

**THE RELATIONSHIP BETWEEN INNOVATION  
STRATEGIES AND COMPETITIVE ADVANTAGE  
AMONG BANKS LISTED IN THE NAIROBI STOCK  
EXCHANGE**

**BY**

**KEVIN KIPLIMO BWALEY**

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**DECLARATION**

This is my original work and has not been submitted for examination in any other university.

Signature.....Date .....

**KEVIN KIPLIMO BWALEY**

**D61/8800/2006**

This research project has been submitted for examination with my approval of university supervisor.

Signature..... Date .....

**DR. JOHN YABS**

**LECTURER**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

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## **DEDICATION**

I dedicate this project first to God, my divine inspiration and secondly to Janet Chirchir for her unlimited support during my study period.

## **ABSTRACT**

In the recent years, the theory of sustainable competitive advantage has emerged as one of the most promising theoretical frameworks in management literature especially in the field of strategic management. Porter, (1985) focused on a firm's differential advantage or uniqueness as sources of sustainable competitive advantage. Later Barney, (1991) deliberately enhanced the concept by appreciating the importance of skills, assets or a firm's competitive resources as sources of sustainable competitive advantage. In the 21st century according to Swee and Balakrihnan, (2010) there has been a paradigm shift resulting in creation of new terminologies such as the learning organization, knowledge management, management information systems, technology and innovation, globalization etc. as sources of sustainable competitive advantage.

Opportunities in the banking industry still exists in the next few years, with the focus areas being expanding current product offering, increasing product penetration, bringing the un-banked to financial system, and capitalizing on the new consumer class by developing innovative services and channel offerings and innovations have been overly underpinned as a tool for enhancing competitive advantage.

Innovation strategy helps a company in three ways, exciting its customers, outperforming competitors, and building a new product portfolio. Thus, banks must continue to innovate in order to meet the changing needs and desires of the consumer, while at the same time developing new fee structures to migrate consumers away from high-cost delivery systems.

The main aim of the study was to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange.

This study will be valuable to banking industry especially to decision makers in the creation of growth strategies, new product categories and services, the government would find the findings useful in establishing a conducive environment for technology adoption and innovations for banks and financial policy makers in understanding the risks of technology and innovations, it will also help other companies by exciting its customers, outperforming competitors, and building a new product portfolio in formulation of

innovations strategies that are competitive and customers in their quest to maximize the customer satisfaction value from technology and innovations and to academicians will form a body of knowledge innovation strategies and competitive advantage.

The research targeted respondents from banks listed on the NSE. Census survey design since the population was small and the issues of analysis were critical. Secondary data was collected from various websites of banks, banking journals, MIS journals and relevant texts. Primary data was collected using drop and pick questionnaires on head of change and strategies, functional heads, research divisions, information and technology management division.

The researcher concluded that majority of the banks have adopted and innovated various strategies so as to gain competitive advantage. The innovations and changes in these banks mainly concentrated on introduction of Auto cash systems and change of the banking systems. This has further resulted to increased benefits such as higher customer satisfaction, expanded market share, reduced operations turn around time and moreover, increased profits to the banks.

The limitation of this study was that it was carried out on all commercial banks listed in the NSE. Future research should also be carried out on other commercial banks not listed and whose innovation advancement is at moderate level; this will be important because it will show the strategies the small banks have adopted. The data collection was based on questionnaires. Further research can be carried by involving the respondents on discussions so as to get their view on the innovations and strategies that they think can sustain an organizations competitive advantage

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Innovation strategy helps a company in three ways: exciting its customers, outperforming competitors, and building a new product portfolio. Thus, banks must continue to innovate in order to meet the changing needs and desires of the consumer, while at the same time developing new fee structures to migrate consumers away from high-cost delivery systems. This blend of innovation and behavior change lies at the heart of the modern banking organization.

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

The banking industry plays a central role in every economy, Kenya economy would be unable to function without the many forms of bank services. Banks extends loans to businesses and private persons making it possible for them to invest. Furthermore bankers play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way they become very effective partners in the process of economic development.

Kenya has 44 commercial banks as per 2009 CBK report, the financial and investment sector at the NSE has 15 listed companies among those are 9 banks that form the population of this study. This paper reviews a multi-year research census survey to determine the relationship between innovation strategies and competitive advantage for banks listed on the Nairobi stock exchange.

### **1.1.1 The Concept of Strategy**

Strategic management is the process and approach of specifying an organization's objectives, developing policies and plans to achieve and attain these objectives, and allocating resources so as to implement the policies and plans. Strategic management is a combination of strategy formulation, implementation and evaluation. Thompson & Strickland, (2003) outlines the strategy of an organization as the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance.

Goh, (2004) outlines strategy as the commercial logic of a business that defines why a firm can have a competitive advantage, he further outlines strategy as what a company does and how it actually positions itself commercially and conducts the competitive battle, never the less, Johnson Scholes & Whitting ton, (2008), defines Strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

Mintzberg, (1990) defines the concept of strategy as a multi faceted element encompassing plan, ploy, pattern, position and or perspective. Porter, (1991) argued there are only three basic approaches of competitive strategy. These are low cost, product/service differentiation and marker segmentation. Porter's Five Forces Model of Competition outlines the power of the buyers, power of the suppliers, the existence of substitute products, the ease of entry, and the actual extent of rivalry among the competing firms in the focal industry are used to determine the degree of competition within the industry. The resource base view advanced by Wernefelt, (1984) states that strategy of a firm is a function of the complement of the resources the firm held. The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies.

### **1.1.2 Innovation Strategy**

In the last one year, Innovation is concerned with exploration of new technology and is fundamentally different from incremental innovation that is concerned with exploitation of existing technology. Radical innovation is a product, process, or service with either unprecedented performance features or familiar features that offer potential for significant improvements in performance and cost. It creates such a dramatic change in processes, products, or services that they transform existing markets or industries, or create new ones. (Barney, 1991).

Business strategy as a field of study is concerned with how a company competes in its chosen business. It deals with the analysis of a firm's strengths and weaknesses and the opportunities and threats presented by the firm's environment. Strategy looks toward consistent execution of broad plans to achieve certain levels of performance. Innovation strategy determines to what degree and in what way a firm attempts to use innovation to execute its business strategy and improve its performance. (Goh, 2004).

Roger, (1983) defines innovation is sometimes used in a limited sense to refer only to inventions (products, services, or administrative procedures that no other firm has introduced). More often, however, it applies in a more general sense that includes both invention as described above and imitation (adoption by a firm of a product, service, or administrative procedure that is not an invention but is new to that firm). We use the term in this second sense and to choose an innovation strategy, managers might logically start by thinking about various kinds of innovations and their requirements.

Innovations can be characterized in a variety of ways. In the following sections we will review three ways of describing innovations: incremental/radical; first mover/late mover; and imitative/inventive. The three categories are not mutually exclusive. However, each points to a different feature of innovation and reveals insights not found as readily in the other two. Strategic Innovation is the creation of growth strategies, new product categories, services or business models that change the game and generate significant new value for customers and the corporation. Many organizations rely on serendipitous acts of creativity to foster innovation. Others take an ad hoc unstructured approach, which often results in uninspired incremental improvements or poor implementation. (Goh, 2004).

Strategic innovation is a holistic systematic approach focused on generating beyond incremental, breakthrough or discontinuous innovations. Innovation becomes "strategic" when it is an intentional repeatable process that creates a significant difference in the value delivered to consumers, customers, partners and the corporation. A strategic innovation initiative generates a portfolio of breakthrough business growth opportunities using a disciplined yet creative process. (Wernerfelt, 1984).

### **1.1.3 Competitive Advantage**

A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. This perception is brought about by the strategic approach a firm chooses to follow either as a single approach or as a combination of the three approaches being least cost factor, the differentiation approach or the focus approach. Established companies do their best to maintain proprietary shields to ward off prospective as well as existing competitors. Consequently, the entrepreneur who would create a new competitor to attack them needs some sort of "entry wedge," or strategic competitive advantage for breaking into the established pattern of commercial activity. (Omollo, 2008).

A number of factors determine the level of competition within an industry. Several typologies have been developed to categorize these competitive forces. Porter, (1991) identifies five factors that determine the nature and degree of competition in an industry: Bargaining power of buyers, threat of substitutes, bargaining power of suppliers, rivalry among existing competitors, and threat of new competitors.

To a large degree, these five market forces collectively determine the ability of a firm, whether large or small, to be successful. Obviously, all industries are not alike; therefore, each force has varying impact from one situation to the next. Porter identifies numerous elements of industry structure that influence these five factors. Detailed explanation of them is, however, beyond the scope of this discussion.

These factors influence the creation of a competitive advantage as follows: Buyer power influences the prices that firms can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service.

The bargaining power of suppliers determines the cost of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry places a limit on prices and shapes the investment required to deter entrants. (Gitonga, 2003).

The more completely entrepreneurs understand the underlying forces of competitive pressure, the better they will be able to assess market opportunities or threats facing their venture. Obviously, which forces dominate industry competition depend on the particular circumstances. Therefore, the challenge to the entrepreneur is to recognize and understand these forces so that the venture is positioned best to cope with the industry environment. (Porter, 1991).

