COMPETITIVE STRATEGIES ADOPTED BY KENYAN COMMERCIAL BANKS TO ATTRACT AND RETAIN CORPORATE CUSTOMERS

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMNINISTRATION,

SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

NOVEMBER 2011

DECLARATION

I declare that this is my original work and has not been presented for the award of a degree in any other university. No Part of this work may be used without the prior permission of the University of Nairobi and the author.

Signed ____________________ Date 9/11/2011

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This research project has been produced with my approval as the University Supervisor

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DEDICATION

This work is dedicated to my best friend and wife, Leah Atieno Ogada Wanaswa whose love, dedication, sacrifice and support was a significant ingredient to my successful completion. My kids, Baraka, who always wanted to come to school with *Baba* on Saturday morning and Florence, who are my driving force for success, for their patience during my absence and support.

To my late father, Francis Javan Wanyonyi whose passion for education and sacrifice gave me the foundation of education which was passed on by my late grandfather Simeon W. Wanyonyi's philosophy of fighting with the modern spear, the pen and the modern shield, the book. To my mother Roselyn Nassiuma Wanyonyi, the epitome of hope, hard work, dedication, prayer and more so her strictness and high discipline. *Mama*, I will always remember the words "*soma ujitegemee*". Your sacrifice to wake me up to go to school early every morning and keenly monitor my school performance at those early stages of education has surely borne fruits.

ACKNOWLEDGEMENT

This research project marks the end of my journey to attain a second degree. The success would not have been achieved without the sacrifice, support, encouragement and advice from several people, some mentioned here. My sincere appreciation and gratitude. May God bless you.

My appreciation to my children for their support and understanding especially when I was rare, busy at work, tied down by coursework, exams and later research. As I worked on my research, I will always remember Baraka's nagging me we play and my keeping an arm's length from him. My wife and friend Leah, for being a true friend and walking the tight lonely rope as I put hours to school work.

The many classmates that we interacted and received support from during the coursework and the partnerships in group work. My many thanks to my lecturers during the coursework and specifically Prof Peter K'Obonyo and Mrs Florence Muhindi who were readily available and supportive in the development of my final project paper. Mr Barasa of the MBA Office, whose support and sacrifice made life easier for many if not all the MBA students in the university.

My colleagues at work, for the support and understanding during the times I was taking my classes. And lastly to the Almighty God for the gift of life and good health that I enjoyed during my studies.

ABBREVIATIONS

KBA	Kenya Bankers Association
CBK	Central Bank of Kenya
CVA	Customer Value Analysis
RM	Relationship Manager
AE	Account Executive
CIB	Corporate and Investment Banking
SME	Small and Medium Enterprises
CM	Commercial Banking

ABSTRACT

This project investigates the competitive strategies that the Kenyan commercial banks adopt to attract and retain corporate customers.

The research uses theoretical frameworks that have been drawn from the literature on the generic competitive strategies and other adaptation strategies. On the research framework, the research investigates the corporate customer attraction and retention strategies and the various forms of responses that are used in the process.

The project finds that commercial banks adopt different strategies in its efforts to attract and retain corporate customers, namely the competitive strategies and adaptation strategies. Competitive strategies include cost leadership, differentiation and focus strategies while adaptation strategies include defender, prospector analyser and reactor. The project provides a model for understanding the competitive and adaptation strategies and makes a contribution to corporate customers' attraction and retention strategies among the Kenyan Commercial Banks.

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CHAPTER ONE - INTRODUCTION

1.1 Background

In today's competitive, fast-paced and global economy, there is growing demand especially for service driven firms for practical guidelines in developing a customer focus. Drucker (1977) observes that the key business purpose is to create a customer. He further argues that a firm's ability to remain in business is a function of its competitiveness and its ability to win customers from the competition. This position is further reinforced by Cook (2002) who gives more emphasis not only on customer attraction fronted by Drucker (1997) but additionally, a high level of customer retention. She advises that a firm's ability to attract and retain new customers is a function of both the product offering and the way it services its customers and the resultant reputation it creates within and across the industry.

