A SURVEY OF CRITICAL SUCCESS FACTORS (CSF) ADOPTED BY COMMERCIAL BANKS IN KENYA

BY

KIARIE JOHN MBURU

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

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DECLARATION

This management project is my original work and has not been presented for a degree in any other University.

Signed: ______________________ Date: 29/10/2009

Kiarie John Mburu

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This management project has been submitted for examination with my approval as the University supervisor of the above signed student.

Signed: ______________________ Date: 3/11/09

Mr. Jeremiah Kagwe

School of Business

Lower Kabete

University of Nairobi

DEDICATION

To my family and friends: for their inspiration, support, encouragement and understanding in my academic journey.

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ABBREVIATIONS

CSF	Critical Success Factors
CBK	Central Bank of Kenya
KNBS	Kenya National Bureau of Statistics
WB	World Bank
SIM	Strategic Information Management
SPSS	Statistical Package for Social Sciences

DEFINITION OF TERMS

Critical Success Factors The term "Critical Success Factor" is used differently, due to ambiguity of the word "critical'. Throughout this paper, the term will be used to mean aspects of a business that are identified as vital for successful targets to be reached and maintained.

Robust Human resource management this refers to a sound and focused human resource team.

Electronic commerce (e-commerce) is the activity in which consumers get information and purchase products using Internet technology (Olson and Olson 2000).

ABSTRACT

The research report is about the critical success factors that enhance commercial banks in Kenya to gain a competitive edge on the market. The objectives of the study was to examine how Kenyan commercial banks utilized the following critical success factors, Banking relationship, Information Communications Technology (ICT, Customer convenience, robust human resource management, product range packaging and image, and cost of service, in their operation in order to gain a competitive advantage on the market.

Data sources included primary and secondary data. The researcher used descriptive and analytical research data to find out the critical success factors and assess how banks in Kenya utilized the critical success factors in their operation in order to gain a competitive advantage on the market. The research involved interviewing one operations or branch manager in all the 43 commercial banks in Kenya.

Being descriptive, the study aimed at finding out the critical success factors in the commercial banking industry in Kenya. Therefore it was modeled on a descriptive design due to the fact that it describes how the critical success factors have contributed to the performance of banks in Kenya. The findings reveal that a majority of the banks utilize various critical success factors in their operations; key among them is a robust human resource management with the highest score of 93%, applications of technical skills related to CSFs 92% and banking relationship 90%.

It was concluded that commercial banks that identify and utilize CSFs are able to gain a competitive advantage over other commercial banks. From the study robust human resource management, technical skills, a good banking relationship and Information communication facilities emerged as the most important. CSFs. Customer convenience also received great attention by the management of banks as a CSF.

The recommendations by the researcher include; application of best practices in the management of organizations human resources as it emerged out as a top critical success factor in an organization's service delivery strategy.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

1.1.1 Globalization and liberalization

Globalization is a powerful real aspect of the new world system that represents one of the most influential forces in determining the future course of the planet (Paisecki. 2004). It has had significant impacts on all economies of the world with major effects on efficiency, productivity and competitiveness (Intriligator. 2001). Globalization and liberalization of world economies has intensified competition through: widespread use of computers, faxes, mobile phones, introduction of the internet and e-commerce (Hewett, 2002). Globalization of companies is continually growing in response to the changing environment of international trade. This accelerating trend is as a result of global consumer convenience in social economic, demographic characteristics, habits and culture (Intriligator, 2001).

Due to intense global competition most organizations have adopted various strategies aimed at achieving a sustainable competitive advantage. These strategies range from improvement in products / services, acquisition / mergers, strategic alliances, partnerships and downsizing to survive (Hewett, 2002). Many organizations now consider the pursuit of global strategies as offering distinct benefits of cost reduction, improved quality, better ability to meet customer needs and increased competitive leverage (Johnson & Scholes, 2001). According to Yoshino and Rangan (1995), firms must constantly innovate to forge a head of rivals; they must develop new capabilities in areas such as technology development, manufacturing processes, marketing and distribution in order to gain a competitive edge. In a competitive environment, the first priority of an organization should be to reach its customers effectively by taking maximum advantage of its critical success factors. (Pearce and Robinson, 2007).

1.1.2 The Concept of Critical Success Factors

Initially, CSFs was known as critical and non critical elements of a business leading to "controlling competitive success" (Daniel et al 1961). Critical Success Factors (CSFs) was first used as a basis of determining the information needs of the managers using interdisciplinary approach with the potential usefulness in the practice of evaluation within library and information units but has over time been applied for use by other business establishments (Rockart et al, 1979). Some of the generic Critical success factors in the business environment were identified to be: new product development; good distribution networks, and effective advertising.

The CSF approach represents an accepted top-down methodology for corporate strategic planning, and while it identifies few success factors, it can highlight the key information requirements of top management (Rockart. 1979). In addition, if the critical success factors are identified and controlled, management can take certain steps to improve its potential for success (Chen, 1999). This technique has been widely used in many businesses and technology related contexts for over four decades and its use is still common (Sung, 2005). In the context of this research, CSFs theory will be used to pinpoint some areas that are critical for success of the commercial banks in Kenya.

According to Rockart (1979), there are four basic types of Critical Success Factors namely: Industry CSFs resulting from specific industry characteristics; Strategy CSFs resulting from the chosen competitive strategy of the business; Environmental CSFs resulting from economic or technological changes; and finally Temporal CSFs resulting from internal organizational needs and changes. Each type of CSF should be subjected to measurement using established tools e.g. critical success levels in terms of transaction quantity. The CSFs approach was applied in case studies carried out in the UK universities (Pellow & Wilson, 1993; Greene *et al.* 1996; Loughridge 1996). It was applied also as a component of a strategic information management (SIM) methodology put forward by Wilson (1992, 1994b). The CSFs approach was combined with the value chain concept by Porter (1985) in order to form an information audit.

In Kenya, the growth of the economy in the last three years has brought about increasing competition in the banking industry. The evermore demanding customers are forcing banks to rethink their product offerings and distribution channels. Many banks are changing their product mix to shift earnings to higher value of added products and services, migrating their margins upwards. How does a bank choose to make and how do they go about implementing the same?

1.1.3 Overview of Commercial Banking Industry in Kenya

Kenya's banking industry is evolving at an alarming rate due to the effects of globalization and liberalization of the world economies. In the early 1990's, the sector was weak and turbulent. The declining economy and continuing political uncertainty resulted in high interest rates which turned into a very risky business. The high interest rates precipitated the problem of non-performing loans, eventually leading to the collapse of several banks (Market Intelligence, Banking Survey, 2004).

According to the Central Bank of Kenya (2008), there are 45 licensed banks operating in Kenya. Out of these, 43 are categorized as Commercial banks and the rest as non-commercial banks. The overall financial performance of the banking industry improved in April 2008 compared with a similar period in 2007. Institutions operating in the sector were financially sound, solvent, profitable, liquid, adequately capitalized and prudently managed. The sector achieved relatively strong performance during the period under review in terms of growth in assets, deposits and profitability. Total deposits held by the commercial banks grew by 16.8%; total assets recorded a growth rate of 18.2%, while non-performing loans declined by 4.5%. The sector also recorded impressive growth in pre-tax profits which rose by 43.1% during the period under review. The stability in the sector is attributed to the stable macro economic environment and improved supervisory oversight. The general outlook for the sector is positive in view of the adequate capitalization, sound risk management systems, strong asset quality and profitability.

The banking sector has embraced changes occurring in Information Technology with most banks having already achieved branchless banking as a result of the adoption of communications options. According to The CBK (2003), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures. Advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards.

Several banks have also entered into the Internet Banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected in this sector. The level of competition between banks is therefore very high to attract the retail customers as just their numbers there comes in a big chunk of business either in form of deposit or loans. There has been a shift from waiting for the customers to come to the banks, to now the bank going out of its way to look for the customers. Commercial banks have now adopted strategic issue management to succeed in a world of competition (CBK, 2007).

