# INFLUENCE OF COMPETITIVE STRATEGIES ON ADOPTION OF INTERNET BANKING IN COMMERCIAL BANKS IN MACHAKOS COUNTY, KENYA

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**D53/OL/26436/2013**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT FOR THE AWARD OF DEGREE IN MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY**

**JUNE 2017**

## DECLARATION

**Declaration by candidate:**

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

Signature:______________ Date:________________

Stephen Muthenya D53/OL/26436/2013

**Declaration by Supervisor:**

I confirm that the work in this project was done by the candidate under my supervision.

Signature:______________ Date:________________

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## DEDICATION

This research project is dedicated to my wife Faith Mwongeli Mulului, my sons Patrick Muthenya Junior and Emmanuel Mwendwa; together with others who believe in my efforts.

## ACKNOWLEDGEMENT

This research project was possible through the guidance, encouragement and assistance of a number of people and institutions. My greatest gratitude goes to my supervisor Dr. Linda Kimencu for guiding me through the start to the completion of the project. I appreciate her patience with me and her wisdom.

I also thank all the respondents' who took time to respond to my interview questions thus making this study successful. My gratitude also goes to the staff of Kenyatta University for all their assistance. Finally, I acknowledge my Lord God Almighty for taking me through this project.

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## OPERATIONAL DEFINITION OF TERMS

**Adoption of internet Banking** –Refers to the uptake and usage of internet by commercial banks in carrying out banking transactions expressed in percentage.

**Commercial bank** **-**Refers to a financial institution or intermediary that accepts deposits and channels them into lending activities directly or through capital markets.

**Competitive advantage** -Any attainment of business supremacy among competitors often shown by market leadership and good performance.

**Cost leadership strategy** -A business workplan which focuses on offering the lowest cost in the market so as to gain a competitive edge over other firms.

**Differentiation** **-**Refers to a marketing strategy businesses use to gain an edge where multiple competitors produce similar products; such as making their product unique to stand out.

**Focus strategy** -A business workplan that concentrates on a specific attainable target point with a view of gaining competitive advantage over other organizations.

## ABSTRACT

Technology has ushered in a regime where non-bank businesses are providing new options for safe guarding and managing the finances of customers, so dependency on banks will only be guaranteed if the banks can provide services and value that cannot be sourced elsewhere. In Kenya, the banking industry is made up of various categories of banks ranging from commercial to microfinance banks. The quick growth in number of banks in Kenya is attributed to swift tempo of economic development favoring economic liberalization thus making the banking industry highly competitive. Therefore, banks are looking for strategies to enable them compete favorably in highly competitive marketplace. Internet banking enables customers to browse essential bank products and services seven days a week, 24 hours a day, through their personal computers and smart phones. The study aimed to evaluate the influence of competitive strategies on adoption of internet banking in commercial banks in Machakos County. The specific objectives of this study were:to determine the influence of differentiation strategy on adoption of internet banking in Commercial Banks in Machakos County; to establish the influence of cost leadership strategy on adoption of internet banking in Commercial Banks in Machakos County and to find out the influence of focus strategy on adoption of internet banking in Commercial Banks in Machakos County. This study adopted a descriptive survey design. The researcher drew his population from selected Commercial Banks in Machakos County, 8 in number with a total population of 243 staff members (both managerial and clerical). Due to the small population size, a complete census was carried out. A semi- structured questionnaire was used to collect primary data. Secondary data was collected by use of a data collection form. The relationship between the dependent variable (Y) and the independent variables (X) was tested using multiple linear regression model. Content validity was tested by use of professionals and experts in the field of internet banking while reliability of the test instrument was tested using Cronbach alpha method as a measure of internal consistency. Both descriptive and inferential statistics were used to analyze data. Frequency tables, percentages and means were used to present the findings.The study found that bank services with speedy and efficient platforms, user friendly platforms, platforms which are technologically enhanced, products and services with enhanced security settings contribute to adoption of internet banking.The study also revealed that bank's focus on foreign exchange, paperless banking, mobile banking, corporate clients and digital payment greatly improve internet banking adoption. It also found out that banks that do not charge for fast paced internet banking services, have pricing that is devoid of hidden charges, pricing those factors in product and service quality and have adopted cost cutting measures have a significant impact on adoption of internet banking. The study recommends use of speedy, customer friendly and technologically enhanced platforms with enhanced security settings. Focus on foreign exchange, paperless banking, mobile banking, digital payments and concentration on cooporate clients. Having products that are devoid of hidden charges, pricing that factors in product and service quality, avoidance of charges for fast paced internet services and adoption of cost cutting measures in an endevour to increase adoption of internet banking.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background ofthe Study

In the banking industry, increased competition threatens the attractiveness of the industry and reduces the profitability of the players in the sector (Kungu, Desta & Ngui, 2014). It exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment (Johnson & Scholes, 2008). The environment that organizations exist encapsulates many different influences (Ndungu, Machuki & Murerwa, 2014). These changes in the environment present businesses with a dilemma: whether to cut costs to conserve resource, or to invest in new products and processes to exploit competitor weakness.

Having scenarios of possible future would in turn help managers to consider the different ways in which strategies might need to change depending on how the business environment behaves. In assessing the external environment, Drucker (2008) looked at the remote environment as a set of forces that originated beyond any single firm operating situation i.e. political, economic, social and technological factors. Economic considerations include nature and direction of economy in which the business operates. A competitive strategy is a plan of how a firm will compete, formulated after evaluating how its strengths and weaknesses compare to those of its competitors in order to gain competitive advantage over other firms in the industry (Wang & Chugh, 2013).

The ultimate purpose of competitive strategy is to anticipate competitor moves and countermoves, and take the initiatives to thwart the effectiveness of their plans, thus gaining competitive edge. Following on from his work, analyzing the competitive forces in an industry, Michael Porter suggested three generic business strategies that could be adopted in order to gain competitive advantage.

Porter (1980) proposed three different `generic' strategies by which an organization could achieve competitive advantage: `overall cost leadership', `differentiation' and `focus'. Companies can achieve competitive advantage essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the market place, or they can focus on a narrow target in the market (Wang & Chugh, 2013).

Technology has ushered in a regime where non-bank businesses are providing new options for safe guarding and managing the finances of customers, so dependency on banks will only be guaranteed if the banks can provide services and value that cannot be sourced elsewhere (Munusamy, Chelliah & Mun, 2010). Evaluation of the future about the actors and forces shaping the banking sector points to the fact that the future will demand superior 'efficiency and operational excellence' from banks and leadership in the industry will be achieved via harnessing products, services and process innovation to anticipate and meet customer needs (Munusamy, Chelliah & Mun, 2010). Despite the fragile global economic environment, slowdown in capital investments and private sector credit, the banking sector remains buoyant in Kenya (Ndungu, Machuki & Murerwa, 2014). However, the industry is facing dramatically aggressive competition in a new de regulated environment. Commercial banks in Kenya are realizing that stiff competition within the banking industry necessitates the design of competitive strategies to guarantee their performance (Kungu, Desta & Ngui, 2014).

### 1.1.1 Competitive Strategies

A competitive strategy is the search for a favorable competitive positioning in the industry (Kungu, Desta & Ngui, 2014). Competitive strategy is the tool that manipulates the resources and creates competitive advantage; hence, viable competitive strategy may not be adequate unless it possesses control over unique resources that have the ability to create such a unique advantage (Chege, 2008). Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness (Kungu, Desta & Ngui, 2014).

The ultimate aim of competitive strategy is to cope with and ideally, to change those rules in the firm's behaviour. Moreover, firms have adapted to being ‘learning organizations’ in order to cope effectively with the environment turbulence as failure to do so may jeopardize future success of these organizations (Chege, 2008). Competitive strategies may include; those which are beneficial for reasons other than environmental change and justifiable in their own right; economically efficient and cost effective, in particular those that use market-based mechanisms; able to serve multiple social, economic, and environmental aspects; flexible and phased, so that they can be easily modified to respond to increased understanding of business, technological, and economic aspects of business environmental change, compatible with economic growth and the concept of sustainable development; administratively practical and effective in terms of application, monitoring, and enforcement; and reflecting obligations of the areas of financing and technology (Drucker, 2008).

Porter (2004) viewed competitive strategies as a two dimensional phenomenon with a supply side –strategic scope; and a demand side – strategic strength. He later simplified the scheme into three generic strategies, namely 'overall cost leadership', 'differentiation' and 'focus'. Cost leadership seeks to offer products at the lowest cost in the industry while ensuring profitability, differentiation strategy aims at providing a variety of products that competitors are unable to provide and focus strategy whose goal is to focus on notably superior products and services. Johnson, Scholes and Wittington (2008) on the other hand, perceive competitive strategies from a business level perspective and believe that it is the achievement of competitive advantage by a business unit in its particular market. They advocate for a hybrid strategy which provides a market-facing element to Porter's model in the form of price as a new dimension and its combination with differentiation. Sidorwicz (2007) on the other hand sees competitive strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare.