A customer is the ultimate user of products or services produced by a seller, usually with the intention to make a profit. There is limited literature on corporate customers as generally perceived since most authors have consolidated all the customer types both for goods and services into one. A corporate customer is an institution that consumes the product or services given by a seller. There is a thin line between what can be called a corporate customer and an institutional customer, terms which are generally used interchangeably. The Business Banking Board clarifies the position by proposing that corporate names are more of profit based firms while institutions is more of not for profit based firms. The firm can be a body corporate in legal terms registered by the Registrar of Societies, Registrar of Companies, an Act of Parliament or a Trust under the Perpetual Succession Act. A corporate customer is therefore any customer other than the natural human being. In order to increase its customer base, an organisation has to attract potential customers and at the same time retain to a great extent all the customers that they have attracted.

All the firms are targeting to have the highest number of corporate customers. This has resulted in most firms developing strategies for the attraction and retention of these customers. The innovations, marketing and advertising styles are a good indication of the cut throat competition across the various industries.

1.1.1 Value of Customer Attraction Strategies

Cook (2002) guides that in their endeavours to attract customers, firms need to clearly differentiate themselves from the competition by improving its image in the eyes of the customer. It is critical for the firm to minimise price sensitivity while improving its profitability through customer satisfaction. She further indicates that if the products and services are delivered “right first time”, it will increase productivity while fostering a mutual customer supplier relationship.

Mbaabu (2007) indicated that the attraction strategies adopted by banks stem from several key challenges in the banking environment which include technological advancement and communication revolutions. Inflation, hence the bidding for scarce resources play a critical role which has resulted in banks dropping non productive and non core functions. Odadi (2002) observed that the growing corporate clientele’s needs including global relationships, better, accurate and faster information with responsive handling has put banks on toes which is further incorporated in the balanced scorecard technique of performance management

The regulatory factors which include lower structural barriers, global supervision and capital adequacy focus has enhanced competition through new entrants and a non bank competition e.g. banks competing with Safaricom’s Mpesa solution. This has directly affected the Money Markets space as seen through the drop in the 91 day Government of Kenya Treasury Bill rate to an all time low of 1.9% in August 2010 according to the CBK newsletter Issue 1

(2010). With the recent technological growth, other avenues of accessing banking services have emerged. These includes electronic and internet banking access and telephonic banking commonly called mobile banking which have made banking more convenient and not bound to the usual operating hours. It is important to note that some of the top 5 banks based on Capital base as per the CBK ranking, have extended banking hours. Coop Bank closes at 4pm, Equity and CfC Stanbic close their doors at 5pm with the latter having a branch that operates until 8pm Monday to Saturday.

The Business Banking Board observes that key avenues for banks to attract corporate customers will be through their product innovation and target markets coupled with a stable and effective client relationship model. Major Banks have strengthened their business clubs that enable their clients to network amongst each other and take business trips to foreign countries in an effort to learn new techniques of production and trading in those areas and gain access to new markets.

1.1.2 Value of Customer Retention Strategies

Customer expectations rise as they receive better services. Customers make conscious and unconscious comparisons between service experiences irrespective of the industry sector. This makes customer retention a function of not only the product but how the product is offered. Several Statistics have demonstrated how crucial it is to retain customers. Harvard Business School indicates that reducing customer defections can boost profits by 25 – 85 percent. Ogilvy and Marther Direct observed that the return on investment to marketing for existing customers can be up to seven times more than to prospective customers while the US Office of Consumer Affairs indicated that the price of acquiring new customers can be five times greater than the cost of keeping the current ones (Cook 2002, pg 7).

In a study undertaken by the Business Banking Board on the value of customer retention in the banking industry, it was observed that the benefits of focusing on customer retention are clear in that increasing customer retention by 5 percent results in an 85 percent aggregate increase in the net present value of a bank's deposits. Additionally, the board's research demonstrated that the cost of customer acquisition is five times greater than retaining existing customers.

