A SURVEY OF THE STRATEGIC RESPONSES TO
COMPETITION IN RETAIL BANKING USED BY FINANCIAL
INSTITUTIONS IN SAMBURU COUNTY, KENYA

BY

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REG. D53/0L/15341/08

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN
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A survey of the strategic responses

JUNE 2012
DECLARATION

I hereby declare that this Research Project is my original work and has not been presented for a degree or any other award in any other university.

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DEDICATION

This work is dedicated to my wife Emma. I highly cherish your love, encouragement, support, and guidance throughout all these years. Thank you so much for being patient and training me to believe in myself. God bless you abundantly.
ACKNOWLEDGEMENT

I would like to express my gratitude to all those who accommodated me with advice, guidance, supervision and care as well as encouragement to complete this project.

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OPERATIONAL DEFINITION OF TERMS

Financial institution - Is an institution that provides financial services for its clients or member. Deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies.

Strategy – Refers a plan of action designed to achieve a particular goal.

Retail banking - Is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels.

IT and application Systems - It refers to the current and expected capabilities that an institution has identified for handling data. It examines whether they have a preference for standard software for their core-banking landscapes, versus software developed in-house.

Business Intelligence and Controlling - Refers to how market and customer data are analyze and development of target-oriented action plan use to drive planning.

Multichannel customer management - Refers to Product and service development, Acquisition, Advisory, Processing and Service.

People and Organization - The degree to which good customer management and core banking practices are supported by the structure, policies, training, and leadership within an organization.
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<th>Description</th>
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<td>KCB</td>
<td>Kenya Commercial Bank.</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>KES</td>
<td>Kenya Shillings</td>
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<td>KYC</td>
<td>Know Your Customer</td>
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<td>MFI</td>
<td>Micro Finance Institution</td>
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<td>SACCOs</td>
<td>Saving and Credit Cooperatives</td>
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<td>FOSA</td>
<td>Front Office Savings</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>ATM</td>
<td>Automatic Teller Machine.</td>
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<td>PWC</td>
<td>Price Water House Coopers.</td>
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<tr>
<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
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<td>SPSS</td>
<td>Statistical Package for social sciences</td>
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ABSTRACT

Globally, retail banks are entering a new era. The challenge remains to keep the customer experience and wider brand perceptions central to all strategic thinking. Retail banking is a regional business directly influenced by local cultural drivers, so global trends are few and far between. Seismic forces are reshaping the banking landscape. The fallout from the credit crisis is limiting discretionary spending. Consolidation and globalization are diminishing once-safe regional or national franchises. The rapid growth of merging markets and the rise of players in other industries pose new competitive threats. This paper examines the strategic responses to competition of retail banking used by financial institutions operating in Samburu County. This study analyzes the link between a business strategy and the ability of its staff and core systems to implement a customer-centric organization. The specific objectives examined the strategic responses to competition with focus in Business Intelligence and Controlling, Multichannel Customer Management, People and Organization and IT and application Systems. The consisted of target population of 6 financial institutions providing retail banking services in Samburu country. Data was collected using personal administered structured questionnaires. Secondary data was obtained from the websites and other relevant publication and journals. Data collection was edited then coded. Descriptive statistics was used to analyze the data. This were percentages, frequency distribution tables and other descriptive statistics such as mean and standard deviation. The statistical package for social sciences (SPSS) was used for this analysis. This information was displayed by use of bar charts, graphs and pie charts. A sample size of 50% of the entire population was obtained.
CHAPTER ONE
INTRODUCTION

This chapter gives a background to the research study where the concepts of retail banking emanated will be introduced and explained. Then the global situation, regional and local situation was presented and explained. Afterwards, the problem of discussion would be presented which in turn would lead to the study’s purpose and research questions. At the end of the chapter, assumption of the study and the scope was presented.

1.1 Background of the study

In today’s world of cut-throat fierce competition, customer satisfaction is very essential to not only exist but also to excel in the market. There are found huge differences between the customers of the developing world and those in the mature markets. Nevertheless, as consumer behaviours become more homogenized and banks look to new markets, we believe there are opportunities to learn from the experiences of other economies.

During the past decade, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation (Bloemer, Ruyter & Peeters, 1998). In the new market place, the occurrence of committed and often inherited relationships between a customer and his or her bank is becoming increasingly scarce (Levesque & McDougall, 1996). In addition, new regulations are requiring greater transparency. And, with ready access to a world of information, goods and services, customer expectations are rising. In this dynamic environment, banks are at risk of being unable to meet future business needs because of the constraints imposed by the core of their operating model.

The processes, procedures and IT that form the foundation layer of banks’ operations have become riddled with complexity in recent years. Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Alam & Khokhar, 2006). It is clear that as banks consider ways to rebuild trust, improve service to meet customer
expectations, and reduce attrition; their efforts will need to be carefully tailored to the unique requirements of each domestic and regional market in which they operate. For banks to compete, differentiate and grow in this new customer era, they must swiftly accelerate their innovation around banking products and service offerings. Those that do so will enrich their brands and protect and increase market share at a time when customer loyalty is no longer guaranteed.

Today's market is enormously more complex. Henceforth, to survive in the market, the company not only needs to maximize its profit but also needs to satisfy its customers and should try to build upon from there. According to Davidson (2001) the fast-changing competitive environment and firms' competitive positions are constantly challenged by the emergence of new technologies, products, market and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage. Successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management. These strategies involve a decentralized and responsive work organization, based on co-operative relations not only within the firm but also in its relations with customers, suppliers and competitors. However, firms are increasingly resorting to traditional market mechanisms through the use of contingent workers and arms'-length subcontracting relations.

1.2 Retail Banking.
In recent years, retail banking has increasingly gained popularity in Kenya due to various changes in the market. Retail banking has been defined as the provision of cluster products and services by banks to consumers and small businesses through branches, the Internet and other channels (Ashcraft, 2005). This is as opposed to corporate banking, which consists of different banking services to large companies, governments or other big institutions.

There are various forms of banking namely corporate, commercial, retail banking and investment banking therefore banks can offer more than one form of banking. Banking industry in Kenya is divided into three categories: banks, micro-finance institutions, foreign exchange bureaus and non-banks financial institutions. There are forty-six bank and non-bank financial institutions, fifteen micro-finance institutions
and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small to medium sized, are locally owned. A few large banks most of which are foreign-owned, though some are partially locally owned, dominate the industry. Six of the major banks are listed on the Nairobi Stock Exchange (PWC report, 2007) The commercial banks and non-banking financial institutions in Kenya offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (PWC report, 2007).

Due to the competitiveness of the banking industry many banks which were doing corporate banking changed to partially or completely to retail banking. This is evident from a lot of advertisements made by banks using various forms and also by use of sales people, who have tried to convince many individuals to open accounts (Banking supervision Annual Report, 2005). Majority of banks and other financial institutions have actually incorporated retail banking in Kenya (PWC Report, 2005).

Retail banking all over the world faces a number of challenges from competition, fraudulent deals, changing market dynamics problems of customer retentions and service quality to customers among others. Strategic response therefore is important to cushion these challenges. Strategy is the sustained patterned of resource allocation by which companies align themselves effectively to their external environment. Banks strategic goals are the key drivers of its customer management activity. In Kenya retail banking has faced the same challenges like other parts of the world thus the need for strategic response to ensure that they thrive to the future.

1.2.1 Samburu County
Samburu County is a semi arid land and the major economic activity is livestock keeping. The locals are nomadic- pastoralist community. The Samburu County is making an annual budget of Kshs 100-160M at the moment. According to the draft law, county governments will be getting 15% of national revenues collected. A trillion shillings budget was read that means Kshs 150B or more will be divided to 47 counties meaning each county could be getting Kshs 3.2 B or more depending with how big the budget keeps on growing in future. This will attract many other players from different industries to compete for the share of the available resources. Maralal town is the major urban center in the county and it’s where the financial in question
are located. A total of six (6) financial institutions operate in Maralal town and all render retail banking services. Two commercials Banks (KCB & Equity Bank), Two micro finance institution (KWFT & Faulu LTD) and two Sacco’s (Samburu Teachers Sacco & Samburu Traders Sacco) rendering FOSA activity.

1.3 Statement of the problem.
While the banks have been forced to cut costs and improve efficiency, there is increasing internal and political pressure on banks to expand their products and services to the un-banked and under-banked (Bitner, et al 2000). The commercial banks in Kenya are now operating in a more competitive business environment than before, and the importance of strategic management cannot be overemphasized, because it determines how an organization reacts to competition and other business environmental challenges. The way a commercial bank reacts strategically, to this challenges will determine its survival and even prosperity.

Recent studies done in the area of strategic response to the environment challenges by Banks includes: Kiptugen (2003) research on strategic response by Kenya Commercial Bank to a changing competitive environment and Chepkiyeng (2008) studied on the Analysis of strategic responses of commercial banks towards attaining competitive advantage in Kenya. From these studies, the lessons learnt may not be applicable to all the regions of the Kenyan economy. A gap does exist because no study has attempted to survey on strategies being employed by financial institutions competing in the arid and semi-arid lands, characterized by language barriers, poor infrastructure and silo economic activities. This study therefore intends to find out how banks strategically respond to competition in retail banking within the Samburu County. To establish the pillars of success, the study will look at all the financial institutions found in Samburu County.

1.4 Objective of the study
1.4.1 General Objectives
To examine strategic responses to competition in retail banking used by financial institutions in Samburu county, Kenya
1.4.2 Specific Objectives

i. To find out the effect of Information Technology and Application systems on competition in retail banking.

ii. To establish the role of Business intelligence and Controlling as a strategic response to competition in retail banking.

iii. To determine the effect of Multichannel Customer Management as a strategic response to competition in retail banking.

iv. To examine the extent to which People and organization is a strategic response to competition in retail banking.

1.5 Research Questions

The study will specifically seek to explore answers to the following questions within the context of each financial institution studied:

i. How is IT and applications systems facilitating competition among retail banking service providers?

ii. What is the contribution of Business Intelligence and controlling to the retail banking service providers?

iii. What are the effects of Multichannel Customer Management on competition among the retail banking service providers?

iv. What extend of influence do People and Organization have on competition among the retail banking service providers?

