STRATEGIC RESPONSES TO GLOBAL CHALLENGES BY COMMERCIAL BANKS IN KENYA

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May 2009

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DECLARATION

This project is my original work and has not been presented for any award in any university.

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ABSTRACT

The commercial banks in Kenya are now operating in a more competitive business environment than before, and the importance of strategic management cannot be overemphasized, because it determines how an organization reacts to competition and other business environmental challenges. The way a commercial bank reacts strategically, to this challenges will determine its survival and even prosperity.

The purpose of this study was to find out the kind of challenges that the Kenyan commercial banks face from competition. This study also documents the strategic responses that these banks have put in place and how they have performed on the basis of these responses.

The study was conducted in Nairobi where all the commercial banks have their head offices. The convenient or purposive sampling method was used in this study. Data for this study was collected by means of questionnaires, observation and interviews. The quantitative data was analyzed using descriptive statistics like the measures of central tendencies, frequencies and tables and with the help of the Statistical Package of Social Sciences the analyzed data is presented in charts, graphs and cross tabulations.

The findings of this study reveal the nature of challenges faced by the commercial banks in Kenya as a result of competition. The study findings also indicate how these banks have responded to these challenges and the success of these strategies.
ACKNOWLEDGEMENTS

I wish to sincerely thank all the people who have in one way or the other contributed to the compilation of this report. Specifically, I wish to acknowledge the invaluable support and guidance accorded to me by Mr Chrispen Maende and members of the Business Administration Department of Kenyatta University on whose input I have had to rely on to see the finalisation of the project.
DEDICATION

I dedicate this report to my family for the unwavering support accorded to me and the sacrifices made in the course of my studies.
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LIST OF ACRONYMS

CBK - Central Bank of Kenya
GDP - Gross Domestic Product
SPSS - Statistical Package for Social Sciences
KRA - Kenya Revenue Authority
WTO - World Trade Organization
COMESA - Common Market of Eastern and Southern Africa
PTA - Preferential Trade Area
AGOA - American Growth Opportunity Act
PEST - Political Economic Social Technological
IT - Information Technology
BPR - Business Process Reengineering

OPERATIONAL DEFINITION OF TERMS

Response – An individual’s behavior provoked by a situation or event called stimulus.

Strategy – The broad program for defining and achieving an organization’s objectives; the organization’s response to its environment over time.

Strategic Management – The management process that involves an organization engaging in strategic planning and then acting on those plans.

Competitiveness- This is the relative standing of one company against other companies

Corporate strategy- This is strategy formulated by the top management to oversee the interests and operations of multiline corporations.

Culture – This is the complex mixture of assumptions, behavior, myths, metaphors and other ideas that fit together to define what it means to be a member of a particular society.

Organizational culture- This is the set of important standings such as the norms, values, attitudes, and beliefs that are shared by the organizational members.

Effectiveness – This is the ability to determine appropriate objectives; “doing the right thing”.

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Efficiency – The ability to minimize the use of resources in achieving organizational objectives; “doing things right”.

Management – The process of planning, organizing, leading and controlling the work of organization members and of using the available organizational resources to reach stated organizational goals.

Innovation – The translation of a new idea into a new company, a new product, a new service, a new process or a new method of production.

Organizational performance – This is the measure of how efficient and effective an organization is – how well it achieves appropriate objectives.

Re-engineering – This occurs when an organization conducts a significant reassessment of what it is all about.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
The banking industry is a vital part of any country’s financial system because it provides a major source of financial intermediation and plays a major part in a country’s payments system. Evaluating banks’ overall performance and monitoring their financial condition, of which assessment of efficiency is a key part, is important to depositors, owners, potential investors, managers and regulators. If financial institutions become more efficient, we might expect improved profitability, greater amounts of funds intermediated, better prices and service quality for consumers, greater safety and soundness and better returns to shareholders. Bank efficiency can be regarded as socially beneficial, since it minimizes the costs of financial intermediation, i.e., reducing the wastage of real resources due to the transfer of funds from savers to producers. Consequently policy makers are interested in the adoption of operating practices and market equilibria consistent with maximum productive efficiency (Resti, 1997).

The banking system acts as the medium through which national savings are mobilized for development. The banks do this by providing safe custody for depositors’ money and disbursement of loans for development. Through this system, national savings are accumulated and invested in productive sectors of the economy, leading to national wealth creation in a broader context. Indeed, the bulk of the money that banks give as loans to investors is from such depositors. It is on the basis of high level of trust that depositors keep their money in the bank hoping to collect it at their convenience whenever need arises. The mobilization of savings is crucial in national economic activities since it is these savings that are invested to spur economic growth. A high savings rate is therefore vital to the growth of any economy as it provides vital resources for investment.

1.2 Statement of the Problem
The growth of the Kenyan economy since independence has been accompanied by expansion and the diversification of the financial systems. This growth has been seen in the number as
well as the range of financial institutions and also in depth of financial intermediations. The changing banking environment has caused major restructuring in the industry. These changes come about as a response to decline in profits that started being observed in the early 1990’s (Kyalo, 2002).

Commercial banks in Kenya are now operating in a more competitive environment, than before the government introduced liberalization of the economy. There has been an increase financial services providers like the MFIs, Savings and Credit Cooperative Societies. Since the changing environment in which commercial banks in Kenya are operating has become more competitive, these banks have to position themselves strategically to remain on course as well as to achieve their vision and mission. The need to modernize equipment, adopt the latest information technology, develop human resources continuously, improve management styles and create efficient and low cost innovative services is a great challenge to the banks given dynamic nature of business environmental factors and competition.

1.3 Objectives of the study

1.3.1 General Objective

The objective of this study was to identify the competitive challenges facing commercial banks in Kenya and to establish the strategies that these banks had applied to respond to these challenges.

1.3.2 Specific objectives

1. To identify the challenges faced by commercial banks in the context of the changing competitive environment in Kenya.

2. To document the responses of commercial banks to the changing competitive business environment in the banking industry in Kenya.

3. To determine the success of these strategies.

1.4 Research Questions

1. What are the challenges faced by commercial banks in the context of the changing competitive environment in Kenya?
2. What are the responses of commercial banks to the changing competitive environment in the banking industry in Kenya?

3. Have the strategies employed by these banks been successful in responding to these competitive business environmental challenges.

1.5 Significance of the study

1.6 The study will be of benefit to the following groups: Firstly, policy makers in the banking industry in Kenya will know the challenges that affect them and how they can overcome these challenges.

Secondly, the Central Bank of Kenya as a regulator of banks will also find out the competitive factors affecting the banking industry in Kenya and come in to give direction or lay emphasis in regulation and supervision of all financial providers in Kenya and lastly, other researchers will use this study as a point of reference for future studies.

1.6 Scope of the Study

The scope of this study was the commercial banks with head offices in Nairobi. This study considered employees at top, middle and lower management levels in the banks. This was aimed at getting the strategies planned from the top management consisting of senior manager level and above who are the policy makers where we interviewed two from each bank.

Strategy implementation from the middle management consisted of managerial levels and above where interviewed for from each bank and lower cadre consisting officers level were also interviewed to assess the effectiveness of this strategies. Using the Central Bank’s records there are currently forty three commercial banks in Kenya. Taking any four managers from each bank gave a sample study of 172 respondents.

1.7 Assumptions of study

(i) That there would be 100% delivery of questionnaire to sample size

(ii) That there would be cooperation from the respondents

(iii) That there would be adequate financial resources and time
CHAPTER TWO
LITERATURE REVIEW

2.1 Historical Development of the Banking Sector

Banking as an institution is as old as authentic history. It is evidenced in ancient Greece, ancient Rome and as far back as 2000 BC, Davies, (2002). During the early Period, although private individuals mostly did the business, many countries established public banks either for the purpose of facilities commerce or to serve the government. The Bank of Venice established in 1157 is supposed to be the most ancient Bank. Originally it was not a bank in the modern sense, being simply an office for the transfer of public debt.

The drapers of Barcelona were by 1349 carrying on banking business, in fact already subjected to government official regulation, (Davies, 2002). This bank used to exchange money, receive deposits, and discount bills of exchange both for the citizens and for the foreigners. However most of the European banks now in existence were modeled on the bank of Amsterdam, founded in 1609. (Encyclopedia Britannica) English bankers in particular by 17th century had begun to develop a deposit banking business, and techniques they evolved were to prove influential the world over. This was heavily attributed to the London Goldsmiths, who used to receive their customer's valuables and funds for safe custody and issue receipts acknowledging the same.

Banking in those days largely meant money lending, and they did not know the complicated mechanism of modern banking. It was found that when money was deposited by a number of people with a goldsmith or a scrivener a fund of deposits came to be maintained at a fairly steady level. The result was a fund of idle cash that could be lent out at interest to other parties. About the same time, a practice grew up whereby a customer could arrange for the transfer of part of his credit balance to another party by addressing an order to the banker. This was the origin of the modern day check. Alongside this development, the London goldsmiths were busy coming up with the use of bank notes. The first bank to issue bank notes was actually the bank of Stockholm in 1661 (Shekhar, 1986).

One of the most important factors in the development of banking in England was the early legal recognition of negotiability of credit instruments. Before the advent of organized financial
institutions in Africa, traditional credit and mutual aid schemes as well as investment organizations existed in some forms. Traditional financial intermediaries included women's associations, men's associations and associations of friends (Harvey (1999)).

2.2 The History of Banking in Kenya

From the websites of Kenyan banks and specifically the websites of Central Bank of Kenya and Kenya Commercial Bank, the history of banking in Kenya can be grouped into three periods namely: The Colonial period being the period before independence and prior to 1963. The banking sector was characterized by foreign banks. A bank such as National Bank of India was opened in 1896 with the first branch in Mombasa. In 1958 it merged with Grindlays Bank of Britain and formed the National Bank and Grindlays Bank; The East African Community Period being the period after independence of the 3 East African countries. After gaining independence in 1963, the Kenya Government saw the need of forming banks and buying majority shares from the foreign banks. It is for this reason that the local Banks were formed, with the objective of helping Kenyans to access credit and control their economy after independence.

