

**THE ROLE OF KENYA COMMERCIAL BANK IN
SUPPORTING EXPORTERS OF HORTICULTURAL
GOODS TO GAIN COMPETITIVE ADVANTAGE**

BY:

WINFRED NJIGUA

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DECLARATION

This research project proposal is my original work and has not been submitted for examination to any other university.

Signed:.....

Date:22/09/2016.....

WINFRED WANJIKU NJIGUA
D61/72921/2012

This research project proposal has been submitted for examination with my approval as the university Supervisor.

Signed:.....

Date:22/09/2016.....

DR. JOHN YABS
SENIOR LECTURER
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

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DEDICATION

This project is dedicated to:

To my Almighty God, who is my strength and help at all times.

To my parents the Late Mr. Johnson Njigua Gachanja and Mrs. Jane Muringo Njigua who taught me the virtue of hard work and shaped me to whom I am today. They have seen me through my education and constantly encouraged me to strive for excellence.

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ABSTRACT

All commercial transactions such as private and governmental sales, investments, logistics, and transportation, that take place between regions, countries and nations beyond their geographical boundaries comprise what is referred to as International It also includes services such as investments and monetary transactions. Export business is a function of international trade where merchandise manufactured in one nation are dispatched to another country for future sale or trade. Horticulture farming is the cultivation in large scale of vegetables, fruits and flowers for export and local market.. According to Porter (1985), competitive advantage is the capability to earn revenues on ventures steadily above the average for the industry. Kenya Commercial Bank offers several services that favor horticulture farmers giving them competitive advantage. These include branchless banking, which is the delivery of financial services outside conventional bank branches where the customers do not have to walk in the bank to receive services. This study sought to answer the question: What is the role of KCB in supporting Horticulture farmers gain competitive advantage in Kenya? Data was collected using an interview guide that was administered to top tier staff at the Kenya Commercial Bank Central region that comprises of the former Central, Rift Valley and parts of the Eastern Provinces of Kenya. Data collected was analyzed using a qualitative data checklist and for the quantitative data using frequencies, charts and graphs. This study confirmed that KCB through its various initiatives in branchless banking is playing a vital role in giving horticulturists competitive advantage over their rivals. KCB's branchless banking system is very appreciated by its clients since it offers a high level of convenience. The younger clientele who are not averse to change and those that are fascinated by the changes in the ICT world reported very high uptake levels of these innovations from KCB with a majority of them showing very positive attitude towards branchless banking initiatives with the end result being that many clients including horticulturists have taken up this products. Client's attitude towards any product directly affects the acceptability of the new innovation in the market and thus with the clients of KCB largely exhibiting a positive attitude towards branchless banking then it is safe to make the assumption that it has been greatly accepted by clients and particularly horticulturists. This could be due to the efforts that have been put in place by the product development teams to make branchless banking initiatives undertaken by KCB very user friendly to all customers. The future of banking lies primarily in branchless banking. This being said all efforts should be made to ensure enhanced security of the branchless banking products to further assure clients of the security of their funds. It emerged from the study that enhanced security features like biometric identification should be incorporated in design particularly in regard to i-banking.

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ABBREVIATIONS AND ACRONYMS

ATM	- Automated Telling Machine
CBK	- Central Bank of Kenya
EFTPOS	- Electronic Funds Transfer Point of Sale
GAT	- German Agricultural Team
GAT	- German Agricultural Team
HCDA	- Horticultural Crops Development Authority
KCB	- Kenya Commercial Bank
POS	- Point of Sale
SCA	- Sustainable Competitive Advantage

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

International business encompasses all profit making business dealings taking place between two or more regions, countries, and nations beyond geographic boundaries. It also includes services such as investments and monetary transactions. It can also be stated as the commercial activities that do involve trans-national transactions. The three dimensions in International business are participants, Activities and Environment (Akrani, 2011). No country however large or prosperous is self-sufficient; thus, any country desires merchandises and services from other countries. However large a country is it will have to import products it desires and export products to the desired country. This leads to specialization where each country specializes in what it can do best and most efficiently and exchanges with other countries (Sullivan, 1991). International trade thus helps in ironing out the deficiencies and surpluses of goods and services between various countries thus leading to the vital component of the economies of all countries such that the development and growth of trade is closely related to the economic growth of nations and the world economies as a whole. Sullivan, (1991) postulates that trade essentially leads to the structural organization of countries and thus provides new opportunities to firm's employees and customers. For many countries, more so advanced economies, the world market is huge and ever expanding as it is offers greater growth and profit opportunities than the domestic market (David et al, 2007). In the theories of International Business, the theory on Natural Advantage relates well with how horticulture farming in Kenya has succeeded to the point of being exported to other countries in the world thus leading to international business between Kenya and countries importing the horticulture. The natural advantage theory states that countries trade because of the

natural resources they have. Some countries have been endowed by nature to have good climate, good geographical locations, minerals and good type of soils conducive for different agricultural activities. Some countries exploit these natural resources and participate in international trade and business. Kenya is a country that relates well with the theory of natural advantage because the climate, geographical locations and type of soils help horticultural farmers grow their flowers for the local market and the surplus is exported to other countries hence leading to international trade (HCDA,2013).USA is one of the main importers of horticulture from Kenya; this increases the economies of scale and the economic growth of Kenya in general.

1.1.1 Concept of international business

It refers to the exchange of merchandize or service among persons and industries in different nations. In international business, cross border selling is identified with the selling of locally produced goods from one nation to another nation. Importing is defined as the purchase goods manufactured in another country. International business relies on the balance of trade, which is stated as the discrepancy between a given nation's imports and its exports for a given length of time. A favourable balance of trade is said to be when a country's exports are higher than its imports. Conversely, when a country is importing more than its exporting it is said to have an unfavourable balance of trade. International business thrives under any nation's foreign currency exchange rate, which is the rate at which one nation can exchange its currency with another nation's currency. It is affected and influenced by factors such as; devaluation, which is reducing the value of nation's currency in relation to currencies of other nations; revaluation, which is increased the value of a country's currency in relation to that of the other countries. Global businesses conduct business transactions all over the world, which include the transfer of merchandize, services, technology, managerial knowledge, and resources to other countries.

There are several options of conducting international business (Akrani, 2011). These include exporting merchandizes and services, issuing franchise authorizations to another business to produce merchandize in their local country, joint venture with local firms, setting up of local branches for manufacturing and distribution of goods in the host country, and making available decision-making services to companies in the host country.