Drucker (2008) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. One of the environmental influences to a business normally arises from competition (Crook, Ketchen, Combs & Todd, 2008).

### 1.1.2 Internet Banking

Internet banking refers to the use of the internet as a delivery channel for banking services, which includes all traditional services such as balance enquiry, printing statement, fund transfer to other accounts, bill payments and new banking services such as electronic bill presentment and payment without visiting a bank (Mukherjee &Nath, 2003). According to Chau& Lai ( 2003), the rapid growth and popularity of the internet has created great opportunities as well as threats to companies in various business sectors. Besides opportunities of this channel, banks and financial institutions across the world face new challenges in the way they operate, deliver services and compete with each other in the financial sector. Driven by these challenges, banks and financial institutions have implemented service delivery using internet banking (Chan & Lu, 2004).

The objectives of launching internet banking include cost reduction, performance improvement, wider coverage, revenue growth and customer convenience (Bradley & Stewart, 2002; Chau& Lai, 2003). From the customer's perspective, internet banking facilitates a convenient and effective approach to manage personal finances, as it is accessible 24 hours a day, 365 days in a year without visiting the bank and from any location (Capitanio, Coppola & Pascucci). According to the Reserve Bank of India (2007), there are three basic types of internet banking services, informational, communicative and transactional internet banking services.

### 1.1.3 Banking Industry in Kenya

The banking sector in Kenya was liberalized in 1995 and exchange controls lifted. As at December 2011, there were forty three banking institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves as a forum to address issues affecting members. The Central Bank of Kenya, which falls under the Ministry of finance, is responsible for formulating and implementing monetary policy and fostering liquidity, solvency and proper functioning of the financial system (PWC, 2012).

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Although there is a significant growth of internet users in Kenya, the number of financial transactions carried out over the internet remains very low. This trend however is the same globally and it has been observed that potential users either do not adopt internet banking or do not use it continually after adoption (Chau & Lai, 2013).

### 1.1.4 Commercial Banks in Machakos County

Machakos County currently has over 10 licensed Commercial Banks (CBK,2014).This research was however based on selected ones namely; Cooperative Bank, Equity Bank, Standard Chartered Bank, Kenya Commercial Bank, Family Bank, Diamond Trust Bank, Barclays Bank and Krep Bank. In recent years, this sector has enjoyed tremendous growth in assets, profitability, deposits and product offering (CBK, 2007). This growth can be attributed to an aggressive network expansion locally and regionally undertaken by most banks in an effort to get the previously unbanked segment of the society.

Growth can also be attributed to automation of many services offered by banks including introduction of ATM services, mobile banking and internet banking services. Banks have experienced increased competition in the last few years due to increased innovations among the competitors and new entrants into the market (CBK, 2005). Currently, the selected banks have a total population of 243 employees, 185 being clerical and 58 Managerial staff.

## 1.2 Statement of the Problem

Competitive strategy is that part of business strategy that deals with management's plan for competing successfully; how to outmaneuver rivals or how to defend oneself against competitive pressure (Thompson and Strickland, 1996). The intensity of competition in the banking sector determines its profit potential and competitive attractiveness hence strategy should be able to spell out how the organization responds to the competitive forces in these markets (ComScore, 2011). Researchers have claimed that various products such as swift call back, sitting instead of queuing are rolled by banks as a result of intense competition. However, very minimal research link internet banking to competitive strategy as compared to strategic innovation. In addition, internet banking is generally not available in some countries because adoption is still at its early stages although the technology is available and people are aware of its existence (Kemoli, 2012). Most developed countries have established their IT infrastructure and their Internet adoption rate is generally above 70 percent of their population (ITU, 2011). In contrast, the majority of developing countries still have an Internet adoption rate below 40% (Internet World Stats, 2011). So, does competitive strategy influence adoption of internet banking? This is the gap that this study sought to fill.

Commercial banking sector in Kenya has become more visibly competitive. It has been in a state of constant change. Due to economic liberalization, competition has become stiff, forcing Commercial banks to conform to the changing economic environment. In Kenya, banks have also adopted technological innovations as a response to fierce competition within the industry; one such adoption being internet banking. Machakos County has been experiencing unprecedented increase in number of bank branches given its proximity to the capital city of Kenya (Nairobi) and an ever growing population of middle class income earners. The banks are therefore forced into stiff competition. Each bank has developed a strategy unique to its corporate culture, but all of these banks have the same desire to be the customer's number one choice for their banking products and services. Perhaps the intense efforts and strategies applied in countering competition have an impact on the adoption rates for internet banking. Therefore, could it be that the competitive strategies influence adoption of internet banking among commercial banks in Machakos County? This is worth investigation.

Previous studies have attempted to analyze competitive strategies and adoption of the internet in organizations in different ways. A study by Doherty, Haugh, and Lyon (2014) adopted both primary and secondary data and found out that adoption of internet in organizations and competitive strategies are often seen as essentially related processes. Another analysis by Franco & Haase (2009) is even more explicit, defining the relationship of adoption of internet and competitive strategies in businesses as a ‘never-ending, dynamic cycle’ in which knowledge is created and adopted. Despite the growing interest in the field of internet banking, studies done previously did not directly link competitive strategies to its adoption. More research is thus required especially targeting commercial banks (Wang &Chugh, 2013). This study therefore sought to fill knowledge gap by focusing on influence of competitive strategies on adoption of internet banking among commercial banks in Machakos County.

## 1.3 Objectives of the Study

### 1.3.1 General Objective

The study aimed at evaluating the influence of competitive strategies on adoption of internet banking in commercial banks in Machakos County.

### 1.3.2 Specific Objectives

The specific objectives of this study were:

i. To determine the influence of differentiation strategy on adoption of internet banking in Commercial Banks in Machakos County.

ii. To establish the influence of cost leadership strategy on adoption of internet banking in Commercial Banks in Machakos County.

iii. To find out the influence of focus strategy on adoption of internet banking in Commercial Banks in Machakos County.

## 1.4 Research Questions

i. What is the influence of differentiation strategy on adoption of internet banking in Commercial Banks in Machakos County?

ii. What is the influence of cost leadership strategy on adoption of internet banking in Commercial Banks in Machakos County?

iii. What is the influence of focus strategy on adoption of internet banking in Commercial Banks in Machakos County?

## 1.5 Significance of the study

The study will help in building the existing policy framework for bank regulations, bank competition and bank performance. This study will unearth value management and hence improve performance in both financial and non-financial sectors. The study will help the policy makers evaluate the current methods used to market internet banking and possibly develop other means to increase uptake of the internet banking services amongst the clientele.

This study will add to the existing body of knowledge with regard to internet banking sector reforms. This study will not only be a theoretical reference point for conventional banks but also other financial institutions. Students and Academicians who wish to carry out further research on strategy and internet banking may review the study literature and establish gaps for further studies.

The study will enable the bank clients to appreciate internet banking as an inevitable means of undertaking day to day transactions. The study findings and recommendations can be co-opted by bank management in Kenya to better their service delivery and enhance their performance. Other banks and financial organizations looking for strategic alliances to overcome competitive challenges in Kenya will directly benefit from the findings of this study.

### 1.6 Scope of the Study

The study focused on one county; Machakos County because of the ever growing number of commercial bank branches in the county and its proximity to the capital city of Kenya Nairobi. There are forty-seven counties in Kenya but the researcher is well versed with this county. The study focused on influence of competitive strategies on adoption of internet banking in commercial banks in Machakos County and therefore the findings may not reflect the management perception in the entire banking sector. This study focused on commercial banks only and not other financial institutions which are not banks; for example, MFIs (Micro finance institutions). The study focused on three competitive strategies which are; cost leadership, differentiation and focus strategy and how they influence adoption of internet banking. The study further sought to interview bank employees.

### 1.7 Limitations of the Study

Banks have their own strategies and they would not like their information to be known by their competitors. The bank managers were reluctant to give out information, the researcher assured them that the information will be used for academic purposes only and will be treated with confidentiality. Other bank staffs who were also part of the respondents were reluctant to give information to the researcher because they were afraid that they may lose their jobs if their managers got to know. However, the researcher provided a letter from his head of department which indicated that the staff was free to give out the information for research purposes.

The study used a census survey in sampling which is time consuming and the respondents have their busy schedule at work. The researcher assured the respondents that the survey will only take a little time because the survey questions were well structured for fast and easy responses. The researcher used a survey research design however; questions in surveys are always standardized before administering them to the respondents. The researcher therefore created questions that were general enough to accommodate the general population. However, these general questions were not as appropriate for all the participants as they should be.

**1.8 Organization of the Study**

This study was organized into five chapters. Chapter one that entails the study background, problem statement, general objective of the study, specific objectives, research questions, significance of study, limitations and scope of the study. Chapter two reviews literature relevant to the study. It also focuses on the theoretical framework and the conceptual framework. Chapter three highlights the study methodology with a key emphasis on design, population, sampling procedure, methods of data collection, validity, reliability of data collection instruments, data analysis and ethical considerations. Chapter four entails research findings and chapter five focuses on conclusions and recommendations based on the research findings.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter concentrates on reviewing literature with a view of understanding what other researchers have contributed and the extent of the findings regarding internet banking and competitive strategies. The chapter also reviews the theories which act as the foundation of the study and thus relate to the study constructs.

