews with the informants responsible for developing the strategic responses at NIC Bank. An interview guide was used as the primary data collection instrument. The researcher also used secondary sources of data to supplement sketchy information given by some interviewees. Data was analyzed qualitatively. The study established that the major changes affecting the banking industry in Kenya are: government policies, competition, rise in inflation, changing customer expectations, changing employee expectations and technological changes.

The study established that NIC Bank has adopted strategies similar to the other Kenyan banks although it has been more aggressive in some aspects. The study revealed that NIC Bank is using various strategies to respond to changes in the Kenyan Banking Industry. The most notable ones include diversification, good corporate governance, new products and services, products and services differentiation, market segmentation, acquisition, branch network expansion, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering

new markets. The study revealed that although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; there were some urgent issues that the bank needed to address in order to sustain its growth momentum. The first item was the issue of high staff turnover. The bank needs to review the effectiveness of its staff retention policies. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like agency and paperless banking. The bank also risks losing some market share if it does not quickly embrace Islamic/Sharia compliant banking. The bank also needs to come up with a policy governing the use of social media advertising to safeguard its reputation. The bank also needs to address the human resource issues that arise following mergers or acquisitions. Finally, the study concludes that NIC Bank has managed to build some competitive advantages that can be further exploited to sustain its profitability and growth momentum.

TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENTS	iii
ABSTRACT.....	iv
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Strategic Responses	2
1.1.2 The Kenyan Banking Industry	5
1.1.3 NIC Bank Limited in Kenya	8
1.2 Research Problem	9
1.3 Research Objectives.....	10
1.4 Value of the Study	10
CHAPTER TWO: LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Concept of Strategy.....	12
2.2.1 Industry Analysis	16
2.2.2 SWOT Analysis	18
2.3 Strategic Responses	19
2.4 Competitive Strategy Frameworks	21
2.4.1 Generic Strategies	21
2.4.2 Customer Intimacy Strategies	23
2.4.3 The Delta Model	24
2.5 The Banking Sector in Kenya.....	26
2.6 Strategic responses within the Banking Sector in Kenya	28
2.6.1 Competitive Responses	29
2.6.2 Diversification Strategies.....	29
2.6.3 Business Acquisition Strategies.....	31
2.6.4 Value Chain Strategies.....	32
2.6.5 Financing Strategies.....	33
2.6.6 Marketing Strategies	33

2.6.7 Customer Care and Operation Strategies	34
2.6.8 Human Resource Strategies	37
2.6.9 Corporate Governance	39
CHAPTER THREE: RESEARCH METHODOLOGY	41
3.1 Introduction.....	41
3.2 Research Design.....	41
3.3 Data Collection	41
3.4 Data Analysis	42
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS	43
4.1 Introduction.....	43
4.2 The Interviewees.....	43
4.3 Banking Industry.....	44
4.3.1 Government policies	44
4.3.2 Competition in the banking industry.....	46
4.3.3 Rise in inflation.....	47
4.3.4 Changing customer expectations	47
4.3.5 Changing employee expectations	48
4.3.6 Technological changes.....	48
4.4 Strategic Responses	49
4.4.1 Marketing Strategies	49
4.4.2 Customer Service	54
4.4.3 Information Technology	55
4.4.4 Human Resources	57
4.5 Other Strategic Responses	59
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	62
5.1 Introduction.....	62
5.2 Summary of findings.....	62
5.3 Conclusion	64
5.4 Implication on Policy, Theory and Practice.....	64
5.5 Recommendations.....	65
5.6 Limitations of the Study.....	66

5.7 Suggestions for further research 67

REFERENCES 68

APPENDICES..... **72**

Appendix1: INTERVIEW GUIDE..... 72

Appendix2: INTRODUCTION LETTER..... 75

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The study examined the strategic responses adopted by NIC Bank Limited to changes in the banking industry in Kenya. Eleven years ago, many multinational banks in Kenya closed down most of their branches in the rural areas. The main reason given was that disposable income of majority of rural Kenyans had become too meagre to warrant banking services. This resulted to this segment of the market being sidelined and collectively considered unbankable. These banks then concentrated their energies in corporate banking and investment in Treasury Bills and Bonds. As Ansoff and McDonnell (1990) noted that successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect their operations. Likewise, banks need to be responsive to survive in the ever changing banking industry.

Today, the banking environment in Kenya has tremendously changed. The economy has continued to register some positive growth. This growth has contributed to increased income levels to Kenya's middle and poor classes of the population. With Treasury Bills becoming less and less attractive in terms of interest, mainstream banks are back into the personal/retail banking. This has resulted to most banks changing their banking models to accommodate retail customers. This big switch to retail banking in Kenya has not been without challenges. For a bank to thrive in this segment of the market, it must comply with statutory requirements, invest heavily in technology

in order to reduce operating costs, have a wide branch network, invent and innovate products that woo and satisfy the masses and come up with better ways of mitigating lending risks.

1.1.1 Strategic Responses

Johnson et al. (2005), define strategy as the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization's external environment, its resources and its objectives (in meeting the expectations of its stakeholders). Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1997).

Ansoff and McDonnell (1990) note that strategic responses involve changes to the organization behavior. Such responses may take many forms depending on the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive advantage. Companies react differently to economic environment, some come up with new products, diversification, improved customer care, new IT innovations, and differentiation.

Banks in Kenya are facing new challenges every day. Following liberalization of the banking sector in Kenya in 1995, competition has become so stiff that it is now common to see banks pitching tents in bus stages, market centers, sports grounds, outside church compounds and busy city streets so as to market their products and services to the public. The global financial crisis experienced in late 2008 and the current euro zone crisis are expected to affect the banking industry in Kenya especially in regard to deposits mobilisation, reduction in trade volumes and the performance of assets. This situation is further worsened by the introduction of new regulations in the industry by the Central Bank of Kenya. For instance, the Finance Act 2008, which took effect on 1st January 2009, requires banks and mortgage firms to build a minimum core capital of Kshs 1 billion by December 2012. This requirement, it is hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. The continued rise of inflation and decline in interest margins can only make the Kenyan banking environment more volatile. Given this hostile environment, only the banks that are strategically responsive will survive in the long run.

Nyamai (2011) established that Jubilee Insurance Ltd responded to economic environment and changes in the Insurance Industry in Kenya through strategic choices which included: new products development, entering new markets, improved customer service, employees' motivation and adoption of state of the art of information technology systems. Mutugi (2006) found out that Barclays Bank Ltd responded to

changes in retail banking in Kenya by using corporate restructuring in form of changes in senior management in preference to locals, with specialist executive directors being appointed to head the new market segments; redesigning of jobs and relevant performance measures; voluntary early retirement (VER) schemes; shorter reporting lines; disposal of non core assets and businesses; outsourcing of non core services such as the printing of stationery and mail distribution across the bank. The market segments were redefined and the marketing function re-organized into retail and corporate divisions. The bank has been making changes in its information technology systems that would facilitate better interconnectivity of the bank's branch network as well as serve their customers better.

Mugabi (2003) revealed that tourist hotels responded to changes in the environment by using restructuring, selective shrinking, marketing and cost management. He noted that this involved re-organizing the organizing structures so as to cater for the new changes in the environment. customer desk concept for example has been taken by most organizations as an example of some of the structural changes in the environment. Ramona (2008) found that, for Barclays bank of Kenya to remain competitive in the market, it adopted some strategic responses which involved offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff.

1.1.2 The Kenyan Banking Industry

An industry may be defined as a group of firms whose products have so many of the same attributes that they compete for the same buyers. This definition can also be extended to include closely related industries supplying services to the industry and receiving services from the industry. For instance; Banking Industry, Hospitality Industry and Manufacturing Industry among others. Some industries are more profitable than others. The difference in profitability lies in understanding the dynamics of competitive structure in that industry. The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model. Porter (1980) explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five competitive forces are: the threat of entry of new competitors (new entrants), the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the degree of rivalry between existing competitors. In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage. In pursuing an advantage over its rivals, a firm can choose from several

competitive moves like: changing prices - raising or lowering prices to gain a temporary advantage, Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself, creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry.

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices. The competition engendered by a Threat of Substitute comes from products outside the industry. In Kenya, mobile phone service providers (firms) have been licensed to offer money deposits and transfers using the mobile phones. A very renowned example is Safaricom's mobile money transfer service called M-PESA. Many people are now opting to operate mobile money accounts rather than traditional bank accounts. It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage. A very good example of barriers to entry in the banking industry in Kenya is the enactment of the Finance Act 2008, which took effect on 1st January 2009 and requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. Any bank or mortgage firm that cannot raise this level of capital will either merge or close business. Similarly, other companies will not be able to enter the market if this requirement is not met.

The Banking Industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008, there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests.

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products.

1.1.3 NIC Bank Limited in Kenya

NIC was incorporated in Kenya on 29th September 1959, when Standard Bank Limited (“Standard”) and Mercantile Credit Company Limited (Mercantile) -both based in the United Kingdom – jointly formed the company. The company was amongst the first non-bank financial institutions to provide hire purchase and installment credit finance facilities in Kenya. NIC became a public company in 1971 and is currently quoted on the Nairobi Stock Exchange with approximately 22,000 shareholders. Barclays Bank of Kenya Limited acquired 51% of NIC’s total shares through the acquisition of Mercantile in the 1970s and Standard’s shareholding in NIC in the 1980s. Between 1993 and 1996, BBK divested its shares, selling 38% of its shares to the public in 1994, and the remaining 20% in 1996 to the First Chartered Securities Group (FCS).