The success of international business depends on a firm's alignment with its operating environment, and its reaction to changes in the external environment (Rajashekarseo, 2012). A firm could adopt international business as a proactive reaction, in a bid to increase profit in another country. It could also be taking advantage of the product life cycle in another country, which could favor the sales of their product. Moreover, it can be an approach to achieve economies of scale. Reactive strategies are adopted when the firm is acting in a bid to counter competitive pressure in their home country. There could also be overproduction and excess capacity, which would demand a firm to identify new markets for their produce. Decline in local market, and saturation of products could motivate a firm to seek new markets outside their home country. Demand for products outside their home country, and a need to satisfy international customer demands could also be a motivating factor (Vij&Bedi2016).

The ethnocentric approach is applied when a firm targets the national market. This is by designing their products and operations by addressing national issues that favor their local customers, and the firm's competition (Slater et al, 2011). However, the firm sells their excess products to other countries to counter excess production, competition, product saturation, and demand for the product in another country. The same product designed for the local market is sold to the new market in another country. In this approach, the domestic company views the foreign market as an extension to their domestic market.

Polycentric approach is applied when a company, after employing the ethnocentric approach, identifies the need of their new market, and redesigns their product to meet the demand. This is achieved by establishing a subsidiary company in the new country, with employees who report to the managing director in the host country. Geocentric approach is applied when a country produces and markets their product in neighboring countries. This is achieved without establishing subsidiaries in the new countries, but employing different strategies for marketing in the new country.

Geocentric approach considers the entire world as a single market. This approach entails a company having subsidiary companies in different countries, and having employees in each country. The head office coordinates the day-to-day running of the branches, though each branch functions like an independently making its own policies and strategies.

1.1.2 Concept of export business

Investopedia, an online investments and business encyclopedia defines export business as a function of international trade where merchandise manufactured in one nation are dispatched to another country for future sale or trade. The sale of such merchandise adds to the producing nation's gross output. If used for trade, exports are exchanged for other products or services in other countries. Exports are one of the earliest forms of economic transfer and occur on a large scale between nations that have few restrictions on trade, such as tariffs or subsidies. Most of the largest companies operating in advanced economies derive a substantial portion of their annual revenues from exports to other countries. The ability to export goods helps an economy to grow, by selling more overall goods and services. One of the core functions of diplomacy and foreign policy within governments is to foster economic trade in ways that benefit both parties involved. Exports are the most crucial component of a country's economy. Not only do exports facilitate

international trade, they also stimulate domestic economic activity by creating employment, production and revenues (Investopedia, 2016).

1.1.3 Concept of branchless banking

Lyman et al (2008) postulate that branchless banking involves all of the following elements: Use of technology, such as debit or credit cards or mobile telephones, to identify customers and record dealings electronically and, in some cases, to allow customers to initiate transactions remotely. Use of third-party outlets, like post offices and small retailers, that act as agents for financial services providers and that enable customers to perform functions that require their physical presence, such as cash handling and customer due diligence for account opening, Offer of at least basic cash deposit and withdrawal in addition to transactional or payment services, Backing of a government-recognized, deposit-taking institution, such as a formally licensed bank, Structuring of the above so that customers can use these banking services on a regular basis and without needing to go to bank branches at all, if that's what they choose (Lyman et al, 2006). Branchless banking offers a great potential to enable banking services to reach underprivileged people in society who currently are out of the reach of conventional bank branch networks. Similarly, branchless banking also lowers the cost of delivery, including costs both to banks of building and maintaining a delivery channel and to customers the costs associated with accessing these services (e.g., travel or queuing times)

1.1.4. Competitive advantage

According to Porter (1985), competitive advantage is the capability to earn revenues on ventures steadily above the average for the industry. This means that competitive advantage is attainable if a company implements a value-creating strategy that is not at the same time being employed

by any current or potential rivals. This is be interpreted to mean that an unrelenting competitive advantage is attained from strategic assets. Competitive advantage is thus not dependent on such bases as natural resources, technology or economies of scale since these are very easy to emulate. Rather, competitive advantage is, according to the resource base view, reliant on the treasured, uncommon, and difficult-to-copy assets that are found within any entity (Stiles and Kulvisaechana, 2004). This group of assets can be said to be what Stewart (1997) said to be “invisible assets” which in real sense is intellectual resources.

Porter (1991) argues that, the competition strategy of any business is to pursue a competitive position in a particular business setting or to construct up a lucrative, steady market position by drawing on several aspects that are critical to being competitive in any business sector. It then follows that, both business type and competitive strategies are two fundamental points to be considered by executives in any market economy. When a high-value policy of a firm cannot be copied or replicated efficaciously by a rival, the policynourishes the business with a source of sustainable competitive advantage (SCA). Oliver (1997) states that both assets and institutional investment are indispensable to creating an SCA. The capability-based view of the business also moves a step closer to understanding how businesses advance and sustain their sources of competitive advantage. Therefore, for any enterprise to be guaranteed a viable and sustainable growth, it must identify its competitive advantage variables and effectively harness the variables for maximum rewards.

1.1.5 Horticultural farming in Kenya

Horticulture farming is the cultivation in large scale of vegetables, fruits and flowers for export and local market. The horticulture industry in Kenya has exhibited monumental growth in the

agricultural sub- sector pushing it to third place in terms of earnings from foreign exchange coming right after tourism and tea

The weather conditions in Kenya are favorable for the growth of tropical crops and the conditions include the hot and wet climate, while the cool and wet conditions prevailing in Kenya Highlands especially in areas like Limuru favors the growth of temperate crops like plums, pears, apples and grapes. Rich Fertile volcanic soils are boosted with fertilizers that favor the growth of a variety of crops. There is a high demand for the products both locally and internationally that has led to the rapid development of the industry.

Multinational companies have heavily invested in Kenya consequently, the country has witnessed exponential growth and expansion of horticulture especially in the production of fruits and vegetables e.g., in Thika the Del Monte Company farms large tracts of land and exports its produce to the world. In Nakuru there is the Kabazi Cannery Company and in Lake Naivasha area there is the Sulmac Ltd. and Oserian Development Company trade in the flower segment of horticulture farming.

