

**COMPETITIVE STRATEGIES ADOPTED BY THE KENYA  
COMMERCIAL BANK IN RESPONSE TO CHALLENGES IN  
THE EXTERNAL ENVIRONMENT**

**BY**

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**MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILMENT OF THE REQUIREMENTS FOR THE MASTER OF  
BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**NOVEMBER, 2010**

**DECLARATION**

This management research project is my original work and has not been presented for examination in any other Institution, College or University other than the University of Nairobi for academic credit.

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

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## **DEDICATION**

This research study is dedicated to my family: My dear husband Mwaniki who encouraged me to complete this program in time and constantly gave me moral support; my siblings Angela and Gitonga for their encouragement and inspiration even from afar and my parents Mr. And Mrs J. Mwangi, who gave me the foundation upon which to further pursue my education.

## **ACKNOWLEDGEMENTS**

This project could not have come to fruition without the help of certain persons who played a critical role in its eventual successful completion. The following deserve special mention. First I would like to thank the Almighty God for the gift of life and for all he has done and continues to do in my life. Thank you for creating in me a spirit of hard work and letting your favour shine on me. My heartfelt appreciation and gratitude goes to my supervisor Dr. Zack Awino for his invaluable support, wisdom and insightful guidance throughout the project, insistence on quality work and always being available for consultation.

To my family: My husband Mwaniki who has been a source of strength, inspiration and encouragement. Thank you for keeping your promise and for the financial, moral and emotional support you have given me all through the project and your patience. My siblings Angela and Gitonga who have always encouraged me to pursue my studies and offered encouragement. My parents Mr. and Mrs Mwangi who have always emphasized the importance of education and made sacrifices to ensure that I got this far. My entire extended family and especially my late grandparents Mr. and Mrs. Gitonga, for creating an environment where education was highly valued. I can only say you all are a blessing in my life and I am truly grateful. Thanks to my friends Marianne, Lorna, Ian, Wachira, Chris and Wanja and all colleagues for your contribution and support throughout the MBA course and especially Wanja for keeping me on my toes and encouraging me as we went through the programme. I thank all other persons not mentioned but who assisted me either directly or indirectly in ensuring that I completed this project. May God's good tidings be with you always.

## **ABSTRACT**

The financial services sector in Kenya has changed significantly over the last several years. These changes in the external environment have had a far reaching impact on the Banking sector. In addition, the competitive landscape has changed with several players such as non financial institutions offering substitute services traditionally provided by banks. Despite the challenges and changes in the environment facing the banking sector, KCB the largest bank in terms of branch network and asset base continues to be one of the formidable companies in the sector and to operate profitably. This is an indication that the bank has employed effective strategies to counter the increasingly complex challenges. The study looked at the host of external factors that have influenced the bank's choice of direction and action as well as the strategies adopted to tackle the very factors. The study used a case study design since a case study places more emphasis on the full analysis of a limited number of events or conditions and their interrelations (Kothari, 2004). The scope of the study was limited to identifying the competitive strategies that Kenya Commercial Bank has adopted in the last 5 years in response to challenges in the external environment. Data was analyzed using content analysis. From the data collected and analyzed, the study identified the various challenges facing the bank. The study also identified the key strategies that the bank has adopted to tackle the challenges faced. The study also came up with recommendations on how to tackle other challenges and also recommended areas for future studies.

**Key words: Competitive Strategies, Kenya Commercial Bank, Response, Challenges, External Environment.**

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## **LIST OF ABBREVIATIONS**

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
ICT	Information Communication and Technology
KCB	Kenya Commercial Bank
SACCO	Savings and Credit Cooperative

## **CHAPTER ONE: INTRODUCTION**

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

We are in an era of revolutionary change. It is fundamental, radical and global. These are incredible times of transformation typified by high growth and market opportunity; worldwide expansion and competition; corporate mergers, acquisitions and other restructurings; and downsizing, obsolescence and unforeseen events representing a shift in the business paradigm (Haines, Racine & Ralf, 1995). This has necessitated the need for a competitive strategy. The complexity and sophistication of business decision making requires strategic management. Managing various and multifaceted internal activities is only part of the modern executive's responsibilities.

The firms' immediate external environment poses a second set of challenging factors. This environment includes competitors whenever profits seem possible, suppliers of increasingly scarce resources, government agencies monitoring adherence to an ever growing number of regulations, and customers whose often inexplicable preferences must be anticipated. A remote external environment also contributes to the general yet pervasive climate in which a business exists. This environment consists of economic conditions, social change, political priorities, and technological developments, each of which must be anticipated, monitored, assessed and incorporated in top-level decision making (Pearce & Robinson, 1999). Wheeler & Hunger (2008) identify the task environment as consisting of shareholders, suppliers, employees, competitors, trade associations, communities, creditors, customers and special interest groups.

The financial services sector in Kenya has changed significantly over the last 5 years. These changes in the external environment have had a far reaching impact on the Banking sector. Key among these changes are Central Bank of Kenya autonomy to manage the country's monetary policy, increased technological advancement, a new political dispensation which has led to increased democratic space and investment, launch of the Microfinance Act and Finance Act, global recession, launch of agent banking and credit reference bureaus, changes in demographic and social patterns with more women participating in national development and changing attitudes with regards to financial services as a result of increased level of education and awareness of consumer rights. In addition, the competitive landscape has changed with several players coming into the sector including non financial institutions which have been offering substitute services traditionally provided by banks such as money transfer. Statistics from the Central Bank of Kenya indicate that at the close of 2009, the sector comprised of 46 institutions of which 44 were commercial Banks and 2 mortgage finance companies. In addition, there was 1 licensed deposit taking microfinance and 130 foreign exchange bureaus (Bank Supervision Annual Report, 2009). This competitive arena has prompted institutions to apply strategic management in order to ensure survival.

Kenya Commercial Bank is one of the players in the financial services sector and is currently the largest Bank in terms of branch network and asset base. Currently, the Bank has a regional footprint of 215 branches in 5 East African Countries with 170 branches in Kenya while the asset base stands at Kes. 244 Million. The Banks financial performance has also been improving steadily over the last 5 years despite the changes in the environment and it continues to be one of the formidable

companies in the sector. The fact that it is still operating profitably indicates that the company must have employed some strategies to counter the challenges in the external environment. In today's highly regulated environment, banks and securities firms are facing increasingly complex challenges. Every day brings new demands to manage risk, achieve operational excellence and satisfy the divergent interests of stakeholders. This study therefore aims to identify the challenges in the external environment that have had an impact on Kenya Commercial Bank in the last five years and the competitive strategies it has adopted in response to these challenges.

### **1.1.1 Competitive Strategy**

Competitive strategy involves positioning a business to maximize the value of the capabilities that distinguish it from its competitors (Porter, 1980). According to Karleof & Fredrik (2005), competitive strategy is a synonym for business strategy and the whole object of business strategy is to gain a strategic advantage or competitive edge. This strategic advantage should be of a kind that can be utilized as soon as possible and last as long as possible. Its function is to generate profits above the industry average and to gain market share. A business strategy reflects managerial choices among different alternatives and signals organisational commitment to particular products, markets, competitive approaches and ways of operating the enterprise.