## 2.1 Theoretical Review

### 2.1.1 Porter's Five Forces Model

Five forces model was developed by Porter (1979) of Harvard business school. It is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. The model helps in identifying where power lies in a business situation. This is useful in understanding the strength of an organization's current competitive position and the strength of a position that an organization may look to move into. Strategic management is concerned with defining organizational performance, variables of strategic choice and competitive advantage. Strategic choice determines the market in which to participate and where to position the organization within those markets (Kothari & Vadlami, 1995). In formulating strategy, firms commonly make an overall assessment of their own competitive advantage via an assessment of the external environment based on the five forces model (Porter, 2008).

The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter, 2008). In this perspective, a firm's sources of market power explain its relative performance. Three sources of market power are frequently highlighted: monopoly, barriers to entry, and bargaining power (Grant, 1991). When a firm has a monopoly, it has a strong market position and therefore performs better (Peteraf, 1993). High barriers to entry for new competitors in an industry lead to reduced competition and hence better performance. Higher bargaining power within the industry relative to suppliers and customers can also lead to better performance (Grant, 1996).

The five forces model is relevant to this study since it focuses on the fact that a firm's source of market power explains its relative performance; which basically connects the firm's performance to customers through innovations like internet banking; thus performance is a crucial factor in obtaining market power. But a firm is not a complete prisoner of industry structure since they can influence the five forces through their own competitive strategies such as focus, differentiation and cost leadership. The five-force model enables organizations to analyze the current situation of their industry in a structured way therefore necessitating actions such as internet banking. Moreover, the five forces model dwells on bargaining power within the industry which is a direct link to gaining competitive advantage which is only achievable by application of strategies such as internet banking. Therefore the five forces model is clearly relevant to this study.

### 2.1.2 Porters Generic Strategies Model

Porter (1985) generic strategies model encompasses an element of competitive advantage of nations which provides a sophisticated tool for analyzing competitiveness with all its implications in international trade and production. Competitive advantage stems from the principle that the only important concept at the national level is the national productivity (Fota, 2004). Porter's (1985) generic strategies model begins from individual industries and builds up to the economy as a whole. Since firms, not nations compete in international markets, understanding the way firms create and sustain competitive advantage is the key to explaining what role the nation plays in the process. Porter (1985) argued that differentiation, focus and cost leadership strategies provide an organization with competitive advantage which is the key determinant to superior performance.

The pursuit of competitive advantage is arguably the central theme of the academic field of strategic management (Furrer, Thomas & Goussevskaia, 2008; Hoskisson, Hitt, Wan & Yiu, 1999). Prahalad and Hamel (1990) suggested that competitive advantage based on resources and capabilities is more important than just solely based on products and market positioning in terms of contributing to sustainable competitive advantages. When customers choose a product or service from one firm and ignore those of another firm, then the former has a competitive advantage over the latter. In other words, the model is relevant to this study since it highlights the strategies that can be used to attain competitive advantage over rivals in the market space. A study done by Kungu, Desta and Ngui (2014) on the effectiveness of competitive strategies by Equity bank in Kenya adopted this model and used it to explain the relation between the three generic strategies and attainment of competitive advantage. To achieve competitive advantage, a firm needs to employ either focus strategy, differentiation or cost leadership strategy. Therefore, porters' generic strategies model is very relevant for this study.

### 2.1.3 Diffusion of Innovations Theory

Diffusion of innovations is a theory that seeks to explain how, why, and at what rate new ideas and technology spread. Its proponent, Everett, a professor of communication studies, popularized the theory in his book Diffusion of Innovations; the book was first published in 1962, and is now in its fifth edition. Rogers (2003) argues that diffusion is the process by which an innovation is communicated over time among the participants in a social system.

Diffusion of innovations theory states that, innovations are diffused over time in a pattern that resembles an s-shaped curve. Rate of adoption theorizes that an innovation goes through a period of slow, gradual growth before experiencing a period of relatively dramatic and rapid growth. The theory also states that following the period of rapid growth, the innovation's rate of adoption will gradually stabilize and eventually decline (Rogers, 1995). Potential adopter's judge an innovation based on their perceptions in regard to five attributes of the innovation. These attributes are: triability, observability, relative advantage; complexity and compatibility (Rogers, 1995). The theory is related to this study since it holds that an innovation will experience an increased rate of diffusion if potential adopters perceive that the innovation: can be tried on a limited basis before adoption, offers observable results, has an advantage relative to other innovations (or the status quo) is not overly complex and is compatible with existing practices and values.

Perceptions of compatibility, complexity, and relative advantage have been found to play a significant role in several IT-related adoption studies. Wyner (1974) found relative advantage and compatibility to be significant perceptions among potential adopters of instructional technology in high schools. Eads (1984) found that compatibility was the most important attribute among students and school administrators. Surry (1993) studied the perceptions of weather forecasters in regard to innovative computer based training and found relative advantage; complexity and compatibility were important adoption considerations.

The theory is relevant to this study since it focuses on perceived attributes of an innovation such as internet banking as significant predictors of the rate of adoption. Rogers reported that 49-87% of the variance in the rate of adoption of innovations is explained by these 5 attributes. In addition to these attributes, the innovation-decision type (optional, collective, or authority), communication channels (mass media or interpersonal channels), social system (norms or network interconnectedness), and change agents may increase the rate of adoption relevant in this study since it focuses on the application of the study variables by any player in the business field to attain competitive advantage hence attract and retain customers.

**2.2 Empirical Review**

Porter (1980) proposed three different `generic’ strategies by which an organization could achieve competitive advantage: `overall cost leadership’, `differentiation’ and `focus’. There is much debate as to exactly what each of these categories mean. In particular many confuse Porter’s `cost leadership’ with “low price”. The three generic strategies are discussed along with the advantages and risks inherent with each strategic option. Porter's generic strategies framework constitutes a major contribution to the development of the strategic management literature. Generic strategies were first presented in two books by Professor Michael Porter of the Harvard Business School. Porter (1985) suggested that some of the most basic choices faced by companies are essentially the scope of the markets that the company would serve and how the company would compete in the selected markets. Competitive strategies focus on ways in which a company can achieve the most advantageous position that it possibly can in its industry (Peterson, 1995).

The profit of a company is essentially the difference between its revenues and costs. Therefore, high profitability can be achieved through achieving the lowest costs or the highest prices vis-à-vis the competition. Porter used the terms ‘cost leadership' and ‘differentiation', wherein the latter is the way in which companies can earn a price premium. Companies can achieve competitive advantage essentially by differentiating their products and services from those of competitors and through low costs. Firms can target their products by a broad target, thereby covering most of the marketplace, or they can focus on a narrow target in the market (Lam & Burton, 2006). According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.

### 2.2.1 Focus Strategy and Internet Banking

Patti and Gobbi (2001) carried out a study on the effects of competition on adoption of internet banking by commercial banks in Italy. They sampled 15 commercial banks in Rome. From their study they found that adoption of focus strategy in competition leads to higher growth rates and greater adoption of internet banking by new firms and other SMEs. However they found that such focus in competition has unfavorable effects including less new firm creation, expansion, and employment, less economic growth and slower exit of mature firms. In brief, the focus strategy aims at serving a particular target or segment of the industry well, as opposed to both overall cost leadership and differentiation strategies which seek to achieve their objectives industry-wide (Lumpkin, Droege & Dess, 2013).For example, a firm may choose to serve a particular buyer group, segment of the product line or geographic market. However, the study adopted longitudinal design, a gap this study sought to fill.

Karanja (2002) observed in a study of internet banking adoption by real estate firms in Kenya that increase in the number of players has led to increased competition. He concluded that the most popular type of competitive strategy was on the basis of focused differentiation. Firms tended to target certain levels of clients especially the middle and upper class who resided in certain targeted estates. However, the study focused on real estate firms and not banks, a gap this study sought to fill.

Ferdinand (2002) carried out a study on the competitive strategies applied by Tesco Company in the UK. This study was carried on 230 employees in the various departments of the company. He noted that the company was positioned to capitalize on a value proposition which emerged from their low cost emphasis. They also found that the company typically focused their efforts on value-oriented customers in the market. Value products are focused on providing value-oriented customers with products such as agency banking that are indeed value-for-money, relative to competitive offerings. However, the study focused on a supermarket and not a bank, a gap this study sought to fill.

**2.2.2 Differentiation and Internet Banking**

Chan and Jamison (2001) carried out an investigative study on the competitive strategies applied by banks in China from 1978 to1998. The author states that the sector witnessed important players' going in and out, different legal regulations were fulfilled, the structure and intensity of the competition became different, and trade making or differentiation became the most important element of the competition in that period. However, the study adopted longitudinal design, a gap this study sought to fill.

