ANALYSIS OF STRATEGIC RESPONSES OF COMMERCIAL BANKS TOWARDS ATTAINING COMPETITIVE ADVANTAGE IN KENYA

BY

CHEPKIYENG FRIDAH

D53/13175/2005

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (STRATEGIC MANAGEMENT OPTION), SCHOOL OF BUSINESS, KENYATTA UNIVERSITY

APRIL 2008
DECLARATION
This research is my own original work and has not been presented for the award of a degree in any other university.

Signed ....................................................
Date .................................................

NAME: Chepkiyeng Fridah
REG NO: D53/13175/2005

This project has been submitted for examination with my approval as University
(a) Supervisor.

Signed ....................................................
Date .................................................

— Ms. Gladys Kimutai
Management Science Department

(b) Head of department

Business Administration Department

Signed ....................................................
Date .................................................
DEDICATION
To my husband Fredrick and our son Nelson Kiptoo
ACKNOWLEDGEMENT

To Ms Gladys Kimutai, thank you for taking on the role as my supervisor and never giving up on me. Thanks again for the many hours you spent in thoughtful critique of my work and the endless helpful suggestions. You were always right and pushed me to do a better job. God bless you.

My most sincere gratitude go to my father The Late Chepkiyeng, my mother Esther Kobilo; also my brothers Richard, William, Philip Sisters; Eunice, Belinda, Brenda who gave me a lot of hope and support throughout the programme.

I wish to express my deep appreciation and sincere gratitude to the individuals and banks who have contributed immensely to make this research a reality by giving me important information or responding to research questionnaires.

I would also like to acknowledge the efforts of my lecturers at Kenyatta University who have been with me throughout the course work and whose guidance helped me through to the project phase. I also wish to acknowledge the staff of University of Nairobi Lower Kabete Campus library for allowing me to review the existing literature on strategic management.

Finally, I thank all those who have assisted me in one way or another throughout the course. For all those who assisted me to shape my life and their names are not mentioned here above, I say thanks a lot and God bless you.

iv
TABLE OF CONTENTS

DECLARATION ....................................................................... ii
DEDICATION ....................................................................... iii
ACKNOWLEDGEMENT .............................................................. iv
TABLE OF CONTENTS ............................................................... v
LIST OF TABLES ...................................................................... vii
LIST OF FIGURES ...................................................................... viii
ACRONYMS ........................................................................... ix
DEFINITION OF TERMS ........................................................... x
ABSTRACT ............................................................................ xi

CHAPTER ONE ........................................................................ 1
  1.0 INTRODUCTION ................................................................. 1
  1.1 Background ....................................................................... 1
  1.2 Statement of the Problem ..................................................... 3
  1.3 Purpose of the study .......................................................... 4
  1.4 Objectives of the study ....................................................... 4
  1.5 Research questions ........................................................... 4
  1.6 Scope of the Study ............................................................. 5
  1.7 Significance of the study ..................................................... 5
  1.8 Limitations and Assumptions ............................................... 5

CHAPTER TWO .......................................................................... 7
  2.0 LITERATURE REVIEW ....................................................... 7
  2.1 Introduction ....................................................................... 7
  2.2 The Banking Industry in Kenya ............................................ 7
  2.3 Porter’s Five Forces Model .................................................. 8
    2.3.1 Criticism of Porters Model ............................................ 10
  2.4 Environment Strategy and Organization Capability ............... 11
  2.5 Strategic Responses .......................................................... 13
    2.5.1 Information Technology ................................................. 13
    2.5.2 Restructuring ............................................................... 14
    2.5.3 Marketing ................................................................. 16
    2.5.4 Cultural Change ......................................................... 18
  2.6 Empirical Literature ........................................................... 19
  2.7 Conceptual Framework ...................................................... 21

CHAPTER THREE ...................................................................... 23
  3.0 RESEARCH METHODOLOGY .......................................... 23
  3.1 Introduction ....................................................................... 23
  3.2 Research Design .............................................................. 23
  3.3 Population ......................................................................... 23
  3.4 Sampling Procedures ........................................................ 23
LIST OF TABLES

Table 3.1: The Sampling Strategy ................................................................. 24
Table 4.1: Ownership of Banks ................................................................. 26
Table 4.2: Number of years of service at bank ........................................... 26
Table 4.3: Challenges in the banking industry ............................................. 27
Table 4.4: Ranking of severity of competitive forces in the Banking industry ..... 29
Table 4.5: Information Technology changes in commercial banks ................. 31
Table 4.6: Extent to which changes in restructuring affected the bank .......... 33
Table 4.7: Extent of marketing strategies adopted in your bank .................... 35
Table 4.8: Noted changes in corporate culture at bank in the last five years ...... 37
Table 4.9: Extent of changes in the banks corporate culture ......................... 38
Table 4.10: Extent of changes in service delivery ........................................ 39
Table 4.11: Ranking of strategic responses to attain competitive advantage ...... 42
Table 4.12: Other strategic responses observed ......................................... 44
Table 4.13: Partial correlations with dependant variable ............................. 45
Table 4.14: Model Summary ....................................................................... 46
Table 4.15: Model for estimation of competitiveness ................................... 47
LIST OF FIGURES

Figure 2.1: Conceptual Framework ................................................................. 21
Figure 4.1: Other information technology changes ........................................... 32
Figure 4.2: Other forms of restructuring in the commercial banks ...................... 34
Figure 4.3: Other marketing strategies adopted by commercial banks ................... 36
Figure 4.4: Other changes relating to service delivery ...................................... 41
Figure 4.5: Strategic responses to attain competitive advantage ......................... 43
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>BPR</td>
<td>Business Process Re-engineering.</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>ATM</td>
<td>Automatic Teller Machines</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Financial Institutions</td>
</tr>
</tbody>
</table>
DEFINITION OF TERMS

Commercial banks are those institutions that are involved in accepting deposits and lending money to the public with the use of cheques (Basu, 1997).

Environmental turbulence is a combined measure of the changeability and predictability of the firm’s environment (Ansoff, I. and McDonnell, J. (1990)

Strategy is a managerial game plan for achieving the chosen objectives. Strategy is mirrored in the pattern of moves and approaches devised by management to produce the desired performance. Strategy is the how of pursuing the mission and reaching target objectives (Thompson, Jr., 1997).

Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage (Hitt, A. et al 1997).

Competitive Advantage this integrated view is based on position and performance superiority being a consequence of relative superiority in the skills and resources a business deploys. These skills and resources reflect the pattern of past investments to enhance competitive positions. The sustainability of this positioning advantage requires that the business setup barriers to make imitation difficult (Day, G. 1990).
ABSTRACT

Over five years (2001-2006) there have been changes in the Kenyan economy and commercial banks have not been spared from the impact of these changes. The aim of this study was to establish analysis of the strategic responses of commercial banks towards attaining competitive advantage in Kenya. The objectives of the study were the need to find the challenges in the banking industry, to find out how information technology, restructuring, marketing strategies has influenced the attainment of competitive advantage in the banking industry, to establish how corporate culture change and customer service delivery influences attainment of competitive advantage of a bank.

To satisfy these objectives data was collected from thirty three selected commercial banks in Nairobi and from each bank two managers in general managers department and human resource or marketing department were targeted as the principal respondents. A self administered questionnaire was used as major tools of data collection. The aim of the questionnaire was to capture data on challenges in the banking industry, strategic responses adopted by commercial banks and managers opinion on what should be done on ensuring that competitive advantage is attained. Descriptive research design was preferred for the presentation of findings. In this case data was analysed using the mean score and standard deviation because it was measured at the ratio level using a five point scale. The mean scores were ranked giving the highest score the greatest importance. Histograms were also drawn to show the spread of the factors which eased comparison and interpretation of results.

The study established that commercial banks are faced with many challenges and liberalization was taken to be the challenge that is a threat to the industry. In this study, Information Technology appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. The results of this study tally with the findings of Gathoga (2001) that the commercial banks are in competition and their products and services differential is quite thin hence need for restructuring. The study also revealed that a number of strategic marketing variables are manipulated by commercial banks to respond to a competitive intensity in the banking sector. These include; developing new products, and market development and market focus. Further the study revealed that branding of corporate building had a mean score of 3.65 and nature of internal communication were most notable changes relating to corporate culture most effected in commercial banks. Schein (1985) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

The study was based on four major strategic response variables. A further study can be carried out on other responses that commercial banks has made in order to attain competitive advantage. This will then allow industry generalization.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The growing business competition calls for the development of new strategies by every organization. Indeed, as the organizations make new innovations, they must continuously keep abreast of what other organizations are doing judged by increasing similarity of product and service features, one can easily postulate that organizations are quite replicating products and services developed by competitors. In a broader sense the banking sector services are similar thus the line of service and product differential is quite thin.

In the immediate post-independence Kenya, the banking and financial industry was highly controlled. However, after 1982, the government relaxed the hitherto stringent rules in the issuance of licenses, especially licences to operate Non-Bank Financial Institutions (NBFI). The low capital requirement of only Ksh. 5 million for a non-bank financial institution brought about the mushrooming of these institutions in the country. The relaxed regulatory and supervisory systems with which the banking and financial institutions operated at this time brought with it poor governance and poor management culture in the industry. Recent years have witnessed a restructuring of the sector through liquidations and mergers brought about by a declining client base and non-performing loans as well as overall poor management of small, indigenous banks (Macey and O’Hara 2003).

In spite of the number of established banks, the banking sector is essentially dominated by four major commercial banks namely; Kenya Commercial Bank, Barclays Bank, Standard Chartered and Cooperative Bank (Bank Supervisory Report, 2006). On paper, NBFIIs were to operate as merchant or investment banks. In June 1994, the Central Bank instructed NBFIIs to operate as commercial banks taking deposits and making short-term loans. Macey and O’Hara (2003) said that, so far 27
NBFls had become banks and 20 merged with parent commercial banks. This study focused on commercial banks in Kenya.

Pearce and Robinson (1997) stated that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to the environment. The external environment is complex and challenging thereby presenting the organization with opportunities and threat. The external environment has three major parts – the remote environment, industry environment and operating environment. Compared to the remote environment, the industry environment has more direct effects on the firm’s efforts to achieve strategic competitiveness and earn above average return (Hitt et al., 1997). The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive, failure to effectively adapt the organization to its environment, according to Ansoff and MC Donnell (1990), leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands.