1.6 Significance of the study

The study will aid various stakeholders: the study will assist the management of financial institutions in Samburu County to improve services to its customers. The management will also be able to identify the area that requires strategic response to enhance customer’s satisfaction thus increase sales. The banking industry will obtain details on challenges facing industry and the details responses to the challenges. In addition the study will provide the justification to the response adopted depending on the success obtained.

The study will be important to practitioners and academicians both in public and private sector by contributing to the existing body of knowledge in the area of strategic Management. The study will also important to government Agencies whose
interest lies in improving services delivery by responding strategically to its operating environment for the much needed economic development and creation of investor confidence.

The policy makers will obtain knowledge of the seed production industry dynamics and the responses appropriate; they will therefore obtain guidance from this study in designing appropriate policies that will regulate the industry. For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the business and its strategies position within the environment, which can assist them in determining their availability of their investments.

1.7 Assumption of the Study
The study was conducted based on the following assumptions: that the banks employees understand the importance of the study and therefore cooperated in filling questionnaires appropriately, that there would be 100% delivery of questionnaire to sample size, that there would be adequate financial resources and time, and that there will be no other extreme factors that will influence respondents apart from the one identified by the researcher.

1.8 Scope of the Study
The scope of the research will be limited to the strategic responses that banks in Samburu County have undertaken in reaction to the competition in retail banking. All the financial institutions operating within the county will be studied. A total of six (6) financial institutions are targeted for the study (Two commercials Banks KCB &Equity Banks, Samburu Teachers Sacco &Samburu Traders Sacco and T).Managers and clerical staff of these institutions will be the target respondents. Porter (1985) describes competitive strategy as firms’ pursuit of favorable competitive position within its industry, the fundamental playground within which competition occurs. This study therefore limits its scope to the banking industry in Samburu County.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents existing research on the topic. First theoretical literature and finally empirical literature where similar studies have been carried out has been reviewed.

2.2. Theoretical literature review.

2.2.1 Retail Banking
Retail banking is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels. As this definition implies, banks organize their retail activities along three complementary dimensions: customers served, products and services offered, and the delivery channels linking customers to products and services (Ashcraft, 2005).

In banking today, as in other service industries, managers must remain alert to constant environmental changes, and be ready to redefine their corporate mission and reformulate their marketing policies, plans and strategies to meet the needs of the evolving, complex marketplace (Karty and Stewart, 2006).

The retail finance sector is currently one of the most competitive in the banking industry. However, in order to succeed in such a dynamic market place, Berry (2006) argues that the skills required to be a successful retail banker are many and varied: ability to demonstrate a deep understanding of consumer needs and revenue generating methods, ability to develop new market entry and customer retention strategies, application of new business models and translating them into revenue generating projects and programmes. A successful product development, effective distribution and efficient marketing programme can make a real difference to the retail bank's performance and impact on its bottom line.

2.2.2. The extent of successfulness of retail banking.
Many studies have been carried out in other countries to explain the successfulness of retail banking. Stewart (2006) argues that over time retailing and retail banking have developed side by side, albeit far from independently. There are several intersection
points. The most important ones are centered round the point of sale (POS) and the customer payments of purchased goods. Holmberg and Suslin (2001) argues that at the time of the deregulation of the financial market in the mid of the 1980s there was a clear-cut borderline between retailing and banking.

Retail banking was developed by investors who perceived opportunities to exploit gaps in financial markets. Foreign and government owned banks were generally conservative in their lending policies, they concentrated only on the multinational corporations (MNCs) and other large corporate customers (Harvey, 1993). In recent years, retail banking has become a key area of strategic emphasis in the U.S. banking industry, as evidenced by rising trends in retail loan and deposit shares on commercial bank balance sheets and a continuing increase in the number of bank branches (American banker, 2005).

The U.S. banking industry is experiencing renewed interest in retail banking. These activities—broadly defined as the range of products and services provided to consumers and small businesses—have grown in importance over the past several years. Retail-related positions now account for larger shares of commercial bank balance sheets, and the number of bank branches continues to grow. The recent focus on retail contrasts sharply with industry views held during the 1990s, when banks' attention turned to broadening products, diversifying revenues, substituting alternative delivery channels for branches, and offering a multitude of financial services to all types of retail, corporate, and wholesale customers. (White, 2005)

In Western economies it is widely recognized that retail banking is becoming a more competitive business everyday. Banks are realizing that revenue growth cannot be taken for granted anymore, and that survival will not simply be a question of turning revenues into reasonable profits, but to actively secure that flow of revenues in the first place. In other words, banks must shift their focus away from the singular obsession with efficiency of recent years, and return their gaze to revenue growth, market share, and put back in the center of attention the very source of that revenue: the customer. (Stewart, 2006)

Niche marketers have a competitive advantage in today’s highly segmented financial services market. The consumer marketplace is continuing to fragment into smaller
subsets of needs and behaviours, which is affecting the way banks and other financial institutions market products and services (Laurino, 1993).

Success stories indicate that low-income markets can be served on a “sustainable” basis, that is, with full cost recovery and a market return, without subsidy. As a result, in a growing number of countries, commercial banks are beginning to take notice and to service these traditionally marginalized sectors through retail banking. This experience suggests that local formal financial institutions have a business incentive to serve this market segment. (Arora and Sukhwinder, 2005). Approaching new customer segments as a potential source of additional revenue – mainly lower, but secured income segments - retired people and public institutions employees (e.g. teachers) as potential target groups for simple and low volume loan products (cash loan, credit card) can expand the revenues of the bank. (Klinkers, 2001).

Retail banking is a relatively a new market opportunity for many banks in developing countries like Kenya. Interest in the social, economic and business potential of low-income market segments has grown and financial products have been created to meet their needs. These financial services include loans for business and personal use, savings and other deposit products, remittances and transfers, payment services, insurance, and potentially any financial product or service a bank can offer to this market segment. The market segments include, low-income salaried employees, day laborers, pensioners, and poor households, which have historically been un-served or underserved by banks. The products and services can be targeted to meet the financial needs of the households as well as their income generating activities. (Drake et al, 2005). Many commercial banks in Kenya are beginning to examine retail banking as an opportunity to explore and are even changing their operations from corporate banking to retail banking. This is because there is stiff competition in the banking industry that has forced them to diversify into new markets. These banks do not only initiate this form of banking but they always want to be successful.

2.2.3 The Business Environment.
The environment can be classified into internal and external environments. The external environment refers to those factors outside the organization’s influence but which affect the organization’s operations. The external environment presents
opportunities which the firm can exploit and poses threats which can hinder the organization activities. Internal environment refers factors within the organization by which the organization exercise a great deal of control and which affect the organization’s operations. This presents the organization’s strengths and weakness. The internal environment therefore constitutes an organization’s internal capability which is essential in addressing the external environment. Pearce and Robison (1997) argue that in order for organization to achieve their goals and objectives it is necessary for them to adjust to their environment.

According to May et al., (2000) the external environment consists of; competitors, economic system, legal system, technologies, social and ethnic factors. Competitors’ actions affect the ability of the business to make profits, because competitors will continually seek to gain advantage over each other, by differentiating their products and services, and by seeking to provide better value for money. The economic system is the organization of the economy to allocate scarce resources. The economy tends to go through periods of faster and slower growth. Businesses prosper when the economy is booming and living standards are rising.

The social system is the fabric ideas, attitudes and behaviour patterns that area involved in human relationships. In particular business is influenced by consumer attitudes and behaviours which depend on such factors as the age structure of the population, and the and the nature of work and leisure. The monetary system facilitates business exchange. Monetary activity is based around earning, spending, saving and borrowing. Money has been likened to the oil that lubricates the wheel of commerce. Monetary activity involves business in a web of relationships involving financial institutions (e.g. banks and building societies), creditors, debtors, customers and suppliers. A key monetary influence for business is the interest rates. Higher interests rates increase business cost and act as a break on spending in the economy while political/legal system creates the rules and framework within which business operates. Government policy supports and encourages some business activities e.g. enterprise, while discouraging others e.g. the creation of pollution. The environment system is the natural system in which it takes place. Increasingly businesses have become aware of the relationship between their activity i.e. making goods and services for profits and the effects that this has on the environmental system.
2.2.3.1 Factors that have led to retail banking.
Retail banking has been triggered off by a number of factors namely multiple distribution channels, cross-selling services and liberalization of financial sector.

2.2.3.2. Multiple distribution channels
The rapid pace of development in information technology and communications (ICT) has offered a wide range of delivery channels in retail banking. Banking institutions need to exploit opportunities that arise for these developments to bring significant gains to their customers. The successful banking institutions will therefore be those that are able to derive most from information and communications technology development. The winners will be those that are able to harness the capability of ICT in making decisions in terms of business alignment, work management and better customer relationship. (Central bank of Kenya, 2003)

The efforts to optimize distribution channel strategies have led banks to place renewed focus on their branch networks and concentrate on transforming them into centers for high value product sales and advice. A key driver for branch renewal is the imperative for delivering optimum advice to improve cross-sell and up-sell rates and further the aim of becoming providers of integrated financial solutions. In doing so, banks are faced with the challenges of replacing antiquated IT infrastructures in branches and enabling them to deliver sales and advice. Furthermore, banks will have to transform traditional teller roles in branches into seller and customer relationship manager roles either by replacing or training existing staff. (McDonald, 2003)

In the last 5 years, many financial institutions in Europe have implemented advanced technological platforms, introducing a number of interactive marketing channels: e-banking, Internet banking, mobile banking and ATMs. The research has shown that sustainable profitability in the banking sector depends on mastering the skills of managing and integrating customer relationships across multichannels, by using advanced data and communication technologies (Kirby, 2001; Yulinsky, 2000).

An important factor in the introduction of additional banking channels was the progress of information technology applications, especially Internet and mobile communication (Hadidi, 2003; Isarescu, 2001). The increased informatization of
society has determined a transition toward an e-payments economy, in which money is perceived as information stored or transmitted through various communication channels (Pastore, 2001). The organization segments the market in terms of priority channels, promoting distinctive offers for each type of customer.