1.1.3 The Kenyan Commercial Banking Industry

Galbraith (1963) considers a bank as "a borrowing institution which does not operate to any great extent with its own funds. It traditionally borrows its working funds from its depositors". He further describes a bank as "a financial intermediary only when it receives currency on deposit and makes loans by paying out currency". Additionally, Cooper (1984) identifies the principle function of banking institutions as "the collection of deposits from those with cash resources surplus to their immediate requirements and the on lending of these cash resources, in one form or another, to those with an immediate need for them". He further comments that for an organisation to use the word "bank" in its title and be identified as a recognised bank, it must provide services which include the provision of current or deposit account facilities or the acceptance of funds in the wholesale money markets. Further to that, Page (1993) observes that there are substantial differences in roles allotted to private versus public banks with some countries having the commercial banking systems entirely state run or dominated by state banks e.g. Tanzania and in others, privately owned banks play a central role e.g. Kenya and Nigeria.

Cooper (1984) observes that governments and control authorities have focused on two control types in banking which are prompted by two distinct groups of factors. Prudential control which is designed to ensure that banks are prudently run, with the aim of protecting depositors and avoiding major upheavals in confidence and the movements of funds; and monetary control which is tailored to use the banking mechanisms as a positive tool in the conduct of macroeconomic policy hence pulling in the same direction with other measures of economic policy. He further guides that the prudential control is the principle of protecting depositors from the danger that a bank which has accepted their deposits will fail and be unable to repay them. The commercial banking industry in Kenya is regulated by two acts of parliament and two CBK guidelines.

According to the Kenya Bankers Association (KBA) listing which is derived from the Central Bank of Kenya, the country has a total of 43 licensed commercial banks all competing for the same customers in a market that KBA describes as having low barriers to entry, having a relatively undifferentiated products and a psychological exit barrier now that most African international banks including most recent entrants United Bank of Africa operating in 17 African Countries and Ecobank in 30 African countries, are spreading their feet in the Kenyan banking scene. Davis (1983) observes that regulators in many countries are supporting the reduction of artificial barriers to competition so as to create a more efficient financial structure with a corresponding impact on the profitability of traditional banking products, eliminating artificial limits on interest rates and increasing the range of permitted services e.g. introduction of bancassuarance. Most banks have segmented their banking business into key divisions with almost similar names for the segments, Personal and Business Banking (PBB) that takes care of the banking needs of individual while Corporate and Investment Banking (CIB) takes care of large corporates' banking requirements.

Competition between banks is ranked in two ways, through Credit rating, usually by major companies' involved in rating banks and financial institutions most notable being Standard & Poor, Moody's and lastly Fitch. Ratings which are relative measures of risk are opinions based on established criteria and methodologies. They are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Users should refer to the definition of each individual rating for guidance on the dimensions of risk covered by such rating because credit ratings are opinions on relative credit quality and not a predictive measure of specific default probability. As a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Issue credit ratings can be either long term or short term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market.

The innovation of Safaricom Limited's Mpesa and Zain Kenya's ZAP money transfer technology among others, has redefined how funds transfers were done traditionally through banks. The retail sector has seen revaluation by replacing full service branches with the plastic – debit and credit – card and other automated payment systems while the wholesale or corporate banking is affected in a way that deposit taking, foreign currency transaction and many other roles do not require a physical presence in a given market centre. With their inherent costs, banks are rethinking their delivery systems strategies. The changes in technological scene has seen the major players in the commercial banking scene by capital base and branch networks which include Kenya Commercial, Barclays, CfC Stanbic, Equity and Commercial Bank of Africa to roll out new core banking software in the years 2010 and 2011

1.2 Statement of the Problem

Drucker (1977) observes that the customer is the foundation of the business and keeps it in existence. One of the most critical things to a bank is identifying its target customers and what their specific needs are. To succeed, an organisation needs to manage the value chain and value delivery networks. The process of attracting and retaining customers starts from anyone who may buy the product or service from which the firm determines the most likely suspects whom it will strive to convert to first time customers, then to repeat customers and later into clients who are people the firm treats very specially and knowledgeably. At an advanced level, the clients are converted to members through a membership program thus developing them to advocates who enthusiastically recommend the firm or its products to others. The ultimate is to turn the advocate to a partner (Kotler, 2003).