Thompson (1997) defined strategic adaptations as changes that take place overtime to the strategies and objectives of an organization. The banks, just like all other organizations, are affected by change. Such changes could be gradual, evolving, dramatic or even revolutionary. Grundy (1995) states that, responsiveness and flexibility is increasing important factors that determine the success of an organization. Hill and Jones (2001) added that, the achievement of superior efficiency, quality innovation and responsiveness enables an organization to create superior value and attain competitive advantage.

Porter (1980) identifies five force that affect the level of competition in an industry. He states that the rules of competition are embodied in the entry of new competitors, the threat of substitutes, the bargaining power of suppliers, bargaining power of buyers and the rivalry among existing competitors. Changing environment is a very
imperative endeavour in the banks. This study will seek to unravel the strategic responses of commercial banks towards attaining competitive advantage in Kenya.

1.2 Statement of the Problem

It is difficult to visualize how an economy would operate and survive without the critical service offered by banks. The banks have predominantly bought treasury bills hence fetched huge profits. However, the situation changed significantly with the intensity of competitive rivalry in the sector only reaching peak levels with drastic decline in interest rates offered since the year 2002 on treasury bills and the re-introduction of Section 44 of the Banking Act (therefore controlling charges). The banks have resorted largely to the use of strategic responses such as information technology, restructuring, marketing, culture change, customer service, mergers and re-organization.

It is believed that the issues affecting banking in Kenya include: changes in the regulatory framework, declining interest due to customer pressure, increased demand for non-traditional services and a move towards emphasis on the customer rather than the product, and the threats of new entrants (new banks entering the market), substitute products, competitive rivalry, bargaining power of buyers and bargaining power of suppliers.

The studies that have been carried out on financial sector by Obiero, (2002), Kithaka, (2001) and Gathoga, (2001) focused on the banking sector regulatory framework, queue management in financial institutions and the responses of declining quality loan assets. Adongo, (2005) studied the factors influencing efficiency of Namibian Banks. Whilst lessons may be learnt from his study, not all may be applicable to the Kenyan banking industry. A knowledge gap does exist as no study has attempted to analyse the strategic responses of commercial banks towards attaining competitive advantage.
1.3 Purpose of the study

The study was undertaken with an aim of identifying strategic responses adopted by commercial banks in an attempt to gain competitive advantage.

1.4 Objectives of the study

General objectives

The general objective of the study was to investigate the strategic response towards attaining competitive advantage in the banking industry.

Specific objectives are:

1. To find the challenges in the banking industry
2. To find out how information technology, restructuring, marketing strategies has influenced the attainment of competitive advantage in the banking industry.
3. To establish how culture change and customer service delivery influence attainment of competitive advantage in the banking industry.
4. To recommend policy for better adjustment of commercial banks to the environment.

1.5 Research questions

1. What are the challenges faced by commercial banks in Kenya?
2. How has technology influenced the competition in the banking industry?
3. What are the restructuring strategies that have been used by Commercial Bank in the last five years?
4. What are the marketing strategies has been used by commercial banks in the last five years?
5. How has culture change influence attainment of competitive advantage in the banking industry?
6. How has customer service improvement influence competitive advantage in the banking industry?
1.6 *Scope of the Study*

This study was limited to commercial banks within Kenya only and did not cover other financial institutions like micro-finances and building societies and also the study was done in Nairobi since most of the banks’ headquarters are located there.

1.7 *Significance of the study*

The findings of the study is believed to benefit the following parties:

i. **Policy makers at the commercial banks:** The study will help them to identify any strategic gaps in their strategic responses and the limitations of such responses. It was also provide suggestions on how to enhance the banks responsiveness to competition.

ii. **Management Consultants:** This study was also to benefit management consultants who endeavour to provide assistance to commercial banks in Kenya in the formulation and implementation of competitive strategies.

iii. **Academic Researchers:** This study was expected to generate interest among academia that lead to further study on the dynamic area of strategic responses by banks to the intensive competitive pressure in the financial industry. This study was also to contribute to the existing body of knowledge on strategic response in the face of ever growing challenges.

iv. **The Public and Customers of commercial banks:** The public and the customers are expected to benefit from the results of this study because of better service and customer care.

1.8 *Limitations and Assumptions*

This study envisaged to face the following key limitations inadequate financial resources to foot the costs, and time constrain of conducting the research which might affect the sample size. The following assumptions were considered in this study, first the services offered by the banks are similar and that product differential was minimal. Secondly, there is a level playing field in the banking
sector that is no favors in terms of ownership be it a local bank or a foreign bank and finally the responses that I got was assumed to be truthful.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The strategic response of a firm has to be taken in conjunction with the other decisions of the firm. This means that all the decisions of the firm have to be balanced if it is to attain its objectives and those of other stakeholders like customers, suppliers, shareholders etc. This section reviewed literature in strategic management with a lot of emphasis laid on the environment in which banks operate, industry forces according to porter’s five-force model, and literature on the strategic responses.

2.2 The Banking Industry in Kenya

As at the end of year 2001, the Kenya banking industry was made up of forty banks by the year 2007 there were forty four banks. However, only five banks account sixty per cent of the total banking industry assets and deposits. These major banks listed in descending order according to assets base and deposits are Barclays, Kenya Commercial Bank, Standard Chartered, Citi Bank and National Bank of Kenya. These large banks are commonly referred to as the big five within the banking industry. Any decisions made by these banks have substantial impact on the total industry. As banks continuously rationalize their branches in order to reduce overhead costs, the numbers of ATMs in use have risen to more than five hundred. The improved uptime of the ATMs has been realized due to the access of some of these banks to Very Small Aperture Terminals (VSATs) which have made them less dependent on the unreliable services of the main telecommunication service provider. (Market Intelligence, 2006).

Most economies joined the globalization race by introducing liberalization and privatization policies. Consequently, the banking industry for instance, experienced the freedom from Government control on foreign exchange and interest rates. As a result of such deregulations the operating environment for banks has changed
drastically. The forces of change have led to increased competition, new regulation or expectations of customers (Basu 1997).

The banking industry in Kenya has been undergoing a lot of changes and despite the stable environment in the Kenyan banking sector in the period 2001-2006, there has been a need to address bottlenecks that impede the sector from providing efficient, affordable and accessible banking services to the Kenyan public. These bottlenecks include: - non-performing loans especially in state influenced banks, delays in the resolution of litigation cases, outdated laws such as the Companies Act and Inefficiencies in the payment systems (Banking Supervisory Report 2006).

There have been legislative changes such as those governing interest rates as well as the amounts that are deposited at the Central Bank of Kenya (As part of the deposit protection fund). There have also been a number of cooperative societies that collect members’ contributions and extend loans to their member’s. Some of these cooperative societies offer front office banking facilities and serve their clients just as any commercial bank does. Government of Kenya (2002), in addition, highlights the emergence and recognition of microfinance institution as alternative sources of funds for loans, hence as sources of increasing competition in the banking industry.

The above changes have contributed to the increasing competition in the banking industry, especially with regards to the number of financial products available in the market that is comprised of an increasingly more sophisticated clientele. The banks should ensure that customers are the king and their complaints are acted upon accordingly. It’s in this light then that the researcher was concerned on studying this unpleasant problem of the competitive intensity and strategic responses that banks have resorted to.
2.3 Porter’s Five Forces Model

The nature and degree of competition within an industry hinges on five forces. The threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and the jockeying among current contestants. Porter, (1979) emphasized that there is a greater opportunity for superior performance when these contending forces are weak.

New entrants in the industry bring in new capacity, the desire to gain market share, and often substantial resources. The seriousness of the threat will depend on entry barriers presenting the industry. The threat of entry is low if the entry barriers are high and newcomer expects sharp retaliation from entrenches competitors.

Customers power is manifested in their capability to force down prices, demand for higher quality or more service and play competitors off against each other at the expenses of industry Information Technology. The power of buyers as often attributed to consumers as a group as well as industrial buyers. Consumers tend to be more prices sensitive if they are buying products that are undifferentiated, expensive relative to incomes or a product whose quality is not particularly important.

Suppliers can exert bargaining power on an industry by raising prices or reducing the quality of goods and services purchased. Hence, an industry profits are squeezed out if the participants are unable to recover the increased cost in its own prices. Suppliers tend to be powerful if they are more concentrated than the industry they sell to and if they have built up switching costs.

A substitute product limits the potential of an industry in terms of earning possibly in growth. This is because of a price ceiling posed by substitute products particularly where the price-performance trade off offered by substitutes is more
attractive. Substitute products compel the industry players to upgrade quality or to differentiate their products.

Rivalry among competitors takes the form of tactics like price competition, product introduction; and advertising slugfests. In some industries, rivalry is intense resulting in bitter price cuts. A company may have some latitude for improving matters through strategic shifts such as a focus on selling efforts in the fastest growing segments for the industry or market areas with lower fixed costs.

2.3.1 Criticism of Porters Model

However the theory fails to take into account changes in various environments and uniqueness of firm’s in different industries or markets. In developing countries like Kenya, many other factors other than the one recommended by the model are critical in strategy formulation. The facts include infrastructure, availability of raw materials and Government support and subsidies in addition to this competing firm tend to learn from each other and can easily emulate rival success. This makes it not possible not today what tomorrow competitive strategy should contain. Implementation of this theory can be costly and might involve spending a lot of money on the assumption that if this is not done a rival firm might behave in a certain manner. There is no guarantee however that the rival will behave in that manner even if resources are not infant committed. The theory of competitive analysis relies on speculations and not on evidence about competing firm’s commitment, intention and abilities to a particular market. Sometimes firms have no formal strategies especially during their early years of operations. Management tends to commit resources in various ways including purchase of specialized equipment. This practice has a major competitive strategy which becomes the business strategy for the firm. Businesses often change the injustice in which they operate. The criteria used by this model to define a particular industry are therefore likely to change in technical innovation. The theory of competitive analysis is static in nature and ability to predict the outcomes is questionable (Doyle, P. 1994).
2.4 Environment Strategy and Organization Capability

Ansoff and McDonnell (1990) states that changes in an organization’s behaviour are necessary, if success in the transformation of the future environment is to be assured. They noted that such changes, which touch on the organization’s strategy and capability, would need to be systematically identified through the strategic diagnostic 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 behaviour matches the turbulence of its environment; the responsiveness of the firm’s capability matches the aggressiveness of its strategy; and the components 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 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 environment turbulence.
Managing the firm's adaptation to the environment

The above diagram clearly indicate the environmental dependence of an organization when there is an environmental shift from $E_1$ to $E_2$, the organization strategy has to be changed from $S_1$ to $S_2$ in order to adapt to changing environmental conditions. However, this is only possible when the organization's capability is changed from $C_1$ to $C_2$. 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 that they support the chosen strategy. As the organizations environment changes, it is necessary that the firm continuously adapts its activities and internal configurations to reflect the new external situation. Failure to do this endangers the future success of the organization. (Aosa, 1998)
Porter (1991) explains that the concept of dynamic strategy fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantage overtime. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types and employing higher levels of skills and technology.