Porter (1980) posits that the intensity of competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors. According to Porter, the state of competition in an industry depends on five basic competitive forces. It is these five industry-level competitive forces, the

bargaining power of buyers and sellers, the threat of potential substitute products and new entrants, and rivalry among existing competitors, that determine the inherent profit potential of an industry. Consequently, these are the main factors which an organisation needs to take into account when developing its strategy (Porter, 1980)

Porter maintains that in coping with the five competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation and focus.

### **1.1.2 Strategic Response**

Strategy is a potentially very powerful tool for coping with the conditions of change which surround the firm today. Strategy is a tool which offers significant help for coping with turbulence confronted by business firms (Ansoff & Mc Donnel, 1990). Clark (2000) argues that in formulating their strategies, firms may focus on shaping the company to meet environmental opportunities; this is the outside – in approach. This is also sometimes called the market led approach as the firm is looking at where the market is going as a cue to what it should do. Alternatively, the firm might use an inside – out approach, in which the firm searches for opportunities to exploit its strengths. Which approach is used will depend on the culture of the firm, the experience of decision makers within it, where it is on the environmental learning curve, what its goals are and whether its environment tends to be turbulent or stable. To deal effectively with all that affects the ability of a company to grow profitably, strategic management processes are designed which facilitate the optimal positioning of the firm in its competitive environment (Pearce & Robinson, 1999)

### **1.1.3 Challenges in the External Environment**

A host of external and often largely uncontrollable factors influence a firm's choice of direction and action and, ultimately, its organisational structure and internal processes (Pearce & Robinson, 1999) Changes in the external environment are particularly liable to affect business organisations since this is where their customer and competitors are (Cole, 1995). According to Thompson et al (2007) All companies operate in a macro environment shaped by influences emanating from the economy at large, population demographics, societal values and lifestyle, government legislation and regulation, technological factors and the industry and competitive arena in which the company operates.

Pearce & Robinson (1999) indicate that the management model shows the external environment as consisting of two interactive and interrelated segments: the operating environment and the remote environment. With the rapid changes in the environment, they posit that the crucial responsibility for managers will be ensuring their firm's capacity for survival. This was done by anticipating and adapting to environment changes in ways that provide new opportunities for growth and profitability. The impact of changes in the remote industry and task environments must be understood and predicted. Accurate forecasting of changing elements in the environment is an essential part of strategic management.

In analyzing the external environment, Johnson & Scholes (1999) discuss the PESTEL analysis. PESTEL analysis involves identifying political, economic, social, technological, ecological and legal influences on an organisation. PESTEL analysis helps examine the different impact of external influences on organisations either

historically or in terms of likely future impacts. This view is corroborated by O’Conor (2000) who states that effective use of PESTEL analysis requires strong awareness of the current position and likely development of all macro arenas, coupled with an ability to predict likely impact. Understanding the key opportunities and threats facing a firm helps managers identify realistic options from which to choose an appropriate strategy (Pearce & Robinson, 1999)

#### **1.1.4 Kenya Commercial Bank (KCB)**

The history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. In 1972, Savings & Loan (K) Ltd was acquired to specialize in mortgage finance. In 1997, another subsidiary, KCB (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. In pursuit of its Vision: To be the preferred financial solutions provider in Africa with a global reach, in May 2006 KCB extended its operations to Southern Sudan to provide conventional banking services, then to Uganda in 2007 and Rwanda in 2008.

The Government has over the years reduced its shareholding in the Bank. Share holding was reduced to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank. In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1% after raising additional capital for Kes. 5.5billion. The Government did not exercise their rights in the recently concluded rights issue which sought to raise Kes. 15 billion, which further diluted their share holding in the Bank. The latest rights issue generated Kes. 12.5 billion placing the Banks core capital at Kes. 36.8 billion and thus increasing its lending capacity significantly.

The current organizational structure is made up of the Chief Executive Officer, 2 Deputy CEO's, Divisional Directors for the main divisions like Corporate Banking, Credit, Retail Banking, Treasury, Mortgage Centres, Human Resources, Public Communications, Research, Strategy and Innovation, Marketing, Information and Technology, Finance, Risk, and Operations. In addition, all the subsidiaries have a Managing Director. The Banks focus is on increasing its regional footprint to ensure increased reach and convenience for customers. The bank has therefore embarked on a consolidation strategy based on 7 Pillars which will drive the vision and mission of the Bank. The 7 pillars are centered on Customers, People, Financials, Risk Management, Technology and processes, Regional Business and Social Relevance. Since inception, the KCB Group has endeavoured to provide quality and customer friendly services geared towards meeting the changing customer needs.

## **1.2 Statement of the problem**

Strategy refers to the actions and moves in the market place that managers are taking to improve the company's financial performance, strengthen its long-term competitive position and gain a competitive edge over rivals (Thompson et al, 2007). The combined forces of demography, technology, regulation and globalization are driving far reaching change in the financial sector. The various forces for change have combined to create a vastly more competitive environment for Banks (Harper & Chan, 2002). KCB is the largest bank in terms of branch network and asset base. Following a turnaround strategy in 2004, the Bank has grown over the years and become one of the most recognized brands and profitable. In order to achieve this, the bank has adopted various strategies which can be deemed to have been effective given the performance of the Bank. This trend in the last 5 years generates interest and hence the interest in studying the institution.

Several studies have been carried out on competitive strategies and strategic responses and the challenges in the external environment. With regard to competitive strategy, Kitoto (2005) discussed competitive strategies adopted by universities in Kenya, Banda (2006) studied the challenge of competition and competitive strategies used by public health institutions in Kenya and Obiero (2008) looked at "Competitive strategies applied by cement manufacturing firms in Kenya". The findings of these studies indicate that indeed the firms employed a mix of strategies to ensure survival of the firm. Studies with regard to the relationship between strategy and the external environment but in a different industry include Kamau (2007) who analysed strategic responses to changes in the external environment: A case study of Kenya Reinsurance Corporation, Mohamed (2007) studied the responses of Nzoia Sugar Company to

challenges in its external environment and Ongaga (2006) studied response of Kenol to changes in its external environment. Most of the studies carried out on the adoption of a competitive strategy in response to changes in the external environment relate to industries which are not in the financial services sector. As such, the environmental drivers of change are different in each industry and hence the findings cannot be generalized to other industries.