1.2 Statement of the Research Problem

Critical success factors are business aspects all firms in the industry must pay attention to. It is crucial to market success (or failure) and the competencies and competitive capabilities with the most direct bearing on company profitability (Thompson and Strickland, 1995). By identifying Critical Success factors, managers are able to envision the ideal strategy for building a competitive edge in the industry. Critical success factors are therefore an integral part of a company's strategy. Frequently, a company with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energy to being distinctively better than its rivals at succeeding at these factors (Thompson and Strickland, 1995).

The banking industry faces stiff competition. According to Paisecki (2005), when the Kenyan economy was liberalized in the early 1990s, several major industries that had operated as monopolies suddenly came face to face with unexpected competition. Currently there are many players in the market which has resulted to reductions of market shares of companies as well as profits (McCarthy et al, 1996). There is pressure on the banks to ensure that they get their product mix right or risk losing market share (Soderbom, 2001).

Over the decades, researchers have investigated the effects of formal strategic planning on financial performance in small firms (Pearce and Robinson, 1983). However most of these studies have tended to focus on rigid strategic planning that these companies pursued in trying to link strategic planning with performance. Locally, an attempt has been made to study the relationship between banks' strategic planning and profitability. Kiptugen (2003) studied the strategic responses to a changing competitive environment. The key finding of this study was that Banks have responded to the changing environment by restructuring and embracing new information Technology. The findings may not be generalized to this study because it did not focus on the critical Success

Factors of the industry. Ndungu (2003) conducted a study on the determinants of commercial bank profitability in Kenya. The findings were: qualified personnel, ICT and quality service delivery among others. The findings may not be generalised to our study due to the reason that even non-critical factors may at times lead to profitability.

Designing and implementation of critical success factors for individual commercial banks is therefore an issue of priority to succeed in getting and maintaining a good market share. The literature reviewed shows that some factors are of importance in operations of these banks though they lack empirical foundations. Realizing the importance CSFs has in banking operations: this study therefore seeks to empirically establish what the Critical Success Factors (CSFs) are as adopted by the Kenyan commercial banks in bid of enhancing their competitive advantage?

1.3 Study Objectives.

The objective of the study was to determine the use of CSF in Kenya's Commercial Banks.

1.4 Importance of the Study.

To the operating commercial banks in Kenya, the study findings will be of great importance because the identification of the extent at which the management of these banks has implemented the critical success factors in their operations will be evaluated giving their strengths and weaknesses.

To the current and potential scholars in the business field more especially those who have interest in critical success factors, the findings from this study will provide information to expand the one already that exists. The findings will also be of critical importance to those who have got interest of further studying the field because the researcher intends to give suggestions for further studies.

Banking as a sector to contributing to the country's economy can not be overlooked by the government and other policy making agencies. The findings from this study will therefore be of importance because they will have the capacity of being used to formulate positive national policies which are relevant and sensitive to the forces influencing the banking sector in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Entrepreneurial success is understood in two broad aspects; quantitative venture performance (financial) and qualitative venture performance (meeting stakeholder expectations and actual outcomes relative to entrepreneur expectations). Success is achieved if the organization uses its performance to meet, or better to exceed the financial, social and personal growth expectations of people who have an interest in it (Hunger and Wheeler, 1999).

Financial measures of business success are equated with the organization's ability to grow and expand on new business opportunities as profit centres, whilst managing all other aspects of business profitability (Baghai et al., 1999). Performance measures are tied to profit (Gregory and Meyers, 2002). However Goett (1999) notes that this form of measure is not necessarily a healthy one. Besser (1999) comments that a more holistic approach be taken, and this involves the community (customers in this case), staff satisfaction as well as values of the entrepreneur. This alternative approach is noted by Besser (1999) who comments on the subjectiveness of non-financial measures for success and these may be rather vague. Success in these non-financial measures at the expense of long-term financial goals however is not a viable business proposition (Hart, 1993). Success measures should therefore adopt both the holistic approach and financial indicators.

A business that is failing can be identified through one of the four most common symptoms, those noted by Cameron and Massey (1999); Hamilton and English (1997) as; poor cash flow due to poor credit management practices, a lack of working capital once fixed assets have been paid for, an over estimation of the potential market size by the owner who gears up for a higher demand which is then not realized and an unexpected rapid sales growth which is managed badly by borrowing to keep up with demand which eventually render the business unable to pay suppliers.

The most frequently cited cause for small business failure is inability to pay debts (Hodggetts and Kuratko, 1998). The authors also cite incompetence as a major reason why small businesses fail, as owners do not understand how to run their enterprises. Other cited reasons include: unbalanced experience in, lack of managerial experience, lack of knowledge on the market, the management's inability to strategically address the contributors of business enhances the opposite, business success thus the concept of CSFs.

Critical success factors are those management activities that will ensure a competent performance provided that the activities are performed satisfactorily (Rockart, 1971). The CSFs are not necessary for achieving the organization's objectives and goals rather they are a list of activities necessary for the successful delivery of those goals and objectives. The pursuance of these factors creates an environment conducive for success (Dobbins, 2001). It should also be stressed that the factors are based on perception and may differ from one person to another (Jenster, 1986).

2.2 The Concept of Competitive Advantage

The concept of competitive advantage was developed by Porter (1980) to help firms develop winning strategies. Firms win in the market in which they operate by outperforming rivals by occupying a unique industry position or by offering superior customer value. Firms can offer customer value either through the lowest price or superior benefits. Treacy and Wiersenal (1997) define customer value as the sum of benefit received minus costs incurred by the customer to get the product or service. A firm's competitive advantage has a higher chance of success when it is defined from customer perspective. Customer is business and without customers there is no business. Firms win in the market by making the best offer to its target customer. Sago (2003) state competitive advantage occurs when a firm uses its resources and capabilities to develop organizational competencies that in turn create customer value.

A firm's competitive advantage is however derived from its capabilities/competencies. Capabilities have various definition, some authors refer to it as core skills (Tampoe, 1994) and distinctive capabilities (Collins, 1994). A capability is capacity for asset of resources to interactively perform a stretch task of an activity. Capabilities are popularly categorized into distinctive and reproducible. Distinctive capabilities are therefore those capabilities that are difficult to be replicated by competitors unlike reproducible capabilities that cover or relate to technical, financial, marketing, explicit knowledge can be bought or created by competitors over time. Gaining competitive advantage on the basis of capabilities demand that firms focus their effort on building business processes into strategic capabilities that are not easy to be replicated by rivals.

2.3 Critical Success Factors

An industry's critical success factors are the strategy-related actions, approaches, competitive capabilities and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to be competitively and financially successful. Critical success factors are business aspects all firms in the industry must pay attention to- the specific outcomes crucial to market success (or failure) and the competencies and competitive capabilities with the most direct bearing on company profitability. By identifying critical success factors, managers are able to envision the ideal strategy for building a competitive edge in the industry. Critical success factors are therefore an integral part of a company's strategy. Frequently, a company with perceptive understanding of industry success factors can gain sustainable competitive advantage by devoting its energy to being distinctively better than its rivals at succeeding at these factors (Thompson and Strickland, 1995).