In time, the search for greater convenience makes customers access various channels, depending on personal needs and circumstances. These multichannel customers expect and request a similar level of service from every delivery channel. On the other hand, the necessity to improve customer loyalty through personalized customer relationship management determines the financial institutions to introduce a unique platform technology, integrating the information flows from all existing channels (Martz, 2003). The banks are therefore adopting a multichannel approach, which is characteristic for a fully informatized economy in which information has become the primary strategic asset for building and maintaining competitive advantage.

According to rational channel planning models (e.g. Stern and Sturdivant, 1987; Stern et al., 1996), retail banks should identify profitable customer segments attracted to branch banking, telephone banking, PC banking and Internet banking or combinations thereof. Based on this knowledge, they have to decide which distribution channels they want to offer their present and future customers. Hence, they have to predict both the consumer acceptance of these distribution channels and the dominating distribution channel strategies of their competitors.

In nearly all banks in the United States, internet banking usage enjoys strong growth rates. Nordic countries are most advanced, whereas Southern European countries seem to be lagging behind. Currently, the internet is most attractive for the distribution of standardized products whereas more complex products are almost exclusively distributed via branches. However, this is likely to change as more and more customers become familiar and equipped with modern and cheap telecommunication and internet services. At the same time, the currently limited supply of cross-border online banking services (especially those offered by specialist providers such as internet banks) is another major factor restraining market development (Meuter, 2000)
Finance and banking are information-intensive industries, which can be positively transformed by the development of ICT. However, a 1999 World Bank (Purcell & Toland, 2003) survey reported the average on-line banking penetration for developing countries to be only 5%. The main challenges encountered by developing countries in implementing multichannel banking activities are (Hadidi, 2003). The ability to adopt global technology to the local requirements, The ability to strengthen the public support for e-finance, The ability to create the necessary level of regulatory and institutional frameworks and The ability to mainstream SMEs toward e-finance.

Despite the sound theoretical basis of the multichannel banking strategy, the banks implementing it have encountered unexpected problems and challenges (Martz, 2003). First of all, the customers did not adopt the new interactive channels, such as internet banking or mobile banking, with overwhelming enthusiasm. Many customers have continued to rely on bank branches as their main channel of banking services, occasionally using alternative channels, when convenient. Second, by introducing new banking channels, some banks have lost the direct contact with the customer. This problem was created mainly by the incapacity of these banks to properly integrate the interaction with clients across all the banking channels available. The use of different IT systems has created important barriers against the sharing of customer data by various operational departments, which is specific for multiple-channel organizational configurations. These difficulties highlighted once more the necessity of a clear, focused strategy for multichannel banking operations, and the need for a unique IT platform for integrating information flows and customer databases.

Despite the growing interest in the introduction of multichannel financial marketing, there is little research regarding the development and implementation of multichannel banking strategies in developing economies. Most of the articles dealing with this subject present only general information, without attempting to analyze primary and secondary data in a systematic way (Baliamoune, 2004; Efinance, 2001; Hadidi, 2003;). In Kenya this multiple distribution is growing faster due to the rapid development in Information technology. Although there are many forms of distribution not all people have been banked thus the study will find how banks are successful by using many distribution channels.
2.2.3.3 Availability of Cross-selling services

Cross-selling services refers to the practice of providing other services that potential banking clients might find useful in addition to the traditional banking services currently being provided by banks. Cross-selling services can be useful marketing tools for banks to reach segments of the population that do not yet use traditional banking services. (Deborah and Young, 2005)

According to Vogel (2005) the following are examples of services that could be provided are: Money orders, consumer lending, overdrafts account, mortgages, affordable alternatives to payday loans, consumer lending and mutual funds, free tax preparation assistance to low-income individuals. In fast growing markets, such as the Central European countries, banks still compete to gain significant market share which lets them create a customer base for further cross selling initiatives and thus enhance revenues. Due to the fact that the market grows at a double digit pace (e.g. Polish retail mortgage loan portfolio growth amounted to almost 41% for the first nine months of 2006) and competition is getting more intense, repackaging of financial products is necessary for growth of revenues. (Hirschland, 2002)

Although loans and deposits are the primary products, retail banking units provide a range of other financial services to consumers and small businesses. For individual consumers, these services include sales of investment products (such as mutual funds and annuities), insurance brokerage, and financial and retirement planning. For small businesses, they include merchant and payments services, cash handling, insurance brokerage, and payroll and employee benefits services. (McDonald, 2003). Retail banks can reach a large number of the currently unbanked by providing services that commonly are used by that segment of the population. Such access allows individuals to avoid the high cost of fringe financial services, such as check cashing and payday loans - ultimately benefiting the whole community when those savings are reinvested in families and communities. (Harper, 2005).

Banks view retail banking as a strong opportunity for cross-selling products. Depending on a bank’s overall strategy, it may enter traditionally marginal markets with one or many products. For example, banks may be mobilizing deposits and
accepting utility payments from individuals with low income, but may not have considered lending to customers at a lower rate. (Drake et al., 2005)

Although loans and deposits are the primary products, retail-banking units provide a range of other financial services to consumers and small businesses. For individual consumers, these services include sales of investment products (such as mutual funds and annuities), insurance brokerage, and financial and retirement planning. For small businesses, they include merchant and payments services, cash handling, insurance brokerage, and payroll and employee benefits services. (Dick, 2006)

In addition to new product development, banks find opportunities to cross-sell existing financial services. Loan proceeds are typically disbursed into savings accounts that clients also use to make their payments, leaving a residual balance that may grow over time. (Keasey, 2003). Depending upon the laws and regulations to which a particular bank is subject, banks can offer services that potential clients might find appealing. These services might include income tax preparation, low or no fee checking/savings accounts, lower fee money transmission and check cashing services and convenient money deposits into foreign bank accounts. Experience has shown that the strategy of cross-selling is a highly effective means of reaching unbanked communities (Jennifer et al, 2003). Many banks in Kenya are putting in more efforts by trying to differentiate their products and services to suit and innovating more. This study therefore will find out whether this strategy of offering several services and products is fruitful especially to retail bankers.

2.2.3.4 Liberalization of financial markets

Competition is growing in retail banking, however, as new banks enter the market under banking laws that allow more freedom of entry and a less repressed regulatory environment. The struggle to survive is forcing many of these banks to look at new markets, and the deregulation of financial markets is creating an environment in which these opportunities can now be explored for the first time. (Churchill and Berenbach, 1997)

With the advent of structural adjustment and financial liberalization in the 1980s, banking industry expanded rapidly in the Western economies thus all interest rates had been deregulated, creating the opportunity to freely charge the higher, more
realistic interest rates required for lending to individuals with low income at a below-market rate. (Almeyda and Gloria, 1996)

Studies also show that the change of the political regime in Romania, in December 1989, oriented the national policy toward the development of a free-market economy. The creation of a complex financial and banking sector has represented an important priority in this context. Before 1990, the Romanian banking system was limited to a handful of banks that managed the financial operations of state enterprises, and by the national savings banks that were servicing the needs of the population. After the fall of the communist regime, the country attempted to open its structures toward the world and to adopt the models used in industrialized countries. (McNamara, 2003)

Policy makers are increasingly concerned by the relative lack of retail banking in Europe. For many, the long-term success of the “Single Market” depends on bringing the benefits of economic liberalization in a tangible form to consumers and the public at large (McDonald, 2003). Liberalization and deregulation of the Greek banking industry, mainly of the retail sector, has intensified competition, which is particularly noticeable in the area of banking charges (Gortsos, 1992).

In developing countries like Kenya liberalization has not been achieved and thus some initiatives to enhance access to financial services. These initiatives include promoting market discipline through targeted communication of bank lending rates, fees and charges. This initiative is expected to result in increased competition in the banking sector with attendant lowered costs and enhanced access. When the banking rates and fees are lowered the banks can easily enter into retail segments by pricing their products at considerable price to their customers (Ahmad and Buttle, 2002).

2.2.3.5. Challenges faced by banks in implementing retail banking

New entrants to retail banking confront significant challenges even in a purely domestic environment, in particular due to economies of scale and network effects that apply to the industry. At low volumes and numbers of clients, new entrants suffer higher marginal and average costs (Bergman, 2002)
According to the survey carried out by Baliamoune (2004) on Vodafane bank in Europe, retail banking involves a lot of difficulties. Retail banks firstly face challenges achieving profitability while financing the large fixed investments often needed in order to establish a service and acquire clients. Although the Internet has reduced the importance of having a local presence, branch networks continue to be important, and costly. Secondly, retail banks may be subject to important constraints on competition and innovation in the provision of payment services. A new entrant working through existing networks may be unable to diverge from established practices and pricing. But in seeking to introduce new payment instruments, they would face very significant challenges due to the strong network features of payment services and the market power of the existing collaborative payment organizations that dominate most European countries.

Too risky: Bankers perceive individuals with low income can cause a bad credit risks. This is because clients cannot repay their loans. The perception is that clients with low income do not have stable, viable businesses for which to generate repayment. Moreover, these potential clients lack traditional collateral to guarantee their loans. Banks also do not appropriate technologies to serve these clientele i.e correct screening mechanisms to separate good from bad credit risks. (Chakravorti et al, 2006).

Heavy investment: Retail financial services require heavy investments in information technology and branch network IT systems represent significant fixed costs for retail banks. And the investments can be important even if a bank is serving just a small numbers of clients. IT systems have increasingly enabled banks and other financial services providers to automate processes for large volume standardized services, increasing the role of economies of scale. New entrants may need to acquire a large number of clients before they are able to break even while charging competitive market rates. (Massoud, 2004).

Branch networks are still important means of acquiring and serving clients, in particular for higher margin products for which clients still demand (or require) advice. And within a limited area, there may be increasing returns to branch network size – i.e. clients may be more inclined to choose a bank that has numerous branches.
in the areas in which they work and live. This will be costly for banks to initiate. (Alistair and Tang, 2005).