The Kenya Commercial Bank’s website narrated that in 1970, the Government acquired 60% share-holding in National Grindlays Bank and renamed it the Kenya Commercial Bank. Later, the shares were increased to 100% by 1976, to get full control of the bank. In 1968, the Cooperative Bank of Kenya was formed to serve farmers and cooperative societies (www.kcb.com 2004).

The three East African states had the desire to have independent monetary and financial policies. This led to the collapse of the East African Currency Board (EACB) in the Mid 1960s, which used to act as the central financial institution for the three countries. In 1966, the Central Bank was created to further the above desire. The Central Bank was formed to maintain price stability and foster liquidity, solvency and proper functioning of a stable market-based financial system. Its other functions include: Issuing notes and coins, provision of banking services to other banks, provision of banking services to Government, foreign exchange operation, executing monetary policy, supervising and regulating depository institutions, and assisting Government’s financing (www.centralbank.go.ke); Post East
African Community Period being the period after the break up of the East African Community in the mid 1960s. It covers up to the present period. There have been mergers between small banks to form larger banks. In the 1990s when Central Bank discouraged the operation of finance companies, most of them merged with their sister banks; for example the First American Finance merged with First American Bank of Kenya, while others like NIC transformed into banks. Some of the remaining foreign banks sold off their interests in Kenya; for example First National Bank of Chicago sold its shares to locals in 1987, who then renamed it First American Bank of Kenya. Banks such as the Commercial Bank of Africa were also formed in the same way. (www.fabk.com). According to the Central Bank, as of September, 2004, there were 43 commercial banks in Kenya; 7 public banks, 9 foreign owned with the rest being private local banks.

2.3 The concept of strategy
Strategy is a concept borrowed from the military; it means maneuvering troops into position before the enemy is actually engaged. Once the enemy is engaged, attention shifts to tactics, (Nichols, 2000). Strategy has been borrowed by business with troops being substituted with resources. Strategy is formulated by top management in an organization, it refers to important actions necessary to realize the organizations directions, and it therefore answers questions such as what should the organization be doing? What are the ends we seek? And how should we achieve them? (Steiner, 1979)

Strategy can also be defined as the framework, which guides those choices that determine the nature and direction of an organization (Tregoe and Zimmerman, 1980). This shows that it all depends on the products selected for offer, the markets in which they are offered, customers to be served and the geographical areas to operate in. Michel Robert (1993) advises business executives to base strategic decisions on a single driving force. Tregoe and Zimmerman identified nine driving forces while Michel Robert cited ten forces namely: products offered, market needs, technology, production capability, method of sale, distribution method, natural resources, size or growth, return or profit and market type.

Realized strategy is also seen when one takes a certain perspective and therefore takes an appropriate position as per the perspective. To achieve that position a carefully crafted plan is
put in place, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time (Mintzberg, 1994).

Corporate strategy is a pattern of decisions that determine and reveal: the company’s objectives, purposes or goals, produces the principal policies and plans for achieving those goals, defines the range of business the company is to pursue, the kind of economic and human organization is or intends to be and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities (Andrews, 1971).

Competitive strategy on the other hand is about being different or unique in the eyes of the customer, by deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1986). Porter continues to define competitive strategy as a combination of the ends for which the firm is striving and the means by which it is seeking to get there. He therefore embraces strategy as both a plan and position.

In summary strategy is all these: perspective, position, plan and pattern. Strategy is the bridge between policy or high order goals on the one hand and tactics or concrete actions on the other. Strategy therefore refers to a complex web of thoughts, ideas, insights, experience, goals, expertise, memories, perceptions and expectations that provide general guidance for specific actions in pursuit of particular ends. Strategy is at once the course we chart, the journey we imagine and at the same time, it is the course we steer and the trip we actually make. Even when we embark on a voyage of discovery with no particular destination in mind, the voyage has a purpose, an outcome and an end to be kept in view.

Strategy then has no existence a part from the ends sought. It is a general framework that provides guidance for actions to be taken, and at the same time it is shaped by the actions taken. This means that the necessary precondition for formulating strategy is a clear and widespread understanding of the ends to be obtained. Without these ends in view action is purely tactical and can quickly degenerate into nothing more than a flailing about.

2.4 The concept of strategic management

Strategic management can be defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives (Pearce
II and Robinson, 1991). (Wikipedia) further defines strategic management as a process of specifying an organization's objectives, developing policies and plans to achieve these objectives and allocating resources so as to implement the plans.

These decisions and actions need top management involvement because they provide the overall direction to the whole organization. (Philip Selznick, 1957) introduced the idea of matching the organization's internal factors with external environmental circumstances. An organization's strategy must be appropriate for its resources, circumstances and objectives. This involves matching the company's strategic advantages to the business environment the organization faces.

Some writers have argued strategy formulation and implementation as a step-by-step process while others have said that it is a continuous dynamic and interactive process. (Lindblom, 1959, wikipedia) claimed that strategy is a fragmented process of serial and incremental decisions. He viewed strategy as an informal process of mutual adjustment with little apparent coordination. (Quinn, 1980) saw strategic management process as guiding actions and events towards a conscious strategy in a step-by-step process. According to him the nature of strategic management is constantly integrating the simultaneous incremental process of strategy formulation and implementation, which is the central art of effective strategic management. Lindblom saw strategy as a disjointed process without conscious direction while Quinn saw the process as fluid but controllable.

(Bower, 1970 and Burgelman, 1980, wikipedia) took it a step further they contended that strategic decisions are made incrementally rather than as part of a grand unified vision, but decisions are made by numerous people in all sections of the organization. Mintzberg (1978), made a distinction between deliberate strategy and emergent strategy. Emergent strategy originates not in the mind of the strategist, but rather in the interaction between the organization and its environment. He claims that emergent strategies tend to exhibit a type of convergence in which ideas and actions from multiple sources integrate into a pattern.

(Markides, 1999) has described strategy formulation and implementation as ongoing, never ending, integrated process requiring continuous reassessment and reformation. Strategy is partially deliberate and partially unplanned, (Moncrieff, 1999). The unplanned element comes from two sources "emergent strategies" resulting from the emergence of opportunities and
threats in the environment and “strategies in action” are ad hoc actions by many people from all parts of the organization. These multitudes of small actions are typically not intentional, not technological, not formal and not even recognized as strategic. They are emergent from within the organization in much the same way as emergent strategies emerge from the environment.

Therefore strategy is both, planned and emergent, dynamic and interactive. Some executives like Andy Grove at Intel feel that there are critical points at which a strategy must take a new direction in order to be in step with a changing business environment. These critical points of change are called strategic inflection points.

Strategic management operates on several time scales, short term and long-term strategies. According to (Abell, 1993) this is the least understood nature of strategic management process. Short-term strategies involve planning and managing for the present, while long term planning strategies involve preparing for and pre-empting the future. Strategic planning requires the use of these dual strategies simultaneously. Long term-coordinated strategy is necessary to give a company structure, direction and focus (Chandler, 1962). He recognized the importance to coordinate the various functions of management under all encompassing strategy instead of having departments with little or no interaction.

2.5 Strategy, Environment and Capability

Ansoff and McDonnell (1990) state that changes in the organizations behaviors are necessary if success in the transformation of the future environment is to be assured. They noted that such changes, which touch on the organizations strategy and capability, would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis, which states that a firm’s performance potential is optimum when the aggressiveness of the firm’s strategic behavior matches the turbulence of its environment; the responsiveness of the firm’s capability are supportive of one another. When one of these three aspects is lacking, then the firm’s performance potential will be less than optimum. The real-time response is the specific action that is chosen and implemented in order to realign the organization’s strategic aggressiveness to the environments turbulence.

Figure 1
Managing the firm’s adaptation to the Environment

Key:
E1 Current Environment E2 Future Environment
S1 Current Strategy S2 Future Strategy
C1 Current Capability C2 Future Capability
(Source: Ansoff and MacDonnell, 1990, P40)

The above diagram clearly shows the firm’s dependence on its environment. Where there is an environmental shift from E1 to E2, then the organization’s strategy has to be changed from S1 to S2 in order to adapt to the changed environmental conditions. However, this is only when the organization’s capability is changed from C1 to C2. Therefore, an organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes. This requires that the firm’s capabilities be constantly updated to ensure they support the chosen strategy. As the organization’s environment changes, it is necessary that the firm continuously adapts its activities and internal configurations to reflect the new external situation. Failure to this endangers the future success of the organization (Aosa, 1998).

Porter (1991) explains the concept of strategic fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantages throughout the value chain to more sophisticated types and employing higher levels of skill and technology.

According to Grant (2000), a successful strategy is consistent with the organization’s goals and values, external environment, resources and capabilities and organizational systems. This indicates the fact that the organization depends on the environment for its survival and responses to the environmental situation will determine its performance. Thus, when there are changes in the environment, the organization’s capabilities and strategy would have to be changed in order to ensure a continued ‘strategic fit’.
2.6 Increased Competition and its Impact on Organizations

The 1980's and 1990's have been characterized by discontinuous and unpredictable business environment. Consequently, businesses have been forced to change their strategies regularly to be able to match their resources with the environment.

Thompson and Strickland (1993), organizations depend on the environment for their survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them. Johnson and Scholes (1999), organizations operate within environments, which are turbulent and rapidly changing. Therefore, their relationship is seen as mutual and it is important that effective strategies be in place to facilitate the relationship. He continues to say that most important environmental factors that influence and determine the success of competitive strategies adapted by an organization are found within the competitive environment which constitutes the industry within which an organization operates.

Due to the fact that environment is constantly changing, it is imperative that an organization has to constantly adapt its activities to reflect to the new environment requirements. Yesterday cannot be used to predict tomorrow. Companies, which would like to survive, must adapt and adapt to the change (Porter, 1980).