#### **1.1.4 The Kenyan Banking Industry**

In the last one year, banks have pursued revenue growth strategies based on their ability to acquire new customers and cross-selling more products and services to existing customers by leveraging on technology. Several banks upgraded their core banking systems to either Flexcube or T24. With globalization and increased accessibility to electronic delivery channels for products and services, banks are continuously innovating to provide a wide range of electronic products and services. The enhanced ICT platforms have enabled banks to introduce internet and mobile banking services and products such as viewing of statements of accounts, enquiries on status of cheques, cheque book requests, notification of entries into accounts, transfer of funds between designated accounts and utility payment services on both internet and mobile platforms. (Gitonga, 2003).

Opportunities in the banking industry still exists in the next few years, with the focus areas being expanding current product offering, increasing product penetration, bringing the un-banked to financial system, and capitalizing on the new consumer class by developing innovative services and channel offerings and innovations have been overly underpinned as a tool for enhancing competitive advantage.(Goh, 2004).

Electronic banking is fast becoming popular in the banking industry as transactions can be carried out faster and in a safe and secure manner. Furthermore, advanced technologies provide banks with valuable help because traditional legacy systems have hindered the prompt delivery of banking services and the integration of customer information. The number of commercial banks providing electronic banking services stood at 33 out of the 44 banks as at December 31, 2009. In addition, 19 banks out of the 33 banks, offer electronic overseas money transfer services in collaboration with various international money transfer agents. (Central Bank of Kenya, 2009).

Bank in Kenya play the role of financial intermediaries as entities that connects surplus and deficit agents of capital by advancing loans and encouraging savings. According to the central bank of Kenya supervision report of 2009, as at 31st December 2009, the banking sector was composed of 46 institutions, 44 of which were commercial banks and 2 mortgage finance companies. The census survey study will cover banks quoted on the NSE. These banks are Barclays Bank of Kenya Ltd, CFC Stanbic Bank Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, Diamond Trust Bank of Kenya Ltd, Standard Chartered Bank Ltd, NIC Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd. (Central Bank of Kenya, 2009).

## **1.2 Research Problem**

In the recent years, the theory of sustainable competitive advantage has emerged as one of the most promising theoretical frameworks in management literature especially in the field of strategic management. Porter, (1985) focused on a firm's differential advantage or uniqueness as sources of sustainable competitive advantage. Later Barney, (1991) deliberately enhanced the concept by appreciating the importance of skills, assets or a firm's competitive resources as sources of sustainable competitive advantage. In the 21st century according to Swee and Balakrihnan, (2010) there has been a paradigm shift resulting in creation of new terminologies such as the learning organization, knowledge management, management information systems, technology and innovation, globalization etc. as sources of sustainable competitive advantage.

Kihumba, (2008) indicates that financial innovation in Kenya has been influenced by heavy competition, financial service markets, technological facilities, size of financial institutions, macro economic conditions, legislation and financial supervision and risk,



while (Omollo, 2008) contends that standard chartered bank has been able to introduce various innovative strategies ranging from product, technological to customer care thus contributing enormously to its profitability over the years. He suggests further research on standard chartered competitive advantage.

Players in this banking sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Banks must continue to innovate in order to meet the changing needs and desires of the consumer, while at the same time developing new fee structures to migrate consumers away from high-cost delivery systems. This blend of innovation and behavior change lies at the heart of the modern banking organization. (Kotler, 2000).

The resultant force is that these forces impel banks to leverage the developments in information technology to create new products and services for the consumer. This opportunity drives banks to invest in innovative delivery systems, despite the need/desire to change the behavior of the consumers. (Barney, 1991).

Pushed by growing consumer demand and the fear of losing market share, banks are investing heavily in PC banking technology and they collaborate with hardware, software, telecommunications and other companies, banks are introducing new ways for consumers to access their account balances, transfer funds, pay bills, and buy goods and services without using cash, mailing a check, or leaving home. (Frei and Kalakota, 1997).

Innovations come as both inventions and adoptions. They come in many types and vary greatly in complexity and scope. Companies attempting to make a profit cannot continue for long periods without innovating. If they try, their customers will leave them for firms with more up-to-date products or services. It is an observed fact that different companies take different approaches to the use of innovation in attempting to improve their performance. (Gitonga, 2003).

Gitonga, (2003) has outlined the innovation processes and the perceived role of the CEO in the banking industry, his emphasis being on the individual, from a human resource perspective from the leadership point of view, while Otieno, (2006) in her

findings concludes that transactions viewing and balance checking were the most adopted internet usage for KCB due to staff adoption levels, Gumbo, (2006) did an investigation of broadband technology adoption in Kenya.

The case of the banking sector in Kenya, while Ombati, (2007) indicated in her survey that there is a positive relationship between technology & service quality in the banking industry in Kenya. Both academic and practitioner publications in recent years have contained a great deal of writing about innovation, the subjects of which have ranged from comparisons of national patterns of innovation to studies of individual innovations. However, little has been published regarding one issue of both theoretical and practical use of the innovation strategies of in banks. A need therefore exists to formulate a study to find out relationship between innovation strategies and competitive advantage among banks listed at Nairobi stock exchange?

### **1.3 Research Objective**

This study aimed at determining the relationship between technology and innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange.

### **1.4 Value of the Study**

This research undertaking will benefit the banking industry especially to decision makers in is the creation of growth strategies, new product categories, services or business models that change the game and generate significant new value for customers and the bank. It will also drive banks to invest in innovative delivery systems, despite the need/ desire to change the behavior of the consumers.

The government would find the findings useful in establishing a conducive environment for technology adoption and innovations for banks and financial policy makers in understanding the risks of technology and innovations.

It will also help other companies by exciting its customers, outperforming competitors, and building a new product portfolio in formulation of innovations strategies that are competitive and customers in their quest to maximize the customer satisfaction value from technology and innovations.

Both academic and practitioner publications in recent years have contained a great deal of writing about innovation, the subjects of which have ranged from comparisons of national patterns of innovation to studies of individual innovations. However, little has been published regarding one issue of both theoretical and practical use of the innovation strategies of in bank. Banks continues to introduce new products that comprised mainly of new deposit accounts and electronic banking products leveraging on mobile phone technology. To what extents do untapped, unutilized, unexploited innovations and technology inhibit the current strategy outlay and competitive advantage of banks at the NSE, This research will form a body of knowledge innovation strategies and competitive advantage.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

Innovation is the creative regeneration and application of new ideas that can achieve significant improvements in a product, activity, structure, program or policy. The introduction of the new products is mainly driven by more informed customer demands and competition in the industry, particularly in the adoption of ICT in delivery of banking services. Financial innovation is the positive change in financial intermediation or financial system in financial institutions and in financial markets. Kihumba, (2008) has outlined that financial innovation is derived at by differentiating what a bank services' and products' are from the competitor's by making the product or service cheaper, unique or more available to the customers. These products are term loans, short term bridging capital, short term deposits, various accounts, flexibility in long term deposits, letters of guarantees, invoice discounting, letters of credit, debt instruments, shares, custodial services, perfection of securities, currency exchange, RTGS, TT's, bankers cheques. Kihumba, (2008) also outlines institutional innovations as the back office efficiency and effectiveness driven by improved processes and procedures through work arounds or appropriate team dynamics enhanced through appropriate business structures.

Silber, (1975, 1983) presented the theory of constraint, which is one of the most influential theories of financial innovation; this theory considers product innovation as the response of organization to the constraint placed upon it. The industry and the environment which an organization operates in plays a critical role in so far as the actual or expressed or implied intention to introduce new products or services to the market is concerned. The role of financial institutions is to intermediate within the financial market through a an array of products and services that meet and exceed the customers expectations thus banks should be proactive enough to anticipate the competitors moves so as to reduce the numbers of attrition to its rivals. The resource-based view has indeed provided an avenue for organization to plan and execute its organizational strategy via examining the position of its internal resources and capabilities towards achieving competitive advantage.

## **2.2 Theories and Concept of Strategy**

The strategic management theories stem mainly from the systems perspective, contingency approach and information technology approach. The common strategic management theories noted and applicable are the profit-maximizing and competition-based theory, the resource-based theory, the survival-based theory, the human resource-based theory, the agency theory and the contingency theory.

The profit-maximizing and competition-based theory, which was based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. The industrial-organization (I/O) perspective is the basis of this theory as it views the organization external market positioning as the critical factor for attaining and sustaining competitive advantage, or in other words, the traditional I/O perspective offered strategic management a systematic model for assessing competition within an industry. (Porter, 1981).

The resource-based theory indicates that competitive advantage lies in internal resources, as opposed to the firm's positioning in the external environment. That is rather than simply evaluating environmental opportunities and threats in conducting business; competitive advantage depends on the unique resources and capabilities that a firm possesses. The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance. (Barney, 1991).