Studies specific to the Banking sector include Mugweru (2008) who carried out a study on the strategic responses of Barclays Bank of Kenya to challenges in the external environment while Kiptugen (2003) studied restructuring, marketing, Information Technology and Culture change as strategic responses of Kenya Commercial Bank to Competition. At the time this study was carried out, competition was moderate with most Banks closing down their branches in several parts of the country. Banks also lacked a concerted effort to attract and retain customers. One of the key competitors in the recent past was still a microfinance institution. Despite this, the Bank was still making losses and lacked a clear strategy. In addition, the Central Bank of Kenya was not in complete control of the monetary policy and was therefore not in a position to control or regulate the industry appropriately. This is no longer the scenario and the financial services sector has changed significantly in the last 5 years presenting new challenges. There is therefore need to re-examine the current environment in which Banks are operating and the competitive strategies that have been adopted to cope with more recent environmental changes. In addition, no study has been done to analyse the generic strategies as responses to challenges in the external environment and neither have the key changes affecting the financial services

sector in the last 5 years been documented. This is the knowledge gap that this study sought to address and determine the following:-

- i. Which competitive strategies has KCB adopted in response to challenges in the external environment?
- ii. Which challenges in the external environment has KCB faced in the last 5 years?

### **1.3 Objectives of the study**

The objectives of this study were:-

- i. To identify the competitive strategies adopted by KCB in response to challenges in the external environment.
- ii. To identify the various challenges in the external environment that KCB has faced in the last 5 years.

### **1.4 Value of the study**

There are three internally consistent generic strategies which can be used singly or in combination for creating a defensible position in the long run and outperforming competitors in an industry (Porter, 1980). The scope for the application of these strategies is in a firm's industry environment. However, apart from the industry environment, a firm operates within a remote environment and no investigation has been done to determine whether these strategies can be successfully applied as responses to the wider remote environment. The study therefore sought to add onto the theories of competitive advantage by determining whether the application of the generic strategies should be on a wider scale and also if the generic strategies are

adequate to enable an institution to create a defensible position in the long run and outperform competitors as postulated by Porter. The study is expected to be of help to KCB policy makers in identifying the key challenges in the external environment and the competitive strategies that can be adopted in response to these challenges. It also provides suggestions on how to enhance the Bank's proactivity in responding to turbulence in the external environment. The study is will also be of help to other commercial banks in identifying and understanding the external environment and competitive strategy that can be employed to ensure survival.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This chapter reviewed the existing literature on the topic of study. The review included the concepts of competitive strategies and other strategic responses that organisations adopt so as to remain competitive in the industries in which they operate. The review also looked at the environmental variables that may have an impact on the organisation both in the remote and operating environment.

#### **2.1.1. Concept of Strategy**

Strategic thinking has engaged the brains of business leaders for centuries. Many books and researches have been developed to cover the strategy subject because of its importance. Organizations always seek to adopt dynamic and effective strategies to secure proper growth and remain competitive. According to Johnson & Scholes (1999) strategy is the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations. Another definition put forward by Charles and Gareth (2001) is that strategy is an action that a company takes to attain one or more of its goals. An organisations strategy is the result of a rational planning process. Strategy is a set of decision-making rules for guidance of organizational behaviour and a systematic approach to position and relate the firm to its environment in a way which will ensure its continued success and make it secure from surprises (Ansoff & McDonnel, 1990).

Strategy is necessary to any organisation where there is a rapidly changing environment with adverse competition and surprises which may act as serious threats to organisation stability (Kay & John, 1993). Cole (1997) argued that strategy is basically concerned with setting the organization headlines aims, choosing the most suitable goals for such aims and achieving both over time. Strategy is then understood to be acting as a guiding map for the organisation to achieve its clear intention for development and growth. Strategy diagnoses how the business can perform better than the competition in different markets taking care of the external, environmental factors that may affect the businesses' ability to compete. It will give the business a chance to equip itself to deal with values and expectations of those who have power in and around the business.

Whittington (2001) categorized strategy in four basic generic approaches: Classical, Evolutionary, Processual and Systematic which have different perspectives about strategy. In classical approach, the strategy is a rational process of deliberate calculation and analysis designed to maximize long term advantage. Many scholars argued that classical approach is not applicable any more, since classical theory has no mechanism for strategy creation and doesn't suit the dynamic environments. French (2009) concluded that a radical change to open systems thinking, especially complex self-adapting systems is required. In the evolutionary approach, the situation is different. Competition is not overcome by detached calculation and analysis but by constant struggle for survival (Cuizon, 2009). Evolutionary approach calls that successful strategies only emerge as the process of the natural selection delivers its judgment. According to Whittington (2001), this means it is the market not managers which makes the important choices. The approach considers markets too tough and unpredictable to plan for long term strategies but agrees with the classical approach

objective of profit maximizing. This creates an argument that the approach basic emphasis is on survival which obviously contradicts the objective of profit maximizing. Processual approach is similar to evolutionary approach in the sense that it doubts the value of rational long term planning but it does not agree of leaving the profit-maximizing outcomes to the market since market is full of mess and confusion (Cuizon, 2009). Processual approach states that strategy is an emergent process of learning and adaptation. It adopts a pragmatic view aiming to make the sophisticated processes simple in light of the fact that the environment is not ideal or perfect (Whittington, 2001). Systematic approach has a relativist position. It believes that organisation is able to plan and act effectively. It is much less pessimistic than Processual approach about people's capacity to carry out rational plans of action and much more optimistic than evolutionary approach about its ability to define strategy regardless of market forces (Whittington, 2001). The approach argues that strategies must be sociologically efficient to understand the firm's environment. This means that there should be no separation between economic activities and social factors to ensure success.

The strategic planning process therefore involves the selection of a corporate mission and major corporate goals, analysis of the organisations external competitive environment to identify opportunities and threats, analysis of the organisations internal environment to identify the organisations strengths and weaknesses, selection of strategies that build on the organisations strengths and corrects its weaknesses in order to take advantage of external opportunities and counter external threats and strategy implementation. Strategy is a plan that puts together an organisations major goals, policies and action sequences. A well formulated strategy enables an

organisation to marshal and allocate its resources in a unique way on the basis of its relative internal competencies and limitations, expected changes in the environment and contingent actions by competitors (Quinn, 1980).

The essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment in the industry or industries in which it competes. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them (Porter, 1980). Hamel, (1998) defines Competitive strategies as strategies that strongly position a company against competition and gives the company the strongest possible strategic advantage. French (2009) defines competitive strategies as organization's moves aimed at attracting customers, withstanding competitive pressures and strengthening the organization's market position. He continues to list the objectives of competitive strategy as: earn competitive advantages, cultivate clientele of loyal customers and beat competition ethically and honorably. Competitive strategy is narrower in scope than business strategy; it focuses on management's plan to compete successfully

A competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers to withstand competitive pressure and improve its market position (Thompson & Strickland, 1993). It concerns what a firm is doing in order to gain a sustainable competitive advantage. They further state that a company has competitive advantage whenever it has an edge over its rivals in securing customers

and defending against competitive forces. Porter (1980) identifies 3 generic strategic approaches to outperforming other firms in an industry.

The first strategy is to achieve overall cost leadership in an industry without reducing the comparable product quality. With this strategy, the objective is to become the lowest-cost producer in the industry. Many market segments in the industry are supplied with the emphasis placed minimizing costs. If the achieved selling price can at least equal or near the average for the market, then the lowest-cost producer will in theory enjoy the best profits. Overall cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization. A cost leadership strategy can revolutionize an industry in which historical bases of competition have been otherwise and competitors are ill prepared either perceptually or economically to take the steps necessary for cost minimization. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share

The second generic strategy is one of differentiating the product or service of the firm, creating something that is perceived industry wide as being unique. This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher

production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. Approaches to differentiating can take many forms: design or brand image, technology, features, customer service, dealer network or other dimensions. Differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price.

