

**STRATEGIES FOR GAINING COMPETITIVE ADVANTAGE OF
COMMERCIAL BANKS LISTED AT THE NSE IN KENYA**

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DECLARATION

This research project is my original work and has not been submitted for a degree in any university.

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This research project has been submitted for examination with our approval as University supervisor:

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J. KAGWE

DEDICATION

This project is dedicated to my mother Dorcas Mbijiwe for her support and encouragement during the writing of this Project

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I acknowledge my supervisor J. Kagwe for his guidance during the writing of this project. If it was not for his guidance, this work would not have been a success.

I also acknowledge the employees of commercial banks listed in the NSE for giving information during the collection of data for this study.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABSTRACT.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 The Concept of Strategy	2
1.1.2 The Concept of Competitive Advantage	3
1.1.3 Commercial Banks in Kenya.....	4
1.1.4 Commercial Banks Listed at the Nairobi Stock Exchange.....	5
1.2 Research Problem.....	6
1.3 Research Objective.....	8
1.4 Value of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction	10
2.2 Theoretical Foundation of the Study.....	10
2.3 Strategy and Competitive Advantage.....	11
2.4 Strategies Used to gain Competitive Advantage.....	12
2.4.1 Cost-differentiation Strategy	13
2.4.2 Product Differentiation Strategy.....	16
2.4.3 Diversification Strategies	17
2.4.4 Strategic Alliances	19

2.4.5 Joint Ventures	22
2.4.6 Mergers and Acquisitions	22
CHAPTER THREE: RESEARCH METHODOLOGY	24
3.1 Introduction	24
3.2 Research Design	24
3.3 Study Population	24
3.4 Data Collection.....	24
3.5 Data analysis	25
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS	27
4.1 Introduction	27
4.2 General Information	27
4.3 Background information of the Banks	30
4.4 Extent of use of different Strategies by commercial banks listed at NSE to gain competitive advantage.....	31
4.5 Use of Competitive Strategies by commercial banks listed at NSE in gaining competitive advantage.....	33
4.6 Discussion	36
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION	39
5.1 Introduction	39
5.2 Summary of Findings	39
5.3 Conclusion.....	41
5.4 Implications of the Study and Recommendations.....	41
5.5 Limitations of the Study	42
5.6 Suggestions for Further Research	43
REFERENCES	44

APPENDICES	49
APPENDIX 1: LETTER OF INTRODUCTION.....	49
APPENDIX II: QUESTIONNAIRE FOR BANK EMPLOYEES	50
APPENDIX III: COMMERCIAL BANKS LISTED IN THE NSE.....	54

LIST OF TABLES

Table 4.1 Background information of the Banks.....	30
Table 4.2 Strategies by Commercial Banks in gaining Competitive Advantage.....	31
Table 4.3 Use of Competitive Strategies by commercial banks listed at NSE in gaining competitive advantage.....	34

LIST OF FIGURES

Figure 4.1 Distribution of the Respondents by Gender.....	27
Figure 4.2 Distribution of the Respondents by Age Bracket.....	28
Figure 4.3 Distribution of the Respondents by Level of Education.....	29
Figure 4.4: Distribution of the Respondents by Duration of Service.....	30

ABSTRACT

The Kenyan banking sector has experienced several challenges over time. The government has implemented several reforms to enhance growth and competition in this sector. To achieve financial stability and growth, it is important to identify the strategies used by commercial banks in gaining competitive advantage. Currently, there is competitive pressure in the lending market for commercial banks given lending as their core activity. As a result, driven by the need to maximize profit, banks are likely to pay great attention to lending rates that they charge. The objective of this study was to identify the strategies used by commercial banks listed at NSE to gain competitive advantage. Descriptive survey design was used for the study. The population for the study was the 11 commercial banks listed at the Nairobi Stock Exchange. A total of 50 employees were targeted as study respondents out of which 48 responded giving a response rate of 96%. Both primary and secondary data was used for the study. Primary data was collected using a questionnaire while secondary data was collected from the bank published records. Both qualitative and quantitative data analysis technique were used to analyze the data. Quantitative data collected were analyzed using descriptive statistics such as means, standard deviations, frequencies and percentages. Qualitative data were analyzed thematically. The analyzed data were presented in form of tables, pie-charts and bar-graphs where applicable. The study found that Different strategies for gaining competitive advantage were used by banks listed in the NSE where product differentiation and diversification strategy was used to a very large extent and indicated by 56.3% and 37.5% respectively. The findings also revealed that cost differentiation, strategic alliances and joint ventures were neutrally used by bank listed in the NSE in gaining competitive advantage as indicated by 29.2%, 43.8% and 31.3% respectively. It was finally found that mergers as a strategy was used to no extent at all as indicated by 43.8% of the respondents. On the use of the strategies for gaining competitive advantage, the study found that banks use credit diversification where loans are given to people in different sectors of the economy (Mean score 4.13) to a very large extent. It was also found that the respondents were neutral with the statements that banks offers lower charges on client services making it attractive for many customers (Mean score 2.81) and that banks forms strategic alliances with other organizations to gain competitive advantage in the market (Mean score 2.69). The respondents further indicated that joint ventures leads to the formation of strategic alliances making banks gain competitive advantage to a large extent (Mean score 3.25) and that mergers helps banks in reducing the cost of operation to a large extent (Mean score 3.75). Finally, on product differentiation, it was indicated that banks diversify in different products making them gain competitive advantage in the market (Mean score 4.69). The study concluded that banks listed in the NSE use product differentiation and diversification strategy was used to a very large extent in gaining competitive advantage in the market. It is recommended that banks should provide excellent and unexpected customer experiences that will give them a competitive edge in the market thus improving their performance. The study finally recommends that another study be carried to assess strategies used by banks not listed in the NSE in gaining competitive advantage in the market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There are three approaches to competitive strategy outlined by Porter (2000). These are; striving to be the overall low cost producer, that is, low cost leadership strategy, seeking to differentiate one's product offering from that of its rivals, that is, differentiation strategy and focus on a narrow portion of the market, that is, focus or niche strategy. Lester (2009) argued that competitive strategy enables a firm to define its business today and tomorrow, and determine the industries or markets to compete.

Resource based view (RBV) is the theoretical foundation of the study. The central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. Firms are seen as atom-like entities aiming to gain above-normal profits in unmediated competition with other firms in a shared market (Barney, 1991). RBV assumes firms are profit maximizing entities directed by boundedly rational managers operating in distinctive markets that are to a reasonable extent predictable and moving towards equilibrium (Bromiley & Papenhausen, 2003; Leiblein, 2003). It accepts that information about the future value of a resource is asymmetrically distributed. If the firm's managers can estimate the future value of a resource better than their competitors – or when they are simply lucky – this provides their firm with *ex ante* sources of sustained competitive advantage.

In the resource-based view (RBV) of the firm, a firm's performance is affected by firm-specific resources and capabilities (Barney, 1991). This implies that, in the RBV, resources are allocated heterogeneously (unevenly) within an industry. Organizations therefore must be aware of their strengths and weaknesses, as they have to develop strategies on how to outperform competitors with the given resources bundles and capabilities (Barney, 1991). RBV will therefore be used in this study to assess how different strategies are used by Banks to gain competitive advantage.