According to Grant (2000) a successful strategy is consistent with the organizations goals and values, external environment, resources and capabilities, and organization system. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance; thus, when there are changes in the environment, the organizations capabilities and strategies would have to be changed in order to ensure strategic fit.

2.5 Strategic Responses

Thompson (1997) defined Strategic adaptations as changes that take place overtime to the strategies and objectives of an organization. Such change can be gradual or evolve or more dramatic, even revolutionary. Ansoff and MC Donnell (1990) notes that, strategic responses involve changes to the organization strategic behaviour such responses may take more forms depending on the organizations capability and environment in which they operate. Well-developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining competitive edge. These strategic responses include: Information Technology, Restructuring, Marketing, and Cultural Change.

2.5.1 Information Technology

According to Porter (1995), Technology changes, especially Information Technology, is amongst the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. Porter and Miller (1985) content that Information Technology can also create new business within a company’s existing activities. MC Farlan et al. (1983) contribute that Information Technology offers a scope of product
differentiation that enables the company to effectively serve the needs of the market
niche. Turban et al. (1996) adds that the way a firm views its business, consumers
and competition is critical to successful aligning its businesses and information
technology strategies. Information Technology is used to automate processes and to
augment the skills of the organizational staff.

Rayport and Sviokla (1995) state that competition is defined along two
dimensions: The physical world of resources and the vital world of information.
Information supports and enhances every activity in the organization, and it can
itself be a source of added value and, hence competitive advantage provided
organizations are able to draw that value.

Robson (1997) noted that strategically successful organizations obtain market
feedback continuously and rapidly, and adapt to the feedback ahead of their 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
telecommunication systems.

2.5.2 Restructuring

According to Mullins (1999), organization structure is the pattern of relationships
among positions in the organization and among members of the organization.
Structure makes it possible the application of the process of management and
creates a framework of order and command through which activities of the
organization can be planned, organized directed and controlled. With regards to the
number of levels in the structure of the organization, often referred to as scalar
chain, Drucker (1989) suggests that, these should be as few as possible and that the
correct design of structure which is of most significance in determining
organizational performance.
Too many levels bring difficulties in the understanding of objectives and communication both up and down the hierarchy. One of the major activities of restructuring is Business Process Re-engineering. Hammer (1996) notes that, companies can dramatically improve their efficiency and quality by focusing on customers and the processes that create the value to them. Processes have come to be more important than their products and are in fact defining the market places in which companies compete”. Outsourcing, for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. Firms can design their strategies based on their processes, for instance, through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets.

According to Quinn (1992) Enterprise generally obtains strategic advantage by focusing on the smallest activity or cost units that can be efficiently replicated. Cost cutting efforts will lead to dramatically lower overhead costs and part of these savings be passed to the consumer in terms of lower price.

Thompson (1997) states that radical business process re-engineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. It leads to breaking down functional and individual job boundaries as the processes do not have to coincide with the existing departmental status.

Grundy (1995), however, cautions that speeding activities up without detriment to quality and without increasing costs demands more effective learning and feedback in the management process. Accelerating processes, with continual and open learning, avoids costly errors.

Rowland and Peppard (1995) suggests that by searching for the root causes of consumer departures, companies with the desire and capacity to learn can identify business practices that need fixing and sometimes can win the consumer back and
re-establish the relationship firmly. They note that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of new Information Technology equipment or systems, Business Process Re-engineering through process intensification or extension, the redesign of a group of jobs, staff right-sizing and subsequent staff cut backs, as well as staff redundancies.

2.5.3 Marketing

Kotler and Armstrong (1999) defined marketing as a social and managerial process. It is the process by which individual and groups obtain what they need and want through creating and changing products and value with others. Basically, it is about satisfying consumer's needs and wants. Kotler (2000), observed 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 organizations strategic planning process. The strategic marketing responses are based on the marketing mix elements of product, price, place and promotion and market research (probe).

According to Thompson and Strickland (1993), Environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to the emergence of opportunities and threats. This will help the manager to develop appropriate strategies given the industry competitive situation. A number of strategic marketing variables may be manipulated to respond to a competitive situation. These include; adjusting of target market, diversification, developing new products, distribution changes and making price cuts. Other marketing variables that compromise the firm's response to a changing competitive situation include the advantages and establishment of relationship marketing. The following are marketing strategies proposed by Ansoff growth matrix.
Johnston and Scholes (2002) argue that market penetration strategy, is the least risky since it leverages many of the firm's existing resources and capabilities in a growing market, simply maintaining market share will result in growth, and there may exit opportunities to increase market share if competitors reach capacity limits. The strategy also probably requires the least amount of finance for expansion although resources may need to be channeled into promotional campaigns to appeal to and then persuade customers. This could be in the form of advertising, sponsorship, special promotions and even temporary discounts. The most obvious risk on pursuing this strategy is that of retaliatory action from competitors, this is especially likely if the penetration can only come at the expense of cannibalizing rivals market share and when products are good substitutes for each other.

According to Pearce and Robinson (2001), market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographies or other new opportunities. The company targets new geographical areas domestically and; internationally, identifying potential new consumer groups, seeking additional distribution channels and developing new locations both domestic and abroad cannibalizing rivals market share and when products are good substitutes for each other.

New product development strategies is used when the external factors suggest that the market is saturated or that stronger competition or other threats to the market exist and the internal factors show weakness in distribution or strength in product development. New market developments strategy may be adopted when internal factors suggest adding markets for existing products due to greater distribution strengths but production or product development weakness (Jauch and Glueck, 1988)

A diversification strategy could take the form of related diversification or unrelated diversification. Related diversification allow a business to escape from possible internecine war with existing competitors while minimizing product – market
adjustments costs in terms of having to adopt technology (Doyle(1994)). Unrelated diversification is an expansion by a business into market areas that are not related to existing product or services in terms of technology, distribution channels or the rationale for such an expansion path is financial rather than industrial. Unrelated diversification releases the firm from any constraints upon the chosen market in which to expand. Unrelated diversification could either be concentric or conglomerate.

2.5.4 Culture Change

Brown (1998) defined organization culture as the pattern of beliefs, values and learned ways of coping with experience that have developed during the course of an organization's history and which tend to be manifested in its material arrangements and in the behaviours of members. Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination and control and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitates the chances of being successful in the market place. Therefore, corporate cultural identity, for the marketer, is a strategic tool that is used to manipulate consumer perceptions of an organization and its products and services.

According to Thompson (1997) the potential for changing the culture of an organization is affected by the strength and history of the existing culture, and the extent of the strategic need. The culture of the organization would need to be changed when it does not fit well with the requirements of the environment or the organizational resources, the company is not performing well and needs major strategic changes or the company is growing rapidly on a changing environment and needs to adapt. Kotter (1996), notes that truly adaptive firms with adaptive cultures are aware some competitive machines. They produce superb products and services faster and better, even when they have fewer resources or less market share. Hamel, and Prahalad (1989), add that companies that have arisen to global leadership began with strategic intents that were disproportional to their resources.
and capabilities. Schein (1985) concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

Cultural change and corporate learning are interdependent. The rate of organizational learning is dependent on culture, while the rate and content of organizational learning fundamentally influences the firm’s culture. Thus, culture change is a process of re-learning. Other cultural shifts include changes in architectural design and branding of corporate building, the change of organizational logo, nature of internal communications as well as staff dress codes.

Strategic responses to a changing competitive environment, therefore, entail substantial changes to organization long term behaviour. These adaptations may be gradual or revolutionary depending on the nature and circumstances facing the organization.

2.6 Empirical Literature

Various studies in the past have been conducted on this area of strategic management. Most of the previous studies have been general in nature in that they have been on a broad spectrum of financial sector. This study however departs from this in that it takes closer look at the factors considered by Commercial Banks in terms of strategies in place. The companies in question (i.e. Commercial Banks) are of vital importance in that, it is one of the leading institutions in Kenya’s banking and financial sector with an asset base expanded to over shillings 650 Billion in 2005 compared with 583 Billion recorded in 2004. It is in light of these recent developments that the study is aimed at determining whether there has been any significant change in their strategies.

Obiero (2002) carried out a study on the banking sector regulatory framework he pointed out that Kenyan banking system was in trouble. An estimated 41 per cent of loans were non-performing, with most of these loans held by two state controlled banks Kenya Commercial Bank and National bank dominated the banking industry.
with two international bank Barclays and Standard chartered. His study concentrated on bank failures and attributed them to the problem of non performing loans. He noted that in between 1984-2001 there were 39 bank failures in Kenya. These banks cost the economy about Kshs19,685 million in terms of loans and grants to restructure the consolidated banks, compensation to deposits and outright losses due to deposits or funds not covered by the deposits protection fund. The results of his study was that the dominant factor causing bank failures are ineffective boards and management, poor lending practices but did not look at strategies that my study intent to cover.

Kiyai (2003), studied bad debts restructuring techniques used by banks, he noted some restructuring techniques used by banks such as extended repayments periods, interest waivers, interest holidays, capital holidays concessions, additional facilities and conversions.

Kithaka (2001), in his study queue management in financial institutions identified the following factors that contribute to efficient customer service as the level of education of the tellers and their managers, area of specialization, motivation in the work environment, involvement in decision making, availability of ATMs, continuous training and the awards of merit to the personnel. On his research he starts by explaining the queue management in financial institutions based on this assumption the model was thus formulated. In this study the use of ATMs as strategies but now it’s no longer an issue since most banks use them.