The final generic strategy is focusing on a particular buyer group, segment of the product line or geographic market. In the focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation- and that existing competitor products are not meeting those needs and wants. The strategy rests on the premise that the firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower cost in serving this target, or both.

According to Porter, these generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, it may achieve no

advantage at all. He further argues that to be successful over the long term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be 'stuck in the middle' and will not achieve a competitive advantage. Firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become 'stuck in the middle' (Porter, 1980)

### **2.1.2 The External Environment**

The business environment of the firm consists of all the external influences that impact a firm's decision and performance (Grant, 1999). A firm's external environment consists of all the conditions and forces that affect its strategic options but are typically beyond the firm's control. The operating environment consists of the forces and conditions within a specific industry and a specific competitive operating situation, external to the firm that influence the selection and attainment of alternative objective/strategy combinations. Changes in the operating environment often result from strategic actions taken by the firm or its competitors, consumers, users, suppliers and creditors (Pearce & Robinson, 1999).

The state of competition in an industry depends on five basic competitive forces which are threat of entry, intensity of rivalry among existing competitors, pressure from substitute products, bargaining power of buyers and bargaining power of suppliers. The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against

competitive forces or can influence them in its favour (Porter, 1980). The remote environment refers to forces and conditions that originate beyond any single firms operating environment and provide the general economic, political, social and technological framework within which competing organisations operate (Pearce & Robinson, 1999).

Political and legal factors have a major effect on the level of opportunities and threats in the environment (Charles & Gareth, 2001). The direction and stability of political factors is a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on each company through fair trade decisions, antitrust laws, tax programmes, minimum wage legislation, pricing policies, monopolies legislation, foreign trade regulations employment laws and government stability. In addition, government decisions regarding the accessibility of private business to government owned natural resources and its national role as supplier or customer will affect the viability of the strategies of some firms. Government demand for products and services can also create, sustain, enhance or eliminate many market opportunities. The government can operate as an almost unbeatable competitor in the market place. Thus knowledge of its strategies gained through assessment of the remote environment can help a firm avoid unfavourable confrontation with government as a competitor (Pearce & Robinson, 1999)

The macroeconomic environment determines the general health and well-being of the economy. Economic factors concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence

of various market segments, in its strategic planning, each firm must consider economic trends in the segment that affects its industry. On both national and international levels, a firm must consider the general availability of credit, the level of disposable income and the propensity of people to spend (Pearce & Robinson, 1999). Johnson & Scholes (1999) identify economic variables such as business cycles, interest rates, money supply, inflation, Gross National Product trends and disposable income as factors that may affect an organisation.

Social factors that affect the firm involve the beliefs, values attitudes, opinions and lifestyles of persons in the firms' external environment as developed from cultural, ecological, demographic, religious, educational and ethnic conditioning. Social forces are dynamic with constant change resulting from individuals' efforts to control and adapt to environmental factors to satisfy their desires and needs. Some of the key changes that have taken place in the environment in the recent years include the large number of women entering the labour market, consumer and employee interest in quality of life issues, even at the expense of greater affluence, shift in national age distribution and changes in population distribution. Translating social changes into forecasts of business is difficult and informed estimates of the impact of such alterations as geographic shifts in populations and changing work values, ethics and religious orientation can only help a strategizing firm in its efforts to prosper (Pearce & Robinson, 1999)

Technology is affecting business more and more. Awareness of technological changes that might affect its industry; a firm avoids obsolescence and promotes innovation. Creative technological adaptations can affect planning in that new products may be

suggested or existing ones improved; manufacturing and marketing techniques may also be improved. A technological innovation can have a sudden and dramatic effect on the environment of a firm. A breakthrough may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. All firms and most particularly those in turbulent growth industries must strive for an understanding both of existing technological advances and the probable future advances that can affect their products and services. The key to beneficial forecasting of technological advancement lies in accurately predicting future capabilities and probable future impacts. A comprehensive analysis of the effect of technological change involves study of the expected impact of new technologies on the remote environment, on the competitive business situation and on the business-society interface (Pearce & Robinson, 1999). Ecological factors also have an impact on organisations and the industry in which they operate. Pearce & Robinson (1999) define the term ecology as the relationships among human beings and other living things and the air, soil and water that support them.

### **2.1.3 Theory of Strategic Response**

In the face of turbulence and complex environmental conditions brought about by such factors as liberalisation, effective strategies and appropriate strategic management process is vital for every organization. The principal benefit of strategy is to help the organization formulate better strategies through the use of more systematic, logical and rational approach to strategic choice (David, 2001)

The objectives of strategy in business is not just to do more structured and detailed industry and competitive market analysis, formulate more comprehensive strategies and strategic plans, introduce more effective computer information systems, and deliver them to all operating managers. The ultimate objective is to create an organisation context that can on a continuing basis translate strategies and strategic changes into actions which result in improved operations and profitability when operating over a period of time (Mockler, 1993)

To deal effectively with all that affects the ability of a company to grow profitably, executives design strategic processes they feel will facilitate the optimal positioning of the firm in its competitive environment. Such positioning is possible because these strategic processes allow more accurate anticipation of environmental changes and improved preparedness for reacting to unexpected internal or competitive demands (Pearce & Robinson, 1999). Apart from its primary purpose of guiding management decisions towards superior performance through establishing competitive advantage, strategy also acts as a vehicle for communication and coordination within an organisation (Grant, 1998)

A business strategy reflects managerial choices among different alternatives and signals organisational commitment to particular products, markets, competitive approaches and ways of operating the enterprise. When firms formulate their business strategies, they define their objectives while considering their resources and capabilities. Additionally, they respond to the opportunities and constraints in the market place. Hence it is important to understand the driving forces of the competitive environment (Culpan, 2002)

## **2.2 Empirical Studies**

Several studies have been done to establish the strategic responses to selected variables in the external environment. A study on Strategic responses: A case study of Kenya Reinsurance Corporation revealed that the major challenges faced by the corporation were loss of mandatory cessions, liberalization of the market, competition, rapid technological changes, rating of companies, language barriers, risk profile and fluctuation of the currency. The strategies adopted in response to these challenges were reactive rather than proactive and they included diversification, expansion and focus strategies.

In a study carried out on the competitive strategies applied by cement manufacturing firms in Kenya, the author found that the factors that influenced the choice of a particular strategy were organisational structure, company vision and mission, efficient and effective management team, resource availability like funds and competition. These studies were however based on different industries which are affected by a different set of environmental variables.