A study of Nokia by Carral and Kajanto (2008) reported the successful action taken during buoyant times in anticipation of expected industry changes. The company disposed of many non-core activities in order to concentrate on the more lucrative mobile telephone market in the late – 1990s. The implication of the study is that businesses should always be looking ahead to anticipate environmental changes that will impact upon them, and take action to adapt before performance declines. However, the study did not show the influence of strategies on any dependent variable, a gap that this study sought to fill.

Hall and Saias (1980) investigated sixty-four American companies and the findings of the study revealed that companies following a differentiation strategy had superior performance compared to those companies that were not following the same. It is important for analysts to note that there is more than one way in which a company can make use of differentiation.

Differentiation can be achieved through a differentiated product, superior quality and customer service etc. A key question to ask is whether the customers of the company perceive the point of difference as one that is worth a price premium. However, the study linked the strategies to performance and not internet banking, a gap this study sought to fill.

Carletti and Hartmann (2003) carried out a survey of 231 MFIs in London on effect of differentiation as a competitive strategy on financial stability. They found that the degree of competition in the financial sector can matter for the access of firms and households to financial services and external financing, in turn affecting overall economic growth. However, the study focused on financial stability rather than internet banking, a gap the current study sought to fill. Another study by Koksal and Ozgul (2007) of 172 Turkish companies found that firms focusing on product development to capture niche markets, and technology and production methods that save costs, perform most successfully during inflation. However, the study did not focus on banking firms, a gap the current study sought to fill.

### 2.2.3 Cost Leadership and Internet Banking

Alamdari and Fagan (2005) carried a model-based study, by discussing the effectiveness of the low-cost model and the effects on the profitability of banks. They found that the bank with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. They however found that the company's focus on reducing costs, even sometimes at the expense of other vital factors, may become so dominant that the company loses vision of why it embarked on one such strategy in the first place. However, the study focused on effects of low cost strategy on profitability and not internet banking, a gap the current study sought to fill.

A study on Ghana by Mathisen and Buchs (2005) used the Panzar–Rosse framework in determining the degree of competition in the Ghanaian banking sector. In their study, two reduced-form revenue equations are estimated; one for total (including interest) revenue scaled using total assets and the other for unscaled total (including interest) revenue. The explanatory variables used for this study were the three dimensional vector of factor prices; namely the ratio of personnel expenses over total loans and deposits, the ratio of interest expense over total deposits, and the ratio of other operating and administrative expenses over fixed assets. However, the study failed to link competitive strategies to internet banking, a gap the current study sought to fill.

## 2.3 Summary of Research Gaps

Most scholars assert that the impact of competitive strategies on adoption of internet banking is still misunderstood. In addition, there is no clear consensus regarding the link between competitive strategies and adoption of internet banking. Most global studies, not only focused on different contexts but also different methodologies. Some focused on factories while others focused on SMEs rather than commercial banks.

Some local studies focused on commercial banks but only concentrated on particular elements of competitive strategies; with most of them focusing on innovation thereby ignoring other competitive strategies. In addition, most local studies that record a positive relation between competitive strategies and adoption of internet banking not only focused on different contexts but also different methodologies. Moreover, other local studies analyzed competitive strategies alongside other contextual factors. Specifically, most of the local studies adopted case study research designs and used interview guides to collect data. In summary, most of the studies reviewed fail to link competitive strategies to adoption of internet banking directly, a gap this study sought to fill.

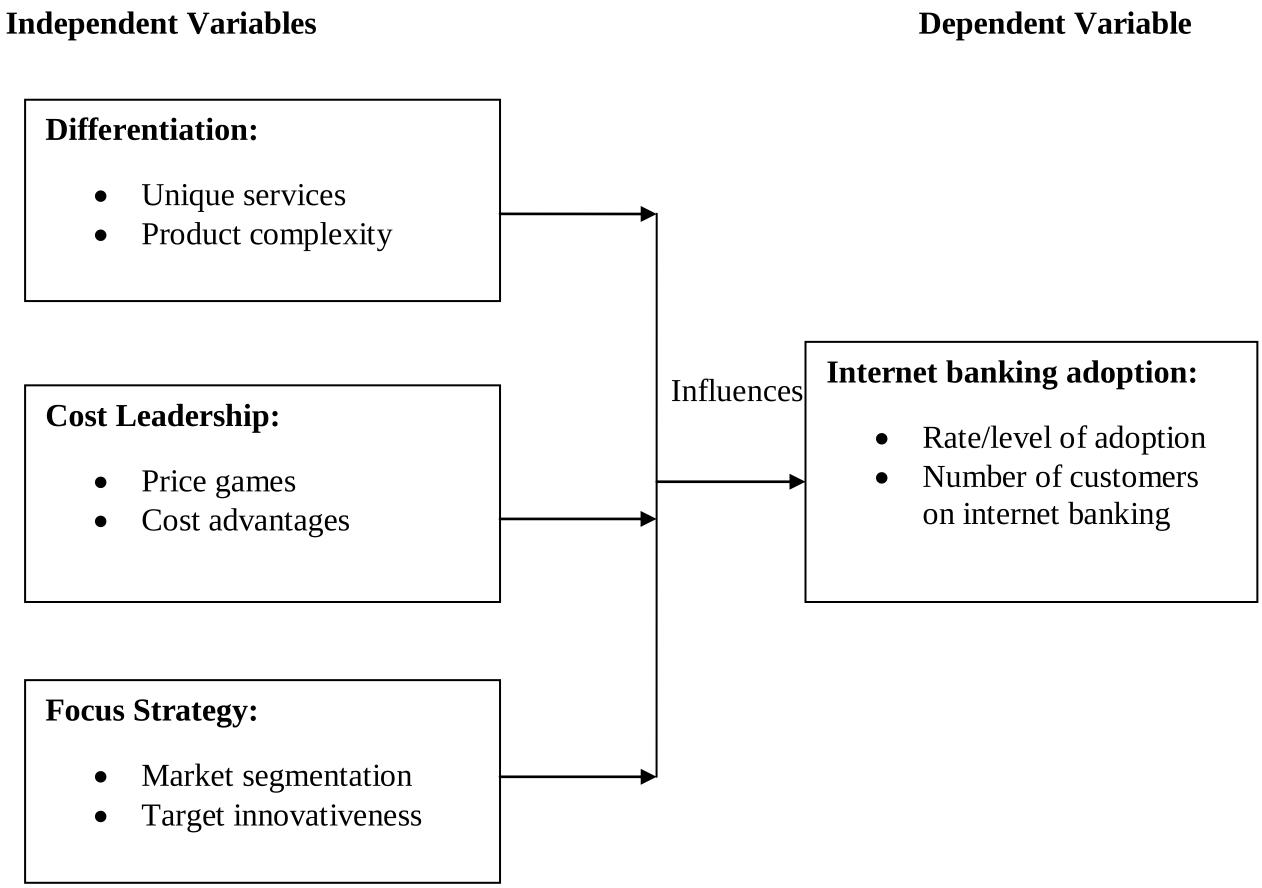
**Table 2.1: Summary of the Research Gaps**

| Variable | Author | Purpose of the study | Key Findings | Knowledge gap |
|---|---|---|---|---|
| Focus Strategy | Patti and Gobbi (2001) | To determine effect of competition on adoption of internet banking by commercial banks in Italy. | The study found that adoption of focus strategy in competition leads to higher growth rates and greater adoption of internet banking by new firms and other SMEs | The study adopted longitudinal design, a gap the current study sought to fill. |
| | Karanja (2002) | To find out impact of internet banking adoption by real estate firms in Kenya that increase in the number of players has led to increased competition. | The study established that the most popular type of competitive strategy was on the basis of focused differentiation. | The study focused on real estate firms and not banks, a gap the current study sought to fill. |
| | Ferdinand (2002) | To find out competitive strategies applied by Tesco Company in the UK | The study found the company typically focused their efforts on value-oriented customers in the market. | The study focused on a supermarket and not a bank, a gap the current study sought to fill. |
| Differentiation | Chan and Jamison (2001) | To find out effects of competitive strategies applied by banks in China from 1978 to1998. | The study established that the competitive strategies applied by banks are positively related to performance. | The study adopted longitudinal design, a gap the current study sought to fill. |
| | Carral and Kajanto (2008). | To establish successful action taken during buoyant times in anticipation of expected | The study findings revealed that the actions taken during industry changes positively influences | The study did not show the influence of strategies on any dependent variable, a gap the current study sought to fill. . |

| | | | | |
|---|---|---|---|---|
| | | industry changes. | organization performances. | |
| | Hall and Saias (1980) | To check on effects of differentiation Strategy on Organization Performance. | The study revealed that companies following a differentiation strategy had superior performance compared to those companies that were not following the same. | The study linked the strategies to performance and not internet banking, a gap the current study sought to fill. |
| Cost Leadership | Alamdari and Fagan (2005) | To establish the effectiveness of low-cost model and the effect it has on profitability of banks | The study established that banks with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. | The study focused on effects of low cost strategy on profitability and not internet banking, a gap the current study sought to fill. |
| | Mathisen and Buchs (2005) | To determine the degree of competition in the Ghanaian banking sector | The findings indicated that there is high competition in the banking sector due to changes in technology. | The study failed to link competitive strategies to internet banking, a gap the current study sought to fill. |

### 2.4 Conceptual Framework

A conceptual framework is a theoretical structure of assumptions, principles, and rules that holds together the ideas comprising a broad concept (Huberman, 1994). Adoption of internet banking is the dependent variable, while competitive strategies are the independent variables. The indicators for the various variables are as illustrated below.