1.1.1 The Concept of Strategy

Different authors have defined strategy in different ways. Some authors define the concept broadly to include both goals and means to achieve them, such authors are (Chandler, 1962), (Andrews, 1971) and (Chaffee, 1985). Chandler (1962) added to the view taken by Drucker (1954) and defined strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed. Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 1997). Different strategies such as product differentiation,

cost differentiation, strategic alliance, joint ventures, mergers and diversification strategies have been used by organizations in gaining competitive advantage in the market. This study will therefore assess different strategies used by Banks in gaining competitive advantage in the market. In this context, the strategies will include concept such as cost leadership, focus strategy and product differentiation.

1.1.2 The Concept of Competitive Advantage

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies a higher price (Porter, 1985). Porter (1985) defines competitive advantage along the three dimensions of cost, differentiation and focus with competitors trying to set themselves apart from those perceived as “stuck in the middle” without competitive advantage. Porter’s (1985) work suggests that being able to produce an event at a lower cost compared to the competitors is one-way to competitive advantage.

According Barney (2002) a firm experiences competitive advantages when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions. Barney goes on to tie competitive advantage to performance, arguing that a firm obtains above-normal performance when it generates greater-than-expected value from the resources it employs. The competitive advantage is measured using indicators such as market coverage, market share, profitability and efficiency. The market share refers to the percentage of the customers served by a particular bank over a specified time period. Profitability in this case refers to the ability of the banks to earn profits. On the other hand, efficiency refers to the ability of the banks to serve their clients to the satisfaction at minimum costs (Barney, 2002).

1.1.3 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK) Act and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (PWC Kenya, Industries: Banking Industry, 2011).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region. Secondly is the automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC Kenya, Industries: Banking Industry 2011). This study will therefore be carried out in 11 commercial banks listed in the NSE to assess the strategies used by commercial banks in gaining competitive advantage and ensuring performance in the competitive Kenya market.

1.1.4 Commercial Banks Listed at the Nairobi Stock Exchange

Kenya's financial system is relatively well developed and sound. The major elements of a well-developed financial system have been put in place, including the creation of the first credit-reference bureau in 2010, and credit has grown rapidly in recent years, but the financial sector has still been unable to reach its full potential in supporting the allocation of economic resources across the economy. As of 2011, 43 commercial banks with over 1,100 branches and 2,200 ATMs operated in the country (<http://www.mfw4a.org/kenya>. accessed: March, 2015).

A variety of financial institutions, including microfinance institutions (MFIs) and the Kenya Post Office Savings Bank, also offer deposit and lending services to those segments of the Kenyan population that are underserved by commercial banks, but a clear strategy for developing formal and informal institutions has yet to be formulated. The microfinance industry is, however, growing and is expected to play a pivotal role in deepening financial markets and enhancing access to financial services and products, particularly in rural areas. The Microfinance Act was passed in May 2008 to regulate MFIs through licensing and supervision (<http://www.mfw4a.org>. accessed: March, 2015). By highlighting on the strategies used by commercial banking listed in the NSE in gaining competitive advantage, other firms not listed in the stock exchange may use the information to up their game in the market.

By December 2013, Kenya had one Central Bank as a regulatory authority, 44 banking institutions, 7 representative offices of foreign banks, 9 microfinance banks, 2 credit reference bureaus and 101 forex bureaus. Based on their size (in terms of assets), of the 44 banking institutions, 6 are classified as top six commercial banks. These include:

Kenya Commercial Bank Limited, Equity Bank Limited, Barclays Bank (K) Limited, Standard Chartered (K) Limited, Cooperative Bank of Kenya and CFC Stanbic Bank (K) Limited (CBK Bank Supervision Report, 2013).

As at 31st December, 2013, there were 11 commercial banks listed at the NSE consisted of: Barclays bank, Kenya Commercial Bank Ltd, Equity Bank, Standard Chartered Bank Kenya Ltd, Co-operative Bank of Kenya Ltd, Diamond Trust Bank Kenya Ltd, CFC Stanbic Bank Ltd, National Bank of Kenya Ltd, I & M Bank Ltd, NIC Bank Ltd and Housing Finance Co Ltd. (CBK Bank Supervision Report, 2013). The choice of these banks is therefore based on their performance in that they are listed in the Nairobi Stock Exchange. This is to answer the question of what strategies to they use to remain competitive in the market.

1.2 Research Problem

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. For organizations, finding and nurturing a competitive advantage can mean increased profit and a venture that is sustainable and successful over the long term.

The Kenyan banking sector has experienced several challenges over time. The government has implemented several reforms to enhance growth and competition in this sector. To achieve financial stability and growth, it is important to identify the strategies used by commercial banks in gaining competitive advantage. Currently, there is competitive pressure in the lending market for commercial banks given lending as their

core activity. As a result, driven by the need to maximize profit, banks are likely to pay great attention to lending rates that they charge. Lending rates on the other hand are highly dependent on interest rates guided by the Central Bank which exposes bank earnings to sensitivity on changes in such rates (Laeven and Levine (2007)). This raises the question on whether banks should diversify income sources to ease this pressure on lending rates and stabilize their income or focus on the traditional banking activity.

Porter (2004) viewed competitive strategies as a two dimensional phenomenon with a supply side-strategic scope; and a demand side – strategic strength. He later simplified the scheme into three generic strategies, namely ‘overall cost leadership’, ‘differentiation’ and ‘focus’. Johnson, Scholes and Wittington (2008) on the other hand, perceive competitive strategies from a business level perspective and believe that it is the achievement of competitive advantage by a business unit in its particular market. They advocate for a hybrid strategy which provides a market-facing element to Porter’s model in the form of price as a new dimension and its combination with differentiation. Sidorwicz (2007) on the other hand sees competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare.

Different studies have been done on strategy in the banking sector. Asewe (2010) evaluated the response of Kenya commercial banks to the adoption of ICT strategy in enhancing competitive advantage and found that ICT had been use to a very large as a strategy for enhancing competitive advantage in commercial banks in Kenya. Chiteli (2013) investigated agent banking operations as a competitive strategy for

commercial banks in Kisumu City. The findings revealed that the 3 commercial banks in Kisumu city that had engaged in agent banking operations had achieved expansion in geographic coverage, during peak periods like when schools are opening it was noted that the banking halls were not congested compared to banks which not engage in agent banking operations. Kungu, Desta and Ngui (2014) assessed the effectiveness of competitive strategies by commercial banks: a case of Equity Bank. They found that Equity Bank is exposed to opportunities that would enable it to compete favourably against other banks in future. This researcher did not find any studies on strategies used by commercial banks listed at the NSE to gain competitive advantage. What are the strategies used by commercial banks in Kenya to gain competitive advantage?

1.3 Research Objective

The objective of this study was to identify the strategies used by commercial banks listed at NSE to gain competitive advantage.

1.4 Value of the Study

The findings of this study will be important as it will add to the existing knowledge on the strategies adopted by commercial banks in gaining competitive advantage. The study will thus form a basis upon which other studies will be done by creating knowledge gap and adding to the existing literature review.

Policy wise, the findings of the study will inform how the existing policies on the operations of banks can be improved. By assessing the strategies, policy makers may come up with additional policies regulating the activities of banks with regards to the new products introduced in the market.

Finally, the findings of the study will be of importance to commercial banks in Kenya. By highlighting the competitive strategies used by banks listed in the Nairobi Stock Exchange, commercial banks will use the information to up their game thus improving their performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents relevant literature on the strategies used in banks to gain competitive advantage in the market. It also presents the theory which is used in the study. The chapter ends with a presentation of empirical literature on the area of the study.

2.2 Theoretical Foundation of the Study

The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. During the early strategy development phase of Hoskisson's account of the development of strategic thinking (Hoskisson et al. 1999), the focus was on the internal factors of the firm. Researchers such as Ansoff (1965) and Chandler (1962) made important contributions towards developing the Resource-Based View of strategy (Hoskisson et al. 1999).