With assistance both technically and financially from friendly countries e.g. Germany through their agency German Agricultural Team (GAT) it has boosted the speed of agricultural development from 1965 until today. On the other hand, farmers work in efficient marketing structure handled by the Horticultural Crops Development Authority (HCDA). Most markets are easily reached by road and air. The government of Kenya through its export promotion drive is encouraging the diversification of export crops with a the single minded aim of extending the country's export base.

1.1.6 Kenya Commercial Bank

KCB dates back to 1896 when its forerunner, National Bank of India opened a branch in the coastal city of Mombasa. In 1904, the bank broadened its operations to include a branch in Nairobi, which at that time had been made the center of operations for the existing railway line to Uganda. Grindlay's Bank merged with the National Bank of India to form the National and Grindlay's Bank, in 1958. In 1963, Kenya attained its independence and the Government of Kenya obtained 60% ownership in National and Grindlay's Bank with the aim to take banking close to Kenyan people. In 1970, the Government of Kenya obtained 100% of the shares to take the reins of the biggest commercial bank in Kenya at that time. National and Grindlay's Bank was rebranded to Kenya Commercial Bank. In 1972, KCB bought Savings and Loan (K) Ltd which specializes even to date on mortgage finance.

Kenya Commercial Bank offers several goods and services that favor horticulture farmers. These include branchless banking, farmer's account, mavuno account. Branchless banking enables customer to benefit from financial services outside the bank branches without going to the banking hall. Agency banking is another aspect that brings banking services closer to the people. In order to achieve Vision 2030, Kenya's financial sector is expected to grow, develop, explore, and implement innovative models that will deepen its support to the country's savings and investment growth. Agency banking helps in reducing costs particularly in regions with fewer customers and low volumes of transactions, which in turn leads to an increase in returns from additional investment, interest, and fee income. Agent banking also improves indirect branch productivity by reducing congestion in the branches.

The Kenya Commercial Bank offers internet banking, with services such as I-Bank that enhances customer service delivery channels and faster accounts access through the internet. The internet

has improved transactions and gradually eliminates the clogging experienced from all over the customer business. This in turn has enabled the customer find more time to engage in other profitable business ventures, while conducting their banking transactions at their convenience.

Mobile Banking is a service where customers are able to deposit or withdraw their money using their mobile phones, and buy airtime using the money in their account. The bank offers Automated Teller Machine services. Kenya Commercial Bank has over 200 Automated Teller Machines in Kenya where customers are able to deposit or withdraw their money at any time they want to. The KCB ATMs are also visa enabled making it easier for customers to access their money locally and internationally.

1.2 Research Problem

A firm can gain competitive advantage at the marketplace by leveraging on its capabilities thus influencing a firm's marketplace success (Porter, 1985). Competitive advantage is where a company's position is more superior in relation to its competition in any of the multitude of functions or activities performed by the company. Superiority means that the firm performs a given function distinctly from the way other firms perform the same function (Rumelt, 2003)

There are underlying set of characteristics which give rise to competitive forces in industries are fundamental economic and technical. Firms are able to attain competitive advantage within the industry through the choice of strategy. Porter (1985) explained that, strategy if well implemented could lead to a firm's improved operations and competitiveness. Survival and growth of a firm is therefore dependent on strategy and the competitive advantage it derives from its capabilities. The business market has become extremely competitive and businesses and companies need to draw much attention in maintaining loyal customers by creating and developing strong relationship due to benefits enjoyed and attracting new ones for their

outstanding products and conveniences. As banking becomes more competitive, commercial banks have now recognized the importance of retaining current customers and recruiting more customers. Other banking institutions have started different activities to improve customer satisfaction such as branchless banking, where customers do not have to visit a bank to do their banking but they can do their banking from any place they wish to. When customers' needs are satisfied the company benefits by attaining low costs which results in customer retention, instead of taking on fresh ones particularly within prime competitive markets.

One of the strategies the banks are using to remain competitive in the market is the use of technology hence the development of branchless banking services. Whether a bank wins or loses in the market, it is directly attributed to its customer satisfaction strategy and the proficiency with which the strategy is implemented and executed. The implementation and executing strategy are thus the core management functions. To effectively implement Customer Satisfaction strategies, respect for customer values and demands is critical (Olson et al, 2005). This can only be achieved by identifying the needs of customers which are changing every day because of technology and therefore a bank needs to change so as to meet the needs of the customers or else the customers will move to other financial institutions offering better services.

Despite formulation and efforts made in improving banking services in Kenya Commercial Bank, there has been scanty information on branchless banking adopted in the banks. A number of scholars have researched on banking in banks but there has been no known study that has focused on benefits of branchless banking to horticultural farmers in the country. Kamanda (2006) undertook a research on KCB with the intention of determining the factors that influence its regional growth strategy. His research however did not look in to the issues on branchless banking. This study seeks to find out how branchless banking services in Kenya Commercial

Bank have assisted horticultural exporters in Kenya. This study sought to answer the question: What is the role of KCB in supporting Horticulture farmers gain competitive advantage in Kenya?

1.3 Research Objectives

It is to determine the role of Kenya Commercial Bank in supporting horticultural farmers gain competitive advantage in Kenya.

1.4 Value of the Study

The research will be important to both the management and staff of Kenya Commercial Bank and other banks in Kenya, as they will gain insight on how branchless banking services have been beneficial to horticultural exporters on Kenya. This will influence banks competitiveness in the competitive market, retain customers, enhance customer loyalty, and attract more customers.

The study will be important to the government as it will help the government in attaining it vision 2030 and also encourage the public in using branchless banking especially those in the rural areas who cannot be able to access banks in their area. The study will also help other institutions dealing with international trade and exporting their products to use branchless banking because it reduces costs and helps save on time when doing payments.

To the academicians they will use the findings of the study as a base for further research on branchless banking in Kenya. The public sector will also benefit from the findings as it will broaden their understanding on branchless banking in Kenya and its benefits in their daily lives

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter shines a spotlight on all information in the subject of international business in response to changing business environment. Ancillary sources of information, which include journals, books, and web-articles, which contain previously done research work on the research topic have been scrutinized. The information collected is of great value to this research as it forms a foundation for the observations that were observed during the course of this research which are in tandem with the research objectives.

