COMPETITIVE BUSINESS STRATEGIES AND FIRM PERFORMANCE IN COMMERCIAL BANKS IN KENYA

BY

MURIMIRI SERAH WANJIRU

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DECLARATION

I declare that this is my original work and has never been submitted anywhere for a degree or qualification of the same in any other university or institute of higher learning.

Signed ____________ Date 3/NOV/2009.

Murimiri S.W.

Registration. No. D61/8257/06

This research paper has been submitted for examination with my approval as the University supervisor.

Signed ____________ Date 3/11/09

Jeremiah Kagwe

Lecturer, Department of Business Administration.

School of Business

University of Nairobi.

DEDICATION

I dedicate this project to my family for being there for me.

I am grateful to my supervisor Jeremiah Kagwe for guidance while writing the project.

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I acknowledge God for his Grace and Mercy through out the research.

ABSTRACT

This study sought to examine the competitive business strategies and firm performance in commercial banks in Kenya. The study was guided by the following specific objectives: (i) to determine the competitive strategies adopted by commercial banks in Kenya; and (ii) to establish the relationship between the competitive strategies used by commercial banks in Kenya and their performance. A review of the relevant literature was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

A descriptive study design was used to undertake the study. The population from which the study was carried out was all the commercial banks registered and licensed to undertake commercial banking business in Kenya, whose number stood at 45 as at December, 2008 (CBK, 2008) The respondent from each of the commercial banks was the Chief Executive Officer (CEO), who is charged with the responsibility of shaping the strategic direction of his/her respective organization. A semi-structured questionnaire was used to collect primary data from the respondents. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. Data pertaining to the profile of respondents was analyzed by employing content analysis while determination of the link between the competitive strategies and organizational performance was undertaken using a regression analysis.

Findings of the study show that there is a direct correlation between the number of full time employees and the number of branches owned by commercial banks. The findings also show that majority of the respondents had worked in their respective organizations for more than 5 years, a period long enough to understand operations of their respective banks. The responses were thus expected to be objective. The findings also show that the strategies adopted by commercial banks in Kenya so as to cope with the competitive environment include vrigorous pursuit of cost reductions; providing outstanding customer service; improving operational efficiency; controlling quality of products/services; intense supervision of frontline personnel; developing brand or company name identification; targeting a specific market niche or segment; and providing specialty products/services. The findings also show a significant relationship between the strategies adopted by commercial banks in Kenya and their respective performances with respect to the following objective performance indicators: total revenue growth, total asset growth, net income growth, market share growth and overall performance or growth.

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ABBREVIATIONS AND ACCRONYMS

CBD	Central Business District
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
IO Theory	Industrial Organization Theory.
KTB	Kenya Tourist Board
NGOs	Non-Governmental Organizations
R&D	Research and Development
ROI	Return on Investment
SPSS	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The challenges of the business environment in the 1990s, characterized by fragmented markets, increased competition, rapid technological changes, shifting regulatory frameworks, and a growing dependence on non-price competition have forced many businesses to more closely scrutinize their competitive strategy.

Porter (1985) argues that firms create competitive advantage by conceiving new ways to deliver superior value to customers. Innovation is a key source of competitive advantage and can occur at any stage of the value chain. However, the literature and research in this regard is biased towards technological innovation. A growing number of researchers suggest that definitions of innovation should incorporate a broader range of activities (Porter 1987). The increased competition has been further fuelled by the developments in technology, communication and liberalisation of the major world economies. These factors have reduced the world into a global village as far as business transactions are concerned. As a result, organisations are facing stiff competition from both local and foreign competitors. In order to compete and survive in the competitive environment, different organisations are adopting different strategies. Organisations are therefore implementing various competitive strategies with an aim of achieving a sustainable competitive advantage over their competitors and to ensure their survival in an industry.

1.1.1 Competitive Strategy

Porter (1980) argues that a firm can achieve a higher level of performance over a rival in one of two ways: either it can supply an identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. In the former case, the firm possesses a cost advantage. In the latter, the firm possesses a differentiation advantage. In pursuing cost advantage, the goal of the firm is to become the cost leader in its industry or industry segment. On the other hand, differentiation by a firm from its competitors is achieved when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1985). A firm that is competing on low cost is distinguishable from a firm that competes through differentiation in terms of market positioning, resources and capabilities, and organizational characteristics. Porter originally viewed cost leadership and differentiation as mutually exclusive strategies. He argued that effectively implementing these generic strategies required total commitment and supporting organizational arrangements that are diluted if there is more than one primary focus. If a firm attempts to pursue both at the same time, it will result in inferior performance, so-called, "stuck in the middle" (Porter, 1980).

A cost leadership strategy is designed to produce goods or services more cheaply than competitors by stressing efficient scale of operation. When a firm designs, produces, and sells a comparable product more efficiently than its competitors as well as its market scope is industry-wide, it means that the firm is carrying out the cost leadership strategy successfully (Brooks, 1993). Firms often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984).

With the differentiation strategy, on the other hand, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980). It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980). Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Dess and Davis, 1984; Porter, 1985).

The studies (Slater and Olson 2000, 2001; Olson and Slater 2002; Olson, Slater, and Hult 2005; Slater, Olson, and Hult 2006; Slater, Hult, and Olson 2007) described in this article are grounded in contingency theory which says that the relationship between marketing function characteristics and firm performance is moderated by the business strategy adopted by the firm. Venkatraman (1989, p. 424) describes this as the "fit as moderation" perspective.

1.1.2 Competitive Strategy and Firm Performance

There are countless variations in the competitive strategies that companies employ, mainly because each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment (Anon. 1998). The custom-tailored nature of each company's strategy makes the chances remote that any two companies - even companies in the same industry - will employ strategies that are exactly alike in every detail (Surowiecki, 1999). According to Berthoff (2002), managers at different companies always have a slightly different spin on future market conditions and how to best align their company's strategy with these conditions; more over, they have different notions of how they intend to outmaneuver rivals and what strategic options make the most sense for their particular company. However, when one strips away the details to get at the real substance, the biggest and most important differences among competitive strategies boil down to (i) whether company's market target is broad to narrow, and (ii) whether the company is pursuing a competitive advantage linked to low costs or product differentiation.

Competitive strategy is concerned with the patterns of choices managers make over which markets to serve and how the business creates more value for the buyers than its competitors. The Porter (1980) and Miles and Snow (1978) typologies of strategy are the frameworks that have most often been shown to effectively represent managerial choices. Porter proposed that the product-market decision should be viewed in terms of how the business creates value (differentiation or low cost) and how it defines its scope of market coverage (focused or market – wide). Miles and Snow identified four arche-types of how firms address product-market strategy decisions.

Prospectors evaluate performance in terms of effectiveness. They emphasize measures such as new product success, percentage of revenue derived from new product success, percentage of revenue derived from new products or new customers, market development, and sales or market share growth – characteristics of the innovation and learning perspective in the balanced scorecard. Prospectors have also been found to be oriented toward marketing, which implies an emphasis on customer satisfaction/retention and product quality/image. (Walker and Ruekert, 1987).

1.1.3 Commercial Banks in Kenya

Financial institutions (FIs) are very important in any economy. Their role is similar to that of blood arteries in the human body, because FIs pump financial resources for economic growth from the depositories to where they are required (Shanmugan and Bourke, 1990). Commercial banks (CBs) are FIs and are key providers of financial information to the economy. They play even a most critical role to emergent economies where borrowers have no access to capital markets (Greuning and Bratanovic, 2003). There is evidence that well-functioning CBs accelerate economic growth, while poorly functioning CBs impede economic progress and exacerbate poverty (Barth *et al.*, 2004). The banking sector in Kenya has, over the last few years, witnessed significant growth in consumer lending. This is evidenced by the growth in real private sector credit of 17.7 % in the twelve months to May 2007. The resultant credit expansion has brought significant benefits to the economy, but the information asymmetry that is prevailing in the lending environment poses a real challenge in the form of credit risk for the banking sector in Kenya.

There were 45 commercial Banks in Kenya as at 31st December, 2008 (Central Bank of Kenya (CBK), 2008). These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the minister of finance, through the Central Bank of Kenya. The Companies Act, the Banking Act, the Central Bank of Kenya act govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. (Banking Act Cap 488, pp 6, 10-12). According to Central Bank of Kenya (CBK) (2008), the sector remained stable in 2006 with positive developments recorded in all key financial indicators. Total assets expanded by 19.5% from Kshs. 640 billion as at December 2005 to Kshs. 760 billion as at December 2006. As a result of the improved performance, the level of non-performing advances declined from the previous year's level of 99 billion to 95 billion as at end of December 2006.

