

**STRATEGIC RESPONSES ADOPTED BY CREDIT BANK LIMITED TO THE
CHANGING ENVIRONMENT IN BANKING SECTOR IN KENYA**

BY:

JACKSON K NJENGA

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

SEPTEMBER 2010

DECLARATION

STUDENT'S DECLARATION

I declare that this research project is my original work and has not been presented to any other university for the award of a degree.

Signature: _____

Date: _____

Name: Jackson K Njenga

Reg No: D61/8291/06

SUPERVISOR'S DECLARATION

This research project has been submitted with my permission as the University Supervisor.

Signature: _____

Date: _____

Supervisor's Name: Dr Zack Awino

Lecturer, School of Business, University of Nairobi

DEDICATION

This research is dedicated to all my wife Hellen and mum Mary for their inspiration, support, encouragement and understanding throughout the research period and to my dad and grandparents the Late John Njenga, David Njuguna and Janet Gachoki for teaching me the value of hard work.

ACKNOWLEDGEMENT

It is not easy to thank everyone who had an input into this research work, for the list is almost inexhaustible. However, there are those individuals and institutions, without whom, the research consultation and interviews would have been near impossible to take place.

I thank God for giving me strength to pursue the course also to register my sincere gratitude to supervisor Dr Zack Awino for giving valuable guidance tirelessly in the course of my research among other lecturers at the University of Nairobi.

I also wish to thank all Credit Bank Limited family members including Moses, Ravi, Isaac, Nancy, George, Eric among others who took time to respond to my enquiries for the success of this research work.

ABSTRACT

Credit Bank Limited is one of the banks in Kenya and thus faces the challenges in the banking sector both from competition from other banks and other players within and outside the banking sector. The objective of this study was to establish the strategic responses adapted by Credit bank to the changing environment in the banking sector in Kenya with emphasis on competition and regulatory environments. Operating in dynamic internal and external environments and as a niche Bank, Credit Bank had to review its strategies in response to these changes to enable it remain relevant in the industry and retain its market share. This was a case study since the unit of analysis was one organization and data was collected using self-administered interview guide with open-ended questions. The respondents of this study were the senior staff members who included top, middle and lower level managers working at Credit Bank Limited. A content analysis content analysis was used to analyze the respondents' views about the strategic responses adopted by Credit Bank to the changing environment in the banking sector in Kenya. The study identifies various changes in the Banks' operating environment including the increased and stringent regulatory requirements, shift towards Information Technology products and services, increased competition from traditional players and non-traditional players in the banking sector, innovation of new products and banking models with more emphasis on mass markets leading to aggressive competitor behavior. The information in the market is also easily available making the customer more enlighten and demanding on their requirements. The Study identifies the responses by Credit bank to include expanding the branch network for a wider reach to existing and potential, increasing the capital base to enhance the lending capacity, acquiring a robust core banking software, change of leadership and recruiting of more professionals to steer the bank, ensure corporate governance and enhance customer confidence, involvement in research and development to identify and meet the customer needs, refurbishment, rebranding and undertaking aggressive marketing campaign to increase visibility in the market. The study recommends that more proactive responses should be adopted including comprehensive research and development be done continuously in all institutions, opportunities for strategic alliances and partnerships, mergers and acquisitions to provide competitive edge should be explored, adoption of the agency banking model introduced by the Central Bank of Kenya and embracing the Credit Reference Bureau enabling free sharing of information on fraudulent customers by creating a shared database across the sector in Kenya.

Key words: Strategic response, changing environment, banking sector, Kenya and Credit Bank Limited

TABLE OF CONTENTS

Declaration	ii
Dedication	iii
Acknowledgement	iv
Abstract	v
Chapter one: Introduction	1
1.1 Background of the Study	1
1.1.1 Strategic Responses	1
1.1.2 Strategic change	3
1.1.3 Kenyan Banking Sector	4
1.1.4 Credit Bank Limited	6
1.2 Statement of the Problem.....	7
1.3 Objective of the Study	8
1.4 Value of the Study	8
Chapter Two: Literature Review	9
2.1 Introduction.....	9
2.1.1 Concepts of strategic response	9
2.2 Strategic Responses in Changing Environment	12
2.2.1 Strategic Alignment to Environment.....	14
2.2.2 Competitive environment	16
2.2.3 Regulatory environment	17
2.2.4 Competitive Strategic Responses	18
Chapter Three: Research Design and methodology	23
3.1 Introduction.....	23
3.2 Research Design.....	23
3.3 Data Collection Method.....	23
3.4 Data Analysis	24

Chapter Four: Data analysis and interpretation of results.....	25
4.1 Introduction	25
4.2 General Information	25
4.3 Strategic Responses	25
4.3.1 Environmental factors that affect Credit Bank in its Operations	26
4.3.2 Competition Forces.....	26
4.3.3 Effect of Regulatory Requirements on Operations	26
4.3.4 Strategic Responses Adopted Towards Increasing Competition	27
4.3.5 Strategic Responses Adopted to the Challenges of External Environment	27
4.3.6 Corporate Strategies in Increased Competition and Regulatory Requirements...	27
4.3.7 Resulting Responses	28
4.3.8 Proactive and Reactive Strategies Used by Credit Bank	28
4.3.9 Use of Strategic Alignment as a Strategic Response.....	28
4.3.10 Adoption of Competitive Responses	29
4.3.11 Working of the Revenue Generation Strategies	29
4.3.12 Strategic Management Strategies	29
4.3.13 Challenges that Hinder Success in the Strategic Responses	29
4.3.14 Possible Suggestions with Regard to Strategic Responses	29
Chapter 5:Summary,conclusions and recommendations	31
5.1 Introduction.....	31
5.2 Discussion and summary of the Findings	31
5.3 Conclusions	35
5.4 Recommendations	36
5.5 Area for further research.....	36
5.6 Limitations of the Study	37
5.7 Implication on policy and practice	37
REFERENCES	39
APPENDICES	43
Appendix I: Interview Guide.....	43
Appendix II : Introduction letter	46
Appendix III: Confirmation letter	47

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy, according to Hill and Jones (2001) is an action that a company takes to attain one or more of its goals. More precisely, it is the action that an organization takes to attain superior performance. Strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission focusing on the total enterprise as well as the environment in which it operates; the direction management intends it to head; management's strategic plan for getting the enterprise moving in that direction; the managerial task of implementing and executing the chosen plan successfully (Thompson and Strickland, 1993).

A strategy is a company's game plan' (Pearce & Robinson, 2007). Strategy concerns what a firm is doing in order to gain a sustainable competitive advantage (Porter, 1980). The principal concern of corporate strategy is identifying the business areas in which a company should participate in to maximize its long run profitability. Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stakeholders' expectations. Strategy comprises actions employed to meet a firm's long-term objectives. Coping with the increasingly competitive environment has called on firms to rethink their strategies. Strategy represents the managerial game plan for running the organization. It is a blend of prior moves, approaches already in place and new actions being mapped out. Managers face an ever present entrepreneurial challenge in keeping the organizations strategy fresh responding to new and changing conditions, and steering the organization into the right business activities at the right time (Mintzberg, 1987)

1.1.1 Strategic Responses

Pearce and Robinson (2003) indicated that modern executives must respond to the challenges posed by the firms immediate and remote external environments. Remote environment involve factors that originate beyond any single firms operating environment. As such,

strategy can be seen as a reflection of the attitudes and beliefs of those who have significant influence in any organisation. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose, (Shushil, 1990; Thompson and Strickland, 1993; Mintzberg, 1987). Strategic response is the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson 1997). Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy (Pearce and Robinson 2007). Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Strategic response requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy (Porter, 1985) Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness (Migunde, 2000). Strategic responses adopted by companies reflect the firm's internal strengths and the opportunities faced in the external environment. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Wairegi (2004) observed that results of strategic responses would include new products, new services, new processes, new markets, abandoned markets, new competitive strategies for attacking markets and new responses to social and political changes. Aosa (1998) noted that the action of competitors have a direct impact on a firm's strategy. He further stated that

strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the company operates needs to be understood. The structure of an industry and trend in that industry will help the current and future attractiveness of that industry.