The survival-based theory centers on the concept that organization need to continuously adapt to its competitive environment in order to survive. This differs to the human resource-based theory, which emphasizes the importance of the human element in the strategy development of organizations. In addition, the agency theory stresses the underlying important relationship between the shareholders or owners and the agents or managers in ensuring the success of the organizations. Finally, the contingency theory draws the idea that there is no one or single best way or approach to manage organizations. Organizations should then develop managerial strategy based on the situation and condition they are experiencing. (Barney, 1991).

### **2.2.1 Innovation Strategy**

Innovation in organizations is an unfolding process consisting of stages. The initiation stage, which is the point where a new idea is introduced, sanctioned, and accepted for adoption (Rogers, 1983). The implementation stage which consists of the actual management of changes that occur in the organization as the innovation is put into operation. Zaltman et al, (1973) model emphasizes the innovation process beginning with the individual's awareness and decision to adopt an innovation. In the second stage, it focuses on organizational characteristics that affect the innovation process. Rogers, (1983) model similarly focuses on both the initiation and implementation stages of organizational innovation but considers organizational characteristics in both stages. The initiation stage of this model begins when the organization searches the environment for innovations of potential value to the organization. In the implementation stage, the innovation is modified to fit the particular organization structure and its needs. The organization structure is altered to accommodate the innovation. Methodologies of innovation currently taught and used include creativity methods such as brainstorming, Ed DeBono's Six Thinking Hats, the Combination method, Brinnovation (breakthrough innovation), Benchmarking, Complexity Theory, and TRIZ.

Technology strategy stems from the impact of information technology and the intent on the conduct of organizations, managers and workers alike. Among the management theories applicable from this view are technology and knowledge management (KM) theories, supply chain management (SCM) including the logistics, distribution and inventory theories, and strategic management (SM) theories of competitive advantage and collaborative advantage (including that of industrial-organization [I/O] perspective). This is also due to the impact of information technology on the conduct of organizations with regards to KM, SCM, and SM, and also the managerial evolution and revolution in response to dynamic environmental changes that are taking place. (Rogers, 1983).

### **2.2.2 Competitive Advantage**

In order to compete and sustain successfully, locally and globally, businesses must not only excel in their area but also persevere in the long run. Achieving such a “sustainable competitive advantage” status is not an easy task without a proper road map or strategy being outline and put into practice. The resource-based view stipulates that in strategic management, the fundamental sources and drivers to firms’ competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Barney, 1991). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Barney, (1991) examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability. In Barney, (1991) firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness. Barney, (1991) further argued that to have the potential to generate competitive advantage, a firm resource must have four attributes: it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm’s environment; it must be rare among a firm’s current and potential competition; it must be imperfectly imitable; and there cannot be strategically equivalent substitutes for this resource.

Ma, (1999) has also argued that competitive advantage arises from the differential among firms along any dimension of firm attributes and characteristics that allows one firm to better create customer value than do others. Generic sources of competitive advantage include ownership of assets or position; access to distribution and supply; as well as proficiency – knowledge, competence, and capability – in business operation. It has also been further argued that in order to achieve and sustain competitive advantage, a firm needs to creatively and proactively exploit the three generic sources, preempt rivals attempt at these sources, and/or pursue any combination of proactive and preemptive effort.

The resource-based view of the firm (RBV) has emerged in recent years as a popular theory of competitive advantage. Its basic logic is a relatively simple one. It starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving an SCA allows the firm to earn economic rents or above-average returns. The resource-based view contends that SCA is the possession of certain key resources, that is, resources having the characteristics of value, barriers to duplication and appropriability. (Fahy, 2000) This view is not dissimilar to that proposed by Barney, (1991). An SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximize returns (Fahy, 2000). In summary, following Fahy, (2000) the essential elements of the resource-based view are as follows: sustainable competitive advantage and superior performance; the characteristics and types of advantage-generating resources; and strategic choices by management.

As Porter, (1991) highlighted, there are four attributes of the proximate environment of a firm that have the greatest influence on its competitive advantage, namely, factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. O'Shaughnessy, (1996) re-affirms the validity of Porter's contribution to the discourse on competitive advantage, but suggests that his (Porter) theory is weakened by its neglect of cultural factors and historical antecedents. Training and competitive advantage found out that meeting customer needs on time, every time, is a significant route to achieving and sustaining competitive advantage, and training is a tool that organizations should use to succeed at this. However, a study by Gupta and McDaniel, (2002) on knowledge management (KM) and competitive advantage investigates the vital link between the management of knowledge in contemporary organizations and the development of a sustainable competitive advantage. The variables are conceptualized in terms of organizational effectiveness, efficiency, core competency, costs; knowledge harvesting, filtering, configuration, dissemination and application. Also, Goh, (2004) has identified that the field of knowledge management (KM) has emerged strongly as the next source of competitive advantage.



## **2.3 Empirical Studies on Innovation Strategies That Lead To Competitive Advantage for Banks at the NSE**

In Kenya, empirical studies on technology and innovation strategies that lead to competitive advantage for banks in the NSE are limited. Gitonga, (2003) study on innovation process and the role of chief executive officers found that 65 of them facilitate the innovation process. He also found out that 39 Of them considered innovation as the most important factor in achieving competitive advantage while Otieno, (2006) in her findings concludes that transactions viewing and balance checking were the most adopted internet usage for KCB due to staff adoption levels.

Kihumba, (2008) research studies focused on the determinants of financial innovation and its effects on banks performance in Kenya and concluded from her studies that heavy competition and technology are the major drivers of financial innovation. These two factors have led to great improvements in the financial sector. The major benefits based on her studies were reduced numbers of customers in the banking hall, and reduction in operation costs while geographical expansion was a moderate benefit.

Gumbo, (2006) in his investigation of broadband technology adoption in Kenya and the case of the banking sector in Kenya found that major banks in Kenya have widely adopted broad bank technologies and the benefits of those technologies were felt in regards to reduction in operation turn around time and improved customer service levels while Ombati, (2007) indicated in her survey on the relationship between technology and service quality in the banking industry in Kenya that there is a positive relationship between technology and service quality in the banking industry in Kenya, and Omollo, (2008) contends that standard chartered bank has been able to introduce various innovative strategies ranging from product, technological to customer care thus contributing enormously to its profitability over the years. He concludes by emphasizing on proactive approaches to innovation, in-depth research, idea generation, creativity and that the PESTEL analysis is key to success of the strategies

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the research design, the population of the study, data collection methodology and an outline of the analysis of the data collected from the 9 banks listed in the NSE. A census survey was carried out to establish the content aspects of the issues at hand. Quantitative and descriptive analysis was outlined using statistical analysis.

### **3.2 Research Design**

This study will be undertaken as a census survey on 9 banks listed on the Nairobi NSE. The census survey is the best approach of research design since the population is small and the issues of analysis are critical. The census survey will allow data to be collected as quantities as well as allow for statistical analysis.

The problem posed in this research was best studied using a census survey method, According to (Kothari , 1990), census survey emphasizes depth rather than breadth and the study will entail a descriptive research design. A descriptive study aims at determining the what, when and how of a phenomenon which is the concern of this study. (Donald and Pamela, 2003). It will thus allow for an in depth explanation relationship between innovation strategy and competitive advantage among banks listed at Nairobi stock exchange.

### **3.3 Population**

This research looked at listed banks on the NSE as at the time of census survey. These banks are Barclays Bank of Kenya Ltd, CFC Stanbic Bank Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, Diamond Trust Bank of Kenya Ltd, Standard Chartered Bank Ltd, NIC Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd. three, top and middle level managers in each of these banks constituted the population target, aggregating to 27 respondents.

The banks were chosen on the basis of their highly competitive nature within their markets and their need to attain sustainable competitive advantage thus making them prime candidates so as to establish the relationship between technology adoption, technology implementation, products and services innovation.

### **3.4 Data Collection**

In this census survey, emphasis was given to primary data, which is an empirical source of data. Secondary data was collected from various websites of banks, banking journals, MIS journals and relevant texts. Primary data was collected using 27 drop and pick questionnaire to head of change and strategies, functional heads, research divisions, information and technology management division.

A self administered drop and pick questionnaire was self administered and its cost was low compared to other methods, had a reduced biasing error because respondents were not influenced by interviewer characteristics or techniques personal characteristics of interviewers and variability in their skills. This method provided a high degree of anonymity for respondents, this is especially important when sensitive issues are involved and respondents have time to think about their answers and/or contact other sources and is widely accessible.

This method requires simple, easily understood questions and institutions and provides a limited opportunity for probing. They do not offer researchers the opportunity to probe for additional information or to clarify answers. Has no control over who fills out the questionnaires, it could be filled by the junior officers or their children.

### **3.5 Data Analysis**

The data was analysed using quantitative analysis. The descriptive study was necessary to generate detailed information regarding the key aspects in order to develop profiles of those aspects. It relied on quantitative data such as aggregate values of factors proportion and other quantitative measures of factors inform of discrete data. Quantitative research was enhanced using a census survey research design so as an in-depth exploration of the relationship between technology and innovation strategies and competitive advantage for banks Listed at the NSE can be explored.