2.7 How Firms Cope with Increased Competition

Strategic management according to Ansoff (1990) is a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises.

Hamel and Prahalad (1989), states that an organization has a foundation for sustained competitive advantage when it possesses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate value creating capabilities based on that knowledge. And unless there is an advantage over competitors that is not easily duplicated or connected, long-term profitability is likely to be elusive.
In the 1990's, many companies have acknowledged the critical importance of being customer oriented. Customers pay attention to after sales services, knowledge and responsiveness, of employers (Kotler, 1997).

Aarker (1989) observes that long-term success, involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter. This involves a three-step process; (a) Identifying relevant skills and assets by observing successful and unsuccessful firms, Key customers motivations, large value-added items, and mobility barriers; (b) Selecting those skills and assets that will provide an advantage over competitors, will be relevant to the market, and will be feasible, sustainable and appropriate for the future, and (c) Develop and maintain those assets and skills and neutralize those of competitors.

Aarker continues to state that there are three basic ways to compete, namely; on the basis of delivery (including conveniences), quality (including service) or price. Hamel and Prahalad (1989) say that restructuring and re-engineering -while both are legitimate and important tasks, they have more to do with sharing up today's business than with building tomorrow's industries. Any company that is a bystander on the road to the future will watch its structure, values and skills become progressively less attuned to industry realities. Such a discrepancy between the pace of industrial change and the pace of company change gives rise to the need for organizational transformation. A company's organizational transformation typically includes downsizing, overhead reduction, employee empowerment, and process redesign and portfolio rationalization.

Bennet (1983) emphasizes the importance of improving a company's image and points out that the first step in doing this is finding out where you are currently. According to him this can be done by determining the target audience, especially the employees.

2.8 Strategic Responses

Thompson (1997) defines strategic adaptations as changes that take place over time to the strategies and objectives of an organization. Handy (1989) identified two types of change. Strategic drift is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, transformational change is sudden and radical. It is typically caused by
discontinuities (or exogenous shocks) in the business environment. The point where a new
trend is initiated is called a strategic inflection point by Andy Grove.
Inflection points can be subtle or radical. Pascale (1990) said that relentless change requires
that businesses continuously reinvent themselves. His famous maxim is “Nothing fails like
success” by which he means that what was a strength yesterday becomes the root of weakness
today. We tend to depend on what worked yesterday and refuse to let go of what worked so
well for us in the past. Prevailing strategies become self-confirming. In order to avoid this
trap, businesses must stimulate a spirit of inquiry and healthy debate. They must encourage a
creative process of self renewal based on constructive conflict.

2.8.1 Strategic Responses to Increased Competition

A competitive action is defined as a specific and visible initiative taken by a company (such as
the introduction of a new product or a price reduction) in order to improve or defend its
competitive position. In the same way, a response is defined as a counteractive, specific and
detectable initiative, caused by the initial action, carried out by a company to defend, or
improve, its market share (Chen and MacMillan, 1992; Porter, 1980). Companies have
different characteristics, resources and capabilities, which affect their credibility in the
marketplace and, hence, how other companies perceive their actions.
A number of studies have been done in Kenya on the strategic responses by various business
firms to increased competition. Kombo (1997) noted that in the motor vehicle industry, firms
made substantial adjustments in introducing new technologies of product development,
differentiated their products, segmented and targeted their customer's more and improve
customer services in order to adapt to changes in Environment.
He continued to say that for firms to be effective and hence successful, they should adapt
appropriately to the changes that occurs in their respective environments. Such adaptations
may be referred to as strategic responses. Ansoff (1990) noted that strategic responses involve
changes in the firm's strategic behaviors to assure success in the transforming future
environment.

Pearce and Robinson (1997) define strategic responses, as the set of decisions and actions that
result in the formalization and implementation of plans designed to achieve a firm's
objectives. It is thus a reaction to what is happening in the environment of organizations.
Operational responses issues are concerned with setting broad policies and plans for using the resources of a firm to best support its long-term competitive strategy. Thus operational responses can be viewed as part of a planning process that coordinates with those of the larger organization (Porter, 1998).

Managerial decisions with respect to operational planning and control are narrow and short-term by comparison with the strategic issues that are broad with a typically long-time frame depending on the specific industry, (Johnson & Scholes 1999). Thus the study is focused on management decisions at the strategic level which impact the company's long-range effectiveness in terms of how it can address its customer's needs and response to increased competition.

Ansoff and McDonnell (1990), states that, increased competition has created fundamental shift in economic environment. No organization can hope to stay afloat if it fails to come up with proper strategic responses. Terminologies such as retrenchment, mergers and cost control have become a routine for survival means. Aosa (1992), states that, industries are responding to customers demands by becoming more innovative in their new ways of approaching the changed environment. They use strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services.

Competitive pressures are forcing corporations to adopt new flexible strategies and structures, many of these are familiar: acquisition and divestitures aimed at more focused combination of business activities, reductions in management staff and increased use of performance based rewards (Kanter, 1989).

The concept of organizational restructuring or reorganization is all about changing the organization the equivalent of self-administered surgery with no insurance, no anesthetic and no assurance of long-term health (Augustine, 1997). There is need to adapt to new strategies that match the challenges from the environment. Re-engineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's (Pearce and Robinson 2000).

Burnes (1998), the concern in real time response is to minimize the sum to total losses and restore profitability to ensure organization success in a turbulent and surprising environment. He also observed that the unstable and unpredictable conditions, organizations have to operate
today means that the ability to think strategically and manage strategic change successfully is key competitive strengths for a sustainable competitive advantage. Real time strategic issue responses are necessary to facilitate the firm's preparedness impending issues, which may have profound impact on the firm. Ansoff and McDonnell (1990), asserts that the management system used by a firm is a determining component of the firm's responsiveness to environmental changes determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do, and implements the decisions.

He also observes that the work place has been fundamentally transforming such that the sharp distinction between management and worker is no longer visible. The unquestioned authority of the manager has been replaced with negotiations. Other forms of management such as participate management, affirmative action, flexitime, etc, have emerged.

2.8.2 Marketing
The American marketing Association has defined marketing as the performance of business activities that direct the flow of goods and services from the producer or seller to the consumer or user. Kotler on the other hand defines marketing as the satisfaction of human needs and wants through exchange processes.

Stanton goes further by saying that marketing comprises a system of business activities designed to plan, price, promote, and distribute want satisfying products and services to present and future potential consumer segments.

All the above authors have mentioned marketing as involving business activities that are geared towards satisfying human wants for profit purposes. These leave out non-profit making organizations. Kibera and Waruingi (1998) define marketing as the performance of those activities that attempt to satisfy a given individual or organization’s target group needs and wants for the mutual benefit or benefits.

The marketing concept is the orientation that all marketing decision-making should start by understanding the target consumer and then work backwards to the organization. The marketer should first identify the needs and wants that consumers are trying to satisfy through
marketing research before identifying a product that will satisfy those needs and wants at a profit. Kotler (2000) observes that marketing helps to define the business mission, as well as analyzing the environmental, competitive and business situations. It therefore plays a major role in the organization’s strategic planning process. The strategic marketing responses are based on the marketing mix elements of product, price, distribution and promotion.

2.8.3 Organization Culture

Organization culture can be defined as the way we do things around here. It comprises values and beliefs that may be very deep-rooted and hard to change. It is also evident in attitudes and behaviors, which may also be resistant to change (Linda, 1998).

Mullins (2005) defines culture as the collection of traditions, values, beliefs and attitudes that constitute a pervasive context for everything we do and think in an organization. According to Varey, (2001) culture and communication cannot be separated. He argues that for people to communicate and cooperate they must share some assumptions about the world they are in and some common standards by which to judge our own and each other’s actions. Cartwright (1999) sees culture a system of managing authority. When accepted by employees, cultural values increase the power and authority of management in three ways: they identify themselves with the organization, they internalize the organization’s values and they are motivated to achieve the organization’s objectives.

Culture is reinforced through the system of rites and rituals, patterns of communicating the informal organization, expected patterns of behavior and perceptions of the psychological contract. Every organization will have its own unique culture and different people will be comfortable working in certain organizations if their attributes and personalities are consistent with the culture of that organization.

Culture of an organization develops over time in response to a complex set of factors, which influence the development of organization culture. These are: history of organization, primary function and technology, organizational goals and objectives, organizational size, organizational location, organizations management and staffing and organizations environment.
To be effective an organization must be responsive to external environmental influences. If the environment is dynamic, the organization’s structure and culture should be sensitive and readily adaptable to change. Given the pervasive nature of culture it will significantly affect organizational processes such as: decision making, design of structure, group behavior, work organization, motivation and job satisfaction, and management control.

Harrison and Stokes, (1972) maintains that organization culture influences the behavior of all individuals and groups in an organization. Culture impacts most aspects of an organizational life such as how decisions are made, who makes them, how rewards are distributed, who is promoted, how people are treated and how the organization responds to its environment.

Naylor, (2004) points out that in the holistic system any change will affect the culture and the culture will affect or contain the change. It is widespread these days that organizational change is not just about changing the structure but often requires changing the culture too.

Culture is clearly an important ingredient of effective organizational performance. Peter and Waterman (1982) drew the attention to the importance of culture in their study of 62 American companies with outstanding successful performance that without exception the dominance and coherence of culture proved to be an essential quality of excellent companies and more it was directed to the market place, the less there was need for policy manuals, organization charts, or detailed procedures and rules.

Chatman and Cha (2002) suggested that every company has a good or bad culture. However there is more to good culture than happy staff. To aid long term performance there is need to develop is a suitable culture that is: strategically relevant, strong in order that people care for what is important and have an intrinsic ability to adapt to changing circumstances. To develop, manage and change culture Chatman and Cha proposed the use of the following managerial tools: recruitment and selection, social tools and training and reward system.