Due to changing trends, regulatory requirements in the Kenyan banking industry and the need to meet growing customer requirements, NIC obtained a commercial banking license in 1995. In order to effectively diversify into mainstream commercial banking,

NIC Bank merged in November 1997 with African Mercantile Bank Limited (AMBank), which was then owned by FCS, by way of a share swap. The purpose of this merger was to allow NIC Bank to enhance its market position, provide a broader and more efficient range of services to its customers and increase the returns to shareholders. The vision of the bank is to establish long term, profitable customer relationships through the provision of a complete range of banking and financial services. To achieve this vision, the bank has maintained a mission of being the leading financial services provider to their target market; committed to the highest standards of service and to exceeding their stakeholders' expectations.

1.2 Research Problem

The banking industry in Kenya is continuously changing. This has posed serious challenges to companies wishing to remain relevant and profitable. The global financial crisis experienced in the late 2008 and the current Euro Zone crisis are expected to affect the banking industry in Kenya especially in regard to deposits mobilisation, reduction in trade volumes and the performance of assets. This situation is further worsened by the introduction of new regulations in the industry by the Central Bank of Kenya. The continued rise in inflation and decline in interest margins has made the banking environment more unpredictable. There is increased competition arising from new entrants in the market and licensing of deposit taking Micro Finance Institutions (MFIs) and Savings and Credit Cooperative Societies (SACCOs). Other challenges being faced include increasing insecurity, technological changes, high employee turnover, changing customer expectations, use of know your customer (KYC) as collateral, adoption of optimal pricing models and use of social media for

advertising. Given this hostile environment, only the banks that are strategically responsive will survive in the long run.

Previous studies have been done on strategic responses by firms to the changes in the environment (Nyamai 2011, Mutugi 2006 and Ramona 2008). These studies concur that organizations must come up with superior strategies in order to remain relevant and profitable in the market, but none of them has focused on NIC Bank Limited and specifically, how the bank is responding to changes in the banking industry in Kenya. Each institution is unique in its structure and mode of operation and as such, the researcher assumed that NIC Bank Limited had adopted its own strategic responses to changes in the Banking Industry in Kenya. The study therefore sought to answer the question, “How has NIC Bank Limited strategically responded to the changes in the Banking Industry in Kenya?”

1.3 Research Objectives

The objective of the study was to determine the strategic responses adopted by NIC Bank Limited to deal with changes in the Banking Industry in Kenya.

1.4 Value of the Study

The results of the study would help NIC Bank Limited to respond to both threats and opportunities brought about by changes in the Banking Industry in Kenya by coming up with appropriate strategies that would enable it to remain relevant and profitable in the market. The study would help NIC Bank Limited to evaluate the effectiveness of

the strategies it had adopted by benchmarking them with other bank's strategies so as to re-align them and employ the best alternative(s).

The results of the study would also help spur economic growth in Kenya. By addressing the issue of high interest rates, being one of the key concerns of the Finance Bill (2011), the study would inform the bank to develop well tailored credit products affordable by the small and medium enterprises (SMES) and low income earners. With the commissioning of Credit Reference Bureaus (CRBs) in Kenya, there is absolutely no reason why banks cannot use know your customer (KYC) and the customer credit history as collateral and adjust credit interest rates downwards.

The results of the study would also make a contribution to the existing body of knowledge particularly on strategic responses adopted by banks to changes in the banking industry in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers. But more often, it is part of the introduction to an essay, research report, or thesis. The purpose of the literature review is to convey to the reader what knowledge and ideas have been established on a topic and what their strengths and weaknesses are.

2.2 Concept of Strategy

Johnson *et al.* (2005), define strategy as ‘the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations’. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization’s external environment, its resources and its objectives (in meeting the expectations of its stakeholders).

A strategy is a long term plan of action designed to achieve particular goal most often winning (Thompson et al, 2007). 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 the cognition of where you are 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 it 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 (Clayton, C., 1997).

Strategic response to competitive environment is the art of formulating, implementing and evaluating cross functional decisions that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organizations objectives, developing policies and plans to achieving the organization's objectives. Strategic management comes in handy which combine the activities of the various functional areas of a business in achieving organizational objectives. It is the highest level of managerial activity, usually formulated by the board of directors and performed by the organization's chief executive officer (CEO) and executive team. Strategic management provides overall direction to the enterprise and it is closely related to the fields of organization studies (Treacy and Wiersema, 1993).

Strategic management is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitor's and sets goals and strategies to meet all existing and potential competitors; and then reassess each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology , new competitors, new economic environment or, a new social, financial or political environment. (Lamb, 1984).

Strategic management is a combination of three main processes namely; strategy formulation, strategy implementation and strategy evaluation. Strategy development is a multidimensional process that must involve rational analysis and intuition, experience and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and the wishful thinking (Henry, 1978).

According to Collis et al. (1995) concepts, theories and analytic framework are not alternatives or substitutes for experience commitment and creativity. But they do provide useful frames for organizing and assessing the vast amount of information available on the firm and its environment and for guarding decisions, and may even act to stimulate rather than repress creativity and innovation.

The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprise decisions also permits the application of powerful analytical tools to help companies create and redirect their strategies. Strategy can help the firm establish long term direction in its environment and behavior (Gary & Prahalad, 1993).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel & Prahalad (1989) view organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shifts of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Buzzell & Gale, 1987).

Strategy is forward looking. A fundamental concern is what the firm (or the individual or the organization more generally) wants to be in the future. Such a view is often made explicit in a statement of company vision. The purpose of such goal setting is not just to establish a direction to guide the formulation of strategy, but also to set aspiration for the company that can create the motivation for outstanding performance. Hamel and Prahalad (1989) argue that a critical ingredient in the strategies of outstandingly successful companies is what they term “strategic intent” or an obsession with achieving leadership within the field of endeavor. Business strategy, which refers to the aggregated operational strategies of single business firm or that of a strategic

business unit (SBU) in a diversified corporation, refers to the way in which a firm competes in its chosen arena.

Michael Porter (1980) views corporate strategy, as the overarching strategy of the diversified firm, such corporate strategy answers the questions of “in which business should we compete? “ and ” how does being one business add to the competitive advantage of another portfolio firm as well as the competitive advantage of the corporation as a whole.

Since the turn of the millennium, there has been a tendency in some firms to revert to a simpler strategic structure. This is being driven by information technology. It is felt that knowledge management system should be used to share information and create common goals. Strategic divisions are thought to hamper this process (Trigeorgis, 2001)

2.2.1 Industry Analysis

The attractiveness of an industry is best explained by Michael Porter’s five forces model. Porter (1980) explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five competitive forces are: the threat of entry of new competitors (new entrants),the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the degree of rivalry between existing competitors. In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are

not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. For the firm to benefit from the five forces model it must be able to comprehensively define its industry. Porter (2000) states that defining the industry in which competition takes place is important for good industry analysis, not to mention for developing strategy and setting unit boundaries. He observes that the firm must determine the product and geographical scope and identify the players and segment under the four segments listed above.

The analysis should also assess the strength and weaknesses of these competitive forces. It is also crucial to understand the industry profitability and the recent positive and negative developments in the industry. Porter (2008) concludes that the five competitive forces reveal whether an industry is truly attractive, and they help investors anticipate positive and negative shifts in the industry structure before they are obvious. He further posits that this deeper thinking about competition is a more effective or superior method to achieve investment success than financial projections and trend extrapolation that dominates today's investment analysis. The five forces model will make NIC Bank respond effectively to what is happening in the banking industry and beyond. This will help the bank to adapt to changes and developments in sectors like mobile banking, cooperative movement, politics, insurance and investment banking. Strategy is not just about growth, growth and more growth.

2.2.2 SWOT Analysis

A firm cannot compete effectively in its industry if it does not conduct a detailed analysis of its strengths, weaknesses and external opportunities and threats (SWOT). An internal analysis of strengths and weaknesses will identify the presence or absence of unique skills and resources that give an organization a competitive advantage. Unique competitive advantage is a combination of superior efficiency, superior quality, superior innovation, and superior customer responsiveness (Chandan, 1997). The main strengths of NIC Bank include its good corporate governance culture, vibrant information and communication technology, strong balance sheet with a capital base of over KES 2.8 Billion, one stop shop for all financial services (retail & corporate banking, insurance, investment banking), a strong board of directors pooling experienced professionals from diverse sectors and cultures and strong innovation culture. The other strength is its growing branch network.

One major weakness with NIC Bank is the issue of high staff turnover and the perceived public image that it is a bank for the rich. Opportunities available for NIC Bank include full exploitation of the Tanzania and Uganda markets, diversification into mortgage business, full exploitation of the features of the just acquired core banking system (T24), Adoption of agency banking, Adoption of Sharia compliant banking and use of credit information sharing to reduce their lending risks while pricing their loan products competitively. The main threats facing NIC Bank include rising inflation, discontinuation of the discount window by CBK, increasing

competition in the banking industry, entry of the heavily capitalized Nigerian banks into the market, rising insecurity and political uncertainty occasioned by the coming general elections in 2013.

2.3 Strategic Responses

Ansoff and McDonnell (1990) note that strategic responses involve changes to the organization behavior. Such responses may take many forms depending on the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive advantage. Companies react differently to economic environment, some come up with new products, diversification, improved customer care, new IT innovations, and differentiation. Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1997).

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross functional decisions that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organization's objectives, developing policies and plans to achieving the organization's objectives. Strategic management comes in handy which combine the activities of the various functional areas of a business in achieving organizational objectives. It is the highest level of managerial activity, usually formulated by the board of directors and performed by the organization's chief executive officer (CEO) and the executive team. Strategic management provides

overall direction to the enterprise and it is closely related to the fields of organization studies (Treacy and Wiersema, 1993).