**Source: Researcher (2017)**

**Figure 2.1: Conceptual Framework**

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter presents the methodology that was used to carry out the study. It further describes the research design, type and source of data and research instruments used to collect data. It also describes the target population and the data analysis method.

## 3.1 Research Design

According to Kothari (2004), research design is defined as the framework that shows how problems under investigation are solved. This study adopted a descriptive survey design because it provides a clear outcome and the characteristics associated with it at a specific point in time. Descriptive design is relevant for this study since it focuses at one point in time and does not require several rounds of monitoring.

## 3.2 Target Population

According to Mugenda (1999), population is an entire group of individuals, events or objects having a common observable characteristic. The researcher drew his population from commercial Banks in Machakos County based on their customer base and rating by Central Bank of Kenya. The target population was the staff of the commercial Banks in Machakos County. The population of staff in those banks is 243 as shown in table 3.1.

**Table 3.2: Bank Staff population in Machakos County**

| Branch | Clerical staff | Managerial staff |
|---|---|---|
| Coop Machakos | 26 | 8 |
| Equity Machakos | 36 | 11 |
| Standard chartered Machakos | 20 | 7 |
| KCB Machakos | 33 | 10 |
| Family Machakos | 18 | 5 |
| Diamond Trust Machakos | 22 | 4 |
| Barclays bank | 20 | 9 |
| Krep bank | 10 | 4 |
| **Total** | **185** | **58** |

**Source: Kenya Bankers Association (2015)**

### 3.3 Sampling Size and Sampling Procedure

A sample is a small proportion of a population selected for observation and analysis while sampling is a deliberate rather than a haphazard method of selecting subjects for observation to enable scientists to infer conclusions about a population (Kothari, 2004). The population size comprised of clerical staff and managerial staff, a complete census survey was carried out; as shown in table 3.2 below.

**Table 3.3: Sample size.**

| | Population | | Sample size | Comments |
|---|---|---|---|---|
| Staff | Managerial | 58 | 58 | Census |
| | Clerical | 185 | 185 | |
| | **Total number of staff** | **243** | **243** | |

**Source: (Researcher, 2017)**

### 3.4 Data Collection Instruments

A semi- structured questionnaire was used to collect primary data while a data collection form was used to collect secondary data on adoption of internet banking. The questionnaires were preferred in this study because respondents of the study are assumed to be literate and able to answer questions asked adequately. Kothari (2007) terms the questionnaire as the most appropriate instrument due to its ability to collect large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization (Churchill, 1991). It is for the above reasons that the questionnaire was chosen as an appropriate data collection instrument for this study.

The questionnaire was divided into two sections where section one dealt with demographic information while section two dealt with the study variables. However, section two was subdivided into three subsections in line with the variables in the study objectives. Secondary data was obtained from the managerial staff of the commercial banks using data collection forms.

### 3.5 Data Collection Procedure

The researcher obtained an introductory letter from the University to collect data from the banks, then personally delivered the questionnaires to the banks and had them filled in his presence. The researcher employed self-administration approach of data collection and monitored the process to ensure that unintended people did not fill the questionnaires or were not interviewed by personally conducting the interviews. Research assistants were used to collect primary data.

### 3.6 Validity of Data Collection Instruments

Validity is the degree to which a test measures what it is supposed to measure (Ogula, 1998). Content validity was employed by this study and is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (2003) contend that the usual procedure in assessing content validity of a measure is to use a professional or expert in a particular field.

To establish content validity of the research instrument, the researcher sought opinions of scholars and experts in internet banking including the supervisor and lecturers. This allowed modification of the instrument thereby enhancing validity. The researcher assessed the responses and non-responses per question to determine if there was any technical dexterity with the questions asked.

### 3.7 Reliability of Data Collection Instrument

Reliability is the ratio of the true score variance to the observed score variance. It also refers to the degree to which a test consistently measures whatever it is designed to measure (Ogula, 1998; Philips, 1999). Thus the reliability of a standardized test is usually expressed as co-efficient where the reliability co-efficient reflects the extent to which a test is free of error variance. The study used Cronbach's Alpha to test reliability. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct (Warmbrod, 2007). Reliability with a predetermined threshold of 0.7 is considered acceptable. That is, values above 0.7 indicate presence of reliability while values below signify lack of reliability of the research instrument.

### 3.8 Data Analysis and Presentation

The process of data analysis involved several stages namely; data clean up and explanation. Secondary data was analyzed using content analysis. Primary data was coded and checked for any errors and omissions (Kothari, 2007). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) program to analyze the data.

Both descriptive and inferential statistics were used to analyze data. Mean and standard deviations were used as measures of central tendancy and dispersion respectively. The relationship between the dependent variable (Y) and the independent variables (X) was tested using multiple linear regression model of the form;

$Y_i = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \acute{\varepsilon}$ where:

$Y_i$ = Adoption of internet banking

$x_1$ = Differentiation strategy

$x_2$ = Cost leadership strategy

$x_3$ = Focus strategy

$\alpha$ = Constant

$\acute{\varepsilon}$ = Error term which captures all other factors which influence the dependent variable $y_i$ other than the regressors $x_i$

$\beta$ = Beta coefficients- which are the partial derivatives of the dependent variable with respect to the various independent variables.

**Table 3.4: Operationalization and Measurement of Variables**

| Objectives | Types of Variables | Indicators | Measurement | Scale | Type of analysis | Tools of analysis |
|---|---|---|---|---|---|---|
| To determine the influence of differentiation strategy on adoption of internet banking in selected commercial banks in Machakos county. | **Independent** Différentiation strategy | Unique services | -Speedy services -User friendly platforms | Likert | Descriptive | Mean |
| | | Product complexity | -Enhanced technology of bank products -Security of bank systems | Likert | Descriptive | Mean |
| To find out the influence of focus strategy on adoption of internet banking in selected commercial banks in Machakos county | **Independent** -Focus strategy | Market segmentation | -focus on Cop orate clients | Likert | Descriptive | Mean |
| | | Target innovativeness | -Paperless banking -Foreign exchange -Digital payments -Mobile banking | Likert | Descriptive | Mean |
| To establish the influence of cost leadership strategy on adoption of internet banking in selected commercial banks in Machakos county. | **Independent-** Cost leadership strategy | Price games | -Cost reduction | Likert | Descriptive | Mean |
| | | Cost advantages | -Price and product quality -Hidden charges -Charge less platforms | Likert | Descriptive | Mean |
| | **Dependent** Adoption of internet banking | -Level of adoption of internet banking -Number of customers using internet banking | Success rate. | Ordinal | Descriptive | Percentage |

**Source: (Researcher, 2017)**

### 3.9 Ethical Considerations

This study observed confidentiality and privacy of respondents. Consent was sought from all respondents before data collection. Humane treatment was observed throughout the study. Should the findings of this study be published, the researcher ensured nothing can be traced back to any of the respondents. Where possible, pseudonyms were used unless a respondent preferred use of their real names.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study.

## 4.2 Response Rate

The study targeted a sample size of 243 respondents from which 202 filled in and returned the questionnaires making a response rate 83.13 %. This response rate was satisfactory to make conclusions for the study as it acted as a representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on this assertion, the response rate was excellent.

## 4.3 Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the sample of 20 respondents, who were not included in this study. Reliability analysis was subsequently done using Cronbach's Alpha which measured the internal consistency by establishing if certain items within a scale measures the same construct.