2.8.4 Information technology (IT)

Nesbitt (1984) theorized that the future would be driven largely by information and that companies that will manage information well could obtain an advantage. Senge P (1990) in popularising the theory of a learning organization concluded that a company's ability to gather, analyze, and use information is a necessary requirement for business success in the
information age. Moore (1991) and Frank and Cook (1995) also detected a shift in the nature of competition. In industries with high technology content, technical standards become established and this gives the dominant firm a near monopoly. The same is true of networked industries in which interoperability requires compatibility between users.

The emergence of the digital firm has changed the focus and emphasis of business strategy from competing head-to-head against other firms in the market, to exploring, identifying and occupying new market niches before competitors, understanding the customer value chain better and learning faster and more deeply than competitors Laudon and Laudon (2005).

Changes in the environment are faster than the way organizations change. The main reasons for organizational failure are an inability to adapt to rapidly changing environment and a lack of resources particularly among young firms to sustain even short periods of troubled times (Freeman, 1983). Information systems can play an important role of acting as environmental scanning instruments, alerting on the environmental changes that require an organizational response (Laudon and Laudon, 2005).

Information technology especially the use of networks can help a firm lower the cost of market participation, making it cheaper to contact external suppliers instead of using internal sources. IT can also change the hierarchy of decision-making in organizations by lowering the costs of information acquisition and the distribution of information (Malone, 1997). IT can bring information to senior managers directly from operating units thereby eliminating the need for middle managers and clerical support workers. Information system originally intended to be strategic frequently become tools for survival, required by every firm to stay in business (Eardley, Avison and Powell, 1997).

Successful firms have aligned IT to the organizations business plan, firm’s business processes and senior management strategic plans. If the organizations business plans, processes and management strategy are outdated, there is need to change the organization and IT to achieve an optimal ‘fit’ (Laudon and Laudon, 2005).

Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly, they adapt immediately to the feedback ahead of rivals. They exploit the potential of strategic as well as competitive and operating information systems. Some of the information technology variables that can influence a firm’s response to competition
include the usage of real-time systems, extent of interconnectivity of distribution channels, as well as the efficiency of the telecommunication systems.

2.8.5 Restructuring

Wilson and Rosenfeld (1990) define organization structure as the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. Thus, structure distinguishes the parts of the organization and delineates the relationship between them.

With regards to the number of levels in the structure of an organization, often referred to as scalar chain, Drucker (1989) suggests that they should be as few as possible. Too many levels bring difficulties in communication and understanding of objectives both up and down the hierarchy.

One of the major activities of restructuring is business process re-engineering. Hammer (1995) defines BPR as the fundamental rethinking and radical redesign of business processes intended to bring about dramatic improvement in performance, this is done with the customer in mind. A rapidly changing economic environment characterized by such phenomena as globalization and deregulation of markets, changing customer and investor demands and an ever increasing product-market competition has become the norm for most organizations. To compete they have to continuously improve their performance by controlling costs, innovating products and processes and improving quality, productivity and speed to market (Becker, Brian; 1996).

Reengineering is as powerful arm of strategic planning, in fact it is a radical new principle: that the design of work must be based not on hierarchical management and the specialization of labour but on end-to-end processes and the creation of value for the customer (Hammer, 1995), with the intention of retaining and attracting them. Searching for the root cause of customer departures through identification of business practices that need fixing can result in winning back a customer and re-establishing a firm relationship (Reichheld, 1996).

Senior (1997) notes there are various catalysts for organizational change such as restructuring. These triggers may include a new IT equipment or system, business process reengineering
through process intensification/extension, the redesign of a group of jobs, staff right sizing and subsequent staff cutbacks, as well as staff redundancies.

2.9 Conceptual framework

The study is based on the assumption that the independent variables affect the dependent variable. The independent variables have been extensively discussed in the literature review. The strategic responses that commercial banks will adopt will be determined by the Marketing, Restructuring, Information Technology, and Organizational Culture issues that they face. The Banks' strategic responses or strategies are therefore the dependent variable as shown in the model below.

Figure 2:-The Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Intervening Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGIC RESPONSES BY COMMERCIAL BANKS</strong></td>
<td></td>
</tr>
<tr>
<td>Marketing ($x_1$)</td>
<td></td>
</tr>
<tr>
<td>Restructuring ($x_2$)</td>
<td></td>
</tr>
<tr>
<td>Information Technology ($x_3$)</td>
<td></td>
</tr>
<tr>
<td>Organizational Culture ($x_4$)</td>
<td></td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>Strategies ($y$)</td>
</tr>
</tbody>
</table>

Dependent variable

Source: Author, 2009

Instead of marching ahead with a blueprint, strategists are being urged to think on their feet – but coherence needs an aim that stays consistent as contingency plans rise and fall (The Management Express; www.blueprint.com extracted from the British Council).
The pressure is now on for ‘real-time’ strategy that’s: Open to revision: easily tweaked, away from unforeseen problems and towards suddenly seen opportunities – old-style strategy too focused on past events that were unlikely to recur, resulting in forecasts that were unlikely to be right. Made in small steps: real-time adjustment can’t happen if one strategic move means tie-in to others, now or later – old ‘grand designs’ were so interlinked, changing one strand forced everyone else to rethink their aims and actions.

Open to all: strategy devised and developed by those who have to implement it, so are first to see when it’s fighting old battle or missing new trick – old-style strategy, designed behind closed boardroom doors, often halfheartedly followed even in the brief time it was wholly on target. Implemented by large groups: all followers of a strategy should have a say in its formulation; and all who see its results must have a chance to revise it – top-down strategy is more likely to be wrong from the start, and this means that it is likely to go uncorrected when conditions demand a change of course to the specific strategy. Principles, not prescriptions: strategy should set out basic, unchanging aims, and any actions that must be observed (or avoided) in pursuing them – leaving everything else to choice. But faster-moving markets make fixed points seem rigid; top-down plans are unrepresentative of what people want, insensitive to changing conditions.

**Competitive advantage**

Bharadwaj et al. (1993) suggest that a competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm’s ability to develop a specific set of competitive methods. This becomes the basis for the achievement of above average industry performance.

**Marketing:**

Marketing and management scholars have agreed for years that marketing “helps strategic management at a philosophical, conceptual, and methodological level” (Biggadike, 1981). The
marketing concept and techniques such as market segmentation, positioning, and perceptual mapping help define the environment and frame strategic choices in customer terms. The success of the firm, it has been argued, is due to the extent to which it has embraced the marketing concept and hence become customer-focused (Hunt and Morgan, 1995). Researchers have proposed varying definitions and measures of market orientation. For Narver and Slater (1990), the marketing concept represents the desire to create superior value for customers and attain sustainable competitive advantage. Their measure of marketing orientation thus consists of conceptually equally important dimensions of the degree of customer orientation, competitor orientation, and inter-functional coordination. The first two dimensions essentially involve obtaining and disseminating information about customers and competitors throughout the organisation. Inter-functional coordination comprises the organization's coordinated efforts in order to create superior value for the customers, typically involving all major departments within the organisation.
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Research design

The study adopted a descriptive survey of all the commercial banks in Nairobi. The descriptive survey helped to locate and obtain data for the study and described issues as they were. Gay (1981) defines a survey as “an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables”. He says that a descriptive study determines and reports the way things are and commonly involves assessing attitudes, and opinions towards individuals, organizations and procedures.

3.2 Target Population

This study targeted all the commercial banks with their head offices in Nairobi. There are a total of 43 commercial banks and the researcher did target those at the management levels of these commercial banks. The target population consisted of the top management, the middle management and the Lower management level staffs.

3.3 Sampling Strategy

This is a survey of all the banks with their head offices in Nairobi. However, the sampling method was stratified sampling where the researcher did stratify the banks into three distinct management levels, which is the top, middle and lower management levels. Due to the large number of employees in all the banks, the researcher also did employ convenient sampling by selecting any four staffs at the management of each bank. The total sample for the research would then be a total 172 respondents.

3.4 Study Frame

The study targeted a population of 172 from all the 43 commercial banks which did consist of four management staffs from each commercial bank who are at the head office of the bank.
3.5 Data Collection

Data collection tools used in collecting primary data was: interviews, Questionnaires and observation. The researcher collected the primary data by individually interviewing the senior managers from every bank. These managers comprise those who formulate strategic response variables that will be studied - restructuring, marketing, information technology and culture change and are also responsible for overseeing implementation of these responses.

The researcher also did design the questionnaire on the basis of objectives of the research and the study’s literature review.

3.6 Data analysis and presentation

Once the responses were received the questionnaires were edited for completeness and consistency before processing. Thereafter the data were coded to facilitate categorization. The quantitative data would be analyzed using descriptive statistics like the measures of central tendencies, frequencies and tables and with the help of the Statistical Package of Social Sciences (SPSS), the analyzed data was be presented in charts, graphs and cross tabulations.
CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.0 Introduction
This chapter deals with the presentation and analysis of findings of the study. It presents findings on the Strategic Responses to Global challenges by Commercial Banks in Kenya using a statistical package for social sciences (SPSS version 11.5) for the analysis.

SPSS covers a broad range of statistical procedure that allows one to summarize data (comparing means, and standard deviation), determine whether there is a significant difference between the groups under study (T-tests) and to examine relationships among variables.

Data presentation in this chapter is mainly by use of frequency tables (f) for primary analysis. However, for further secondary analysis the researcher used factor analysis. Of the total target number of 172 respondents, 118 respondents i.e. (68.6%) of the targeted population returned the questionnaire completed satisfactorily. These respondents were from 39 of the 43 Commercial Banks with Head offices in Nairobi. This was 90.7%.

The findings are presented in a format that reflects the objectives of the study stated earlier on as follows:

1. To identify the challenges faced by commercial banks in the context of the changing competitive environment in Kenya.

2. To document the responses of commercial banks to the changing competitive business environment in the banking industry in Kenya.