More specifically, increased competition, technological developments, changes in customer preferences and the growth of the various institutions have significantly altered the environment in which banks operate (Orlow and Wenninger, 2004). At the same time, many banking activities are now performed by non-banking institutions. In reality, banking institutions in developed countries have started to lose their market shares, while technology has minimized transaction costs and the number of competitors is continuously increasing (Avery *et al.* 2003). Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations (Krishnan *et al.* 2003).

1.2 Statement of the Problem

The primary objective of managers of profit seeking organizations is to maximize the performance of the firm over time (Horne, 1992). Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980).

Competitive methods are actions taken or resources used in the overall strategy development process and are increasingly important to managers seeking to increase the performance of their firms (Porter, 1980, 1985; Day and Wensley, 1988). The linkages between competitive methods, cost leadership, differentiation and focused generic strategies, and resulting firm performance have been explored in the literature (Hambrick, 1983; Dess and Davis, 1984; Kumar *et al.*, 1997). However, the results have not conclusively established that performance is enhanced by following one of these generic strategy types. In addition, most research in this area has been conducted in the manufacturing sector. Research is needed to examine these relationships in service industries. Porter's (1985) generic strategies of low cost, differentiation, focus and combination strategies are generally accepted as a strategic typology for organizations. However, little empirical research has identified the strategic practices associated with each generic strategy. Furthermore, research has not identified critical strategic practices for each generic strategy to firm performance.

Studies related to competitive strategies in Kenya include the following:- Kibiru (1999) focused on achievement of competitive advantage through differentiation of market offering by chemical fertilizers importing companies in Kenya; Murage (2001), focused on competitive strategies adopted by members of the Kenya independent petroleum dealers association; Karanja (2002), focused on competitive strategies of real estate firms in Kenya; Ndubai (2003) focused on competitive strategies applied by retail sector of the pharmaceutical industry in Nairobi; Theuri (2003), focused on competitive strategies adopted by branded fast food chains in Nairobi; Namada (2004), focused on competitive strategies adopted by small scale enterprises in exhibition halls in Nairobi; Ogolla (2005), focused on the application of porter's strategies by insurance companies in Kenya; Kitoto (2005), focused on competitive strategies adopted by universities in Kenya; Obado (2005), focused on competitive strategies employed by the sugar manufacturing firms in Kenya; Bett (2005), focused on differentiation strategies used by micro finance institutions in Kenya; Awuor (2006), focused on strategies employed by KTB to establish a sustainable competitive advantage for Kenya as a tourist destination; Atieno (2006), focused on the challenge of competition and competitive strategies used by public health institutions in Kenya; Omondi (2006), focused on competitive strategies adopted by airlines in Kenya; Okal (2006), focused on competitive strategies adopted by NGOs dealing with Hiv/Aids in Kenya to cope with increased competition for funding; Mungai (2006), focused on competitive strategies adopted by mainstream daily print media firms in Kenya; Mwakundia (2006), focused on competitive strategies applied by commercial colleges in Nairobi CBD; Ndung'u (2006), focused on sustaining a competitive advantage at British airways world cargo – Kenya; and Njoroge (2006), competitive strategies adopted by LPG marketers in Kenya to cope with competition

None of the above studies focused on the use of competitive strategies and firm performance, more so in commercial banks in Kenya. The current study attempts to address this gap in the literature. The current study will attempt to bridge the existing gap by seeking answers to the following research questions:- what are the competitive strategies adopted by Commercial Banks in Kenya?; what is the relationship between the competitive strategies used by commercial in Kenya and their performance?; and what are the challenges faced by the commercial banks in implementing the adopted strategies?.

1.3 Objectives of the Study

The study was guided by the following objectives:-

(i) To determine the competitive strategies adopted by commercial banks in Kenya.

(ii) To establish the relationship between the competitive strategies used by commercial banks in Kenya and their performance.

1.4 Importance of the Study

The current study sought to raise ideas and issues in the hope that the various stakeholders and persons directly addressing issues related to competitive strategies and performance in various organizations will continue the discussion. It does not presume to offer a prescription for the ideal measures to be employed by the stakeholders so as to reverse the trends. Specifically, the findings of this study, it is hoped, will be beneficial to various key stakeholders as discussed I the subsequent section.

1.4.1 The management of commercial banks

The management of the various commercial banks in Kenya will gain a better understanding of the competitive strategies adopted by the commercial banks, the relationship between the competitive strategies used by the commercial banks and their performance and the challenges faced by them in implementing the adopted strategies. On the basis of the findings of the study, the management of these banks will implement corporate strategies from an informed position.

1.4.2 Policy Makers

The financial sector policy makers will acquire insight into the involvement of commercial banks in competitive strategies and accommodate it in their policies where applicable.

1.4.3 Academicians and scholars

The symbiotic relationship between competitive strategies and organizational performance is a relatively new and unexplored concept. The study will make a significant contribution to the growing body of research on competitive strategies. The findings may also be used as a source of reference for other researchers. In addition, academic researchers may need the study findings to stimulate further research in this area and as such form a basis of good background for further researches.

CHAPTER TWO: LITERATURE REVIW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

2.2 Theoretical background

Strategic contingency theory has its roots in the structure-strategy-performance paradigm associated with institutional economists (Bain, 1956) but focuses less on structure and more on strategy. Its focus is on the "fit or match between strategy and environment". Many theorists have explored the relationship between environment and strategy, but much of the early work was completed by Porter (1980, p. 3), who states: "The essence of formulating competitive strategy is relating a company to its environment."

Porter (1980) introduced three generic strategies: cost leadership, differentiation, and focus, which Porter divides into cost focus and differentiation focus. These strategies are a result of many various environmental features but are rooted in the firm's decision to pursue a broad or narrow target market and a uniqueness or cost competency. All three of these generic strategies have motivated much research (Murray, 1988; Hill, 1988). In his book, Porter (1980, p. 41) states that: "the firm failing to develop its strategy in at least one of the three directions – a firm that is "stuck in the middle" – is in an extremely poor strategic situation." This "stuck-in-the-middle" scenario is discussed by Porter (1980) on a global level with the use of example firms that compete in multiple foreign markets. Porter's rigid view of the appropriateness of utilizing one generic strategy and one only, regardless of environmental conditions, has been criticized (Wright, 1987; Hill, 1988). There is some empirical evidence that a hybrid or "middle" approach may be usefully applied (Kim and Lim, 1988; Hlavacka *et al.*, 2001). To quote Miller and Friesen (1986, p. 730): "studies have found that strategies have varying utility in different settings." In contrast to this position, other scholars have supported Porter's idea that competing with an exclusive, single strategy is most effective. Overall, the literature is generally supportive of Porter's claim (Miller and Friesen, 1986; Green *et al.*, 1993).

2.3 Porter's generic business strategies

Strategy is an essential part of any effective business plan. By using an effective competitive strategy, a company finds its industry niche and learns about its customers (Porter, 1980). Porter (1985) asserts there are basic businesses strategies – differentiation, cost leadership, and focus – and a company performs best by choosing one strategy on which to concentrate. However, many researchers feel a combination of these strategies may offer a company the best chance to achieve a competitive advantage (Karnani, 1984; Miller and Friesen, 1986; White, 1986; Hill, 1988; Mathur, 1988; Murray, 1988; Miller, 1992; Dess and Miller, 1993; Johnson and Scholes, 1993; Fuerer and Chaharbaghi, 1997; Cross, 1999; Hlavacka *et al.*, 2001). Whatever strategy a business chooses, it must fit with the company and its goals and objectives to gain a competitive advantage (Parker and Helms, 1992; Kippenberger, 1996; Surowiecki, 1999; Ross, 1999).

Porter purports companies must be competitive to become an industry leader (Murdoch, 1999; Suutari, 1999), to be successful both nationally and abroad (Anon, 1998; Niemira, 2000; Davidson, 2001), and these strategies for gaining competitive advantage apply to all industries in most nations (Kim and Lim, 1988; Kropf and Szafran, 1988; McNamee and McHugh, 1989; Green *et al.*, 1993; Median and Chin, 1995;).

While various types of organizational strategies have been identified over the years (Porter, 1980; Chrisman *et al.*, 1988) Porter's generic strategies remain the most commonly supported and identified in key strategic management textbooks (Miller, 1998; Thompson and Stickland, 1998; David, 2000) and in the literature (Kim and Lim, 1988; Miller and Dess, 1993). Porter's (1980) generic strategies can yield competitive advantage. Porter (1980) also suggests ensuring long-term profitability, the firm must make a choice between one of the generic strategies rather than end up being "stuck in the middle".