Client acquisition can be slow and expensive. Acquiring clients is expensive, both in terms of time and money. Marketing costs can represent a significant portion of total costs during the early stages of development for a new financial services provider. The quicker a critical mass of clients can be acquired, the sooner a new operator can break even. Hence many foreign expansion strategies are based on a ‘stepping-stone’ model, building on existing networks or following other strategies associated with smaller up-front investments and lower risks; alternatively, expansion abroad is conducted through acquisition of an existing client base (Rochet and Tirole, 2000)

Socio-economic and Cultural Barriers: According to bankers, micro and small enterprise clients have difficulty approaching a bank because they lack education and do not possess business records to demonstrate cash flow. In many developing countries, social, cultural, and language barriers do not allow for an easy relationship with a modern banking institution. It is hoped, however, that with a more widespread diffusion of innovations in financial methodologies, reducing the risks and costs of micro lending, more banks will begin to incorporate micro entrepreneurs into their portfolios (Aladwani, 2001). Although retail banking has been practised in Kenya for several years, it might be successful due to some challenges and thus the study will therefore find out strategic responses to these challenges.

2.3.1. Strategic Responses
Organizations are environment dependent and serving (Ansoff and McDonell, 1990) Note that strategic responses involves changes to organization’s strategy behavior to assume success in transforming future environment. Strategy is a bridge between the firm’s resources and the opportunities and risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the respond depends on the speed with which a particular treat or opportunity develops in the environment. Well developed and targeted strategic responses may include development of; new products, new markets, new process, new service, new strategies for entering the
market, restructuring, marketing, information Technology, leadership and cultural change.

2.3.2. Marketing
Marketing can be defined as a societal process by which individuals and groups obtain what they need and what in through creating, offering and freely exchanging products and services of value with others (Kottler, 2000). It can also be defined as the of planning and exercising the concept of pricing, promotion and distribution ideas, goods and services to create exchange that satisfy individual and organizations objectives. Marketers’ argue that the company assets have little value without the existence of the customers. The key company task therefore is to attract and retain customers. Customers are attracted through competitive superior offering and retained through satisfaction. A marketer’s task is to develop a superior offering and deliver customer satisfaction. Organizations therefore need to embrace marketing concepts that rest on five pillars namely; marketing focus, integrated/coordinate marketing, profits and competition.

The company must be defined the boundaries of its markets. It should know those customers that are members of their market. This can be done through a process known as segmentation. The company should determine the needs and wants of the customers from the customers’ point of view but not the company’s (Kottler, 2002). Customers’ needs must be identified and satisfied as the result into customer loyalty which is a source of company goodwill. When all the company departments works together to achieve the customer’s interest, the result is integrated marketing which involves marketing function, where the various marketing function such as advertising, marketing research, sales and branding must work together. They must be well coordinate form the customer’s point of view and the countrywide orientation where marketing must be embraced by other departments. They must think, customer. Marketing is not a department but much of a co-wide orientation. Teamwork must be fostered among all departments. This requires the practice of internal as well as external marketing. Wearers the latter is directed at people outside the firm, the former is the task of hiring, training and motivating employees to serve customers well. Internal marketing must strengthen external marketing. Managers must consider customers as the true profit centers hence adopt a modern organizational chart. The
ultimate purpose of the marketing concepts is to help organizations achieve their objective (Kottler, 2000). In the case of private firms, the major one is profit. However, a company should offer superior customer satisfaction recognizes the existence of competition. However, a company should offer superior value. It should serve customers better than competitors.

Most companies do not embrace the marketing concept until driven to it by circumstances. Various events forcing companies to adopt the market concept includes sales decline and slow growth in sales forces some companies to search for new markets. Most companies' therefore realize they need marketing skills to identify new opportunities and to address the issue of changing and buying patterns where most companies operate in markets characterized by rapidly changing customers’ needs. Such companies need more marketing know-how if they are track buyer’s changing values (Kottler, 2000). Increasing competition also force complacent companies to think about marketing. A number of strategic marketing variables can be manipulated in response to a changing competitive situation. They include adjusting of target market, diversification and development of new product, distribution changes, advertising, promotion and establishment of relationship market.

2.3.3. Information and communication Technology

The computer and developments in telecommunication are most important aspects of information technology (IT) that has transformed business environment and processes. Automation of business processes has led to a drastic improvement in productivity and reduction in costs while Telecommunications has improved the speed with which information is transmitted thus facilitating speedy decision making. IT has become indispensable ingredient in organizations in several strategic to meet challenges of change they include internet, intranets that support business operations and using it in BPR. IT is also used to develop new products, services processes and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O’Brian, 2002).

According to Chapman (2004), all doors of communication are opened as a way of problem solving and feedback provided immediately to enhance strategic response. Development of ICT facilities is pivotal in creating the necessary networking to the whole organization. For the strategic response to be achieved all the departments
need to work dependently and effective communication is quite crucial because it provides synergy. Information access, sharing and exchange are exploited to their full potential. In practice, policy also allows management to communicate a company’s mission, major goals and objectives, and operational domain to its internal and external stakeholders.

2.3.4 Leadership and culture
Organizations should be structured in such a way that it can respond to pressure to change from the environment and pursue any appropriate opportunities which are spotted (Lorsch 1967). Thompson and Strickland (1980) notes that strategy implementation involves working with and through other people and institutions of change. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered. Structure according to Thompson (1997) is the means by which the organization seeks to achieve its strategic objectives and implement strategies and strategic changes.

According to Wang et al., (2007) organizational culture is an asset of important assumptions, often unstated that members of an organization share in common. Organizational culture similar to an individual’s personality is an intangible yet ever present theme that provides meaning, direction and the basis of action. Insightful leaders nurture key themes or dominant values within organizations that reinforce the competitive advantages they possess or seek, such as quality, differentiation, cost and speed. Most typical beliefs that shape organizational culture is belief in being the best; belief in superior quality and service, belief in importance of people as individuals and a faith in their ability to make a strong contribution, importance of details of execution and customers should reign supreme.

Organizational culture helps in nurturing and dissemination of core values. Implementation of new strategy will be concerned with adjustments in the structure, employees, systems and style of doing things in order to accommodate the perceived needs of the strategy (Pearce and Robison, 2007). Weihrich and Koontz (1993) look at culture as the general pattern of behavior, shared beliefs and values that members have in common. Culture can be inferred from what people may do and think within
an organization setting. It involves the learning and transmitting of knowledge, beliefs and patterns of behavior over time. This means organizational culture is fairly stable and does not change fast. It sets the tone for the company and establishes rules on how people should behave. The top managers create a climate for the organizations and their values influence the direction of the firm.

The potential of changing the culture of a government is influenced by the beliefs of strategic leaders and the extent of strategic need. According to (Kotter, 1990) leadership is about coping with change. Leadership has become very important in recent years due to businesses becoming more competitive and volatile. Pearce and Robinson (2002), indicates that organizational leadership involves action in first guiding the organization to deal with constant change by embracing change, clarifying strategic intent and shaping culture to fit with opportunities and challenges that change afterwards. Also it entails identifying and supplying the organization with operating managers prepared to preside leadership and vision. Total quality management is one approach to develop a culture of quality. Total quality management ideas and principles focuses on management and continuous improvement of all operations functions and above all processes of work it is built around an intence focus of customer satisfaction on accurate measurement of every critical variable in business operation continued improvement of products, services and work relationships based on mutual trust and team work. An important tool of total quality management is bench marking whose objective is to identify the “best practices” in performing an activity to learn how to lower costs, have fewer defects or other outcome linked to excellence are achieved.

2.3.5 Commitment of Top management

The most important thing when implementing a strategy is the top management’s commitment to the strategic direction itself. This is undoubtedly a prerequisite for strategy implementation (Kubinski, 2002). Therefore, top managers must demonstrate their willingness to give energy and loyalty to the implementation process. This demonstrable commitment becomes, at the same time, a positive signal for all the affected organizational members.

To successfully improve the overall probability that the strategy is implemented as intended, senior executives must abandon the notion that lower-level managers have
the same perceptions of the strategy and its implementation, of its underlying rationale, and its urgency. Instead, they must believe exact opposite. They must not spare any effort to persuade the employees of their ideas (kubinski, 2002).

2.3.6. Involvement of middle managers
The strategic response is not a top-down-approach. The success of any strategy response effort depends on the level of involvement of middle managers. To generate the required acceptance for the response as a whole, the affected middle managers knowledge (which is often understood) must already be accounted for in the formulation of the strategy. Then, by making sure that these managers are a part of the strategy process, their motivation towards the project will increase and they will see themselves as an important part in the process.

Unfortunately, in practice, managers and supervisors at lower hierarchy levels who do have important and fertile knowledge are seldom involved in response strategy formulation and when they do, the probability for realizing a smooth targeted and accepted strategic response process increases substantially (kaplan and Norton, 2001). To involve employees is an important milestone to make strategy everyone's everyday job. That is why the involvement of middle managers is essential to increase the general awareness of the strategy. The involvement of middle level managers helps in building consensus for the strategy. A lack in strategic consensus can limit a company's ability to concentrate its efforts on achieving a unified set of goals (miniace and falter, 1996).

2.3.7. Performance in a competitive environment
Firm strategy is the fundamental basis by which firms move towards the preferred position in the framework (Whitney, 1999). Firms in a competitive institutional environment have two strategic options: firstly, they may compete with rivals through the more traditional market mechanisms, on the basis of elements such as price, product and quality. Such competitive strategies are captured by existing strategy paradigms, such as porter's (1980) framework. These can generally be referred to as market competition strategies. However, firms opting to compete on such elements must also take into account the competitive edge of their rivals. In addition to this,
firms may compete for the benefits of the institutional environment, by aiming primarily to change their position within the framework (Khanna and Palepu, 1997). Such strategies are defined as institutional strategies. Firms would therefore follow market competition strategies to maintain their positions within the framework and institutional competition strategies to move within the framework towards the preferred position. Four types of strategies are available to firms in a competitive institutional environment: Market competition strategies including dominant market competition and niche market competition, institutional competition strategies, including institutional competition for support and institutional competition on governance (langloise et al, 1990).

2.4. Summary of theoretical literature.
Decisions on competitive factors require a careful evaluation of resources and environmental variables. Resources include all assets, capabilities, organizational process, attributes information, and knowledge that enable a firm to define and implement strategies to compete, Porter (1981). Barney (1991) classified these resources into three major categories: physical capital resources limitations, Skinner (1974) suggest that it would be difficult to focus on more than one competitive factor at a time in any particular firm or manufacturing facility. Limiting affirm to a single competitive factor is similar to porter’s (1980) assertion that a firm can only choose either cost or differentiation as a basis for competition. The implication of Porter (1980) is that any firm attempting to achieve both cost and differentiation as its competitive factors is almost guaranteed low profitability, Kotha and Orne (1989) however, this proposition has been challenged by many world-class manufacturing firms as they simultaneously maintain many competitive factors.