Mugabi (2003) revealed that tourist hotels responded to changes in the environment by using restructuring, selective shrinking, marketing and cost management. He noted that this involved re-organizing the organization structures so as to cater for the new changes in the environment. customer desk concept for example has been taken by most organizations as an example of some of the structural changes in the environment. Mpungu (2005) found that AAR responded to changes in the environment by introducing new products, restructuring and enhancing its technology. Githii (2007) found that Rwathia Group of businesses responded to changes in the environment by price adjustments, modernization of their facilities, training, differentiation and diversification.

Wairegi (2004) found that life insurance companies responded through such initiatives such as new product development, development of new distribution channels, restructuring, investment in human resource development and computerization of the core business processes. Ramona (2008) found that, for Barclays Bank of Kenya to remain competitive in the market, it adopted some strategic responses such as offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff. Nyamai (2011) established that Jubilee Insurance Ltd responded to economic environment and changes in the Insurance Industry in Kenya

through strategic choices which included: new products development, entering new markets, improved customer service, employees' motivation and adoption of state of the art of information technology systems.

2.4 Competitive Strategy Frameworks

The causes of competition in an industry are many. This makes it very difficult to have universal methods of tackling it. Different times and industries have successfully used different methods or strategies. Among the models advanced by scholars to tackle competition include competitive advantage, delta model and customer intimacy among others.

2.4.1 Generic Strategies

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar or possibly higher prices. Among the first scholars to use the term comparative advantage in their literature was David Ricardo in 1817 in his book "The Principles of Political Economy and Taxation". His application was built on specialization focused on the economy and not the firm. Thomas and Daveni (2004) quote several researchers who all agree that comparative advantage enables a firm to outperform its competitors in profitability or performance. These returns are similar to Ricardian rents. According to Alderson the fundamental aspect of competitive adaptation is the specialization of suppliers to meet variations in buyer demand. A firm builds competitive advantage when it creates or develops attribute(s) or resources that enable it to outperform its competitors. Porter, one the leading

authorities on competition recommends that a firm should use one or a combination of generic strategies to compete.

By leveraging on the generic strategies the firm is able to earn above average return (supernormal profits) on its assets. This supernormal profit gives the firm competitive advantage over the other firms in the industry. Supernormal profits ensure the firm can withstand onslaughts in the industry like price wars. Sources of competitive advantages include government subsidy or support, monopolistic markets, innovation, operational efficiencies, superior service offering and highly skilled human capital. Porter (1994) notes that the three generic strategies used to compete at business unit level are cost leadership, differentiation and focus. Cost leadership is when a firm delivers the same services as its competitors but at a lower cost. A good example is Essar's YU mobile service provider in Kenya that offers free on-net calls and Kshs 3 for off-net per minute against Safaricom's Kshs 4 flat rate on all networks. NIC Bank has tried to brand and differentiate its products like NIC 24Hr ATMs, NIC Gold Credit Card, NIC Entrepreneur Current Account and NIC Mobile banking among others. Under the focus strategy a firm concentrates its marketing effort on a narrow market segment (market niche), aiming at achieving a local rather than industry wide competitive advantage. For instance, Porsche has concentrated on luxurious sports cars. NIC Bank has redefined its markets to include corporate banking, retail banking, insurance, investment banking institutional banking, small and medium enterprises (SMEs), custodial services and M-PESA. Competitive advantage is not a perpetual state; firms must work to sustain their advantages as the competition will play catch

up. Competitive advantage is built upon set of conditions that are invalidated or reinforced as dynamics change in the environment. These advantages are not universal and change with times. The strategies Ford used to compete with General Motors (GM) were very different with the ones used by Toyota to dislodge GM its market leadership.

2.4.2 Customer Intimacy Strategies

Treacy & Wiersema (1992) use customer intimacy to explain the competitive strategies used by firms like Nike, Dell Computer and Home Depot to successfully rise and grow to world class brands. They note that these businesses succeeded by redefining customers' value in their respective markets, building systems that delivered more value than competition and also by raising customer's expectation way beyond the reach of competition. According to them, these firms achieved leadership in their industries by narrowing their focus. They focused on delivering superior value by operational excellence, or customer intimacy, or product leadership. By operational excellence firms aim at delivering products or services at competitive prices and with minimal difficulty or inconvenience.

Customer intimacy involves providing products to match the firms segment and target markets. Product leadership involves offering leading edge products that render rival goods obsolete. They also note that through operational excellence a firm like Dell has been able to undercut Compaq and other PC makers without compromising quality. They also cite the direct connect program was successfully used to transform and

reinvent the General Electric (GE). Customer intimacy firms continually tailor and shape products and services to match their customer expectations. Companies that pursue product leadership strive to produce a continuous stream of innovative products like Apple's Ipad, Ipad and I-phone.

2.4.3 The Delta Model

Another competitive strategy model that approaches strategy from the customer perspective is Prof. Anorldo Hax's delta model. According Hax (2009)|, conventionally, all of the major frameworks of strategy start by recognizing the essence of strategy to achieve superior competitive advantage. That is what everybody adheres to. We found that as a concept and as a mindset is extremely dangerous, and it is because it puts competitors at the center, and if you do that, then there is a tendency to watch over your shoulder or in front of you, who is running behind or ahead of you, and you try to imitate them. Hax (2009) asks “if the competitors are not at the center then, who is at the center?” For us, the answer was obvious. The customer is. Therefore, the customer is the driving force. You have to start deeply understanding what the customer requirements are and how you can help the customer in the most effective way, and then it changes completely the ways in which you are figuring out what actions to do. Now, instead of trying to imitate somebody, you are trying to separate yourself from the rest of the pack. You try to produce a value proposition, which is unique, which is differentiated, which adds value to the customer and expresses a great deal of customer care, customer concerns, and that value proposition should be based on mutual trust, mutual learning, mutual benefits, transparency. Can

you imagine the difference in mindset? Instead of strategy as war, the Delta Model tells you strategy as love.

According to Hax & Wilde II (2003), the three distinct strategic positions of “The Triangle,” or delta, the model are best product, total customer solutions and system lock-in. Under the best product positioning, the primary focus is to attract, satisfy, and retain the customer through the inherent characteristics of the product itself. Total customer solutions aim at providing solutions that consist of a portfolio of customized products and services that represent a unique value proposition to individualized customers. System lock-in aims at creating a dependency on your products by the market. An example of a firm that enjoys system lock-in is Microsoft, where customers want to buy the computer with access to the largest set of applications, and software developers want to write applications for the computers with the largest installed base. According to (http://www.dean.com/about_us/delta_framework.htm) the System Lock-in strategic option has the widest scope; it includes the extended enterprise — the firm, the customers, the suppliers, and most importantly, the key complementors. A complementor is a firm that engages in the delivery of products and services that enhances our own product and service portfolio. The key to this strategic option is to identify, attract, and nurture the complementors. The complementors are often external, but may also be internal to the corporation, particularly in large and diversified organizations. These complementors are rarely detected and exploited effectively. That is why a system lock-in strategy has to start with a full corporate scope — not just for one product or business — and has to continue with the

identification and incorporation of all the key external players that can become complementors.

2.5 The Banking Sector in Kenya

During the official launch of Kenya's Vision 2030 on 30th October 2006, President Mwai Kibaki reiterated in his speech that the financial sector is the fuel to Kenya's economy. Further, he pointed out that the strength of this sector determines the rhythm of economic activities in any country. It is extremely important to ensure that the stability of the financial markets is sustained and improved to the level that is attractive to both local and international investors. Moreover, a rapidly transforming Kenya needs a vibrant and innovative financial sector that meets its development requirements from time to time. Strategies should therefore be developed that allow the financial sector to play an important role in the financing of the infrastructure that Kenya requires to achieve Vision 2030. These strategies must therefore include appropriate instruments that will allow us to mobilize resources to support the rapid expansion of roads, power, water supply, railways, airports and seaports.

The Banking Industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby

for the banking sector's interests. The KBA provides a forum for addressing issues affecting its members.

Going by the standards of developing countries, the banking sector in Kenya is fairly vibrant. However, the sector is dominated by the formal commercial banks. The first three banks to be formed in Kenya were Barclays, Kenya Commercial Bank and Standard Chartered Bank. They are still the largest banks today. Foreign banks in Kenya control 40.3% of the market share in terms of assets, with Barclays and Stan Chart controlling 30% (Upadhyaya, 2011). As at December 2008, there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. This high number of banks and financial institutions in a small country like Kenya has made competition in the financial sector to be very stiff. Today, competition in the banking sector in Kenya has become so fierce that it is common to see banks pitching tents in bus stages, market centers, sports grounds, outside church compounds and busy city streets so as to market their products and services to the public.

Most formal banks in Kenya only serve corporate customers and retail customers in formal employment. Most SME's lack elaborate collateral hence they are considered very high risk commercially. This has meant that the small, micro and medium enterprises have not been able to access credit as they cannot meet the bank's stringent credit conditions. To address the large gap in finance requirements for the small, and medium enterprises (SME), in roads have been made by assisting the micro finance

institutions (MFI) to move in and cater for the SMEs financial services requirements. Micro and Small Enterprises (MSEs) cut across all sectors of the economy have provided employment opportunities, reduced poverty and are breeding ground for medium and large industries which contribute to Kenya's economic development and ultimate industrialization by 2020.