For a bank, the above will provide ideas on how the bank can meet its customer's needs by offering relevant services that will meet those needs. This is also necessary to gain the loyalty of the customers. In the banking industry, corporate customers constitute a huge segment of the industry and they control a large potential both in customer deposits and the customer borrowings. These strongly contribute to the bank's balance sheet and by extension its profitability and thus cannot be ignored. Since a bank's success is based on how profitable its operations are, these profits have a direct relationship with the number of customers, more so corporate, in its books. With the increasing number of commercial banks in Kenya, the bank with a robust attraction and retention strategy will have the lion's share of the customers.

In his research on strategic responses to a changing environment by the Kenya Commercial Bank Limited (KCB), Kiptugen (2002) proposed further research on the responses that other players in the industry had. In his study, he confirmed that KCB was making strategic responses to changes in the environment through exploring growing markets. This study was limited to KCB only. In her research on "Strategic planning problems and coping strategies among commercial banks in Kenya" Ochieng (2009) found that commercial banks in Kenya experience problems in the strategic planning. These problems were such as risks associated with loans to the customers, inadequate knowledge by the staff, inadequate employee, lack of enough customers and operation strategies that were old and outdated. She recommended that all staff to be involved in strategy implementation and replicate studies should be carried out in different sectors to see the correlation of the findings with those obtained in other non commercial banks with the specific role of coping with the problems experienced in the industry.

In his study on "The factors that influence strategic decision effectiveness in CfC Stanbic Bank Limited," Anampiu (2009) found out that strategic decision making process has direct influence on strategic decision effectiveness at CfC Stanbic banks and he proposed that research should be done to determine the factors that influence strategic effectiveness that can contribute to a company's financial performance. Several studies mentioned by Cook (2002) highlighted in the background segment of this proposal have demonstrated the benefits of customer retention to an organisation.

None of the studies mentioned above specifically addressed corporate customers. It is this gap in knowledge that this study intends to bridge on the attraction and retention strategies of corporate customers who are key to the banks' success thus presenting a knowledge gap of how commercial banks pitch themselves to harness business opportunities from this prime customer segment while ensuring that the corporate customers do not leave immediately they move in. Thus, this study explores and identifies what strategies Kenyan commercial banks are employing to attract and retain corporate customers.

1.3 Objective

This study's objective was to establish the strategies used by commercial banks in Kenya to attract and retain corporate customers.

1.4 Importance of the study

The findings of this study will assist the banks in aligning the Key Result Areas for performance appraisal of AEs in line with the strategic goals of the bank as the study will provide information on the strategies used by commercial banks and what value the AEs extend to the respective corporate customers towards attraction and retention. The study will also explain the various approaches in the industry in dealing with attraction and retention of corporate customers. This will in turn help the managers make informed decisions of choice on the strategies to adopt.

The study is expected to fill in the knowledge gap on corporate customer attraction and retention which will be of interest among academicians and students studying banking. It will also lead to further research on the dynamic areas of strategic planning and coping strategies by commercial banks in response to the changing banking environment. The study will also contribute to the existing body of knowledge on strategic planning problems in the face of competitive challenges in a dynamic environment. It will enable further studies in areas where the strategic planning needs to be emphasized in operating a commercial bank.

The research will provide pertinent information to policy makers on the extent of the effectiveness of the roles of Account Executives in corporate customer attraction and retention in line with strategic planning by commercial banks in Kenya. In developing and adopting coping strategies suitable for the changing and competitive environment, the factors above should be entrenched in the Balanced Score Cards. It will also provide suggestions on how to enhance the choice of planning methods in response to the strategic planning problems experienced in the banking industry.

Finally, financial managers and accountants in the corporate organisations will use the information in their quest to choosing a bank that will be their financial partner and also during the periodic reviews of banking services partners.