2.3.1 Differentiation

Differentiation is one of Porter's key business strategies (Reilly, 2002). When using this strategy, a company focuses its efforts on providing a unique product or service (Porter, 1996; Cross, 1999; Hlavacka *et al.*, 2001). Since, the product or service is unique; this strategy provides high customer loyalty (Porter, 1985; Cross, 1999; Hlavacka *et al.*, 2001). Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (Surowiecki, 1999; McCracken, 2002; Reilly, 2002; Berthoff, 2002; Rajecki, 2002; Tuminello, 2002). Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (Davidson, 2001; McCracken, 2002). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002). Van Raaij and Verhallen (1994) suggest bending the customer's will to match the company's mission through differentiation.

When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered: only it is not the main focus (Hlavacka *et al.*, 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Cross, 1999; Hlavacka *et al.*, 2001; Venu, 2001). Some key concepts for establishing differentiation include: speaking about the product to select panels (McCracken, 2002), writing on key topics affecting the company in the association's magazine or newsletter (McCracken, 2002), becoming involved in the community (McCracken, 2002), being creative when composing the company's portfolio (Tuminello, 2002), offering something the competitor does not or cannot offer (Rajecki, 2002), adding flair and drama to the store layout (Differentiation will be key), providing e-commerce (Chakravarthy, 2000), making access to company information and products both quick and easy (Chakravarthy, 2000), using company size as an advantage (Darrow *et al.*, 2001), training employees with in-depth product and service knowledge (Darrow *et al.*, 2001), offering improved or innovative products (Helms *et al.*, 1997), emphasizing the company's state-of-the-art technology, quality service, and unique products/services (Hlavacka *et al.*, 2001), using photos and renderings in brochures (McCracken, 2002), and selecting products and services for which there is a strong local need (Darrow *et al.*, 2001).

2.3.2 Cost leadership

Another of Porter's generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1987; Anon, 1998; Cross, 1999; Hyatt, 2001; Davidson, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000; Venu, 2001; Davidson, 2001). Porter (1985) purports only one firm in an industry can be the cost leader (Venu. 2001: Sy, 2002) and if this is the only difference between a firm and competitors. the best strategic choice is the low cost leadership role (Malburg, 2000).

Lower costs and cost advantages result from process innovations, learning curve benefits, and economics of scale, product designs reducing manufacturing time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1987, 1996). Lower prices lead to higher demand and, therefore, to a larger market share (Helms *et al.*, 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from industry wide price reductions (Porter, 1980: Malburg, 2000; Hlavacka *et al.*, 2001). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

2.3.3 Focus

In the focus strategy, a firm targets a specific segment of the market (Porter, 1987, 1996; Cross, 1999; Davidson, 2001: Hlavacka *et al.*, 2001: Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Anon, 1998: Martin, 1999: Hyatt, 2001: Venu, 2001: Darrow *et al.*, 2001: McCracken, 2002). For example, some

European firms focus solely on the European market (Stone, 1995). Focus also is based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

2.3.4 Combination

An organization may also choose a combination strategy by mixing of the aforementioned generic strategies. For example, a firm may choose to have a focused differentiation strategy. This means the organization has a unique product offered to a targeted market segment. An organization may also choose to have a focused cost-leadership strategy. In this instance, an organization would use a cost leadership strategy targeted to a specific market segment. There is much debate as to whether or not a company can have a differentiation and low-cost leadership strategy at the same time (Helms *et al.*, 1997). Porter felt differentiation and cost-leadership were mutually exclusive (Helms *et al.*, 1997). However, research shows this is not the case (Buzzell and Wiersema, 1981; Hall, 1983; Phillips *et al.*, 1983; Karnani, 1984; Miller and Friesen, 1986; White, 1986; Buzzell and Gale, 1987; Wright, 1987; Jones and Butler, 1988; Mathur, 1988;

Miller, 1992; Dess and Miller, 1993; Johnson and Scholes, 1993; Slocum *et al.*, 1994; Gupta, 1995; Fuerer and Chaharbaghi, 1997; Miller, 1998; Hlavacka *et al.*, 2001).

Kumar *et al.* (1997) in their study of generic strategies used in the hospital industry found when hospitals follow a focused cost leadership hybrid strategy they exhibit higher performance than those following either cost leadership or differentiation alone. Similarly in their research on the UK wine industry, Richardson and Dennis (2003) found the hybrid focused differentiation approach was best for niche segments. Spanos *et al.* (2004) studied the Greek manufacturing industry and found hybrid strategies were preferable to pure strategies. According to Porter (Argyres and McGaha, 2002), lower cost and differentiation are directly connected with profitability. As research addressed the relationship between strategy and performance, some studies concluded only "pure" strategies (generic strategies of cost leadership or differentiation) resulted in superior performance, while other research found combination strategies (low-cost and differentiation) were optimal. This debate continues in the literature.

2.4 Generic strategy and performance linkage

The strategy literature provides numerous theories, research methodologies, and ideas on the strategy-performance relationship. Strategy research has its roots in industrial organization (IO) theory. Within Bain (1956), the IO framework of industry behavior, firm performance or profitability is seen as a function of the industry structure. Industry characteristics rather than firm-based issues are found to determine firm performance (Barney, 1986). This structure-conduct-performance model from IO and economics has been used in industries with high concentrations and similar firms (Seth and Thomas, 1994). Studies, however, have not found a link between strategy and performance (McGee and Thomas, 1986, 1992). Others have found the link between strategy and performance lessened by situational variables including a focus on manufacturing and profitability (Davis and Schul, 1993; Zahra, 1993). To investigate the strategy and performance link, many researchers began utilizing approaches found to be generalizable across industries, specifically those proposed by Porter (1980, 1985, and 1987).

2.5 Firm performance measures

While researchers may not always agree on the best strategy, or strategy combination, most if not all, support the long-term benefits of strategic planning for the successful performance of an organization or business unit. However, measuring the performance of a company is challenging. Researchers (Buckley *et al.*, 1988; Littler, 1988; Day and Wensley, 1988) disagree about how to both define and operationalize performance. Most studies on organizational performance use a variety of financial and non-financial success measures. Researchers employ financial measures such as profit (Saunders and Wong, 1985; Hooley and Lynch, 1985; Baker *et al.*, 1988), turnover (Frazier and Howell, 1983), return on investment (Hooley and Lynch, 1985), return on capital employed (Baker *et al.*, 1988), and inventory turnover (Frazier and Howell, 1983). Nonfinancial measures include innovativeness (Goldsmith and Clutterbuck, 1984) and market standing (Saunders and Wong, 1985; Hooley and Lynch, 1985). When performance is measured at a variety of levels (national, industry, company, and product), comparison of results is difficult (Frazier and Howell, 1983; Buckley *et al.*, 1988; Baker and Hart, 1989).

Measures of firm performance generally include such bottom-line, financial indicators as sales, profits, cash flow, return on equity, and growth. It is important to determine how a firm compares with its industry competitors when assessing firm performance (Dess and Robinson, 1984). With the multitude of competitive environments faced by firms in differing industries, knowing only absolute financial numbers such as sales, profits, or cash flow is not very illuminating unless viewed in the context of how well the firm is doing compared to their competition. Therefore, it is important to use an industry comparison approach when making firm performance assessments for organizations sampled from a wide variety of industries.

2.5.1 Identifying organizational performance measures

Lusch and Laczniak (1989) define business performance as the total economic results of the activities undertaken by an organization. Walker and Ruekert (1987) found primary dimensions of business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. But there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involve substantial trade-offs: good performance on one dimension often means sacrificing performance on another (Donaldson, 1984).

In many research situations it is impractical or impossible to access objective measures of organizational performance. Even if such measures were available it does not guarantee the accuracy of the performance measurement. For example, when a sample contains a variety of industries, performance measurement and comparisons can be particularly problematic. What is considered excellent performance in one industry may be considered poor or middling performance in another industry. If researchers limit themselves to a single industry, the performance measures may be more meaningful, but the generalizability of the findings to other industries is problematic. The literature has remained largely at the conceptual level in discussing the link between the generic strategies and firm performance. Scholars agree it should and must exist, but researchers have not determined which specific strategic practices within the generic strategy framework best achieve organizational performance goals. It seems some combination of practices is more effective than others, but propositions on strategic practices have remained largely untested and there is a recognized need for empirical work in this area.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter was to define the research design and methodology used in the study. It contains a description of the study design, population of the study, sampling design, data collection instruments and procedure, data analysis and reporting.