During the 1980's and early 1990's, interest in the role of strategy in building competitive advantage resulted in a shift of interest towards the internal aspects of the firm. Developments in the resource-based view of the firm and organizational competencies and capabilities pointed to the firm's resources and capabilities as the primary source of its profitability and the basis for formulating its long-term strategy. The focus upon internal resources and capabilities has emphasized the differences between companies and their need to exploit the differences in order to establish unique positions of competitive advantage. Michael porter points out that competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1996). Some of the CSFs in the banking industry may be said to be the following:

2.3.1 Technology

Critical success factors vary from industry to industry but across industries a number of common factors have been observed including capacity of technology adopted and the availability of expertise to use and maintain the technology. Technology also extends to the product innovation capability (Market Intelligence, 2003); Thompson and Strickland (1995) and Frei, Harker and Hunter (1995) argue that a bank's performance is "strongly influenced by the predisposition of management to not only develop innovative solutions for the future, but also to create the milieu for their successful implementation." According to Mullins (2002), well-designed and implemented computer-based communication networks spreading across functions enables employees to gain greater awareness of the organization and other employees, changes in the nature of jobs and work practices and also empower employees. This assertion is supported by the observed behavior of tellers taking charge and being fully responsible for various transactions in the front offices of banks (Mullins, 2002).

Technology in banking is a key resource in terms of magnitude and importance (Quinn, Doorley & Paquette, 1991). The investment in advanced technology is aimed at

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integration of front and back office systems into a seamless service delivery process therefore bringing quality and convenience to the customer. The application of computer systems facilitates product flexibility and on - line capabilities to better serve customers and increase the capacity of customer service employees. Technology in the banking sector including the use of automated teller machines and over-the-counter services have created such conveniences that give competitive edge as to make every bank strive to go on-line in all or most their activities (Market Intelligence. 2003). Customers choose a bank because of the conveniences it provides (Market Intelligence, 2002). From a business strategy point of view. technology can change the basis of competition from low -cost to product differentiation to specialization or vice versa. Technology changes the way business firms compete or do business (McFarlan, 1991). The creative use of technological capabilities is therefore one of the critical success factors among organizations (Market Intelligence, 2003).

In recent years, an advance in information technology has revolutionized the way companies conduct business and has increasingly been treated as one of the critical success factors. It is believed that information communication technology (ICT) plays a significant role in providing better customer service, presumably at a lower cost in the banking sector. Several innovative IT-based services such as automated teller machines (ATM), electronic funds transfer, anywhere-anytime banking, smart cards, internet banking, etc. are no longer alien concepts (Rawani and Gupta, 2000). But the diffusion of technology is somewhat slow in public when compared to private and foreign owned banks. In the case of private owned banks, automation has been far easier mainly because of their size which is small. As regards the foreign banks, they already have the advantage of good automation experience in several banking applications (Kaujalgi, 1999).

2.3.2 Business Location, Size of an Organization and Distribution System

Critical success factors come in a variety of different patterns depending on the industry including size of plant or human resource; business location. and distribution system. Some of the factors are less tangible and less obvious but are just as important, for example quality of services offered, location, employees attitude, cost control (Thompson and Strickland, 1995). The size of the firm in terms of asset base, presence in many areas of a country or region, revenues it is able to generate, number and quality of human resources and capacity to dominate in its industry and other factors considered to make a company big, often influence the perception of the customer of the organization (Kihera and Waruingi, 1988).

2.3.3 Product Range, Packaging and Image

A KPMG (1998) study of banking industry in Hong Kong found that the main critical success factors for the banking industry included the ability to deliver product lines, strong focus on consumer business, advanced technology and delivery systems. Customers prefer an organization with a product or products that meet their different and changing needs. Successful organizations have strong brand differentiation. They position their products to present a positive image that would go a long way in keeping the customer loyal to the product. (Quinn, Doorley and Paquette 1991. KPMG, 1998).

2.3.4 Service Delivery

Behind the success of every organization lies the quality of service. Investment in efficient processes, human resource training and development, redesign of customer service areas together with management of inbound and outbound logistics (value chain) are or should all be geared towards making service delivery efficient and effective (Quinn, Doorley and Paquette 1991, Porter,1985). Managing operational fundamentals which involve efficient scheduling, organization and planning, among others, ensure operational soundness which in turn leads to high levels of service (Denton, 1989, KPMG, 1998; Frei, Harker & Hunter, 1995).

Customers expect quality in the delivery of financial services and products. Quality suggests high standards of attention to the customer including error-free statements, correct cheque printing, and the operational soundness of all delivery channels. Banks committed to quality and accuracy will anticipate problems and facilitate a friendly, fast and easy resolution process. Banks may require higher levels of precision than their non bank competitors; therefore one source of advantage over other kinds of organizations lies in the trust consumers place in banks to handle their assets effectively. Mistakes in this process may drive consumers to search for other financial providers (Frei, Harker & Hunter, 1995).

The success in serving customers with differing levels of interaction to the banking process depends on a bank's ability to provide a responsive service which contributes to the success or ease of the process. Process redesigns (Hammer and Champy, 1993) are meant to address the needs of various consumer constituencies through alternative delivery options, some of which, such as automated teller machines allow customers to transact essentially at their own time (Frei, Harker and Hunter, 1995).

2.3.5 Customer Convenience

Frei, Harker and Hunter (1995) observed that consumers chose financial services based largely on availability and location. The concept of convenience has however extended beyond availability and location due to advances in technology and innovation to include a wide range of products and services available at any time, from any place. The development of automated teller machines, computer banking, and the ability to engage in almost any transaction through these channels is evidence of commitment of the industry to provide customers with whatever they want, whenever they want it.

Customers are persuaded by rapid turnaround time to carry out transactions whether it is standing in the teller line, filling out a loan application, or coming to the branch for an account closing. Convenience is a value perceived by the customer. Different customers perceive this value differently. Therefore the success of an organization depends on how well it identifies and satisfies the conveniences of different customers (Frei, Harker and Hunter (1995). According to a survey carried out by the Canadian Bankers Association, convenience drive consumer banking activity (CBA, 2004)

2.3.6 Cost of Services

The Central Bank of Kenya periodically publishes the charges levied by various banks in the country as a service to the public. Literature available indicates that the various charges together constitute a significant level of financial costs to the consumers and is one of the factors for choosing or not choosing a bank (Market Intelligence, 2002). Banks with minimal cost structures and are able to pass on the benefits to the consumers in form of low charges for various services are likely to have higher profitability than those which levy high charges to cover inefficiencies (Frei, Harker and Hunter, 1995).

2.3.7 Robust Human Resource Management

All services are driven by human resources. A robust human resource management which involves best practice in compensation , hiring and selection, staffing, training and development, performance management as well as employee involvement and empowerment is critical for the success of an organization's service delivery strategy. A robust human resource management contributes to the performance of the firm in two ways: skills and competence, and good practices that drive desirable behaviour and attitude of employees. Generally, firms with practices which build competence and reinforce role behaviour consistent with customer demands are likely to be successful. Consistency across practices is as important as individual employee practices (Frei, Harker and Hunter, 1995).

Employees need not only to be held accountable for certain activities, but also for the necessary control over, and autonomy and authority to discharge that responsibility (Mullins, 2002). Getting it right internally with employee empowerment is crucial as it is the employee who delivers the services to the customer. If the customer has a bad experience with the employee, all external effort in marketing is lost. Durkin & Bennet (1996) argue that high levels of internalized commitment are essential for the successful implementation of the emerging relationship banking strategy and are key to the success of a firm in establishing competitive advantage.

The readily available supply of skilled and experienced personnel may vary considerably with the stage of a community's growth. A new manufacturing firm would find it far more difficult to obtain skilled employees in a vigorous industrialized community than in an economically depressed community in which similar firms had recently cut back operations. The skills of some people are so specialized that relocation may be necessary to secure the jobs and the compensation that those skills commonly command (Durkin & Bennet, 1996). People with such skills include oil drillers, chefs, technical specialists, and industry executives. A firm that seeks to hire such a person is said to have broad labor market boundaries; that is, the geographic area within which the firm might reasonably expect to attract qualified candidates is quite large. On the other hand, people with more common skills are less likely to relocate from a considerable distance to achieve modest economic or career advancements. Thus, the labor market boundaries are fairly limited for such occupational groups as unskilled laborers, clerical personnel, and retail clerks (Frei, Harker and Hunter, 1995).