2.2 Theoretical foundation

All commercially viable transactions which include individual and governmental sales, investments, logistics, and haulage, that are done across regions, countries across their geographical borders comprise what is referred to as International business(Akrani, 2011). Privately held companies usually carry out such transactions for revenue. On the other hand, governments undertake them for turnover and also for political motives.Purposes of international business comprisesalesincrease, resource procurement, risk minimization, and diversificationrevenue streams (Dermish, 2015). The different kinds of processes include imports and exports such as service imports and exports, export and import of tangible products. More often than not theses exports and imports represent any nation's most significant international economic transactions (Sørensen& Madsen, 2012). International trade covers many facets across diverse nations. There are many theories in existence on international trade. This paper chooses to focus on, factor proportions theory, international product life cycle, and national competitive advantage as they adequately inform the study aims and objectives.

2.2.1 Factor proportions theory

The Heckscher (1919) and Olin (1933) (H-O) theory highlights on exporting products that use locally available factor bequests extensively, and import goods made from locally uncommon factors. In this case, patterns of trade are determined by the difference in factor endowments, rather than productivity (Shan, 2005). According to this theory, countries produce and export goods whose resources are plentiful, and consequently inexpensive, and import goods that need inputs that are in inadequate supply (Saifee, 2015). This means that a country that has an abundance of labor, thus capital abundant, should produce and export the product that is labor intensive, thus capital intensive.

Kenya has a high population, thus is labor abundant and thus capital intensive. Kenya Commercial Bank takes advantage of this by using the available agents, and creating opportunities for other agents to open units where people can access their money.

2.2.2 Product life cycle theory

This theory holds that any given country will begin to export its produce, and later move to overseas direct investment as the merchandises moves through their life cycle, due to changes in increase in sales as a product matures (Ivatury, 2008). The challenge in this theory is that it upsets the course and movement of imports and exports, and is affected by globalization and integration of economies. Moreover, some merchandise is not characterized by stages of maturity. In addition, the theory is most suited for technology based products, and is relevant to mass produced goods.

2.2.3 National competitive advantage

Porter (1990) initially explained national competitive advantage (NCA) as essentially an appraisal of how competitively any country takes part in international markets. He offered a diamond-shaped illustration that summarizes the framework of four fundamental elements that have the ability to amend four components to become more competitive. These four components are given as; availability of resources, information used in deciding which opportunities to pursue for the firm, aspirations of persons in firms, and innovation and investment strain on firms.

2.2.3.1 Factor Conditions

Wide-ranging sets of aspects that contribute to making any country competitive are commonly known as factor conditions. These aspects usually range from anything like human capital and material resources to infrastructure and the value of research at local universities. A country may have an abundance of some of these aspect conditions for example cheap labor and large mineral deposits but ultimately it is the use of these factors that is an imperative than their mere existence. Correspondingly, if any given nation lacks any given factor, innovation comes in handy to compensate for it, which in most occasions leads to an increase in NCA (Porter, 1990).

2.2.3.2 Demand Conditions

Demand conditions are the domestic demand of any given product or service from a particular company. Domestic demand is however, governed by several dynamics, which include client desires and requirements and a business's capability and expansion rate, as well as the implements at hand to share home inclinations with international markets. Demand conditions are imperative since NCA will occur when home demand overshadows international demand,

since firms have the inclination to allocate more time and space to developing manufactured goods that are in demand domestically rather than out of the country (Porter, 1990).

2.2.3.3 Related and Supporting Industries

Any given country will have a higher degree of NCA if its internationally competitive contributing firms are thriving and result in the success of its associated and auxiliary firms. Usually the success of competitive supplying industries always promotes innovation and globalization of other closely affiliated industries (Porter, 1990).

2.2.3.4 Firm Strategy, Structure, and Rivalry

The founding, structure, and the administration of domestic companies adjudicate local competition consequently leading to the variability of NCA. Explained further, this condition is best put as the situation where many nations' firms differ due to the cultural inconsistencies from one country to the next. Firms that are family-owned or have a family oriented -business organization under normal conditions perform in a different way from publicly quoted firms when it comes to national and transnational competition. Additionally, domestic competitiveness is extremely beneficial to NCA because high local rivalry incentivizes innovation and progress, consequently promoting a national competitive advantage (Porter, 1990).

2.2.4 Empirical review

About 2.6 billion people in the world do not have access to formal banking services. This is in spite of the expanse of the mobile phone technology. Branchless banking takes advantage of the real time banking offered by mobile phones. This is seen as a solution to offering banking services to the poor. There exists a high consumer demand for convenient money remittance, payments, and savings services. For instance, in Kenya, M-PESA, the most successful mobile

money transfer, provides money remittance services coupled with the equivalent of a small bank transactions to over 18 million customers through mobile telephones and a network of close to 18,000 agents. In Brazil, marginally slightly over 170,000 agent points, delivering a broad spectrum of financial services on behalf of banks, process well over 2.5 billion transactions every year, with this statistics going up every year as acceptance levels of these forms of services increase. Wal-Mart Bank in Mexico at present is using well over 1,000 Wal-Mart stores (totalling way over 18,000 points of sale) as agents to offer its customers financial services that include deposits and payments (Ivatury, 2008).

Such success stories enhance the need for financial institutions to advance the use of technology to provide branchless banking to its customers. In many emerging economies, steady economic progression in the last two decades has delivered new fortunes and the need for wide ranging pecuniary services while liberalization has resulted in scaled up levels competition in retail financial services in numerous nations. Technology has played a big role in this expansion (Dias, 2010). Information technology has predominantly helped to enable growth through more non-conventional banking channels, such as ATM, agency banking and mobile money transfer.

Analysts have confirmed that in addition to making it easier to collect deposits, agents are greatly reducing costs for commercial banks. This development could be arising due to the simple reason that many of the existing and running channels have already been taken up by telecommunication firms, who have depended on these agents to speed up the uptake of the offered mobile money solutions such as M-Pesa, Yu-Cash, Orange Money and Airtel Money. Such uptakes encourage institutions such as the Kenya Commercial Bank to advance branchless banking, to enhance the reach of financial services to its clientele.

Additionally, The Central Bank of Kenya (CBK) has been encouraging financial institutions to share infrastructure since by doing so economies of scale are gained while expenses are significantly reduced through increased use of ICT, agency, and mobile banking (CBK, 2009). With such support, the Kenya Commercial Bank can only take advantage of the reduced costs of transacting, by using the available agents offered by mobile phone companies, and to enjoy the subsidies of operating the agencies (CBK, 2009).