The perception of competitive factors can vary from one level of management to another. Swamidas (1986) found that while chief executives emphasized quality and technology, manufacturing managers focused on reducing cost and keeping delivery promises. A mismatch of competitive factors between chief executives and manufacturing managers in the same firm could be a potential problem in the effective use of the manufacturing function. Porter’s (1980) strategic positioning model builds upon the assumption that five forces determine industry attractiveness, i.e., the potential to earn rents. Three forces
represent the “horizontal” competitive relationships, namely the rivalry among competing firms, the threat of new entrants and threat of substitutes. Two other forces reflect firm’s “vertical” linkages with external actors, namely buyer and supplier power. An interesting characteristics of the five forces model is that industry structure, at least when is used for strategy prescription at the firm level, is viewed as partly endogenous. This means that there is reciprocal relationship between industry structure and firm behavior. Entry barriers do not just result from a given industry structure but may be induced or challenged by firms. In this context, the five forces could be seen as the “opportunities-threat” component in a conventional SWOT-analysis (strengths, weakness, opportunities and threats).

In contrast, the resources-based view focuses on the “strengths- weakness” component of SWOT analysis. It does this by identifying valuable (as perceived by customers), non-substitutable, non-imitable, firm –level competences as the basis of superior performance, (Barney2001). A resource-based perspective has sometimes also been adopted for purpose of industry analysis. Industry capabilities are defined as resources that are shared by incumbents but are not available to outsiders. These include trust relations, and specific ways of diffusing and sharing technological knowledge (Foss1997). An integrative perspective has recently been introduced, (Teece and Pisano 1998). In this, dynamic capabilities include special company strengths to cope with the shifting character of the environment. More specifically, this approach focuses on the key role of strategic management in appropriately adapting, integrating and re-configuring company strengths towards changing environments (Teece and Pisano, 1998).

2.5. Empirical literature
In the past decade Kenyan banking sector has progressed towards increasing retail banking and decreasing the corporate banking. This is evident in the efforts banks are putting to attract retail customers through advertisements and sales promotions (Financial standard, 2006). Various studies in the past have been conducted on this area of strategic management; most of previous studies have been general in nature in that they have been on a broad spectrum of financial sector.
Recent studies done in the area of strategic response to the environment challenges include:

Chepkiyeng (2008) studied on the Analysis of strategic responses of commercial banks towards attaining competitive advantage in Kenya and found out competitive methods used banks in financial service industry conform generic strategy types. Kandie (2001) did strategic responses by Telkom Kenya Ltd in a competitive environment and found out that although Telkom Kenya has responded to its environment, financial constraints and lack of managerial empowerment considerably limited the organization's capacity to respond. Kiptugen (2003) research on strategic response by Kenya Commercial Bank to a changing competitive environment through restructuring, marketing, embracing information technology and culture change; Atheru (2007) worked on strategic responses by metrological department to the needs of their customers and found out that Kenya Meteorological Department did not have adequate capacity to respond to the needs of their customers. Mwangi (2010) did strategic responses adopted by large fast food restaurants at Nairobi Central Business District and found that the outlets have specific target markets to serve, outlets stock mostly determines the customers, branding of an outlet differentiates it from others, the outlets use brand name in order to cultivate customer loyalty, ensuring high quality of food and services and enters new markets.

Obiero (2002) carried out of 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 the 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 the bank failures and attributes 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 Kshs 19685 million in terms of loans and grants to restructure the consolidated bank s, compensation to deposit and outright losses due to deposit s or funds not covered by deposits protection fund. The results of his study was 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, noted some restructuring techniques used by banks such as extended repayment periods, interest waivers, interest holidays, capital concessions, additional facilities, and conversations.

Kithaka (2001) in his study queue management in financial institutions identified the following factors that contribute to effective customer service: the level of education of the tellers and their managers, area of specialization, motivation in the environment, involvement in decision making, availability of ATMs, continuous training, and the awards of merit for 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 study of ATMs as strategies but now it is 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 credits cards, forward exchange contracts, funds transfer remittance among others. She concluded that all banks, however, regardless of the 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. Convence goods are usually branded and low price (Kolter, 1999). However, Banking services are generally homogeneous and competition is centered on services.

Adongo (2005) carried out a study on factors influencing efficiency of Namibian Banks. The efficiency of the overall financial sector in allocating credit to investment that offer the highest return 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 merger 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 considered by the regulator in any anti – trust assessment of potential M $A deals. Whilst lesson may be learnt from his study, not all may be applicable to Kenyan banking industry.

2.6. Summary of literature review.
Retail banking has been undergoing dramatic operational transformation in the recent years. Mergers and acquisitions, increased competition, and new regulatory requirements have driven banks to rethink their retail strategies. It has become important for retail banks to leverage technology to optimize sales and fulfillment processes, manage distribution channels, and streamline operations to acquire, satisfy, and thereby retain customers. (Chen, 1999)The retail finance sector is currently one of the most competitive in the banking industry. However, in order to succeed in such a dynamic market place, Berry (2007)argues that the skills required to be a successful retail banker are many and varied: ability to demonstrate a deep understanding of consumer needs and revenue generating methods, ability to develop new market entry and customer retention strategies, application of new business models and translating them into revenue generating projects and programmes.

Financial institutions that are interested in tapping underserved households need new strategies to segment the large under banked market. The rise in the number of financial institutions that are designing new initiatives to pursue the under banked consumer market illustrates the recent realization of retail banking (Karty andStewart, 2006).Rapid technological advances have introduced significant changes in retail banking. Bank branches alone are no longer sufficient to provide banking services to cater for the needs of today’s sophisticated and demanding customers. The provision of banking services through electronic channels (e-channels) namely ATMs, personal computer banking and phone banking have provided an alternative means to acquire banking services more conveniently. (Howcroft et al, 2002).

Other changes that have been used by the banks to penetrate into the market is the use of downscaling. Under the concept of downscaling the banks are trying to modify their services to meet the needs of the low-income earners. Low-income markets
can be served on a “sustainable” basis, that is, with full cost recovery and a market return, without subsidy. As a result, in a growing number of countries, the formal financial sector has begun to take notice and to service these traditionally marginalized sectors. (Young et al, 2005)

2.7 Conceptual Framework

Independent variables

| Information Technology and Application systems |
| Business Intelligence and controlling |
| Multichannel Customer Management (Product & service, R&D, Acquisition, Advisory, Processing and Service) |
| People and Organization |

---

Dependent variable

- A strategic Response to competition.

**Intervening variables**

- Sales growth
- Profit growth
- Market share
- Return on sales
- Overall firm performance
- Competitive position
- Customer Retention
- Customer Loyalty

Source: Researcher 2012

Figure 1.1: Conceptual framework.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses how the study was conducted, explaining the methods and steps that used to conduct this research. This include the research, design, and population of the study, sample size, sample frame, data collection methods, research procedures and data analysis and presentation. The basis of any meaningful research depends on the methods and procedures employed in data collection and a clear definition of the target group of respondents.

3.2 Research Design
The researcher employed a descriptive research design. Descriptive research is a process of collecting data in order to test the hypotheses or answer research questions concerning the current status of the subjects in a study. According to Donald and Pamela (1988), a study concerned with finding out who, what which and how of a phenomenon is a descriptive study design. Mugenda and Mugenda (1999) also supports that descriptive survey seeks to obtain information that describes existing phenomenon by asking individuals about their perception, attitudes, behavior or values. Therefore, the study sought to establish strategic responses to the challenges affecting banks in Samburu County. The process of relating an empirical test to support or refute a knowledge claim involves making decisions on what type of data is required, where data was found, techniques of data collection, analysis and interpretation.

3.3 Population
According to (Nachmias, 1996) a population is the total collection of elements about which we wish to make some references. The target population of the study was all the financial institution. The target population in these financial institutions is managers and clerical staff. Therefore, the population size was as follows:-
Therefore, a target population size of 192 employees was identified from all the six(6) financial institutions for the study.

### 3.4. Sampling Design

A sample size of 97 was drawn from a target population of 192. The researcher considered this sample size fairly adequate and representative for this study. According to (Bell, 1999), a sample is a subset of the population. Therefore, for the purpose of the study and even distribution of the respondents, the researcher applied stratified random sampling to choose the sample size. This approach is considered useful because the population of interest is not homogeneous in terms of production yet the stratum population is homogeneous and could be subdivided into groups or a structure.

Mugenda et al (2003) observed that purposive sampling is a sampling technique that allows the researcher to use cases/elements that have the required information in respect to the objectives of the study. Therefore, subjects are handpicked because they are informative or possess the required characteristics.
The sample design was as follows:-

**Figure 3.2-Sample Size.**

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>No of Staff</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 KCB</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td>2 EQUITY BANK</td>
<td>47</td>
<td>24</td>
</tr>
<tr>
<td>3 KWFT</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>4 FAULU</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>5 Samburu Traders’ SACCO</td>
<td>36</td>
<td>18</td>
</tr>
<tr>
<td>6 Samburu Teachers’ SACCO</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>192</strong></td>
<td><strong>97</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2012.

3.5. Data collections

The primary data from all target respondents was collected by use of well designed questionnaires. The study employed the use of structured and unstructured questionnaires as a means of data collection. The researcher designed the questions, their wording and sequence. He further expected that a minimum of 75% of the respondents' i.e 73 questionnaires from the possible 97 would be filled and returned to the researcher for the purpose the study. Mugenda, et al (2003), says that in social science research, the most commonly used research instruments are questionnaires, interview schedules, observational forms and standardized tests.

Questionnaires provide the researcher with a relatively easy accumulation of data. According to Kothari (2004), questionnaires give a relatively objective data which is relatively easy to analyze. Therefore, the questionnaires to the respondents were hand delivered and ensured that they were well distributed according to the population size. The respondents were also requested to complete the questionnaires and hand them over to their customer care experience consultants, where the researcher collected them from. Information collected from the respondents was strictly kept confidential and only used for the purpose of the study. Secondary data was collected by checking information from the institutions libraries and websites. In addition, trade
journals and internal magazine/newsletters were reviewed to gain relevant information on the area of study.