2.3.8 Corporate Governance

The best run companies have structures for accountability at all levels of management to prevent crippling frauds, scandals or loss-making and value-diminishing activities as has been witnessed in the Bank of Credit and Commerce International scandal (Kochan and Whittington, 1991), the Barrings Bank (Rawnsley, 1995) and more recently at American companies-Enron and WorldCom- and the Italian milk giant, Parmalat, which have all collapsed (Ferrarini and Giudici, 2005).

Corporate governance entails objectively electing independent, educated, professional Board of Directors, and assigning them defined roles. Their role would include requiring a corporate strategy from the management, reviewing it periodically for its validity, using it as a point of reference for all other Board decisions and sharing with the management the risks associated with its adoption (Andrews, 1991). In addition, the Board would evaluate, define or redefine the business of the organization and select, monitor and hold responsible managers entrusted with day to day responsibilities to ensure optimization of value to the stakeholders (Mills, 1988).

Effective governance require structures for accountability, independent audits, monitoring and reporting put in place to check both the board members and management. Measures to discourage unprofessional practice including commitment to an ethical code of conduct, and immediate censure for misbehavior by any employee or even board members are part of the company policy in large well run organizations (Bennis, 2003; Mills, 1988). Kenya's smaller banks have collapsed in the past and some of these experiences have been attributed to bad governance. Corporate governance is a key component of risk management which is considered a critical success factor in all leading organizations (Private sector Corporate Governance Trust, 2002)

2.3.9 Role of Leadership

Literature provides a consensus on the role of leadership in facilitating institution building, process review, championing technological adoption, creating a culture that embraces quality, customer focus, teamwork, employee motivation, performance measurement, accountability and the practice of good governance (Kotter, 1990; Hammer and Stanton 1996 Peters and Austin, 1985, Kanter, 1984; Mullins, 2002). The leadership would champion the corporate change and redesign practices aforementioned. Leaders innovate, initiate and manage change (Senge, 1990; Kanter, 1984; Kotter, 1990). Equally important is the role of leadership in managing external interference and factors that affect the performance of the organization (Hammer and Stanton, 1996; Peters and Austin, 1985; Drucker, 1993; Kotter, 1999).

2.4 Conceptual Framework

Figure 2.1: The Conceptual Framework

Independent Variables	Moderating Variables	Dependent Variables
INPUT	**PROCESS**	**OUTCOME**
Effective implementation of CSFs	Robust Human Resource Management Information Communication technology (ICT) Service Delivery Distribution Systems Cost of Service Corporate Governance Quality Service Delivery Proper Leadership	Effective market performance of the Commercial Banks

The conceptualization of this project will be based on the moderating variables of: Information Communications Technology (ICT); Service delivery; corporate governance, Business location, size of distribution systems, cost of service, role of leadership, product range, packaging and image, customer convenience and finally corporate social responsibility. The dependent variable is good market performance of the commercial banks while the independent variable will be effective designing and implementation of CSFs. The model of figure 2.1 above shows the conceptualization of the relationship between the dependent; independent and moderating variables that will guide this study.

2.5 Empirical Literature on CSFs

Ultimately managers must look for effective ways to build competitive advantage Sago (2003) has used five steps of competitive advantage building with success. The major steps are: specifying the target markets; identification of unmet opportunities to increase customer value offerings of the firm and its competitors; examination of the organization to see if the firm holds resources needed to meet the unmet needs/opportunities or not, develop plans to obtain them, examination of the firm to see if the organizational capabilities needed are there in the firm and if not, institution of plans to develop and obtain them through integration of resources and capabilities, develop and use distinctive and relevant competencies within the business to provide increased customer value.

Though initially introduced to determine the information needs of managers, the current use of CSFs has grown to cover all legitimate areas of management (Vijay et al, 1999). An example is the use of CSFs for identification of global business drivers. The CSF technique has been assessed for reliability and consistency by comparing the results of management studies. Literature on CSFs have identified numerous factors critical to success, these are taxonomized as follows:

Chen (1999); Gadenne (1998); Hamilton and English (1997) identified that an organization needs to establish a competitive advantage to ensure business sustainability based on organizational capabilities and competencies either based on organization structure or service.

"Do as I do, not as I say" (1995); Gadenne (1998); Hamilton and English (1997) observe that good management (ability to plan, lead and control and suitability and the personal quality of the entrepreneur), access to adequate funding and good financial management (record keeping for tax purposes) are CSFs. Gadenne (1998) further talks of maintaining and developing employee relations with an innovative leadership approach.

Dobbins (2001) suggests that merely having a list is not a prelude to success as managers need to be able to learn the CSFs and these need to have some contextual relevance to the person. This entails some learning and instruction in the use and understanding of CSFs. The author states that CSFs will change depending on the stage the project is in and also as a result of changes in technology. What is important is the process engaged in identifying the CSFs appropriateness at that particular time for the success of that venture and the measurement of its success. To ensure organizational learning continues, CSFs need to be documented and managed, so that there is a formal process rather than one that relies on intuition (Cornell et al.,2001; Dobbins, 2001; Lin et al,. 1999) CSFs are a good way to focus on what is important and necessary for success (Dobbins, 2001). There is no simple formula for success, only a number of things that you must get right (Chen, 1999).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The study collected data concerning the state of adoption of critical success factors in Kenyan commercial bank industry. The researcher looked at seven factors considered as critical to success of commercial banks on the market. In order to achieve the specific objectives, the researcher in this section outlines the design the study took, data collection instruments used, procedure and techniques that were employed.

3.2 Research Design

Being a descriptive, the study aimed at finding out the critical success factors in the commercial bank industry in Kenya. Therefore it was modeled on a descriptive design due to the fact that it describes how the critical success factors have contributed to the performance of commercial banks in Kenya. A survey was conducted in order to gather the data. According to Mugenda and Mugenda (1999), survey studies collects data from members of a population and describes the existing phenomena by getting the population's perception, attitudes, behaviour and values, this is in addition to its ability of exploring the existing status of two or more variables at a time.

3.3 Target Population

The study target was all the 43 commercial banks licensed to operate in Kenya by the Central Bank of Kenya (CBK) as at June (2009). These banks operate in accordance to Cap 488 (Banking act of Kenya).

3.4 Data Collection Techniques

The principle data collection instrument used was a questionnaire. To enhance uniformity of question answering and increase the response rate, the instrument was fully structured and self administered. The questions were designed to deal with each specific objective which represents a single critical success factor under study and their internal cohesiveness were one of the main objectives of 'validation testing' of the instrument during pilot study. The consistency of the attributes was achieved because the instrument was divided into different sections and special attention paid to validity and linearity issues during its design stage. A likert Scale of 1-5 was used to measure the criticality of different factors that the researcher had proposed to place under study with 1 being least critical and 5 representing maximum criticality. This scale is frequently used for measuring people's opinions (Han and Noh, 1999-2000 and Usoro, 1999) and that is what the instrument was set out to measure. This minimized the instances of question duplication which enhanced clarity in analysis. Among the benefits the researcher drew from using the questionnaire as a tool in data collection is; reduced respondent training costs, uniformity of questions and answer standardization.

The researcher in liaison with each bank's management identified an official from the bank or the bank's CEO who can address the C.S.F. The respondents were either the selected branch's human resource or Operations manager. The researcher therefore booked a pre-study session with the respondent to clearly explain the objectives and importance of the study; this assisted the researcher in avoiding the disadvantages of social desirability during data collection. As a measure of gaining the confidence of the respondents, the researcher gave assurance of anonymity and confidentiality during the stages of data collection, analysis and report presentation. The questionnaires were being self administered.