CHAPTER TWO – LITERATURE REVIEW

2.1 The Concept of Strategy

Johnson and Scholes (2002) observed that understanding the strategic position of an organisation and considering the strategic choices open to it are of little value unless the strategies managers wish to follow can be turned into organisational action plans. Awino (2001) advises that there has been little research conducted on strategy implementation despite strategy being an integral part of the strategic management process. Aosa (1992) opined that once strategies have been developed, they need to be implemented; they are of no value unless they are translated into action.

Kaplan and Norton (1996) developed the balanced score card, which combines a number of quantitative and qualitative measures of the selected strategy. While recognising all strategies are unique, Kaplan and Norton (1996) identified four pillars – financial, customer, internal processes and learning and innovation that are explored towards achieving the desired results. Chandler (1962) defined strategy as " the determination of the basic long term goals and objectives of the enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (p.13).

2.2 Competitive Strategies

There are many routes to competitive advantage but the most basic is to provide buyers of a good or a service with what they perceive to be of superior value at a low price or a superior service that is worth paying more for, or a best value offering that presents an attractive combination of price, features, quality service and other attributes that buyers find attractive according to Thompson and Strickland (2003). Porter (1998) observes that competitive strategy aims at establishing a profitable and sustainable position against the forces that determine industry competition. He further observes that it must grow out of a sophisticated understanding of the rules of competition and that determine an industry's attractiveness. The ultimate aim of a competitive strategy is to cope with and ideally to change those rules in the firm's favour.

There are five key competing forces in any industry according to Porter (ibid) which are the key determinants of industry attractiveness, the first determinant of a firm's profitability. These include the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and finally rivalry among existing competitors.

Porter (ibid) further observed that the second determinant is a firm's relative position within its industry through the two basic types of competitive advantage, low cost or differentiation. The two basic types of competitive advantage and their combination with other organisational activities within the organisation lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation and focus. The focus strategy comes with two variants – cost focus and differentiation focus. These strategies are summarised in figure 1 below.

Figure 2.1 – Michael Porter's Three Generic Strategies

		COMPETITIVE ADVANTAGE	
COMPETITIVE SCOPE		Lower Cost	Differentiation
	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

Adapted from Porter, M. E. (1998). **Competitive Advantage: Creating and Sustaining Superior Performance**. The Free Press. New York. Pg 12

2.2.1 Cost Leadership Strategy

Thompson and Strickland (1998) observe that in cost leadership, a firm sets out to become the low cost producer in its industry for a given level of quality. This can be at an average industry price to earn a profit higher than the competition or below the average price to grow market share. This becomes handy in a price war environment where the firm may retain some profits and the competition booking looses. Porter (1980) advises that cost leadership requires aggressive construction of efficient scale facilities, vigorous cost reductions from experience, tight cost curve control and cost maximisation in various functions. While pursuing low cost leadership, the firms must ensure to include features and services that the consumers consider essential. This strategy benefits the firm in withstanding intense price competition. New entrants are also deterred by low cost capabilities.

It is important to note that generic strategies pose risks and the low cost strategy is no exception. Other firms may be able to lower their costs as well through economies of scale, proprietary technology, and preferential access to raw materials among other factors. In light of this, the competitive advantage will be eliminated. Other firms may opt for a focus strategy targeting narrow markets and may be able to achieve even lower costs within these segments and grow their market share.

Lynch (2003) highlights that a company may be a cost leader but that does not necessarily imply that that the firm's products will have a low price. In some instances, the firm can charge an average price while following the low cost leadership strategy and reinvest the extra profits into the business.

2.2.2 Differentiation Strategy

In the differentiation strategy, the firm creates a differential competitive advantage through specific features or services that sets it apart from the others in the industry or the market.