On similar lines Gathoga (2001), on her research competitive strategies applied by commercial banks in Kenya. According to her study, banks have responded to the challenge of declining quality of loan assets by diversifying income streams to include more of government securities and non funded income from services like funds management, business advisory services, custodial services like fund management credit cards, forward exchange contracts, funds transfer remittance among others. She concluded that all banks however regardless of their proportion of non-performing loans are paying greater emphasis on their restructuring.
Goro (2003) carried out a study on the strategic responses of bottled water companies to threat of substitute products. Whilst lessons may be learnt from her study, not all may be applicable to the banking industry. Bottled water is a convenience good. Convenience goods are usually branded and low priced (Kotler, 1999). However, Banking services are generally homogeneous and competition is centered on service.

Adongo (2005) carried out a study on factors influencing efficiency of Namibian Banks. The efficiency of overall financial sector in allocating credit to investment that offer the highest returns is a necessary condition for increased economic growth. The report found out that the effect of concentration of efficiency in Namibian banking sector between 1998-2003 was that the market power hypothesis for Mergers is positively associated with the measures of efficiency and the effects of adverse pricing on the welfare of the society work in the opposite direction and should be considered by the regulator in any anti-trust assessment of potential M &A deals. Whilst lessons may be learnt from his study, not all may be applicable to the Kenyan banking industry.

2.7 Conceptual Framework

The role of banks in financing international trade is a considerable contribution in the economy of Kenya. In a nutshell, however, most banks have established its objectives in the area of: profitability, growth, market share leadership and technological advantage and this will come from how best they out-perform their rivals (How they respond to customer services needs).

From the background of the problem, competitive advantage was a function of many variables which may be acting in unison or in isolation. The high level of technology, restructuring, marketing, service improvement and cultural change was expected to yield competitive advantage. The aim of deriving this diagram was to establish whether there is a link between strategic responses and competitive advantage. Hence the diagram below was used to guide this study.
Figure 2.1: Conceptual Framework

Independent variable

- Information Technology
- Restructuring
- Marketing
- Cultural change
- Service improvement

Dependent variable

- Competitive Advantage

Source: Researcher 2008
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section focused on describing the methodology that the researcher adopted to achieve its objectives. It began with a description of the research design, population and then went on to describe the procedure used to identify the strategic responses of commercial banks towards attaining competitive advantage.

3.2 Research Design

Churchill (1991) wrote that exploratory studies are important in increasing the researcher’s familiarity with the problem, in gathering information about practical problems, in clarifying concepts, in formulating a problem for more precise investigation and in establishing priority for further research. Banking services are similar thus the line of service and product differential is quite thin, it is because of this that, an exploratory survey was used in carrying out in this study. This study was a survey of thirty three commercial banks within Nairobi and with this as a guide, descriptive study was also adopted.

3.3 Population

The population of interest consisted of all the commercial banks operating in Nairobi, Kenya. According to the Banking Supervisory Report (2006) these are forty four such banks. See (Appendix II).

3.4 Sampling Procedures

From the population a three-stage stratified random sampling technique was employed to select the banks for the study. This study was limited to seventy five percent of the total banks in Kenya. This meant that thirty three commercial banks were taken. This was appropriate because statistically this sample size was acceptable as it conformed to the widely held rule of the thumb that a sample size should not be less than thirty n>30. (Kent 1999).
Table 3.1: The Sampling Strategy

<table>
<thead>
<tr>
<th>Size of Banks</th>
<th>Size of Population</th>
<th>Non-State owned Banks</th>
<th>State owned banks</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>13 Balance sheet balance &gt; 20 billion Ksh.</td>
<td>8</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Medium</td>
<td>13 Balance sheet balance &lt; 20 billion Ksh.</td>
<td>13</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Small</td>
<td>18 Balance sheet balance 5 billion Ksh.</td>
<td>18</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>39</td>
<td>5</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: (Researcher, 2008)

The study was done at the headquarters of the banks that are sampled since all the corporate level decisions were made there. A total sixty six questionnaires were administered in the selected commercial banks, where in each bank, two questionnaires were administered. The sample was approximately equal to a normal population. The following procedures were followed:

First, a comprehensive list of all commercial banks in Kenya with bank sizes stated was drawn (Appendix II). Secondly, a dichotomised list consisting of all non-state owned commercial banks and state-owned banks. Finally each institution was given a unique number for sampling purposes. A random numbers table was used to arrive at the indicated number of banks after which each bank was given a number unique to itself. This procedure was considered effective as each bank had a non-zero chance of being included in the study.
3.5 Data Collection

Primary data was collected by the use of semi structure questionnaire (see Appendix II). The questionnaire consisted of; part A that collected respondents profile, part B provided data on the challenges in the banking industry and part C was used to gather data about strategic responses. The questionnaire was administered by the “drop and pick later” method. In every organization, the respondents were the general managers and where that position did not exit the marketing and operations manager filled the questionnaires. The top managers were targeted because the study focused on respondents who were able to give an overall understanding of the banks’ management systems, functions, and procedures. Secondary data was also collected.

3.6 Data Analysis

The information from the respondents was coded and edited and then created a database using Statistical Package for Social Sciences (SPSS) an analytical computer software program used to analyse the data. This enabled a wide range of analysis and statistical tests conducted quickly and accurately. The study was descriptive in nature; therefore descriptive statistics were used to analyse the data.

The objectives of the study were analyzed using the mean score and standard deviation because they were measured at the ratio level using a five point scale. The mean scores were ranked giving the highest score the greatest importance. Linear regression and correlation analyses were used to test the interaction of the aspects under study. This type of analysis had been used in similar studies in the past including; Obiero, (2002) and Goro, (2003). Suitable presentation of tables and charts were used to interpret the data so as to form conclusions regarding the research objectives. Histograms were also drawn to show the spread of the factors.
CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents data analysis and findings of the study. A total of 66 questionnaires were issued to target a respondent that is thirty three commercial banks. Out of these, eighteen commercial banks responded which means that 36 were completed and returned representing a response rate of 54.54 per cent. The study aimed to investigate the strategic response towards attaining competitive advantage in the banking industry. The results obtained are shown in the following sections.

4.1.1 Overview of the banks characteristics

As shown in Appendix II, 88.63 per cent are non-state banks while 11.36 per cent are state owned banks. Eighteen commercial banks responded and out of these fifteen were local banks representing 83.3 % and multinational that is both local and foreign represent 16.7 %.This means that Kenyan economy is dominated by local entrepreneurs which is crucial for the growth of any economy. All these commercial banks that responded concurred that competition was high.

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local</td>
<td>30</td>
<td>83.3</td>
</tr>
<tr>
<td>Both local and foreign</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey

4.1.2 Number of years of service at bank

The respondents were asked to state the number of years they had worked in the bank.25% had worked for less than 5 years while 52.8 % said that they had worked for more than 5 years but less than 10 years. According to the researcher the information
from such respondents is helpful because they have been in these banks when most strategies were introduced and seen through its implementation.

Table 4.2: Number of years of service at bank

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>9</td>
<td>25.0</td>
</tr>
<tr>
<td>5-10 years</td>
<td>19</td>
<td>52.8</td>
</tr>
<tr>
<td>10-15 years</td>
<td>8</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey

4.2 Challenges in the Banking Industry

As the first objective, the study attempted to find the challenges in the banking industry. This data was collected on a five point scale where 1 is equal to “no extent”, 2 is equal to “little extent”, 3 is equal to “moderate”, 4 is equal to “great extent” and 5 is equal to “very great extent”. The data was analyzed using mean scores to determine to what extent the listed challenges affected the commercial banks. As shown in table 4.3.

Table 4.3: Challenges in the banking industry

<table>
<thead>
<tr>
<th>Challenges</th>
<th>No/Little extent %</th>
<th>Moderate %</th>
<th>great/very great extent %</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberalization</td>
<td>0.0</td>
<td>29.2</td>
<td>70.8</td>
<td>4.58</td>
<td>1.550</td>
</tr>
<tr>
<td>Legislative changes</td>
<td>20.8</td>
<td>45.8</td>
<td>33.3</td>
<td>3.50</td>
<td>1.269</td>
</tr>
<tr>
<td>Demanding clientele</td>
<td>0.0</td>
<td>37.5</td>
<td>62.5</td>
<td>3.40</td>
<td>1.350</td>
</tr>
<tr>
<td>Technological advancement</td>
<td>0.0</td>
<td>62.5</td>
<td>37.5</td>
<td>3.90</td>
<td>1.449</td>
</tr>
<tr>
<td>n=36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.3 above shows that most of the challenges are faced by commercial banks to a great extent. Liberalization has a mean score of 4.58 meaning most of the banks rated it as the biggest challenge. 70.8% of the respondents considered liberalization as major challenge, even though liberalization has been in the country for so long according to business trend review (1992) recessions and liberalization has made competition in Kenya market place stiffer as a result companies respond by actions such as lay off, cutting costs, adjusting target market, diversification, developing new products and making price cuts. The researcher thought that liberalization is no longer a major challenge in the banking industry but the results show that banks are still coping with liberalization.

Technological advancement had a mean score of 3.90, with 62.5% of the respondents rating it as a challenge to a moderate extent. According to some of these respondents to curb these challenge banks have to embark on Technological innovations which are not only expensive to adopt but also involve high rate of obsolescence.