**Table 4.5: Reliability Analysis**

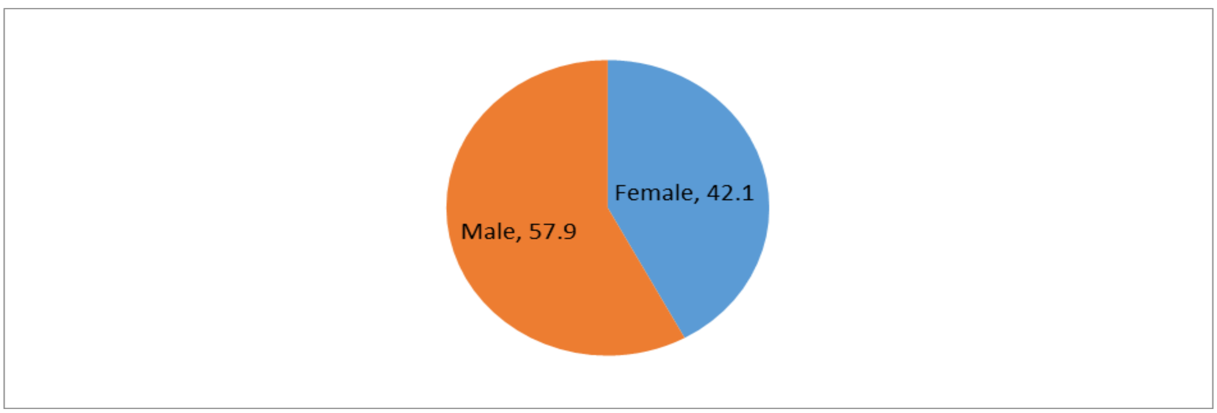
| Scale | Cronbach's Alpha | Number of Items |
|---|---|---|
| Differentiation strategy | 0.824 | 4 |
| Cost leadership strategy | 0.820 | 5 |
| Focus strategy | 0.780 | 4 |

**Source :( Researcher, 2017)**

Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective which formed a scale. The table shows that differentiation strategy had the highest reliability (α= 0.824), followed by cost leadership strategy (α=0. 820) and focus strategy (α=0.780). This illustrates that all the five variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

### 4.4 Demographic Information

#### 4.4.1 Gender of the Respondents

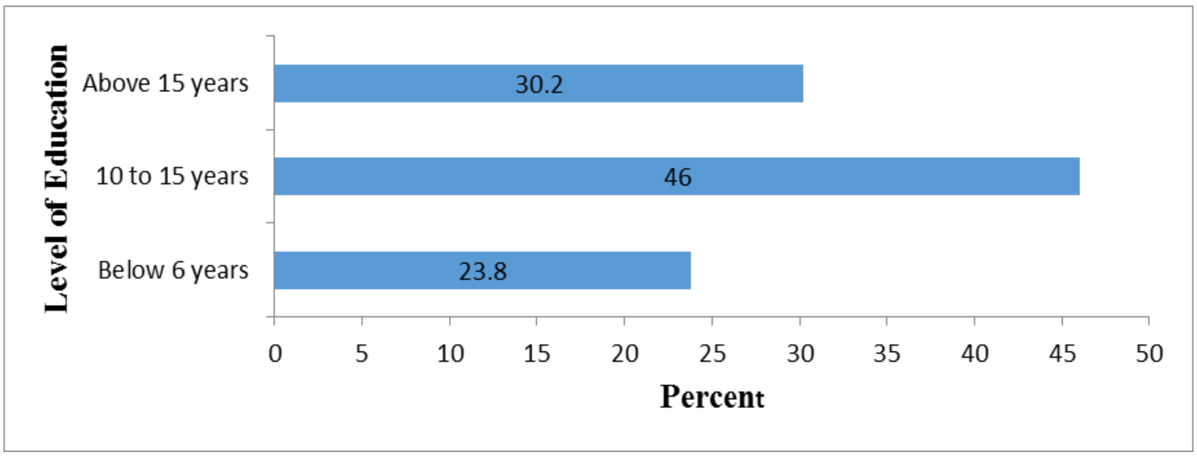



**Source: (Researcher, 2017)**

**Figure 4.2: Gender of the respondents**

The study sought to determine the gender of the respondent and therefore requested the respondents to indicate their gender. From the findings, the study found that majority of the respondents as shown by figure 4.2, 57.9% indicated that they were male, whereas 42.1% of the respondents indicated that they were female. This is an indication that both male and female were involved in this study though not in equal proportion.

### 4.4.2 Level of Education of the respondents

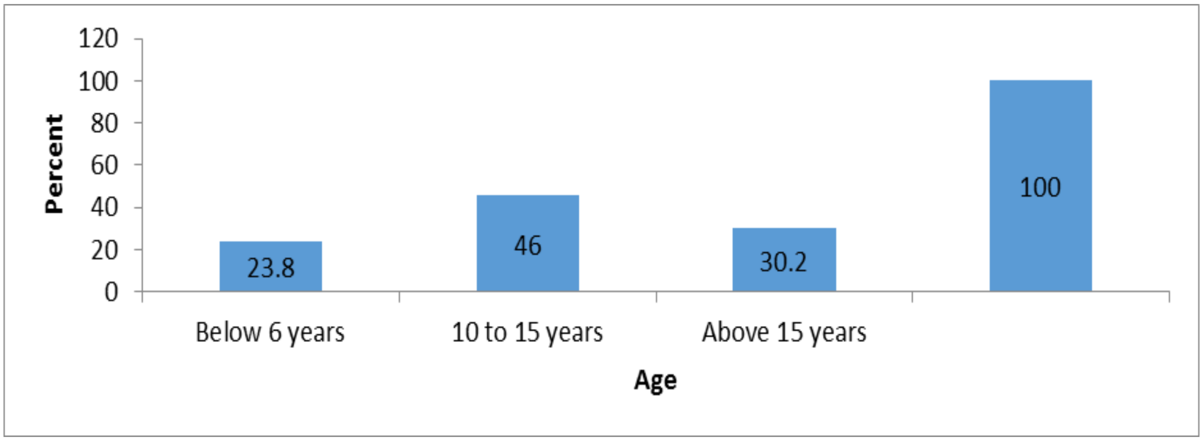



**Source: (Researcher, 2017)**

**Figure 4.3: Highest Level of Education**

On the respondents highest level of education , the study requested the respondents to indicte their level of education. From the findings the study found that most of the respondents , 46% were undergraduates , 37.1% post graduates whereas 16.8% indicated others which included Cetrtified Public Accounts, Higher Diploma, Professional courses, Certified public secreatary and PhD. This cleary shows that respondents are educated and thus able to understand and answer the research questions.

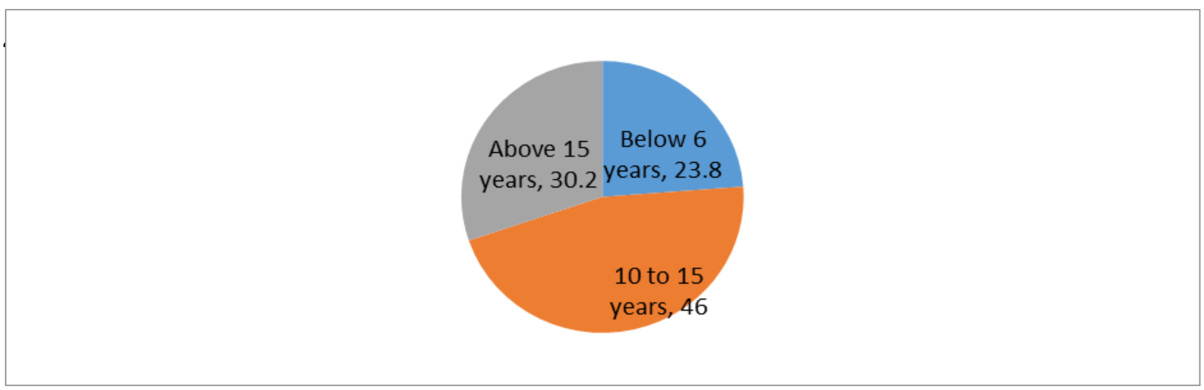
### 4.4.3 Age Distribution of the Respondnets




**Source: (Reseacher 2017)**

**Figure 4.4: Distribution of Respondents by Age.**

From the findings on the respondents age, the study requested the respondents to indicate their age category. From the findings, the study found that most of the respondents 38.1% were aged between 31 to 40 years , 33.2% were aged between 41 to 50 years , 20.3% were aged between 20 to 30 years and those aged above 50 years were 8.4%. This cleary shows that respondents were well distributed in terms of their age .




**Source: (Researcher 2017)**

**Figure 4.5: Length of Period Working In The Bank**

The study requested the respondents to indicate the length of period they had been working in the bank. From the findings the study established that most of the respondents 46% indicated 10 to 15 years, 30.2% indicated above 15 years and 23.8% indicated below 6 years. This depicts that majority of the respondents had worked long enough in the bank to give credible information for the study.

### 4.5 Descriptive Statistics

#### 4.5.1 Differentiation Strategy and Adoption of Internet Banking

In this section, the researcher sought the respondent's perception regarding the various statements relating to differentiation strategy and adoption of internet banking. The respondents were expected to indicate to what extent they agreed with the various statements. Responses were captured in a five point Likert scale (1= Strongly agree, 2 = Agree 3= Neutral, 4 = Disagree and 5 = Strongly disagree) and the general level of acceptance was determined by calculating the means and standard deviation for the various statements as per the responses and tabulated in table 4.6 below.

**Table 4.6: Differentiation Strategy and Adoption of Internet Banking**

| Factor | Strongly agree | Agree | Neutral | Disagree | Strongly Disagree | Mean | Std deviation |
|---|---|---|---|---|---|---|---|
| Bank products with technological enhancement have contibuted to adoption of internet banking. | 70 | 121 | 11 | 0 | 0 | 1.708 | 0.500 |
| Bank services with speedy and efficient platforms affect internet banking adoption. | 89 | 108 | 5 | 0 | 0 | 1.584 | 0.459 |
| Bank systems with enhanced security settings are linked to adoption of internet banking | 71 | 122 | 9 | 0 | 0 | 1.693 | 0.507 |
| User friendly bank platforms have an effect on adoption of internet banking. | 82 | 114 | 6 | 0 | 0 | 1.624 | 0.479 |

**Source:(Reseacher,2017)**

From the findings on the respondents level of agreement to statements relating to differentiation strategy and adoption of internet banking, the study found that majority of the respondents agreed that bank services with speedy and efficient platforms affect internet banking adoption as shown by a mean of 1.584, user friendly bank platforms have an effect on adoption of internet banking as shown by a mean of 1.624, bank systems with enhanced security settings are linked to adoption of internet banking as shown by a mean of 1.693 and bank products with technological enhancement have contibuted to adoption of internet banking as shown by a mean of 1.708. The study findings were supported by low standard deviation an indication that respondents held similar opinion.