From the 1980s onwards, according to Furrer et al. (2008), the focus of inquiry changed from the structure of the industry, e.g., Structure-Conduct-Performance (SCP) paradigm and the five forces model) to the firm's internal structure, with resources and capabilities (the key elements of the Resource-Based View (RBV). Since then, the resource-based view of strategy (RBV) has emerged as a popular theory of competitive advantage (Furrer et al., 2008).

The origins of the RBV go back to Penrose (1959), who suggested that the resources possessed, deployed and used by the organization are really more important than industry structure. The term 'resource-based view' was coined much later by Wernerfelt (1984), who viewed the firm as a bundle of assets or resources which are tied semi-permanently to the firm (Wernerfelt, 1984). Prahalad and Hamel (1990) established the notion of core competencies, which focus attention on a critical category of resource – a firm's capabilities. Barney (1991) also argued that the resources of a firm are its primary source of competitive advantage. This study therefore used the theory to assess the strategies used by commercial banks in gaining competitive advantage.

2.3 Strategy and Competitive Advantage

Winning business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in securing customers and defending against competitive forces (Coyne, 2000). There are many sources of competitive advantage: making the highest-quality product, providing superior customer service, achieving lower costs than rivals, having a more convenient geographic location, designing a product that performs better than competing brands, making a more reliable and longer-lasting product, and providing buyers more value for the money (Coyne, 2000). To succeed in building a competitive advantage, a firm must try to provide what buyers will perceive as "superior value"-either a good product at a low price or a "better" product that is worth paying more for.

Combined strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with

reconciling the business the organization is in with the allocation of resources (Porter, 2004). This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a 'strategy' designed to keep the organization in business (Hannagan & Bennett, 2008). According to Drucker (2001) strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

2.4 Strategies Used to gain Competitive Advantage

In the banking industry, increased competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector. It exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment (Johnson & Scholes, 2002). Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Pearce & Robinson, 2005). According to Johnson and Scholes (2008), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Drucker (2008) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the

needs and demands of the environment. One of the environmental influences to a business normally arises from competition (Pearce & Robinson, 2005).

Combined strategy of an organization involves matching its corporate objectives and its available resources. In this development of strategy, managers are concerned with reconciling the business the organization is in with the allocation of resources (Porter, 2004). This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a 'strategy' designed to keep the organization in business (Hannagan & Bennett, 2008). According to Drucker (2001) strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

2.4.1 Cost-differentiation Strategy

Cost leadership strategy, Porter (1985), requires that a broad target or mass market be supplied with standard products or services. A successful cost leader in an industry will be the lowest cost producer in the sector and offer the mass-market products and services of a quality comparable to that offered by direct competitors. A firm can achieve cost leadership through economies of scale, extremely efficient production or very efficient distribution processes.

Cost leadership involves becoming the low cost firm in an activity and can be operationalized as low input costs, economies of scale, experience, products/process design and low pricing (Johnson et al., 2011). Low input costs involve locating operations close to materials and cheap labour; economies of scale require large scale

operations and experience is where more experience leads to efficiency. Products/process design influence efficiency by making products from cheap standard materials while low pricing is made possible by having products that are close to competitors in terms of features. The firm can then make small price cuts to compensate the slightly lower quality (Johnson et al., 2011). The low cost strategy should translate to a profit margin that is higher than the industry average (Porter, 1985).

According to Porter (1980; 1985) cost leadership and differentiation are directly connected with profitability and ultimately superior performance of firms. Accordingly; research on generic strategies has identified strong links between Porter generic strategy types and performance. Some studies have found support for a single-strategy performance benefit (Allen and Helms, 2006; Hahn and Powers, 2004, 2010); while others studies have shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods. In a service industry, Allen and Helms, (2006) found that hospitals follow generic strategies and conclude that a focused cost leadership strategy is the best route to superior performance. Similarly, in their research on the UK wine industry, Richardson and Dennis (2003) found the hybrid focused differentiation approach was best for niche segments. Spanos, Zaralis and Lioukas (2004) studied the Greek manufacturing and found hybrid strategies were preferable to pure strategies. Additionally, Hahn and Powers, (2010) identified distribution, technology, segmentation, pricing, product development, branding, service quality, and relationship banking as areas where financial institutions pursue differentiation strategies.

In Kenya, various studies on the adoption of competitive strategies have been undertaken on local firms, for instance, Karanja (2002) looked at competitive strategies in real estates' using Porter's framework and Murage (2001) investigated the competitive strategies adopted by members of The Independent Petroleum Dealers Association. Both studies found that competitive strategies lead to superior performance. The study by Karanja (2002) found that the strategies pursued by Real Estates conform to Porters Generic Strategy types and since Real Estates serve customers from different income groups, all the three generic strategies were found to be significantly related to performance. The more these strategies were pursued, the more the performance of real estates improved leading to superior performance. Also, Murage (2001) found generic strategies to have positive effects on the superior performance of Petroleum companies and recommended increased pursuit of these strategies by all Petroleum Dealers in Kenya.

Likewise, Abdullahi (2000), examined strategies adopted by Kenyan Insurance companies and found that most do not have clearly defined competitive strategies. Muturi (2000) analyzed strategies by firms facing changed competitive conditions on East Africa Breweries and Mutura (2006) examined factors influencing the effectiveness of guarantor ship in loan recovery on Mwalimu Sacco society limited. Both studies found that the firms adopt generic strategies to enhance performance.

Also various other studies on Kenyan firms, revealed that financial institutions especially commercial banks adopt competitive strategies, whereby they lend unsecured personal loans at attractively low interest rates; offer exclusive services such as letters of credit to

importers as well as other produce based loans to farmers. More specific, Mbai (2007) carried out a research on competitive strategies adopted by Mwalimu Sacco to meet challenges as a result of the 1997 liberalization of the Kenyan cooperative movement. The author found that the competitive strategies adopted gave the SACCO a competitive advantage over other Saccos in terms of national wide membership. This study therefore sought to identify the strategies used by commercial banks listed in the Nairobi Stock Exchange in gaining competitive advantage.

2.4.2 Product Differentiation Strategy

Product differentiation strategy can be a tool of competitive advantage which is adopted by organizations in order to provide products that satisfies individual customer's needs. In satisfying individual customer's needs, quality has become a major differentiating factor among products (Shammot, 2011). As a result, customers are willing to pay more for products that cater to their individual size, taste, style, need or expression. Hence, achieving competitive advantage through product differentiation becomes the main focus of this study.

The study findings of Acquaah and Yasai-Ardekani (2008) show the viability and profitability of implementing cost leadership, differentiation, and the combination of the singular strategies. Nevertheless, the incremental performance benefits to firms implementing a combination strategy do not significantly differ from the performance of firms implementing only the differentiation strategy. In addition, firms that implement a coherent competitive strategy (combination, cost-leadership, or differentiation) tend to gain considerable incremental performance benefits.

2.4.3 Diversification Strategies

The last three decades, the world over have witnessed a phenomenal transformation in the operations and objectives of financial sector in general and banking sector in particular. The deregulation, disintermediation, emergence of advanced technologies, along with the consolidation wave in the banking sector have been instrumental in making banks to diversify their operations. As a result the banks are transcending their normal business operation and are venturing into insurance, investment and other non-banking activities (Lepetit, 2005).