Pearce and Robinson (1997) assert that the essence of differentiation is to be unique in ways that are valuable to customers and that can be sustained by the firm. It needs a critical study of buyer needs and preferences to consider what is important to them and what value are they willing to pay for this. Porter (1980) strengthens the position by indicating that the advantage of uniqueness may be in the form of customer service, design, brand image or technology. He further advises that differentiation extends beyond the characteristics of the product or service, to include every possible interaction between the firm and its customers. However, Grant (1998) adds that differentiation strategies are not about pursuing uniqueness for the sake of being different but is about understanding the product or service and the customer. Differentiation insulates loyalty by customers and gives lower sensitivity to price.

Thompson and Strickland (1998) advise that differentiation strategies tend to work best in market circumstances where there are many ways to differentiate the product or service and many buyers perceive the difference as having value. Firms can differentiate their products or services by altering or modifying the product features, linking different functions within the firm, introducing the product at the right time, exploring location advantages, mixing products and linking with other firms (Porter 1980). Risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various forms pursuing focus strategies may be able to achieve even greater differentiation in their market segments. The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. Lynch (2003) intimates that differentiation strategy has many advantages for the firm which makes use of the strategy. Challenges are experienced by the firms in estimating if the extra cost entailed in the differentiation can actually be recovered from the customer through premium pricing

2.2.3 Focus Strategy

This strategy concentrates on a narrow segment and attempts to achieve either a cost advantage or differentiation within the segment (Porter, 1980). Hussey (1971) advises that the target segment may be defined by geographical uniqueness, specialised requirements in using the product or by special attributes that only appeal to the segment members. This is based on the assumption that by focusing entirely on a specific segment, the firm will be able to serve it better. This usually results in customer loyalty which blocks competing firms from venturing into the segment. Through the differentiation focus strategy, the firm may pass higher costs to its customers due to lack of close substitutes. Firms employ this strategy in segments in the market that have less competition (Pearce and Robinson 1997)

Thompson and Strickland (2003) argue that a firm's strategy based on two variants becomes increasingly attractive as more of the following areas are observed. The target niche will be big enough and profitable. Secondly, the competition will have challenges in establishing capabilities to meet specialised needs of the target niche while satisfying the expectation of their main stream customers. Finally, the firm may pick a competitively attractive niche from the many different niches in the industry based on its resources, strengths and capabilities. The firm will compete effectively against challenges based on its capabilities and resources it has to serve the target niche and thus build customer goodwill.

On the flip side, some of the risks in employing the focus strategy include imitation and changes in target segments. Additionally, it may be easier for a broad market cost leader to adopt its products in order to compete directly. The bigger challenge is other firms may carve out sub segments that they can focus on much better. Porter (1980) cautions that firms cannot solely focus on a cost leadership or differentiation strategy to the exclusion of other strategies. He advises that cost leaders must devote some resources to differentiation activity while those firms pursuing a differentiation strategy should not overlook their cost structure.

Prior researches have identified hybrid strategies which emphasise both cost and differentiation strategies. Wagner and Digman (1997) caution that a "stuck in the middle position" is difficult to achieve and prior research may have incorrectly classified "hybrid generic strategies" and the "stuck-in-the-middle" as equivalent to each other which is not. Newman et al (1982) add that beside market and supply factors, financial strength of the firm, community and government relations and the ability coupled with the values of company executives are factors to consider too. Research on generic strategies has identified a weak link between a firm's attention to one of the Porter (1980) generic strategy types and performance. Some studies have found support for a single strategy performance benefit (Hambrick, 1983; Dess and Davis, 1984; Calingo, 1989).

Other research has shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods (Miller and Friesen, 1986a; Kim and Lim, 1988; Pearce and Robison, 1988; Roberts et al, 1990; Bush and Sinclair, 1982; Miller and Dess, 1993; Wagner and Digman, 1997) although a performance benefit is not always evident. In a service industry, Kumar et al. (1997) found that hospitals follow five generic strategy groups and concluded that a focused cost leadership strategy is the best route to superior performance. Devlin and Ennew (1997) caution that a differentiation strategy may be difficult to implant in a service industry because services are easily copied and fruitful options for achieving differentiation may be limited due to the simplicity and duplicability of financial services, unless the target market is highly sophisticated and knowledgeable.