In general, the findings presented in the table above shows all the variables except demanding clientele has a mean score greater than 3.50 indicating that they faced these challenges to a great extent. The findings are consistent because organizations today must grapple with revolutionary trends-accelerating product and technological change, international competition, deregulation, demographic changes and shift towards service improvement. These trends have increased drastically the degree of competition in virtually all industries. Companies in such environments must either become competitive or they varnish. The findings are consistent because the infiltration of the small banks into the market posed a great challenge to the already established banks forcing them to come up with new products. However, the highest standard deviation (1.550) indicates that respondents had the least consensus in this view.
4.3 Competitive Forces in the Banking Industry

This section sought to unravel the extent to which given competitive forces affected the banking industry. The respondents were required to give a ranking based on a scale of 1-5 where 5 represents the very intense and 1 very low effect of the forces. The results of the data analyzed using mean scores are as shown in Table 4.4 below:

<table>
<thead>
<tr>
<th>Force</th>
<th>Extent</th>
<th>Low or Very low %</th>
<th>Moderate %</th>
<th>Intense or very intense %</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rivalry at industry</td>
<td></td>
<td>0.0</td>
<td>36.1</td>
<td>63.9</td>
<td>3.89</td>
<td>.785</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td></td>
<td>36.1</td>
<td>38.9</td>
<td>25.0</td>
<td>2.94</td>
<td>.893</td>
</tr>
<tr>
<td>Power of suppliers</td>
<td></td>
<td>47.1</td>
<td>26.5</td>
<td>26.5</td>
<td>2.94</td>
<td>1.099</td>
</tr>
<tr>
<td>Barrier to entry</td>
<td></td>
<td>55.6</td>
<td>11.1</td>
<td>33.3</td>
<td>2.78</td>
<td>1.245</td>
</tr>
<tr>
<td>Power of buyers</td>
<td></td>
<td>31.3</td>
<td>68.8</td>
<td>0.0</td>
<td>2.69</td>
<td>.471</td>
</tr>
</tbody>
</table>

n=36

Scale: 1- Very low 5- very intense Source: survey

As shown on Table 4.4 the respondents indicated that competitive forces in the banking industry were shaped by rivalry at the industry had a mean score of 3.89, with 63.9% of the respondent rated rivalry at industry as very intense meaning that it is in agreement with Pearce II and Robinson Jr. (2005) when explaining porters model he noted that rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction, and advertising slug fests. This type of intense rivalry is related to the presence of a number of factors: Factor one is competitors are numerous this is true in the banking industry because they face competition from building societies, cooperative societies and Shylocks. Factor two, is
that industry growth is slow according to bank supervisory report (2006) banks had reduced from 46 in the year 2001 to 44 in the year 2006.

Threats of substitutes had a mean score of 2.94, with 38.9% of the respondent rating it as moderate. The power of suppliers had a mean score of 2.94, with 26.5% of the respondent rating it as moderate while 47.1% rated it as low or very low intense this shows that the intensity of suppliers and substitute products are to a moderate extent. It can further be seen that the power of the buyers was the lowest ranked with a mean score of 2.69. This means that the buyers (bank customers) have very little influence on the operations of bank activities.

Barrier to entry was relatively lowly ranked with a mean score of 2.78, with 33.3% of the respondents rating it as a intense force meaning that barriers such as minimum capital requirement of Kshs.250 million for commercial banks is quite high. However, the highest standard deviation (1.245) indicates that respondents had the least consensus in this view.

The study then sought to investigate the reaction of the commercial banks to the competitive forces. The respondents were unanimous that the banks had responded to the competitive intensity and that the institutions had effected various responses in the last five years as a ways to combat the competitive forces.

4.4 Information Technology
The changes in information technology in the commercial banks were investigated. All the respondents reported that they had witnessed IT changes in the banks in said period that is 2001-2006. The respondents gave an importance rating of the platforms in which the IT changes had taken place as shown in the Table 4.5 below.
As evidenced by results in the table 4.5 above, it can be observed that 94.4% of the respondents rated usage of real time systems as the most important IT change effected by the commercial banks with a mean score of 4.39. This shows that this factor is very important. The low standard deviation (0.599) is indicative of a high consensus among respondents in this view.

Interconnectivity of distribution channels had a mean score of 4.19, with 88.9% of the respondents rating it as very important. These finding shows that many of the banks had actively moved towards having IT systems that meet global standards. This appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. This is in agreement with Porter and Miller (1985) who contend that information technology can also create new business within a company’s activities.

The least ranked was ‘efficiency of telecommunication system’ which had a mean score of 3.81, with 66.7% of the respondents rating it very important. The lower ranking may not necessarily mean it is insignificant but rather, the fact that, telecommunication is
largely provided by other independent players and therefore cannot be subjected to banks manipulation.

Other information technology changes reported by the banks are illustrated in the figure 4.1 below:

**Figure 4.1: Other information technology changes**

- **Internet banking**
- **Mobile telephone banking**

Source: Survey

Figure 4.1 illustrates that the internet (40.9%) and mobile banking (59.1%) were the other visible IT changes in the commercial banks. These shows that the some banks had integrated the use the common communication channels in their IT platforms. This is in agreement with a study by the chartered institute of bankers (1987) who noted that with the advent of the micro chip it has led to low cost technology solutions which provide a much higher quality service and convenience to the customer. Today customers can use debit and credit cards, ATMs, telephone banking, home banking and Electronic Funds Transfer at a Point of Sale (EFTPOS).

### 4.5 Nature of Restructuring in Commercial Banks

The nature of restructuring in commercial banks was investigated and results of the percentages and mean rankings shown in Table 4.6 below:
Table 4.6: Extent to which changes in restructuring affected the bank

<table>
<thead>
<tr>
<th>Change Extent</th>
<th>No or little extent %</th>
<th>Moderate %</th>
<th>Great or very great extent %</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost cutting</td>
<td>5.6</td>
<td>36.1</td>
<td>58.3</td>
<td>3.58</td>
<td>.692</td>
</tr>
<tr>
<td>Right sizing</td>
<td>20.6</td>
<td>44.1</td>
<td>35.3</td>
<td>3.38</td>
<td>1.074</td>
</tr>
<tr>
<td>Retrenchment</td>
<td>41.2</td>
<td>58.8</td>
<td>0.0</td>
<td>2.47</td>
<td>.706</td>
</tr>
</tbody>
</table>

Scale: 1- To no extent 5- Very great extent  Source: Survey

As shown in Table 4.6 above, cost cutting was the form of restructuring most carried out and had a mean score of 3.58, with 58.3 % of the respondents rating it as a great extent. This therefore means the findings are consistent with what was stated by Thompson (1997) that cost cutting can take the form of business process re-engineering where a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. Right sizing had a mean score of 3.38, with 44.1% rating it as a moderate change in restructuring. However, there was the least consensus among the respondents with regard to right sizing as indicated by a standard deviation of 1.074.

Retrenchment was the least form of restructuring implemented as indicated by a mean score of 2.47, with 41.2% of the respondents who rated that commercial banks does not consider this factor when undertaking restructuring. This means that retrenchment is a temporary occurrence in an organization history that is why it has a lower mean score. This is in agreement with McCarthy et. al, (2002) who stated that retrenchment is not a turn around, since it takes place in a basically healthy situation and is usually of relatively short period may be during times of slow economic growth. The respondents were required to state and rank other forms of restructuring witnessed in their organizations. These are shown in Figure 4.2 below.
Out sourcing was reportedly the most widely practiced form of restructuring as reported by 60 per cent of respondents in banks that had carried out other forms of reorganization. This is shown in the figure above which is in line with Hammer (1996) who stated that outsourcing, for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. This show that banks which have traditionally been very conservative are no longer averse to outsourcing non core services so as become more competitive. Downsizing, corporate governance and expansion all had 13.3 per cent. These findings reveal that banks consideration on these options of restructuring is not very high.

4.6 Marketing Strategies Used by Commercial Banks

This objective sought to find out the extent to which commercial banks had implemented marketing strategies that reflected the reality of the changes in competition within the banking sector. The results obtained indicate that all the respondents (100 per cent)
concurred that there had been changes in marketing in their commercial banks during the five year period preceding this study.

Table 4.7: Extent of marketing strategies adopted in your bank

<table>
<thead>
<tr>
<th>Marketing Strategies</th>
<th>Extent</th>
<th>No/little important %</th>
<th>moderate %</th>
<th>Important or very important %</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td></td>
<td>6.3</td>
<td>18.8</td>
<td>75.0</td>
<td>4.16</td>
<td>.954</td>
</tr>
<tr>
<td>Market development</td>
<td></td>
<td>0.0</td>
<td>23.5</td>
<td>76.5</td>
<td>4.03</td>
<td>.717</td>
</tr>
<tr>
<td>Market penetration</td>
<td></td>
<td>5.6</td>
<td>41.7</td>
<td>52.8</td>
<td>3.64</td>
<td>.833</td>
</tr>
<tr>
<td>Marketing focus</td>
<td></td>
<td>5.6</td>
<td>41.7</td>
<td>52.8</td>
<td>3.53</td>
<td>.696</td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
<td>39.3</td>
<td>7.1</td>
<td>53.6</td>
<td>3.39</td>
<td>1.257</td>
</tr>
<tr>
<td>n=36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Scale: 1 No importance, 5: Very important

Source: Survey

Results in Table 4.7 above shows that product development was the most highly ranked in terms of importance and had a mean score of 4.16 this means that it is the marketing strategy mostly adopted by the banks. This is in agreement with Thompson and Strickland (1993) who contended that a number of strategic marketing variables may be manipulated to respond to a competitive situation. This, according to them, includes adjusting of target market, developing new products, distribution changes, diversification and making price cuts.

Market development had a mean score of 4.03 and market penetration had a mean score of 3.64, with 76.5% and 52.8% respectively of the respondents rating them as very important. This is true, according to the respondents, with the commercial banks in
Kenya whereby after developing new products they search for untapped verticals, virgin geographies or other new opportunities which is in agreement with Pearce and Robinson (2001). The latter suggests that banks set a strategy to actively identify new markets (geographic) for their products.

Diversification had a mean score of 3.39, with 39.3% of the respondents who ranked it least in terms of importance as a marketing strategy adopted by commercial banks implying that banks did not actively pursue it as a marketing strategy.

In general, two factors were rated important that is product development and market development with mean scores of between 4.0 and 5.0. Market penetration and market focus had a mean score of 3.0 to 3.9 meaning that they are moderate in terms of importance only diversification had a mean score of less than 3.5. This shows that according to the respondents these factor do not or slightly is undertaken by most banks.

The respondents were further asked to cite any other marketing strategies relating to marketing that have been seen in the banks. The responses elicited are as shown in Figure 4.3 below.

**Figure 4.3: Other marketing strategies adopted by commercial banks**

<table>
<thead>
<tr>
<th>Percent</th>
<th>Media adverts</th>
<th>Sponsoring the needy/cancer patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>53.8</td>
<td>46.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey
As illustrated in Figure 4.3 other apparent marketing strategies in the banks included media adverts 53.8 (%). The findings on the use of newspaper advertisement and brochures in an earlier study by Nyaga (2003), which noted that private or middle level colleges rely on such methods as using the media in a bid to create awareness of the existence of a product in the market. In fact, when asked if they participated in any community activities such as sponsoring the needy only 46.2 % of the respondents said that they had allocations to support the society they live in. The latter implies that the banks not necessarily draw a line between corporate responsibility and marketing.