Diversification helps a bank in eliminating the unevenness of geographical reach, product-process innovation, exploit economies of scale and scope, reap benefit of advanced technology, and diversify risk along with mobilization of additional capital. Diversification has opened the door for commercial banks to earn fee income from investment banking, merchant banking, insurance agency, securities brokerage, and other nontraditional financial services. Acharya, et al, (2002) classify the banks' motive to diversify as synergy (or economic) motive, managerial motive, value maximization motive, increased market power motive, capital strength and risk diversification motives etc. Determinants of diversification can be categorized into two categories. External determinants such as Economies of Scale and Scope, Dynamics of bank Competition, Global presence of Financial Conglomerates and Disintermediation in banking activities. The internal determinants include risk reduction motive, decline in interest margin, cost of production, low cost of capital, technology up gradation etc (Acharya, *et al*, 2002).

Basically, the variety of diversification strategies in the banking sector can be summarized under four main headings. The first is Direct Cross-Border Sales which means trade of financial services without any physical presence of banks in target markets. A low contribution to the integration of retail marketing is achieved by direct cross-border sales of financial services. This category comprises telephone banking, conventional mail marketing and, in particular, internet banking. The second strategy is the establishment of branches or subsidiaries in the target country.

Mergers and Acquisitions (M&A) constitute the third strategy (ECB, 1999). These are usually followed by considerable modifications in the organizational and legal structure of the respective companies. In addition to mergers and acquisitions within the banking sector, a number of cross-industry mergers and acquisitions involving banks can also be observed. In particular, large banks diversify their business fields with the objective of reaching broad market coverage in financial services (*one-stop finance*) (Willman, 2000). Not only capital investment companies (e.g. fund companies), but also insurance companies are the target objects of mergers and acquisitions in the banking sector. Finally, diversification strategy can be achieved by Cooperation and Strategic Alliances. Here, it is decisive that there is only a minority stake.

Literature on diversification in the banking industry suggests that there exists several type of diversification: geographical, source of income, product/services, and economic sectors (Tabak et al., 2011; Pennathur et al., 2012). The following section presents relevant literature on diversification in banks.

2.4.4 Strategic Alliances

The concept of strategic alliance has been defined by many scholars in their studies. Brooke and Oliver (2005) suggest that the alliance is an agreement between parties formed to advance common interests or causes in an attempt to achieve a particular aim.

Organizational nature, Gulati *et al.* (1998) define strategic alliance as a voluntary arrangement between firms involving exchange, sharing, or co-development of products, technologies, or services. Wheelen (2003) defined strategic alliance as "an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of merger or a full partnership". Of all the definitions for strategic alliance, the one argued by Chiou and White (2005) is most widely cited. They state that: 'Strategic alliances are inter-corporate, cooperative agreements that lie in a continuum, with informal cooperative agreements (e.g., an implicit, non-contractual agreement between a bank and an insurance company that they will refer customers to each other) at one end of the spectrum, and mergers and acquisitions at the other end of the spectrum, and many different forms between the two extremes.'

In order to take advantage of potential growing opportunities, modern corporations undertake various actions, including growing internally, issuing licenses, forming strategic alliances, setting up new joint ventures, or acquiring minority interest from other firms. Compared with Mergers and Acquisitions or formations of joint venture, strategic alliance is a relatively flexible and easy operated approach for inter-firm collaboration to seize the growth opportunity (Marciukaiyte *et al.* 2009). Therefore, forging strategic alliances have been employed by more and more corporations in recent years.

There are many ways to categorize different types of strategic alliances. Contractor and Lorange (2002) divide the alliances into five types; technology transfer and improvement, licensing, franchising, joint research and development, joint ventures and marketing agreements. Chan *et al.* (1997) classify strategic alliances by their tactical purposes (e.g. licensing, marketing or distribution, development or research, technology transfer or system integration, combination of previous types and not specified). According to the intent of the alliance, Lee *et al.* (2013) categorize the strategic alliances into resource alliance, technology alliance and marketing alliance.

Evidence suggests that complementary business level strategic alliance, especially vertical ones, have the greatest probability of creating a sustainable competitive advantage. More and more companies are entering into alliances to gain competitive advantages (Gari, 1999). Strategic alliance designed to respond to competition and to reduce uncertainty can also create competitive advantages. However, these advantages tend to be more temporary those developed through complementary (both vertical and horizontal) strategic alliances. The primary reason is that complementary alliances have a stronger focus on the creation of value compared to competition reducing and uncertainty reducing alliances, which tend to be formed to be respond to competitors' actions rather than to attack competitors.

Many scholars draw their academic attention to the wealth effect of strategic alliance announcements, although most of them still focus on the firms in the US capital market. By analyzing the value increment effect of 89 non-equity strategic alliances from the information and technology sector in the US, Neill *et al.* (2001) argue that the alliance

announcements yield a positive abnormal returns for firm partners on the announcement date. They also show evidence that there exists the announcements information leakage for a certain period before the announced date. From the perspective of characteristics of strategic alliances, Swaminathan and Moorman (2009) and Ho *et al.* (2010) only focus on the firms declaring marketing alliances in the US market and find a positive correlation between firm value and alliance announcement.

There are also some scholars who show particular interests in analyzing the alliance announcements impact upon the firm performances in the financial services industry. By analyzing the announcements sample for financial institutions in Japan, Chiou and White (2005) suggest that the strategic alliance announcements contribute to a positive increase for the firm value in Japanese financial services industry. Gleason *et al.* (2003) analyze the market performances of US financial services firms by dividing them into different industry subgroups (banking, investment services and insurance) and into separate holding periods (6, 12 and 18 months after the announcement).

Marciukaityte *et al.* (2009) find similar evidence that the market reacts positively to the strategic alliance announcements. More interestingly, they also suggest that the market has a more favorable reaction to the announcements by the financial services firms that are finally acquired by their alliance partners afterwards. Amici *et al.* (2012) specifically focus on the market impact of banking firms in Europe and the US on both strategic alliance and joint venture. In addition to the result of a positive correlation between the announcements and firm value, they also suggest that joint ventures generate more value when there are non-banking financial partners involved in the case.

2.4.5 Joint Ventures

When two or more firms form a legally independent firm to share their collaborative capabilities and resources to achieve competitive advantages in the market is termed as joint venture in the form of strategic alliance. Joint ventures are effecting in establishing long-term relationship and in transferring tacit knowledge (Berman et al, 2002).

The fact that joint ventures cannot be codified, tacit knowledge is learned through experiences such as those taking place when people from partner firms work together in joint venture (Berman et al, 2002). Expertise and experience in particular field foster the sustainable competitive advantage. Tacit knowledge is an important source of competitive advantage for many firms (Tiessen and Linton, 2000).

2.4.6 Mergers and Acquisitions

Some studies have also examined the potential benefits and scale economies of mergers. Landerman (2000) explores potential diversification benefits to be had from banks merging with non banking financial service firms. Simulated mergers between US banks and non-bank financial service firms show that diversification of banks into insurance business and securities brokerage are optimal for reducing the probability of bankruptcy for bank holding companies. Wheelock and Wilson (2004) find that expected merger activity in US banking is positively related to management rating, bank size, competitive position and geographical location of banks and negatively related to market concentration.

According to Yener et al. (2004) and Focarelli et al. (2002), previous studies investigating the effect of bank M&A on performance tend to follow two main empirical

methods. The first group is comparing pre- and post-M&A performance using financial and accounting data, while the second group uses an event-study type methodology. In that case the changes in the prices of specific financial market assets (usually share prices of the involved companies) around the time of the announcement of the merger are analyzed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes research design, study population, data collection instrument, data collection and data analysis.