Studies on the banking industry with regard to competitive strategy and the environment include Mugweru (2008) and Kiptugen (2003). Mugweru studied the strategic responses of Barclays Bank of Kenya Ltd to challenges in the external environment and identified the challenges as changes in the regulatory framework, liberalization, declining interest margins, rapid development in information and communication technology and increased demand for investment options. The strategic responses adopted by Barclays Bank of Kenya included market development, Information Communications and Telecommunications (ICT), Human

resources, refocusing, product development and innovation, promotion and advertising, pricing, mergers and community development. Although the study was on a player in the financial services sector, the findings cannot be generalized to other institutions.

A study on KCB by Kiptugen in 2003 with regard to strategic responses to competition revealed that the strategic responses made by KCB to adapt to its changing competitive situation were inadequate. The study discussed restructuring, marketing, ICT and culture change as strategic responses to competition. The study focused on the variables in the external environment in the period preceding 2003. The composition of the external environment during this period was significantly different compared to the current status in terms of the competitive environment with competition emerging from unanticipated quarters such as telecommunication companies, changes in the political scene, social setting, technological advancement and ecological awareness. The changes in the remote and competitive environment in the last five years have created a different set of challenges for firms and have prompted firms to craft various strategies to ensure survival. It is on this background of a changing and dynamic external environment that the study seeks to determine the more recent challenges faced by KCB and the strategies adopted in response to these strategies.

## **CHAPTER THREE: METHODOLOGY**

### **3.1 INTRODUCTION**

This chapter presents the research methodology that was used to meet the objectives of the study.

### **3.2 Research Design**

The case study method was used in this research. A case study is a form of qualitative analysis which involves a careful and complete observation of a social unit, be that unit, a person, a thing, an institution, a cultural group or even an entire community. A case study places more emphasis on the full analysis of a limited number of events or conditions and their interrelations (Kothari, 2004). There is need for an in-depth analysis of the external challenges that KCB has faced in the last five years and the competitive strategies it has adopted in responses to these challenges hence the use of a case study.

### **3.3 Data Collection**

The study utilized both primary and secondary data. Primary data was collected using an interview guide while secondary data was obtained from CBK annual reports, KCB staff newsletters, annual reports and internal circulars. The interview guide was divided into 4 sections. Section A covered the respondent's profile, section B covered the changes in the external environment and the challenges faced by KCB, section C covered the competitive strategies adopted by the Bank while section D aimed at identifying the strategic fit. The respondent was the Banks Divisional Director Strategy, Research and Innovation who is based at the Banks Headquarters. The

interview guide was presented through a face to face interview to ensure that the required information was obtained as per the research objectives. The scope of the study was limited to identifying the competitive strategies that Kenya Commercial Bank has adopted in the last 5 years in response to challenges in the external environment. The scope was also limited to KCB operations in Kenya like KCB Kenya.

### **3.4 Data Analysis**

Data was analysed using content analysis. Content analysis has been described as a technique for the objective, systematic and quantitative description of the manifest content of a communication (Cooper & Schindler, 2006). This method was used to analyze text , including, interview transcripts, newspapers, books, manuscripts, and Web sites with information on KCB to determine the frequency of specific words or ideas. The results of content analysis allowed the researcher to identify, as well as quantify, specific ideas, concepts, and their associated patterns, and trends of ideas that occur within KCB over time.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS**

### **4.1. INTRODUCTION**

This chapter presents the analysis and Interpretation of the data collected. The research findings are also summarized and suitable recommendations made accordingly on the basis of the findings. The qualitative form of data collected was first coded and then analysed using content analysis. All the data collected were first coded before any analysis was carried out. The findings were then interpreted and are presented here below.

### **4.2 Respondents Profile**

The researcher undertook to obtain the background information on the respondent who participated in this study. It is important for the readers to know the particulars of the participant in order to be able to have an objective assessment of the findings.

The underlying information concerning the respondent who furnished the details that formed the research findings was obtained in terms of position held in the company under study, number of years the respondent has served in the company as well as the Division the respondent serves. The respondent interviewed is the Divisional Director, Strategy, Innovation and Research and he has worked with the company under study for six years. The division is charged with coming up with the strategies of the Bank, carrying out market research with respect to the Banking Sector and coming up with innovative solutions to ensure the Bank retains its market share and

remains profitable. The respondent is thus well placed to participate in this research and is experienced in the area under study.

### **4.3 Challenges faced by KCB in the External Environment**

One of the key objectives of this research was to identify the challenges facing the KCB bank in Kenya. From the data collected and analysed, the challenges that have faced the bank under study are multifaceted, ranging from new products like M-Pesa, technological changes as well as changing face of competition. (Competitor analysis, KCB 2009),

Some of the challenges facing financial institutions and specifically Banks were uncertainty over the banking bill specifically implementation of the “in-duplum” rule, which, if applied retroactively for several years back has the capacity to wipe out many local Banks and infrastructure specifically the expensive and poor conditions of power, roads and communications which have a direct impact on the cost of banking and eventually lead to additional banking costs for account holders as well as insecurity. As at 2009, KCB was spending spends Kes. 45 million a month on security guards and this was very expensive for the bank. (KCB Annual Report, 2009). The Judiciary is also a major challenge as it takes years for cases to be heard, and all banks have backlogs of pending cases, while others are postponed endlessly. The study was able to identify other key challenges that have faced the bank in the last 5 years. The researcher started by asking the respondent to describe changes that have taken place in the last five years that have affected the bank under study in six key areas like political, economic, technological, ecological as well as social and legal aspects.

### **4.3.1 Political Challenges**

Several political changes in the country have had an impact on the banking sector as a whole as well as to the bank under study. This research was able to establish that factors like the change of regime and the post election violence that engulfed the country presented a challenge to the bank under study. The violence completely interrupted the bank's operations resulting to the grounding of the bank's operations in the areas mostly affected by the violence. In some instances, the bank had to double its security budget to protect its premises, assets as well as staff (Marketing survey, 2009)

The research was also able to come to a conclusion that as a result of regime change that happened in the county in 2002, stringent banking measures were put in place that made banking more regulated. While we can view some of the changes as having a positive impact in terms of harmonizing the banking sector in Kenya, some of the very changes were challenges themselves in the sense that the bank had to allocate more resources to comply with the regulations. One of the indirect results of the regime change is the implementation of the guidelines from the regulator as outlined in the banking and finance act. For example, the agency banking may prove very hard to implement and still maintain the banking standards. Also, cap on revenue that can be earned by a bank resulting from the pressure from the regulator to control the interested rates is viewed as a challenge to the bank according to the collected and analysed data (KCB, 2008)

### **4.3.2 Economic Challenges**

According to a report by PWC dated 2008, new regulations for instance the Finance Act 2008, which took effect on 1 January 2009 required banks and mortgage firms to build a minimum core capital of Kenya Shillings 1 billion by December 2012. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Global financial crisis experienced in late 2008 and 2009 also affected the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Declining interest margins was also a challenge that was identified by the study as facing the banking industry as was the falling price of Government Securities which has prompted Banks to review their pricing especially for products whose pricing is pegged on the Treasury bill rates.