3.2 Research Design

For purposes of the current study, a descriptive survey was undertaken. The method was preferred as it permits gathering of data from the respondents in natural settings. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. "What" questions invariably lead to descriptive designs. Descriptive research is designed to describe the characteristics or behaviors of a particular population in a systematic and accurate fashion. Survey research uses questionnaires and interviews to collect information about people's attitudes, beliefs, feelings, behaviors, and lifestyles.

3.3 Population of the study

The population from which the study was carried out was all the commercial banks registered and licensed to undertake commercial banking business in Kenya, whose number stood at 45 as at December, 2008 (CBK, 2008) (See Appendix I).

3.4 Data Collection

3.4.1 Data collection instruments

A semi-structured questionnaire was used to collect primary data from the respondents. Closed ended questions were presented on a Likert scale. The Likert type scale, commonly used in business research was applied because it allows participants to respond with degrees of agreement or disagreement. The rating was on a scale if 1 (lowest impact or least important) to 5 (highest impact or most important). The questionnaire was structured in two main sections. Section I captured the profile of the respondents and the Commercial Banks they represented while section II captured information on the use of competitive strategies used by commercial banks in Kenya.

3.4.2 Respondents

The respondent from each of the commercial banks was the Chief Executive Officer (CEO), who is charged with the responsibility of shaping the strategic direction of the his/her respective organization. In the absence of the CEO, the appointed agent participated in the study. A census was undertaken.

3.4.3 Instrument Administration

The questionnaire was pre-tested on six respondents who were selected at random so as to enhance effectiveness and hence data validity. The researcher hand delivered the questionnaires to the CEOs of the commercial banks as their head offices are located within Nairobi and its environs. A letter of introduction and questionnaire was enclosed in an envelope and delivered to the respondents. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires. Once completed, the researcher personally collected the questionnaires.

In order to meet the first objective of the study, the respondents were provided with a list of possible competitive strategies used by various organizations and asked to indicate how frequently their respective organizations used each of the competitive strategies along a five point scale. In order to meet the second objective of the study, financial results were obtained from the financial reports of the various respondent banks. The relationship between the business strategies adopted was then be measured against the performance of the various banks over a period of time. The key objective performance indicators included total revenue growth, total asset growth, net income growth, market share growth, and overall performance or success.

3.5 Data analysis and presentation

Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. The SPSS was used to generate percentages, frequencies, mean scores and standard deviations. For purposes of the current study, the data pertaining to the profile of respondents was analyzed by employing content analysis. In order to determine the link between the competitive strategies and organizational performance, the strategy related items will be subjected to a factor analysis to test whether the strategic practices naturally group into Porter's (1985) generic strategies. As is typically the case with a factor analysis, the individual items (strategic practices) will be loaded with differing strengths onto several identified factors. The four factors identified were composed of those strategic practices with the highest factor loadings. Thus, each factor was identified by a different set of strategic practices.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

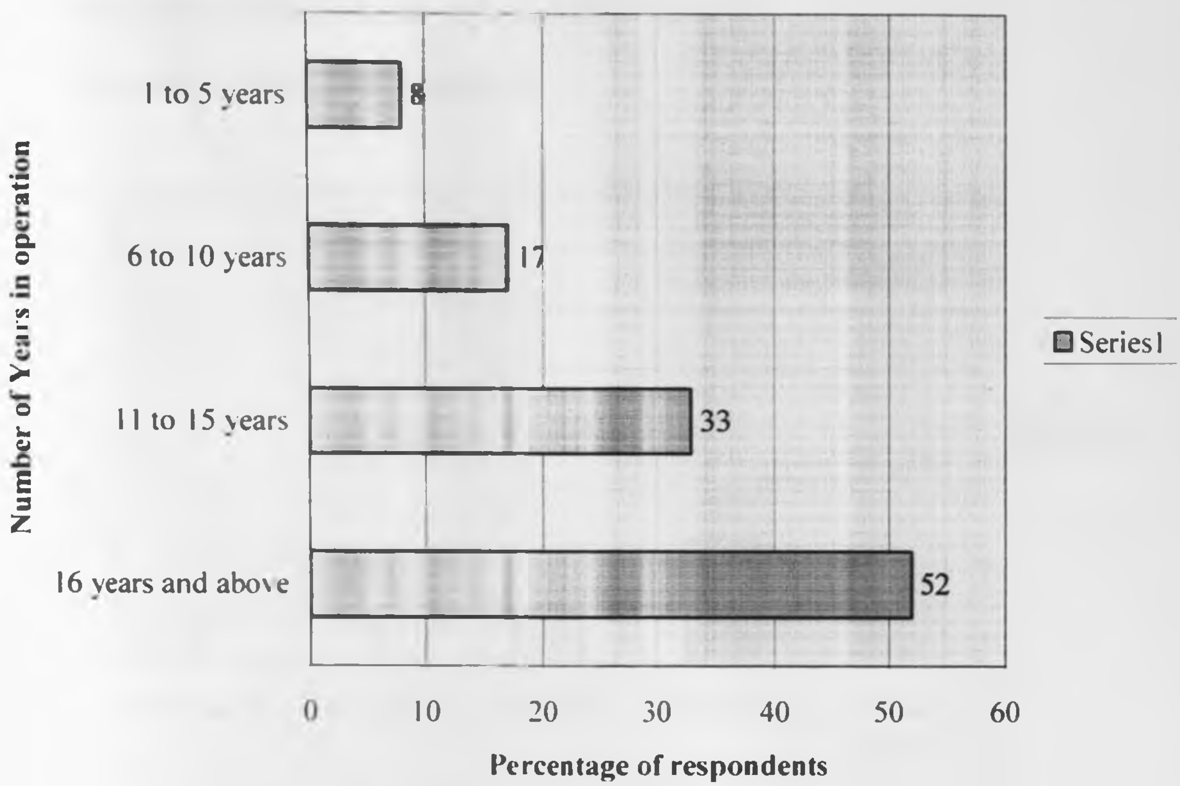
The study sought to investigate the application of Porter's generic business strategies by commercial banks in Kenya. Out of the 45 questionnaires that distributed to the respondents, 36 of them, representing 80% of the commercial banks in Kenya were returned completed. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used to analyze data pertaining to the two objectives of the study. Computation of frequencies and percentages, standard deviations and mean scores were used in data presentation. The information is presented and discussed below:

4.2 Demographic Data

4.2.1 Period of Operation in Kenya

The respondents were asked to indicate the time period which their respective banks had been in operation in Kenya. The responses are summarized and presented in figure 4.1 below.

Figure 4.1: Period of Operation in Kenya

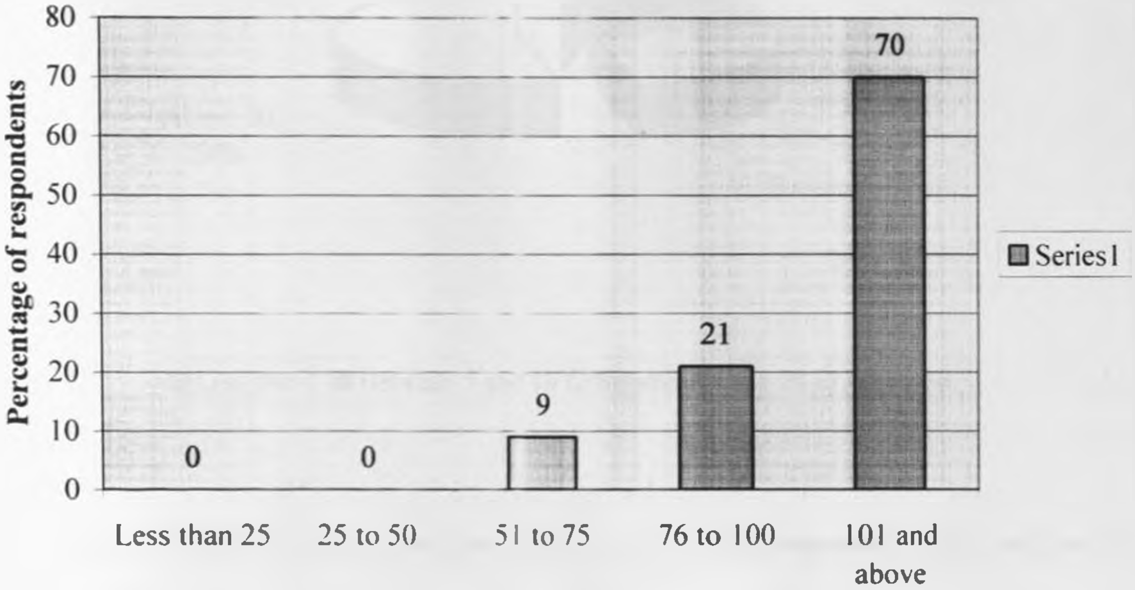


Findings in figure 4.1 above show that while 8% of the respondent banks have been in operation for between 1 and 5 years. 17% of the respondents have been in operation for between 6 and 10 years. 33% of the respondent banks have been in operation for between 11 and 15 years and 52% of the respondent banks have been in operation for 16 years and above. The findings show that that at least 85% of the respondent banks have been in operation for a period exceeding 10 years. which is long enough them to have faced various challenges that required responsive strategies.