2.6 Strategic responses within the Banking Sector in Kenya

Various studies have been conducted on how banks strategically respond to changes in the banking sector in Kenya. Most of these studies conclude that banks must come up with superior strategies in order to remain relevant and profitable in the long run. As Ansoff and McDonnell (1990) established, companies react differently to economic environment, some come up with new products, diversification, improved customer care, new IT innovations, and differentiation.

In order to effectively compete in the banking industry in Kenya, Abishua (2010) established that Equity Bank adopted the following strategies: Product offering diversification, branch and regional expansion, relationship marketing, financing, customer-care, innovation and information technology. The study also found Equity Bank to be a very adaptive bank with a versatile reactionary mechanism to exploit any emerging gaps in the banking industry. Ramona (2008) established that, for Barclays Bank of Kenya to remain competitive in the market, it adopted some strategic responses which involved offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff.

2.6.1 Competitive Responses

The strategies being used by NIC Bank to respond to the competition in the Kenyan banking industry include diversification, good corporate governance, products and services differentiation, market segmentation, acquisitions, branch network expansion, automation of business processes, innovation, improved customer care, strategic partnerships, rebranding, advertisements, staff training, cost containment and improvement of distribution channels. According to Mintzberg (1994) strategy making is not an isolated process limited to strategy planning meeting. To the contrary it is interwoven with all it takes to manage an organization.

2.6.2 Diversification Strategies

Diversification refers to expanding business fields either to new markets, new products, or both, while retaining strong core businesses (Yokoyama, 2007). Diversification has not been limited to the banking industry. Retail chains have also successfully diversified to banking. In Kenya mobile phone companies have also diversified into money transfer services. Frequent and successful new products introductions are essential for organic growth and competitive differentiation. The numbers of new product introductions have increased dramatically across the globe (Davis, 2007). The Bank has managed to introduce new innovative services like Bank to M-PESA and M-PESA to bank, Internet banking, Mobile banking, Debit cards and Deposit taking ATMs. NIC Bank has also diversified its products offering by

introducing one stop shop banking services; insurance, investment banking and stock brokerage services.

Not all businesses have had to diversify their offering to grow or compete. Successful global corporations like Wal-Mart and McDonald's have profitability grown just focusing on one line of business. Advocates of this strategy believe if you get it right first time you don't have to change. Another example is FedEx, that hasn't moved in tandem with its industry rivals like DHL, UPS and TNT other areas of logistics like clearing and forwarding but has stuck to small parcels (Roberts, Roberts and Ward 2005). Diversification may focus on related or unrelated areas. NIC Bank has also adopted unrelated diversification strategy by extending its offering to beyond commercial banking to other areas like bancassurance and investment banking.

Bancassurance refers to distribution of insurance products and services through a bank. The insurance business is handled by NIC Insurance Agents Limited; a subsidiary of NIC Bank Group established in 2008 to provide a wide range of exemplary insurance products for their customers and the general public. Some of these products are NIC Business Risks Insurance, NIC Travel Insurance, NIC Home Insurance, NIC Motor Insurance and NIC Health Insurance. NIC Capital is the investment arm of NIC Bank. It was established in 2006 to support the ever growing advisory and financing needs of Kenyan corporate clients. NIC Capital Securities Ltd, is a Capital Markets Authority licensed brokerage and a member of the Nairobi Stock Exchange. Its core business involves Equity trading on NSE and other major securities exchanges in Africa, Fixed

income trading – both Government and Corporate Bonds, Over-the –counter trading for shares not listed on the NSE, Unit Trusts, Money market, Equity Fund and Growth Fund.

The bank has entered into strategic partnerships with companies like ICEA-Lion, First Chartered Securities Ltd (FCS), ICEA Asset Management Ltd and Savings & Finance Commercial Bank Limited of Tanzania. The bank's NIC Insurance Agency Limited subsidiary brokers insurance business for ICEA-Lion. FCS provides managerial expertise and consultancy to the bank while ICEA Asset Management Ltd supports the bank's investment business run by NIC Capital.

2.6.3 Business Acquisition Strategies

Business acquisition strategy is one of the strategies used by companies to beat competition by accelerating their pace of growth. Firms can strategically benefit from mergers and acquisitions by acquiring new customers and markets, cost reductions through synergies and obtain new products or technologies (SAP 2008). Mergers and acquisitions are the most popular form of growth strategy according to a survey by Boston Chapter of the association for corporate growth conducted in New England USA. Other proponents of this strategy are Welch & Welch (2005) and Gaughan (1999). Growth aspects include market penetration, market development, product penetration and diversification (Ansoff, 1965).

NIC Bank has responded to competition by acquiring 51% stake in one of Tanzania's mid-sized commercial banks; Savings & Finance Commercial Bank Limited in 2010. This acquisition was supported by the funding from the successful rights issue in November 2007 that raised KES 1.2billion. The main reason for the acquisition was to enhance the bank's competitive position in the region, diversify its business and enhance services to its cross-border customers.

2.6.4 Value Chain Strategies

The term 'Value Chain' was used by Michael Porter in his book "Competitive Advantage: Creating and Sustaining superior Performance" (1985). The value chain analysis describes the activities the organization performs and links them to the organizations competitive position. Porter argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage. Porter distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to support activities which help to improve their effectiveness or efficiency. There are four main areas of support activities: procurement, technology development (including R&D), human resource management, and infrastructure (systems for planning, finance, quality, information management etc).

2.6.5 Financing Strategies

NIC Bank has continued to strengthen its financial muscle in order to compete effectively and expand both locally and regionally. In November 2007, the bank conducted a successful rights issue that raised KES 1.2billion.

2.6.6 Marketing Strategies

Competition in the banking industry has also led to sudden interest in advertising by previously rather silent banks like Bank of Africa, Diamond Trust and Fidelity Bank. NIC Bank has also aggressively pursued its promotion and advertisement campaigns. Although the researcher has no evidence to show any causal relationship between new accounts opening with its advertising, he believes it has played a significant role in the rapid growth of new account holders. Advertisement has also played a crucial role in strengthening the NIC Bank brand. Branding is important to both customers and the marketer. To consumers point of view branding facilitates buying. They are also guaranteed quality when they are buying brands. Consumers also get psychological satisfaction when buying brands, especially when products give them desired status. To a marketer, a brand differentiates firm's products from those of competition (Kiumbura, 2003).

NIC Bank has adopted several marketing strategies to respond to the competition in the banking industry. NIC Bank has embarked on several tactics to build an effective marketing strategy. These tactics include advertising, re-branding, customer

acquisition, distribution, pricing, relationship management, innovation customer satisfaction and social media marketing strategies. The bank has started advertising its products and services on giant billboards placed on strategic locations. Some of these billboards can be seen on Bunyala-Uhuru Highway round about in Nairobi and on Thika Highway. It uses its official website (www.nic-bank.com) to advertise their products and services especially the Asset Finance's "Think Biggest" campaign. The bank is currently using social media (Facebook and Twitter) to advertise its products and services

NIC Bank changed its logo and corporate colours in 2007. It also adopted a new slogan "One Life One Bank" with a promise to offer a one stop shop for all financial services. The main reason for re-branding was to reposition the bank for future business development. Another latent reason was to water down the MOVE image which had almost obscured their corporate identity.

2.6.7 Customer Care and Operation Strategies

Close interaction with customers provides one of the most effective platforms for market research. Fox (2000) observes that, a firm must deal with today's customer and tomorrow's customers. They provide the ideas for new products and new applications. They provide the early warning signals about your products' quality and timeliness. They know about your competitors. To know your customers is to know your future. The bank recognizes that today's customer is becoming increasingly aware of their consumer rights and existence of a wide selection of financial service providers in Kenya. To address the ever changing customer needs and preferences, the bank has

institutionalized a culture of providing superior and quality products and services that meet customer expectations through efficient and timely service delivery, integrity, friendly and personalized approach, flexibility, value pricing; and being the preferred service provider.

The NIC bank's vision is to establish a long term, profitable customer relationships through the provision of a complete range of banking and financial services. Most firms have now realized that long-term growth and survival is dependent on a good relationship with customers. Banks in Europe and elsewhere agree that branch network will remain the cornerstone of their retail distribution strategy as argued by Bidmead, Massoud and Romanoswkin (2007).

NIC bank has pursued its branch expansion strategy very ardently in the last five years. This has seen the bank's branch network increase from a mere two branches located in Nairobi in 2005 to over twenty branches spread across the country and beyond. In Kenya alone, the bank has opened eight new branches in Nairobi, three in Mombasa, one in Thika, one in Nakuru, one in Meru, one in Kisumu and one in Edoret. The bank has also crossed the borders. In 2010, it entered the Tanzanian market through acquisition of Tanzania's Savings & Finance Commercial Bank Limited which has branches in Dar es Salaam, Mwanza and Arusha. This year (2012), the bank has opened a branch in Uganda through foreign direct investment. The bank has also implemented customer relationship management systems. In each branch, there is customer relationship manager who listens and gives customers personalized service.

The bank has also extended its banking hours from 9 am -3pm weekdays to 9-am-4pm and none on Saturdays to 9am-4pm in some branches. The bank has also integrated ICT in all its operations so as to assist it realize its vision in the most efficient and cost effective way.