Data was summarized in percentages, proportions, and tabulated. Statistical procedures proposed included measures of normality-distributions and dispersion, central tendencies. Factor analysis for this research used a statistical package SPSS.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presented the analysis and findings with regards to the research objective; to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange. A census survey was carried out and a drop and pick questionnaire was the data collection tool to heads of strategy, change, retail and commercial directors. The data was analysed using SPSS software Vs 17. The results were presented in form of tables, frequencies, pie charts, figures, measures of central tendencies (mean) and measures of dispersion (standard deviation).

### 4.2 General Information

In order to capture the general information of respondents and the banks under study, issues such as position in the organization, Category of bank, core banking system used and the number of years the bank has been in operation were addressed in the first section of the questionnaire. This was to give a better understanding of the respondents and the banks under study.

#### 4.2.1 Position in the organization

This was to show the position held by the respondents in the banks under study. The findings are presented in table 4.1

Table 4.1 Position in the organization

	Frequency	Percent
Retail Manager	4	14.8
Finance Manager	7	25.9
I.T Manager	9	33.3
Research and development manager	1	3.7
Corporate Manager	4	14.8
M.D	1	3.7
Strategy and Change Manager	1	3.7
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

The study shows that most of the respondents (33.3%) were Information and Technology (IT) managers while 25.9% were Finance managers in their respective

banks. Further, the study shows that 14.8% of the respondents were retail managers while a similar percentage were corporate managers in their banks.

#### 4.2.2 Category of Bank as per CBK Guidelines

Banks in Kenya can be grouped into various categories depending on their establishment and ownership. The study therefore sought to find out the category of banks under study as per CBK Guidelines. Table 4.2 shows the results of the findings

**Table 4.2 Category of Bank as per CBK Guidelines**

	<b>Frequency</b>	<b>Percent</b>
Government owned	9	33.3
Foreign owned	7	25.9
Locally owned	11	40.7
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

The study shows that most of the respondents (40.7%) indicated that their banks were locally owned while 33.3% were from government owned banks. A further 25.9% of the respondents were from foreign owned banks.

#### 4.2.3 Core banking system in use

This section was to find out the banking system being used by the banks under study. The findings are presented in table 4.3 below.

**Table 4.3 Core banking system in use**

	<b>Frequency</b>	<b>Percent</b>
Nightsbridge	8	29.6
Bank master/ branch power	2	7.4
Finacle system	10	37.0
Flex cube	3	11.1
Temenos T24	4	14.8
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

**Figure 4.1 Core banking system in use**

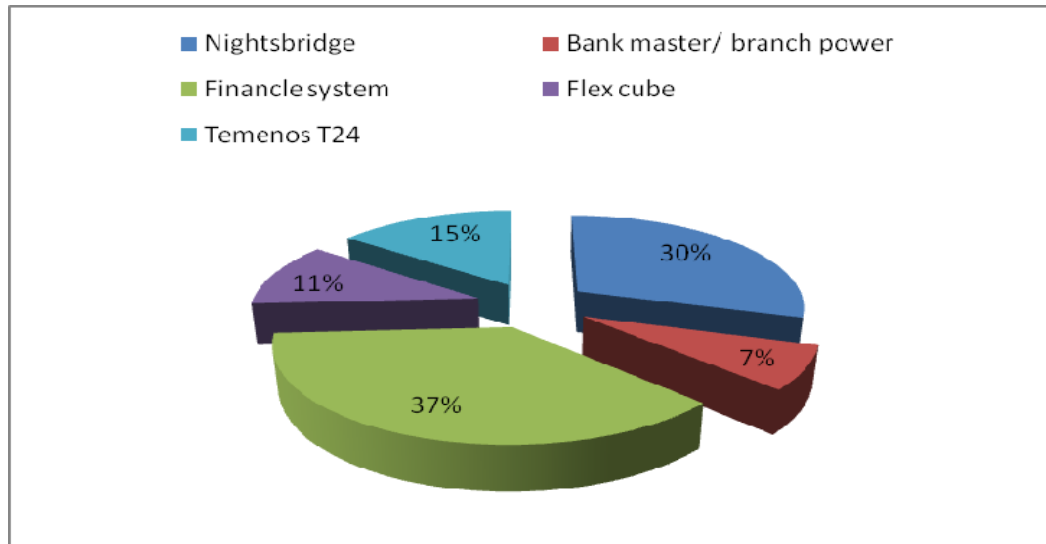


Table 4.3 shows that Financle system is one that is mostly used by the banks studied; this was revealed by 37% of the respondents. Further, 14.8% of the respondents revealed that they use Temenos T24 while 11.1% indicated that they use FlexCube as their banking system. Nightsbridge has been adopted by 29.6% of the banks

#### **4.2.4 Number of ATMs**

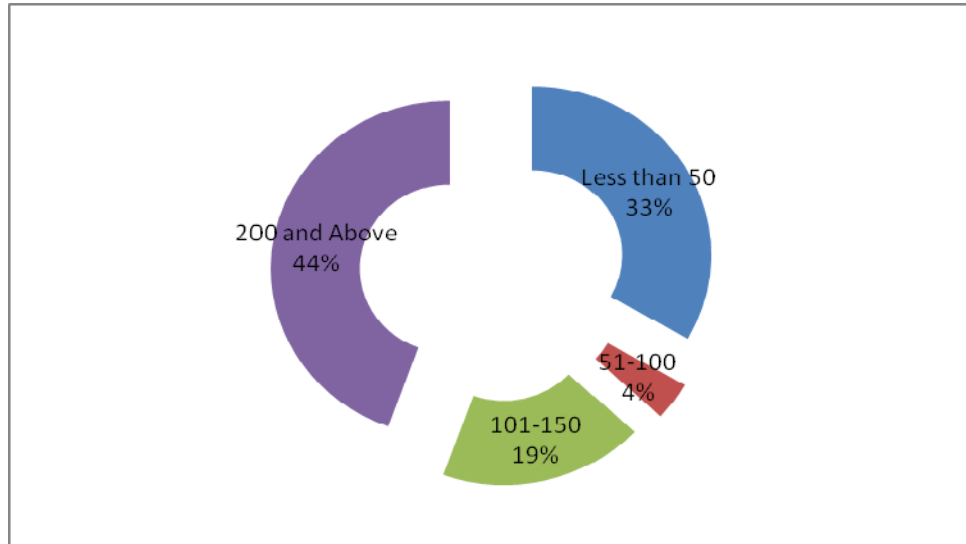
Use of Automated Teller Machine has been one of the banks technology that have made it easy for clients withdraw cash more easily and even deposit cash in some banks. In regard to this the study sought to find out the number of ATMs that the banks have. The findings are shown in table 4.4 below.

**Table 4.4 Number of ATMs**

	<b>Frequency</b>	<b>Percent</b>
Less than 50	9	33.3
51-100	1	3.7
101-150	5	19%
200 and Above	12	44.0
<b>Total</b>	<b>27</b>	<b>100.0</b>

Source: **Interviews**

**Figure 4.2 Number of ATM**



**Source:** Interviews

The study shows that majority of the banks have more than 200 ATMs in operation in the country, this was revealed by 44.44% of the respondents while 33.3% of the respondents indicated that their bank have less than 50 ATMs. Only 3.7% of the respondents stated that their banks have between 51-100 ATMs and 18.5% have 101-150 ATMS country wide.

**4.2.5 Total Customer base**

This was to find out the total number of customers in the banks under study. The results of the findings are presented in table 4.5 below.

**Table 4.5 Total Customer base**

	<b>Frequency</b>	<b>Percent</b>
2M	10	37.0
1.2M	5	18.5
1M	3	11.1
4.1M	9	33.3
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

The study shows that 33.3% of the respondents' banks have 4.1 million clients while 37.0% indicated that their banks have 2 million clients. Further, 18.5% of the respondents indicated that their bank has 1.2 clients while 11.1% have one million clients.

#### 4.2.6 Total Asset base

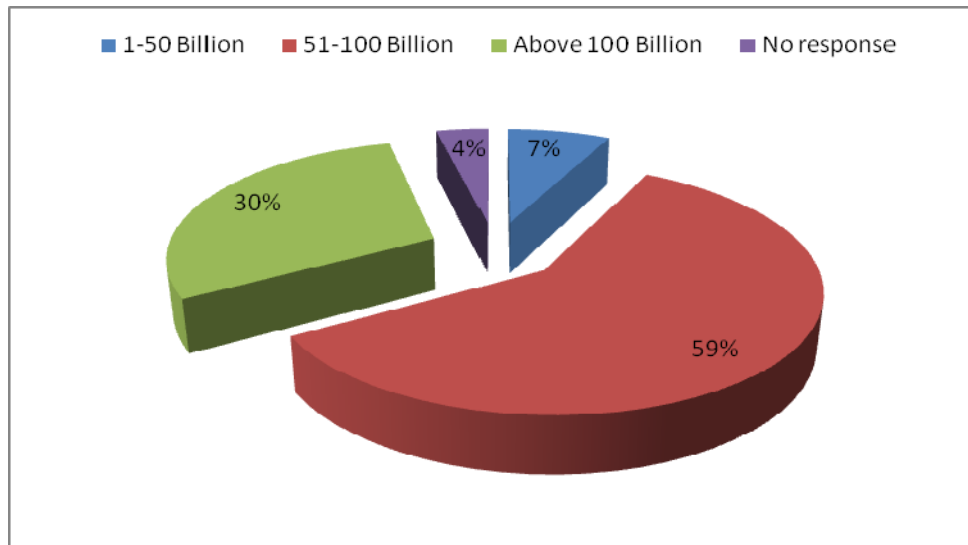
This was to determine the total assets of the banks under study. The results of the findings are presented in table 4.6 below.