3. To determine the success of these strategies.

4.1 Validity and reliability of the instruments
The research instrument was carefully developed with the assistance of the supervisors and refined through personal interview with the relevant respondents and academicians. The researcher first carried out a pilot study (pre-test) on two (2) respondents, The Standard Chartered Bank and Equity Bank, being local and multinational Banks respectively to check the item wordings and to verify the ability of the items to tap the competitive strategies and the challenges dimensions of interest in the study.
The researcher personally administered the original questionnaire for these pilot tests to the respondents. The questions not fully understood was identified by the researcher and explained. Comments made during the filling in were considered when making the final draft of the questionnaires. This was meant to enable the researcher establish the validity and reliability of the instrument (questionnaire) in the study. Content validity check was performed on the constructs to confirm that the scale items would be meaningful to the sample to capture the issues that were to be measured. The Content Validity Index (CVI) yielded results ranging from 0.61 to 0.68 leading to the conclusion that the instruments were valid. A reliability analysis of the scales of the variables was carried out to check whether the adopted measures do yield similar results at all times for the test. It was done to establish the consistency of the data under use and to build confidence that the data was appropriate to produce good results. The commonly used, Cronbach’s alpha which tests internal consistency was considered and used. A value of 0.5 and above was taken to be satisfactory. The test using SPSS for windows was used on the items of each variable in the construct to establish the consistency of understanding and responses. Cronbach’s alpha coefficient was used to gauge the reliability, resulting in coefficients. Alpha coefficient was 0.8662 and 0.78216 respectively for the cost leadership strategies, 0.9220 and 0.7746 for product differentiation strategies and alpha coefficients of 0.09061 and 0.8174 were realized. Reliability analyses of the scales were obtained as shown in the table below (Table 1).

**TABLE 1 Reliability scale of study variables**

<table>
<thead>
<tr>
<th></th>
<th>Cost leadership</th>
<th>Differentiation</th>
<th>Focus strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Commercial Banks</td>
<td>0.8662</td>
<td>0.9220</td>
<td>0.9061</td>
</tr>
<tr>
<td>Multinational Banks</td>
<td>0.8216</td>
<td>0.7746</td>
<td>0.8174</td>
</tr>
</tbody>
</table>

All alpha values were considered satisfactory being over 0.5

Following minor changes to the survey instrument the main data collection was undertaken.

4.1.1 Data processing and analysis

The major purpose of data analysis was to reduce the data so collected into an organized, integrated and meaningful whole. The key method for analysis was quantitative though
qualitative data was also collected during the personal interviews and used to supplement understanding of the interrelationships of the construct variables that were generated by the quantitative methods. Data collected was processed by editing, coding and thereafter analyzed using SPSS and summarized into tables.

4.1.2 Editing

After collecting the questionnaires from the respondents the questionnaire were edited for completeness, accuracy and uniformity. Completeness was to ensure that there was an answer to every question on the questionnaire. Questionnaires with any missing responses were noted. Inaccuracy may be due to carelessness or a conscious attempt to give misleading answers. Uniformity gives an opportunity for checking that the respondents interpreted both the instructions and questions uniformly and in the same manner. Editing of the questionnaires was to help the researcher to detect and as far as possible to eliminate errors in the completed questionnaires.

4.1.3 Coding

Editing involves the assigning of symbols (numerical) to each response of a category. The purpose of the symbol is to translate raw data into symbols that may be counted and tabulated. Each edited response was then translated into numerical terms by attaching a numerical figure to the respective responses given. The purpose of coding was to facilitate the next step of data processing after identifying variables, variable labels, values and value labels etc. to be able to use the SPSS computer analysis.

4.1.4 Data analysis

After the data was coded and reviewed for accuracy and consistency it was then entered into the computer for further descriptive analysis of statistics using SPSS (11.5) computer package for windows throughout the analysis of the primary data. The coded data was categorized and tabulation was obtained for the questions that were intended to measure descriptive
characteristics of the study sample. A factor analysis was done to itemize the various study variables in the questionnaire so as to establish record of their variances.

A T-test was run to establish how significant the various Banks are on the various study variables.

4.2. QUANTITATIVE ANALYSIS:

A total of 39 respondents out of the total number of 43 Commercial Banks in Kenya did return the questionnaire satisfactorily completed. This formed 90.7% of the targeted population. This study considered a census as the number of Commercial Banks in Kenya. From the 39 Commercial Banks a total of 172 questionnaires were distributed out of which a total of 118 questionnaires fully completed were returned. This formed 68.6%.

4.2.1 Demographic analysis - Gender of the respondents

From the total of 118 questionnaires received, 78 questionnaires were received from the male respondents duly completed while the remaining 40 questionnaires issued were received from the female respondents. The table below, Table 2 indicated the data concerning the respondents which demonstrates that of the questionnaires returned filled in, the larger proportion of respondents (66.1%) was male, and the remaining 33.9% were female as further indicated in the figure shown below (Figure 2).

Table 2 Gender of the respondents used

<table>
<thead>
<tr>
<th>Gender</th>
<th>HOD</th>
<th>Deputy HOD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>Male</td>
<td>32</td>
<td>59.3</td>
<td>46</td>
</tr>
<tr>
<td>Female</td>
<td>22</td>
<td>40.7</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>100</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Author, 2009
Figure 3 Gender of the respondents

Source: Author, 2009

4.2.2 Age of the Respondents

The respondents were asked to indicate the range within which they fall in relation to their current age. The table below, (table 3) indicates that the majority of the employees at a number of the Commercial Banks used in the study, 64.5% fall within the age ranges 30 – 49 years. Only 10.2% of the employees in the majority of the banks are within the age group of 20 – 29 and the majority of this is comprised of the female employees with only half of the population of the females in the specific age range male. The respondents in the ages 50 – 59 years comprises only 14.4% of the respondents and the majority of the respondents in this group are male with only 3 of the respondents being female.

Table 3: Age of Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>20 – 29</td>
<td>4</td>
<td>5.1</td>
<td>8</td>
</tr>
<tr>
<td>30 – 39</td>
<td>15</td>
<td>19.2</td>
<td>20</td>
</tr>
<tr>
<td>40 – 49</td>
<td>33</td>
<td>42.3</td>
<td>9</td>
</tr>
<tr>
<td>50 – 59</td>
<td>14</td>
<td>17.9</td>
<td>3</td>
</tr>
<tr>
<td>60 and above</td>
<td>12</td>
<td>15.4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
<td><strong>100</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2009
4.2.3 Level of education attained by the respondents

The respondents were asked to indicate the highest level of education that they had attained. The table below, (table 3) indicates that the majority of the employees at a number of the Commercial Banks used in the study had all attained higher level of education i.e. having gone beyond form four Level of education, post secondary level of education.

Table 4 Respondents level of education attained

<table>
<thead>
<tr>
<th>Highest level of education attained</th>
<th>Male</th>
<th></th>
<th>Female</th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
<td>f</td>
<td>%</td>
</tr>
<tr>
<td>Primary</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Secondary</td>
<td>10</td>
<td>12.8</td>
<td>7</td>
<td>17.5</td>
<td>17</td>
<td>14.4</td>
</tr>
<tr>
<td>Post secondary</td>
<td>68</td>
<td>67.2</td>
<td>33</td>
<td>82.5</td>
<td>101</td>
<td>85.6</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100</td>
<td>40</td>
<td>100</td>
<td>118</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author, 2009
Figure 5: Respondents' level of Education

Source: Author, 2009

4.2.4 Professional training obtained:

The respondents were asked to whether they had besides having attained secondary and post secondary education attained some professional or vocational training. The chart below, (Chart 3) indicates that the majority of the employees at a number of the Commercial Banks used in the study, 95.76% had attained some professional training.

Figure 6: Professional training obtained by respondents

Source: Author, 2009
4.2.5 Duration worked for at the company

The respondents were asked to indicate the duration of time they have spent working at the current organisation. The table below, (Table 3) indicates that the largest proportion of respondents stated they had worked for the same company for duration of between 4 - 10 years a total of 72 employees comprising 61.02% of employees interviewed. The number of respondents who have worked in the same organisation for a period of over 10 years comprised 20.3% of those who participated in the study while only 10.2% of the respondents have been with the organisation for a period of between 1 – 3 years.

This shows that most employees have worked in the organisation for a relatively long duration of time, with over 89.8% having worked for over 5 years of continuous service to the company.

Table 5 Duration as an employee

<table>
<thead>
<tr>
<th>DURATION</th>
<th>MALE</th>
<th>FEMALE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>Below 1 Year</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1 – 3 years</td>
<td>4</td>
<td>5.1</td>
<td>8</td>
</tr>
<tr>
<td>4 – 6 years</td>
<td>42</td>
<td>53.8</td>
<td>10</td>
</tr>
<tr>
<td>7 – 10 years</td>
<td>18</td>
<td>23.2</td>
<td>12</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>14</td>
<td>17.9</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>78</td>
<td>100</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Author, 2009
4.3 Characteristics of the Commercial Banks

The data in this section analyses some of the characteristics of the banks that was studied. The analysis includes the use of frequency tables that show characteristics. These include some of the areas of similarities such as the year of operation in Kenya, the amount of start up capital (initial investment) used by the company and the type of ownership of the outlets.

4.3.1 Years of Business operation in Kenya

Table 6 Years of operation in Kenya

<table>
<thead>
<tr>
<th>YEARS OF THEIR OPERATION IN KENYA</th>
<th>Number of Banks</th>
<th>Cumulative</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
<td>f</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>2</td>
<td>5.1</td>
<td>2</td>
</tr>
<tr>
<td>1 – 5</td>
<td>4</td>
<td>10.3</td>
<td>6</td>
</tr>
<tr>
<td>6 – 10</td>
<td>10</td>
<td>25.6</td>
<td>16</td>
</tr>
<tr>
<td>11 – 25</td>
<td>8</td>
<td>20.6</td>
<td>24</td>
</tr>
<tr>
<td>26 -40</td>
<td>6</td>
<td>15.4</td>
<td>30</td>
</tr>
<tr>
<td>41 – 50</td>
<td>7</td>
<td>17.9</td>
<td>37</td>
</tr>
<tr>
<td>50+</td>
<td>2</td>
<td>5.1</td>
<td>39</td>
</tr>
<tr>
<td>TOTAL</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2009
The result from the above table (table 5) reveals that only 5.1% of the Commercial Banks in Kenya outlets have been in the business for less than one year. This is one of the new entrants into the Kenya Market such as Gulf African Bank while a total of 23 Commercial banks in the country which is 58.9% of the respondents have been in this business for a period of over 10 years. From the table above it is evident that 15 commercial banks have been operating in the country for a period of over 25 years representing 38.5% of the respondents in the study, with nine of the Commercial banks representing 23.1% having been in the business for over forty years of continuous activity in the country.