Although building such a branch network is very expensive and some of the expansions or refurbishments have no clear payback (Bidmead, Massoud & Romanoswki, 2007), the researcher suggest that NIC Bank should quickly adopt agency banking in order to increase their branch network in a cost-effective way. Currently, the bank is pursuing bricks and mortar branch expansion approach which is very expensive. Among the methods recommended by Bidmead, Massoud & Romanoswki (2007) to manage customer visits includes customer surveys, online banking and utilization of automated teller machines. To receive customer feedback, the bank has established suggestion boxes placed strategically in most of their branches and a customer care e-mail address (customercare@nic-bank.com). It has also established a dedicated customer care unit based in its head quarters called Customer Contact Center. The Contact Center is open from 8.00am. to 8pm on weekdays and from 8am. to 2pm. on Saturdays. The bank has also embraced social media. It gets direct feedback from customers on its face book page <http://www.facebook.com/pages/NIC-Bank/323047715312> and on Twitter through the handle #nicbankkenya.

2.6.8 Human Resource Strategies

A lot has been written on how companies can attract, hire and retain talented and competent employees. Ammo (2003) emphasizes that human resource is the most important factor for success in any organization. Lee and Miller (1999), also note that one of the key resources needed to execute an organization strategy is its human capital. Therefore, a dedicated and talented workforce may serve as a valuable, scarce, non-imitable resource that can help firms execute an appropriate positioning strategy. In their study of Korean businesses on how an organization's commitment to its employees' well-being (OCE) can aid in the profitable execution of its positioning strategies. Lee and Miller (1999) found that OCE, by itself, sometimes has a weakly positive association with return on assets (ROA). But far more important, they found that ROA is strongly and positively influenced by the interaction between OCE and the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage: these are cost leadership, marketing differentiation and innovative differentiation.

One astonishing reality is that most of the firms are as unprepared for the challenge of finding, motivating, and retaining capable workers as they were a decade ago. Business leaders are deeply concerned, judging by two McKinsey Quarterly global surveys. The first, in 2006, indicated that the interviewees regarded finding talented people as likely to be the single most important managerial preoccupation for the rest of this decade. The second, conducted in November 2007, revealed that nearly half of the interviewees expect intensifying competition for talent - and the increasingly global

nature of that competition - to have a major effect on their companies over the next five years (Guthridge, Komm & Lawson, 2008).

NIC Bank Ltd, through the department of Human Resources (HR) has implemented a very comprehensive employee performance management system. It was rolled out in 2005 under the name PEAK (Performance Evaluation and Career Enhancement). Under this system; the bank's corporate goals for the year are communicated to the departmental heads. At the beginning of the year, each departmental head comes up with measurable performance goals for their department. Each employee is then requested to come up with measurable performance goals for the year inline with their job descriptions and departmental goals. Appraisals are done twice a year. One during the month of June (mid-year) and at the end of the year. The direct reports are charged with the responsibility of appraising their subordinates. Promotions and rewards are based on one's performance.

On staff retention, the bank has implemented policies like linking rewards to performance, team building activities, training and development and making annual leave mandatory for all employees to enable them relax. The bank has recently introduced profit sharing. Under this arrangement, a certain percentage of the bank's profits is distributed to employees depending on their performance. The bank also organizes end of year parties to appreciate employee's good performance.

NIC Bank will also need to reinforce its HR capabilities to handle the challenges arising from acquisitions. People issues may be important, but they are historically the most difficult to resolve. Staff cannot be forced to cooperate, to drive forward merger

objectives, or to change their business behaviour. They must be motivated and given incentives to do so. This requires careful planning, and resorting. Many companies have neither the resources nor the know-how to give this area the priority it requires (Kelly, Cook, and Spitzer, 1999). The bank is currently facing a challenge of very high staff turnover. This has put into question the effectiveness of its staff retention policies. The researcher is of the view that the bank should review its employee performance management systems, manager to subordinate relationship, career growth opportunities, employee workload and management of exit interviews. There is a growing concern that some managers are using employee performance management system as a tool to settle personal differences with their subordinates. The bank should also consider implementing employee share ownership schemes (ESOPS) for long term employee motivation. This scheme has successfully been employed by Equity Bank Ltd.

2.6.9 Corporate Governance

There is no universally accepted definition of corporate governance. Defined broadly, "corporate governance" refers to the private and public institutions, including laws, regulations and accepted business practices, which in market economy; govern the relationship between corporate managers and entrepreneurs ("corporate insiders") on one hand, and those who invest resources in corporations, on the other, Oman (2001). Other writers like Cochran and Wartrick (1988) define corporate governance as: "an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders." It

describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided. This concerns how an organization should function and the distribution of power among different stakeholders (Johnson and Scholes, 2002). The key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Of great importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

NIC Bank Ltd has entrenched a very good corporate governance culture. The Bank prides itself in having won the following prestigious awards: Champion of Good Governance (2010), Financial Reporting (FIRE) Award and Best Institution in Corporate Governance (2006) and Financial Reporting (FIRE) Award, 1st Runners up Financial Reporting Banks Category, 1st Runners up Corporate Governance Category, and first in Corporate Governance (2005). The Financial reporting excellence award goes a long way in confirming NIC Bank's non-wavering commitment and strict compliance to Corporate Governance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology entails a documented process for management of projects that contains procedures, definitions and explanations of techniques used to collect, store, analyze and present information as part of a research process. It also describes the method used by the researcher in data collection.

3.2 Research Design

A research design is a framework specifying the relationships among the study variables. The researcher used a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomena to give facts of the situation as it is, without interference by the researcher. This design is where background, development, current conditions and environmental interactions of one or more individuals, groups, communities, businesses or institutions is observed, recorded and analyzed for stages of patterns in relation to internal and external influences. This design was considered appropriate since only NIC Bank Limited was used for the study on how it had dealt with changes in the Banking Industry. It was also deemed to be appropriate because an in-depth and comprehensive inquiry had to be conducted to have in-depth description of the subject under study.

3.3 Data Collection

Both primary and secondary data sources were used for data collection. The primary data collection method was an Interview Guide which contained open ended questions. The interview guide was divided into three sections; A, B and C. Section A addressed

the general information about the interviewees and the company, Section B addressed the Banking Industry, while Section C addressed the main issues in order to seek responses to the research question. The researcher also relied on the company's website, internet, newspapers and other published material as sources of secondary data.

The targeted informants were five and included: the Chief Executive Officer (CEO) and the departmental heads of NIC Bank who included; Head of ICT & Operations, Head of Retail Banking, Head of Corporate Banking and Head of Human Resources. The study targeted these top management employees since they are involved in strategy development and execution. The five interviewees were all stationed in NIC Bank House, Upper Hill, Nairobi. The interview guide was administered by face to face interviews. The researcher visited the interviewees at their work stations.

3.4 Data Analysis

Once the responses were received, the Interview Guide was edited for completeness and consistency before processing. Thereafter, the data was coded to facilitate categorization. The data collected on the strategic responses was analyzed qualitatively on the basis of the strategic variables highlighted. Content analysis was used in analyzing the in-depth qualitative data that was collected. This technique has been successfully used by other scholars such as Nyamai 2011, Mutugi 2006, Kiptugen 2003, Githii 2007 and Ramona 2008.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the data analysis and the research findings for the study. The data collected was analysed and interpreted in line with the objective of the study, namely strategic responses by NIC Bank Ltd to changes in the Banking Industry in Kenya. Content analysis was used in analyzing the in-depth qualitative data that had been collected.

4.2 The Interviewees

The interviewees in this study were Head of ICT & Operations, Head of Retail Banking, Head of Corporate Banking and Head of Human Resources at NIC Bank Ltd who are involved in the formulation and implementation of the strategic responses that were the subject of the study. The strategic areas of response were Marketing Strategies, Information Technology, Human Resources and Customer Service to changes in the Banking Industry in Kenya. Majority of the interviewees have held senior management positions at NIC Bank Ltd for over five years. The rest were new entrants both from within and outside the Banking Industry. Thus, their contributions to the strategic responses by NIC Bank Ltd to changes in the Banking Industry in Kenya are drawn from a broad reservoir of experience and knowledge.

4.3 Banking Industry

This section aimed at identifying the main banking industry factors that have affected the operations of NIC Bank Limited. The following factors were considered to have greatly affected the bank's operations.

4.3.1 Government policies

The recent government policies that have affected the running of NIC Bank include: Increase of Central Bank Rate (CBR) from 7% in October 2011 to 18% in December 2011, Introduction of Cheque Truncation, Licensing of Agency Banking, Licensing of Islamic/Sharia compliant Banking, Licensing of Bancassurance, Introduction of Credit Reference Bureaus (CRBs) and Enactment of Finance Bill 2008. Since banks base their lending rates on the Central Bank Rate (CBR), this increase automatically made NIC Bank loans quite expensive. This resulted to a decline in the number of customers seeking loans. This translated to a drop in funded income. To bridge this gap, the bank launched "iOpen, iDeposit, iWin, iPad" deposit mobilization campaign between May-July 2012. It encouraged the general public to open accounts and bank money in order to win assorted smart gadgets.

Cheque truncation is the process of transmitting cheque images with their codeline information to the clearing house electronically instead of the traditional physical cheques. It was operationalized in Kenya in 2011. The main objectives of this initiative were to reduce cheque fraud and improve efficiency in the clearing process. This change greatly affected NIC Bank's operations. The bank upgraded its clearing systems to conform to the new requirements. Cheque Truncation environment also

required new standard cheque books to be produced and given to the customers. This increased the cost of stationery and advertisement during the transition period. The licensing of agency banking is expected to increase competition in the banking industry. Already; several banks have already adopted this concept. Equity Bank was the first to adopt this model with its countrywide “Equity Agent” brand name. Other banks to follow suit were KCB with “KCB Mtaani” and Co-operative Bank’s “Coop Kwa Jirani” brand names respectively. NIC Bank is yet to adopt this banking model.