3.6. Quality Control (Validity and Reliability).
Randomisation was used so as to control the many extraneous variables (known and imagined). A random selection of participants who are considered to have the valuable information and relevant to the study were targeted. Conventionally, a value of at least 0.70 is accepted for any research (Kathuri & Pals, 1993).

The researcher first carried out a pilot study on two (2) respondents, KCB and KWFT, being the leaders in Retail banking and Micro-financing respectively to check the item wordings and to verify the ability of the items to capture the strategic responses and the challenges dimensions of the study.

The questions not fully understood were identified and explained. Comments made during the filling in were considered when making the final draft of the questionnaires. Cronbach’s alpha which test internal consistency was considered and used. SPSS was used on the items of each variable in the construct to establish the consistency of understanding and responses.

3.7. Data Analysis.
Data analysis was based on the research questions designed at the beginning of the study. Before data analysis was done, the questionnaires/responses were fully edited, coded, tabulated and processed by means of a computer for completeness and consistency.

Descriptive statistics was used to analyze the quantitative data. This were percentages, frequency distribution tables and other descriptive statistics with the help of the statistical package for social sciences (SPSS).

Qualitative data analysis makes general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the
composition of the objects or materials of the study (Mugenda and Mugenda, 2003). Information was displayed by use of bar charts, graphs and pie charts.

3.7 Expected Output

At the end of the study, the researcher expected to prove that the identified and reviewed are the pillars of excellence in Retail Banking and they fuel competition among the financial institutions. He also expected that there was no other extreme factors that would have influenced respondents answers apart from the one identified by the researcher. The conclusion of the researcher’s findings was expected to clearly bring out that business and service organizations pursuing stability, growth, excellence and performance in any business environment would have an edge over others in a dynamic and competitive environment.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction
This chapter contains data analysis, presentation and interpretation of the research findings. The results of the study were obtained from a questionnaire administered to clerical staff and management of the financial institutions where the main objective of the study was to examine strategic responses to competition in retail banking used by financial institutions in Samburu County, Kenya

4.2 Quantitative Analysis And Results.
4.2.1 Response rate
Out of the ninety seven 97 questionnaires issued, 89 representing 92 % of the issue were filled and returned by the respondents. This rate is analyzed as indicated below:

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Questionnaires issued</th>
<th>Frequency</th>
<th>Percentages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned</td>
<td>89</td>
<td>92 %</td>
</tr>
<tr>
<td>Unreturned</td>
<td>8</td>
<td>8 %</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: (Author 2012)

Figure 4.1: Response rate
Source: (Author, 2012)
This data reveals that most of the questionnaires issued were returned which is a representative of 92%. Only 8 questionnaires representing 8% were not returned. This shows that the respondent were cooperative and supportive.

4.2.2 Business Strategy

A bank’s strategic goals are the key drivers of its customer management activity. Asked for their primary business strategies, 84% of financial institutions in the study favoured growth over cost cutting.

![Growth strategy](image1)

**Figure 4.2: Growth strategy**

![Cost cutting strategy](image2)

**Figure 4.3: Cost cutting strategy**

From the study, its evident that businesses are primarily driven by growth strategy 84% cross-selling 38% new customers 37% and 9% external growth. Of the financial
institutions that favour cost cutting strategies, the sift was eliminating unprofitable customers.

4.2.3 Information Technology and Application Systems

The study reveals that financial institutions that focus on IT investment that supports delivery will have the competitive differentiation. However, those investments will have to be made within the increasingly tough ROI disciplines that many financial institutions are implementing.

**Table 4.2: IT and application systems**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Advantage</td>
<td>64</td>
<td>72%</td>
</tr>
<tr>
<td>Sufficient</td>
<td>16</td>
<td>18%</td>
</tr>
<tr>
<td>Disadvantage/Constraints</td>
<td>9</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

![Pie chart showing the distribution of ratings: Strategic Advantage 72%, Sufficient 18%, Disadvantage/Constraints 10%]

**Figure 4.4: IT and application systems**

From the study, 72% of the respondents believes that IT is a strategic competitive advantage, 18% feels that it sufficiently supports business strategy and 10% are of the view that their current IT is not adding any value to competition.

Like the organizational structure, IT systems must reflect a bank’s business and technology processes. The bank must be able to handle information across system, product, and channel boundaries.
Although banks can differentiate themselves from the competition with in-house system development, such a policy has the disadvantage of lower flexibility and higher maintenance. While it looks likely that a majority of banks will continue to use both in-house systems and standard software, the latest study shows that the proportion of those using predominantly standard software will increase. The study also suggests that there are significant opportunities for improving infrastructure as a whole. Expectations for exploiting the potential from such improvements are undoubtedly ambitious given the lengthy durations of IT projects today and the parallel need to improve privacy, security, and risk management. These improvements will be necessary to meet the banks’ long-term goals for real-time, multichannel management of products and customer portfolios. Improvements in infrastructure will also help financial institutions build a base for expansion, increase flexibility for business model changes, provide more uniform service, enhance customer data, and calculate service costs more accurately. Such changes will give banks a better gauge of customer profitability and provide relationship pricing for all customer interactions.

4.2.4 Business Intelligence and Controlling

Retaining and leveraging an existing customer asset base can be difficult today. Financial institutions must know more about their customers and find efficient ways to use that information. Effective use of the various IT systems that handle customer data requires careful strategic planning.

4.2.4.1 Customer Segment Planning

Table 4.3: Customer Segment Planning

<table>
<thead>
<tr>
<th>Customer Segment Planning Rating</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/service</td>
<td>13</td>
<td>14%</td>
</tr>
<tr>
<td>Customer</td>
<td>10</td>
<td>11%</td>
</tr>
<tr>
<td>Partially</td>
<td>29</td>
<td>33%</td>
</tr>
<tr>
<td>Substantially</td>
<td>26</td>
<td>29%</td>
</tr>
<tr>
<td>Completely</td>
<td>11</td>
<td>13%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>89</td>
<td>100%</td>
</tr>
</tbody>
</table>
From the study, 33% respondents believe that financial institutions have partially plan to segment their customers that basing on products and services and value the customer gives the institution.

From the study financial institutions create plans that explicitly define strategies for the customer segments to acquire, to retain, and those you wish to develop based on their estimated value to the institution.

![Figure 4.5: Customer Segment Planning](image)

**4.2.4.2. Customer Data Analysis**

Although most banks now regularly analyze customer data, it is clear that they are still aiming for a greater role for data mining. Moreover, banks did not view the current status for customer analysis.

**Table 4.4: Customer Data Analysis**

<table>
<thead>
<tr>
<th>Customer data analysis Rating</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No analysis</td>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td>Ad hoc basic analysis</td>
<td>20</td>
<td>22%</td>
</tr>
<tr>
<td>Regular Analysis</td>
<td>22</td>
<td>25%</td>
</tr>
<tr>
<td>Regular/Data mining</td>
<td>25</td>
<td>28%</td>
</tr>
<tr>
<td>Regular/consistent Data Mining</td>
<td>18</td>
<td>20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>89</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
This study shows that 28% of the respondents have the institution carrying out regular basic analysis with ad hoc customer data mining which is opposes to only 20% doing regular and consistent process of data mining.

Figure 4.6: Customer Data Analysis

A structured implementation of business intelligence and controlling measures should be implemented by using strategic devices like customer segmentation and the customer information plan. A bank’s IT infrastructure and organizational alignment would also impact an effective rollout.

4.2.5. Multichannel Customer Management

Successful operations and information control are key to a successful customer management strategy. Additional access channels for customers and a broader product range have made monitoring operational processes more difficult over the last two decades.

4.2.5.1 Acquisition

Today financial institution faces a highly educated customer base that is increasingly aware of the various offers available from mainstream banks and the non-traditional financial services market. Consequently, a bank’s success has become more directly related to how it manages prospect data and automates prospect targeting.

From the study, respondents feels that they have a clear top-level set of measures that define customer-management performance for organization in terms of retention,
efficiency, acquisition, and penetration (REAP) that cascade to form objectives for departments and individual employees

![Graph showing percentages of various measures](image)

**Figure 4.7: Acquisition measures/attraction**

### 4.2.5.2 Advisory

The quality of tools that a frontline employee has to complete across all of the customer’s service and product areas will determine the relevance of the employee’s advice and sales effectiveness. Employees benefit from automated tools that easily link into core IT systems to drive personalized advice and deliver visual presentations of product solutions. The good news is that in the last three years, the portion of banks with fully automated tools has almost

### 4.2.5.3. Processing

High-quality relationships between customers and organizations outside the financial services industry, such as online retail providers, have put pressure on banks to provide similar levels of service.

In the study, 78% of banks say they have some capabilities for targeting prospects.
The extent to which frontline employees have the automated tools to provide personalized service or advice across all retail banking products from the study revealed that 48% of their service is partially automated.

4.2.5.2 Service
After cost, service is the strongest marketing focus financial institutions today. They offer accessibility around the clock, as well as comprehensive self-service offerings via the Internet, Mobile banking and agency banking raise the bar for all players.
Current capabilities for product and service development, acquisition, and advisory as per the findings of the study shows not all the product and services are available in the channels. 21% of respondents have their products in all channels.

4.2.6 People and Organization
The customer management approach requires a holistic view of relevant processes that often run across different enterprise silos and sales channels. Although a new IT landscape is probably required to implement customer management strategies successfully, the real challenge is encouraging a bank’s organization to make its corporate culture more customer focused.

4.2.6.1 Organizational Support
The identification, focus, and management of customer-based processes are central to the whole customer management approach. The first step towards this goal is identifying the relevant processes. The next steps involve incorporating those processes into the customer management strategy and using IT constructively for strategy support. This requires a bank's business and IT divisions to synchronize their efforts.

Only 6% of banks in the latest survey regularly measure all business processes against the service-level agreements used to drive continual improvements. The other banks are on their way toward this goal, with the majority having identified relevant processes and implementing those agreements.

4.3 Qualitative analysis
From the study findings, majority of the respondents asserted while there has been incremental progress in individual areas, this progress falls far short of what financial institutions expected. While financial institutions continue to stress growth as their primary business strategy, there must be a significant shift to a more flexible, customer-focused approach for the industry to achieve the growth it desires.