3.2 Research Design

Descriptive survey design was used for the study. The researcher used the design to investigate the effect of strategic positioning on performance of commercial banks in Kenya.

Descriptive study is concerned with finding out who, what, where and how of a phenomenon which is the concern of this study. This design was therefore appropriate as the researcher was at a position to assess the strategies used by commercial banks in gaining competitive advantage.

3.3 Study Population

The population for the study was the 11 commercial banks listed at the Nairobi Stock Exchange.

3.4 Data Collection

Both primary and secondary data was used for the study. Primary data was collected using a questionnaire while secondary data was collected from the bank published records.

The researcher used a questionnaire due to their characteristic that they can be used to capture large amounts of data which may contain both quantitative and qualitative data. Both open ended and closed ended questionnaires were used to collect data for the study. The questionnaires were divided into four sections whereby section A contained questions on the demographic information of the respondent, section B contained items on background information of the banks, section C contained items on strategies used by banks in gaining competitive advantage and section D contained items on the use of the competitive strategies in gaining competitive advantage.

The researcher personally administered the instruments to the respondents. The respondents were given a duration of two days to respond to the questions after which the filled instruments were collected.

The study targeted Managers and senior employees of the selected banks as the study respondents. Bank managers and senior employees were targeted as they were perceived to understand the strategies used by banks in gaining competitive advantage. A total of 55 respondents were targeted by the study where one bank manager and four employees were sampled from each bank.

3.5 Data analysis

Primary data from the field was edited first. Coding was then done to translate question responses into specific categories. Coding was expected to organize and reduce research data into manageable summaries.

Both qualitative and quantitative data analysis technique were used to analyze the data. Quantitative data collected were analyzed using descriptive statistics such as means,

standard deviations, frequencies and percentages. Qualitative data were analyzed thematically. The analyzed data were presented in form of tables, pie-charts and bar-graphs where applicable.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

In the previous chapter, the researcher described the methodology used in the study. This chapter therefore presents the findings of the study. The objective of this study was to investigate the relationship between ICT and performance of the health care projects. A total of 55 respondents were targeted by the study out of which 48 responded giving a response rate of 87%.

4.2 General Information

This section presents the general information of the respondents including: gender, age bracket, level of education and duration of service in the organization.

4.2.1 Distribution of the Respondents by Gender

On gender distribution of the respondents, the study found that 58% were male while 42% were female. The findings were as presented in Figure 4.1.

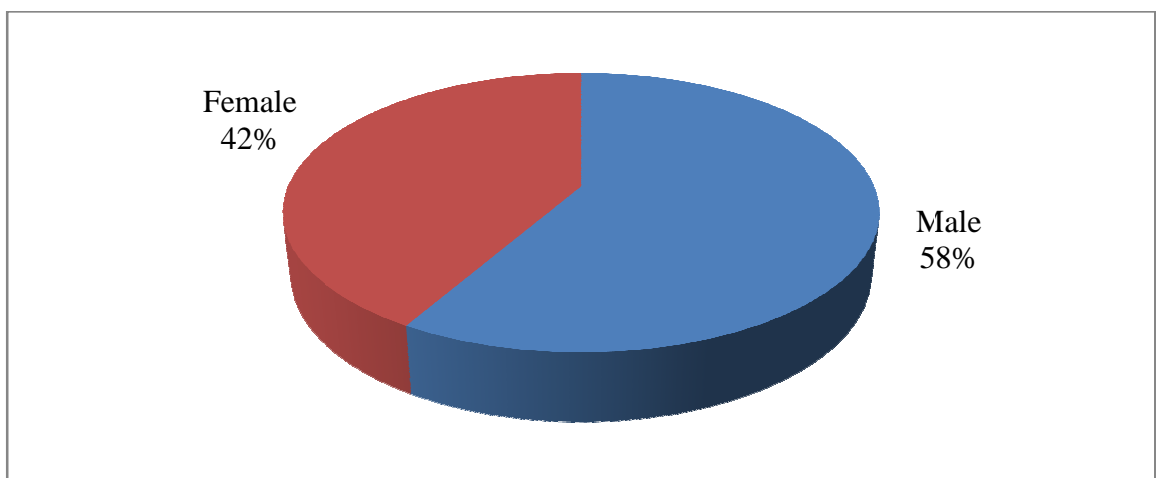


Figure 4.1 Distribution of the Respondents by Gender

4.2.2 Distribution of the Respondents by Age Bracket

On the distribution of the respondents by age bracket, the study found that 87.5% of the respondents interviewed were between 26-35 years. It was also found that 6.3% between 36-45 years and 19-25 years. The findings were as presented in Figure 4.2.

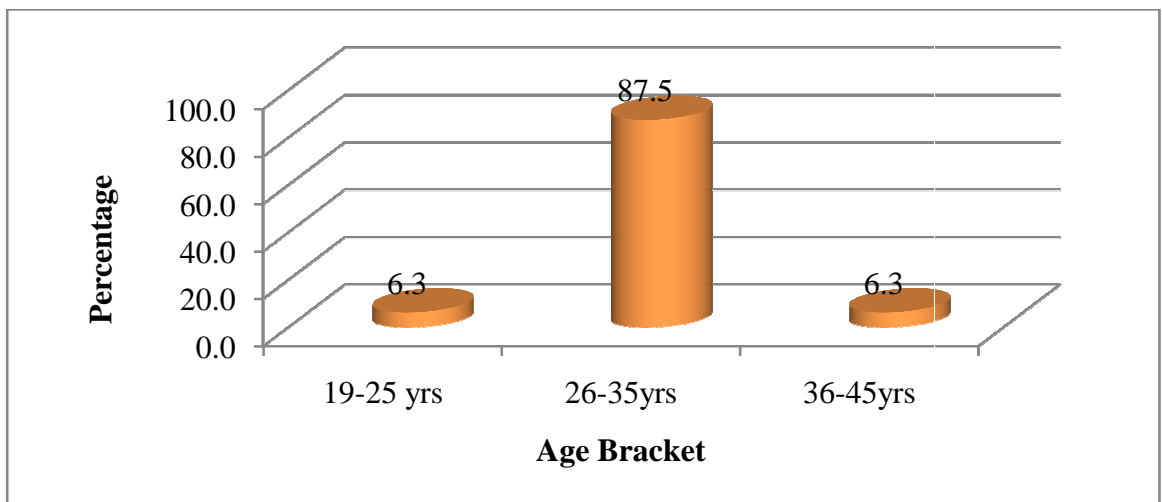


Figure 4.2 Distribution of the Respondents by Age Bracket

4.2.3 Distribution of the Respondents by Level of Education

On the distribution of the respondents by level of education, the study found that 87% of the respondents were Bachelors Degree holders while 13% were Masters Degree holders.

The findings were as presented in Figure 4.3.