4.2.2 Number of Full Time Employees

The respondents were asked to indicate the number of full time employees in their respective banks. The responses are summarized and presented in figure 4.2.

Table 4.2: Number of Full Time Employees

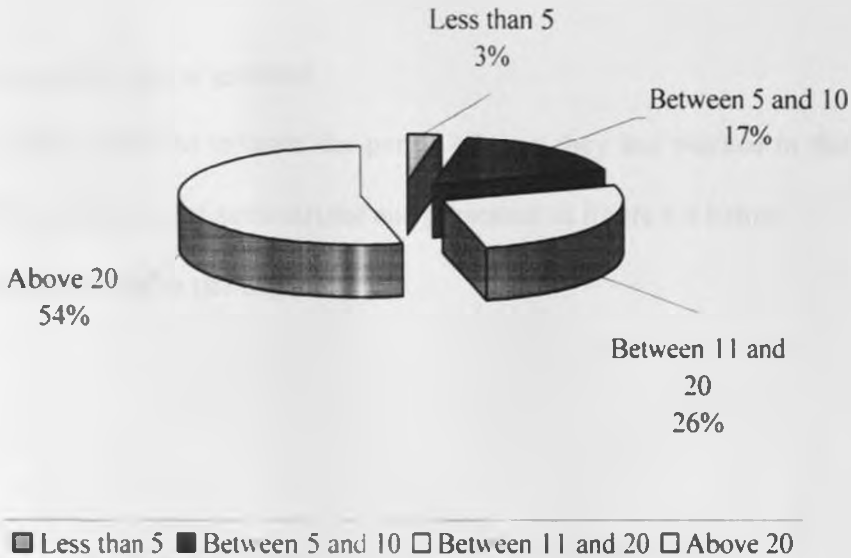


The findings in figure 4.2 above show that none of the respondent commercial banks had less than 50 full time employees. Whereas 9% of the respondent banks had between 51 and 75 full time employees, 21% of the banks had between 76 and 100 employees and 70% of the respondent banks had 101 full time employees and above. The findings show that majority of the banks had above 100 full time employees within their respective establishments.

4.2.3 Number of branches

The respondents were asked to indicate the number of branches their respective banks had. The responses are summarized and presented in figure 4.3 below.

Figure 4.3: Number of Branches



The findings in figure 4.3 above show that while only 3% of the respondent banks had less than 5 branches, 17% of the banks had between 5 and 10 branches, 26% of the banks had between 11 and 20 branches and 54% of the banks had above 20 branches. The findings show that majority of the respondent banks (80%) had 11 branches and above.

Table 4.1: Correlation between number of full time employees and number of branches

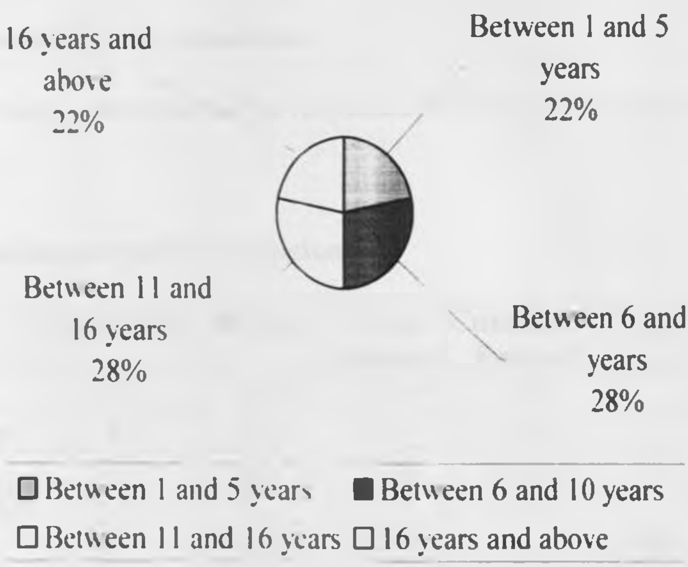
		Number of full time employees	Number of branches
Number of full time employees	Pearson Correlation	1.000	-.093
	Sig. (2-tailed)	.	.594
	N	36	35
Number of branches	Pearson Correlation	-.093	1.000
	Sig. (2-tailed)	.594	.
	N	35	35

Findings in table 4.1 above show that there is a direct correlation between the number of full time employees and the number of branches owned by commercial banks.

4.2.4 Period worked in the organized

The respondents were asked to indicate the period of time they had worked in their respective organizations. The responses are summarized and presented in figure 4.4 below.

Figure 4.4: Period worked in the organized



Findings in figure 4.4 above show that while 22% of the respondents had worked in their respective organizations for between 1 and 5 years, 28% of the respondents had worked for between 6 and 10 years, 28% of the respondents had worked for between 11 and 16 years and 22% of the respondents had worked for 16 years and above. The findings show that majority of the respondents (78%) had worked in their respective organizations for more than 5 years, a period long enough to understand operations of their respective banks. The responses were thus expected to be objective.

4.3 Use of competitive strategies adopted by commercial banks in Kenya

4.3.1 Competitive strategies adopted by commercial banks in Kenya

In order to meet the first objective of the study. "to determine the competitive strategies adopted by commercial banks in Kenya". the respondents were provided with a listing of possible strategic practices used by organizations and asked to indicate the extent to which their respective organizations used each of the listed strategic practices. The responses are summarized and presented below.

4.3.1.1 Vigorous pursuit of cost reductions

Table 4.2 below presents a summary of the responses pertaining to vigorous pursuit of cost reductions.

Table 4.2: Vigorous pursuit of cost reductions

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Neutral	5	13.9	13.9	13.9			
	Somehow	8	22.2	22.2	36.1			
	Much	8	22.2	22.2	58.3			
	Very much	15	41.7	41.7	100.0			
	Total	**36**	**100.0**	**100.0**		**3.92**	**1.11**	**1.22**

The findings in table 4.2 above show that the respondent commercial banks adopted vigorous pursuit of cost reductions. as indicated by 22% of the respondents whose response was "somehow". 22% of the respondents indicated "much" and 42% of the respondents indicated "very much".

4.3.1.2 Providing Outstanding Customer Service

The responses with respect to providing outstanding customer care are summarized and presented in table 4.3 below.

Table 4.3: Providing outstanding customer service

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Neutral	3	8.3	8.3	8.3			
	Somehow	8	22.2	22.2	30.6			
	Much	11	30.6	30.6	61.1			
	Very much	14	38.9	38.9	100.0			
	Total	**36**	**100.0**	**100.0**		**4.00**	**0.99**	**0.97**

Findings in table 4.3 above show that in order to gain competitive advantage, the respondent commercial banks adopt the provision of outstanding customer care, as indicated by 92% of the respondents.

4.3.1.3 Improving Operational Efficiency

The responses with respect to improving operational efficiency are summarized and presented in table 4.4 below.

Table 4.4: Improving operational efficiency

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	1	2.8	2.8	2.8			
	Neutral	3	8.3	8.3	11.1			
	Somehow	9	25.0	25.0	36.1			
	Much	10	27.8	27.8	63.9			
	Very much	13	36.1	36.1	100.0			
	Total	**36**	**100.0**	**100.0**		**3.86**	**1.10**	**1.21**

Findings in table 4.4 above show that improving operational efficiency is one of the strategic practices adopted by commercial banks in order to remain competitive, as indicated by 25% of the respondents whose response was "somehow". 28% of the respondents indicated "much" and 36% of the respondents indicated "very much".

4.3.1.4 Controlling Quality of Products/Services

The responses with respect to controlling quality of products/services are summarized and presented in table 4.5 below.