**Table 4.6 Total Asset base**

	Frequency	Percent
1-50 Billion	2	7.4
51-100 Billion	16	59.3
Above 100 Billion	8	29.6
No response	1	3.7
Total	27	100.0

**Source:** Interviews

**Figure 4.3 Total Asset base**



**Source:** Interviews

Majority of the banks have total asset base of between kshs. 51-100; this was revealed by 59.9 of the respondents while 29.6% had an asset base of above 100 billion. Only 7.4% of the respondents had an asset base of below kshs. 50 billion



#### 4.2.7 Liabilities base

The study also sought to determine the total liabilities of the banks under study. The results of the findings are presented in table 4.7 below.

**Table 4.7 Liabilities base**

	Frequency	Percent
1-50 Billion	5	18.5
51-100 Billion	16	59.3
Above 100 Billion	6	22.2
Total	27	100.0

**Source:** Interviews

On the total liabilities base, the study found out that majority of the banks had a liability base of between kshs. 51-100 billion; this was revealed by 59.3% of the respondents while 22.2% indicated that they had liability base of above kshs.100 billion. Only 18.5% of the respondents indicated that their banks have a base of below kshs.50 billion.

#### 4.2.8 2010 end of the year net profits After Tax

This section sought to find out the banks net profits After Tax for the year ending 2010. The findings are presented in table 4.8 below

**Table 4.8 2010 end of the year net profits After Tax**

	Frequency	Percent
Below 1.1 Billion	2	7.4
1.2-1.5 Billion	8	29.6
3-4 Billion	9	33.3
Above 4Billion	8	29.6
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

Table 4.8 shows that most of the banks had gotten between 3-4 billion profit after tax in 2010 end of year; this was revealed by 33.3% of the respondents while 29.6% indicated that their banks gained a profit between 1-2 -1.5 billion. Moreover, 29.6% of the respondents revealed that their banks got profit of above 4 billion after tax in 2010 end of year.

#### 4.2.9 Current share price at NSE

This research looked at listed banks on the NSE and hence the study sought to find out their current share prices at NSE at the time of the study. The findings are shown in table 4.9 below.

**Table 4.9 Current share price at NSE**

	<b>Frequency</b>	<b>Percent</b>
110.00	1	3.7
17.05	2	7.4
19	3	11.1
25.50	9	33.3
266	1	3.7
39.25	6	22.2
44.75	1	3.7
66.50	3	11.1
83.50	1	3.7
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

The study shows that 33.3% of the respondents had their shares trading at kshs. 25.50 at the NSE while 22.2% had their banks shares price at kshs.39.25. Further, 11.1% revealed that their banks share price is at 66.50 while as for 7.4%, their banks share price is at kshs. 17.05

**4.2.10 Whether the bank has used any of the following strategies to gain competitive advantage**

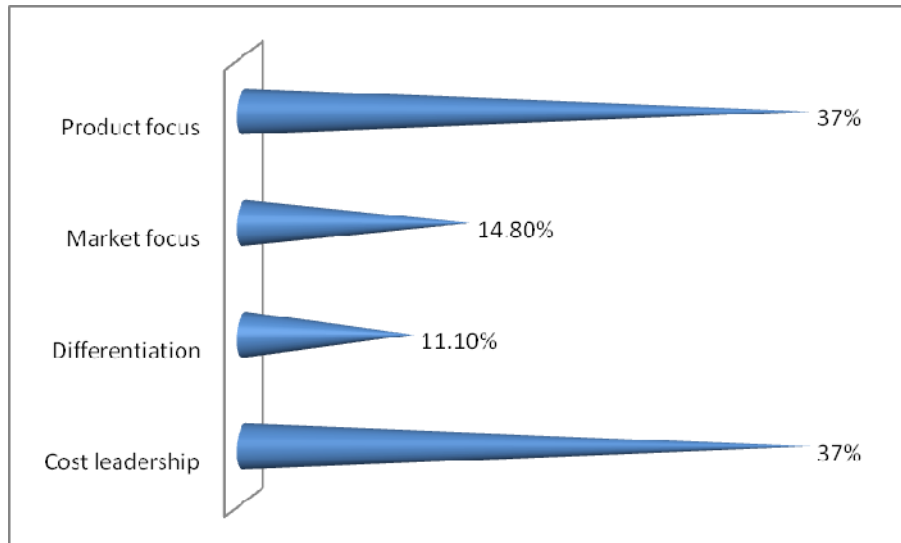
The table 4.10 below was to find out if banks use cost leadership, differentiation, market focus and product focus to gain competitive advantage.

**Table 4.10 Whether the bank has used any of the following strategies to gain competitive advantage**

	Frequency	Percent
Cost leadership	10	37.0
Differentiation	3	11.1
Market focus	4	14.8
Product focus	10	37.0
<b>Total</b>	<b>27</b>	<b>100.0</b>

Source: Interviews

**Figure 4.4 Whether the bank has used any of the following strategies to gain competitive advantage**



Source: Interviews

Most respondents (37%) revealed that their banks mostly use cost leadership and product focus respectively as their strategies to gain competitive advantage. Further, 14.8% of the respondents indicated that their bank uses market focus so as to gain competitive advantage.

#### 4.2.11 Other Strategies Being Used That Would Lead To Competitive Advantage

The table 4.11 below was to find out if there are any other strategies that banks are using to gain competitive advantage.

**Table 4.11 Other strategies being used that would lead to competitive advantage**

	Frequency	Percent
Cost leadership	2	7.4
Differentiation	8	29.6
Direct sales and increase of Auto cash	2	7.4
Increasing the number of branches and ATMS country wide	1	3.7
Market Focus	8	29.6
Mobile banking	3	11.1
Open tents	3	11.1
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

The study shows that other than differentiation, cost leadership and market focus; 11.1% of the respondents revealed that the banks also use mobile banking while a similar percentage revealed that they use open tents as a competitive advantage. Further 7.4% of the respondents revealed that they had introduced direct sales department as a competitive strategy.

#### 4.2.12 Number of years the bank has been in operation

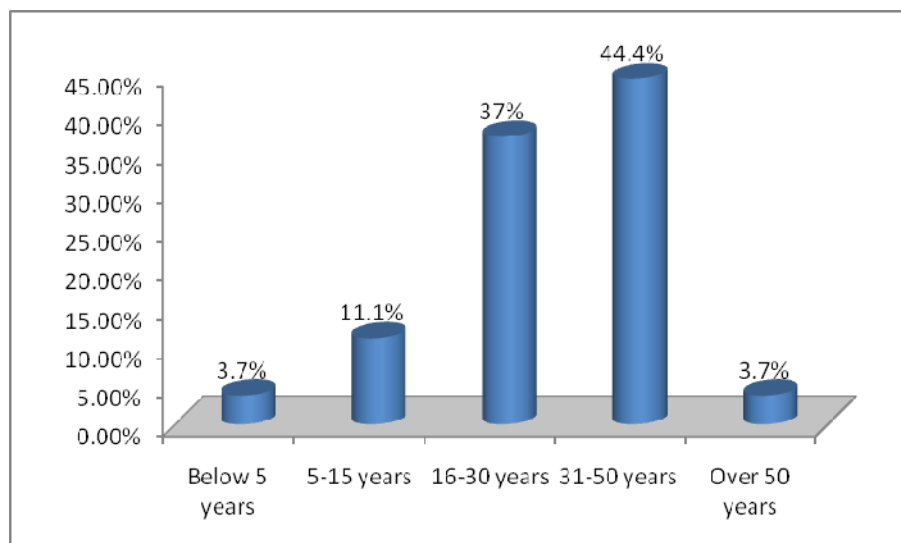
Table 4.12 and figure 4.5 below shows the number of years the banks at NSE have been operation

**Table 4.12 Number of years the bank has been in operation**

	Frequency	Percent
Below 5 years	1	3.7
5-15	3	11.1
16-30	10	37.0
31-50	12	44.4
Over 50 years	1	3.7
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

**Figure 4.5 Number of years the bank has been in operation**



**Source:** Interviews

The study shows that most of the banks under study had been in operation for 31-50 years; this was according to 44.4% of the respondents while 37% indicated that their banks had been operational for 16-30 years. Moreover, 11.1% indicated that their banks had been in operation for 5-15 years. (Figure 4.5).

#### **4.2.13 Number of branches**

Table 4.13 below shows the number of operation banks at NSE have been in operation.