There is also an arrangement where the tied-agents who have contracts with a particular bank but who provide services to clientele third party financial institutions with which acquiring banks do not have a direct contract with so long as the agent transactions for these other third party financial institutions are managed by the contract between the agent and its own acquiring bank and a separate agreement between the issuing bank and acquiring banks (CBK, 2009). This has been enhanced by the use of Visa cards, where a client can make use of any banks ATM to withdraw money from their account, even when it is not hosted in the bank owning the ATM. This has made money accessible to clients in different locations.

2.3 Branchless banking

Branchless banking is defined as a distribution channel used to deliver financial services without customers walking to the banking halls to get the services. This is done through the use of the Internet banking, Automated Telling Machines, Point of Sale devices, Electronic Funds Transfer Point Of Sale devices, and mobile phones as innovations to convey its banking services through a grouping of distribution channels that include stationary bank branches, mobile bank branches, ATMs, KCB Mtaani bank agents, Online banking, and Mobile banking (Alexandre, 2011).

Branchless banking enhances the presence of traditional banking, which had the advantage of scale, but lacked presence in some remote areas. It reduces the channel cost of banking infrastructure. This is enhanced by the increasing number of people with mobile phones, and the number of people operating agents (McKay, 2013). Kenya Commercial Bank has employed this channel to reach new clients, and still reduce the cost of operation. It enables clients to access their money universally. Among the challenges faced by horticulture farmers in Kenya as postulated by HCDA in its annual report of 2013 include; Un-competitiveness of the sub-sector due to high cost of farming agro-inputs, agro-processing and marketing logistics, Un-serviced loans due to the Government and increased requirements of securities for funding agricultural related enterprises, Limited capital and lack of affordable credit to horticultural farmers and finally poor and inadequate infrastructure mostly at the rural areas with high productivity all which can be adequately addressed by branchless banking.

2.4 Dimensions of branchless banking

Appreciating customer experience is of utmost importance since focus groups and surveys may not be well-matched to understanding client needs and wants. This is what drove Kenya Commercial Bank into operating branchless banking to meet the needs of clients, especially those in remote areas that do not have the services of conventional banking (Rotman, 2012). Agency banking is one of the many facets of branchless banking. This uniquely presents the ability for any financial institution to delegate customer facing activities to an agent who is tasked with representing it. This offers a momentous opportunity in connecting agents in real-time to the financial establishment they represent. In this way, electronic registration to new services can be processed instantaneously (Alexandre, 2011). Moreover, a customer is able to

credit cash in their account at these locations and can see their accounts credited securely and immediately.

Another dimension is mobile money services. Mobile money service enables people who have not banked before open an account using their mobile phone which they run from the convenience of their mobile phone, and are able to transact: receive and make payments, and check on their account balances, among many other varied functions. Registration for the services is done conveniently at small local stores, close to where they reside or work. They can also deposit or withdraw cash at these cash merchants (McKay, 2013).

2.5 Challenges involved in carrying out branchless banking

One of the challenges of branchless banking is Regulatory challenges this is due to the system being over-powering and need detail scrutiny to ensure validity of transactions. There are also different tiers in terms of bank operations, and challenges in aligning branchless banking strategy with the regular banking strategy. Infrastructure is another issue, as it is expensive to establish and maintain (Alexandre, 2011).

There has been minimal research done on branchless banking, making it impossible to know if the strategy will work in other countries. This is especially the case for Kenya Commercial bank, which has operations in other East African countries. For instance, the success of mobile money transfer in Kenya has not translated in other regional countries. In addition, the security of transactions is a major concern (Dias, 2010). This is because of cases such as agent fraud.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

It discusses the research design, methodology applied, sampling procedure, data collection and technique used to analyze data in this study. The discussion in this includes study limitations and other pertinent issues related to the study at hand..

3.2 Research Design

This can be described as the structure of research (Kothari, 1985; Robson 2002). This is the overall strategy that one chooses to integrate the different components of the study in a coherent and logical way, thereby, ensuring effective addressing of the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data (De Vaus, 2001). This research was conducted as a case study. A case study is an in-depth study of a particular research problem rather than a sweeping statistical survey or comprehensive comparative inquiry. It is often used to narrow down a very broad field of research into one or a few easily researchable examples. A case study was preferred because it would enable the researcher to have an in-depth understanding of application of branchless banking at the Kenya Commercial Bank

3.3 Data collection

Data was collected using an interview guide which was administered to top tier staff at the Kenya Commercial Bank Central region which comprises of the former Central, Rift Valley and parts of the Eastern Provinces of Kenya. This region was selected since it has the highest number of horticulture farmers in Kenya. This region has 38 KCB branches and 10 branches were purposively targeted for the research. From each selected branch the branch manager and business banking manager were interviewed. The selected branches were Murang'a branch,

Karatina branch, Kangema branch, Nyahururu branch, Naivasha branch, Nakuru branch, Eldoret west branch, Eldoret east branch, Machakos branch and Wote branch.

3.4 Data Analysis

Nearly 90% of the data collected was in this study was qualitative in nature and a qualitative data checklist was developed. The checklist was clustered along the main themes of the research to ease consolidation of information and the interpretation of information gathered and which was then analyzed through content analysis. Content analysis is the process of analyzing verbal or written communications in a systematic way to measure variables qualitatively (Babbie, 1998). Data analysis for the quantitative data collected was conducted using descriptive statistics.

CHAPTER FOUR: ANALYSIS AND DISCUSSIONS

4.1 Introduction

The objective of the research was to determine the role of Kenya Commercial Bank in supporting horticultural farmers gain competitive advantage in Kenya. The chapter presents analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

Respondent were asked to indicate the duration which they had been in KCB and it emerged that 50% of them had been in KCB's employ for between 7-9 years while 38% of them indicated they had been with KCB for between 4 -6 years. This was thought to be favorable for this research because the respondents have had a long experience with KCB hence they were more versed in the research subject area making the quality of their responses invaluable. Therefore, the researcher concluded that the respondents were able to answer appropriately the research questions contained in the interview guide.