3.5 Data Analysis

After data collection, data was sorted, edited, cleaned, entered and finally processed to generate the required information to answer the research questions. Analysis was mainly by descriptive statistics (mean, percentages and frequency runs) using: Excel, SPSS and Stata 08 as computer based analytical software. During analysis, the information was being presented pictorially (in charts and graphs) accompanied by narratives explaining them.

CHAPTER FOUR: DATA ANALYSIS, DISCUSSION AND PRESENTATION

4.1 Introduction

The chapter introduces and discusses the results of the study. It provides the research findings and the results from the respondents based on the questionnaire administered to them.

Response Rate

The study targeted a population of all the 43 commercial banks in Kenya and the response rate was an impressive 100 %. The results by respondents are in table

Table 1:0 Response rate

Target	Target population	Response	Rate
Commercial Banks in Kenya	43	43	100%

Source: Research Data (2009)

4.2 Banking relationship

The questionnaire sought to establish whether a banking relationship is a critical factor in the operation of a bank and if it leads to gaining a competitive advantage on the market. Majority of the respondent banks agree that a banking relationship is a CSF in the operation of a bank and leads to gaining a positive competitive advantage on the market. With a mean score of above 4.7 customized products and prompt handling of customers complaints emerged out as the most critical success factors in enhancing a banking relationship. However, enquiries made via text message or internet scored a mean score of 3.98 as factors enhancing a banking relationship.

Figure 1: Critical success factors enhancing banking relationship

Critical Success factors n= 43	**mean**
Customized products and services	4.81
Handling customer complaints promptly	4.77
Tailoring products to meet customers needs	4.67
Personalized services	4.67
Advising customers appropriately	4.67
Bank's rating by customers	4.67
Accessibility funds through ATM	4.65
Strategic location	4.65
Assisting illiterate customers effectively	4.53
Banking hall space	4.37
Having branches everywhere	4.37
Efficient customer	4.26
Seats for customers	4.21
Enquiries via text message or internet	3.98

5= strongly agree

1= strongly disagree

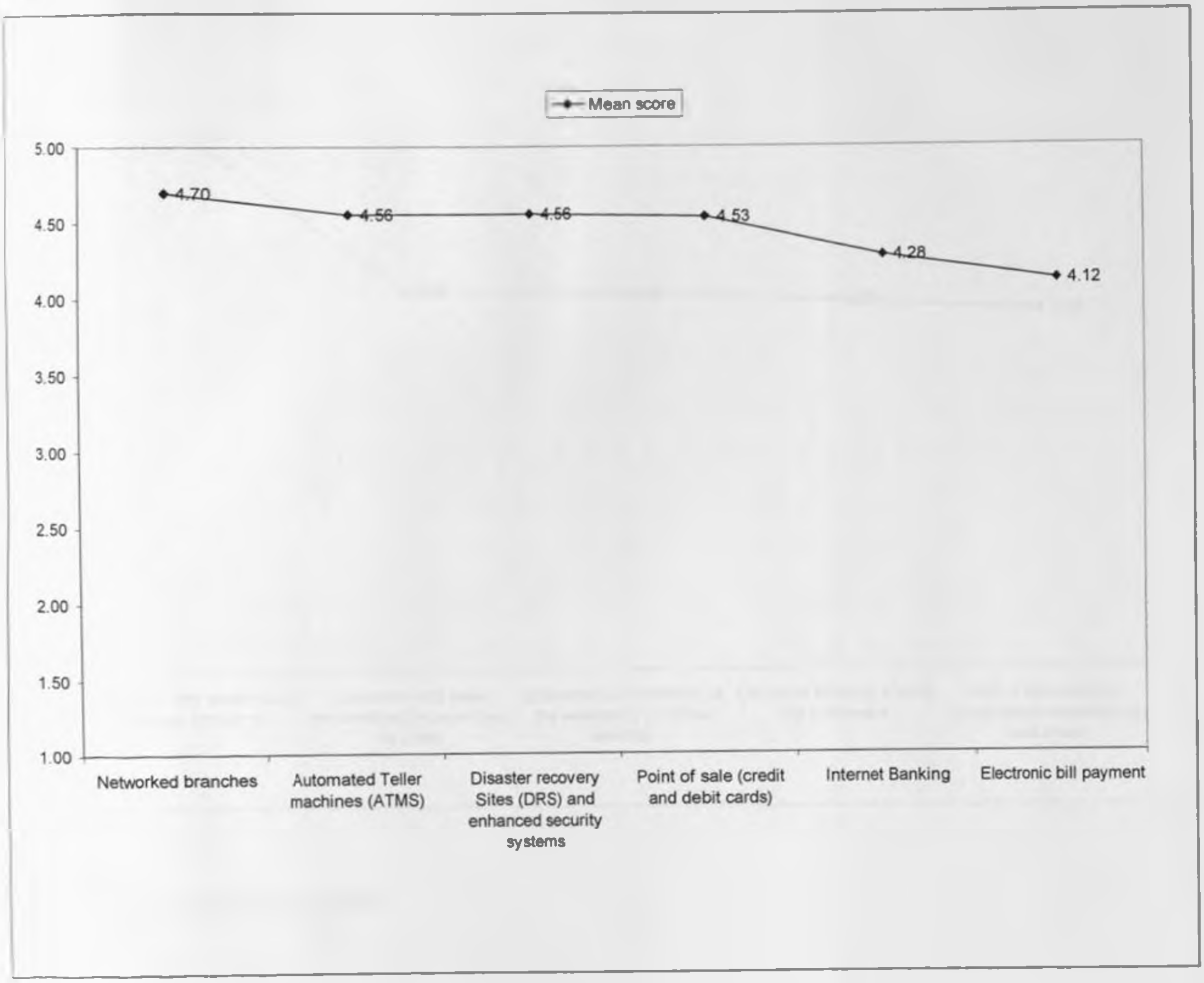
Source: Research Data (2009)

4.3 Information Communication Technology

Majority of respondent banks agree that the adoption of ICT facilities as a critical success factor in the operations has led to gaining a competitive advantage on the market. With the highest mean score of more than 4.50 against a maximum of 5, it can thus be concluded that networked branches, use of Automated teller machines (ATMs), use of disaster recovery sites (DRS) and enhanced security system offers banks a competitive advantage on the market. Though slightly lower internet banking and electronic bill payment scored a mean score of 4.28 and 4.12 respectively.

Conclusively, networked branches, use of automatic teller machines (ATMs), electronic bill payment, use of disaster recovery and enhanced security systems, though in varying levels- have all led banks in Kenya towards gaining a competitive advantage on the market.