Table 4.5: Controlling quality of products/services

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	4	11.1	11.1	11.1			
	Neutral	6	16.7	16.7	27.8			
	Somehow	8	22.2	22.2	50.0			
	Much	10	27.8	27.8	77.8			
	Very much	8	22.2	22.2	100.0			
	Total	**36**	**100.0**	**100.0**		**3.33**	**1.31**	**1.71**

Findings in table 4.5 above show that controlling quality of products/services is one of the strategies adopted by commercial banks to remain competitive, as indicated by 22% of the respondents, whose response was "somehow". 28% of the respondents indicated "much" and 22% of the respondents indicated "very much".

4.3.1.5 Intense Supervision of Frontline Personnel.

The responses with respect to intense supervision of frontline personnel are summarized and presented in table 4.6 below.

Table 4.6: Intense supervision of frontline personnel

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	2	5.6	5.6	5.6			
	Neutral	3	8.3	8.3	13.9			
	Somehow	10	27.8	27.8	41.7			
	Much	9	25.0	25.0	66.7			
	Very much	12	33.3	33.3	100.0			
	Total	**36**	**100.0**	**100.0**		**3.72**	**1.19**	**1.41**

The findings in table 4.6 above show that intense supervision of frontline personnel is one of the strategies adopted by commercial banks. as indicated by 28% of the respondents who indicated "somehow", 25% of the respondents indicated "much" and 33% of the respondents indicated "very much".

4.3.1.6 Developing brand or company name identification

The responses pertaining to developing brand or company name identification are summarized and presented in table 4.7 below.

Table 4.7: Developing brand or company name identification Table 4.7: Developing brand or company name identification

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	2	5.6	5.6	5.6			
	Neutral	2	5.6	5.6	11.1			
	Somehow	9	25.0	25.0	36.1			
	Much	11	30.6	30.6	66.7			
	Very much	12	33.3	33.3	100.0			
	Total	**36**	**100.0**	**100.0**		**3.81**	**1.14**	**1.30**

Findings in table 4.7 above show that developing brand or company name identification was adopted by commercial banks, as indicated by 25% of the respondents whose response was "somehow", 31% of the respondents indicated "much" and 33% of the respondents indicated "very much".

4.3.1.7 Targeting a specific market niche or segment

With respect to targeting a specific market niche or segment, the responses are summarized and presented in table 4.8 below.

Table 4.8: Targeting a specific market niche or segment

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	1	2.8	2.8	2.8			
	Neutral	1	2.8	2.8	5.6			
	Somehow	10	27.8	27.8	33.3			
	Much	12	33.3	33.3	66.7			
	Very much	12	33.3	33.3	100.0			
	Total	36	100.0	100.0		**3.92**	**1.00**	**0.99**

Findings in table 4.8 above show that the respondent commercial banks adopted the targeting of specific market niche or segment in order to remain competitive, as indicated by 28% of the respondents whose response was "somehow", 33% of the respondents indicated "much", and 33% of the respondents indicated "very much".

4.3.1.8 Providing specialty products/services

With respect to providing specialty products/services, the responses are summarized and presented in table 4.9 below.

Table 4.9: Providing specialty products/services

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Not at all	1	2.8	2.8	2.8			
	Neutral	3	8.3	8.3	11.1			
	Somehow	7	19.4	19.4	30.6			
	Much	11	30.6	30.6	61.1			
	Very much	14	38.9	38.9	100.0			
	Total	36	100.0	100.0		**3.94**	**1.09**	**1.20**

The findings in table 4.9 above show that provision of specialty products/services is one of the strategies adopted by commercial banks in Kenya in a bid to remain competitive. The responses show that whereas 19% of the respondents indicated "somehow". 31% indicated "much" and 39% indicated "very much".

4.3.2 Relationship between the competitive strategies used by commercial banks in Kenya and their performance

In order to meet the second objective of the study, "to establish the relationship between the competitive strategies used by commercial banks in Kenya and their performance", the respondents were asked to rate how their respective organizations compared with competitors on the basis of listed performance indicators over the most recent three year period. The responses are summarized and presented as follows:

Table 4.10: Total Revenue Growth

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Lowest (1-20%)	9	25.0	25.0	25.0			
	Lower (21 - 40%)	6	16.7	16.7	41.7			
	Middle (41 - 60%)	3	8.3	8.3	50.0			
	Next (61-80%)	4	11.1	11.1	61.1			
	Top (81 - 100%)	14	38.9	38.9	100.0			
	Total	**36**	**100.0**	**100.0**		**3.22**	**1.69**	**2.86**

With respect to total revenue growth. 25% of the respondents indicated that they belonged to the lowest bracket (1 – 20%). 17% of the respondents indicated that their respective organizations belonged to the lower bracket (21 – 40%). 8% of the respondent commercial banks belonged to the middle bracket (41 – 60%). 11% of the respondent banks belonged to the next bracket (61 – 80%) and 39% of the respondents belonged to the top bracket (81 – 100%).

Table 4.11: Total Asset Growth

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Lowest (1-20%)	1	2.8	2.8	2.8			
	Lower (21 - 40%)	7	19.4	19.4	22.2			
	Middle (41 - 60%)	7	19.4	19.4	41.7			
	Next (61-80%)	8	22.2	22.2	63.9			
	Top (81 - 100%)	13	36.1	36.1	100.0			
	Total	**36**	**100.0**	**100.0**		**3.69**	**1.24**	**1.53**

With respect to total asset growth, the responses show that 3% of the respondent banks belonged to the lowest bracket (1-20%), 19% of the respondent banks belonged to the lower bracket (21 – 40%), 19% of the respondent banks belonged to the middle bracket (41 – 60%), 22% of the respondents belonged to the next bracket (61 – 80%) and 36% belonged to the top bracket (81 – 100).

Table 4.12: Net Income Growth

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Lowest (1-20%)	2	5.6	5.6	5.6			
	Lower (21 - 40%)	2	5.6	5.6	11.1			
	Middle (41 - 60%)	6	16.7	16.7	27.8			
	Next (61-80%)	10	27.8	27.8	55.6			
	Top (81 - 100%)	16	44.4	44.4	100.0			
	Total	36	100.0	100.0		**4.00**	**1.17**	**1.37**

With respect to net income growth, the findings show that 6% of the respondent commercial banks belonged to the lowest bracket (1 – 20%), 6% of the respondent banks belonged to the lower bracket (21 – 40%), 17% of the respondent commercial banks belonged to the middle bracket (41 – 60%), 56% of the banks belonged to the next bracket (61 – 80%) and 44% of the banks belonged to the top bracket (81 – 100%).

Table 4.13: Market Share Growth

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Lowest (1-20%)	8	22.2	22.2	22.2			
	Lower (21 - 40%)	5	13.9	13.9	36.1			
	Middle (41 - 60%)	8	22.2	22.2	58.3			
	Next (61-80%)	4	11.1	11.1	69.4			
	Top (81 - 100%)	11	30.6	30.6	100.0			
	Total	**36**	**100.0**	**100.0**		**3.14**	**1.55**	**2.41**

Findings in table 4.13 show that with respect to market share growth, 22% of the respondent commercial banks belonged to the lowest bracket (1 – 20%), 14% of the banks belonged to the lower bracket (21 – 40%), 22% of the banks belonged to the middle bracket (41 – 60%), 11% of the respondents belonged to the next bracket (61 – 80%) and 31% of the respondent banks belonged to the top bracket (81 – 100%).

Table 4.14: Overall Performance or Growth

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean	Standard deviation	Variance
Valid	Lowest (1-20%)	3	8.3	8.3	8.3			
	Lower (21 - 40%)	4	11.1	11.1	19.4			
	Middle (41 - 60%)	11	30.6	30.6	50.0			
	Next (61-80%)	4	11.1	11.1	61.1			
	Top (81 - 100%)	14	38.9	38.9	100.0			
	Total	**36**	**100.0**	**100.0**		**3.61**	**1.34**	**1.79**

With respect to overall performance and growth, findings of the study in table 4.13 above show that 8% of the of the respondents belonged to the lowest bracket (1-20%), 11% of the respondents belonged to the lower bracket (21 – 40%), 31% of the respondents belonged to the middle bracket (41 – 60%), 11% of the respondents belonged to the next bracket (61 – 80%) and 39% of the respondents belonged to the top bracket (81 – 100%).