This research was able to come to the conclusion that lack of proper anti-money laundering law in Kenya has been a hindrance to banking operations in Kenya. KCB as a bank has been lobbying through appropriate channels to have a proper law that addresses money laundering in the country. From the data collected and analysed, the research also concluded that the banking sector in general as well as the bank under study in particular has experienced challenges resulting from CBK regulations that have been effected. The respondent was able to identify one such regulation as the rule that increased capital requirements, a factor that has led to mergers and acquisitions of small banks.

Partly due to these challenges facing the banking industry in Kenya today, the bank has witnessed diffused customer loyalty. As banks compete for customers, offering low priced products with free 'goodies', customers have tended to shift from bank to bank, some maintaining multiple accounts but some accounts being dormant which has impacted negatively on the bank.

### **4.3.3 Social Challenges**

Research has shown that the Kenyan social scene is changing. The normal banker's trends and behaviours are changing dynamically. While some of these changes present opportunities to the banking industry, challenges emanate from the same as well. Research has shown that Kenya's middle class is rising very fast and therefore, there is need to develop banking products that suits them each according to their lifestyle and rising income levels. At the same time, the youth population is rising very fast in Kenya and as such, there is need to constantly evaluate their needs and the changing trends so as to capture and retain them. Increase in level of education among the citizenry has also led to increased awareness of consumer rights and demand for better services. From the data gathered, the study was able to identify these as the challenges facing the banking industry as a whole in Kenya.

### **4.3.4 Technological Challenges**

Technological developments particularly in the area of Telecommunications and Information Technology are revolutionizing the way business is done. Electronic commerce (e-commerce) is the activity in which consumers get information and purchase products using Internet technology (Olson and Olson, 2000). E-commerce is

now thought to hold the promise of a new commercial revolution by offering an inexpensive and direct way to exchange information and to sell or buy products and services. This revolution in the market place has set in motion a revolution in the banking sector for the provision of a payment system that is compatible with the demands of the electronic marketplace. Consequently, the potential benefits of e-commerce have been widely touted (Gefen et al, 2003).

However, while recognizing that Internet technology has been there for some time now, it needs to be acknowledged that its uptake been disappointingly low and well below expectations, in all developing countries except Korea (Firth and Kelly, 2001; Houghton and Morris, 2001; Zhang, 2002). An increasing number of banks in Kenya now offer ATM and e-banking services. Others have joined hands to operate a common switch and ATM facility to evade the huge costs of installing the money-dispensing machines. A shared ATM facility has an added advantage for a bank or any other financial institution for it does not have to go through the capital expense and time to set up their own processing centre.

The Central Bank of Kenya has lamented the slow development of information and communication technology (ICT) by some banking firms as some institutions are still manual and only a few provide online, real-time banking services across the branches. However, significant effort has been made to upgrade these systems. The banks have also had to take into account the increasing saving culture among Kenyans. A local research firm Consumers Insight's TGI 2005 reports that two-thirds of all accounts in local banks are savings accounts. The research points out that current accounts are

more difficult to open and are not preferred by many customers. The findings also show that in the last year, 15% of savers have been increasing their savings.

Technological changes have posed challenges to KCB in various perspectives. The market has witnessed the launch of M-pesa money transfer services which has had a record of having an uptake of over ten million customers in less than three years since its launch as well as transferring at least Kenya Shillings 2 billion monthly (Safaricom, 2009). In addition, technological advancement has resulted in pressure to improve services and created a need for new services such as internet banking and mobile phone banking. Efficiency of the infrastructure for the provision of internet services also poses a challenge to KCB as various applications such as ATM's and Core Banking Systems are web based and depend on the internet.

#### **4.3.5 Ecological Challenges**

Business models and philosophies are changing globally. While in the past, organisations would not focus on corporate strategy as a business strategy as well as ecological models that focuses on the environment, for example, investing in green energy, among others. Research has shown that though the model gives a positive image to the organisation, it is hard to quantify the economic value of such ventures, not forgetting that investing in such models requires a tidy sum of money (Gefen, 2003).

### **4.3.6 Legal Challenges**

From the collected data, the study was able to note that a major challenge facing not only KCB but the entire banking sector is the time it takes for a case in court to be concluded. KCB has had long court cases which have taken long to conclude, always being postponed. The impact of such long dragging court cases can be and is always negative on the image of the bank and have high cost implications and more often than not result into lost business and opportunities and damaged corporate image and reputation.

### **4.4 Competitive Situation in the Banking Industry in Kenya**

The competitive environment has also changed significantly for Banks. According to the data gathered and analysed which focused on Michael Porters 5 force model, there was a threat of new entrants into the market. Following the operationalization of the Micro Finance Act, several micro finance institutions are converting to banks after they were allowed to take deposits. However, with the increase in the minimum requirement of core capital to Kenya Shillings 1billion for all banks, the ease of entry has been curtailed with most Banks forming mergers and others being acquired. By increasing its core capital to about Kenya Shillings 30 billion, KCB has increased its lending capacity and hence created a competitive edge for itself. The threat of substitute products is pronounced in the banking industry due to the presence of SACCO's and other non financial /informal institutions who provide credit services. Money transfer services from telecommunication companies such as M-Pesa and Zap have also had a negative impact on the bank. KCB customers have some bargaining powers to some extent. This is especially with regard to corporate customers who are

able to negotiate very fine rates for their products. This has a direct impact on the revenue streams for the bank. Suppliers do not have a strong bargaining power as KCB is able to easily negotiate for pricing of the goods and services provided to the Bank without manipulation from the suppliers. There is intense rivalry amongst existing competitors especially between Banks which are of similar size in terms of assets such as Barclays Bank of Kenya or those that have come up very fast and gained a substantial market share in the low income segment such as Equity Bank.

#### **4.5 Competitive strategies adopted by KCB**

The banking industry in Kenya has in the recent past become more competitive than before. Research shows that competition in the industry has forced Kenyan banks to move into previously uncharted waters like mortgage finance, and a few that have ventured into this area have had to lick their wounds. (PWC, 2009) With low interest rates accruing from government securities, banks have been forced to move back to their core business of lending money to customers.

According to the Central Bank of Kenya (CBK), this move has seen lending to customers grow to Ksh50bn in the last three years. The lending has mainly been in the form of personal loans and credit cards, and they have to contend with the emergence of savings and credit co-operatives (SACCOs) that have also ventured into offering banking services to their members. (CBK, 2009). Financial relations, all over the world, have been deeply transformed in the last two decades. New products, new markets and new regulatory systems have radically altered the environment in which financial sectors operate, opening new profit opportunities but also creating new (and

sometimes very great) risks. Among the most important of these changes, we have the worldwide movement of liberalization and deregulation of the banking industry. Practically everywhere, domestic banks lost the protection of strict regulatory barriers to entry, becoming vulnerable to strong competitive pressures both from other domestic financial (and even non-financial) institutions and from foreign banks

Kenya's macroeconomic policies have been in the past been characterized by periodic financial discipline slippages, leading to volatile and generally high inflation, large exchange rate swings, and negative real interest rates for extended period (Market Survey, 2005). This however improved with the regime change that happened in 2003 when a new government came into power and enforced monetary policies that ensured harmony as well as discipline. As a bank, KCB has adopted various strategies to keep ahead of competition in the banking industry in Kenya. This study aimed to find out the competitive strategies adopted by the bank in its bid to remain relevant and ahead in the competitive and dynamic Kenyan market. The competitive strategies were specific to the Michael Porters generic strategies which were listed and the respondent requested to identify if the bank has used the strategies in question.