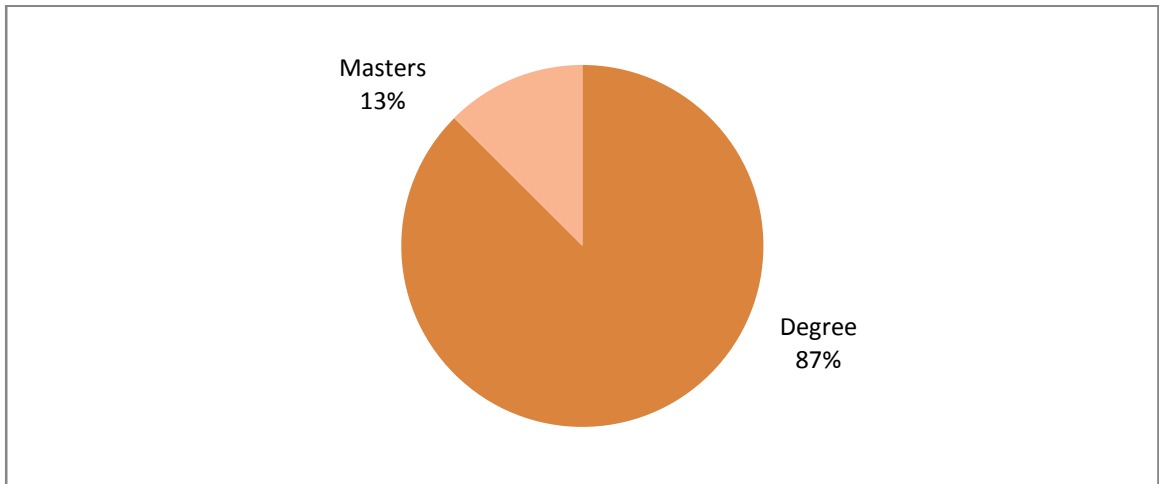


Figure 4.3 Distribution of the Respondents by Level of Education

4.2.4 Distribution of the Respondents by Duration of service in the organization

The study found that 43.8% had served in the organization for duration of between 4-5 years. It was also found that another 43.8% of the respondents had served in their organizations for duration less than 3 years and that 12.5% had served in their organizations for a period between 6-10 years. From the findings of the study, it can be said that most of the respondents interviewed had served in the organization for a period more that 3 years and were therefore considered knowledgeable on the strategies used by their organizations in gaining competitive advantage. The findings were as presented in Figure 4.4.

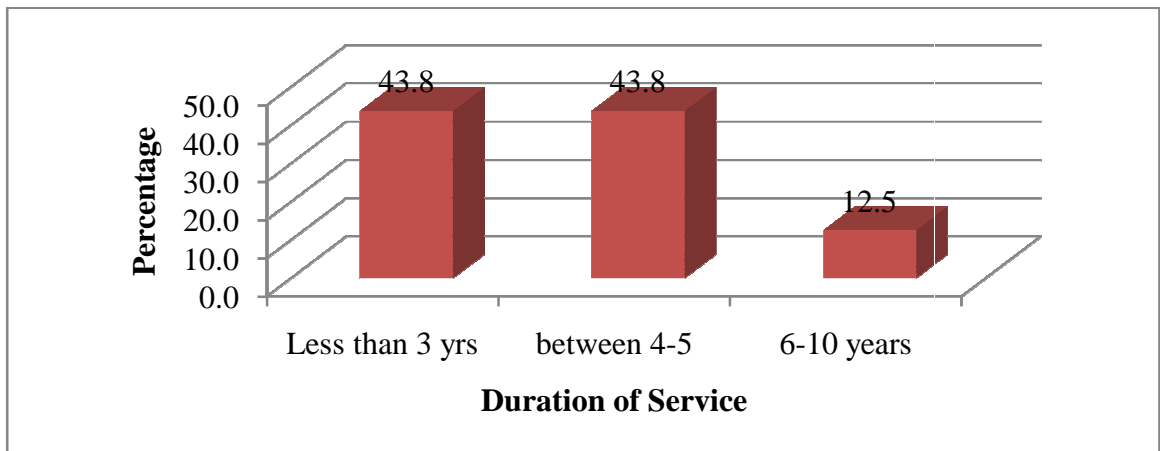


Figure 4.4: Distribution of the Respondents by Duration of service in the organization

4.3 Background information of the Banks

On the background information of the banks, the researcher sought to find out year of establishment of the banks, whether they were local or international and the number of branches. The findings are as presented in Table 4.1.

Table 4.1 Background information of the Banks

Bank	Year of Establishment	Branches	Nature
Barclays Bank of Kenya Ltd	1978	119	International
Kenya Commercial Bank Ltd	1970	220	International
Equity Bank Ltd	1999	135	International
Standard Chartered Bank Kenya Ltd	1911	39	International
Co-operative Bank of Kenya Ltd	1967	140	International
Diamond Trust Bank Kenya Ltd	1949	52	International
CFC Stanbic Bank	2004	24	International
I & M Bank Ltd	1974	32	International
NIC Bank Ltd	1997	25	International
Housing Finance Co Ltd	1965	17	Local
National Bank of Kenya Ltd	1968	46	Local

The findings on Table 4.1 shows that nine of banks studied were international with only two being local. The findings also show that 8 of the banks studies had operated in the Kenyan economy for period more than 30 years with only three having operated for a period less than 30 years. From the findings of the study, it can be said that most of the banks listed in the NSE have operated in the Kenyan economy for a long period of time which has enabled them to open many branches across the country.

On the distribution of the banks in terms of annual net profits, the study revealed that all the banks studied mad profits of one billion and above.

4.4 Extent of use of different Strategies by commercial banks listed at NSE to gain competitive advantage

To determine the extent of use of different strategies by banks listed in the NSE, the respondents were asked to indicate the extent to which they had adopted the strategies.

The findings are as presented in Table 4.2.

Table 4.2 Strategies by Commercial Banks in gaining Competitive Advantage

Strategy	No extent at all		Small extent		Neutral		Large extent		Very large extent		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Product differentiation	0	0	0	0	3	6.3	18	37.5	27	56.3	48	100
Cost differentiation	0	0	6	12.5	14	29.2	16	3.33	12	25	48	100
Strategic alliance	6	12.5	6	12.5	21	43.8	9	18.8	6	12.5	48	100
Joint ventures	12	25	6	12.5	15	31.3	3	6.3	12	25	48	100
Mergers	21	43.8	3	6.3	9	18.8	3	6.3	12	25	48	100
Diversification strategy	3	6.3	9	18.8	12	25	6	12.5	18	37.5	48	100

The findings on Table 4.3 show that product differentiation as a strategy was used to a very large extent as indicated by 56.3%. The study also found that cost differentiation was neutrally used as indicated by 29.2%. The study further found that strategic alliance was used neutrally as indicated by 43.8%. The findings also revealed that joint ventures were neutrally used as indicated by 31.3%. Regarding the use of mergers, the findings revealed that it was used to no extent at all as indicated by 43.8%. It was finally found that 37.5% of the respondents indicated that diversification strategy was used to a very large extent. According to Acharya et al (2002), as such, diversification helps a bank in eliminating the unevenness of geographical reach, product-process innovation, exploit economies of scale and scope, reap benefit of advanced technology, and diversify risk along with mobilization of additional capital. Diversification has opened the door for commercial banks to earn fee income from investment banking, merchant banking, insurance agency, securities brokerage, and other nontraditional financial services.

Other strategies used by banks listed in the NSE in gaining competitive advantage in the market included: brand protection, public relations, enhanced media publicity, customer relationship strategies, turnaround time in delivery of services, sim card enrolment, agency banking and the use of offline ATMS. These findings are in line with that of Coyne (2000) who found that there are many sources of competitive advantage including: making the highest-quality product, providing superior customer service, achieving lower costs than rivals, having a more convenient geographic location, designing a product that performs better than competing brands, making a more reliable and longer-lasting product, and providing buyers more value for the money.

4.5 Use of Competitive Strategies by commercial banks listed at NSE in gaining competitive advantage

This section tests on the respondents rating on the use of competitive strategies by banks listed in the NSE. This was tested on a five point likert scale of 1-5; where 1 represented 'No extent at all', 2 represented 'Small extent', 3 represented 'Neutral', 4 represented 'large extent' and 5 represented 'Very large extent'.