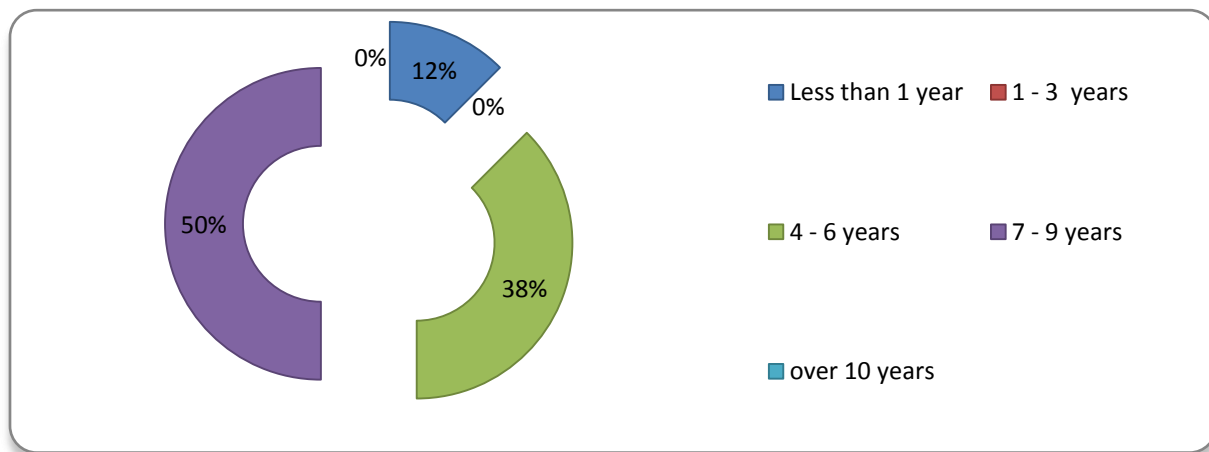


Chart 1: Respondents length of time in KCB

The respondents were split in two, with 50% being Branch Managers and the other 50% being Business Banking Manager. These two categories were chosen because it was thought that given their high positions in the bank they would be more familiar with the daily goings on in the KCB policy-wise and otherwise.

4.3 Profile of KCB

Among the banking services that were cited as being offered by Kenya Commercial Bank to its clients by the respondents were; Insurance brokerage services, custody services, long term and short term loans (personal and business), saving accounts, credit and debit cards, customer care service, issuance of ATMs, clearance of cheques, issuance of statements to clients, retail banking services, branchless banking services, mortgages, mobile banking services. The respondents were required to comment on their levels of knowledge on the above listed banking services which KCB offers and they gave a myriad of responses. According to the data that was captured 50% of the respondents indicated that the staff were very knowledgeable and a further 37.5% indicated that the staff was sufficiently knowledgeable on all services offered by KCB. This clearly shows that the staff at KCB is well versed with all services offered particularly branchless banking. The chart below captures these responses.

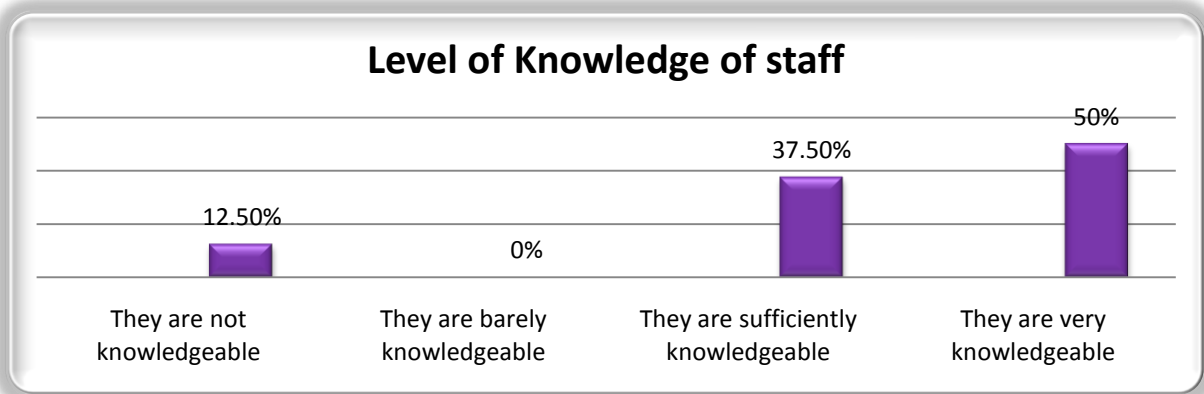


Chart2: Level of knowledge of staff

4.4 KCB and ICT

The world of ICT is highly dynamic with new innovations being introduced very frequently. With this in mind the researcher sought to know the ways in which KCB has taken advantage of these advances in technology in provision of services to its clients from the respondents and the list below details the responses that were given:

- a) Provision of an App for mobile banking,
- b) Integrating of most of its services into digital platform (i-banking)
- c) eQMS (Electronic Queuing Management Services)
- d) RTGS (Real Time Gross Transfer) for fast remittance of funds across the country
- e) SWIFT for international transfers.

Of interest to the research is the adoption of money remitting services across country (RTGS) and internationally (SWIFT) since this greatly enhances ease of doing business and particularly to horticulture farmers giving them competitive advantage. I-banking is another service that promotes ease of doing business since banking is completely online. What this means for horticulture farmers who embrace this technology is that whether it is paying for farming supplies, moving funds from one bank account to another or even across banks, checking on the status of payments into accounts held in KCB, all this is done completely hassle free on their computers which in turn brings ease in doing business thus gaining competitive advantage.

However when asked to name other ways in which KCB should integrate ICT in service delivery it was unanimous from the respondents that ATM's need more in their menus to allow for enquiries to be done via them as well as integration of Biometric Identity solutions in I-banking. This of course would translate in more people trusting i-banking since they would be assured of

the security of their monies across the web space which would lead to more clients taking up the said product.

4.5 KCB branchless banking services

The respondents were asked to put across the net effect of KCB turning to agency banking particularly to clients who are horticulture farmers and it emerged that agency banking assured clients faster, easier and more efficient service delivery since they can make transactions from previously distant and far to reach areas without necessarily having to visit branches. This in itself offers competitive advantage to horticulture farmers since the convenience of accessibility of funds in remote areas where farming usually takes place means that the farmers always have funds nearby for emergencies, quick payments and ease of salaries payment. As one respondent adequately put it agency banking has afforded financial inclusion to more clients particularly the farmers with the net effect that they have become more positive and more productive.