#### **4.5.1 Cost Leadership Strategy**

This study was able to arrive to the conclusion that the bank uses low cost as a competitive strategy. From the data gathered and analyzed, it was clear that the bank has been using low cost as a competitive strategy since the year 2005. This was a decision arrived at so as allow the bank to compete favourably in the dynamic Kenyan market. From the data gathered, the research indicated that though other players have

come to the market with lower prices on the various products, KCB as a bank remains one of the lowest. Following the reduction of the Banks base lending rate to 13.5%, the bank remains one of the low cost providers of credit especially with regard to corporate products.

As part of the wider low cost strategy, the bank has focused on reducing operational costs, for example, reducing on overheads; recurring expenditure like salaries, among others. By so doing the bank's aim is to pass on the benefits of the reduced costs to consumers. This study was also able to establish that despite the success of the low cost as a strategy by the bank, there have been challenges that the bank has experienced in the bid to operationalize the strategy. One challenge is the competition coming up with even lower prices, thereby reducing the low cost advantage. At the same time, the cost of doing business in the country has been going up consistently thereby making the viability as well as the sustainability of the low cost as a strategy difficult. At the same time, constant technological breakthroughs have presented new challenges to the bank in its bid to keep the low cost advantage. For example when M-Pesa was launched, it came with a faster and yet cheaper method of money transfer. The uptake of the product was even faster thereby forcing the Bank to go back to the drawing board. This study was able to conclude that as a result of the low cost strategy, the bank has been able to retain a large part of its clientele who have remained with the bank instead of going to competition. At the same time, the data analysed revealed that low cost as a strategy can only succeed only when it work in combination with other competitive strategic factors. The data revealed that alone, in isolation, low cost as a strategy cannot work.

## **4.5.2 Differentiation Strategy**

Porter mentions the three competitive strategies that can keep the company ahead as low cost, differentiation and focus. As part of the objectives of this study, the research went out to investigate if KCB employs differentiation as a strategy. The study concluded that the bank uses the differentiation strategy in the Kenyan market. This, the study found out is done through innovation of products that are intended for specific segments. These include micro banking products, the Bankika product as well as the personal loans. It is also notable that the bank has undergone rigorous brand differentiation. The study also established that besides products innovation, the bank has stamped its authority through differentiation through its wide distribution network all over the country making it the largest bank in terms of the branch network in Kenya.

The bank, according to the data collected and analysed has taken advantage of the fact that other banks do not have properly established and professionally run contact centres by establishing state of the art contact centre that is professionally run and customer focused. A recent study by market survey research team put the KCB contact centre group as the best in terms of offering the best customer experience in the banking industry (Market survey, 2009). The study was able to identify three challenges in the differentiation strategy drive like brand advertisement is very expensive and it has threatened to 'eat', into other benefits gained through other strategies. At the same time, the competition always prefers to use short cuts through imitation of KCB products, thereby forcing the KCB team to go back to the drawing board to strategize afresh to keep ahead.

As a strategy, differentiation has been successful in its implementation by the KCB bank, this study concluded. From the data gathered from both the primary and secondary sources, the study concluded that the strategy has been instrumental in the brand repositioning drives and the brand advertising making the bank more recognizable than it was 5 years ago. At the same time, KCB is now at the front line in capturing the youth market through the 'Bankika' account, the internet savvy through 'KCB Connect' as well as business people through 'Boresha' accounts and loans.

### **4.5.3 Focus Strategy**

The study revealed that the company has used Focus strategy as one of the competitive strategies. According to the data collected and analysed, the bank's focus strategy has been operationalized by coming up with complete business units focusing on specific clientele. The study revealed that as a strategy to keep ahead of the competition, the bank came up with KCB Advantage to fully focus on high end clientele. The business unit caters for high profile and high net worth clientele with incomes of over a particular amount and in return, offers them world class service with special range of products as well as services. According to the data gathered and analysed, adoption of focus as a business strategy has not been without challenges. The data analysed identified three challenges that have faced the bank in its drive to impalement and benefit from focus strategy. There is high competition for high end customers in Kenya today and every bank is fighting to get and retain them. At the same time, the bank has struggled over the years to shed the image of a government

institution, an image which only has a negative impact on the bank. It's also noteworthy that other banks have similar product. For example, Barclays Bank of Kenya has Prestige Banking while Standard Chartered Bank has Excel Banking and all are competing for the same customer. The study was not able to fully measure the success of focus as a strategy by KCB. However, data gathered and analysed showed that the number of Advantage customers is going up and if numbers are the only measure, then the study concludes that focus as a strategy is working for the bank.

#### **4.6 Strategic Fit**

The study sought to find out if the bank's competitive strategies have been effective. Strategic fit express the degree to which an organization matches its resources and capabilities with the opportunities in the external environment. It can be used to evaluate the current strategic situation of a company as well as opportunities. From the data gathered and analyzed, the study concluded that the banks' application of the generic strategies has been successful in dealing with competitive sources. The findings support Porters views that a firm positions itself by leveraging its strengths which fall into cost advantage, differentiation or focus on a narrow segment with either cost advantage or differentiation. Although Porter argues that the generic strategies are not necessarily compatible with one another, KCB has managed to successfully implement the three strategies and counter competition on a number of fronts. This has been through creation of separate business entities as suggested by Porter such as advantage banking, corporate banking, mortgage business and retail banking where each unit has adopted a different strategy to remain competitive. As a result, the Bank has avoided the phenomenon of being 'stuck in the middle'.

The findings also indicated that the bank has adopted additional strategies to complement the three strategies analyzed above. These strategies included outsourcing where the bank outsourced various functions such as transport, printing and management of the learning centre. The result of this was reduction in costs. The banks has also entered into strategic alliances in situation where the competition is very stiff for example, partnering with Pesa Point to offer ATM services and also Safaricom to provide funds for their agents all over the country. Last but not least, the bank has also restructured the organizational leadership to conform to its overall strategies. The study revealed that the bank possesses the necessary capabilities in terms of resources to drive its strategies.

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

### **5.1 INTRODUCTION**

This chapter summarizes and concludes the research that was undertaken. At the end of the chapter, some applicable recommendations are given for the organization to improve on the problem under study based on research findings.

### **5.2 Summary**

The study found out that like any other bank in Kenya, KCB is faced by a host of challenges currently. The challenges were categorized into six categories like political, economic, technological, sociological, legal and ecological. From political perspective, it was established that the interruption by the post election violence in 2007/2008 was the biggest political challenge the bank has faced. At the same time, the data analyzed found out that the over the years, there has been an increase in the cost of doing business in Kenya and this affects the bank's performance.