Figure: 2 ICT facilities

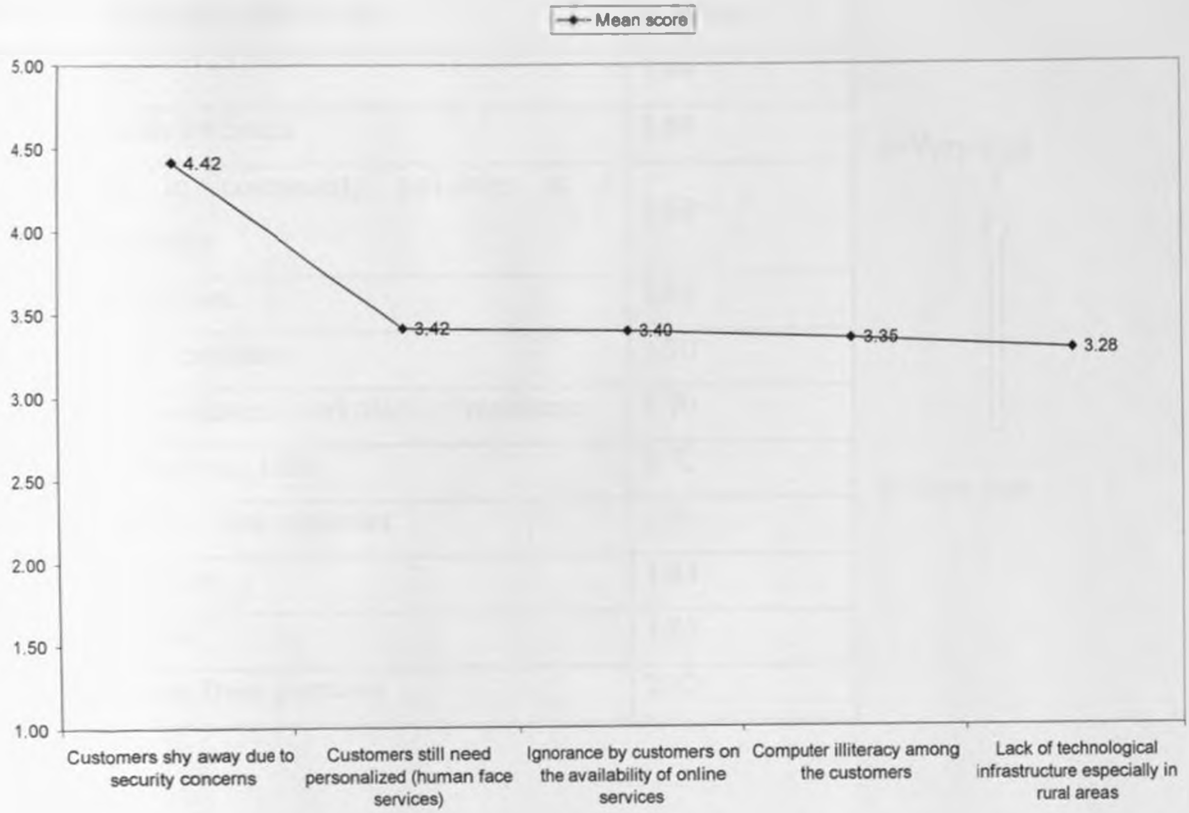


Source: Research Data (2009)

Embracing ICT facilities as a critical success factor in banking operations has got some challenges, however, though, with a mean score of 4.42 very few banks have experienced customers shying away due to security concerns.

Lack of technological infrastructure especially in rural areas (3.2), computer illiteracy among customers (3.25) and ignorance by customers on the availability of on-line services (3.4) are seen as the challenges with the highest rate.

Figure 3: Challenges associated with adoption of ICT facilities



Source: Research Data (2009)

4.4 Customer convenience

As one of the critical success factors in the commercial banking industry, customer convenience has received attention by the management of these banks. Safe facilities, 24 hours accessibility to funds, long banking hours and proximity to customers' workplace or residence emerged out as the most prioritized customer convenience aspects

Figure 4: Customer convenience aspects

Aspect of customer convenience	Level of priority
Safe facilities	1.44
Access to funds 24 hours	1.60
Involvement in community activities as a marketing strategy	1.63
Long banking hours	1.65
Payment of my creditors	1.70
Proximity to customers' workplace or residence	1.70
Comfortable banking halls	1.72
Single charge for bank expenses	1.74
E-banking services	1.84
Unsecured loans	1.86
Funds collection from premises	2.12

1=Very high

5=Very low

Source: Research Data (2009)

4.5 Robust Human Resource Management

A robust human resource management involves best practice in compensation, hiring and selection, staffing, training and development, performance management as well as employee involvement and empowerment are critical for the success of an organization's service delivery strategy. Robust human resource Management determines their out put. Recruiting the right staff with the right skill, maintaining good employee relations and employing the right staff motivational method are critical aspects of a robust human resource management practice.

Figure 5: Aspects of a robust human resource management

Aspects of a robust human resource management	Level of importance
Recruiting the right staff with the right skills	4.91
Maintain good employee relations	4.86
Use of appropriate leadership skills to the operating team	4.79
Staff training, development and retention of staff	4.77
Hiring is based on merit	4.77
Employing the right staff motivational method	4.77
Embracing good management practices	4.67
The bank provides equal training opportunities	4.58
Maintaining station organization and specifying staff roles	4.53
Encouraging continuation of education	4.53
Linking compensation to performance	4.51
Delegating duties to junior staff	3.98

5=Critical

1= Not Important

Source: Research Data (2009)

4.6 Product Range, Packaging and Image

Customers prefer an organization with a product or products that meet their different and changing needs. Successful organizations have strong brand differentiation. As evident in the table below most of the respondent banks attach a very high importance to product packaging, tailoring products taste and packages to customer needs and product differentiation.

Figure 6: Product Range, Packaging and Image and the attached level of importance

Aspects of the Product	Level of importance
Image of the organization	1.12
Product differentiation	1.19
Tailoring products taste and packages to customers' needs	1.26
Product packaging Image of the organization	1.33

1= Very high

5= Very low

Source: Research Data (2009)

4.7 Cost of Services

The Central Bank of Kenya periodically publishes the charges levied by various banks in the country as a service to the public. Literature available indicates that the various charges together constitute a significant level of financial costs to the consumers and is one of the factors for choosing or not choosing a bank (Market Intelligence, 2002).

From this study it's evident that majority of the banks attach a high level of importance to cost of services as this enables the banks to pass on the benefits to the customers in form of low charges for various services.

Figure 7: Cost of service and the attached level of importance

Cost of services	Level of importance
Low costing of services	1.70
Premium costing	1.70
Uniform costing targeting to all	1.91
High costing	2.30
Copying competitors prices	2.35

1=Very high

5=Very low

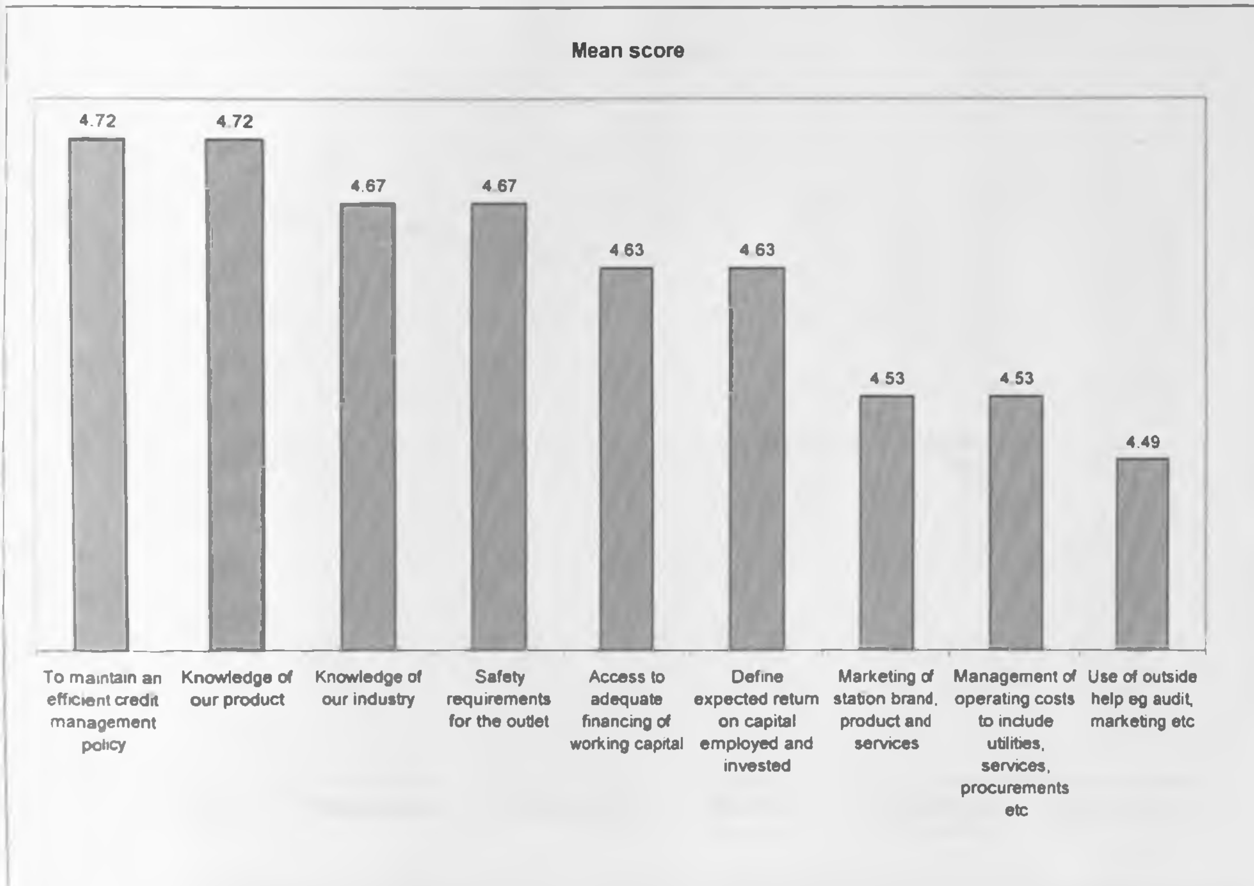
Scale (**1=Very high**, 2=High, 3=Neutral, 4=Low and **5=Very low**).