Burnes (1998) observed that unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness in handling the impending issue, which may have profound impact on the firm. Internal new venturing is a strategy employed when a company has a set of valuable competencies in its existing business than can be leveraged to enter a new business area (Hill and Jones, 2001). Science based companies use their technology to create market opportunities in related area mainly through internal new venturing. A firm can also use this strategy to enter and compete in a new business area or an emerging market where there are no established players. Joint ventures as a strategy is adopted where a firm sees an opportunity in a growth industry but is unable to undertake the risks and costs associated with the project. Restructuring is a strategy for reducing the scope of a firm by exiting some business areas. In many cases, companies restructure to divest from diversified activities in order to concentrate on their core business (Hamel and Prahalad, 1996).

1.1.2 Strategic change

A firms' environment is constantly changing. Ansof and Mcdonnel (1990) observes that strategy is a set of decision making rules for guidance of the organization behavior. Strategic responses will involve changes in organizations strategic behavior. It is necessitated by the rapid and discontinuous changes occurring in the firms environment that may be caused by various factors including saturation of traditional markets, technological changes in or outside the firm, entry of new competitors in the industry. The responses may include restructuring activities (business process reengineering, outsourcing, cost cutting), marketing adjusting target markets, diversification, developing new products, distribution changes, advertisements and price adjustments), information technology and cultural change.

Porter (1991) explained the concept of dynamic strategic fit indicating that firms create and sustain competitive advantage on developing the capacity to continuously improve, innovate and upgrade their competitive advantage over time, upgrading being the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology. Strategy according to Johnson and Scholes (2002) would be concerned with the long term direction of the firm, trying to achieve advantage over competition and matching resources and activities of the organisation to the environment-strategic fit. It will also involve the process of building on the organizations resources and competencies to create opportunities or to capitalize on them- strategic stretch.

1.1.3 Kenyan Banking Sector

Environment has been characterized as complex, dynamic, multi-facet and having far reaching impact (Kazmi 2002). As a result, of these characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. A fundamental change is occurring in the world economy whereby the world economies are witnessing the forces of globalization and liberalization of trade. The phenomenon of globalization, according to Hammond and Grosse (2003) refers to the fact that people around the world are becoming more and more knowledgeable about each other, this is expected to increasingly affect all sectors of the economy.

The pestel framework categorises firms environmental influences into main types, political, economic, social, technological environmental and legal. The external influences have different impact in an organizations performance therefore managers need to understand each and the key drivers of change in their environment. In the early 1990's financial crises caused by economic imbalances and political uncertainty saw banks operating in a more complex environment. The country embraced multi party politics. The government of Kenya introduced liberalization in line with the global trends leading to the banking industry experiencing freedom from government controls in foreign exchange and interest rates. Deregulation led to the banking sector operating environment changing drastically (Aseto & Okello, 1998). The banking industry has also seen entry of nontraditional players, cooperative

societies and micro finance institutions leading to increased complexity. The new entrants have increased competition by offering more customer oriented and friendly products and services. Also they are within reach of customers as they open outlets in areas where there are no banking services and customers can readily access them. Due to the dynamic nature of the business environment, this study will lay emphasis on the increased competition and regulatory requirements in the banking sector in Kenya.

As at December 2009, as per the Central Bank of Kenya annual reports, there were 44 commercial Banks and 3 mortgage finance companies operating in Kenya. These institutions have been categorized into three tiers based on their balance sheet size by The Banking Survey 2009. Tier I banks comprising of Banks with a balance sheet of more than Kes 40 billion, tier II between 10billion but less than 40 billion and tier II less than 10 billion. Their ownership varies between local owned (74%) and foreign owned (2%) however the locally owned banks dominance in numbers is not reflective of the business and asset base dominance. Competition in the sector has seen banks come up with more innovative products, embrace information technology in attempt to woo more customers and lock in the existing ones. Branchless banking, use of debit and credit cards, internet banking, SMS banking are some of the innovative ways introduced by Banks. Further some banks have entered into partnerships with utility companies providing convenient means of settling bills to their clients and generate business.

Banks are regulated by the Central Bank of Kenya by issuing various prudential guidelines governing the running of the individual banks as per the Banking Act. The Central Bank of Kenya enforces compliance to the guidelines through mandatory periodical reporting. The regulatory guideline has various implications of the competitiveness of Banks through limiting the activities of the Banks by use of ratios. Oloo (2009) noted that there was a major banking crises in the 1990s with several banks collapsing thereby causing loss of confidence in the Kenyan financial sector. To counter this, the Central Bank of Kenya enhanced its regulatory role to reinstall and maintain confidence in the sector. The regulations imposed impacts on the competitiveness of various institutions especially Tier III category eg the Banking act prohibits Banks from lending a single borrower amounts above 25% of the core capital meaning that banks with less core capital will not be able to finance large projects that

may be profitable in spite of the risk assessment of these projects. Other include limitations to lending on some sectors eg the Real estate sector lending limited to 25% of the total deposits, limitation on lending to insiders or related parties, introduction of the guidelines on treatment of bad and doubtful debts through provisioning and unsecured lending.

Whereas the intention is to safeguard the depositors' funds, the regulations stifle the competitiveness of some Banks. Banks have resulted into looking for ways to boost their capital. Various mergers have been seen in the market in the recent past also in anticipation of further regulatory requirement that banks must have a minimum core capital of one billion as at December 2012 as indicated in the Banking Act. Other regulatory requirements that has been introduced include Anti Money Laundering act, Know your Customer (KYC) , Real Time Gross Settlement (RTGS) renamed as Kenya Electronic Payment and settlement System (KEPSS) in 2005, Credit Reference Bureau (operationalised in 2009), agency Banking in 2010, cheque truncation (in the process of implementation). Banks are also required to publish their financial statements once in every quarter in one of the local daily newspapers.

1.1.4 Credit Bank Limited

Credit Bank Limited is incorporated in Kenya under the Companies Act as an unlisted public limited company, domiciled in Kenya. It is a locally owned financial institution. Like all financial institutions in Kenya, the Bank 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 Bank started as a micro finance institution and latter developed into a fully fledged bank. It is among the small and medium size banks and has been in operation for the last twenty three years. It has a network of five branches and has an established a niche market. Due to competition, the Bank has had to review its various strategies over time including branch expansion, human resource capacity, target market and uptake of information technology issues.

The Bank is guided by the mission statement “ to be a leading financial service provider in Kenya offering long lasting and quality financial solutions to all our customers|” while the mission statement is “we are committed to providing dynamic financial solutions to all our customers whilst maximising all stakeholders value. In doing our business, we are guided by

integrity, professionalism and observance of good corporate governance. To be able to achieve its mission the bank has identified core values to govern the operations. The bank also has a slogan “my Friend , My Bank” denoting the desired relationship between itself and its customers. To enable it to cope with the increased competition, the Banks management has together with developing the vision, mission and core value , identified the critical success factors that are necessary for it to achieve its objectives.

1.2 Statement of the Problem

To succeed in the long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. The competitive banking environment is affected by various factors therefore banks select generic competitive strategies based on identified target market segments and strategic options (Porter, 1998). Research into strategic change has found more-consistent findings resulting from cross-sectional studies that deal with the effect of a specific change in a firm's environment, in particular deregulation (Rajagopalan and Spreitzer, 1996). Many studies (Shushil, 1990; Hill and Jones, 2001) support the positive relationship between a firm's change in strategy and environmental change.