The challenge of having to compete with new entrants in the market is one that the bank is facing all the time as per the data collected. Stiff competition from alternative products like M-Pesa, other banks always launching lower priced products thereby under cutting KCB's low cost advantage is a challenge that the Bank has faced. From a legal perspective, data analyzed shows that Kenya's judicial system poses a challenge to the bank. This is due to the long and tedious judicial process that exists currently in Kenya. This hampers and impedes the bank's plans and at times, the bottom line. Changing society in Kenya is a

challenge as well like more and more Kenyans know their rights in the bank now which means that they have become more demanding. At the same time, a rise in middle class means that the bank has to always be on its toes to try and innovate products that fit into the new societal strata's banking needs.

### **5.3 Discussion/Recommendations**

From the data gathered and analyzed, to counter the existing external challenges, the bank should continue investing in the latest cutting edge technology to ensure efficient service delivery. At the same time, the bank should continue in its innovation path that it is currently pursuing as well as focus on aggressive marketing of its products and services to the wider market. The study recommends that the bank should focus on partnering as opposed to competing with new products and services in the market for example, M-Pesa and other money transfer services. This will help the bank not only benefit from the gains coming from the product, it will also help in advertising and the publicity that comes with such products. To counter challenges emanating from strict regulations and control, the bank should join other strongly established banks in lobbying for appropriate changes in the banking sector to ensure an even playing field as well as fair play

### **5.4 Conclusion**

From the data gathered and analyzed, this research concluded that as a bank, KCB is faced with a host of challenges from the six mentioned areas like political, economic, ecological, technological, sociological as well as legal challenges. The biggest challenge, according to the study comes from economic and technological fields like rising cost of doing business, competition from other players,

infrastructure cost and maintenance as well as new technology advancement that has resulted into new products being launched, for example, mobile money transfer services. At the same time, the study was able to conclude that the bank's competitive strategies are effective and if well implemented, will ensure that the bank will maintain its market leadership. The study also found out that the bank is not dependent only on the generic strategies but has also employed other strategies which have also enabled the bank to retain its competitive edge.

### **5.5 Limitations of the Study**

The banking industry is very dynamic and wide and but due to time constraints, it was not possible to research on all issues that affect KCB and Banking industry. The study is also specific to KCB and the findings may not relate to other industries or be applicable to other Banks.

### **5.6 Suggestions for further Research**

This study focused only on Kenya Commercial Bank which represents the mainstream banking in Kenya. However, the Kenyan banking industry is very wide and dynamic. The study recommends that further research be done focusing on other financial institutions like micro finance institutions, among others. The study also recommends that a cross sectional survey be done covering the whole industry and specifically the application of the generic strategies and their impact on profitability and growth of market share.

## **5.7 Implication on Policy and Practice**

Finally, the study focused on the implications of policy and practice in the banking sector in Kenya. The banking sector in Kenya is becoming dynamic and therefore experiencing changes in a wide range of areas. Some of these changes do have an impact on the banking sector policy and practice. The CBK has been constantly undertaking a comprehensive review of the Banking Act to address shortcomings, and bring it in line with the Basel Core Principles for Effective Banking Supervision. For example, The Banking (Amendment) Act of 2006, which entered into force on May 1, 2007, effectively ceded the authority to issue/revoke licenses from the Ministry of Finance to the CBK. This was meant to strengthen the regulatory and supervisory framework, and align regulatory practices with international standards. New products and services in the banking sector has also meant that there is an urgent need to come up with a proper anti money laundering and counter terrorism financing law. The changes in the banking sector have also meant that the banks become more rigorous in enforcing "know-your-customer" rules without becoming customer unfriendly. The raising of minimum core capital to one billion by the CBK will also have an impact on the banking sector and as mentioned earlier, it is expected to lead to mergers as banks may experience challenges in raising the minimum core capital. A suitable legal framework to address compliance with laws as well as safety and soundness concerns should be established. This study was also of the opinion that with the introduction of money transfer services, the statement that clearly defined permissible activities for banks and control of the use of the word 'bank' has become unclear. This is because as much as mobile money transfer companies insist that the service is not deposit taking and cannot therefore be defined as banking, all other functionalities carried out by the money transfer services are by all definitions banking services.

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## **Appendix I: Letter of Introduction.**

Date:

Dear Respondent,

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

As part of the requirement for the degree of Master of Business Administration (MBA) of the School of Business, University of Nairobi, the undersigned who is a student in the School of Business at the University of Nairobi is required to undertake a management research study. She intends to undertake a case study on Kenya Commercial Bank.

This questionnaire is designed to gather information on the competitive strategies adopted by KCB in response to the challenges in the external environment in the last 5 years.

Your responses will be treated in strict confidence and in no circumstances will your name be mentioned in the report. Further, confidentiality will be ensured through the necessary coding of the findings.

Your cooperation will be highly appreciated.

Yours Faithfully

Catherine W. Mwangi  
Student

Dr. Zack B. Awino  
Supervisor.

## Appendix II: Interview Guide

### SECTION A: Respondents Profile

1. Position Held.....
2. Number of years in Service at KCB.....
3. Department/Division.....

### SECTION B: Challenges facing KCB in the External Environment.

1. Please describe the changes that have taken place in the last 5 years that have affected KCB in the following variables in the external environment.

Political

.....

Economic

.....

Social

.....

Technological

.....

Ecological

.....

Legal

.....  
What challenges have these changes posed to KCB  
.....

Have these competitive forces affected KCB?

Threat of new entrants

Threat of Substitute Products

Bargaining Power of buyers

Bargaining power of suppliers

Rivalry amongst existing competitors.

2. Has KCB responded to the external environment changes identified in Section B?
- .....

### **SECTION C: Competitive Strategies**

#### **Low Cost**

1. Has KCB adopted a low cost strategy in the last 5 years

- Yes
- No

2. If yes, please describe the nature of such a strategy
- .....

3. What were the challenges faced in the adoption of a low cost strategy

.....  
4. To what extent have the objectives of the strategy been met?  
.....

**Differentiation**

1. Has KCB adopted a Differentiation strategy in the last 5 years?

- Yes
- No

2. If yes, please describe the nature of such a strategy  
.....

3. What were the challenges faced in the adoption of a Differentiation strategy  
.....

4. To what extent have the objectives of the strategy been met?  
.....

**Focus**

1. Has KCB adopted a Focus strategy in the last 5 years?

- Yes
- No

2. If yes, please describe the nature of such a strategy  
.....

3. What were the challenges faced in the adoption of a Focus strategy  
.....

4. To what extent have the objectives of the strategy been met?

.....

**SECTION D: Strategic Fit**

1. Do you consider the Banks competitive strategic responses adequate?

.....

2. What should the Bank do to counter the challenges in the external environment?

.....

3. What other strategies has the bank adopted to cope with challenges in the external environment?

.....

Does the Bank have the necessary capabilities to adopt aggressive strategies to match the external environment changes?

.....

4. If not please indicate the possible means by which the Bank can acquire these capabilities.

.....

.....

5. Any other comment?

.....

.....