4.7 Changes in Corporate Culture

The study also sought to determine whether the corporate culture of the commercial banks had changed. The respondents were asked if any notable changes had been perceived in this regard within the five year period preceding this study. Table 8 shows that 86.1 per cent of the respondents had noted changes in the banks corporate culture. Thirteen percent were not committal on the same. They indicated that the way they do things in the organization today is not how they did it a year earlier therefore confirming the fact that culture is dynamic.

<table>
<thead>
<tr>
<th>Response</th>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td>31</td>
<td>86.1</td>
</tr>
<tr>
<td>No response</td>
<td></td>
<td>5</td>
<td>13.9</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>36</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Survey

Table 4.9 below shows the rating of the extent to which aspects of corporate culture had been witnessed in the commercial banks.
Table 4.9: Extent of changes in the banks corporate culture

<table>
<thead>
<tr>
<th>Change</th>
<th>Extent</th>
<th>Low/very low %</th>
<th>Moderate %</th>
<th>Intense or very intense %</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branding of corporate building</td>
<td>5.9</td>
<td>29.4</td>
<td>64.7</td>
<td>3.65</td>
<td>.691</td>
<td></td>
</tr>
<tr>
<td>Nature of internal communication</td>
<td>5.6</td>
<td>36.1</td>
<td>58.3</td>
<td>3.58</td>
<td>.692</td>
<td></td>
</tr>
<tr>
<td>Change of organizational logo</td>
<td>25.0</td>
<td>37.5</td>
<td>37.5</td>
<td>2.88</td>
<td>1.185</td>
<td></td>
</tr>
<tr>
<td>Changes in architectural design</td>
<td>30.0</td>
<td>63.3</td>
<td>6.7</td>
<td>2.77</td>
<td>.568</td>
<td></td>
</tr>
<tr>
<td>Staff dress code</td>
<td>38.2</td>
<td>61.8</td>
<td>0.0</td>
<td>2.50</td>
<td>.707</td>
<td></td>
</tr>
</tbody>
</table>

n=36

Scale: 1 Very Low    5: Very intense

Source: Survey

The responses obtained show that branding of corporate building had a mean score of 3.65, with 64.7% of the respondents rating it as a very intense change in culture. The nature of internal communication had a mean score of 3.58 with 58.3% of the respondents noting that it was most notable change relating to corporate culture. This supports the findings in earlier study, Fisher (1988) who noted that communication of what is happening in organization relieves panic. According to him he says that even if a manager does not know everything that is going on silence is always a worst policy.

Changes in organizational logo had a mean score of 2.88 with 37.5% of the respondents rating it as moderate. This shows that this factor is moderate and sometimes an intense change. Changes in architectural design had also been implemented with a mean score of 2.77, with 63.3% of the respondent rating it moderately. This factor is associated with the highest standard deviation (1.185) illustrating the clash of views. This implies that while some banks may choose to re-brand by changing the logo, others will never want to touch their symbol of the goodwill developed over many decades.
Staff dress code had a mean score of 2.5 which shows that it was relatively ranked lowest as a cultural change effected in the banks. This means that staff dress code is moderate factor in culture change. Other changes in corporate culture reported were team building and training in telephone handling. In fact some respondents said that they have taken up as their responsibilities to ensure that emphasis continues on we achievement rather than concentrating on individual performance.

### 4.8 Service Delivery

This objective aimed to bring to light the relation between service delivery and attainment of competitive advantage in commercial banks. It specifically sought to establish the relative weights aspects of service delivery were regarded in the banks. First and foremost, all the respondents attested to existence of changes in service delivery in the banks within the last five years. Table 4.10 below shows the extent of various changes in service delivery.

<table>
<thead>
<tr>
<th>Changes</th>
<th>Extent</th>
<th>Important or very important</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of complaints</td>
<td>5.6</td>
<td>94.4</td>
<td>4.53</td>
<td>.609</td>
</tr>
<tr>
<td>Identification of customer need</td>
<td>0.0</td>
<td>100.0</td>
<td>4.39</td>
<td>.494</td>
</tr>
<tr>
<td>Friendly customer care</td>
<td>11.1</td>
<td>88.9</td>
<td>4.36</td>
<td>.683</td>
</tr>
<tr>
<td>Reduction of service delivery time</td>
<td>27.8</td>
<td>72.2</td>
<td>4.14</td>
<td>.833</td>
</tr>
</tbody>
</table>

The results shown above table 4.10 indicate that changes in service delivery carried in banks were rated highly in terms of importance. This is evidenced by the high means in
the scores given by the respondents. The low standard deviations reiterate the same. Among the changes in service delivery, reduction of complaints and identification of customer need were the most important factors with a mean score of 4.53 and 4.39 respectively. 94.4% of the respondents rated reduction of complaints as very important change which shows that on average most banks always or sometimes put into consideration in an attempt to improve service delivery and to maintain high levels of customer satisfaction.

Again 100% of the respondents also reported that identification of customer need was very important this is in agreement with the marketing concept which holds that the key to achieving organizational goals lies in determining the needs and wants of the target market and delivering the desired satisfaction more effectively and efficiently than competitors. Kotler, (2003). Friendly and responsive customer care is also an important change in with 88.9% rating it as very important and 11.1% rating it moderately important. Mean score of 4.36 shows that it is a very important factor as rated by the respondents. The reduction of service delivery time had mean score of 4.14, with 72.2% rating it very important. This shows that banks consider their customers time as very precious and have no intention of wasting it. Other identified changes relating to service delivery are shown in Figure 4.4.
Figure 4.4: Other changes relating to service delivery

- Direct sales: 10
- Improved customer care desks: 10
- Modern banking halls/ improved delivery channels: 55
- Trained staff: 25

Source: Survey

The Figure 4.4 shows that modernization of banking halls (55 per cent) was the other change in service delivery carried out in many banks. This shows that many banks had made efforts to support changes in service delivery by an improvement in the physical bank facilities. The respondents added that the modernization is expected to capture and reflect the new outlook of the banks. In addition, (25 per cent) of the respondents pointed out that the banks had trained staff on aspects of service delivery. Overall, the respondents were asked to give a rating of the extent to which given strategic responses were perceived to be implemented in their commercial banks. The results obtained are as shown in Table 4.11 and Figure 4.5.
Table 4.11: Ranking of strategic responses to attain competitive advantage

<table>
<thead>
<tr>
<th>Response</th>
<th>Extent</th>
<th>No or little extent</th>
<th>Moderate</th>
<th>Great or very great extent</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information technology</td>
<td>0.0</td>
<td>19.4</td>
<td>80.6</td>
<td>4.28</td>
<td>.779</td>
<td></td>
</tr>
<tr>
<td>Restructuring</td>
<td>0.0</td>
<td>52.8</td>
<td>47.2</td>
<td>3.58</td>
<td>.692</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>0.0</td>
<td>11.1</td>
<td>88.9</td>
<td>4.42</td>
<td>.692</td>
<td></td>
</tr>
<tr>
<td>Corporate culture</td>
<td>19.4</td>
<td>38.9</td>
<td>41.7</td>
<td>3.28</td>
<td>.849</td>
<td></td>
</tr>
<tr>
<td>Service improvement</td>
<td>0.0</td>
<td>30.6</td>
<td>69.4</td>
<td>3.92</td>
<td>.732</td>
<td></td>
</tr>
</tbody>
</table>

n=36

Scale: 1- To no extent 5- Very great extent Source: Survey

Table 4.11 above shows that the objectives of marketing as a strategic response were rated to have been the best met as indicated by a mean score of 4.42, with 88.9% of the respondents ranking it as a response to attain competitive advantage to a great extent. This means that banks have redefined their market segments and that marketing functions have been reorganized into retail and corporate divisions. The retail division targets the mass market that comprises individuals and medium size enterprises while the corporate division serves the specialized needs of large business organizations with respective corporate relationship manager in charge. The respondents were all in agreement that their banks are in continuous development of new products. (See Table 4.7).

Information technology was also highly ranked with a mean score of 4.28. 80.6% of the respondent noted that IT was a great extent response. These findings imply that the commercial banks were seen to have mainly directed their strategic response efforts to marketing and information technology. This finding is also subject to the critic by Hornberger, (2002) who noted that competitive advantage is not always sustainable because competitors can retaliate and copy strategic systems.
Service improvement had a mean score of 3.92 which shows that commercial banks put this factor into consideration with an aim to build consumer relationship. This is in agreement with an earlier study by Adoyo (2003) who noted that service delivery network enabled Kenya Post Office Savings Bank to increase its deposit base from KShs.6.72Billion in 2000 to 10.52 Billion as at June 2005.

Respondents also reported that restructuring have received attention by the banks and had mean score of 3.58. This shows that restructuring is a response to attain competitive advantage to a moderate extent. The lowest rated was corporate culture had a mean core of 3.28 with 41.7% of the respondents rating it to a great extent. This is in agreement with Amit and Schoemaker, (1993) who noted that culture has also been classified as a strategic asset and has also been associated with sustainable competitive advantage and is a desirable source of creating causal ambiguity. A strategic asset takes time, skill and capital to develop and investment in them is irreversible. It is determined at the market level through complex interactions among competitors, customers, innovators and regulators and that their pace of accumulation may be affected by managerial actions. These ratings are further illustrated in Figure 4.5.