The Banking sector has changed rapidly in the last two decades. New entrants have invaded the industry and the period has also seen the collapse of several banks especially in the 1990s. During this period, Credit Bank Limited was in operation through these turbulent times of the Kenyan Banking sector and has grown in branch network and a balance sheet size of Kes 3.6 Billion as at December 2009. There may have been challenges in steering the bank of this size through these turbulent times and it would be of interest to understand how the Credit Bank managed to overcome these challenges and record growth. Special emphasis would be on the competition and regulatory requirements.

Locally, various studies on strategic responses have also been conducted, Abdullahi, (2000), Chepkwony (2001), Goro (2003) Githendu (2004) and Kamau (2008) to name a few. By the time of the study, none of the known local and international studies had ever focused on the strategic responses adopted by Credit Bank in the Kenyan banking sector. This is in spite the fact that banks in Kenya continue to face challenges in their operations which are as a result of changing environment and strategic responses have to be undertaken to safeguard the future of

the banks. Credit bank is among the banks in Kenya and thus faces the challenges in the banking sector both from competition by the bigger banks and other forces within and outside the banking sector. It was in this light the researcher aims to fill the existing gap by carrying out a research on the strategic responses adopted by Credit Bank to changing environment in the banking sector in Kenya with a bias on competition and regulatory requirements.

1.3 Objective of the Study

The objective of this study was to establish the strategic responses adapted by Credit bank to changing environment in the banking sector in Kenya with emphasis on competition and regulatory environments.

1.4 Value of the Study

The study contributes to the general understanding of changes in banking sector in Kenya and would provide a detailed examination on how banks respond to changing banking environment. It would be of great significance to the Credit Bank managers for it enlightens them on how changing banking industry affects them directly or indirectly. The study issues would guide them make informed decisions on strategic response as a way to overcome effects of banking sector. It would help to sensitize the management on the importance of strategic response and raise their awareness of the concept. Other companies would gain from the documentation and analysis of the response strategies and this would help them evaluate their current strategy and plan for the future. Policy makers would benefit from the issues and insights raised in the study that are important in developing strategic response framework. The study would add to the existing body of knowledge on the concept of strategic response to benefit academicians and aid further research on the concept. It would form a fundamental base upon which further researches into the field would be based as it would act as both reading and secondary source material in such cases.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section explores theoretical and empirical literature touching on the strategic responses with regard to the changing environment in the banking sector. The purpose of this section is to establish the foundation for the proposed study and identify a framework within which primary data will be contextualized and interpreted. In addition, by exploring the experiences of different countries, literature review will also strengthen findings of the study.

2.1.1 Concepts of strategic response

A strategy is an executable plan of action that describes how an organization will achieve a stated mission. Organizations often formulate company strategies, product and service strategies, and strategies that drive operational, support and managerial processes. Strategy response concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) outlines three approaches to competitive strategy which lead to the Porters generic strategies model deals with Low cost leadership strategy; firm strives to be the overall low cost producer, Differentiation strategy; firm seeks to differentiate its product offering from that of its rivals and Focus strategy; firm focuses on a narrow portion of the market.

Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates (Johnson and Scholes 2002). According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, Systematic management of resistance during strategic implementation. Strategy is useful in helping managers tackle the daily problems that face Organizations and thus ensure survival. It is a tool that offers significant help for coping with turbulence confronting many firms (Aosa, 1998).

Historically, hundreds of strategists and organizations have used many different approaches to strategy formulation to achieve a variety of strategic objectives. As a result, organizations, consultants and academicians have, over time, given the concept of strategy literally hundreds of different situation specific definitions. These definitions may be appropriate given the specific situation, but rarely does one definition fit all of them. To overcome the confusion created by this phenomenon, it is important to draw a clear distinction between a strategy, the process by which a strategy is created and its expected results. Some firms have stalked their competitors' most profitable products with their own and stolen the rewards; a concept called *cram skimming* (Schoemaker, 1995). In this the firm lets competitors do the groundwork, develop the market and customers and build the healthiest profits of its entire business. Then after assessing the situation, the company steps in with its own product or service, usually an improved version and walks away with the customers.

The commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking. The increasing competition amongst commercial banks in Kenya has forced the management to use various tools they deem best to manage their employee performance consequently profitability. The choice of method to use to manage employee performance is the challenge that most of the commercial banks face (Trethowan and Scullion, 1997). Environment in which banks operate in has been characterized as complex, dynamic, multi-facet and having far reaching impact (Kazmi 2002). As a result, of these characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. The emergence of environmental influences and their effect on firm strategy has gained tremendous traction in the management literature in recent years (Pearce and Robinson, 2005, Johnson and Scholes, 2002).

Banks use different strategies to respond to competition or any force in the external environment including asset and liability management strategies, market strategies, human resource strategies, information technology strategies, and organisational strategies. These are among other strategies that have been used by banks in the past in other countries. Locally, strategies include segmentation, price, delivery and distribution, extending products, and

promotion. A strategy is an executable plan of action that describes how an organization will achieve a stated mission. Strategic response concerns what a firm is doing in order to gain a sustainable competitive advantage. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy

Pearce and Robinson (2000), says that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions. According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage. These includes strategic scope and strategic strength. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency) and identifies three best strategies: cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

The four possible corporate strategies are; market penetration, product development, market development and diversification as strategies that managers could consider as ways to grow the business via existing and/or new products, in existing and/or new markets. However, (Porter, 1985) points out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually

requires a company to acquire new skills, new techniques and new facilities. Therefore, diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit, (Ansoff 1980).

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

2.2 Strategic Responses in Changing Environment

Managers face an ever present entrepreneurial challenge in keeping the organization's strategy fresh, responding to new and changing conditions, and steering the organization into the right business activities at the right time (Mintzberg, 1987). Managers have to achieve set business goals and objectives in a competitive and turbulent business environment where all the firms

in the industry compete for limited resources and market. Whereas a firm may diversify a business and create a market outside the already established market, competitors will move in with an aim to carve out a share in the newly found market. Strategic responses also involve large amounts of resources, and decisions relating to them are made at corporate and business level. As per Porters five force model, competitive rivalry will always exist in every industry in form of threats of new entrants in the business, bargaining power of suppliers, bargaining power of buyers and the threat of substitute products being introduced in the market. To survive the competition, firms will need to have well laid strategies to ensure they remain relevant and competitive in their chosen area(s) of operation. (Johnson and Scholes, 2002). Firms in dynamic industries respond to environmental changes and competitive forces by improving their products, diversify and divest, while others employ techniques that ensure operational effectiveness (Migunde, 2000).

Newman and Logan (1989) points out the importance of a master strategy for a business unit as a whole being an essential part of proactive behavior. Business unit strategy should include the domain sought identifying what product or service the business service will sell to what group of customers, the differential advantage in serving that domain, on what basis the business unit will seek advantage over competitors in providing its products or services eg access to raw materials, better personnel, new technology or low costs, strategic thrusts necessary to their appropriate timing identifying which moves to be made and when to enable the business to move from the present position to the desired position and also the target results expected indicating clearly how the business unit success would be measured and what levels of achievement are expected. Strategy should aim at giving the firm a balanced operational quality. Whereas niche markets give small firms a foothold in a much larger environment, clear identification of deserted domain enables a firm to concentrate in particular activities to serve the domain well, anticipating changes in demand and supply, changes in regulation in the domain and preparing in advance to meet new requirements. Accordingly, strategy will assist firms from drifting along and doing what is customary or tackling each crises as it emerges ie firefighting which in today's turbulent environment would require a lot of luck and resources for the managers to energetically forestall trouble and seize new opportunities by providing positive future oriented direction to the companies activities.