Islamic/Sharia compliant banking was introduced in Kenya in 2008 by Gulf African Bank and First Community Bank. These two banks offer fully Sharia compliant products and services to their customers in Kenya and the entire East African region. Other mainstream banks have also developed Sharia compliant products. Leading the pack is KCB bank with its “Amana Account”. NIC Bank has not yet adopted Islamic/Sharia compliant banking model. Bancassurance is the marketing of insurance products by banks. Apart from their regular products of deposits, loans and investments, banks are also engaged in selling insurance products for both life and general insurance. NIC Bank quickly exploited this business opportunity by setting up a bancassurance brokerage subsidiary called NIC Insurance Agents Limited. It was established in 2008 to provide a wide range of exemplary insurance products for the customers as the general insuring public. Some of these products are NIC Business Risks Insurance, NIC Travel Insurance, NIC Home Insurance, NIC Motor Insurance and NIC Health Insurance

Credit reporting allows banks to better distinguish between good and bad borrowers. Over time, better information on potential borrowers should mean that it will be both cheaper and easier to obtain loans. NIC Bank participated in the piloting and eventual operationalization of Credit Information Sharing (CIS) in Kenya in 2010. The bank installed the credit reference bureau software supplied by CRB Africa Ltd and fully trained its staff in keeping with the new CBK requirement. In the long run, it is hoped that sharing of negative credit history will lower lending risks and instill discipline among errant customers. The bank created lot publicity on this initiative through the media and using customer account statements.

The enactment of Finance Bill of 2008 has raised the requirement for banks' core capital from the current KES 250 Million to KES 1 Billion by December 31st 2012. This is likely to force the low capitalized banks to merge leading to further consolidation in the industry or prevent other companies from joining the industry. However; this requirement will not affect NIC Bank since it has a significant capital base of more than Ksh2.8 billion, a very high capital adequacy ratio and an excellent liquidity position. The bank's strong capital base is a prudent measure and ensures that NIC has the necessary resources for future expansion.

4.3.2 Competition in the banking industry

Kenya is considered to be over-banked as compared to other countries like Nigeria, which has less than 30 banks with a population of 130 million as compared to Kenya that has 44 banks and about 38 million people. However, Nigerian banks are much bigger than the Kenyan ones both in assets and branch network. Following

liberalization of the banking sector in Kenya in 1995, competition has become so stiff that it is now common to see banks pitching tents in bus stages, market centers, sports grounds, outside church compounds and busy city streets so as to market their products and services to the public.

NIC Bank will continue to face stiff competition in its defined markets and I.T. solutions must play leading roles in ensuring that products can be differentiated and business segments can create unique products and services that can easily be distinguished from those of competitors. Most banks in Kenya provide common types of products and services and also try to employ a similar set of value-add processes or resources. The banks business strategy is “to pursue our growth objectives rather than defending our position against our competitors”.

4.3.3 Rise in inflation

According to the CBK News Letter Issue 1 of 2012, overall inflation in Kenya rose from 14.5 percent in June 2011 to peak at 19.7 percent in November 2011, but eased to 15.6 percent by March 2012. The high inflation was attributed to the persistence of high food and fuel prices and the weakening of the international value of the Kenya Shilling in 2011. Rise in inflation erodes the purchasing power of consumers leading to reduced rate of borrowing. This has seen NIC Bank engage in expensive deposit mobilization initiatives like “iOpen, iDeposit, iWin, iPad” campaign that was conducted between May-July 2012.

4.3.4 Changing customer expectations

The NIC bank's vision is to establish a long term, profitable customer relationships through the provision of a complete range of banking and financial services. The bank recognizes that today's customer is becoming increasingly aware of their consumer rights and existence of a wide selection of financial service providers in Kenya. To address the ever changing customer needs and preferences, the bank has institutionalized a culture of providing superior and quality products and services that meet customer expectations through efficient and timely service delivery, integrity, friendly and personalized approach, flexibility, value pricing; and being the preferred service provider.

4.3.5 Changing employee expectations

By recognizing that employee expectations in the banking industry are ever changing, NIC Bank has taken proactive measures to bridge the gap between employee demands and Human Resource Department's level of satisfying them. One such initiative was the implementation of a Human Resource Management System (HRMS) in 2010 that seamlessly integrates the core human resource functions of recruitment, performance contracting, leave management, career development and payroll processing.

4.3.6 Technological changes

NIC Bank has been very responsive to technological changes in the banking industry. To date, it is viewed as one of the most technologically advanced banks in East Africa. It was the first bank to integrate its customer accounts with Safaricom's M-PESA mobile money transfer service in 2005. The bank was also among the first banks in Kenya to adopt online/internet banking platforms. When branchless banking concept

took root in Kenya towards the end of 2002, the bank replaced its old banking system (MicroBanker) with a more robust, user friendly, flexible and modern banking system called Equinox which could support a wide range of customer products and services. The bank has also adopted the optic fiber networking technology and voice over internet (VOIP) through internet protocol telephony (IPT) in order to reduce calling costs. The bank has continued to use technology that is tried and tested in the market for applications and operating systems. For this reason, the bank has also lagged behind in adopting technologies that support concepts like paperless banking and agency banking among others.

To support this agile approach to technology, the bank has developed an ICT strategy that ensures it realizes its vision in the most efficient, consistent and cost effective way.

4.4 Strategic Responses

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross functional decisions that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organization's objectives, developing policies and plans to achieving the organization's objectives.

4.4.1 Marketing Strategies

This section aimed at determining what the bank's marketing strategies were. To determine this, the researcher analyzed the bank's target market, product mix, distribution channels, advertisement channels and the branch network among others.

The bank has introduced the following new products to the following market segments in the last five years: Under personal sector, the bank introduced the following; A saving account for minors dubbed “Young Movers Savings Account” introduced in 2008, Move debit and credit cards introduced in 2006, 24 Hour Internet/Online banking, introduced in 2008, 24 Hour mobile banking introduced in 2008, Bank to M-PESA money transfer service introduced in 2009, Bancassurance service introduced in 2009 which markets products like NIC, Business Risks Insurance, NIC Travel Insurance, NIC Home Insurance, NIC Motor Insurance and NIC Health Insurance, Introduction of NIC Gold Credit Card in 2012, M-PESA to bank money transfer service introduced in 2011. Under Corporate sector the introduced NIC Entrepreneur Current Account introduced in 2010 targeting small and medium enterprises (SME’s) and Bancassurance service introduced in 2009 for Asset Finance customers.

The bank has upgraded its MOVE and corporate ATM cards into debit cards connected to the VISA network, upgraded its ATM machines to allow deposits from customers, Linked customer accounts to M-PESA and Internet banking, Differentiated current accounts into gold, platinum and orchard and changed Move Zones into Service Delivery centers/Branches. The main objective of introducing the new products was to compete effectively in the market while addressing different customer needs and preferences.

The MOVE and corporate ATM cards were upgraded into debit cards and connected to the VISA network in order to allow NIC customers to withdraw money from anywhere in the world and also use their cards to pay for goods and services at point of sale (POS)/merchants outlets without using cash. The upgrade of NIC ATM machines to allow deposit taking from customers was meant to ease queues in the banking halls and offer quick and convenient customer service. The linking of customer accounts to M-PESA and Internet banking services was meant to bring NIC bank's services into the customer's reach in the most affordable, secure, faster and convenient way. NIC bank customers are now able to transfer money from their bank accounts to M-PESA and from M-PESA to their bank accounts. Once money is in the M-PESA account, a customer can withdraw it from any M-PESA agent, NIC or PesaPoint ATM machines. With online banking, an NIC customer can transfer funds within and outside the bank, download account statements, purchase and sell shares and manage cheques among others.

The current accounts were differentiated into gold, platinum and orchard in order to effectively address the needs of different market segments. The change of Move Zones into Service Delivery Centers/Branches was done inline with the bank's re-branding exercise aimed at repositioning the bank for future business development and offering excellent customer service delivery.

NIC bank has pursued its branch expansion strategy very ardently in the last five years. This has seen the bank's branch network increase from a mere two branches located in Nairobi in 2005 to over twenty branches spread across the country and beyond. In

Kenya alone, the bank has opened eight new branches in Nairobi, three in Mombasa, one in Thika, one in Nakuru, one in Meru, one in Kisumu and one in Edoret. The bank has also crossed the borders. In 2010, it entered the Tanzanian market through acquisition of Tanzania's Savings & Finance Commercial Bank Limited which has branches in Dar es Salaam, Mwanza and Arusha. This year (2012), the bank has opened a branch in Uganda through foreign direct investment. The main objective of opening the new branches in Kenya was to enhance the bank's competitive position, diversify its business and enhance services to its customers.

The bank has entered two countries in the last five years. In 2010, it entered the Tanzanian market through acquisition of Tanzania's Savings & Finance Commercial Bank Limited. This year (2012), the bank has entered the Ugandan market through foreign direct investment. According to NIC Bank's group Managing Director Mr. James Macharia, the main objective of entering the new countries was to enhance the bank's competitive position in the region, diversify its business and enhance services to its cross-border customers.

The bank has introduced online/internet banking and mobile banking as direct banking channels. NIC Bank has seamlessly integrated M-PESA with its various service delivery channels making it more convenient for their customers to access their funds through NIC ATMs, Online Banking and Mobile Banking services. The bank has partnered with PESAPOINT[®] to give its customers access to over 500 PesaPoint ATMs countrywide where they can easily and conveniently withdraw cash, pay bills,

access their MPESA accounts and inquire about their bank balance among others. The main objective of introducing the new distribution channels was to deliver the bank's services easily and most conveniently to their customers. The bank has started advertising its products and services on giant billboards placed on strategic locations. Some of these billboards can be seen on Bunyala-Uhuru Highway round about in Nairobi and on Thika Highway.