Another aspect of branchless banking is mobile phone banking. The researcher enquired from the respondents the net effect brought on by KCB collaborating with Telco's in provision of its services to its clients and key among the responses given was that banking has become easier since customers easily make the most out of their transactions by saving time and convenience afforded. The respondents also indicated that as a direct consequence of KCB collaborating with telecommunication service providers there has been an increase in their customer base as well as an upsurge of mobile friendly products offered to the clients, which has led to financial inclusivity of the previously unbanked population. One respondent noted that clients have become more knowledgeable on bank products because of these partnerships. Of interest to this research is the fact that banking has become more convenient and more accessible to horticulturists giving them competitive advantage

The respondents were required to state the advantages of KCB branchless banking to clients and they indicated that convenience was the biggest benefit offered to their clients followed by improved service delivery, cost effectiveness, time saving and 24/7 services availability. The foregoing clearly shows that any client of KCB definitely has competitive advantage. On the flip side though network downtime, which leads to systems failure, which hampers service delivery was listed as the biggest disadvantage of branchless banking. Safety of transactions particularly in i-banking was listed as another disadvantage of branchless due to isolated cases of hacking by tech savvy thugs. The other listed disadvantage of branchless banking was ineligibility of some clients due to old age at times and illiteracy.

4.6 KCB client's attitude to branchless banking

It emerged that KCB's branchless banking is very well appreciated by its clients since it offers a high level of convenience when respondents were asked to indicate their clients' attitude towards KCB's branchless banking services offered. It also surfaced that branchless banking was more loved by the younger clientele who are not averse to change and those that are fascinated by the changes in the ICT world. Client's attitude towards any product directly affects the acceptability of the new innovation in the market and thus with the clients of KCB largely exhibiting a positive attitude towards branchless banking then it is safe to make the assumption that it has been greatly accepted by clients and particularly horticulturists.

The respondents were asked to rate the uptake of branchless banking by their clients and it emerged that uptake levels are on an unprecedented level with all the respondents agreeing that the uptake has been either good or high. The chart below details their responses.

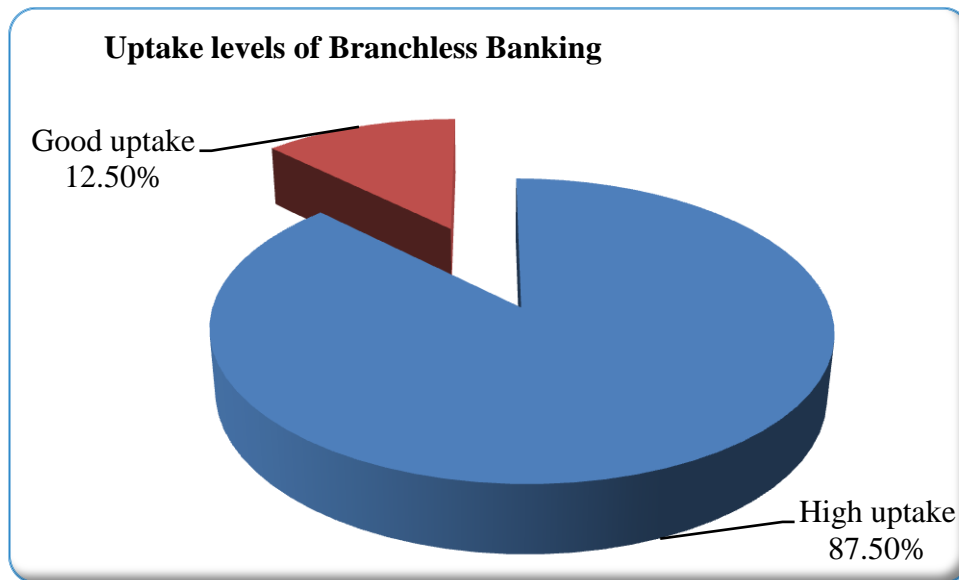


Chart 3: Uptake Levels of Branchless Banking

Uptake levels are directly proportional to the level of awareness of any program. With this in mind the researcher sought to find out the various ways in which KCB makes customers aware of the different branchless banking services available and the respondents who are key employees in KCB pointed out that policy-wise every measure has been put in place to push awareness to the public. Key among the measures that have been put in place is the placing of an employee tasked with championing of mobile banking and i-banking to their customers in every branch who is responsible for educating customers as well as guiding them on the usage of branchless banking and connecting them. Other than that, it emerged that KCB has rolled out an immensely impactful advertising campaign in both print and electronic media, outdoor communication media like billboards, mobile communication (short messaging service, SMS) to individual customers, face to face advice from staff, and through social media outlets like Facebook, Instagram and Twitter.

The researcher sought to find out whether these interventions put in place by KCB to publicize its branchless banking options were successful and all respondents replied in the affirmative. One enthusiastic respondent indicated that to him the interventions were a success because he could hear advertisements in vernacular radio stations hence reaching all categories of KCB clients. The respondents were then requested to rate the success, the outcomes are detailed in the chart below

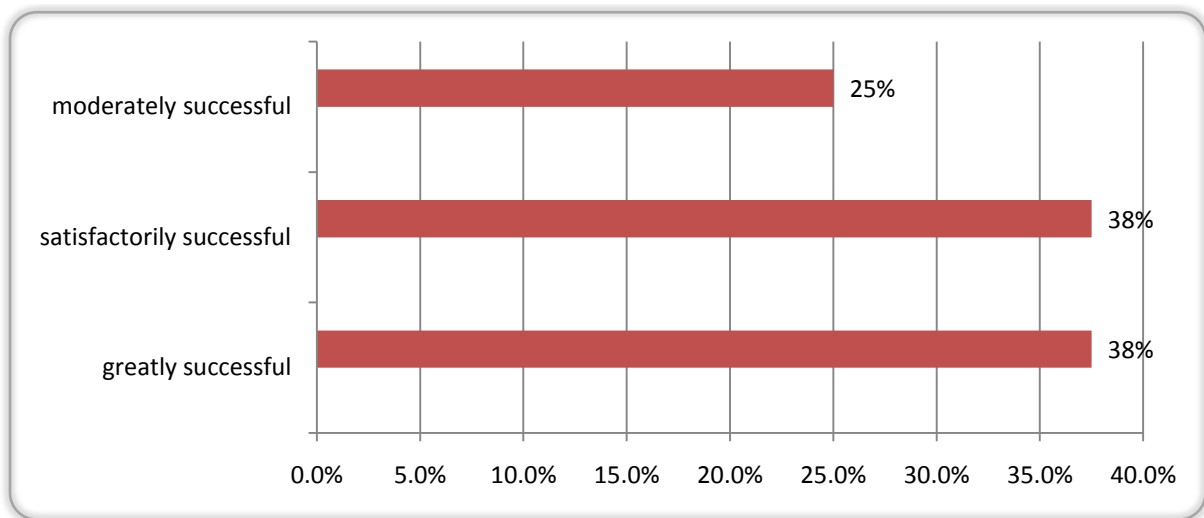


Chart 4: Rate of Success

The researcher sought to know whether the branchless banking initiatives undertaken by KCB were user friendly to all customers and it emerged that the product development teams that worked on the different initiatives did a superb job in simplifying the products so that they were very users friendly. However it was realized that many of the older clients were having problems with them which is quite expected because with any new innovation the older demographic always shows the least flexibility in adopting them. Of particular interest to this research is the fact that the initiatives are very user friendly making it easy for horticulturists to access and use them.