**Table 4.13 Number of branches**

	<b>Frequency</b>	<b>Percent</b>
Less than 5	–	–
5-10	7	25.92
More than 10	20	74.08
<b>Total</b>	<b>27</b>	<b>100</b>

**Source:** Interviews

The study shows that majority of the banks under study had more than 10 branches at 74% which are operational while 25% have 5-10 banks country wide. This shows that the banks studied had expanded and they were serving many clients. (Table 4.13).

### 4.3 Innovation Strategies and Competitive Advantage

The objective of the study was to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange; hence in this section of the study sought to find out the various innovations been undertaken by the banks and the benefits accrued to innovation strategies adopted.

#### 4.3.1 Banks innovation in various fields in the last 5 years

Table 4.14 below shows banks innovations in the various fields over the last 5 years.

**Table 4.14 Banks innovation in various fields in the last 5 years**

	Yes		No		No response	
	F	%	F	%	F	%
New technology	23	85.2	–	–	4	14.8
New products	17	63.0	–	–	10	37.0
New services	7	25.9	–	–	20	74.1
New processes	1	3.7	–	–	26	96.3

**Source:** Interviews

The study shows that majority of the banks have innovated new technology in the last 5 years, this was according to 85.2% of the respondents. The respondents revealed that their banks had introduced Auto cash systems, changed the banking system and also mobile banking in the last 5 years. Further 63% of the respondents revealed that their institutions had innovated new products; most of the products innovated were new accounts so as to cater for the ever growing base of clients and different groups such as students, youth and women. There has been also the introduction of new variety of loans. Moreover, 25.9% of the respondents indicated that their banks had innovated new services in the last 5 years; most of these banks had introduced direct sales representatives to sell and give advice to customers on their products. However, only 3.7% revealed that their banks had innovated new processes in the last 5 years.

### 4.3.2 Description of the innovation undertaken by the bank

The table 4.15 below shows description of the innovation undertaken by banks whether its change, renewal or innovation

**Table 4.15 Description of the innovation undertaken by the bank**

	<b>Frequency</b>	<b>Percent</b>
<b>Change:</b> Improvement of existing technology, product or services	2	7.4
<b>Renewal:</b> of an existing technology, product or process: is by modification or use in a new way	13	48.1
<b>Innovation:</b> concerns an entirely new technology, product or process	12	44.4
<b>Total</b>	<b>27</b>	<b>100.0</b>

**Source:** Interviews

Table 4.15 shows that most of the respondents (44.4%) would describe the innovation taken by their bank as that it concerns an entirely new technology, product or process. Further, 48.1% indicated that they would describe their innovation as Renewal, that is, of an existing technology, product or process which is by modification or use in a new way.

Some of the significant innovation carried out by some several banks include Equity which launched the Fanikisha (It can be done) loans products portfolio with training for women entrepreneurs, both individuals and groups. The loans do not require the traditional types of collateral and are flexible to include collateral like household goods, business stocks and social capital. Social capital allows women to coguarantee each other in their respective groups.

The introduction of Real Time Gross the Settlement (RTGS) has speeded settlement of online and cheque-based payments. Tighter supervision of banks, including the

introduction of more stringent governance guidelines, has also played a part. So, too, have investment by banks in electronic payment technology and in wider networks of cash-point machines throughout the country.

Equity which has several Safaricom agents also stand to gain from the incentive based system since, all financial transactions from purchase of plane tickets to consumer credit will be performed by them, thus creating much needed employment, while at the same time reducing the hustle of travelling to a bank every time one needs to transfer or withdraw some cash, not to mention a myriad of advantages that will accrue to both the investor and the banking fraternity as a whole. The agent will effectively be transformed into your retail banker and cash will not have to be moved from localities since the same cash will instantly be used to service other financial needs in the locality.

In other specific areas of innovation indicated by banks are; Invoice discounting, Business club, unsecured facility, Mortgage refinancing, Letters of credit, Call centre-customer service, Mkopo wa salo campaigns, Unsecured overdraft, uncleared effects and temporary excesses, Charges Loan and accounts processing turnarounds, Bill KPLC, water and DSTV processing, Specify the mobile banking names and system Agency banking- Mpesa, Strategic alliances equity and Housing finance, Savings and loan from KCB, Vehicle and asset financing, Dedicated iT support staff, System reliability, System compatibility with other systems e.g ATM, mobile banking, internet, Bundled charges vs single entry systems.

#### **4.3.3 Extent to which respondents agree with the following statements on the last 5 years analysis.**

This was to determine the extent to which respondents agree with the following statements on the last 5 years analysis. A scale of 1-5 was used. The scores “Strongly disagree” and “Disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ( $1 \leq \text{Disagree} \leq 2.5$ ). The scores of ‘Indifferent’ were equivalent to 2.6 to 3.5 on the Likert scale ( $2.6 \leq \text{Indifferent} \leq 3.5$ ). The score of “Agree” and “strongly agree” was equivalent to 3.6 to 5.0 on the Likert Scale ( $3.6 \leq \text{Agree} \leq 5.0$ ).



**Table 4.16 Extent to which respondents agree with the following statements on the last 5 years analysis**

	<b>Mean</b>	<b>Std. Deviation</b>
The bank has enhanced innovation capabilities of its employees	4.0741	.87380
Information technology capabilities support the bank strategies	4.2222	.64051
The bank increased the number of new innovations	4.2593	.65590
The bank has sustained its competitive advantage	4.2963	.99285
The bank has adopted new technologies	4.5185	.84900
The bank has committed financial resource to technology and innovation	4.6667	.48038
The bank has increased new products / services	4.8519	.36201

**Source:** Interviews

The study shows that majority of the respondents agreed that their banks have increased new products and services in the last 5 years as well as committing financial resource to technology and innovation; this was represented by a mean score of 4.8519 and 4.6667 respectively. The respondents further agreed that their banks have sustained their competitive advantage as well as enhancing innovation capabilities of its employees; this was represented by a mean score of 4.2963 and 4.0741 respectively.

#### 4.3.4 Extent to which the following factors best explain the benefits derived from innovation strategies adopted by the bank

This was to determine the extent to which the following factors best explain the benefits derived from technology adoption and innovation strategies adopted by the bank. A scale of 1-5 was used. The scores “Strongly disagree” and “Disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ( $1 \leq \text{Disagree} \leq 2.5$ ). The scores of ‘Indifferent’ were equivalent to 2.6 to 3.5 on the Likert scale ( $2.6 \leq \text{Indifferent} \leq 3.5$ ). The score of “Agree” and “strongly agree” represented great benefits derived from technology adoption and innovation strategies adopted by the bank. This was equivalent to 3.6 to 5.0 on the Likert Scale ( $3.6 \leq \text{Agree} \leq 5.0$ ).

**Table 4.17 Extent to which the factors explain the benefits derived from technology adoption and innovation strategies adopted by the bank**

<b>Factors</b>	<b>Mean</b>	<b>Std. Deviation</b>
Increased turnovers	2.7037	1.58878
Reduced number of complaints	3.1852	1.38778
Reduced number of customers in the banking hall	3.2963	1.63648
Committed after sales service	3.5926	.79707
Reduced operational cost	3.8519	1.09908
Effective selling of products and services	4.1111	1.05003
Increased profits	4.1852	.78628
Promoting new products	4.2222	.69798
Improved customer service and service tools	4.2593	.44658
Higher customer satisfaction	4.2963	.66880
Increased branches	4.3704	.74152
Reduced operations turn around time	4.4074	.69389
Expanded market share	4.4074	.79707
Better products and services	4.4074	.57239
Developing new products	4.5185	.57981

**Source:** Interviews

The study shows that adoption of technology and innovation strategies by the bank has led to development of new products and also better products and services; this was revealed by majority of the respondents and represented with a mean score of 4.5185 and 4.4074 respectively. However, the respondents were indifferent on whether the adoption of technology and innovation strategies has increased turnovers or reduced number of complaints in the bank; this was represented by a mean score of 2.7037 and 3.1852 on the Likert scale respectively.

#### **4.4 Regression Analysis**

A multivariate regression model was applied to determine the relative importance of each of the four variables with respect to the status of competitive advantage in their respective banks.

The regression model was as follows:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

**Where:**

y = Competitive Advantage

$\beta_0$  = Constant Term

$\beta_1$  = Beta coefficients

$X_1$  = Technology

$X_2$  = Innovation strategies

**Table 4.18: Model Summary for Competitive advantage**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.097(a)	.009	.981	4.223	.009	.009	1	1	.938

Source, Researcher (2010)

Predictors: (Constant), technology and innovation strategies

Adjusted  $R^2$  is called the coefficient of determination and tells us how the competitive advantage in banks varied with the technology and innovation strategies. From Table 4.6 above, the value of adjusted  $R^2$  is 0.981. This implies that, there was a variation of 98.1% of competitive advantage of banks varied with the technology and innovation strategies at a confidence level of 95%.