2.2.1 Strategic Alignment to Environment

The alignment between strategy and environment lies at the center of strategic management. Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals (Hambrick, 1983; Venkatraman and Prescott, 1990). According to Porter (1997), globalization, modern technology and knowledge transfer have contributed to the enormous expansion of industry over the years. This has in turn increased competitive pressures and contributed to the turbulent and dynamic environment. Strategic response requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. If an organization's strategy is not matched to its environment, then a strategy gap arises. If its internal capabilities are not matched to its strategy, then a capability gap arises.

Porter (1985) affirms that it is important that organizations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant. Strategic responses differ from operational responses in several ways. While operational responses are short-term and focusing more on efficiency of operations, strategic responses are long-term in nature, embracing the entire organization and more concerned with the organization's effectiveness (Migunde, 2000). Strategic responses also involve large amounts of resources, and decisions relating to them are made at corporate and business level.

Strategy, being the game plan that creates a match between a firm's capabilities and the environment, is an action that a firm takes in order to achieve a set of goals aimed at responding to changes in the environment (Pearce and Robinson 2000). Strategy guides firms to superior performance by establishing competitive advantage (Porter, 1979). Firms therefore employ strategies in a dynamic environment in order to adapt to new realities such as increased competition, unstable markets and unpredictable and turbulent environment. Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness (Migunde, 2000). Strategy is thus triggered by the rapid discontinuous changes occurring in the firm's environment. These discontinuous changes may

be caused by saturation in traditional markets, technological changes in or outside the firm or actions of a competitor. Johnson and Scholes (2002) points out the characteristics of strategy to include concern with the long term environment, trying to achieve advantage over competition, scope of organizations activities and strategic fit which involves matching resources and activities of an organization to the environment.

Porter (1991) explained that firms create and sustain competitive advantage because of the capacity to continuously improve through innovation and upgrade their competitive advantage over time by shifting advantages through the value chain by applying higher levels of skills and technology. In recent years organizations have sought to create greater organizational flexibility in responding to environmental turbulence by moving away from hierarchical structures to more modular forms (Balogun and Johnson, 2004). Responsibility, resources and power in firms has been the subject of decentralization and delayering. More often, in highly dynamic environments, traditional approaches to strategy development often do not lead to intended results, and organizations must move towards a more dynamic concept as the underlying conditions change before formulated strategies can be fully implemented (Fuerer and Chaharbaghi, 1994). According to Johnson and Scholes (2003), dealing with the environment is difficult because of three main factors; the diversity of the different influences that affect a business ,the speed of change where the pace of technological change and the speed of global communications mean more and faster changes than ever before and complexity of changes making it impossible to identify all factors in play.

Ansoff (1987) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990). Systems delay typically occurs in large firms due, in part, to the time consumed in observing, interpreting, collating and transmitting information to responsible managers and due to the time consumed by these managers in communicating with one another and establishing a common understanding as well as the time necessary for

processing the decisions among the responsible groups and decision levels. A verification delay occurs where managers will opt to wait a little longer to see if the threat will blow itself out. A political delay may occur if managers, whose domain contributes to the crisis, feel that the recognition of a crisis will reflect on their reputation and cause them to lose power. These delays will substantially increase the total cost to the firm.

Bowman (1998) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition. Aaker (1992) also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths.

2.2.2 Competitive environment

Githendu (2004) noted that a company must analyse each competitive force to have the knowledge and understanding of the underlying competitive pressure, highlight the critical strengths and weaknesses of the company thereby clarifying its position in the industry. There is also need to highlight areas where the industry trend promise to hold greatest significance as either opportunities or threats. The Banking sector in Kenya has 44 banks and 3 mortgage finance institutions indicating the level of competitiveness in the industries. Additionally, there is the emergence of nontraditional players that have staked a claim in the Banking environment through creation of innovative products that are attractive to the same target market as Banks. The non traditional player in the Banking sector include the mobile telephone operators Safaricom Limited and Zain with the mPesa and Zap money transfer services. The two products have a large appeal to clients mainly due to convenience and also the level of technological awareness with the Kenyan population. The consumers of these products would have been using banks for the transfer of funds or safekeeping.

Kotler in Kimani (2000) states that a good opportunity is the one in which the industry is highly attractive and companies have the mix of business strengths to be successful. In line with these he identified various forms of diversification that may be adopted including concentric diversification, horizontal diversification and conglomerate diversification. In the Banking sector these forms of diversification is enhanced by use of information technology infrastructure eg use of mobile banking services, debit and credit cards as well as utility bills settlement through the banks. Challenges in the competitive environment include the rapid changes in technology that banks have to keep up with, more informed customers who can access information easily and compare products between competitors, huge budget requirement to inform customers ensuring ones products remain top in mind through advertisements and sales promotions and shrinking of margins due to stiff competition. Banks respond by investing more in research and development as well and frequent market surveys to remain in touch with and meet the customer needs.

2.2.3 Regulatory environment

The Central Bank of Kenya through the enactment of the Central Bank Act and the Banking Act regulates the Banking sector in Kenya. It enforces various government legislations through issuing of Prudential guidelines to Banks. The regulatory environment has impacted in the sector in different ways for different institutions. The minimum capital requirement (currently Kes 350 Million) acts as a barrier to entry for some individuals. More impact is expected due to enactment of the minimum core capital requirement of 1 billion by the year 2012. Oloo (2009) predict the formation of mergers in order to meet the requirement. Other regulations included the mandatory publication of the Banks Financial statements for every quarter in the press. The public is informed of the financial performance and able to compare different institutions. The introduction of the induplum rule through the Donde Bill prohibits banks from charging interest more than the principle amount lend impacting on the potential profitability of some institutions.

Mandatory periodic reporting ensures that the Central Bank of Kenya is informed of the performance of different Banks. The Central Bank of Kenya also uses the reports to educate and inform the public eg on various charges levied by all bank in different products. This in

effect narrows the differences in bank charges. The CBK also requires Banks to seek approval before increasing any of its charges. This has impacted on the profitability of Banks as running costs and overheads increase due to inflationary pressures and the bank charges tend to be sticky. Banks also face the challenge of compliance as this call for additional staff that translate to higher costs of recruitment and training. It should be noted that the CBK also have put in place guidelines to ensure corporate Governance is practiced in Banks. Minimum qualifications for various positions and expectations/ responsibilities for key officers are clearly spelt out in the guidelines. This is to ensure that the institutions are prudently managed and depositors' funds / public interest well protected. The law also indicated prohibited business for banking institutions however rewarding they may be and also limits the levels of exposure to be taken in different areas.

2.2.4 Competitive Strategic Responses

Porter (1985) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development. Being ahead of the game requires that firms employ competitive strategies that is sustainable and assures them of their market position. Firms in the banking industry are diverse in size, capability, resources, and ownership. Some firms become early adopters of certain strategies because they are driven by technical-competitive reasons and some become late adopters that are driven by a quest to conform to the legitimate strategies (Simpson, 1992). The response due to the speed of adoption may be categorized as passive, defensive or proactive strategy.

To be successful overtime, an organization must be in tune with its external environment. There must be a strategic fit between the environment wants and what the firm has to offer, as

well as between what the firm need and what the environment can provide (Wheelen and Hunger, 1995). The speed or response time to the environment challenges has been identified as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It is thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events. The institution-based view also argues that when firms make strategic choices, they tend to adopt the strategies that are perceived to be legitimate by their stakeholders and institutions. Often times, these strategies diffuse through the industry and are perceived to be legitimate (Greenwood and Hinings, 1996).