Table 4.15: Correlation between strategies adopted and performance of commercial banks in Kenya

Table 4.15 presents the correlation between the strategies adopted by commercial banks and their respective performance. Controlling for the strategies adopted – vigorous pursuit of cost reduction; providing outstanding customer service; improving operational efficiency; controlling quality of products/services; intense supervision of frontline personnel; developing brand or company name identification; targeting a specific market niche or segment; and providing specialty products/services.

Table 4.15: Correlation between competitive strategies used by commercial banks and total revenue growth

Total Revenue Growth		Vigorous pursuit of cost reductions	Provision of outstanding customer service	Improving operational efficiency	Controlling quality of products/services	Intense supervision of frontline personnel	Developing brand or company name identification	Targeting a specific market niche or segment	Providing specialty products/ services
Lowest (1-20%)	Mean	3.00	4.00	4.00	3.67	4.22	3.56	3.67	2.78
	N	9	9	9	9	9	9	9	9
	Std. Deviation	1.32	.87	1.32	1.00	1.39	1.33	.71	1.09
Lower (21 - 40%)	Mean	4.50	3.50	3.33	2.67	2.50	3.17	4.33	4.50
	N	6	6	6	6	6	6	6	6
	Std. Deviation	.84	.55	1.21	1.63	.84	.75	.82	.55
Middle (41 - 60%)	Mean	4.67	4.00	4.33	3.33	4.33	4.67	4.00	4.67
	N	3	3	3	3	3	3	3	3
	Std. Deviation	.58	1.00	1.15	1.53	.58	.58	1.00	.58
Next (61-80%)	Mean	4.25	4.50	3.75	2.25	4.25	4.75	3.75	4.75
	N	4	4	4	4	4	4	4	4
	Std. Deviation	.96	.58	.50	1.50	.50	.50	1.50	.50
Top (81 - 100%)	Mean	4.00	4.07	3.93	3.71	3.64	3.79	3.93	4.07
	N	14	14	14	14	14	14	14	14
	Std. Deviation	.88	1.27	1.07	1.14	1.08	1.19	1.14	.92
Total	Mean	3.92	4.00	3.86	3.33	3.72	3.81	3.92	3.94
	N	36	36	36	36	36	36	36	36
	Std. Deviation	1.11	.99	1.10	1.31	1.19	1.14	1.00	1.09

Table 4.16: Correlation between competitive strategies used by commercial banks and Total Asset Growth

Total Revenue Growth		Vigorous pursuit of cost reductions	Provision of outstanding customer service	Improving operational efficiency	Controlling quality of products/ services	Intense supervision of frontline personnel	Developing brand or company name identification	Targeting a specific market niche or segment	Providing specialty products/ services
Lowest (1-20%)	Mean	3.00	3.00	3.00	3.00	3.00	2.00	3.00	2.00
	N	1	1	1	1	1	1	1	1
	Std. Deviation	.	.	.	.	.	.	.	.
Lower (21 - 40%)	Mean	4.14	3.14	3.14	3.00	3.14	3.57	3.29	4.29
	N	7	7	7	7	7	7	7	7
	Std. Deviation	.90	1.07	1.07	1.41	.90	.79	.49	.95
Middle (41 - 60%)	Mean	4.00	3.86	3.71	3.43	2.86	3.71	4.86	4.43
	N	7	7	7	7	7	7	7	7
	Std. Deviation	.82	1.07	1.11	1.51	1.07	1.11	.38	.53
Next (61-80%)	Mean	4.38	4.50	4.13	3.00	4.25	4.75	4.00	4.25
	N	8	8	8	8	8	8	8	8
	Std. Deviation	.92	.76	.83	1.60	.46	.46	1.07	1.04
Top (81 - 100%)	Mean	3.54	4.31	4.23	3.69	4.23	3.54	3.77	3.46
	N	13	13	13	13	13	13	13	13
	Std. Deviation	1.39	.75	1.17	1.03	1.36	1.33	1.09	1.20
Total	Mean	3.92	4.00	3.86	3.33	3.72	3.81	3.92	3.94
	N	36	36	36	36	36	36	36	36
	Std. Deviation	1.11	.99	1.10	1.31	1.19	1.14	1.00	1.09

Table 4.17: Correlation between competitive strategies used by commercial banks and Net Asset Growth

Total Revenue Growth		Vigorous pursuit of cost reductions	Provision of outstanding customer service	Improving operational efficiency	Controlling quality of products/ services	Intense supervision of frontline personnel	Developing brand or company name identification	Targeting a specific market niche or segment	Providing specialty products/ services
Lowest (1-20%)	Mean	3.50	4.00	2.00	2.50	4.00	3.00	4.00	2.50
	N	2	2	2	2	2	2	2	2
	Std. Deviation	.71	1.41	1.41	.71	1.41	1.41	1.41	.71
Lower (21 - 40%)	Mean	2.00	3.50	4.00	3.50	5.00	4.50	4.00	3.50
	N	2	2	2	2	2	2	2	2
	Std. Deviation	.00	.71	.00	.71	.00	.71	.00	2.12
Middle (41 - 60%)	Mean	3.50	3.83	4.50	4.00	4.00	3.50	3.83	3.83
	N	6	6	6	6	6	6	6	6
	Std. Deviation	1.64	.75	.84	1.26	1.26	.55	.75	.98
Next (61-80%)	Mean	4.20	3.80	3.80	2.60	3.40	4.00	3.30	3.70
	N	10	10	10	10	10	10	10	10
	Std. Deviation	.92	1.32	1.03	1.17	1.26	1.33	.82	1.25
Top (81 - 100%)	Mean	4.19	4.25	3.88	3.63	3.63	3.81	4.31	4.38
	N	16	16	16	16	16	16	16	16
	Std. Deviation	.83	.86	1.09	1.36	1.15	1.22	1.08	.81
Total	Mean	3.92	4.00	3.86	3.33	3.72	3.81	3.92	3.94
	N	36	36	36	36	36	36	36	36
	Std. Deviation	1.11	.99	1.10	1.31	1.19	1.14	1.00	1.09

Table 4.18: Correlation between competitive strategies used by commercial banks and Market Share Growth

Total Revenue Growth		Vigorous pursuit of cost reductions	Provision of outstanding customer service	Improving operational efficiency	Controlling quality of products/ services	Intense supervision of frontline personnel	Developing brand or company name identification	Targeting a specific market niche or segment	Providing specialty products/ services
Lowest (1-20%)	Mean	3.38	3.75	3.50	3.38	4.38	3.87	4.00	3.63
	N	8	8	8	8	8	8	8	8
	Std. Deviation	1.30	.71	1.31	.92	.92	.99	.76	1.30
Lower (21 - 40%)	Mean	4.00	3.80	4.00	2.60	3.60	3.60	4.60	4.60
	N	5	5	5	5	5	5	5	5
	Std. Deviation	1.41	.84	.71	1.52	1.14	.55	.89	.89
Middle (41 - 60%)	Mean	3.63	4.50	4.38	3.75	3.50	4.25	3.13	3.87
	N	8	8	8	8	8	8	8	8
	Std. Deviation	.92	.76	.74	1.28	1.31	.71	1.25	1.25
Next (61-80%)	Mean	4.50	3.25	3.25	2.25	3.25	4.00	3.50	3.25
	N	4	4	4	4	4	4	4	4
	Std. Deviation	.58	1.50	1.26	1.26	1.26	1.15	.58	1.26
Top (81 - 100%)	Mean	4.27	4.18	3.91	3.73	3.64	3.45	4.27	4.18
	N	11	11	11	11	11	11	11	11
	Std. Deviation	1.01	1.08	1.22	1.35	1.29	1.63	.79	.75
Total	Mean	3.92	4.00	3.86	3.33	3.72	3.81	3.92	3.94
	N	36	36	36	36	36	36	36	36
	Std. Deviation	1.11	.99	1.10	1.31	1.19	1.14	1.00	1.09

Table 4.19: Correlation between competitive strategies used by commercial banks and Overall Performance or growth