Source: Research Data (2009)

4.8 Critical success factors related to technical skills

As one of the critical success factors in commercial banking industry, technical skills have received varying levels of attention by management of banks. As evident from the study management in majority of the banks attach a very high level of importance to the various aspects of technical skills. All the below technical skills scored a high mean score of above 4.4 against a maximum of 5.

Figure 8: Technical skills and the attached level of importance



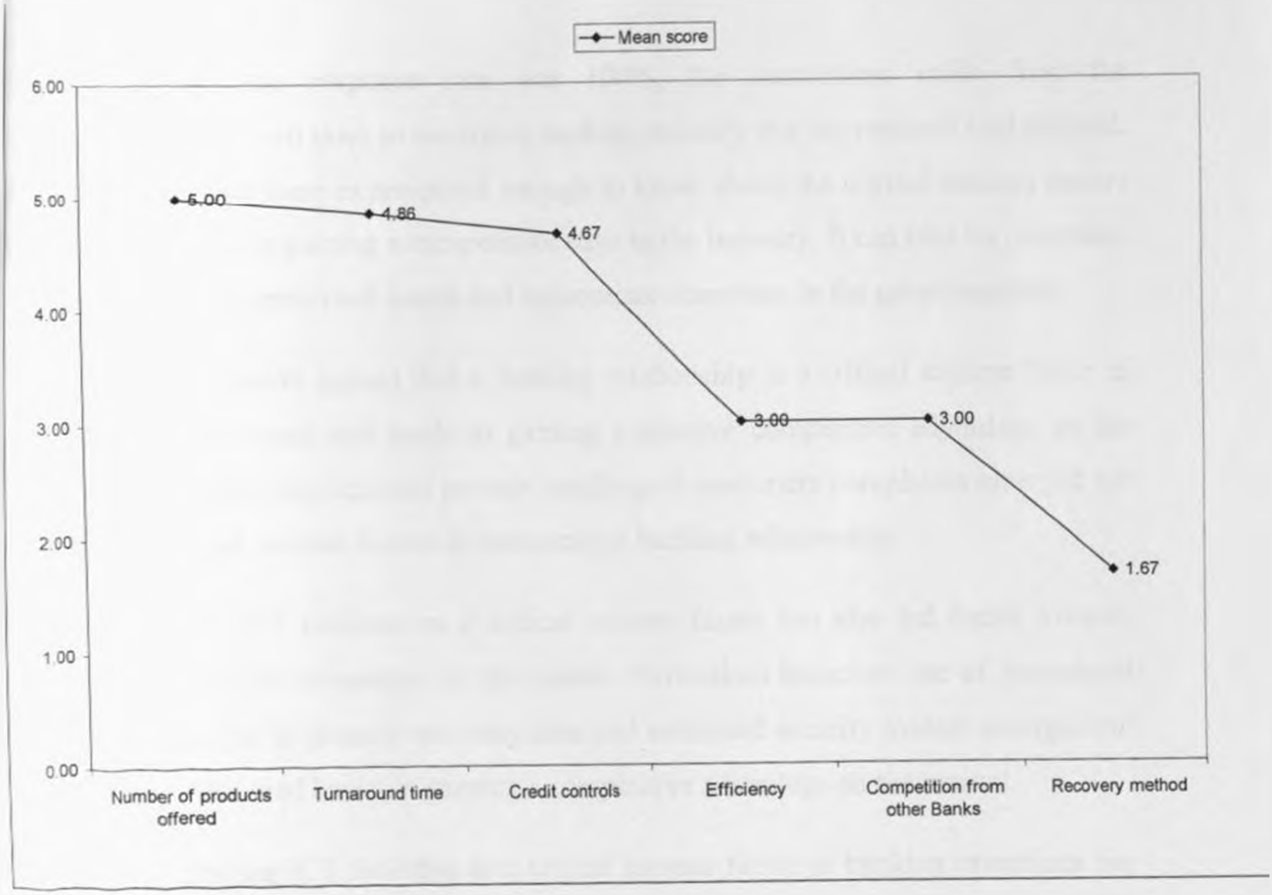
(**1=Not important** 2=slightly important 3=Important4=Very important **5=Critical**)

Source: Research Data (2009)

.9 Other Critical success factors

lajority of the responding banks suggest that offering a number of products is a critical uccess factor with a maximum score of 5; turn around time and credit controls also merged out from the study as critical success factors that give banks a positive ompetitive advantage, with means score of 4.26 and 4.67 respectively.

'igure 9: Other critical success factors



CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with summary of findings, the conclusions made thereof and the recommendations that the researcher provides to the management of commercial banks in Kenya and other stakeholders of the study.

5.2 Summary of Findings

Considering that the response rate was 100%, the conclusions made from the respondents' banks will infer to the entire banking industry that the research had targeted. All the respondents were experienced enough to know about the critical success factors that enhance banks in gaining a competitive edge in the industry. It can thus be concluded that the respondents provided sound and appropriate responses in the questionnaires.

Most respondent banks agreed that a banking relationship is a critical success factor in the operation of a bank and leads to gaining a positive competitive advantage on the market. Customized products and prompt handling of customers complaints emerged out as the most critical success factors in enhancing a banking relationship.

The adoption of ICT facilities as a critical success factor has also led banks towards gaining a competitive advantage on the market. Networked branches, use of Automated teller machines, use of disaster recovery sites and enhanced security system emerged out as ICT factors that lead banks in gaining a competitive advantage on the market.

However, embracing ICT facilities as a critical success factor in banking operations has got some minimal challenges; lack of technological infrastructure especially in rural areas, computer illiteracy among customers and ignorance by customers on the availability of on-line services.

Amongst the critical aspects of a robust human resource management is the recruitment of the right staff with the right skill, maintaining good employee relations and employing the right staff motivational methods. These are critical in a bank's service delivery strategy as it determine staff's output.

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5.3 CONCLUSION

It can thus be concluded that from the response and summary of findings that identifying critical success factors commercial banks in Kenya are able to envision their ideal strategy for building a competitive edge in the industry. A case in point is the creation of a banking relationship as a critical success factor in enhancing a competitive edge on the market. From the study most banks create customized products and handle customer complaints promptly. These banks enhance the banking relationship with their customers and thus place themselves on a competitive edge on the market.

Networked branches, use of automated teller machines (ATMs), electronic bill payment, use of disaster recovery and enhanced security systems, though in varying levels- are the ICT facilities that have led banks in Kenya towards gaining a competitive advantage on the market.

Evident from the study, customer convenience is one of the critical success factors in the commercial banking industry, which has received attention by the management of commercial banks in Kenya. Safe facilities, 24 hours accessibility to funds, long banking hours and proximity to customers' workplace or residence are the most prioritized customer convenience aspects.