Firms that choose passive strategies will prefer the status quo position and will usually lead to dismal performance or failure whereas those that opt for the defensive strategy will react to the pressures in the environment for survival. Proactive strategy emanates from anticipation and forward planning to equip the firm with the proper responses to environmental turbulence. Competitive advantage and strategic response theory states that, within the broader small business and entrepreneurial literature, the merit and disadvantages of firm size continue to be debated (Boeker, 1997). One specific aspect of the debate concerns the manner in which and the nature of firms' strategic response to a globalization vary as a function of firm size. The broader literature supports that firms' responses are largely dictated by the competitive advantages available to them. Larger firms are hypothesized to garner competitive advantages from three distinct vehicles: economies of scale, economies of scope, and learning effects (Ghemawat 1986). Such competitive advantages help larger firms cope with shifting environmental demands, such as regulatory changes and globalization. Also implicit in such a theoretical position is that smaller firms are at a competitive disadvantage when coping with environmental discontinuity.

Smaller, start-up firms lack the scale to amortize fixed costs across production, are limited in their product and geographic scope, and have yet to develop the institutional wisdom that might proffer learning effect advantages. They may opt for revenue generation strategies designed to reinforce short-term cash flows, employ cost cutting strategies or asset reduction strategies. Hofer (1980) notes that firms experiencing decline due to internal or external causes may adopt three distinct strategic responses including asset reduction, cost reduction, and revenue generation. The broader research hypothesis is that larger firms, which derive

competitive advantage from economies of scale, economies of scope, and learning effects, are more likely to adopt strategies designed to capitalize on efficiency through cost and asset reductions, whereas smaller firms will rely on their more flexible organizational structure and proximity to the market to find niches that might offer a moderate level of revenue generation. He proceeds to warn that asset reduction strategies should be deliberately and carefully considered, since they have potentially far-reaching and potentially damaging effects on the organization as it involves sale of a business unit, product line, and or service line therefore should be adopted by firms in response to environmental uncertainty as a strategy of last resort.

Revenue generation strategies are designed to buttress short-term cash flows by focusing on business areas that offer the highest probability for operating profits. Under such a strategy, managers may shift resources and efforts to specific niche product or geographic markets that might provide a modest infusion of operating cash in the short term. Underlying the success or failure of such a strategy is that the firm can be more effective in a specific market or product area than one that is more broadly focused, especially during environmental duress. In concert, functional strategies would require maintaining low to moderate research and development funding, proportionate head count reductions relative to revenues, short-term price reductions, and support for growth with investment in advertising and sales.

Cost-cutting strategies are employed by firms that are closest to a break-even point that require short-term fix in order to demonstrate profitability. The expectation is that cost-cutting strategies may provide positive results in a more timely fashion than revenue generation or asset reduction. Cost-cutting strategies are focused on efficient operations at all levels of the organization under the assumption that during a period of environmental uncertainty, the customer will find the lowest price, thus driving down sales margins. In effect, organizations that possess scale and scope economies will only be able to maintain margins if they contain the internal costs. From a functional standpoint, cost reduction strategies require efficient scale production capabilities, vigorous pursuit of cost reductions through learning effects, and cost minimization in areas like research and development, service, sales, and advertising.

Oloo (2009) observed that the banking sector emerged from major crises in the 1990's that had seen collapse of several banks making the regulator (Central Bank of Kenya) tighten its regulatory control. He also observed that the banking sector has continually matured expanding the asset base from Kes 548 billion in 1999 to Kes 1.2 trillion in 2008- more than 120% increase in ten years. Banks have increased their branch network and changed the target markets. According to him, the Kenya Banking sector is a market for niche players. Several regulatory requirements have been introduced in the banking sector. Oloo (2009) predicts mergers during the period 2009- 2011 due to the increase in core capital requirement by the Central Bank of Kenya intended to ensure stability in the sector. He foresees the main challenge in the sector as slow down in the economic growth.

Ohanga (2004) found that banks in Kenya use different strategies while responding to changes in their environment. Some banks identified niche markets and created the new products for the specific niche eg micro credit providers. Mutua and Oyugi (2006) found that transaction costs are among the most important factors enhancing customer demand for micro credit. Kiptugen (2003) noted that strategic responses adopted by Kenya Commercial Bank limited included restructuring, marketing, information technology and cultural change. She identified five main environmental changes that impacted on Kenya Commercial Bank as economic decline, liberalization, legislative changes, increasing levels of education and technological advances. Each of the five factors impacted differently on the Banks business. Economic decline led to increase in the number and volume of the non performing assets consequently lower income, liberalization led to increased competition from new entrants, legislative changes led to reduced margins, increased levels of education resulted to a more informed and demanding clientele while technological advancement meant new banking concepts.

Various studies have been undertaken on strategic responses in different industries and economic sectors both locally and abroad. Njau (2000) noted that East African Breweries Limited undertook substantial adjustments in various strategic response variables in order to ward off competition including manipulation of the marketing mix, cost efficiency, control measures and setting up of foreign market distribution centres. Mwimbi (2008) researched on the strategic responses by Rift Valley Railways to the competitive environment following

concession, Rumba (2008) researched on the strategic responses by mobile phone companies in Kenya to environmental changes while Kiptugen (2003) researched on strategic responses by the Kenya Commercial Bank limited to a changing competitive environment, however, no research has been done to evaluate the response of Credit Bank to increased competition and regulatory requirements in the banking sector. This research is intended to fill the gap which will be of assistance to the Bank's management and also the academics.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This was a case study since the unit of analysis was one organisation. This was a case study aimed at getting detailed information regarding the strategic responses adopted by Credit Bank Limited with increased competition and regulatory requirements in the banking sector. According to Yin (1994) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari, (2004) noted that a case study involves a careful and complete observation of social units. It is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations. Primarily data collected from such a study is more reliable and up to date.

3.3 Data Collection Method

The researcher used both primary and secondary data. Primary data was collected using self-administered interview guides while secondary data was collected by use of desk search techniques from published reports and other documents. Secondary data includes the companies' publications, journals and periodicals. The interview guides had open-ended questions. The open-ended questions enabled the researcher to collect qualitative data. This was used in order to gain a better understanding and enabled a better and more insightful interpretation of the results from the study.

The interview guides designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondents. The second part was devoted to the identification of the strategic responses to changing banking environment where the main issues of the study were put into focus.

The respondents of this study were the senior staff members who included top, middle and lower level managers working at Credit Bank Limited. Each interview guide was coded and only the researcher knew which person responded. The coding technique was only used for the purpose of matching returned, completed interview guides with those delivered to the organizations.

3.4 Data Analysis

Before processing the responses, the completed interview guides were edited for completeness and consistency. A content analysis and descriptive analysis were employed. The content analysis was used to analyze the respondents' views about the strategic responses by Credit Bank with increased competition and regulatory requirements in the banking sector. The data was then coded to enable the responses to be grouped into various categories. This included percentages and frequencies. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents the analysis and interpretations of the data from the field. It presents analysis and findings of the study as set out in the research methodology on the strategic responses adopted by Credit Bank to changing environment in the banking sector in Kenya with a bias on competition and regulatory requirements. The data was gathered exclusively from an interview guide as the research instrument. The interview guide was designed in line with the objectives of the study. To enhance quality of data obtained, unstructured questions were used whereby interviewees indicated their views and opinions about the strategic responses adopted by Credit Bank to changing environment in the banking sector in Kenya.

4.2 General Information

The study sought to establish the interviewees' departments, designation, total work experience and the length of time worked in the Bank. From the findings, the interviewees indicated that they worked in the Risk management and compliance, Human Resource, marketing and business development, internal audit, Finance, Credit, Operations, Treasury and Corporate Banking departments. The respondents indicated that they worked as assistant managers, managers and Head of departments. Majority of the respondents indicated that they had a total work experience of between 6 to 13 years and had worked for the Bank for a period of between 1 to 6 years.

4.3 Strategic Responses

The Banks immediate and remote external environment has changed over the years posing different challenges it has been in operation. To survive through these environmental changes, there has been different responses by the Banks management in order ensure that the Bank achieves its objectives. These responses were both operational in nature as part of planning process coordinating operational goals of the Bank and strategic. The Board of Directors has the oversight role in the guidance on the strategic responses adopted by the Bank in response to the changes in the environment where as the management implemented the Boards' policy directives during the day to day operational activities.