Use of their official website (www.nic-bank.com) to advertise their products and services especially the Asset Finance's "Think Biggest" campaign. Use of social media (Facebook and Twitter) to advertise their products and services. The main objective of using the new advertisement channels was to create awareness of their products and services using the trending and most effective media. Competition in the banking sector has become very stiff especially in the Asset Finance segment. For the bank to maintain and possibly gain more market share, visibility through rigorous marketing was undertaken.

4.4.2 Customer Service

This section aimed at finding out what the bank is doing to address increasing customer expectations and appetite for better service. The NIC bank's vision is to establish a long term, profitable customer relationships through the provision of a complete range of banking and financial services. The bank recognizes that today's customer is becoming increasingly aware of their consumer rights and existence of a wide selection of financial service providers in Kenya. To address the ever changing customer needs and preferences, the bank has institutionalized a culture of providing superior and quality products and services that meet customer expectations through efficient and timely service delivery. The bank has also implemented customer relationship management systems. In each branch, there is customer relationship manager who listens and gives customers personalized service. The bank has also extended its banking hours from 9am-3pm to 9am-4pm weekdays and none on Saturdays to 9am-4pm in some branches.

The bank has established suggestion boxes placed strategically in most of their branches and a customer care e-mail address (customer care@nic-bank.com) as part of customer feedback mechanisms. It has also established a dedicated customer care unit based in its head quarters called Customer Contact Center. The Contact Center is open from 8.00a.m. to 8p.m. on weekdays and from 8am. to 2pm. on Saturdays. The bank has also embraced social media .It gets direct feedback from customers on its face book page <http://www.facebook.com/pages/NIC-Bank/323047715312> and on Twitter through the handle #nicbankkenya.

4.4.3 Information Technology

This section aimed at determining how the bank has incorporated ICT in its operations. It was established that the Bank replaced its pioneer banking system (MicroBanker) with Equinox due to several reasons. The bank was preparing to enter into retail banking in 2003 under the brand name MOVE. For this reason, it required a more user friendly and flexible system that could help them offer diversified products and services and branchless banking experience to their customers. They also wanted a banking system that was easily customizable and that could process large volumes of data owing to their change of business paradigm from high-value to high volume customers. MicroBanker being a command line system was very difficult to operate. The Equinox System was preferred because it was more robust, user friendly, flexible and could support a wide range of customer products and services.

Today, the banking landscape and technology has greatly changed. This has left Equinox System deficient in delivering real-time cross branch transaction posting, Reconciliation, Modular implementation, Universal banking and the new Islamic/Sharia compliant banking concept. To bridge this gap, the bank is now replacing Equinox with T24 banking System from Temenos. According to information posted on Temenos official website <http://www.temenos.com/products/t24/>, Temenos T24 is a complete front to back office, customer relationship management (CRM) and product lifecycle management software platform that powers retail, corporate, wholesale, universal and private banking operations. Running 24/7 and in real-time, T24 combines comprehensive business functionality with an advanced, secure,

scalable and modular architecture that future-proofs the client's banking operations to meet the banking technology and market challenges of today and tomorrow.

NIC Bank has incorporated Information and Communication Technology (ICT) in virtually all its business units and subsidiaries. Infact, the bank is viewed as one of the most technologically advanced banks in East Africa. It was the first bank to integrate its customer accounts with Safaricom's M-PESA mobile money transfer service in 2005. The bank was also among the first banks in Kenya to adopt online/internet banking platforms. When branchless banking concept took root in Kenya towards the end of 2002, the bank replaced its old banking system (MicroBanker) with a more robust, user friendly, flexible and modern banking system called Equinox which could support a wide range of customer products and services. The bank has also adopted the optic fiber networking technology and voice over internet (VOIP) through internet protocol telephony (IPT) in order to reduce calling costs.

In 2008, the bank implemented a document management system (DMS) which enabled online loan application appraisal and disbursement. This reduced the customer loan processing turnaround time from seven (7) working days to only forty eight (48) hours. Integrated software applications have been installed and centrally managed to support all its business operations. These include but not limited to Clearing, Treasury, Tradefinace, Custodial Services, Bancassurance and Stock brokerage. To support this agile approach to technology, the bank has developed and implemented an ICT strategy that ensures it realizes its vision in the most efficient and cost effective way.

The main objective of integrating ICT in its operations was use IT as a tool to help the bank realize its vision in the most efficient and cost effective way.

4.4.4 Human Resources

This section aimed at determining the strength of the bank's human capital. The researcher found out that in order for NIC Bank to attract and maintain a competent workforce, it has implemented employee performance management systems, staff retention policies, training and development initiatives among others. NIC Bank Ltd, through the department of Human Resources (HR) has implemented a very comprehensive employee performance management system. It was rolled out in 2005 under the name PEAK (Performance Evaluation and Career Enhancement). Under this system; the bank's corporate goals for the year are communicated to the departmental heads. At the beginning of the year, each departmental head comes up with measurable performance goals for their department. Each employee is then requested to come up with measurable performance goals for the year inline with their job descriptions and departmental goals. Appraisals are done twice a year. One during the month of June (mid-year) and at the end of the year. The direct reports are charged with the responsibility of appraising their subordinates. Promotions and rewards are based on one's performance.

The bank has recently introduced profit sharing as part of linking rewards to performance policy. Under this arrangement, a certain percentage of the bank's profit is distributed to employees depending on their performance. The bank also organizes end of year parties to appreciate employee's good performance. Team building

activities are done through departmental “Away Days” where departments take a day or two outside the office to unwind and bond once per year. Conducting training and development to all staff and making annual leave mandatory for all employees to enable them relax. However, the bank is currently facing a challenge of very high staff turnover. This has put into question the effectiveness of its staff retention policies. The bank takes training its workforce and developing its manager’s managerial skills very seriously. During the appraisal process, employees are asked to identify their training needs. Inhouse and outdoor training, workshops and job exposures are then organized and administered by competent trainers. Infact, personal, staff and performance development is one of the appraisal parameters which carries 5% of the total score. All the bank’s managers are periodically trained on areas such as people management, project management and leadership skills among others.

As a responsible and compassionate employer, the Bank tries to address the HIV/AIDS problem affecting the workforce, and to have a workforce that is able to deal with HIV/AIDS in the work environment. In addition to the threat HIV/AIDS poses to human welfare, the Bank recognizes that HIV/AIDS is a work environment issue and should be addressed like any other serious illness/condition in the work environment because it threatens human capital, productivity, profitability, sustainability, progress and the welfare of the entire workforce, the very essence of an organization’s success. To address this issue, NIC Bank periodically invites selected health service providers to discuss about HIV/AIDS with staff. The bank has also extended its staff’s insurance cover to include HIV/AIDS.

4.5 Other Strategic Responses

This section aimed at establishing other strategic responses the Bank has adopted to compete in the banking industry in Kenya. The study revealed that NIC Bank Ltd has adopted other strategies like re-branding, extended opening hours, acquisitions, establishing strategic partnerships, diversification and entrenching a good corporate governance culture. The bank changed its logo and corporate colours in 2007. It also adopted a new slogan “One Life One Bank” with a promise to offer a one stop shop for all their customers’ financial services. The main reason for re-branding was to reposition the bank for future business development. Another latent reason was to water down the MOVE image which had almost obscured their corporate identity. In response to the competition in the banking sector and the need to continue offering services to their customers, the bank extended its working hours. On weekdays, it is open from 9am to 4pm and 9am to 11.30am on Saturdays.

The bank also changed its growth strategy from organic to inorganic in 2010 by acquiring 51% stake in one of Tanzania’s mid-sized commercial banks; Savings & Finance Commercial Bank Limited. This acquisition was supported by the funding from the successful rights issue in November 2007 that raised KES 1.2billion. The main reason for the acquisition was to enhance the bank’s competitive position in the region, diversify its business and enhance services to its cross-border customers.

The bank has entered into strategic partnerships with companies like ICEA-Lion, First Chartered Securities Ltd (FCS), ICEA Asset Management Ltd and Savings & Finance Commercial Bank Limited of Tanzania. The bank's NIC Insurance Agency Limited subsidiary brokers insurance business for ICEA-Lion. FCS provides managerial expertise and consultancy to the bank while ICEA Asset Management Ltd supports the bank's investment business run by NIC Capital.

The bank has diversified its products and services through establishment of several subsidiaries. NIC Insurance Agents Limited is a subsidiary of NIC Bank Group and has its origins in 2008 where the directors approved its establishment to provide a wide array of exemplary insurance products for the customers as the general insuring public. Some of these products are NIC Business Risks Insurance, NIC Travel Insurance, NIC Home Insurance, NIC Motor Insurance and NIC Health Insurance. NIC Capital is the investment arm of NIC Bank. It was established in 2006 to support the ever growing advisory and financing needs of Kenyan corporate clients. NIC Capital Securities Ltd, is a Capital Markets Authority licensed brokerage and a member of the Nairobi Stock Exchange. Its core business involves Equity trading on NSE and other major securities exchanges in Africa, Fixed income trading – both Government and Corporate Bonds, Over-the –counter trading for shares not listed on the NSE, Unit Trusts, Money market, Equity Fund and Growth Fund.