**Table 4.19: Banks Coefficients Results**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.833	3.156		1.839	.317
	Technology	2.771	.061	.097	.097	.938
	Innovation strategies	0.216	.018	.094	.094	.923

Source, Researcher (2010)

Predictors: (Constant), Technologies and Innovation Strategies

From the data in the above table 4.6, there is a positive relationship between competitive advantage and the Predictor factors which are technology and innovation strategies. The profit-maximizing and competition-based theory, which was based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. (Porter, 1981).

The resource-based theory indicates that competitive advantage lies in internal resources, as opposed to the firm's positioning in the external environment. That is rather than simply evaluating environmental opportunities and threats in conducting business; competitive advantage depends on the unique resources and capabilities that a firm possesses. (Barney, 1991).

The survival-based theory centers on the concept that organization need to continuously adapt to its competitive environment in order to survive. This differs to the human resource-based theory, which emphasizes the importance of the human element in the strategy development of organizations. (Barney, 1991).

In Kenya, empirical studies on technology and innovation strategies that lead to competitive advantage for banks in the NSE are limited. Gitonga, (2003) study on innovation process and the role of chief executive officers found that 65 of them facilitate the innovation process. He also found out that 39 Of them considered innovation as the most important factor in achieving competitive advantage while Otieno, (2006) in her findings concludes that transactions viewing and balance checking were the most adopted internet usage for KCB due to staff adoption levels.

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Ombati, (2007) indicated in her survey on the relationship between technology and service quality in the banking industry in Kenya that there is a positive relationship between technology and service quality in the banking industry in Kenya, and Omollo, (2008) contends that standard chartered bank has been able to introduce various innovative strategies ranging from product, technological to customer care thus contributing enormously to its profitability over the years. He concludes by emphasizing on proactive approaches to innovation, in-depth research, idea generation, creativity and that the PESTEL analysis is key to success of the strategies

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter provides a summary of the findings of the research, the conclusion and the recommendations of the study which sought to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange

### **5.2 Summary of Findings**

This type of research design used was census survey. The research targeted banks listed on the NSE as at the time of census survey; three top and middle level managers were chosen to take part in the study, aggregating to 27 respondents. A self administered drop and pick questionnaire was used as the data collection instrument. Data was analysed using Statistical Package for Social Sciences (SPSS version 17.0). Descriptive statistics was used to summarize the data and the findings were presented in form of frequency distribution tables.

This study aims to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange.

#### **5.2.1 Strategies used to gain competitive Advantage**

The study shows that most banks mostly use cost leadership and product focus as their strategies to gain competitive advantage with only a few using differentiation. It was also found out that the banks have come up with other strategies such as mobile banking due to improved technology. Other strategies established by the banks were use of open tents and introduction of direct sales to ensure the bank remains competitive. It was found out that that majority of these banks had been in operation for a longer duration; most of them for more than 30 years. Moreover, it was found out that all the banks had more than 10 branches in operational.

The study shows that process innovations which cover the introduction of new business processes leads to increased efficiency and market expansion. Examples include office automation and use of computers with accounting and client data management software. The introduction of ATM in the banking system not only made the access of funds faster but also convenient. With advancement of technology it is now possible to transact business via mobile phones or internet. Many banks have

networked with other financial providers like Kenswitch and Pesapoint to make sure their customer can access cash with much ease thus this banks remain competitive in the market.

### **5.2.2 Innovation strategies in relation to competitive advantage for banks**

On the innovations that the banks have undertaken for the last 5 years, it was found out that majority had innovated new technology. The respondents revealed that their banks had introduced Auto cash systems, changed their banking system to one that would give them a competitive advantage in regard to providing services to clients. There has also been the introduction of mobile banking by most banks in the last five years. The study further found out that that majority of the banks had innovated new products in the last 5 years; most of these products were new accounts and loans to meet the ever growing client base as well as to cater for various groups needs for example the students, youths and women. However only a few banks had innovated new services and processes; one of the services innovated was the establishment of direct sales representative to sell the banks products out of the banking hall and advice customers on their products. The innovation that majority of the banks have made in the last 5 years concerns either an entirely new technology, product, process or a renewal, that is, of an existing technology, product or process which has been modified and put in use in a new way.

The study shows that for the last 5 years majority of the banks have increased new products and services, adopted new technologies and sustained its competitive advantage. Moreover, the study found out that information technology capabilities support the bank strategies and most banks have committed financial resource to technology and innovation. On the benefits derived from technology adoption and innovation strategies adopted by the bank, the study found out that technology adoption and innovation strategies have made banks to develop new products and even making the products and services better. The innovations have expanded the banks market share, reduced operations turn around time and enhanced higher customer satisfaction. Besides, some banks have attributed their increased profits and improved customer service to their technology adoption of and innovation strategies.

The study shows that product innovation involves the introduction of new credit, deposit, insurance, leasing, hire purchase, insurance financing and other financial products. Product innovations are introduced to respond better to changes in market demand or to improve the efficiency of services provided. This is in line with this that the major mobile phone companies in Kenya i.e. Zain and Safaricom have come up with mobile phone money transfer services M-pesa and Zap to tap the potential for small scale transactions at reasonable costs. Banks are constantly innovating on Mobile Banking services, swift transfers and the more recent electronic share dealing at the Nairobi stock exchange.

### **5.2.3 Regression Analysis**

There is a positive relationship between competitive advantage and the innovation strategies adopted by banks. The study established that a unit increase in innovations strategies would cause increase in competitive advantage of banks, it was also revealed that there is a strong relationship between competitive advantages of banks and it innovation strategies as indicated by a factor increase of 2.771.

The study shows that adoption of innovation strategies by the bank has led to development of new products and also better products and services. Innovation strategies have a great effect on competitive advantage for banks. From the study, it was revealed that due to adoption innovation strategies, the banks gained benefits such as higher customer satisfaction, expanded market share, Effective selling of products and services, Reduced operations turn around time and eventually led to increased profits.

## **5.3 Conclusions**

This purpose of the study was to determine the relationship between innovation strategies and competitive advantage for banks listed in the Nairobi stock exchange. The following are the major conclusions based on the summary of findings.

From the study it is evident that majority of the banks have adopted and innovated various strategies so as to gain competitive advantage above the others. Some of these innovations are technological while others are general. Some of these strategies are cost leadership, product focus and differentiation. Other strategies established by the banks were use of open tents and introduction of direct sales in the banking sector.



In the last 5 years, majority of the banks have innovated new technologies which include introduction of Auto cash systems, change of the banking system. The adoption of these technologies has given these banks a competitive advantage above the others in regard to products and services offered to the clients. The innovations carried out by the banks have either been establishment of an entirely new technology, product, process or renewal, that is, modifying of an existing technology, product or process and putting it in use in a new way.

The study also found out that the banks have committed financial resources to technology and innovations and even increased the number of new innovations. It was also evident that in the last five years banks have increased new products and services, adopted new technologies and sustained their competitive advantage. The researcher would also like to conclude that technology and innovation strategies and have a great effect on competitive advantage for banks. From the study, it was revealed that due to adoption of technology and innovation strategies, the banks gained benefits such as higher customer satisfaction, expanded market share, Effective selling of products and services, Reduced operations turn around time and eventually led to increased profits.

The conversion of the M-Pesa service into a bank account does not only promote a culture of savings, but brings in more "unbanked" Kenyans into formal banking, but also make Kenya meet its target of 25 per cent savings to the Gross Domestic Product of the country. With the launch of the new service, Kenya is now a compelling example of how the transformational force of technology can be used to improve the lives of the people and thus in the long run makes bank more profitable.

#### **5.4 Recommendations**

Banks are faced by various external environmental challenges. However the organizations made various arrangements to mitigate the consequences of these challenges. 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 needs and what the environment can provide. What is more important than achieving a competitive advantage is the ability of sustaining this advantage? Sustainability of the competitive advantage shall be the strategy of the firm on the long run. It is quite strategic to build

multiple supplier relationships with several vendors to gain power and flexibility advantages in negotiations and technology purchase agreements. Optimal management structures to integrate consideration of technology into corporate strategy shall be a key issue to be addressed. Since alignment cannot be achieved fully between business strategy and technology strategy due to their dynamic nature, it is advised that organizations must constantly reinvent themselves strategically and technologically.

Innovation is similarly practiced in the production of both goods (tangible) and services (intangible). Innovation should be equally considered in both technology hardware and software. Innovation in the technology side shall lead to innovative services and solutions. The study recommends that for banks to be able to be even more competitive they have to look at the human aspect of the companies, the institutions need to employ human resource strategies. The importance of human resource strategy is crucial to banks, as the performance and cost of those employed in the industry is fundamental to its future success.

### **5.5 Suggestions for further studies**

The study was carried out on all commercial banks listed in the NSE. Future research should also be carried out on other commercial banks not listed and whose innovation advancement is at moderate level; this will be important because it will show the strategies the small banks have adopted. Also the study focused on innovation strategies further research should be done on the relationship between agency banking and competitive advantage.

The data collection was based on questionnaires. Further research can be carried by involving the respondents on discussions so as to get their view on the innovations and strategies that they think can sustain an organizations competitive advantage.