The scores 'Very large extent' was taken to be equivalent to mean score ranging from 4.1 to 5.0 'Large extent' with mean score ranging from 3.1 to 4.0, 'Neutral' with a mean score ranging from 2.1 to 3.0, 'Small extent' with a means score ranging from 1.1 to 2.0 and 'No extent at all' with a means score ranging from 0.0 to 1.0. A standard deviation of > 1 represented a significant difference in the responses given. The findings are as presented in Table 4.3.

Table 4.3 Use of Competitive Strategies by commercial banks listed at NSE in gaining competitive advantage

Statement	N	Mean	Std. Deviation
Diversification strategy			
Our bank use credit diversification where loans are given to people in different sectors of the economy	48	4.13	1.178
Our bank uses bank loan portfolio diversification to suit different customer needs	48	4.06	1.156
Our bank geographically diversified in terms of distribution thus increasing its market share	48	4.06	1.311
Cost differentiation			
Our bank offers lower charges on client services making it attractive for many customers	48	2.81	1.525
Our bank charges lower interests on loans making it attractive to customers	48	2.75	1.361
The operation costs for the bank is lower due to elimination of unnecessary cost thus improving its performance	48	2.88	1.331
Strategic alliance			
Our bank forms strategic alliances with other organizations to gain competitive advantage in the market	48	2.69	1.417
Our bank join strategic alliances which to form collaborations which seize the growth opportunity thus gaining competitive advantage	48	2.75	1.361
Joint ventures leads to the formation of strategic alliances making banks gain competitive advantage	48	3.25	1.361
Mergers			
Mergers helps banks in reducing the cost of operation	48	3.75	.978
Mergers helps banks to expand its coverage geographically thus increasing competitive advantage	48	4.13	.937
Product differentiation			
Banks diversify in different products making them gain competitive advantage in the market	48	4.69	.589
Our bank has introduced new products based on the customers demand	48	4.38	.866

The findings on Table 4 show that the respondents indicated that their banks use credit diversification where loans are given to people in different sectors of the economy (Mean score 4.13), bank loan portfolio diversification to suit different customer needs (Mean score 4.06) and that their banks are geographically diversified in terms of distribution thus increasing its market share (Mean score 4.06) to a very large extent. The study also

found that the use of cost differentiations as a strategy, the respondents were neutral with the statements that that their banks offers lower charges on client services making it attractive for many customers (Mean score 2.81), charges lower interests on loans making it attractive to customers (Mean score 2.75) and that the operation costs for the bank is lower due to elimination of unnecessary cost thus improving its performance (Mean score 2.88). The findings further revealed that the respondents were neutral with the statements that their banks forms strategic alliances with other organizations to gain competitive advantage in the market (Mean score 2.69) and that they join strategic alliances to form collaborations which seize the growth opportunity thus gaining competitive advantage (Mean score 2.75).

The findings further revealed that that joint ventures leads to the formation of strategic alliances making banks gain competitive advantage to a large extent (Mean score 3.25). On mergers, the respondents indicated that mergers helps banks in reducing the cost of operation to a large extent (Mean score 3.75) and that mergers helps banks to expand its coverage geographically thus increasing competitive advantage to a very large extent (Mean score 4.13). Finally, on product differentiation, it was indicated that banks diversify in different products making them gain competitive advantage in the market (Mean score 4.69) and that banks have introduced new products based on the customers demand to a very large extent (mean score 4.38).

4.6 Discussion

The findings revealed that banks use credit diversification where loans are given to people in different sectors of the economy (Mean score 4.13), bank loan portfolio diversification to suit different customer needs (Mean score 4.06) and that their banks are geographically diversified in terms of distribution thus increasing its market share (Mean score 4.06) to a very large extent. This is an indication that diversification as a strategy was used to a very large extent by banks listed in NSE to gain competitive advantage in the market. According to Ticha and Hron (2007), the concept of diversification has been effective in the adoption of competitive strategies by the banks whereby new products are introduced to appeal to the new target market and curb competition in the banking sector. Acharya, et al, (2002) classify the banks' motive to diversify as synergy (or economic) motive, managerial motive, value maximization motive, increased market power motive, capital strength and risk diversification motives etc.

Regarding the use of cost differentiations as a strategy, the study found that the respondents were neutral with the statements that that their banks offers lower charges on client services making it attractive for many customers (Mean score 2.81), charges lower interests on loans making it attractive to customers (Mean score 2.75) and that the operation costs for the bank is lower due to elimination of unnecessary cost thus improving its performance (Mean score 2.88). From the findings of the study, it can be said that cost differentiation was neutrally used by banks listed in the NSE as a competitive strategy. In line with these findings, Hahn and Powers, (2010) identified distribution, technology, segmentation, pricing, product development, branding, service

quality, and relationship banking as areas where financial institutions pursue differentiation strategies.

On the use of strategic alliance, the study found that the respondents were neutral with the statements that their banks forms strategic alliances with other organizations to gain competitive advantage in the market (Mean score 2.69) and that they join strategic alliances to form collaborations which seize the growth opportunity thus gaining competitive advantage (Mean score 2.75). Compared with Mergers and Acquisitions or formations of joint venture, strategic alliance is a relatively flexible and easy operated approach for inter-firm collaboration to seize the growth opportunity (Marciukaiyte *et al.* 2009). Therefore, forging strategic alliances have been employed by more and more corporations in recent years. Amici *et al.* (2012) specifically focused on the market impact of banking firms in Europe and the US on both strategic alliance and joint venture. In addition to the result of a positive correlation between the announcements and firm value, they also suggest that joint ventures generate more value when there are non-banking financial partners involved in the case.

The study also found that joint ventures leads to the formation of strategic alliances making banks gain competitive advantage to a large extent (Mean score 3.25). In line with these findings, Gari (1999) found that complementary business level strategic alliance, especially vertical ones, have the greatest probability of creating a sustainable competitive advantage. Chiou and White (2005) suggest that the strategic alliance announcements contribute to a positive increase for the firm value in Japanese financial services industry.

On mergers, the respondents indicated that mergers helps banks in reducing the cost of operation to a large extent (Mean score 3.75) and that mergers helps banks to expand its coverage geographically thus increasing competitive advantage to a very large extent (Mean score 4.13). Finally, on product differentiation, it was indicated that banks diversify in different products making them gain competitive advantage in the market (Mean score 4.69) and that banks have introduced new products based on the customers demand to a very large extent (mean score 4.38). Wheelock and Wilson (2004) found that merger activity in US banking is positively related to management rating, bank size, competitive position and geographical location of banks and negatively related to market concentration.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary of the study, conclusion and recommendation. The objective of this study was to identify the strategies used by commercial banks listed at NSE to gain competitive advantage

5.2 Summary of Findings

The findings on the background information of the banks revealed that nine of banks studied were international with only two being local. The findings also show that 8 of the banks studies had operated in the Kenyan economy for period more than 30 years with only three having operated for a period less than 30 years. It was also found that all the banks listed in the NSE make net profits on over one billion per year.

Different strategies for gaining competitive advantage were used by banks listed in the NSE. Product differentiation and diversification strategy was used to a very large extent and indicated by 56.3% and 37.5% respectively. The findings also revealed that cost differentiation, strategic alliances and joint ventures were neutrally used by bank listed in the NSE in gaining competitive advantage as indicated by 29.2%, 43.8% and 31.3% respectively. It was finally found that mergers as a strategy was used to no extent at all as indicated by 43.8% of the respondents. Other strategies used by banks listed in the NSE in gaining competitive advantage in the market included: brand protection, public relations, enhanced media publicity, customer relationship strategies, turnaround time in delivery of services, sim card enrolment, agency banking and the use of offline ATMS.