**Figure 4.5: Strategic responses to attain competitive advantage**
Asked to enumerate any other responses initiated by the bank to attain competitive advantage, the informants gave the views shown in Table 4.12 below:

### Table 4.12: Other strategic responses observed

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing of products/competitive interest rates</td>
<td>18</td>
<td></td>
<td>29.0</td>
</tr>
<tr>
<td>Road to ISO certification</td>
<td>8</td>
<td></td>
<td>12.9</td>
</tr>
<tr>
<td>Strategic alliance/positioning</td>
<td>8</td>
<td></td>
<td>12.9</td>
</tr>
<tr>
<td>Legal compliance</td>
<td>5</td>
<td></td>
<td>8.1</td>
</tr>
<tr>
<td>Staff training/dedication and professionalism</td>
<td>5</td>
<td></td>
<td>8.1</td>
</tr>
<tr>
<td>Corporate responsibility</td>
<td>5</td>
<td></td>
<td>8.1</td>
</tr>
<tr>
<td>Advertisement</td>
<td>5</td>
<td></td>
<td>8.1</td>
</tr>
<tr>
<td>Robust management structures</td>
<td>4</td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td>Innovation/new products introduction</td>
<td>2</td>
<td></td>
<td>3.2</td>
</tr>
<tr>
<td>Bench marking</td>
<td>2</td>
<td></td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Total responses</strong></td>
<td>62</td>
<td><strong>62</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey

The responses above in Table 4.12 show that banks invoked a wide range of responses in a bid to attain competitive advantage. It can be seen that commercial banks often implemented a set of actions to gain leverage in competitiveness. Pricing of products/competitive interest rates was the most used as indicated (29 per cent) of the responses obtained. This is in agreement with Porter (1985) who gives importance to the value/price ratio, which is the value a product gives to the buyer compared to the price the buyer pay for it. Commercial banks have taken the pricing of their products/services cautiously because they associate it with quality and affordability, which is a key success factor in industry today.
Other responses obtained were Road to ISO certification (12.9 per cent) and Strategic alliance/positioning (12.9 per cent).

### 4.9 Statistical Analysis

The study sought to establish the relationship between the dependent variable (competitive advantage) and the independent variables. To achieve this simple linear regression preceded by a correlation analysis was used to examine the nature of this relationship.

Correlation analysis is used to analyze whether a change in one variable is accompanied by a change in another variable but it does not make clear which variable caused the other to change. The most commonly used measure of correlation is the Pearson's r, sometimes called *product-moment correlation*. Pearson's r is a measure of association which varies from -1 to +1, with 0 indicating no relationship (random pairing of values) and 1 indicating perfect relationship, taking the form, "The more the x, the more the y, and vice versa." A value of -1 is a perfect negative relationship, taking the form "The more the x, the less the y, and vice versa." A correlation coefficient of less than 0.1 is considered insignificant, i.e. there is no relationship between the dependent and independent variables. (Miles and Huberman (1994).

Table 4.13 shows the correlation between the dependent and the independent variables.

**Table 4.13: Partial correlations with dependant variable**

<table>
<thead>
<tr>
<th></th>
<th>Correlation coefficient (r)</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>0.468507</td>
<td>0.002</td>
</tr>
<tr>
<td>Restructuring</td>
<td>0.382317</td>
<td>0.011</td>
</tr>
<tr>
<td>Marketing</td>
<td>0.427296</td>
<td>0.005</td>
</tr>
<tr>
<td>Corporate culture</td>
<td>0.429754</td>
<td>0.004</td>
</tr>
<tr>
<td>Service improvement</td>
<td>0.243058</td>
<td>0.077</td>
</tr>
</tbody>
</table>

*Source: Survey*
The analysis of the partial correlation between the dependant variable and each of the factors shows a positive correlation with information technology having the highest (r is equal to 0.468). The relation weakest for service improvement (r is equal to 0.24). The correlation is also insignificant at (95 per cent) Confidence Internal.

The regression analysis yielded the model summary table below. The strength of the relationship between X and Y (the dependent and predictor variables) is sometimes expressed by squaring the correlation coefficient and multiplying by 100. The resulting statistic is known as variance explained or the Coefficient of Determination (or $R^2$). It represents the percent of the variance in the dependent variable explained by the independent. Since correlation is bi-directional, $R^2$ is also the percentage of the independent variable accounted for by the dependent. That is, the researcher must posit the direction of causation, if any, based on considerations external to correlation, which, in itself, cannot demonstrate causality. The table 4.14 shows the strength of the relationship between the model and the dependent variable. (Kinnear and James (1991).

Table 4.14: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.648</td>
<td>.419</td>
</tr>
</tbody>
</table>

Source: Survey

Table 4.14 shows that $R$, the multiple correlation coefficient has a value of 0.648. This signifies a strong linear correlation between the observed and model-predicted values of the dependent variable. R square, the coefficient of determination yields a value of 0.419. This implies that (41.9 per cent) of the variation in competitiveness is explained by the model.
Table 4.15: Model for estimation of competitiveness

<table>
<thead>
<tr>
<th>Response</th>
<th>Estimation</th>
<th>Coefficients</th>
<th>Significance</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td>0.20990</td>
<td>0.760</td>
<td></td>
</tr>
<tr>
<td>Restructuring</td>
<td></td>
<td>0.15475</td>
<td>0.247</td>
<td>In Significant</td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td>0.32198</td>
<td>0.009</td>
<td>Significant</td>
</tr>
<tr>
<td>Information technology</td>
<td></td>
<td>0.53600</td>
<td>0.033</td>
<td>Significant</td>
</tr>
<tr>
<td>Corporate culture</td>
<td></td>
<td>-0.32198</td>
<td>0.163</td>
<td>In Significant</td>
</tr>
<tr>
<td>Service improvement</td>
<td></td>
<td>-0.09787</td>
<td>0.428</td>
<td>In Significant</td>
</tr>
</tbody>
</table>

Source: Survey

Significance tests show that only marketing and information technology were significant at (95 per cent) confidence level. It can then be deduced that in a model to estimate competitiveness of a commercial bank, only the two variables, information technology implementation and marketing, are essentially significant.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The study revealed that, commercial banks are faced with many challenges and liberalization was taken to be the challenge that is a threat to the industry. Other challenges include technological advancement and demanding clientele. In this study, Information Technology appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. The results of this study tally with the findings of Gathoga (2001) that the commercial banks are in competition and their products and services differential is quite thin hence need for restructuring. The study also revealed that a number of strategic marketing variables are manipulated by commercial banks to respond to a competitive intensity in the banking sector. These include; developing new products, market focus and market development. Further the study revealed that branding of corporate building and nature of internal communication (mean score is equal to 3.58) were most notable changes relating to corporate culture most effected in commercial banks. This is in agreement with Schein (1985) who concludes that successful organizations must be able, not only to deliver a high level of customer service, but also manage cultural change.

5.2 Conclusions

In this section, the results of the study are summarized, discussed and conclusions drawn. The presentation here is in the order of the objectives of the study. The first objective of the study was to find the challenges in the banking industry. The results indicate that liberalization, legislative changes and technological advancement are the major challenges. It can be concluded that global trends have had advanced effects on all organizations in which commercial banks are not left out. According to Hicks and Gullet (1975) these phenomenon's have necessitated radical changes in organizations which have led to formulation and implementation of new strategies.

The second objective of the study was to find out how information technology, restructuring and marketing has influenced the attainment of competitive advantage in
The study revealed many of the banks had actively moved towards having IT systems that meet global standards. This appears to be a strategic move by the banks to lay a basis for offering services geared towards facilitating emerging trends in trade such as E-commerce. This is in agreement with Porter and Miller (1985) who contend that information technology can also create new business within a company’s activities. Over the last 5 years, commercial banks have been undertaking corporate restructuring, both internal and external expertise has been in the form of: Redesign of jobs and having the right candidates to do the right job, Cost cutting was the form of restructuring most carried out (mean score is equal to 3.58). Right sizing was ranked second while retrenchment was the least form of restructuring implemented.

Outsourcing was reportedly the most widely practiced form of restructuring as reported by 60 per cent of respondents in banks that had carried out other forms of reorganization. This is in line with Hammer (1996) who stated that outsourcing, for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. The constantly changing customer needs require that constant product innovations have to be made and offered ahead of the competition if commercial banks are to maintain or enhance its competitive edge. Product development was the most highly ranked in terms of importance as marketing strategy adopted by most banks. Thompson and Strickland (1993) who contended that a number of strategic marketing variables may be manipulated to respond to a competitive situation. This, according to them, includes adjusting of target market, developing new products, distribution changes, diversification and making price cuts. Commercial banks may also be attaching great significance to developing products with which attract a wider cross section of clientele.

In concluding the second objective it can be deduced that commercial banks have kept abreast with ever-changing technology since it’s a weapon of competitive advantage. They are also completely rethinking how certain tasks are carried out and searching for
new ways through which performance can be improved and also coming up with new products for the existing market.

The third objective was to establish how culture change and customer service improvement influence attainment of competitive advantage in the banking industry. The study shows that branding of corporate building and nature of internal communication were most notable changes relating to corporate culture most effected in commercial banks. Thompson (1997) noted that the potential for changing the culture of an organization is affected by the strength and history of the existing culture, and the extent of the strategic need. The culture of the organization would need to be changed when it does not fit well with the requirements of the environment or the organizational resources, the company is not performing well and needs major strategic changes or the company is growing rapidly on a changing environment and needs to adapt. Culture varies from organization to organization which was indicated by a high standard deviation which implies that some may choose to re-brand while other may never want to touch their symbols.

The result also indicates that changes in service delivery carried in banks were rated highly in terms of importance. The most highly ranked was reduction in complaints indicating that banks attached high importance in maintaining high levels of customer satisfaction. From the on-going discussion, we can conclude that commercial banks have tried to improve on communication both internally and externally since communication promotes consistency, coordination and cohesion.

5.3 Recommendations

Based on the findings already discussed, the following recommendations are suggested.

One, that for commercial banks to facilitate better interconnectivity of the banks branch networks as well as their client’s they have no option but to ensure that they adapt to the ever-changing technology since it’s a weapon of competitive advantage.
Two, that the benefits of restructuring are long-term in nature, yet the stakeholder would like to realize the rewards from the exercise within the shorter term. This has created some disillusionment with the viability of the whole process. The management is expected to help cultivate some positive attitude from all such stakeholders on the need of cost cutting, retrenchment and right sizing.

Three, that since most respondents felt that commercial banks were not doing enough in the area of promoting their products, it is of paramount importance that they become more aggressive in advertising, personal selling and sales promotion so as to tap potential consumers who up to date do have bank accounts.

Fourthly, notable changes relating to corporate culture is most effected in commercial banks. The recommendation is that service improvement and positive change in the way things are done is the way forward in the banking industry since customers play a pivotal role in determining the survival of any business in this era of competition. The banks should ensure that customer care programme is a central focus in their marketing strategy. They should forever aim at providing customer service that sometimes exceeds customer satisfaction.