The research target only senior managers in the organization, further research should target both senior staff and junior staff since junior staff play a critical role in implementation and may be having vital information.

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## APPENDICES

### APPENDIX: 1 LETTER OF INTRODUCTION

Date: October 2011

To: Respondents

From: Kevin Kiplimo Bwaley

Dear sir/ Madam,

#### **RE: RESEARCH PROJECT**

As a partial fulfillment of the requirement of the master of business administration degree, department of business administration, school of business, university of Nairobi, my area of specialization being strategic management, I'm currently conducting a research study on. **The Relationship Between Innovation Strategies and Competitive Advantage For Banks Listed in The Nairobi Stock Exchange.**

Your firm has been selected for this study; I humbly request your valuable time in assisting to complete the attached questionnaire.

Your response will be treated with strict confidentiality and in no instances will your name be mentioned in the report directly.

Your cooperation will be highly appreciated. Thank you in advance.

Yours sincerely

Kevin Kiplimo Bwaley

Dr. John Yabs

Student

Lecturer/Supervisor

## APPENDIX: 11 QUESTIONNAIRE

### PART A: DEMOGRAPHIC DATA

#### PERSONAL DETAILS OF RESPONDENT

1. Name: (optional)\_\_\_\_\_
2. Position in the organization\_\_\_\_\_

#### COMPANY INFORMATION

3. Name of the bank\_\_\_\_\_
4. Category of bank as per CBK guidelines  
Government owned ( )  
Foreign owned ( )  
Locally owned ( )
5. Core banking system in use\_\_\_\_\_
6. Number of ATM \_\_\_\_\_
7. Total Customer base \_\_\_\_\_
8. Total Asset base \_\_\_\_\_ **Kes (000)**\_
9. Liabilities base \_\_\_\_\_ **Kes (000)**\_
10. 2010 end of year net profits After Tax \_\_\_\_\_ **Kes (000)**\_
11. Current share price at NSE **Kes**\_\_\_\_\_
12. Indicate whether the bank has used any of the following strategies to gain competitive advantage (a) cost leadership, (b) differentiation, (c) market or (d) product focus. \_\_\_\_\_.
13. Are there any strategies being used by the competition that if you used would lead to competitive advantage \_\_\_\_\_.
14. Number of years the bank has been in operation  
Below 5 years ( )  
5-15 ( )  
16-30 ( )  
31-50 ( )  
over 50 years ( )
15. How many branches does your bank have?  
Less than 5 ( )  
5-10 ( )  
more than 10 ( )



**PART B: SURVEY MEASUREMENT SCALE**

**PART B:**

1 In what field has your bank undertaken innovation in the last 5 years

New technology      ( ) specify \_\_\_\_\_

New products        ( ) specify \_\_\_\_\_

New services         ( ) specify \_\_\_\_\_

New processes        ( ) specify \_\_\_\_\_

2 Which of the following best describes innovation for your bank

**Change:** An improvement of existing technology, product or service.

**Renewal;** Of an existing technology, product or process: is by modification or use in a new way.

**Innovation:** Concerns an entirely new technology, product or process

3. Indicate the extent to which you agree to the following statements:-

<b>Last 5 years analysis</b>	Strongly disagree	Disagree	Indifferent	Agree	Strongly agree
The bank has increased new products					
The bank increased the number of new innovations					
The bank has sustained its competitive advantage					
The bank has adopted new technology					
The bank has enhanced innovation capabilities of employees					
Information technology capabilities support the bank strategies.					
The bank has committed financial resource to technology and innovation					

- 3 Please indicate the extent to which each of the following factors best explain the benefits derived from technology adoption and innovation strategies adopted by your bank.

<b>Last 5 years analysis</b>	Strongly disagree	Disagree	Indifferent	Agree	Strongly agree
Reduced number of customers in the banking hall					
Reduced operations turn around time					
Reduced operational cost					
Expanded market share					
Increased turnovers					
Increased profits					
More branches					
Developing new products					
Promoting new products					
Better products and services					
Committed after sales service					
Effective selling of products and services					
Improved customer service					
Reduced number of complaints					
Higher customer satisfaction					
Customer service tools					

**Thank you for your time and contributions**

**APPENDIX: 111 LIST OF BANKS QUOTED ON THE NAIROBI STOCK  
EXCHANGE**

**Barclays Bank of Kenya Ltd**

Managing Director: Mr. Adan Mohamed  
Postal Address: P. O. Box 30120 - 00100, Nairobi  
Telephone: +254-20- 3267000, 313365/9, 2241264-9, 313405,  
Fax: +254-20-2213915  
Email: [barclays.kenya@barclays.com](mailto:barclays.kenya@barclays.com)  
Website: [www. barclayskenya.co.ke](http://www.barclayskenya.co.ke)  
Physical Address: Barclays Plaza, Loita Street.  
Date Licenced: 6/5/1953  
Peer Group: Large  
Branches: 119

**CFCStanbic Bank Ltd**

Managing Director: Mr. Michael Louis Du Toit  
Postal Address: P. O. Box 72833 - 00200  
Nairobi  
Telephone: +254-20-3638000. /11 /17 /18 /20 /21, 3268000, 0711-0688000  
Fax: +254-20-3752901/7  
Email: [cfcstanbic@stanbic.com](mailto:cfcstanbic@stanbic.com)  
Website: <http://www.cfcstanbicbank.co.ke>  
Physical Address: CFC Centre, Chiromo Road, Westlands  
Date Licensed: 5/14/1955  
Peer Group: Large  
Branches: 17

**Equity Bank Ltd**

Chief Executive: Dr. James N. Mwangi  
Postal Address: P. O Box 75104-00200, Nairobi  
Telephone: +254-20-2736617 /20, 2262000  
Fax: +254-20-2737276  
Email: [info@equitybank.co.ke](mailto:info@equitybank.co.ke)

Website: <http://www.equitybank.com>

Physical Address: N.H.I.F Building, 14th Floor, Ragati Road/Haille Sellassie Avenue Junction

Date Licenced: 28/12/2004

Peer Group: Large

Branches: 110

### **Kenya Commercial Bank Ltd**

Managing Director: Mr. Martin Luke Oduor -Otieno

Postal Address: P. O. Box 48400 - 00100, Nairobi

Telephone: +254-20-3270000, 2851000, 2852000, 250802

Fax: +254-20-2216405/2229565

Email: [kcbhq@kcb.co.ke](mailto:kcbhq@kcb.co.ke)

Website: <http://www.kcb.co.ke>

Physical Address: Kencom House, Moi Avenue.

Date Licenced: 1/1/1896

Peer Group: Large

Branches: 149

### **National Bank of Kenya Ltd**

Managing Director: Mr. Reuben M. Marambii

Postal Address: P. O. Box 72866 - 00200 Nairobi

Telephone: +254-20-2828000, 2226471, 0711-038000, 0735-995050-4

Fax: +254-20-311444/2223044

Email: [info@nationalbank.co.ke](mailto:info@nationalbank.co.ke)

Website: [www.nationalbank.co.ke](http://www.nationalbank.co.ke)

Physical Address: National Bank Building, Harambee Ave.

Date Licenced: 1/1/1968

Peer Group: Large

Branches: 44

### **Diamond Trust Bank Ltd**

Managing Director: Mrs. Nasim M. Devji

Postal Address: P. O. Box 61711 - 00200, Nairobi

Telephone: +254-20-2849000, 2210988/9

Fax: +254-20-2245495

Email: user@dtbkenya.co.ke

Website: <http://www.diamondtrust-bank.com>

Physical Address: Nation Centre, 8th Floor, Kimathi Street.

Date Licenced: 1/1/1946

Peer Group: Large

Branches: 32

### **Standard Chartered Bank Ltd**

Chief Executive: Mr. Richard Etemesi

Postal Address: P. O. Box 30003 - 00100 Nairobi

Telephone: +254-20-3293000, 3293900

Fax: +254-20-2223380

Email: Talk-Us@sc.com

Website: [www.standardchartered.com](http://www.standardchartered.com)

Physical Address: Stanbank House, Moi Ave.

Date Licenced: 10/1/1910

Peer Group: Large

Branches: 34

### **NIC Bank Ltd**

Managing Director: Mr. James W. Macharia

Postal Address: P. O. Box 44599 - 00100 Nairobi

Telephone: +254-20-2888000, 2888600, 4849000, 0722-203885 /6 /7,

Fax: +254-20-2888505/13

Email: info@nic-bank.com

Website: <http://www.nic-bank.com>

Physical Address: N.I.C House, Masaba Road.

Date Licenced: 9/17/1959

Peer Group: Large

Branches: 16

**Co-operative Bank of Kenya Ltd**

Managing Director: Mr. Gideon M. Muriuki

Postal Address: P. O. Box 48231 - 00100 Nairobi

Telephone: +254-20-3276000

Fax: +254-20-2245506

Email: md@co-opbank.co.ke

Website: www.co-opbank.co.ke

Physical Address: Co-operative House, Haile Selassie Ave.

Date Licenced: 1/1/1965

Peer Group: Large

Branches: 83