It is also clear that financial institutions emphasize different aspects in each of the pillars for their future success. For example, from the study, 72% of the respondents believe that IT is a strategic competitive advantage, 13% completely have customer segmenting plans, 20% recognize that regular analysis and data mining is important and there is a need to achieve regular and consistent processing of customer data. 28% practise top-level acquisition measures cascaded to staff, 37% have some capabilities in existence for targeting of prospective customers and business opportunities, while 48% only believe that having a fully automated process for account handling is critical. 21% of the financial institutions have their products and services available in all channels and finally, 35% of the staff enjoy cross-functional cooperation supported with shared objectives.
CHAPTER FIVE
SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter gives the summary of the major findings, conclusions and recommendations. It further gives suggestions for further research by focusing on the findings from the area of study.

5.2 Summaries of major findings.
The study revealed that, retail banking competition is characterized by superb execution across a broad range of activities and that possess the following attributes: A modus operandi of simple, easy, quick in every regard, A clear identity grounded in customer needs, backed by effective marketing that drives traffic to all channels, A superior customer experience, anchored by high-performing branches running at full capacity, A dynamic and efficient sales force, A highly focused product portfolio, A seamless, easy-to-navigate multichannel environment, Automated, image- and workflow-enabled, low-overhead, one-touch operations, Vigorous risk management, Performance-oriented leadership that fosters employee pride in the bank’s mission and its ability to deliver value to customers and A dynamic culture that strives for excellence.

This study being on an ASAL environment, the financial institutions with their counterparts in NGOs are involved in activities such as:

a) Educate low-income consumers about the advantages of banking. Financial literacy programs can help the unbanked acquire the skills necessary to manage ongoing banking activities.

b) Provision of services that are affordable to and routinely used by low income consumers. Banks may attract more low-income consumers by expanding hours of operation and offering services such as agency banking, bill payment, money orders, prepaid phone cards, and cash wiring services in one convenient location.

c) Incorporate banking into other support programs. Designed to support low-income working families provide financial institutions with opportunities to target services to the unbanked. Incorporating banking into support programs
provides opportunities to connect low-income consumers to traditional banking institutions

5.3 Answers to research questions.
In this section, the presentation is in order of the objectives and the questions that resulted from the objectives. The first objective was based on information systems issues which can be concluded as a strategic move by the financial institutions being the main basis for competition in core activities such; updating inter organizational information, Gathering and monitoring external information about competitors and customers, Sharing information by different units of organization, Measuring and controlling quality and quantity of information and the amount of its usage and Creating various reports appropriate to different levels in organization.

The study also shows most employees suggest an Existence of proper technology reachable for employees, considering technologies which are as facilitators for process of works. R&D efforts for developing technologies needed for organization, Creating communication technologies for customer-staff relationships, Creating organization technology auditing system and updating service technologies and Considering complicated technologies with various servicing capabilities

Business Intelligence and Controlling issues was the second objective and the study found out that revolutionizing attitudes and viewpoints and foreseeing future prospects is key to customer attraction and retention. comprehensive planning is appropriate to condition, commitment for implementing programs accurately considering goals and elements of organization and controlling processes by efficient tools properly. Sharpening your identity requires consistent marketing campaigns that prompt consumers to associate your bank’s name and logos with your value proposition. The goal is to achieve a level of recognition where the brand instantly conveys the concepts of trust and overall quality like the immediate association in the consumer mind. Relatively few institutions clearly communicate their core value proposition both to current customers and to the market at large. Are you a specialist in specific products or channels? Do you possess other particular areas of excellence? Leading banks market their answers to such questions carefully and explicitly. Of course, client segmentation is powerful only if it both enables effective product
development and targeted marketing and sales processes, and leads to improved customer acquisition and retention. Best-practice banks also excel at innovative marketing initiatives that target specific customer segments. Both a bank's identity and its segmentation framework are tied to its core product portfolio, which should be highly focused in every category of offering.

Explicit (straight forward) goal setting by leader, Supporting employees perception of goals and strategies by leader. Consulting and using intellectual abilities of employees by leader. Presenting a scheduled program of organizational activities and imaging horizon of implementation of strategies by leader. The ability of leader to create changes in organization. Presenting effective solutions and ideas by leader, Encouraging and justifying subordinates to perform commands Considering subordinates' opinions and their participation in decision making

Multichannel Customer Management issues was the third objective and the study found out that best-practice banks have well-developed and relatively narrow product ranges by category, enabling both front-line and back-office staff to develop deep product knowledge which helps the bank increase conversion rates. Successful banks also emphasize products that drive growth. They continuously monitor and adjust products throughout their life cycles. Above all, a streamlined, simplified, and highly focused portfolio is mandatory for the products that are on displayed the store window, so to speak in branches, on-line, and through the call center. Developing the most dynamic products depends largely on the accuracy of the bank's customer insight.

Improving the customer experience also means making an engaging physical impression: bright, clear branch layouts; friendly and knowledgeable greeters who direct customers to just the right place or person; customer-friendly open hours; and short lines through active queue combing (that is, pulling customers from the line to handle product-specific requests). Service should be efficient, with structured, fully standardized processes reflecting revenue potential and cost to serve.
Drive Sales Force Effectiveness and Early-Tenure Management Develop Seamless Multichannel Pathways. The point is that all channels should be seamlessly connected so that each is aware of what has already transpired at the others and so that customers never need to repeat themselves or resubmit information they have already given. Banks want to be able to do this, but very few actually can. Clearly, superior multichannel integration requires better identification and conversion of customer leads that originate online. What is more, in a successful multichannel environment, a bank supports logical consumer pathways and typical interactions. The online offering is simple, easy to understand, and easy to navigate. Functionality and processes allow for simple product sales and convenient service. Thorough integration allows for a seamless service experience along the branch, Web site, and call center.

The fourth and the last objective was on People and organization. Based on responses to questionnaires, in organizational structure issues, the study found out that priorities are; Creating appropriate structure for steady and continuous relation with customers, Creating defined organizational rules and instructions, Creating appropriate space for employees to reveal their creativities and competencies, Creating an independent department for planning and strategic management, Command hierarchies, Creating self-managed expert teams, The flexibility of organizational structure, Organization's past experiences in implementation of strategies, Creating various paths of communication in organizational and Decentralization of decision making at top levels of organization

Considering the above information, preferences and attentions of response-makers are focused on customer-based structure which is both coherent in construction and flexible for noticing on customer's desires. And so considering employees opinions about customers issues is required. Meanwhile, creating an independent department for strategic planning and a space of creativity and team working are essential and recommended.

Based on responses to human resource part made suggestion which is summarized follows: A systematic regular training program in relation with strategic goals for staff, A system of remuneration punishment and promotions for staff, An explicit and efficient wage system and payments, organized recruiting and staffing system, A
precise system of evaluating performance, A planned job description for all occupational titles in organization, Motivated staff who are directly at customers service, and Creative employees who find right solutions and will act when it requires

Based on responses to questionnaires, in culture of organization issues, priorities are as follows: A culture (belief) of validating customers, A culture of achieving customer satisfaction, A culture of considering quality of services in accordance with customers values, Encouraging characteristics like organization commitment, self-management, self-commitment and socialization of staff, Creating common belief concerning organizational goals Creating a collaborative environment for people in organization, Creating a culture of team and group working, Explicitly of organization values and employees openness to these values, A culture of changing and flexibility in organization and Creating a competitive environment among people in organization.

5.4 Conclusion and recommendation

With the financial services industry undergoing dramatic shifts, retail banks must take bold steps to both attain and maintain competitive advantage. Those that act along the lines of best-practice banks, have a far greater chance of establishing dominance in their markets than those banks that sit back and take a wait-and-see approach. Based on the findings already discussed, the following recommendations are suggested

One, the stability and speed of the IT and application systems ,the customers spend a lot of time in cues. The financial institutions to facilitate better interconnectivity of the branch and agency networks as well their customers who relied on mobile service providers because M-pesa service have been interlinked, that is customers accounts and their cell phone.

Two, Customer centricity that fosters long-term relationships and puts the client’s point of view first, Efficient, one -time data capture with electronic hand offs to the back office and skill-based routing to resolve issues effectively. Automated decision making at the point of presence, using portfolio- and risk-based pricing.

Three , Sufficient scale through standardization, with minimal exceptions allowed. Centralized common activities across products and channels that also boost scale Simplified interactions that mask operational complexity from customers Channel-
and location-agnostic processing that treats interactions with all channels and locations in the same way.

Fourth, there should be involvement of all staff in development of strategies targeting the communities within their market niche. Incorporate in the sales team the local so as to break through language barrier and the use of local dialect speaking radio station for promotion of the products and services. Indeed, by taking rapid action, banks can create a virtuous circle. Excellent customer service creates positive word-of-mouth referral which, along with clear marketing messages, drives consumer traffic to branches, the Web site, and the call center. This traffic drives leads, sales, cross-selling, and client loyal which in turn feed back into more positive customer reviews and higher traffic.

5.5 Limitations of the study.
The major limitation of this study was the poor road infrastructure hindering the movement between towns by the researcher leading to delay in distribution collection of questionnaires.

5.6 Suggestions for further studies
This research project focused on the survey of the strategic responses to competition in retail banking used by financial institutions in Samburu County, Kenya. In order to have a clearer perspective of the foregoing issues in the study, the researcher recommends studies to be carried out in the following areas;

i. The strategies for attracting the unbanked and low income communities in ASAL Counties.

ii. The market entry strategies used in ASAL counties in Kenya.
REFERENCES


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


APPENDIX I
Introduction Letter

I am a student at Kenyatta University (KU) undertaking MBA course in Strategic Management. I am carrying out a survey of the strategic responses to competition in retail banking used by financial institutions in Samburu County, Kenya.

I request that you complete attached questionnaire and return it to me. Thank you in advance for your assistance.
APPENDIX II
QUESTIONNAIRE

INTRODUCTION
The objective of this questionnaire is to enable the researcher gather relevant information that is necessary to investigate the strategic responses to competition in retail banking used by financial institutions in Samburu County, Kenya. Information collected shall strictly be kept confidential and used only for academic purpose.
Kindly, read and answer the following question honestly & appropriately.