A robust management of an organizations human capital determines the latter's output. Empowerment is critical as those employees who deliver the services to the customer.

Therefore if the customer has a bad experience with the employee, all external effort in marketing is lost. Hiring the right staff with the right skill, maintaining good employee relations and employing the right staff motivational method are critical aspects of a robust human resource management practice.

The following is a computation of a critical success factor index it shows the weight attached to each dimension under study and the importance attached to it by the responding banks.

The dimensions with an above average success index were: Robust Human Resource management (93%), technical skills (92%), banking relationship (90%) and Information Communication Facilities (89%). Those with a success index below average though still rated well were: Product range, packaging and Image (76%), Customer convenience (65%) and Cost of service (60%).

Critical success factors index in rank order

Critical success factor	Maximum score	Mean score	%
Robust Human Resource management	**60**	**55.67**	**93%**
Technical skills	**45**	**41.60**	**92%**
Banking relationship	**70**	**63.30**	**90%**
Information Communication Facilities	**30**	**26.74**	**89%**
Product range, packaging and Image	20	15.12	76%
Customer convenience	55	36.00	65%
Cost of service	25.00	15.05	60%
Total	**305**	**253.48**	
Overall importance	**100%**	**83%**	

5.4 Recommendations

From the summary of findings and the conclusions thereof, the researcher recommends that;

i. Commercial banks should identify critical success factors as an integral part of a company's strategy towards gaining a competitive advantage on the market

ii. Commercial banks should offer more customized products to the various market segments which have varying banking and financial needs. This coupled with prompt handling of customer complaints are critical success factors in enhancing a banking relationship.

iii. All services are driven by human resources. A robust human resource management which involves best practice in compensation , hiring and selection, staffing, training and development, performance management as well as employee involvement and empowerment is critical for the success of an organization's service delivery strategy Customized products and prompt handling of customers complaints emerged out as the most critical success factors in enhancing a banking relationship.

5.5 Suggestions for further research

The researcher suggests that further research be done on the following areas;

(i) The relation between best practice in human resource management in the banking industry and customer satisfaction.

(ii) The effects of adoption of ICT facilities and the growth of banking services

Appendix 1: A Copy of Research Questionnaire
A Survey of Critical Success Factors (CSF) adopted By Commercial Banks in Kenya

Section A: Bank Profile

1. Name of your bank ____________________________

2. Operational Years in Kenya ____________________________

3. Branch ____________________________

4. Customer Designation (Retail or Corporate) ____________________________

Section B: Critical Success Factors (CSFs)

(1) Banking Relationship

(a) Banking relationship as a CSF in the operations of our bank for the following variables has led to us gaining a positive competitive advantage on the market'. Do you… (1= Strongly Disagree, 2= Disagree, 3= Don't know, 4=Agree, 5= Strongly agree)

(Tick as appropriate)

Factor	1	2	3	4	5
Strategic location					
Banking hall space					
Personalized services					
Customized products and services					
Efficient customer					
accessibility funds through ATM					

Handling customer complaints promptly					
enquiries via text message or internet					
Advising customers appropriately					
Bank's rating by customers					
Seat for customers					
Tailoring products to meet customers needs					
Assisting illiterate customers effectively					
Having branches everywhere					

(2) **Information Communications Technology (ICT)**

(a) 'Adoption of ICT facilities as a CSF in the operations of our bank for the following variables has led to us gaining a positive competitive advantage on the market'. Do you… (1= Strongly Disagree, 2= Disagree, 3= Don't know, 4=Agree, 5= Strongly agree)

	1	2	3	4	5
Networked branches					
Automated Teller machines (ATMS)					
Internet Banking					
Electronic bill payment					
Point of sale (credit and debit cards)					
Disaster recovery Sites (DRS) and enhanced security systems					

(b) Embracing ICT facilities in 2 (a) above as a CSF banking operations has got some challenges. In table below, indicate the level at which your bank has been challenged in relation to the identified variables. (1=Very high 2=High 3=Neutral 4=Low 5=Very low)

	1	2	3	4	5
Customers shy away due to security concerns					
Customers still need personalized (human face services)					
Ignorance by customers on the availability of online services					
Computer illiteracy among the customers					
Lack of technological infrastructure especially in rural areas					

(3) Customer Convenience

(a) As one of the CSFs in commercial banking industry, Customer convenience has received attention by management of these banks. In your practice, what is the level of priority that you have placed on the following aspects…?

(1=Very high 2=High 3=Neutral 4=Low 5=Very low)

	1	2	3	4	5
Access to funds 24 hours					
Comfortable banking halls					
Payment of my creditors					
Involvement in community activities as a marketing strategy					
E-banking services					
Unsecured loans					
Proximity to customers' workplace or residence					
Safe facilities					
Single charge for bank expenses					
Long banking hours					
Funds collection from premises					

(4) Robust human Resource Management

(a) Robust human resource Management determines their out put. In relation to your operations, rate the following aspects relating to Human Resource training (1= Not important, 2= slightly important, 3= Important, 4=Very important, 5= Critical).

	1	2	3	4	5
Maintain good employee relations					
Recruiting the right staff with the right skills					
Employing the right staff motivational method					
Use of appropriate leadership skills to the operating team					
Staff training, development and retention of staff					
Hiring is based on merit					
The bank provides equal training opportunities					
Maintaining station organization and specifying staff roles					
encouraging continuation of education					
Linking compensation to performance					
Embracing good management practices					
Delegating duties to junior staff					

5) Product Range, Packaging and Image

What level of importance does your organization place on Product Range, Packaging and Image?

? (1=Very high, 2=High, 3=Neutral, 4=Low and 5=Very low).

	1	2	3	4	5
Product differentiation					
Image of the organization					
Tailoring products taste and packages to customers' needs					
Product packaging					

6) Cost of Services

What level of importance does your organization place on Cost of services?

(1=Very high, 2=High, 3=Neutral, 4=Low and 5=Very low).

	1	2	3	4	5
Premium costing					
Low costing of services					
High costing					
Uniform costing targeting to all					
Copying competitors prices					

(7) CSFs related to technical skills

(a) As one of the CSFs in commercial banking industry, technical skills have received attention by management of these banks. In your practice, how would you rate technical skills in your bank?

(1=Not important 2=slightly important 3=Important4=Very important 5=Critical)

	1	2	3	4	5
To maintain an efficient credit management policy					
Access to adequate financing of working capital					
Knowledge of our product					
Knowledge of our industry					
Safety requirements for the outlet					
Marketing of station brand, product and services					
Use of outside help e.g. audit, marketing etc					
Define expected return on capital employed and invested					
Management of operating costs to include utilities, services, procurements etc					

CSFs not highlighted in the questionnaire.

List and rank according to the scale below, any other factors you feel are critical and may have not been in the list above.

1 (Not important), 2 (Slightly important), 3 (Important), 4 (Very important) and 5 (critical)

State which of the listed factors above in all sections are not in your ability to influence and why not

Any other comment that you think has not been addressed in the questionnaire.

Thank You for Your Time and attention

Appendix 2: List of Commercial Banks Operating in Kenya

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

30) Investment & Mortgages Bank Ltd.

31) K-Rep Bank Ltd.

32) Kenya Commercial Bank Ltd.

33) Middle East Bank (K) Ltd.

34) National Bank of Kenya Ltd.

35) NIC Bank Ltd.

36) Oriental Commercial Bank Ltd.

37) Paramount Universal Bank Ltd.

38) Prime Bank Ltd.

39) Prime Capital and Credit Finance Ltd.

40) Southern Credit Banking Corporation Ltd.

41) Standard Chartered Bank (K) Ltd.

42) Transnational Bank Ltd.

43) Victoria Commercial Bank Ltd.

(Source: Central Bank of Kenya, 2008)