The study findings were found to be in line with the findings of Lumpkin, Droege and Dess (2013), who found that differentiation consists of differentiating the product or service offered by the firm, in other words, creating something that is perceived industry-wide as being unique.  Hall and Saias (1980) found that differentiation strategy had superior performance compared to those companies that were not following the same.  Koksal and Ozgul (2007) found that firms focusing on product development to capture niche markets, and technology and production methods that save costs, perform most successfully during inflation.

### 4.5.2 Focus Strategy and Adoption of Internet Banking

In this section, the researcher sought the respondent's perception regarding the various statements relating to focus strategy and adoption of internet banking. The respondents were expected to indicate to what extent they agreed with the various statements. Responses were captured in a five point Likert scale (1= Strongly agree, 2 = Agree 3= Neutral, 4 = Disagree and 5 = Strongly disagree) and the general level of acceptance was determined by calculating the means and standard deviation for the various statements as per the responses and tabulated in table 4.7 below.

**Table 4.7: Focus strategy and Adoption of Internet Banking**

| Factor | Strongly agree | Agree | Neutral | Disagree | Strongly Disagree | Mean | Std deviation |
|---|---|---|---|---|---|---|---|
| Concentration on corporate clients has led to faster adoption of internet banking | 72 | 114 | 16 | 0 | 0 | 1.723 | 0.465 |
| Focus on paperless banking has improved internet banking adoption. | 77 | 116 | 9 | 0 | 0 | 1.663 | 0.482 |
| The bank's focus on foreign exchange has fastened adoption of internet banking | 98 | 99 | 5 | 0 | 0 | 1.540 | 0.426 |
| The banks focus on digital payments has led to easier adoption of internet banking | 71 | 121 | 10 | 0 | 0 | 1.698 | 0.501 |
| The bank's focus on mobile banking has greatly improved internet banking adoption | 78 | 112 | 12 | 0 | 0 | 1.673 | 0.461 |

**Source :( Researcher, 2017)**

On the respondent's level of agreement on statements relating to focus strategy and adoption of internet banking, the study found that majority of the respondents agreed that the bank's focus on foreign exchange has fastened adoption of internet banking as shown by a mean of 1.540, focus on paperless banking has improved internet banking adoption as shown by a mean of 1.663, the bank's focus on mobile banking has greatly improved internet banking adoption as shown by a mean of 1.673, the banks focus on digital payments has led to easier adoption of internet banking as shown by a mean of 1.698 and concentration on corporate clients has led to faster adoption of internet banking as shown by a mean of 1.723. The study findings were supported by a low standard deviation an indication that respondents held similar opinion.

The study findings were found to be in agreement with the findings of Bonaccorsi di Patti and Gobbi (2001), who found that adoption of focus strategy in competition leads to higher growth rates and greater adoption of internet banking by new firms and other SMEs. Karanja (2002) observed that the most popular type of competitive strategy was on the basis of focused differentiation. Ferdinand (2002) found that the company typically focused their efforts on value-oriented customers in the market.

### 4.5.3 Cost leadership and Adoption of Internet Banking

In this section, the researcher sought the respondent's perception regarding the various statements relating to cost leadership and adoption of internet banking. The respondents were expected to indicate to what extent they agreed with the various statements. Responses were captured in a five point Likert scale (1= Strongly agree, 2 = Agree 3= Neutral, 4 = Disagree and 5 = Strongly disagree) and the general level of acceptance was determined by calculating the means and standard deviation for the various statements as per the responses and tabulated in table 4.8 below.

**Table 4.8: Cost Leadership and Adoption of Internet Banking**

| Factor | Strongly agree | Agree | Neutral | Disagree | Strongly Disagree | Mean | Std deviation |
|---|---|---|---|---|---|---|---|
| Cost cutting measures in the bank influence adoption of internet banking . | 76 | 108 | 15 | 3 | 0 | 1.728 | 0.430 |
| Bank's pricing that factors in product and service quality influences adoption of internet banking | 81 | 103 | 16 | 2 | 0 | 1.698 | 0.413 |
| Bank's pricing that is devoid of hidden charges enhances adoption of internet | 78 | 112 | 12 | 0 | 0 | 1.673 | 0.461 |
| Banks that do not charge for fast paced internet banking services promote adoption of internet banking. | 89 | 104 | 9 | 0 | 0 | 1.604 | 0.435 |

**Source :( Researcher, 2017)**

From the findings on the respondent's level of agreement on statements relating to cost leadership and adoption of internet banking, the study found that majority of the respondents agreed that banks that do not charge for fast paced internet banking services promote adoption of internet banking as shown by a mean of 1.604, bank's pricing that is devoid of hidden charges enhance adoption of internet banking as shown by a mean of 1.673, bank's pricing that factors in product and service quality influence adoption of internet banking as shown by a mean of 1.698 and cost cutting measures in the bank influence adoption of internet banking as shown by a mean of 1.728. The study findings were supported by low standard deviation an indication that respondents held similar opinion.

The study findings were in line with the findings of Alamdari and Fagan (2005), who revealed that banks with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated and selling at a standard market price. The study findings contradict the findings of Mathisen and Buchs (2005), who failed to link competitive strategies to internet banking.

### 4.6 Inferential Statistics

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions.

#### 4.6.1 Model Summary

**Table 4.9: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .788[a] | .621 | .604 | .06210 |

**Source :( Researcher, 2017)**

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables. From the findings, the value of adjusted R squared was 0.604 an indication that there was variation of 60.4% on internet banking adoption due to changes in differentiation strategy, cost leadership strategy and focus strategy at 95% confidence level. This shows that 60.4% changes on internet banking adoption could be accounted for by changes in differentiation strategy, cost leadership strategy and focus strategy. R is the correlation coefficient which shows the relationship between the study variables. From the findings, the study found that there was a strong positive relationship between the study variables as shown by R of 0.788.

### 4.6.2 Analysis of Variance

**Table 4.10: Analysis of Variance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Residual | 2.844 | 3 | 0.711 | 4.903 | .001[b] |
| | Regression | 10.875 | 198 | 0.145 | | |
| | Total | 13.719 | 201 | | | |

**Source :( Researcher, 2017)**

From the ANOVA statistics, the processed data, which is the population parameters, had a significance level of 0.01 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (2.493<4.903) an indication that differentiation strategy, cost leadership strategy and focus strategy significantly affect internet banking adoption. The significance value was less than 0.05 an indication that the model was statistically significant.

### 4.6.3 Regression Analysis

**Table 4.11: Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| **1** | **Constant** | **1.445** | **0.453** | | **3.190** | **.002** |
| | Differentiation strategy | 0.421 | 0.145 | .297 | 2.903 | .003 |
| | Cost leadership strategy | 0.486 | 0.159 | .131 | 3.057 | .004 |
| | Focus strategy | 0.532 | 0.197 | .014 | 2.701 | .005 |

**Source :( Researcher, 2017)**

From the data in the above table the established regression equation was

$Y = 1.445 + 0.421 X_1 + 0.486 X_2 + 0.532 X_3$

From the above regression equation, it was revealed that differentiation strategy, cost leadership strategy and focus strategy to a constant zero, internet banking adoption would be at 1.445. The results on table above reveal that differentiation strategy had a significant coefficient (B= 0.421, p value=0.003). This implies that differentiation strategy had positive significant effect on internet banking adoption. The finding of the study on table 4.10 above reveal that cost leadership strategy had a significant coefficient (B= 0.486, p value=0.004). This implies that cost leadership strategy had positive significant effect on internet banking adoption. The findings further revealed that focus strategy had a significant coefficient (B= 0.532, p value=0.005). This implies that focus strategy had positive significant effect on internet banking adoption. This further implies that differentiation strategy, cost leadership strategy and focus strategy positively influence internet banking adoption.

### 4.7 Interpretation of Results from Data Collection Form

The study also obtained data using a data collection form from managerial staff of the commercial banks on rate of adoption and usage of internet banking. The table below presents the results of the analysis.

**Table 4.12: Adoption versus Usage**

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Average Adoption rate | 59.25% | 72.37% | 77.37% | 81.37% |
| Average number of customers using internet banking | 1/1000 | 1/860 | 1/673 | 1/609 |

**Source: Research Data (2017)**

The results show a steady increase in the number of users of internet banking over the years coinciding with a gradual increase in the rate of adoption of internet banking. This basically implies that rate of adoption of internet banking by commercial banks is positively related to rate of usage by customers. The findings above are in line with the findings of Alamdari and Fagan (2005) who revealed that banks rate of adoption of internet banking influences customer's uptake of the same.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objectives of the study. The researcher had intended to determine the influence of differentiation strategy on adoption of internet banking in Commercial Banks in Machakos County, to establish the influence of cost leadership strategy on adoption of internet banking in Commercial Banks in Machakos County and to find out the influence of focus strategy on adoption of internet banking in Commercial Banks in Machakos County.