4.3.1 Environmental factors that affect Credit Bank in its Operations

On the factors that affect Credit Bank in its operating environment, the interviewees indicated that technological, legal and economic factors affected the Banks operations through Pressure from the regulator to lower interest rates, market pressures on the foreign exchange rates, evolvement of technology driven products and the stringent legal framework through various amendments in the Banking act. To expand on its customer base the branch network was identified as the bank has limited outlets constraining it on mass marketing. On the robust IT systems it was indicated that the company is not able to interface with other core systems to facilitate prolific alternate services. They also indicated that stiff competition was also a factor in banking industry in Kenya. This involved poaching of the best and reliable customers. They also indicated that products and services where innovation and new product development was hindered by lack of research and development.

4.3.2 Competition Forces

The study required to investigate the competition forces that face the operations of Credit Bank. From the findings, buyers power which involves customers moving from business and establishing banks where they access supermarket moved services, pricing forces due to many players in the market has resulted to lowering of prices which only benefits mass production as well as research and development are major competition force in the operating environment for Credit Bank. The invasion of non-traditional market player in the industry mainly the telecommunication firms was another competitive force in the sector.

4.3.3 Effect of Regulatory Requirements on Operations

On how the regulatory requirements in the banking sector affect the operations of Credit Bank in Kenya, the respondents indicated that capital requirements of 1 billion by 2012 to enable the bank have better stock gives it the ability to lend more to single, corporate or individual borrower. They also indicated that the compliance costs are very high and increasing against decreasing margins. It was also indicated that the mobile telecommunications are driving banks out of business because of stringent requirements by the CBK for financial institutions. Regulatory requirements were also noted to have the effect on the banks performance as there were limitations on banks venturing in some areas of business. It also limits lending to some

economic sectors however well they could be performing. The regulatory requirements has also led to higher costs of operations eg the introduction of the cheque truncation will require investment in IT infrastructure for compliance, introduction of the Anti Money Laundering Act requires more training to staff to ensure compliance.

4.3.4 Strategic Responses Adopted Towards Increasing Competition

The respondents of the study were required to indicate the various strategic responses adopted by Bank towards increased competition and regulatory requirements in the banking sector in Kenya. The interviewees indicated that the bank recruits the best talent in the banking industry and ensures that there is good corporate governance. They also said that the bank involves in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya. The interviewees also indicated that the bank engaged in rebranding and that the commitment to train and develop staff on both strategic and operational objectivity. The Bank has also adopted an aggressive marketing campaign to increase its visibility in the market.

4.3.5 Strategic Responses Adopted to the Challenges of External Environment

On the strategic responses that the bank has adopted to the challenges posed by the external environment, the interviewees indicated that the bank has considered acquiring a robust IT system to enable provision of technology driven products and more efficient services, the bank has rebranded to increase visibility aggressive marketing through media advertising and promotions are underway, and improved customer service by introduction of service level agreements. The Bank has also undertaken into deepening relationships with the existing customers to retain them and also get more business from them. The Bank has also responded by hiring more professionals to ensure compliance and corporate governance where as the shareholders have continuously increased the share capital to enhance the banks business capacity.

4.3.6 Corporate Strategies in Increased Competition and Regulatory Requirements

The study requested the interviewees to indicate how the bank make use of the corporate strategies such as market penetration, product development, market development and

diversification as strategies in responding to increased competition and regulatory requirements in the banking sector in Kenya. The interviewees indicated that the bank uses market penetration strategies through promotions by use of radio programs to ask questions and loading participants' accounts with money. The bank also does product development market research and the research department has been established, through diversification, the bank is moving from secured lending to unsecured lending bank.

4.3.7 Resulting Responses

The study required the interviewees too indicate which responses have led to fruitful results. The interviewees indicated that recruiting the best talent has changed the strategic banking model, refurbishment and restructuring has increased customer confidence and the change in leadership has shown the banks commitment in terms of leadership and management to the customers.

4.3.8 Proactive and Reactive Strategies Used by Credit Bank

On whether the interviewees consider the various response strategies adopted by Credit bank Limited to be proactive or reactive to the changes in the bank's external environment, the interviewees indicated that the strategies were proactive since the bank had been conservative and was now confident in serving a large market. They also indicated that the bank had a better vision and improved regulatory environment and commitment of the bank to develop and partner with other banks caused by departure from conservative to proactive nature.

4.3.9 Use of Strategic Alignment as a Strategic Response

The interviewees were required to indicate how the bank made use of strategic alignment as a strategic response to increased competition and regulatory requirement in the banking sector in Kenya. The interviewees indicated that there were annual strategic retreats to review the five year strategic plan. The plan is reviewed to make it relevant in the market. They also indicated that training and development of senior team in charge of strategy and leadership has been made a policy directive.

4.3.10 Adoption of Competitive Responses

The study required the respondents to briefly outline the adoption of competitive strategic responses in the increased competition and regulatory requirement in the banking sector. The interviewees indicated that the bank's shareholders were committed to increase its capital, the bank was also committed to hire and retaining top notch skilled staff, the bank was also committed to 100% compliance to regulatory requirements and the bank has given customers services and centeredness at a high priority.

4.3.11 Working of the Revenue Generation Strategies

On how revenue generation strategies work for the bank in responding to the competition and regulatory requirements in the banking sector, the respondents indicated that the bank uses diversification to untapped market slice through unsecured lending.

4.3.12 Strategic Management Strategies

The study further sought to investigate the strategic management strategies are adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya. The study found that pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya.

4.3.13 Challenges that Hinder Success in the Strategic Responses

The study required the respondents to highlight some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya. The interviewees indicated there are challenges such as market size served by the bank, increased competition, high cost of compliance, loss of well trained staff and limited branch network.

4.3.14 Possible Suggestions with Regard to Strategic Responses

The interviewees were required to make the possible suggestions regarding making the strategic responses work in the increased competition in the banking sector. The interviewees

indicated that comprehensive research and development should be done in all institutions, strategic alliances and partnerships, mergers and acquisitions to provide competitive edge and free sharing of information on fraudulent customers and creating an internal shared database. They also suggested blacklisting of defaulters in the banking industry.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the discussion and summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study to establish the strategic responses adapted by Credit bank to changing environment in the banking sector in Kenya with emphasis on competition and regulatory environments.

5.2 Discussions and Summary of the Findings

The study found that technological, legal and economic factors affected the Banks operations through pressure from the regulator to lower interest rates, market pressures on the foreign exchange rates, evolvement of technology driven products and the stringent legal framework through various amendments in the Banking act. Products and services where innovation and new product development was hindered by lack of research and development. This is consistent with Hambrick (1983) and Venkatraman and Prescott (1990) who observed that the correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals. The factors of technology, legal and economy have in turn increased competitive pressures and contributed to the turbulent and dynamic environment. According to Johnson and Scholes (2003), dealing with the environment is difficult because of three main factors; the diversity of the different influences that affect a business ,the speed of change where the pace of technological change and the speed of global communications mean more and faster changes than ever before and complexity of changes making it impossible to identify all factors in play.

From the findings, buyers power which involved customers moving from different banks to established banks where they access supermarket model of having all products under one roof, pricing forces due to many players in the market has resulted to lowering of prices hence margins indicating that benefits can only accrue from mass. Further, the mobile telecommunications are driving banks out of business because of stringent requirements by the CBK for financial institutions. The same views are given by Kazmi (2002) who argue that as a result of the buyer characteristics, the environment is composed of various factors, events,

conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. Kimani (2000) states that a good opportunity is the one in which the industry is highly attractive and companies have the mix of business strengths to be successful.