4.7 The future of branchless banking

The research sought to know from the respondents what they envisioned the future of branchless banking to be to them and they all unanimously agreed that branchless banking is the way to go, particularly in respect to the direction in which the world economies are headed, the cashless way. It was also noted that everyone is becoming techno-savvy and in future everyone will embrace it in its various aspects and hence branchless banking will become even more seamless and better as innovations emerge.

4.8 Discussion

This study has revealed that KCB is giving its clients and particular horticulture farmers a distinct competitive edge through provision of branchless banking options. It emerged that horticulture farmers are reaping immense benefits from branchless banking options since clients are assured of faster, easier and more efficient service delivery since they can make transactions from previously distant and far to reach areas without necessarily having to visit branches and at all times. This has the direct effect of affording farmers more time to invest in their day to day running of their farms as opposed to the previous scenario where one had to spend lots of time in banks making basic transactions.

It has also emerged that the clients of KCB have embraced wholly this initiatives that offer branchless banking with the respondents stating that the uptake of these options has been tremendous.

CHAPTER FIVE: SUMMARY, CONCLUSION ANDRECOMMENDATIONS

5.1 5.1 Introduction

The data collected, discussions, conclusions, and recommendations that were made are as follow, and analysis was based on the objective of the study.

5.2 Summary

The summary was drawn from the results and findings of the study. It is based on the objective of the research on the role of KCB branchless banking in giving competitive advantage to horticulturists who are KCB clients. When understanding competitive advantage value proposition is greatly important. If it is affective it can produce a competitive advantage in either the product or service. Branchless banking is a way to go not only for KCB clients but particularly horticulturists due to the competitive advantage it affords them in terms of enhanced service delivery, cost effectiveness, time saving and round the clock service availability. Money remittance services across country (RTGS) and internationally (SWIFT) is of great value to horticulturists whether it is the sending or receiving of funds globally since this greatly enhances ease of doing business. I-banking is another service that promotes ease of doing business since banking is completely online and at the convenience of the farmer. This affords horticulturists competitive advantage.

The benefits afforded to horticulture farmers by using branchless banking far overstep the benefits of using the standard banking model and with this in mind KCB has rolled out a big campaign highlighting the availability of branchless banking with far reaching results. As the

research has unearthed clients have developed a very positive attitude towards this innovation with the end result being that many clients including horticulturists have taken up this initiative.

KCB in conjunction with two companies in Kenya namely Amiran-Kenya limited and Hortipro Company Limited designed a horticulture product with the sole aim of supporting horticulturists by offering loans for infrastructure development, helping with soil sampling and tests and finally crop insurance covers through KCB Bancassurance. This product coupled with the seamless nature of KCB's branchless banking help in giving horticulturists that competitive advantage over their peers in the industry.

5.3 Conclusion

This study has concluded that KCB through its various initiatives is playing a big role in giving horticulturists competitive advantage. Porter (1985) defined the two types of competitive advantage an organization can achieve relative to its rivals: lower cost or differentiation. This advantage derives from attributes that allow an organization to outperform its competition, such as superior market position, skills, or resources. Differentiation from Porter's stand point builds and sustains competitive advantage over ones rivals, which is what KCB is offering its horticulture farmers and clients as a whole.

5.4 Recommendations

The future of banking lies primarily on branchless banking. This being said all efforts should be made to ensure that it is simple to use for clients so that the older generation is not is left behind in this wave of innovation without compromising on the security of the innovations. Enhanced security features like biometric identification should be incorporated particularly in regard to i-banking to further assure clients of the security of their funds.

5.5 Limitations of the study

Due to limited resources the number of respondents represented is relatively small; this was further exacerbated by a low response rate. The interviews were held in different parts of the country and this presented logistical challenges. There were difficulties in getting respondents for the interviews because of their busy schedules. On the other hand some of the respondents did not ascribe much importance to the research since they thought it being academic in nature it did not merit too much of their time and thought

5.6 Further areas of research

There is need to carry out a survey on KCB clients who are horticulture farmers which will offer a more elaborate picture on the competitive edge afforded to them as a result of adopting the branchless banking options from KCB.

It will also be important to carry out a comparative study with other banks that have been successful in offering branchless banking to customers. This will assist KCB to benchmark for best practice.

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APPENDIX 1



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 5/9/2016

TO WHOM IT MAY CONCERN

The bearer of this letter WINFRED WANJIKU NJIGUA

Registration No. DG1/72921/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II

INTERVIEW GUIDE FOR BANK STAFF

1. How long have you been working with Kenya Commercial Bank? What is your role in Kenya Commercial Bank?
 1. Kenya Commercial Bank offers several banking services to its clients, kindly name them
 2. In your opinion how knowledgeable is the staff of KCB on the different banking services offered?
 3. In the ever changing world of ICT, in which ways has KCB taken advantage of the advances in technology in provision of services to clients? In what other ways would KCB integrate ICT in service delivery?
 4. What would you say has been the net effect of KCB turning to agency banking particularly to clients who are horticulture farmers?
 5. What would you say has been the effect of KCB partnering with Telco's in provision of its services to its clients?
 6. What is/are the advantage(s) and disadvantage(s) using branchless banking services to KCB bank clients?
 7. What is the attitude of clients towards KCB's branchless banking services offered? Kindly comment on the branchless services uptake and acceptance by your clients.

8. In which ways does KCB make customers aware of the different branchless banking services available?
9. Do you think KCB has succeeded in making customers aware of the different branchless banking services available as intended? And to what extent would you rate the success?
10. In your opinion are the branchless banking services offered by KCB user friendly to all your customers? And in what ways do you think they can be made more users friendly to increase uptake by your clients?
11. What is the future of branchless banking in your opinion?