4.3.2 The type of ownership of the Commercial Banks in Kenya
The table below (table 3) indicates the type of ownership of this type of business undertaking and from the table it is clear that the majority of the players in this market are the multinational corporations (MNCs). The multination corporations engaged in this business in Kenya comprised a total of 16 companies which is 41% of the businesses that participated in the study. The commercial banks that are locally owned are 14 comprising 35.9%.

**TABLE 7 Type of ownership of the commercial banks**

<table>
<thead>
<tr>
<th>OWNERSHIP TYPE</th>
<th>No. of Outlets</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>%</td>
</tr>
<tr>
<td>Local ownership</td>
<td>14</td>
<td>35.9</td>
</tr>
<tr>
<td>Multinational ownership</td>
<td>16</td>
<td>41.0</td>
</tr>
<tr>
<td>Other types of ownership</td>
<td>9</td>
<td>23.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2009

4.3.3 Challenges identified
The researcher asked the respondents to indicate the various factors which in their opinion they feel are the challenges the organisation has experienced in the implementation of their
action plans. The table below (table 4) indicates the responses from the various managers in the commercial banks used in the study.

Table 8: Challenges that are identified

<table>
<thead>
<tr>
<th>Staff development programs</th>
<th>Extent to which the challenge affects operation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A Great extent</td>
</tr>
<tr>
<td>Financial requirements</td>
<td>10</td>
</tr>
<tr>
<td>Industry requirements</td>
<td>9</td>
</tr>
<tr>
<td>Government regulations</td>
<td>19</td>
</tr>
<tr>
<td>Marketing</td>
<td>25</td>
</tr>
<tr>
<td>Staffing</td>
<td>16</td>
</tr>
<tr>
<td>Increased competition</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Author, 2009

From the above table it is evident that the challenges that tend to affect the operations of a number of commercial banks include, in order of importance; increased competition in the industry, Marketing and government regulations among the challenges identified by the respondents.

4.3.4: The severity of competitive forces

This section attempts to establish the respondents' level of agreement concerning the existence of competition in the Banking industry Kenya. The researcher asked the respondents to indicate the extent which or how intensive in their opinion they think is the severity of the competitive forces as it operates in the Banking industry. The table below (table 4) indicates the responses from the various managers in the commercial banks used in the study concerning the severity of the following competitive forces.
Table 9: The severity of competitive forces in the banking industry

<table>
<thead>
<tr>
<th>Competitive forces</th>
<th>Extent of severity of the forces</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very low</td>
<td>Slightly low</td>
</tr>
<tr>
<td>Barriers to entry</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Rivalry in the industry</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Threat of substitute</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Power of buyers</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Power of suppliers</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Author, 2009

The results from the table above (table 9) show that rivalry in the industry is the most severe. A total of 32 responding Banks comprising 82.1% stated that the rivalry is very intense and slightly intense in the industry. The other force of competition in the banking industry is the power of the buyer or customer. According to the table above, 30 of the Banks that participated in the study representing 76.9% of respondents state that the power of buyer is very intense and slightly intense in the banking industry.

The power of suppliers in another force that is shaping competition in the banking industry with 29 of the participating bank, representing 74.4% of the respondents stating that this is very intensive and slightly intensive in the industry. This is an indication that the majority in the banking industry face a number of forces of competition either from other organizations or alternative products used in the Banking industry in Kenya.

4.4. INFERENTIAL STATISTICS
4.4.1 Factor Analysis

Factor analysis is used to find the goodness of data and to help reduce a vast number of variables to a meaningful, interpretable and manageable set of factors. A factor analysis of the items in the questionnaires was carried out to determine how the items loaded on the study variables. Under factor analysis the researcher identified the underlying variables or factors...
that were used to explain patterns of correlation between the dependent variables and independent variables. Factor analysis therefore allowed the researcher to group variables into factor-based correlations between them and their values derived by summing up the values of the original variables into factors. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance in a much larger number of variables.

Factor analysis was also used to generate hypothesis regarding causal mechanisms of the variables and using the principal component analysis, the extraction method allowed the researcher to either retain all the factors whose eigenvalues exceeded a specified value or retain specific number of factors. The extraction method was important for identification of the variables that inflicted the highest effects on the variables. The purpose was to measure the degree of association among the variables. The principal component analysis and the varimax rotation method were used in the study and Kaiser-normalization used to yield rotated factor matrix. Principal component analysis transforms all the variables into a set of composite variables that are correlated to one another. The use of the rotated component matrix is to reduce the number of factors on which the variables under investigation have high loadings.

A loading of 0.30 was taken as the minimum absolute value to be interpreted. The Kaiser's criterion was used to determine how many factors to retain in the study. Only factors having Eigenvalues greater than 1.0 were considered essential and were retained. The tables that follow below give item loadings greater than 0.3 on these factors.

4.4.2. Competitive strategies - factor analysis

The results revealed that three (3) factors with Eigenvalues greater than 1 exists that account for 96.131% of the total variance in competitive strategies for product and service differentiation offerings in the Banking industry. The common variance in product and services competition is accounted for by: Technology (33.49%), Strong Branch network (27.63%) and new product development (20.74%) in that order as indicated in the table below (Table 10).
### TABLE 10 Products & services differentiation offerings – Factor Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Components</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale achieved through merger or consolidation</td>
<td>0.937</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong branch network</td>
<td></td>
<td>0.932</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion expenditures above the industry average</td>
<td>0.940</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major expenditure on technology to differentiate services</td>
<td>0.958</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad service/product range</td>
<td></td>
<td>0.996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New product/service development</td>
<td></td>
<td>0.948</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.125</td>
<td>1.549</td>
<td>1.089</td>
<td></td>
</tr>
<tr>
<td>% of variance</td>
<td>42.506</td>
<td>30.979</td>
<td>21.646</td>
<td></td>
</tr>
<tr>
<td>Cumulative % variation</td>
<td>42.506</td>
<td>73.459</td>
<td>96.131</td>
<td></td>
</tr>
</tbody>
</table>

Extraction method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalisation
Rotation converged in 4 iterations

#### 4.4.3 Factor analysis - Cost leadership and management

The inference from the factor analysis below is that the two attributes are perceived by the commercial banks to be the most important attributes in respect to effort on cost leadership and management as a competitive strategy. Each factor is an indication of the importance and how heavily they influence the banking industry in designing their competitive strategies. Various research results and theoretical studies in competitive strategies indicate that competitiveness of an organization is influenced to a great extent by these aspects of its costs management. The results displayed in the table below (table 11) reveal that two (2) factors with Eigenvalues greater than 1 exist that account for 77.073% of the total variance in competitive strategies for cost leadership and costs management by the commercial banks. The common variance is accounted for by ensuring you have a pool of highly trained and experienced personnel, ensure you have adequate deposits available and improving technology
based delivery systems to lower operating cost. This it is hoped would lower overhead costs than the competitors and keeping prices lower than the competitors.

**Table 11 Rotated factor matrix for cost leadership and management**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing and refining existing service/product offerings</td>
<td>0.996</td>
</tr>
<tr>
<td>Major expenditure on technology based delivery systems to lower costs</td>
<td>0.951</td>
</tr>
<tr>
<td>Specific efforts to insure a pool of highly trained/experienced personnel</td>
<td>0.985</td>
</tr>
<tr>
<td>Maintaining lending capacity and flexibility</td>
<td>0.939</td>
</tr>
<tr>
<td>Major effort to insure adequate deposit availability</td>
<td>0.968</td>
</tr>
<tr>
<td>Emphasis on training, education, and institutional learning</td>
<td>0.943</td>
</tr>
<tr>
<td><strong>Eigen value</strong></td>
<td><strong>2.003</strong></td>
</tr>
<tr>
<td><strong>% of variance</strong></td>
<td><strong>50.074</strong></td>
</tr>
<tr>
<td><strong>Cumulative % of variations</strong></td>
<td><strong>50.074</strong></td>
</tr>
</tbody>
</table>

**Source:** Author, 2009  
**Extraction method:** Principal Component Analysis  
**Rotation Method:** Varimax with Kaiser Normalization

**4.4.4. Factor analysis – Focus strategy**

This analysis was done to test for clusters or variables that measure and taps aspects of staff as a competitive factor. This allowed the researcher to find the latent variables in the research instrument and to reduce the number of variables into smaller similar characteristics together that is capable of explaining the observed variance. When the varimax rotation was carried out two (2) main factors were taken with Eigenvalues above 1.0. The rotation factor matrix is thus illustrated in the table below (table 12). These factors included; narrowing and limiting
the range of product/services the bank offers, and service and products offered in the lower priced market segments.