It was also found that the bank is involved in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya and that the bank engaged in rebranding in September 2010 and committed train and develop staff on both strategic and operational objectivity. To assert the findings of the study, Bowman (1998) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. This may enable a business to influence the environment in its favour and even defend itself against competition.

With regard to strategic responses that the bank has adopted to the challenges posed by the external environment, corporate strategies such as market penetration, product development, market development and diversification the study found that the bank has considered acquiring a robust IT system, the bank has rebranded and was marketing aggressively through media campaigns. Hofer (1980) notes that, reduction strategies should be deliberately and carefully considered, since they have potentially far-reaching and potentially damaging effects on the organization as it involves sale of a business unit, product line, and or service line therefore should be adopted by firms in response to environmental uncertainty as a strategy of last resort. From a functional standpoint, cost reduction strategies require efficient scale production capabilities, vigorous pursuit of cost reductions through learning effects, and cost minimization in areas like research and development, service, sales, and advertising Oloo (2009). Njau (2000) noted that firms should undertake substantial adjustments in various strategic response variables in order to ward off competition including manipulation of the marketing mix, cost efficiency, control measures and setting up of foreign market distribution centres.

Consistent with Kiptugen's (2003) study who noted that strategic responses adopted by banks included restructuring, marketing, information technology and cultural change and that the five main environmental changes that impacted on the bank as economic decline, liberalization, legislative changes, increasing levels of education and technological advances, the study found that the bank uses diversification to untapped market slice through unsecured lending and pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya. Challenges such as market size served by the bank, conservative nature of the Board, increased competition, loss of well trained staff of the bank among others are some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya. Kiptugen (2003) also emphasized that economic decline led to increase in the number and volume of the non performing assets consequently lower income, liberalization led to increased competition from new entrants, legislative changes led to reduced margins, increased levels of education resulted to a more informed and demanding clientele while technological advancement meant new banking concepts.

The study found that the bank recruits the best talent in the banking industry and ensures that there is good corporate governance. It was also found that the bank is involved in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya. The study also found that the bank engaged in rebranding in September 2010 and committed train and develop staff on both strategic and operational objectivity. It was also found that capital requirements of 1 billion by 2012 would enable the bank have capacity to lend more to single, corporate or individual borrower. Compliance costs were found to be high and increasing against decreasing margins. It was also indicated that the mobile telecommunications are driving banks out of business because of stringent requirements by the CBK for financial institutions.

On how the bank make use of the corporate strategies such as market penetration, product development, market development and diversification as strategies in responding to increased competition and regulatory requirements in the banking sector in Kenya, the study found that the bank uses market penetration strategies through use of promotions through radio programs to ask questions and loading participants' accounts with money. The bank also does product development market research and the research department has been established, through diversification, the bank is moving from secured lending to unsecured lending bank.

The study found that recruiting the best talent has changed the strategic banking model, refurbishment and restructuring has increased customer confidence and the change in leadership has shown the bank commitment in terms of leadership and management to the customers and the strategies were proactive since the bank had been conservative and was now confident in serving a large market. On how the bank made use of strategic alignment as a strategic response to increased competition and regulatory requirement in the banking sector in Kenya, the interviewees indicated that there were annual strategic retreats to review the five year strategic plan. The plan is reviewed to make it relevant in the market. They also indicated that training and development of senior team in charge of strategy and leadership has been made a policy directive. The bank was also committed to hire and retaining top notch skilled staff, the bank was also committed to 100% compliance to regulatory requirements and the bank has given customers services and centeredness at a high priority.

The study found that the bank uses diversification to untapped market slice through unsecured lending. The study found that pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya. Challenges such as market size served by the bank, conservative nature of the Board, increased competition, loss of well trained staff of the bank among others are some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya.

5.3 Conclusion

The study concludes that because the bank has limited outlets, it is constrained on its mass marketing efforts; robust IT systems where the company is not able to interface with other core systems to facilitate prolific alternate services are the factors that affect Credit Bank in its operating environment. The study also concludes that stiff competition was also a factor in banking industry in Kenya with the need for research and development to enhance the innovation of new products. Customers also have access to various alternatives for their needs and would choose the most convenient with the least price. The stiff competition has led to lowering of prices and consequently the profit margins implying that for better results mass market may be the alternative. Increase capital requirement is also noted to enhance the banks lending capacity where as invasion of the mobile telecommunication firms have put banks at a disadvantage due to the stringent regulatory requirements from the Central Bank of Kenya on financial institutions.

The study deduces that the bank recruits the best talent in the banking industry and ensures that there is good corporate governance. It was also found that the bank involves in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya. The study also found that the bank engaged in rebranding in September 2010 and has committed to train and develop staff on both strategic and operational objectivity. On the strategic responses that the bank has adopted to the challenges posed by the external environment, the study concludes that the bank has considered acquiring a robust IT system, the bank has rebranded and was marketing through advertising. The bank also does product development market research and the research department team has been established, through diversification, the bank is moving from secured lending to unsecured lending bank.

The study established that recruiting the best talent has changed the strategic banking model, refurbishment and restructuring has increased customer confidence with the change in leadership. Annual strategic retreats to review the five year strategic plan to make it relevant in the market and training and development of senior team in charge of strategy and leadership as a policy directive has also been put in place. Shareholders commitment to increase capital, commitment to hire and retaining top notch skilled staff , full compliance to

regulatory requirements and the bank giving superior customers service are additional strategies adopted by the Bank..

The study concludes that the bank uses diversification to untapped market slice through unsecured lending. The study concludes that pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya. Challenges such as market size served by the bank, increased competition, loss of well trained staff of the bank among others are some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya.

5.4 Recommendations

The study recommends that comprehensive research and development should be done in all institutions, strategic allowance and partnerships, mergers and acquisitions to provide competitive edge and free sharing of information on fraudulent customers and creating an internal shared database. It is also suggested that banks should implement a system to enable blacklisting of default transactions.

5.5 Area for Further Research

The study has explored the strategic responses adapted by Credit bank to changing environment in the banking sector in Kenya with emphasis on competition and regulatory environments and established that strategic alignment to environment, competitive pressure and compliance to regulatory environments are the main aspects of strategic responses to changing environment in the banking sector in Kenya with a bias on Credit Bank. The banking industry in Kenya however is comprised of various other commercial banks which differ in their way of management and have different settings. This warrants the need for another study which would ensure generalization of the study findings for all the commercial banks in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the effects of the strategic responses adapted by commercial banks to changing environment in the banking sector in Kenya.

5.6 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. This included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all the departments in the bank which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the bank. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encounter problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had as the research instruments did not bear their names. Lack of sufficient funds limited the researcher from accessing all the banking sector institutions in Kenya to collect data for study. The researcher however limited himself to the Credit Bank due to inadequacy of funds.

5.7 Implication on policy and practice

The findings from the research may impact on the policies and practice of the bank as it has given insight on the various responses and their impact on the bank's operations. Policy makers would recognize the need for increasing the branch network for the bank to have a wider coverage. This would mean opening new branches or adopting the agency banking model as proposed by the Central Bank of Kenya. There would be need to allocate more expense budget on advertising and business, staff training and capital expenditure on a robust core banking software.

The research findings would also impact on the regulators – the Central Bank of Kenya as they would have to strike a balance between the regulatory requirements and the compliance costs incurred by the banks. They would need to provide a conducive business environment but also carry out their regulatory mandate to prevent banks from taking excessive exposure in the name of business. The regulators may also realize the need of setting minimum standards on the core banking software to enable compatibility of various banks softwares’ and also provide a common platform for common bank operations. Regulators would also be encouraged to pursue their objectives to have banks corroborate on various platforms like the Credit Referenc Bureaus to share information on defaulters. The regulators would also continue pursuing the agenda on agency banking which would reduce the Banks costs of doing business by having minimal set up costs for outlets.