Total Revenue Growth		Vigorous pursuit of cost reductions	Provision of outstanding customer service	Improving operational efficiency	Controlling quality of products/ services	Intense supervision of frontline personnel	Developing brand or company name identification	Targeting a specific market niche or segment	Providing specialty products/ services
Lowest (1-20%)	Mean	4.33	3.33	3.67	2.67	3.33	3.33	3.33	3.67
	N	3	3	3	3	3	3	3	3
	Std. Deviation	1.15	.58	.58	.58	1.53	1.53	1.53	1.53
Lower (21 - 40%)	Mean	2.75	3.75	4.50	3.25	4.50	4.25	4.00	4.00
	N	4	4	4	4	4	4	4	4
	Std. Deviation	1.50	.50	.58	1.71	.58	.50	.82	1.15
Middle (41 - 60%)	Mean	4.18	3.82	3.73	3.45	3.45	3.55	4.09	4.00
	N	11	11	11	11	11	11	11	11
	Std. Deviation	.98	.98	1.19	1.57	1.29	1.29	.83	.77
Next (61-80%)	Mean	3.50	5.00	4.25	3.00	4.25	4.25	3.00	4.25
	N	4	4	4	4	4	4	4	4
	Std. Deviation	1.00	.00	.96	1.83	.50	.96	1.41	.50
Top (81 - 100%)	Mean	4.07	4.07	3.71	3.50	3.64	3.86	4.14	3.86
	N	14	14	14	14	14	14	14	14
	Std. Deviation	1.00	1.14	1.27	1.02	1.28	1.17	.86	1.41
Total	Mean	3.92	4.00	3.86	3.33	3.72	3.81	3.92	3.94
	N	36	36	36	36	36	36	36	36
	Std. Deviation	1.11	.99	1.10	1.31	1.19	1.14	1.00	1.09

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents conclusions drawn from the research findings and the recommendations for practice and for further studies.

5.2 Conclusions

Findings of the study show that there is a direct correlation between the number of full time employees and the number of branches owned by commercial banks. The findings also show that majority of the respondents (78%) had worked in their respective organizations for more than 5 years, a period long enough to understand operations of their respective banks. The responses were thus expected to be objective.

The findings also show that the strategies adopted by commercial banks in Kenya so as to cope with the competitive environment include vvigorous pursuit of cost reductions; providing outstanding customer service; improving operational efficiency; controlling quality of products/services; intense supervision of frontline personnel; developing brand or company name identification; targeting a specific market niche or segment; and providing specialty products/services.

The findings also show a significant relationship between the strategies adopted by commercial banks in Kenya and their respective performances with respect to the following objective performance indicators: total revenue growth, total asset growth, net income growth, market share growth and overall performance or growth.

5.3 Limitations of the Study

The scope of the study could be a limiting factor in that only 36 commercial banks participated in the study out of the total of 45. The findings may thus not be representative of the whole population of the commercial banks.

Though the researcher was determined to undertake the study to completion within the given time frame, various constraints were encountered as earlier envisaged. The time allocated for data collection may not have been sufficient to enable the respondents complete the questionnaires as accurately as possible, considering that they were at the same time carrying out their daily duties and priority is of essence. The researcher preferred to administer the data collection tools to only the CEOs, however, this was practically not possible as some of them delegated this request since they were either too busy or were away on official duties.

The competitive nature of the banking sector in Kenya also meant that some of the information sought was of confidential nature and could not be divulged for fear of giving a potential competitor an upper hand. The respondents were however re-assured that all information provided would be treated confidentially.

5.4 Recommendations for further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researches. The following areas of further research are thus suggested: Whereas the current study focused on competitive business strategies and firm performance in commercial banks in Kenya, future studies should seek to establish whether the same strategies are applicable to other sectors of the economy. Further studies should also focus on the challenges faced in implementation of the competitive strategies and the possible mechanisms that could be employed to overcome the challenges.

5.5 Recommendations for policy and practice

In view of the findings of the study, the following strategies recommended for adoption by commercial banks in order to cope with the competition: Adoption of vigorous pursuit of cost reductions, provision of outstanding customer service, improving operational efficiency, controlling quality of products/services, intense supervision of frontline personnel, development of brand or company name identification, targeting a specific market niche or segment, and providing specialty products/services. The more of the stated strategies the banks adopt, the more competitive they will be.

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APPENDIX I: LIST OF COMMERCIAL BANKS AS LISTED IN THE CENTRAL BANK OF KENYA COMMERCIAL BANKS DIRECTORY

(Peer classification is as per The Banking Survey Kenya 2008 publication)

No.	Name of Commercial Bank	Peer Ranking
1.	African Banking Corporation Limited	tier 11
2.	Bank of Africa Kenya Ltd	11
3.	Bank of Baroda (K) Ltd	11
4.	Bank of India	11
5.	CFC Bank Ltd	1
6.	Chase Bank	11
7.	Citibank N.A. Kenya	1
8.	Charterhouse Bank	
9.	City Finance Bank Ltd	111
10.	Co-operative Bank of Kenya Ltd	1
11.	Commercial Bank of Africa Ltd	1
12.	Consolidate Bank of Kenya	111
13.	Credit Bank	111
14.	Development Bank of Kenya	111
15.	Diamond Trust Bank Ltd	1
16.	Dubai Bank Kenya Ltd	111
17.	EABS Bank Ltd	11
18.	Equatorial Commercial Bank Ltd	111
19.	Equity Bank	1
20.	Family Bank Ltd	11
21.	Fidelity Commercial Bank Ltd	111
22.	Fina Bank Ltd	11
23.	Giro Commercial Bank Ltd	11
24.	Guardian Bank Ltd	11
25.	Habib Bank A.G. Zurich	11
26.	Habib Bank Ltd	111
27.	Housing Finance Ltd	11
28.	Imperial Bank Ltd	11
29.	Investment & Mortgages Bank Ltd	1
30.	K-Rep Bank Ltd	11
31.	Kenya Commercial Bank Limited	1
32.	Middle East Bank (K) Ltd	111
33.	Barclays Bank of Kenya Ltd	1
34.	National Bank of Kenya Ltd	1
35.	NIC Bank Ltd	1
36.	Oriental Commercial Bank Ltd	111
37.	Paramount Universal Bank Ltd	111
38.	Prime Bank Ltd	11
39.	Prime Capital and Credit Finance Ltd	111

40.	Savings and Loan (K) Ltd	
41.	Southern Credit Banking Corporation Ltd	11
42.	Stanbic Bank Kenya Ltd	1
43.	Standard Chartered Bank (K) Ltd	1
44.	Transnational Bank Ltd	111
45.	Victoria Commercial Bank Ltd	111

Source: Central Bank of Kenya (CBK) (2008)

APPENDIX II: QUESTIONNAIRE

This questionnaire has been designed to collect information from the selected Chief Executive Officers of Commercial banks in Kenya and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: BACKGROUND INFORMATION

1. Name of bank (Optional)____
2. For how long has this bank been in operation in Kenya? (Tick as appropriate)
   a. Less than 1 year [ ]
   b. 1 to 5 years [ ]
   c. 6 to 10 years [ ]
   d. 16 years and above [ ]

3. How many full time employees does the organization have (Pleas tick as appropriate)?
(a) Less than 25 [ ]
(b) 26 to 50 [ ]
(c) 51 to 75 [ ]
d) 76 to 100 [ ]
(e) 101 and above [ ]

4. Using the categories below, please indicate the number of branches you have in Kenya
(a) Less than 5 [ ]
(b) Between 5-10 [ ]
(c) Between 11-20 [ ]
(d). Above 20 [ ]

5. For how long have you worked in the organization? (Tick as appropriate)
(a) Less than 1 year [ ]
(b) Between 1 and 5 years [ ]
(c) Between 6 and 10 years [ ]
(d) Between 11 and 15 years [ ]
(e) 16 years and above [ ]

SECTION II: USE OF COMPETITIVE STRATEGIES BY COMMERCIAL BANKS IN KENYA

6. Competitive strategies used by commercial banks

Listed below are possible strategic practices used by organizations. With respect to your organization, indicate the extent to which each of the listed strategic practice is used. (Tick as appropriate)

Strategic practices used	Response				
	Very much	Much	Somehow	Very little	Somewhat/enough
Vigorous pursuit of cost reductions					
Providing outstanding customer service					
Improving operational efficiency					
Controlling quality of products/services					
Intense supervision of frontline personnel					
Developing brand or company name identification					
Targeting a specific market niche or segment					
Providing specialty products/services					
Others (Specify)					

7. Performance of commercial banks

Rating of how the banks compare to competitors on the basis of the listed performance indicators. Comparison of banks' performance level to competitors for each of the five items, over the most recent three-year period organization.

Objective performance indicators	**Average over three years**					
	Lowest 1-20 percent	**Lower 21-40 percent**	**Middle 41-60 percent**	**Next 61-80 percent**	**Top 81-100 percent**	**Not applicable**
Total revenue growth						
Total asset growth						
Net income growth						
Market share growth						
Overall performance or growth						

THANK YOU.