Table 12 Factor analysis – Focus strategy:

<table>
<thead>
<tr>
<th>Variables</th>
<th>COMPONENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Narrow, limited range of services/products</td>
<td>0.944</td>
</tr>
<tr>
<td>Emphasis on marketing of specialty services/products</td>
<td>0.972</td>
</tr>
<tr>
<td>Services/products offered in lower priced market segments</td>
<td>0.968</td>
</tr>
<tr>
<td>Only serve specific geographic markets (associated, but not significantly so)</td>
<td>0.935</td>
</tr>
<tr>
<td>Eigenvalues</td>
<td>1.927</td>
</tr>
<tr>
<td>% variance</td>
<td>54.233</td>
</tr>
<tr>
<td>Cumulative % variation</td>
<td>64.233</td>
</tr>
</tbody>
</table>

Source: primary data  
Extraction method: **Principal Component Analysis**  
Rotation Method: **Varimax with Kaiser Normalization**

4.4.5 Factor analysis – Customer Service differentiation strategies

This analysis was done to test for clusters or variables that measure and taps aspects of customer service differentiation strategies employed by the commercial banks as a competitive response. From the table below (table 13) the five (5) factors identified with Eigenvalues greater than 1 exist that account for 93.206% of the total variance in customer service differentiation strategy factors. The common variance was accounted for by outsourcing functions or entering into joint ventures to control costs and enhancing extensive customer service capabilities by the bank (64.233%) explained by the two items. The use extremely strict service and product quality control procedures, the bank taking concerted efforts to build
its reputation within the Banking industry and extensive customer service capabilities. This accounted for 28.973%.

Table 13 Customers Relationship Quality - factor analysis:

<table>
<thead>
<tr>
<th>Variables</th>
<th>COMPONENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing functions or entering into joint ventures to control cost</td>
<td>0.984</td>
</tr>
<tr>
<td>Extremely strict service/product quality control procedures</td>
<td>0.941</td>
</tr>
<tr>
<td>Coordinated effort to build the bank’s reputation within the industry</td>
<td>0.920</td>
</tr>
<tr>
<td>Building bank name identification</td>
<td>0.939</td>
</tr>
<tr>
<td>Extensive customer service capabilities</td>
<td>0.975</td>
</tr>
<tr>
<td>Eigenvalues</td>
<td>1.927</td>
</tr>
<tr>
<td>% variance</td>
<td>54.233</td>
</tr>
<tr>
<td>Cumulative % variation</td>
<td>64.233</td>
</tr>
</tbody>
</table>

Source: primary data  Extraction method: **Principal Component Analysis**
Rotation Method: **Varimax with Kaiser Normalization**

4.5 : T-TESTS

This test was carried out to examine the differences between the different commercial banks on the following variables: cost leadership, product/service differentiation and the focus strategies. T test was used as the researcher wanted to examine whether two means are significantly different from one another by testing the difference of means (e.g. between samples of ownership of commercial banks, local and multinationals).
The T test tests the null hypothesis and gives the degree of freedom (df) and the observed significance level. The significance value is the probability that the t-value would be simply by chance if the null hypothesis were true.

The critical value is the value of a given level of significance (e.g. the 0.05 level) and since this value is so small (less than 5 in 10,000) we will reject the null hypothesis and conclude that there is a difference between the local and multinational commercial banks in Kenya in terms of the variables. The results are presented in the following tables.

### 4.5.1 Differences on cost leadership

**Table 14 Table showing differences on cost leadership strategies (one sample test)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>T values = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
</tr>
<tr>
<td>Pricing below the competitors</td>
<td>5.0270</td>
</tr>
<tr>
<td>Following the actions of competitors</td>
<td>7.416</td>
</tr>
<tr>
<td>Keeping lower overheads than competitors</td>
<td>4.000</td>
</tr>
<tr>
<td>Keeping the same overhead cost as competitors</td>
<td>13.175</td>
</tr>
</tbody>
</table>

Source: Author, 2009

The above results show that there was a significant difference between the commercial banks in Kenya on their strategies of keep their prices lower than other competitors \((t=5.027, df=5, p=0.003)\), following the actions of competitors so as to keep their prices the same as the other competitors \((t=-7.416, df=5, p=0.001)\), to keep their overheads lower than competitors \((t=4.000, df=5, p=0.010)\), and keeping the same overhead costs as the other competitors \((t=13.175, df=5, p=0.000)\). With a mean difference of 3.167 the variable of keeping prices lower than that of the other competitors was fairly significant as it indicated a positive significance to the best strategy on cost leadership strategy. This is because the mean scores
on these indices are higher except on the variables of their approaches of having to keep their overheads lower than the other competitors in the same industry.

The above analysis indicates that those Banks that can ensure their overhead costs are lower than the competitors and can be able to sell the products and or services fairly cheaply than the competitors can and will therefore have an upper hand in the competitiveness in the market.

4.5.2 Differences on product differentiation strategy

Table 15 Differences on product differentiation

<table>
<thead>
<tr>
<th>Variables</th>
<th>T values = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
</tr>
<tr>
<td>Economies of scale achieved through merger or consolidation</td>
<td>4.000</td>
</tr>
<tr>
<td>Broad service/product range</td>
<td>4.183</td>
</tr>
<tr>
<td>Strong branch network</td>
<td>4.540</td>
</tr>
<tr>
<td>Major expenditure on technology to differentiate services/products</td>
<td>3.264</td>
</tr>
<tr>
<td>New product/service development</td>
<td>10.381</td>
</tr>
</tbody>
</table>

Source: Author, 2009

The above results show that there was a significant difference between the constructs of establishing branch networks. In this respect the bankers value the use of extensive branch networks to would their products and services fast to the consumers (t=4.540, df=5, p=0.006), and offering broad service/product range products preferably not provided by the competitors (t=4.183, df=5, p=0.009), and continuously coming up with new product/services and avoiding those currently being used by competitors (t=10.381, df=5, p=0.0000).

The mean scores on these indices indicated above are higher in new product/service development and major expenditure on technology to differentiate services/products of the
competing banks. This would actually mean that the commercial banks would be able to control the marketing of their products and services as is indicated by a high positive significance score in the table above (table 4.19)

4.5.3 Differences on the focus strategy

Table 16 Table showing differences on the focus strategy

<table>
<thead>
<tr>
<th>Variables</th>
<th>T values = 0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t</td>
</tr>
<tr>
<td>Maintaining lending capacity and flexibility</td>
<td>5.534</td>
</tr>
<tr>
<td>Narrow, limited range of services/products</td>
<td>5.394</td>
</tr>
<tr>
<td>Emphasis on marketing of specialty services/products</td>
<td>5.809</td>
</tr>
<tr>
<td>Services/products offered in lower priced market segments</td>
<td>4.000</td>
</tr>
<tr>
<td>Only serve specific geographic markets</td>
<td>6.708</td>
</tr>
</tbody>
</table>

Source: Author, 2009

The above results (table 16) show that there was a significant difference between the constructs being studied of focus competitive strategy between the various commercial Banks in Kenya. All the above variables are positively significant to the success of the focus strategy between commercial banks as the significance levels indicate. Any significance level of 0.005 (95%) and above indicates a strong positive significance.

In the focus strategy it is important that Commercial banks understand their customers and focus their activities on those factors that would give them an edge over the other competitors such as maintaining the banks lending capacity and flexibility to the trusted customers, offering services/products in lower priced market segments and putting a lot more effort on the specific customers who buy from them. In this respect the commercial banks value the
range of products of interest to the clients (t=5.534, df=38, p=0.003), and offering specialty products to the customer (t=5.809, df=38, p=0.002), and serving specific geographic markets or specific customers (t=6.708, df=38, p=0.002).
CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This research set out to study the strategic responses to Global challenges by commercial banks in Kenya. The previous four chapters provided the premise on which to now wind up the report of this study.

In chapter 1, the background and problems of the study were given and the study variables indicated. Research questions were posed as a way of determining the responses to each of the competitive challenges or competitive forces as used by the various commercial banks. In chapter 2, a detailed review of literature on the topic of the research was done. In this chapter the relevant academic journals highlighting the various aspects of the study especially the variables used in the study were used to shed more light to the study. Chapter 3 presented the methodology of the study while Chapter 4 presented the analysis of the findings and interpretation of the study.

In this chapter, the results of the study as presented in chapter 4 are discussed and conclusions are drawn upon which recommendations and areas thought necessary for further research will be identified. This chapter is divided into four parts. Section 5.1 of this chapter deals with the discussions, section 5.2 deals with the conclusions while section 5.3 highlights the recommendations and section 5.4 finally looks at areas of further research on this topic.

5.1 Discussions of findings

The discussions in this section are on the findings of the study in relation to the research questions. The research was intended to achieve the main objective of gathering information on the strategic responses to global challenges by commercial banks in Kenya. The research study was then further designed to accomplish the following objectives.

1. To identify the challenges faced by commercial banks in the context of the changing competitive environment in Kenya.

2. To document the responses of commercial banks to the changing competitive business environment in the banking industry in Kenya.
3. To determine the success of these strategies.

5.1.1: Summary on the commercial banks and the challenges to their business

The first objective was achieved through establishing that to many of the respondents the industry is currently pretty competitive with the liberalization of the industry by the Government of Kenya and currently there are 43 different commercial banks in Kenya (Central Bank of Kenya). This is composed of both the local investors and the multinational corporations who are mostly dealing in similar products. A number of the commercial banks interviewed stated that they use a number of competitive strategies in their effort to compete favorably with those businesses dealing in the same product and services.

It was found out that a number of these commercial banks have been dealing in this type of business (Banking services) for a number of years, 30 years and above, though there are also new entrants in this business such as Equity Bank that has been in strictly banking for about five years and Gulf African Bank which deals mostly in Sharia compliant banking for about one year now in Kenya.

Some of the commercial banks, especially the new entrants in the market state that one of the areas that pose a great challenge to them is the well established Multinationals that have been in the business for quite some time now and the financial requirements to stabilize in the business.

5.1.2 Competitive response strategies

The difficulty in responding to an action is directly related to its novelty (new actions are far from the usual initiatives) and the difficulty of implementing it. This means that the information about actions that is radically different from past patterns and from the usual operating procedures of an industry will be less certain, since managers cannot use knowledge derived from past experience. What it is more important, they may not perceive the need to respond. Hence, we argue that the best actions are those that defy the usual patterns of an industry. On the other hand, less innovative actions provide familiar information to competitors and will make it easier for them to predict and assess its results. As the originality and/or difficulty of implementation of an action increase, so does the difficulty rival companies experience in decoding and interpreting it, hence, decreasing their chances of
response. Thus, the difficulty of an action is indirectly linked to the probability of response. In this sense, Debruyne et al. (1999) found that a response is less likely to occur when radically new products are introduced.