Finally, the banks should go back and look into their competitors actions. This way, they might end up killing two birds with one stone in that, they will be able to reach more consumers at the same time, cut out costs since no time will be wasted in inventing products already in the market. (Benchmarking).

5.4 Limitations of the Study
In this study there were some limitations encountered of the major limitation of this study was that some bank managers refused to cooperate because they were suspicious about the purpose of this study while some left threatened to disclose their information at their advantage of their competitors. Due to this researcher however this was taken care of since the researcher presented himself as a customer these institution hence informal discussions helped to gather important information for the purpose of the study.
Though this project had targeted to interview respondents only 36 out of the 66 (54.54 per cent) responded to the questionnaires. To take care of this, financial statements, monthly reports and observations were used to solicit more data on strategic responses.

The amount of funds available for the research was not enough to cater for the research exhaustively. Therefore the researcher was unable to cover the total population in each bank’s headquarters’, hence a sample of two respondents.

5.5 Suggestions for Further Research

This research project focused on the analysis of the strategic responses of commercial banks towards attaining competitive advantage in Kenya. The study was carried out on headquarters of commercial banks in the city of Nairobi. Three stage stratified random sampling was used in analyzing the strategic responses towards attaching competitive advantage in these banks and hoped by the researcher that it is a representative of all the forty four commercial banks operating in Kenya for comparison purpose the following areas deserve further study: an analysis of strategic responses towards attaining competitive advantage in other industries in Kenya, a comparative analysis of strategic responses among banks operating in Kenya and factors influencing strategic responses in the banking industry and in other sectors.
REFERENCES

TEXTBOOKS


Banking supervisory reports, (2001-2006), about us http://www.centralbank.go.ke


**UNPUBLISHED WORKS**


Kiyai, K. (2003). *Bad debts restructuring techniques used by Kenyan banks*, unpublished MBA project, UON.


**Bank Reports**

APPENDIX 1: QUESTIONNAIRE

THE STRATEGIC RESPONSES OF COMMERCIAL BANKS TOWARDS ATTAINING COMPETITIVE ADVANTAGE IN KENYA.

INSTRUCTIONS:

✓ Two Questionnaires should be filled by ANY TWO MANAGERS; General Managers, Marketing, Operations or Human Resource Managers.
✓ Please answer the following questions. Where applicable, Please mark the relevant box with a tick ( )

Section A: Respondents Profile

1. Name of the Bank (Optional) ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

2. Indicate the ownership of your Bank
   a. Local ( ) Foreign ( )
   b. Both Local and Foreign ( )

3. Number of years of service at your Bank
   a. Less than 5 years ( )
   b. 5-10 years ( )
   c. 10-15 years ( )

Section B: Challenges facing commercial banks in Kenya

4. Please, indicate to what extent has the following challenges affected your bank?

<table>
<thead>
<tr>
<th>Challenges facing Commercial Banks</th>
<th>To no extent</th>
<th>Little extent</th>
<th>Moderate</th>
<th>Great Extent</th>
<th>Very great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislative changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demanding Clientele</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological advancement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Please, indicate other challenges affecting your bank and specify to what extent...

..................................................................................................................................................
6. Please indicate the severity of the following competitive forces in the banking industry:

<table>
<thead>
<tr>
<th>Competitive forces</th>
<th>To no extent</th>
<th>Little extent</th>
<th>Moderate Extent</th>
<th>Great Extent</th>
<th>Very great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrier to entry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rivalry of industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power of buyers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power of Suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Has your Bank responded to the above competitive intensity?
   Yes ( ) No ( )

Section C: Strategic Responses

8. Have there been changes in information technology at your bank in the last five years?
   Yes ( ) No ( ).

9. To what importance has the following information technology options been adopted in your Bank?

<table>
<thead>
<tr>
<th>Information technology factors</th>
<th>No Importance</th>
<th>Little Importance</th>
<th>Moderate Importance</th>
<th>Important</th>
<th>Very Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage of real time systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interconnectivity of distribution Channels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency of telecommunication system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Please, indicate other changes relating to information technology and specify to what extent?


60
11. Have there been changes in marketing at your bank in the last five years?
   Yes ( ) No ( ).

12. To what extent has the following marketing strategies been adopted in your bank?

   Marketing Strategies  To no extent  Little extent  Moderate extent  Great extent  Very great extent
   Market focus
   Market penetration
   Market development
   Product development
   Diversification

13. Please, indicate other changes relating to marketing and specify to what extent?

14. Has there been corporate restructuring at your commercial bank in the last five years.
   Yes ( ) No ( ).

15. To what extent have the changes relating to restructuring affected in your bank?

   Restructuring strategies  To no extent  Little extent  Moderate extent  Great extent  Very Great extent
   Cost cutting
   Retrenchment
   Right sizing

16. Please, indicate other changes relating to restructuring and specify to what extent?

17. Have there been changes in corporate culture at your bank in the last five years?
   Yes ( ) No ( ).
18. To what extent have the changes relating to cultural change being affected in your bank?

<table>
<thead>
<tr>
<th>Factors relating to corporate culture</th>
<th>Very low</th>
<th>Low</th>
<th>Moderate</th>
<th>Intense</th>
<th>Very Intense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in architectural design</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branding of corporate building</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of Organizational logo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of internal communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff dress code</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Please, indicate other factors relating to cultural change and specify to what extent.

20. Have there been changes in terms of service delivery at your bank in the last five years? Yes ( ) No ().

21. To what importance have the changes relating to service delivery being effected in your bank?

<table>
<thead>
<tr>
<th>Factors relating to Service improvement</th>
<th>No Importance</th>
<th>Little Importance</th>
<th>Moderate Importance</th>
<th>Important</th>
<th>Very Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of customer need</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of complaints</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction of service delivery time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friendly customer care</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. Please, indicate other changes relating to service delivery and specify to what extent.
23. To what extent have the objectives for these strategic responses at your bank been achieved?

<table>
<thead>
<tr>
<th>Objectives of the Responses</th>
<th>To no extent</th>
<th>Little extent</th>
<th>Moderate</th>
<th>Great extent</th>
<th>Very great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Information Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Restructuring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) Corporate Culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Service improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) Other Response (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. Please, state any other responses that your bank has made so as to attain competitive advantage and specify to what extent.

25. Please, state any recommendations that your bank has made so as to attain competitive advantage and specify to what extent.

THANK YOU FOR YOUR CO-OPERATION
APPENDIX 11: LIST OF ALL FINANCIAL INSTITUTIONS IN KENYA

1. African Banking Corporation Limited
2. Akiba Bank Limited
3. Bank of Baroda (Kenya) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Bank Limited
7. Chase Bank (Kenya) Limited
8. Charterhouse Bank Limited
9. Citibank NA
10. City Finance Bank Limited
11. Commercial Bank of Africa Limited
12. Consolidated Bank of Kenya Limited
13. Cooperative Bank of Kenya Limited
14. Corporate Merchant Bank
15. Credit Agricole Indosuez
16. Credit Bank Limited
17. Development Bank of Kenya Limited
18. Diamond Trust Bank Kenya Limited
19. Dubai Bank Kenya Limited
20. Equatorial Commercial Bank Limited
21. Equity Bank
22. Family Bank
23. Fidelity Commercial Bank Limited
24. FINA Bank Limited
25. First American Bank of Kenya Limited
26. Guardian Bank Limited
27. Giro Commercial Bank Limited
28. Habib Bank A. G. Zurich
29. Habib Bank Limited
30. Imperial Bank Limited
31. Industrial Development Bank Limited
32. Investment and Mortgages Bank Limited
33. Kenya Commercial Bank Limited
34. K-Rep Bank Limited
35. Middle East Bank Kenya Limited
37. National Industrial Credit Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Southern Credit Banking Corporation Limited
41. Stanbic Bank Kenya Limited
42. Standard Chartered Bank Kenya Limited
43. Trans-National Bank Limited
44. Victoria Commercial Bank Limited

List of all non state-owned commercial banks

1. African Banking Corporation Limited
2. Akiba Bank Limited
3. Bank of Baroda (Kenya) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Bank Limited
7. Chase Bank (Kenya) Limited
8. Charterhouse Bank Limited
9. Citibank NA
10. City Finance Bank Limited
11. Commercial Bank of Africa
12. Corporative Merchant Bank
13. Credit Agricole Indosuez
14. Credit Bank Limited
15. Development Bank of Kenya Limited
16. Diamond Trust Bank Kenya Limited
17. Dubai bank Kenya Limited
18. Equity Bank
19. Equatorial commercial Bank Limited
20. Fidelity commercial Bank Limited
21. FINA Bank Limited
22. Family Bank
23. First American Bank of Kenya Limited
24. Guardian Bank Limited
25. Giro commercial Bank Limited
26. Habib Bank A. G. Zurich
27. Habib Bank Limited
28. Imperial Bank Limited
29. Investment and Mortgages Bank Limited
31. Middle East Bank Kenya Limited
32. National Industrial Credit Bank Limited
33. Paramount Universal Bank Limited
34. Prime Bank Limited
35. Southern Credit Banking Corporation Limited
36. Stanbic Bank Kenya Limited
37. Standard Chartered Bank Kenya Limited
38. Trans-National Bank Limited
39. Victoria Commercial Bank Limited

List of all state-owned Commercial bank

1. Consolidated Bank of Kenya Limited
2. Cooperative Bank of Kenya Limited
3. Industrial Development Bank Limited
4. Kenya Commercial Bank Limited

**Selected Banks**

1. African Banking Corporation Limited
2. Bank of Baroda (Kenya) Limited
4. Chase Bank (Kenya) Limited
5. City Finance Bank Limited
6. Cooperative Bank of Kenya Limited
7. Diamond Trust Bank Kenya Limited
8. Dubai Bank Kenya Limited
9. Equity Bank
10. Fidelity Commercial Bank Limited
11. Guardian Bank Limited
12. Habib Bank Limited
13. Imperial Bank Limited
14. Kenya Commercial bank Limited
15. National Bank of Kenya Limited
16. Prime Bank Limited
17. Standard Chartered Bank Kenya Limited
18. Trans-National Bank Limited