In an analysis of strategy research, Campbell-Hunt (2000) found that Porter's (1980) generic strategic classifications are capable of discriminating between competitive strategy designs in empirical research and called for repetition of prior studies in different industries using identical competitive methods on which a principal component solution can be employed.

2.3 Adaptation Strategies

Many industries contain one or more firms that are the acknowledged market leader. These firms have the largest market share in the relevant product market and usually lead the other firms in price changes, new-product innovations, distribution coverage and promotional intensity. A dominant firm must maintain constant vigilance and this may take three fronts. First, it must always expand total market demand, secondly, it must protect its current market share through good defensive and offensive actions and lastly increase its market share even if the market size remains constant (Kotler, 2003).

In their studies on the relationship between organisation strategy, structure and processes in the publishing, food processing, electronics and hospital industries, Miles and Snow (1978) identified four adaptation strategies that the companies in these industries employed to beat competition in the changing environment. The strategies include defending, prospecting, analysing and reacting. They further observed that organisations may adopt some of the strategies concurrently or separately.

Alchian (1960) supported Miles and Snow's (1978) theories through his appreciation of the changes in the environment and illustrated a natural selection process of alignment where organisations develop characteristics more compatible with emerging environmental conditions than will their counterparts. He recommends that those organisations that have the "right" structure at that time will perform best forcing their competitors to emulate these structures or cease to exist. He further observes that the adaptive cycle, though evident in all organisations, is more visible in new or rapidly growing organisations. The Miles and Snow's (1978) adaptation strategies are not static and an organisation may need to borrow heavily on the Porter (1980) generic strategies and create a harmony as the former advises when to adopt the latter strategies. The adaptation strategies are highlighted below.

2.3.1 Defender Strategy

The defender strategy occurs in firms with narrow product – market domains. The firms have a limited area of operation and seldom need to make adjustments in technology, structure or operations. In this strategy, the firm will devote efforts in improving efficiency of their existing operations to wade off competition. The defender strategy thrives in an environment of greater stability and limited competition. It is difficult for competitors to dislodge the firm from its small niche in the industry but a major shift in the market threatens its survival. Technological efficiency is central to the firm's performance but the heavy investment in technology requires that technology remains constant which may not be the case. Administratively, the strategy maintains stability and efficiency at the cost of responding to new product or market opportunity (Miles and Snow, 1978).

Kotler (2003) strongly supports this strategy. He further split the defender strategy into 6 segments. The first type of defence is position defence which involves building superior brand power and making the brand almost impregnable while in the second one, flank defence, the market leader erects outposts to protect a weak front or possibly serve as an invasion base for counter attack. This involves creating other products to fight with the competition and making no changes in the core product. Thirdly, the pre-emptive defence is a more aggressive manoeuvre which attacks before the competition starts its offence. This may involve guerrilla tactics hitting one competitor here, another there and keeping all of them off balance.

This may result into the fourth strategy which could be adopted by the competition in retaliation, the counter offensive defence. In this option, the leader can meet attacker promoting new uses for the product and also by convincing users to use more products per use occasion in enhancing more usage

2.3.3 Analyser Strategy

The analyser strategy is evident in firms that operate in two types of product – market domains where one domain is relatively stable while the other is changing. In their stable areas, these firms have routine operations that are highly efficient and formal. In turbulent times from the competition, they observe competitor actions with the intention of adopting those that are favourable to enhance their performance. The dual technological core is able to serve a hybrid stable or changing domain but cannot be fully efficient and effective. This is because of the low investment in research and development combined with imitation of already successful products. The strategy balances stability and flexibility but in the event the balance is lost, getting equilibrium will be a daunting task (Miles and Snow 1978).

Kotler (2003) further observes that in the analyser strategy, it is important to undertake a customer value analysis (CVA). CVA is the customer's benefit less the customer's cost in acquiring a product or service. The specific benefits broken down into product benefits, service benefits, personnel benefits and image benefits ought to be broken down into value. Through CVA, the firm identifies the major attributes a customer values and assess the quantitative importance of the different attributives. The will then assess the firm's and competitors' performance on the different customer values against their rated importance and examine how customers in a specific segment rate the firm's performance against a specific major competitor on an attribute-by-attribute basis. This will determine which options to take after which the firm will keep monitoring the customer values over time.