Based on the study, a number of commercial banks rated competition in the country as being stiff or fairly stiff. This they stated was due to a number of factors such as barriers to entry in the business due to high financial requirements, very stringent industrial requirements such as the capital requirements to start the business, government requirements, and increased competition from other organisations not in the banking sector that also continue to provide similar financial services into the same market. A number of the respondents in the study stated that they mostly use the following to respond to the competition in the industry and retain their competitiveness; having their products/services available when and where the customers require them by being located most appropriately to them, selling the products/services at very competitive prices and in most cases attempting to sell them at a price lower than those of the other competitors.

It should be noted here that during the interview with one of the Managers who participated in the study it was established that commercial banks all offer the same product all through and the only way in which the marketers attempt to make their products different/services is in the brand names and the packaging of the service or the products. The other aspects the commercial banks also tend to lay more emphasis on, especially the most competitive, state that to make customers prefer their products/services is in the strategic location of their business, aggressive marketing especially advertising and promotion of the products/services and the affordability of the products, through offering a much more comparatively lower prices than those of the other competing banks. Most of the respondents further stated that they are able to maintain a price which is either the same with the other competitors or slightly lower through ensuring that the overhead costs in their company is managed carefully.

According to the respondents who participated in the study, the extent to which they use their action plans to beat competition in the market in respect to the product and services offering include looking for selected profitable geographical markets, offering product packages not provided by the other competitors and building bank name identification by the customers. As for the action plan about pricing and cost management, a number of the commercial banks
agreed that they use to a great extent the following; keeping their prices lower than that of the competitors, keeping their overhead costs lower than that of the competitors and continuously developing and refining existing products/service offerings. A number also state that they do not use so much the aspects of keeping their prices and overhead costs the same as that of the other competitors.

In respect to staffing the a great number of respondents stated that they usually try to employ competent staff and also train their staff in customer care issues and they put in specific efforts to insure a pool of highly trained and experienced employees’ so as to enhance extensive customer service capabilities. The training given to the employees are important in order to achieve continuity and enhancement employees confidence and develop good customer relationships as this is being seen as increasingly important in a range of markets and particularly so in the Banking industry (Bejou et al 1998).

From the study it was also evident that a number of commercial banks in Kenya are spending a major part of corporate expenditure on technology to differentiate their services and products to the customers and also improving their banking systems to ease their operating costs. The banks also put a lot of emphasis on staffs marketing knowledge so as to enhance innovation in the marketing techniques and methods. One of the areas in banking mechanization or computerization of services is the outsourcing function. This has in effect gone along way to ensure that the banks avoid investing into risky and expensive ventures but can still ensure the utilization of extremely strict service/product quality control procedures in the activities.

The underlying principal behind the establishment of good customer relationships in the business is that organizations can enhance Customer Satisfaction through good customer care through the employee. It is stated that a good relationship with the customers enhances customer satisfaction in the product and the business and it has been conceptualized as a prerequisite for quality customer relationships and has been attributed by Cosy & Stevens (1997) as; satisfactory interactions with the service personnel, satisfaction with core services (extent to which a service satisfies customers’ needs) and satisfaction with the organization. The behaviour and performance of any customer contact staff can have a significant bearing on the business through their impact on perceived service quality. Therefore it is important
that the staff be fully trained in good customer care issues as it is viewed as being responsible for the success or failure of the relationship and good business that will ensure the survival of the company. This success is heavily dependent on the individuals who manage customer care issues. A customer’s evaluation of the quality of a relationship will clearly be dependent on the quality of the interactions with a salesperson. Customers experience and satisfaction with the service provider is a necessary premise to achieving not only continuity but also improving on the quality and enhancing customers’ loyalty to the service provider in the long run, the business. There is the need therefore that the commercial banks ensure that their customers contact persons (staff) are well trained in their roles especially in customer care as a customer’s commitment to a business is stronger when the customers satisfaction levels are high. This would develop into a happy and high loyal customer.

In respect to the marketing activities the study found out that a number of the commercial banks in Kenya use to a great extent the following; maintaining lending capacity and flexibility, emphasis on the marketing of specialty products, comprehensiveness of a distribution system and developing a strong branch network of its banking services besides offering their products/services at a price comparatively below competitors to their customers.

The other plans are the use of promotion and advertising above the industry average. This is to ensure there continuous visibility to the customers.

5.2 Conclusion

This study examines the strategic responses adopted by commercial banks in Kenya to global challenges in their industry. The study investigated the way the commercial banks were using the competitive strategies of cost leadership, product differentiation, focus strategies and customer service differentiation in the competitive environment of the commercial banks in Kenya.

As per the findings of this study, the commercial banks have a number of similarities among them in terms of such attributes as products and services offerings, challenges that they face in the marketing of their products/services. These challenges range from financial, which comprises of the high cost involved in the set up of the business, cut throat competition in
terms of pricing of the products in the market and brand confidence among the prospective customers. The other challenge the players are facing involves the industry requirements, government regulations and the difficulty in accessing qualified and experienced staff and increased competition in the industry from other entrants in the banking sector.

Banks that pursue critical competitive methods related to a broad differentiation strategy all emphasised on the development of a strong branch network, on investment in technology to differentiate services and products, on providing a broad range of products and services to customers, and on the development of new products and services. All the Managers in the study agree that they use the cost leadership strategies in their efforts to gain competitive advantage through good management of their overhead costs, ensuring that they employ competent staffs, and giving good training to their staff in customer care and product knowledge issues to ensure that they understand their customer and products well in order to enforce customer satisfaction and ensure customers loyalty to the products and the company.

A number of previous researches have identified, and this study confirms the importance of salespersons level of customer orientation in such areas as customer trusting the staffs of a service provider to being honest, open and reliable, supporting the customers in difficult times. Customers’ trust in the service provider’s staff being knowledgeable in the products that they deal in increases the level of commitment the customers will and wish to remain a customer to company because he enjoys the relationship. The creation of trust should be the focal point of any business in that it does not only have a positive effect on customer commitment but also on customer satisfaction with the business. This should be the culture of the company as the customers trust is enforced if the service provider (staff) is honest, treats customers fairly, is open-minded, communicates and exchanges vital information with the customer by keeping constantly in touch with the customers. This will reduce their costs on the marketing of the products through advertising and other promotional costs. Business organizations are made of individuals and to develop a trustworthy organization there must be a deliberate intention of the management to build trust in the internal processes through its training and relations with the employees. This would enable the staffs to make well-informed decisions in case of problems or complaints from the customers. The company would also empower its staffs as contact persons with the customers. Companies would benefit from high quality relationships
in that they would have a pool of loyal customers who would make repeat purchase and generate positive word of mouth recommendations to others who could later on become clients. These loyal customers then become advocates for the company and would in the long run reduce promotional costs in the company. This will ensure that the company can be able to sell the products cheaper than the competitors for them to have an advantage over their competitors.

Banks pursuing a cost leadership strategy emphasized the development and refinement of existing products, invested in technology to drive down costs, employed highly trained/experienced personnel, maintained lending and deposit flexibility, and invested in training and organizational learning. A number of banks emphasized each of the six critical competitive responses. The customer service strategy was characterized by the emphasis of three critical strategic competitive responses identified as outsourcing functions to control cost, building the banks reputation in the market, and the pursuit of extensive customer service capability.

As for the other strategy of product differentiation all the commercial banks who did participate in the study mentioned that they use product differentiation as a strategy to gain competitive advantage by ensuring that they brand their services so that they can have a strong brand either in their company name of products and services associated with them so that the customer would not confuse the product with that of the other competitors. They also stated that they always try to offer product offerings or packages that are not provided by the other competitors. This is evident in that the various names of products and services the various banks label them. This is to make the customers see the differences of the various brands of the same product. Another area they use to show product differentiation is in the use of the technology. Different ATMs use slightly different cards.

5.3 Recommendations

This study found that competitive methods used by banks in the financial service industry conform to generic strategy types and banks follow a cost leadership strategy while some banks pursue a broad differentiation, customer service differentiation, or focus strategy as their
strategic responses to global challenges or competition. In fact, as a group, banks following a broad differentiation, customer service differentiation, or focus strategy are able to achieve significant competitive advantage in the industry.

This part of the report brings forward recommendations that according to the researcher would help improve the cases that have been observed under this study on strategic response strategies to global challenges by commercial banks in Kenya. Based on the results of the study, these recommendations it is hoped will help improve on the situations that have been observed. However, these recommendations do not only apply to those in the Banking or finance industry only but also to all other organizations in Kenya and other developing countries that would want to improve on their competitiveness and to generate competitive advantage over their competitors.

The uniqueness of a business or the products a company markets depend on how a customer perceives them to be different. Product differentiation comes from the quality of what the product does to the customer or how the customer feels that his expectations has been fulfilled by the product benefits and his experiences has been positive to what his expectations are. For a company to be more competitive and to generate competitive advantage it must be in a position to understand his customers and be able to offer business solutions to meet their customers’ needs by delivering unique values and adopt strategies that would generate profitability to the organisation and delight to its customer.

This study demonstrates that contact personnel of an organization (staffs) remain an important aspect for the success of the company and determining the success of organisational strategies. A company should therefore invest in its employers through staff development programmes such as training the staff in product knowledge, business technology and customer care issues in order to improve the relationships between the company and its customers. There is need for the contact persons (staff) to possess high quality technical competence, administrative competences through effectively solving problems in order to create value to the customer.

5.4. AREAS FOR FURTHER RESEARCH:

This study by its nature has not been able to exhaustively investigate all the variables that explain all the strategies undertaken in response to global competition in the industry. The
following areas are therefore recommended to be carried out for further investigations or study.

1. The other area of study in which further research is needed is on customers’ perception of the benefits of each of the competitive strategy used against the other competitive strategies.

2. A comparative study should be carried out on the comparative performance advantage on the different competitive strategies used in the services, challenges to both the organization and the customers.
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