REFERENCES

- Aaker, D. (1992), *Strategic Market Management*, Wiley, Chichester.
- Abdullahi, O.S (2000) *A Study of the Strategic Responses by Kenyan Insurance Companies Following Liberalization*, Unpublished MBA Thesis, University of Nairobi
- Ansoff, H. (1987) *Corporate Strategy*, Mcgraw-Hill, New York.
- Ansoff , H., & Mc Donnell, E. (1990) *Implanting Strategic Management*, Prentice Hall Cambridge, UK, 2nd Edition.
- Aosa, E. (1998) The Leadership Challenge Facing Kenyan Organizations, *The Account Journal of The institute of Certified Public Accountant of Kenya*.
- Balogun, J., & Johnson, G. (2004), Organizational Restructuring and Middle Manager Sense Making, *Academy of Management Journal*, Vol. 47 No.4, pp.523-49.
- Boeker, W. (1997) Strategic change: The influence of managerial characteristics and organizational growth, *Academy of Management Journal*, 40 (1).
- Bowman, C. (1998), *Strategy in Practice*, Prentice Hall Europe, London
- Chandler, Alfred, (1962) *Strategy and Structure: Chapters in the history of industrial enterprise*, Doubleday, New York,.
- Chebat, J.C. (1999), Introduction: Special Issue on Strategy Implementation and Assessment Research, *Journal of Business Research*, Vol. 45 No.2, pp.107-10.
- Chepkwony, J. (2001) *Strategic Responses of Petroleum Firms in Kenya to Challenges of Increased Competition in the Industry*, Unpublished MBA Thesis, University of Nairobi.

- Chwalowski, M. (1997), Predicting success after deregulation: an evaluation of airline, trucking and telecommunication firms, *Issues and Trends Briefing Paper*, No. 76, EEI, January,
- Fuerer, R., & Chaharbaghi, K. (1997), Strategy Development: Past, Present, and Future, *Training for Quality*, Vol. 5 No.2, pp.58-70.
- Githendu, M.N. (2004) *A Survey of the Strategic Response of the Pharmaceutical Industry to Bargaining Power of Health Management Organizations*, Unpublished MBA Thesis, University of Nairobi.
- Goro, R.W. (2003) *Strategic Responses of Commercial Banks to the threat of Substitute Products*, Unpublished MBA Thesis, University of Nairobi.
- Hambrick, D.C. (1983). Some Tests of the Effectiveness and Functional Attributes of Miles and Snow's Strategic Types. *Academy of Management Journal*, 26, pp. 5–26.
- Hamel, G., & Prahalad, C.K. (1994) *Competing for the Future*, free press. New York.
- Hammond, C. and Grosse, R. (2003) 'Rich man, poor man: resources on globalization, ' *Reference services review*, vol. 31, pp. 285-295
- Hill, C.W.L. & Jones, G.R (2001) *Strategic Management Theory, An Integrated Approach*, 5th Edition.
- Johnson, G, Scholes, K & Whittington,R (2008) *Exploring Corporate Strategy*, Pearsom Education, 7th Edition.
- Kamau, G.W. (2008) *Strategic Responses to Challenges of Globalization by Kenya Airways*, Unpublished MBA Thesis, University of Nairobi.
- Kazmi, A. (2002), *Business Policy and Strategic Management*, TMH, New Delhi.
- Kiptugen, E.J. (2003) *Strategic Responses to Changing Competitive Environment: The Case study of Kenya Commercial Bank Limited*, Unpublished MBA Thesis, University of Nairobi.

- McGee, J. & Thomas, H. (1986), Strategic groups: theory, research, and taxonomy, *Strategic Management Journal*, Vol. 7 No.2, pp.141-60.
- Migunde, F., (2000), *Strategic Responses by Kenya Broadcasting Corporation to Increased Competition*, Unpublished MBA Thesis, University of Nairobi.
- Mintzberg H. (1987), *The strategy Concept: Five Ps for Strategy*, California Management Review, 30, No.1, Fall 1987, pp 11-24.
- Newman, W.H & Logan, J P (1989), *Strategy, A Multilevel, Intergrative Approach*, South-Western Publishing Company, Cincinnati, Ohio.
- Pearce, J. A & Robinson, R. B, (1997) *Strategic Management Formulation, Implementation and Control*, Irwin, Boston.
- Pearce, J.A. & Robinson R.B (2005) *Strategic Management; Strategy Formulation, Implementation, and Control*, Irwin, Homewood, Illinois.
- Pearce, J.A. & Robinson, R. (2002) *Strategic Management: Strategy formulation and Control*; A. I. T. b. S. Publishers and Distributors, 3rd Ed
- Porter, M. (1985), *Competitive Advantage; Creating and Sustaining Superior Performance*, Free Press, New York.
- Porter, M.E. (1980) *Competitive Strategy: Techniques for Analyzing Competitors and Industries*, Free Press, New York.
- Porter, M. (1998) *Competitive Strategy*. The Free Press.
- Rajagopalan, N.,& Spreitzer, G.M. (1996), Toward a theory of strategic change: a multi-lens perspective and integrative framework, *Academy of Management Review*, Vol. 22 No.1, pp.48-79.
- Schoemaker, P.J.H. (1995), Scenario planning: a tool for strategic thinking, *Sloan Management Review*, Vol. 36 No.2, pp.25-40.

Shushil, V. (1990) Strategic Responses of Multinational to Competition for Developing
College Firms, *International Marketing Review*, Vol. 32,

Simpson, D.G. (1992), Key lessons for adopting scenario planning in diversified companies,
Planning Review, Vol. 20 No.3, pp.10.

Thompson, A. & Strickland, A.J., (1993), *Strategic Management: Concepts and Cases*, Irwin,
New York.

Venkatraman, N. & Prescott J.E. (1990) Environment Strategy Alignment: An Empirical Test
of its Performance Implications, *Strategic Management Journal*, 11(1), pp 1-23.

APPENDICES

Appendix I: Interview Guide

PART A: GENERAL INFORMATION

- 1. Name of department.
- 2. What is your designation in the department?.....
- 3. What is your total work experience in years?.....
- 4. What is your length of time in the Company?.....

PART B: STRATEGIC RESPONSES BY CREDIT BANK LIMITED

- 1. Which factors affect Credit Bank in its operating environment?
.....
.....
- 2. Which are the competition forces that face the operations of Credit Bank?
.....
.....
- 3. How do the regulatory requirements in the banking sector affect the operations of Credit Bank in Kenya?
.....
.....
- 4. Which are the various strategic responses adopted by Bank towards increased competition and regulatory requirements in the banking sector in Kenya?
.....
.....
.....
- 5. What are the strategic responses that the bank has adopted to the challenges posed by the external environment?

.....
.....

6. How does this bank make use of the corporate strategies such as market penetration, product development, market development and diversification as strategies in responding to increased competition and regulatory requirements in the banking sector in Kenya?

.....
.....
.....

7. Which of the responses have led to fruitful results? Indicate briefly why?

.....
.....
.....

8. Do you consider the various response strategies adopted by Credit bank Limited to be proactive or reactive to the changes in the corporation's external environment?

.....
.....
.....

9. How does this bank make use of strategic alignment as a strategic response to increased competition and regulatory requirement in the banking sector in Kenya?

.....
.....
.....

10. Briefly outline the adoption of competitive strategic responses in the increased competition and regulatory requirement in the banking sector?

.....
.....
.....

11. How do revenue generation strategies work for this bank in responding to the competition and regulatory requirements in the banking sector?

.....
.....
.....

12. Which strategic management strategies are adopted by this bank in the increased competition and regulatory requirement in the banking sector in Kenya?

.....
.....
.....

13. Highlight some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya?

.....
.....
.....

14. What are the possible suggestions in you would like to make regarding making the strategic responses work in the increased competition in the banking sector?

.....
.....
.....

THANK YOU!