## 5.2 Summary of Findings

This section contains the summary of the findings on differentiation strategy, focus strategy and cost leadership strategy.

### 5.2.1 Differentiation Strategy and Adoption of Internet Banking

The first objective of the study was to establish the influence of differentiation strategy on adoption of internet banking in Commercial Banks in Machakos County.The study found that bank services with speedy and efficient platforms affect internet banking adoption, user friendly bank platforms have an effect on adoption of internet banking, bank systems with enhanced security settings are linked to adoption of internet banking and bank products with technological enhancement have contibuted to adoption of internet banking.The study findings were found to be in line with the findings of Lumpkin, Droege & Dess (2013), who found that differentiation consists of differentiating the product or service offered by the firm, in other words, creating something that is perceived industry-wide as being unique. Hall and Saias (1980) found that differentiation strategy had superior performance compared to those companies that were not following the same. Koksal and Ozgul (2007) found that firms focusing on product development to capture niche markets, and technology and production methods that save costs, perform most successfully during inflation.

### 5.2.2 Focus Strategy and Adoption of Internet Banking

The second objective of the study was to find out the influence of focus strategy on adoption of internet banking in Commercial Banks in Machakos County. The study found that bank's focus on foreign exchange has fastened adoption of internet banking, the focus on paperless banking has improved internet banking adoption, the bank's focus on mobile banking has greatly improved internet banking adoption, the banks focus on digital payments has led to easier adoption of internet banking and the concentration on corporate clients has led to faster adoption of internet banking. The findings were in agreement with the findings of Bonaccorsi di Patti and Gobbi (2001), who found that adoption of focus strategy in competition leads to higher growth rates and greater adoption of internet banking by new firms and other SMEs. Karanja (2002) observed that the most popular type of competitive strategy was on the basis of focused differentiation. Ferdinand (2002) found that companies typically focused their efforts on value-oriented customers in the market.

### 5.2.3 Cost leadership and Adoption of Internet Banking

The third objective of the study was to establish the influence of cost leadership strategy on adoption of internet banking in Commercial Banks in Machakos County. The study established that banks that do not charge for fast paced internet banking services promote adoption of internet banking, bank’s pricing that is devoid of hidden charges enhances adoption of internet banking, bank’s pricing that factors in product and service quality influences adoption of internet banking and cost cutting measures in the bank influence adoption of internet banking. The study findings were in line with the findings of Alamdari and Fagan (2005), who revealed that the bank with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. The study findings contradict the findings of Mathisen and Buchs (2005), who failed to link competitive strategies to adoption of internet banking.

## 5.3 Conclusion

From the findings, the study found that differentiation strategy positively influences adoption of internet banking in Commercial Banks in Machakos County. The study also found that bank services with speedy and efficient platforms affect internet banking adoption and user friendly bank platforms have an effect on adoption of internet banking. The study concludes that differentiation strategy influences the adoption of internet banking in Commercial Banks in Machakos County.

The study established that cost leadership strategy influences the adoption of internet banking in Commercial Banks in Machakos County. The study further established that banks that do not charge for fast paced internet banking services promote adoption of internet banking, bank's pricing that is devoid of hidden charges enhances adoption of internet banking and bank's pricing that factors in product also contributes to adoption of internet banking. From the findings the study concludes that cost leadership strategy influences the adoption of internet banking in Commercial Banks in Machakos County.

The study revealed that focus strategy positively influences the adoption of internet banking in Commercial Banks in Machakos County. The study also revealed that bank's focus on foreign exchange, paperless banking, mobile banking, corporate clients and digital payment has greatly improved internet banking adoption. From the findings, the study concludes that focus strategy influences adoption of internet banking in Commercial Banks in Machakos County.

## 5.4 Recommendations

The study recommends that there is need for commercial banks to use differentiation strategy as this will positively influence the adoption of internet banking. There is need for banks to use differentiation through speedy and efficient platforms, systems with enhanced security settings and customer friendly bank platforms as they have an effect on adoption of internet banking.

There is need for the banks not to charge for fast paced internet banking services, adopt pricing that is devoid of hidden charges and bank's pricing that factors in product and service quality.The study found that cost leadership strategy influences the adoption of internet banking Commercial Banks in Machakos County.

The study recommends that commercial banks should focus on foreign exchange, paperless banking, mobile banking, corporate clients and digital payments, as it found that they greatly improved internet banking adoption.

### 5.5 Areas For Further Research

The study sought to evaluate the influence of competitive strategies on adoption of internet banking in commercial banks in Machakos County. From the findings the study recommends that a study should be done on the challanges facing the adoption of internet banking among commercial banks in kenya.

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# APPENDICES

## Appendix I: Letter of Introduction

The Branch Manager,

………………….

Dear Sir/Madam,

**RE: PERMISSION TO CARRY OUT RESEARCH IN YOUR BRANCH.**

I am an MBA student. I am required to submit as part of my course work assessment a research project report on "THE INFLUENCE OF COMPETITIVE STRATEGIES ON ADOPTION OF INTERNET BANKING IN COMMERCIAL BANKS IN MACHAKOS COUNTY, KENYA" To achieve the objectives of the study, your bank branch has been selected to participate in this study. The information will be used purely for academic purpose and your branch will not be mentioned in the report. Findings of the study shall upon request, be availed to you.

Thank you in advance,

Yours faithfully,

………………..

Stephen Muthenya

**Appendix II: Questionnaire for Bank Staff**

**QUESTIONNAIRE TO BANK STAFF TO ELICIT VIEWS ON THE INFLUENCE OF COMPETITIVE STRATEGIES ON ADOPTION OF INTERNET BANKING.**

Name: ____________________________________________

Date of Interview: ____________________________________________

**A: DEMOGRAPHIC FACTORS**

1. Gender: Male [ ] Female [ ] {Tick Appropriately}

2. Whats your highest level of education? {*Tick as appropriate}*

| | |
|---|---|
| Diploma | |
| Undergraduate | |
| Post graduate | |
| Other | |

3. Age?{*Tick as appropriate}*

| | |
|---|---|
| 20-30 | |
| 31-40 | |
| 41-50 | |
| Above 50 | |

4. How long have you worked in this bank?{*Tick as appropriate}*

| | |
|---|---|
| Below 6 years | |
| 6-10 years | |
| 10-15 years | |
| Above 15 years | |

**B: Differentiation Strategy and Adoption of Internet Banking**

***Using the scale provided, indicate extent to which you agree with the following statements as regarding your organizaiton***

| **Factor** | **Strongly agree** | **Agree** | **Neutral** | **Disagree** | **Strongly Disagree** |
|---|---|---|---|---|---|
| Bank products with technological enhancement have contibuted to adoption of internet banking. | | | | | |
| Bank services with speedy and efficient platforms affect internet banking adoption. | | | | | |
| Bank systems with enhanced security settings are linked to adoption of internet banking | | | | | |
| User friendly bank platforms have an effect on adoption of internet banking. | | | | | |

**C: Focus strategy and Adoption of Internet Banking**

***Using the scale provided, indicate extent to which you agree with the following statements as regarding your organizaiton}***

| **Factor** | **Strongly agree** | **Agree** | **Neutral** | **Disagree** | **Strongly Disagree** |
|---|---|---|---|---|---|
| Concentration on corporate clients has led to faster adoption of internet banking | | | | | |
| Focus on paperless banking has improved internet banking adoption. | | | | | |
| The bank's focus on foreign exchange has fastened adoption of internet banking | | | | | |
| The banks focus on digital payments has led to easiear adoption of internet banking | | | | | |
| The bank's focus on mobile banking has greatly improved internet banking adoption | | | | | |

**D: Cost leadership and Adoption of Internet Banking**

***Using the scale provided, indicate extent to which you agree with the following statements as regarding your organizaiton***

| **Factor** | **Strongly agree** | **Agree** | **Neutral** | **Disagree** | **Strongly Disagree** |
|---|---|---|---|---|---|
| Cost cutting measures in the bank influence adoption of internet banking . | | | | | |
| Bank’s pricing that factors in product and service quality influences adoptionof internet banking. | | | | | |
| Bank’s pricing that is devoid of hidden charges enhances adoption of internet banking | | | | | |
| Banks that do not charge for fast paced internet banking services promote adoption of internet banking | | | | | |

**Appendix III: Data collection form**

| | | | | | |
|---|---|---|---|---|---|
| **BANK** | | | | | |
| **YEAR** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **RATE/LEVEL OF ADOPTION OF INTERNET BANKING** | | | | | |
| | | | | | |
| **NUMBER OF CUSTOMERS USING INTERNET BANKING** | | | | | |