SECTION A: COMPANY BIO DATA
1. What is the name of your company ...........................................
2. Year it was established in Samburu county .................................
3. Number of employees ..............
4. Do you have branches /Agency Outlets Yes [ ] No [ ]
5. If yes above how many ...................... and location .........................

SECTION B: INFORMATION TECHNOLOGY AND APPLICATION SYSTEMS
1. Does your ICT system support such a wide clientele without hanging or collapsing?
   Yes [ ] No [ ]
2. Does your ICT system to build a competitive advantage?
   Yes [ ] No [ ]
3. Is the speed of your systems faster and acceptable to your customers?
   Yes [ ] No [ ]
4. Is your ICT system user friendly for you and in handling customer transactions?
   Yes [ ] No [ ]
SECTION C: BUSINESS INTELLIGENCE AND CONTROLLING

1. Does your company have a written Vision statement? Yes [ ] No [ ]

2. Mission statement Yes [ ] No[ ]
   What strategies are you using to reach the remote areas of Samburu County? Specify. .................................................................

3. How do you set your prices for your products and services?
   i) Lower than competitors [ ]
   ii) Equal to competitors [ ]
   iii) Higher than competitors [ ]
   iv) Using other means, specify ..............................................

4. Are you involved in the development of your products and services
   Yes [ ] No [ ]

5. Do your customers ask for price discounts? Yes [ ] No [ ]

6. Do you normally give price discounts? Yes [ ] No [ ]

7. Do you give quantity discounts? Yes [ ] No [ ]
8. Which of the following best describes the future of this company in the Retail banking industry? Please tick as appropriate. (Key: SD = Strongly Disagree; D = Disagree; A = Agree; SA = Strongly Agree; DK = Don’t Know/Neutral)

<table>
<thead>
<tr>
<th>Expansion in number of outlets/production.</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
<th>DK</th>
</tr>
</thead>
<tbody>
<tr>
<td>New product development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase marketing effort</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Big sales</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>price cut</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lay off employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve product quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Better cost control/cut costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raise Prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase marketing effort</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out-sourcing of work</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Reduce product range/item</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merger and acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

9. How do you measure performance?
   Sales per month [ ]
   Number of clients served per month [ ]
   Net profit per month [ ]

10. What are your average monthly sales?
    0.5million – 1.5 million [ ]
    1.5million-2.5million [ ]
    2.5million – 5 million [ ]
    5million – 10million [ ]
    10 million – 30 million [ ]
    More than 30 million [ ]

11. What is your average monthly total cost
    0.5million – 1.5 million [ ]
    1.5million-2.5million [ ]
12. What is the average number of clients served per month?..........................

SECTION D: MULTICHANNEL CUSTOMER MANAGEMENT

1. Do you think that your bank caters all customers banking needs? Yes No
2. What kind of account do most customers maintain in this institution?
   (a)Current (b) Savings (c)Loan a/c (d)Transactional (e)Credit card
3. Which of the following facilities is given more importance in your institution.
   (a)Loan facilities (b)O/D facilities (c)ATM facilities
4. How often does your company introduce new products into the market
   i) Every six months [ ]
   ii) Annually [ ]
   iii) Bi annually [ ]
   iv) Every three years or more. [ ]
5. Do you have a special category of customers.
    Yes [ ] No [ ]
6. Do you have a specialized product range for some customers only?
    Yes [ ] No [ ]
7. Who form the majority of your customers.
    i) Specialist customers[ ]
    ii) General customers[ ]
    iii) High class customers [ ]
8. Does your company focus on a specific region when marketing your products?
   Yes [ ]      No [ ]

9. If yes above what category do you focus on
   i) High potential areas [ ]
   ii) Low potential areas [ ]
   iii) Medium potential areas [ ]

10. Does your bank conduct any recreation facilities for the customers?
    Yes [ ]      No [ ]

11. Does your bank have core banking facility for the customers?
    Yes [ ]      No [ ]

12. Do they charge unnecessarily for not maintain minimum balance in your account?
    Yes [ ]      No [ ]

13. Does your institution offer competitive service charges?
    Yes [ ]      No [ ]

14. Do you think your bank offers competitive interest rate?
    Yes [ ]      No [ ]

15. Do you use the service of alternative institution? Yes [ ]      No [ ]

16. What do you feel about overall service quality of your institution?
    Excellent [ ]  very good [ ]
    good [ ]      average [ ]
    poor [ ]
17. Would you recommend this institution to your friends, relatives, and associates?
Yes [ ] No [ ]

18. When do you think of your bank, what comes first in your mind?
(a) Personalised service
(b) Wide branch network
(c) Customer service
(d) Computerized banking
(e) Core banking

19. To what extent do you use the following as a means of attracting and retaining customers

<table>
<thead>
<tr>
<th>Means of attracting and retaining customers</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Offering low priced products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Building customer loyalty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Longer opening hours</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4. Offering price discount</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>5. Prompt services/delivery of products</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>6. Retention of popular staff</td>
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<td></td>
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<tr>
<td>7. Employing high caliber staff</td>
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</tr>
</tbody>
</table>

Key 5- Very large extend 4. To a large extend 3. Moderate extend 2- Less extend 1 .Not at all.

20. Which are five most important improvements undertaken to manage you customer visits and to “decongest” your branches.

(a) -
(b) -
(c) -
(d) -
(e) -
PEOPLE AND ORGANIZATION

1. Are you involved in the marketing and sales of your products?
   Yes [ ]  No [ ]

2. If yes above are our sales persons based
   i) Centrally [ ]
   ii) Regionally [ ]
   iii) Other. Specify .............................................................

3. Do you have a policy of retaining your key employees
   Yes [ ]  No [ ]

4. If yes above how do you do it.
   i) Paying higher salaries[ ]
   ii) Providing medical cover[ ]

5. Are there strategies have you put in place to build a competent and motivated workforce? Yes [ ]  No [ ]

6. Does your organization experience negative publicity on your bank?
   Yes [ ]  No [ ]

7. Are there changes have you made on your organizational structure to improve your Competitiveness? Yes [ ]  No [ ]

8. Are there any financial strategies your institution using to compete in the retail banking industry? Yes [ ]  No [ ]

9. Do you strive to create a unique image of your company to your customers?
   Yes[ ]  No [ ]

10. If yes above how do you create a unique image of your company?
    a. Through company logo. [ ]
    b. Company colors. [ ]
    c. Others specify .............................................................
11. To what extent are the following factors used as a way to distinguish your company from others

<table>
<thead>
<tr>
<th>Factor</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having superior products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Popularity of marketing staff</td>
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<td></td>
<td></td>
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<tr>
<td>Location of your premises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engage in promotional activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offer refreshment to clients</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of staff uniform with company logo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offering clients gifts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key 5- Very large extend  4. To a large extend  3. Moderate extend  2- Less extend  1. Not at all.

12. Do you have a research and development department for products and services?  
   Yes [ ]  No [ ]

13. Do you have a marketing department in your company?  
   Yes [ ]  No [ ]

14. Who does the marketing of your products and services?  
   a. Marketers [ ]  
   b. Technical staff [ ]

15. List the strategies as many as possible you employ in marketing your products and services in the space provided below.

----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
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SECTION E: FURTHER INFORMATION AND CONTACT DETAILS

Please add any specific or general comments on the issues raised in this questionnaire that you feel have not been sufficiently addressed. (Please use more space if it is necessary). Would you be willing to take part in a short telephone interview to cover specific areas of the survey in more detail?

If Yes, please give your telephone number

Thank you for taking the time to complete this questionnaire. If you would like to receive a copy of the results, please tick. Yes [ ] No [ ]

Yes Email address

Postal address

If you have any queries about this questionnaire or if you would like to know more about this research activities please contact researcher at;

ngenohdicksonkipkirui@gmail.com.
## APPENDIX 111
### TIME FRAME

<table>
<thead>
<tr>
<th>S/NO</th>
<th>ACTIVITY</th>
<th>DURATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Literature hunt</td>
<td>December 2011-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>February 2012</td>
</tr>
<tr>
<td>2.</td>
<td>Proposal review</td>
<td>March/April 2012</td>
</tr>
<tr>
<td>3.</td>
<td>Defence and corrections</td>
<td>May 2012</td>
</tr>
<tr>
<td>4.</td>
<td>Piloting of the questionnaire</td>
<td>May 2012</td>
</tr>
<tr>
<td>5.</td>
<td>Data collection</td>
<td>May 2012</td>
</tr>
<tr>
<td>6.</td>
<td>Data analysis</td>
<td>June 2012</td>
</tr>
<tr>
<td>7.</td>
<td>Report writing and presentation</td>
<td>June 2012</td>
</tr>
<tr>
<td>8.</td>
<td>Submission</td>
<td>June 2012</td>
</tr>
</tbody>
</table>

Source: (Author, 2012)
## APPENDIX IV
### BUDGET

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity</th>
<th>Price per unit</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROPOSAL</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport and subsistence</td>
<td></td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Typing and printing</td>
<td>400</td>
<td>15</td>
<td>6,000</td>
</tr>
<tr>
<td>Photocopies</td>
<td>800</td>
<td>2</td>
<td>1,600</td>
</tr>
<tr>
<td>Binding</td>
<td>8</td>
<td>50</td>
<td>400</td>
</tr>
<tr>
<td>Computer/internet</td>
<td></td>
<td>50cts</td>
<td>4,000</td>
</tr>
<tr>
<td>Total for proposal</td>
<td></td>
<td></td>
<td>22,000</td>
</tr>
<tr>
<td><strong>PROJECT</strong></td>
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<tr>
<td>Transport &amp; subsistence</td>
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<td></td>
<td>10,000</td>
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<tr>
<td>Typing and printing</td>
<td>240</td>
<td>30</td>
<td>7,200</td>
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<td>Photocopying</td>
<td>1000</td>
<td>2</td>
<td>2000</td>
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<tr>
<td>Data processing</td>
<td></td>
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<td>5,000</td>
</tr>
<tr>
<td>Binding</td>
<td>8</td>
<td>600</td>
<td>4,800</td>
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<tr>
<td>Total for project</td>
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<td><strong>GRAND TOTAL</strong></td>
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<td>51,000</td>
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