NIC Bank Ltd has entrenched a very good corporate governance culture. It was among the first Kenyan banks to obtain an international rating from Fitch who are among the three leading independent global names in bank risk analysis. NIC Bank prides itself in having won the following prestigious awards: Champion of Good Governance (2010), Financial Reporting (FIRE) Award and Best Institution in Corporate Governance (2006) and Financial Reporting (FIRE) Award, 1st Runners up Financial Reporting Banks Category, 1st Runners up Corporate Governance Category, NIC Bank Ranked first in Corporate Governance (2005).The Financial reporting excellence award goes a long way in confirming NIC Bank's non-wavering commitment and strict compliance to Corporate Governance. By excelling in each criterion for the Corporate Governance Award, NIC Bank endeavors to deliver a consistently better service to the customer while adhering to the best practices for corporate governance. The Corporate Governance category now combines corporate governance, corporate social responsibility and environmental reporting.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and discusses the findings in relation to the statement of the problem and the objectives of the study. It also highlights the limitation of the study and suggestions for further research.

5.2 Summary of findings

Due to changing banking industry in Kenya, Banks operating in the country have been compelled to develop strategies that can help them navigate the turbulent business environment. The major changes established that are affecting the banking industry in Kenya were: government policies, competition, rise in inflation, changing customer expectations, changing employee expectations and technological changes. The objective of this study was to determine which strategic responses NIC Bank Ltd has adopted in order to tackle the changes in the Kenyan banking industry.

The study reveals that NIC Bank has adopted strategies similar to the other Kenyan banks although it has been more aggressive in some aspects. The study reveals that NIC Bank is using various strategies to respond to changes in the Kenyan Banking Industry. The most notable ones include diversification, good corporate governance, new products and services, products and services differentiation, market segmentation, acquisition, branch network expansion, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and

development, cost containment, use of mature information technology and entering new markets. Although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; the study reveals that there are some urgent issues that the bank needs to address in order to sustain its growth momentum. The first item is the issue of high staff turnover. The bank needs to review the effectiveness of its staff retention policies. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like agency banking and paperless banking. The bank also risks losing some market share if it does not quickly embrace Islamic/Sharia compliant banking.

The bank needs to also come up with a policy governing the use of social media advertising to safeguard its reputation. The bank also needs to address the human resource issues that arise following mergers or acquisitions and regional expansion. The study reveals that competition in the Kenyan banking industry has become too stiff that it is now common to see banks pitching tents in bus stages, market centers, sports grounds, outside church compounds and busy city streets in order to market their products and services to the public. This is a rare phenomenon given that a few years ago; Kenyan banks could only serve their customers from the comfort of their offices or branches. Information revolution in the internet and mobile has become a key drive of competition in the bank industry by eliminating some entry barriers and allowing rapid development new products.

However, the study indicates that there is still the need for more strategic actions that need to be undertaken by NIC Bank in order to enable it fully match the changes in the banking industry. Further, the study has established that NIC Bank Ltd is properly positioned to deal with changes in the Banking Industry in Kenya.

5.3 Conclusion

It is evident from the research findings that NIC Bank has positioned itself well to deal with changes in the Banking Industry in Kenya which pose grave challenges to its operations. These challenges emanate from changes in the business environment in terms of government policies, competition, rise in inflation, changing customer expectations, changing employee expectations and technological changes. The study established that NIC Bank Ltd responded to changes in the Banking Industry in Kenya through strategic choices which include: diversification, good corporate governance, new products and services, products and services differentiation, market segmentation, acquisition, branch network expansion, automation of business processes, innovation, improved customer service, strategic partnerships, marketing, staff training and development, cost containment, use of mature information technology and entering new markets.

5.4 Implication on Policy, Theory and Practice

The government is a major stakeholder in the Banking Industry in Kenya due to its pivotal role in defining the legal framework to guide and regulate how banks conduct their business. The government through parliament formulates and implements laws that affect the day today running of banks in Kenya. The financial sector is one of the

major contributors to the country's Gross Domestic Product. The findings from this study are therefore of great importance because they provide facts and figures to assist in formulating positive economic policies which are relevant and sensitive to the forces influencing the banking sector performance in Kenya. Realization that financial services is one of the highly competitive business sectors globally calls for players to adopt properly formulated strategic responses for success.

The findings of this study will assist NIC Bank Ltd and other Banking Industry players in the country, to choose the best alternatives in dealing with threats posed by changes in the Banking Industry in Kenya. The findings of this study will inform NIC Bank Ltd to address the following issues in order to sustain its growth momentum. The first item is the issue of high staff turnover. The bank needs to review the effectiveness of its staff retention policies and performance appraisals. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like agency banking and paperless banking. The bank also risks losing some market share if it does not quickly embrace Islamic/Sharia compliant banking. The bank needs to also come up with a policy governing the use of social media advertising to safeguard its reputation. The bank also needs to address the human resource issues that arise following mergers or acquisitions and regional expansion.

5.5 Recommendations

The recommendations are based on the findings of how NIC Bank has dealt with challenges emanating from changes in the Banking Industry in Kenya. It mainly touches on the ways NIC Bank Ltd can adopt in order to gain a more competitive edge

in the market. Although the bank has made heavy investments in business expansion, branding, information technology, customer service and staff development; the study reveals that there are some urgent issues that the bank needs to address in order to sustain its growth momentum. The first item is the issue of high staff turnover and performance appraisals. The bank needs to review the effectiveness of its staff retention policies. Secondly, the bank seems to have lagged behind in adopting some cost-effective concepts like agency banking and paperless banking. The bank also risks losing some market share if it does not quickly embrace Islamic/Sharia compliant banking. The bank needs to also come up with a policy governing the use of social media advertising to safeguard its reputation. The bank also needs to address the human resource issues that arise following mergers or acquisitions and regional expansion.

5.6 Limitations of the Study

The study focused on four main strategic responses. However, there could be other latent strategic responses adopted by NIC Bank in addressing the changes in the banking industry. The bank's CEO could not get time to be interviewed and instead referred the researcher to the Head of Corporate Banking. Most interviewees were too reluctant to give detailed information as they feared the information being sought was confidential and could easily leak to their competitors. This made some to withhold vital information which could have been useful to the study. In addition, the time available for the study was too short. This constrained the scope as well as the depth of the research. Lastly, this was a case study hence the research findings cannot be used to make generalizations on the Banking Industry in Kenya.

5.7 Suggestions for further research

A cross-sectional survey covering the whole banking industry needs to be undertaken to determine the strategic responses adopted by other players in the Banking Industry. This would give a broader picture of the strategic responses adopted by banks in dealing with changes in the Banking Industry in Kenya thereby making generalization possible. Further research needs to be conducted to establish the causes of the current high staff turnover at the bank. More case studies need to be conducted to establish the human resource issues that arise from mergers or acquisitions and how Kenyan banks are dealing with them. Finally; further research needs to be conducted to establish why NIC Bank has lagged behind in adopting some cost-effective concepts like agency and paperless banking.

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APPENDICES

Appendix1: INTERVIEW GUIDE

This Interview Guide seeks to identify the various Banking Industry factors that have favourably or unfavourably affected the running of NIC Bank Limited and the kind of strategic responses it has adopted in order to survive in the Banking Industry in Kenya.

SECTION A: GENERAL INFORMATION

1. Respondent's Job Title in the Company_____
2. Respondent's Department/Section_____
3. Respondent's duration of service in the Company_____

SECTION B: BANKING INDUSTRY

Under each of the following banking industry environment factors, please describe in detail how they have affected the operations of NIC Bank Limited.

- a. Government policies
- b. Competition in the banking industry
- c. Rise in inflation
- d. Changing customer expectations
- e. Changing employee expectations
- f. Technological changes
- g. Other industry environment factors

SECTION C: STRATEGIC RESPONSES

1. Marketing Strategies

- (i) Which new products has NIC Bank Ltd introduced in the last five years?

- (ii) What new features to the existing products has NIC Bank Ltd introduced in the last five years?

- (iii) What were the objectives of introducing the new products?

- (iv) What were the objectives of introducing the new features to the existing products?

- (v) Which new branches has NIC Bank Ltd opened in the last five years?

- (vi) What were the objectives of opening the new branches?

- (vii) Which countries has NIC Bank Ltd entered in the last five years?

- (viii) What were the objectives of entering the new countries?

- (ix) Which new distribution channels has NIC Bank Ltd introduced in the last five years?

- (x) What were the objectives of introducing the new distribution channels?

- (xi) Which new advertisement channels has NIC Bank Ltd introduced in the last five years?

- (xii) What were the objectives of introducing the new advertisement channels?

2. Customer Service

- (i) How has NIC Bank Ltd responded to the increased demand for better customer service?

(ii) What channels has NIC Bank Ltd established to receive customer feedback?

3. Information Technology

(i) In the last ten years, has NIC Bank Ltd changed its core banking systems?

(ii) If yes in question (i) above, please describe in detail below the reasons for the change(s).

(iii) Describe how NIC Bank Ltd has integrated IT in its operations?

(iv) What were the objectives of IT integration in operations?

4. Human Resources

Briefly describe the human resources management initiatives in response to the present dynamics of human capital at NIC Bank Ltd. You can summarize your views under the following sub topics:

(i) Employee performance management

(ii) Staff retention policies

(iii) Training and development initiatives

(iv) Other human resource initiatives

5. Other Strategic Responses

What other strategic responses has NIC Bank Ltd adopted in addressing the changes in the Banking Industry in Kenya?

Appendix2: INTRODUCTION LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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P.O. Box 30197
Nairobi, Kenya

DATE 16-07-2012

TO WHOM IT MAY CONCERN

The bearer of this letter ELIUS KAUWI KILONZI

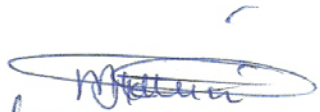
Registration No. D61/71602/2007

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