One the use of the strategies in gaining competitive advantage in the market, the study found that banks use credit diversification where loans are given to people in different sectors of the economy (Mean score 4.13), bank loan portfolio diversification to suit different customer needs (Mean score 4.06) and that their banks are geographically diversified in terms of distribution thus increasing its market share (Mean score 4.06) to a very large extent.

Regarding the use of cost differentiations as a strategy, the respondents were neutral with the statements that that their banks offers lower charges on client services making it attractive for many customers (Mean score 2.81), charges lower interests on loans making it attractive to customers (Mean score 2.75) and that the operation costs for the bank is lower due to elimination of unnecessary cost thus improving its performance (Mean score 2.88). On the use of strategic alliance, the study found that the respondents were neutral with the statements that their banks forms strategic alliances with other organizations to gain competitive advantage in the market (Mean score 2.69) and that they join strategic alliances to form collaborations which seize the growth opportunity thus gaining competitive advantage (Mean score 2.75). The respondents also indicated that joint ventures leads to the formation of strategic alliances making banks gain competitive advantage to a large extent (Mean score 3.25).

On mergers, the respondents indicated that mergers helps banks in reducing the cost of operation to a large extent (Mean score 3.75) and that mergers helps banks to expand its coverage geographically thus increasing competitive advantage to a very large extent (Mean score 4.13). Finally, on product differentiation, it was indicated that banks diversify in different products making them gain competitive advantage in the market

(Mean score 4.69) and that banks have introduced new products based on the customers demand to a very large extent (mean score 4.38).

5.3 Conclusion

From the study, it was concluded that by banks listed in the NSE use product differentiation and diversification strategy was used to a very large extent in gaining competitive advantage in the market.

The study also concludes that strategies such as cost differentiation, strategic alliances and joint ventures were neutrally used by bank listed in the NSE in gaining competitive advantage.

The study finally concludes that mergers is the least used strategy by banks listed in the NSE in gaining competitive advantage

5.4 Implications of the Study and Recommendations

5.4.1 Contribution to Knowledge

The findings of this study contribute to the existing knowledge on strategies for gaining competitive advantage by commercial banks. The study revealed the extent to which different strategies are used by commercial banks listed in the NSE in gaining competitive advantage in the market.

5.4.2 Implication for Policy

By highlighting on the strategies used by banks in gaining competitive advantage in the market, the findings of the study would inform policy makers in regulating strategies used by banks to prevent unhealthy competition.

5.4.3 Implications for Practice

Banks can use the findings of the study to make decisions of the best strategies they can use to gain competitive advantage in the market. This will help them compete favourably in the market thus improving their performance.

5.4.4 Recommendations

The following were the recommendations of the study:

The study recommends that banks listed in the NSE should enhance relationship based banking as opposed to cost and product differentiation. This will improve their relationship with customers which will impact on their performance.

The study also recommends that banks should provide excellent and unexpected customer experiences that will give them a competitive edge in the market thus improving their performance.

The study finally recommends that banks should embrace the use of divergent strategies ranging from cost effective strategies to strategies aimed at ensuring efficiency in operation. This will improve customer satisfaction thus improving banks performance.

5.5 Limitations of the Study

One of the limitations of this study was that it was carried out in banks listed in the NSE only. The study therefore did not capture the strategies used by other commercial banks not listed in the NSE thus the findings of the study cannot be generalized to all banks in Kenya.

5.6 Suggestions for Further Research

The study was carried to identify the strategies used by commercial banks listed at NSE to gain competitive advantage. The researcher therefore recommends that another study be carried to assess strategies used by banks not listed in the NSE in gaining competitive advantage in the market. This would allow for comparison between banks listed and those not listed in the NSE.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

August 2015

Dear Sir/Madam,

REF: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (M.B.A.) student at the University of Nairobi. I am required to submit as part of my course work assessment a research project report on **“STRATEGIES FOR GAINING COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS LISTED AT THE NSE”**. Your bank has been selected to participate in the study. I would appreciate for your cooperation and time to help me fill the attached questionnaire. Please be assured that all your responses shall be kept strictly anonymous and confidential and shall only be used for academic purposes.

Thank you in advance.

Kenneth Murithi

M.B.A. Student (Researcher)

University of Nairobi

500,000 million < 1 billion []

1 billion and Over []

**SECTION C: STRATEGIES USED BY COMMERCIAL BANKS LISTED IN NSE
IN GAINING COMPETITIVE ADVANTAGE**

10. The following are some of the strategies used by banks to gain competitive advantage in the market. Please indicate the extent to which your bank has adopted the use of each of the following strategies.

1- No extent at all 2- Small extent 3-Neutral

4- Large extent 5- Very large extent

	Strategy	1	2	3	4	5
i.	Product differentiation					
ii.	Cost differentiation					
iii.	Strategic alliance					
iv.	Joint ventures					
v.	Mergers					
vi.	Diversification strategy					

SECTION D: USE OF COMPETITIVE STRATEGIES BY COMMERCIAL BANKS LISTED IN NSE IN GAINING COMPETITIVE ADVANTAGE

11. The following are some statements on the use of different strategies in banks. Please indicate the level of your agreement with each statement in relation to your bank.

1- Strongly disagree 2- Disagree 3-Neither agree nor disagree
4- Agree 5- Strongly agree

	Statement	1	2	3	4	5
A	Diversification strategy					
	Our bank use credit diversification where loans are given to people in different sectors of the economy					
	Our bank uses bank loan portfolio diversification to suit different customer needs					
	Our bank geographically diversified in terms of distribution thus increasing its market share					
B	Cost differentiation					
	Our bank offers lower charges on client services making it attractive for many customers					
	Our bank charges lower interests on loans making it attractive to customers					
	The operation costs for the bank is lower due to elimination of unnecessary cost thus improving its performance					
C	Strategic alliance					
	Our bank forms strategic alliances with other organizations to gain competitive advantage in the market					
	Our bank join strategic alliances which to form collaborations which seize the growth opportunity thus gaining competitive advantage					
	Joint ventures leads to the formation of strategic alliances making banks gain competitive advantage					
D	Mergers					
	Mergers helps banks in reducing the cost of operation					

	Mergers helps banks to expand its coverage geographically thus increasing competitive advantage					
E	Product differentiation					
	Banks diversify in different products making them gain competitive advantage in the market					
	Our bank has introduced new products based on the customers demand					

12. What are other strategies adopted by your bank in gaining competitive advantage in the market? _____

13. What would you recommend to be done by commercial banks listed in the Nairobi Stock Exchange to retain their competitive advantage position in the market?

Thank you for your time and cooperation

APPENDIX III: COMMERCIAL BANKS LISTED IN THE NSE

1. Barclays Bank of Kenya Ltd
2. Kenya Commercial Bank Ltd
3. Equity Bank Ltd
4. Standard Chartered Bank Kenya Ltd
5. Co-operative Bank of Kenya Ltd
6. Diamond Trust Bank Kenya Ltd
7. CFC Stanbic Bank
8. I & M Bank Ltd
9. NIC Bank Ltd
10. Housing Finance Co Ltd
11. National Bank of Kenya Ltd.

Source: <https://www.nse.co.ke/listed-companies/list.html>, accessed 22nd July 2015.