2.3.4 Reactor Strategy

Kotler (2003) advises of the thin line between the reactor strategy and all the other strategies, especially the defender strategy as they all respond to an action of a competitor. However, Miles and Snow (1978) observes that the reactor strategy usually occurs in firms where there is limited relationship between structure and strategy and only adopts changes when forced by the environment. This is further complicated by the management's lack of effective response to perceived changes. Reactors are unstable firms because they do not posses mechanisms to respond consistently to changes in the environment. The challenges in this strategy rotate around top management's inability to articulate the strategy or situations where the firm's structure and processes do not fit into a chosen strategy. Another cause could be a tendency to maintain the firm's strategy and structure despite many changes in the environmental conditions.

Kotler (ibid) identifies three classes of competitors and advises that a firm needs to identify in which class the competitor is based in order to effectively focus its attack. The first class is the strong versus the weak. Most firms aim at weak competitors since this requires fewer resources. However, little is achieved by the strong competitor by way of improved capabilities thus Kotler (ibid) advises that firms should also compete with strong competitors to keep up with the best. The second class is the close versus the distant. Kotler (ibid) observes that most firms compete with competitors who resemble them and advises that they should also recognise distant competitors. Porter (1980; pp 22 - 23) cites an example of a counterproductive victory:

> Bausch and Lomb in the late 1970s moved aggressively against other soft contact lens manufacturers with great success. However, this led each weak competitor to sell out to larger firms, such as Revlon, Johnson & Johnson, and Schering-Plough, with the result that Bausch faced much larger competitors.

Kotler's (2003) last class is the "good" versus "bad" competitor. He observes that every industry has "good" and "bad" competitors and advises that firms should support its good competitors and attack its bad competitors since good competitors play by the industry's rules by making realistic assumptions, set prices in reasonable relation to costs and they motivate others to lower costs or improve differentiation. Bad competitors try to buy share rather than earn it, take large risks, invest in overcapacity and upset the industrial equilibrium.

2.4 Attracting and Retaining Corporate Customers

In a hypercompetitive economy with increasing rational buyers, a company can only win by creating and delivering superior value. This is derived from understanding customer value, creating customer value, delivering customer value and sustaining customer value. (Kotler, 2003). To remain competitive, the company needs to use the concepts of value chain and value delivery network. The value chain is a tool for identifying ways to create more customer values. The value chain identifies nine strategically relevant activities broken down into five primary and four support that create value and cost in a specific business. The primary activities represent the sequence of bringing materials into the business (inbound logistics), converting them into final products (operations), shipping out final products (outbound logistics), marketing them (marketing and sales), and servicing them (service). The support activities comprising procurement, technology development, human resource management and firm infrastructure, are handled within specialised units if the company (Porter, 1985).

2.4.1 Customer Attraction Strategies

Today's customers are becoming harder to please, are smarter, very price conscious, more demanding, less forgiving and are approached by many more competitors with similar or better offers. Companies seeking to grow their sales and eventually profits have to spend

Personalising and individualising customer relationship is a strong aspect of adding social benefits in customer attraction. Donnelly et al (1985) clearly draw this distinction. They observe that customers may be nameless to firms while clients cannot be nameless. Customers are served as part of the mass or larger segments while clients are served on individual basis. Lastly, they indicated that customers are served by anyone who happens to be available while clients are served by the professional assigned to them. This is further emphasised by Kotler (2003) who advises the aim of a customer relationship management (CRM) model is to produce high customer equity, which is the total of the discounted lifetime value of all the firm's customers.

Rust et al (2000) distinguish three drivers of customer equity as value equity, brand equity and relationship equity. Value equity is the customer's objective assessment of the utility of an offering based on perceptions of its benefit relative to costs. Its sub drivers include quality, price and convenience which have to be defined for each industry. Brand equity is the customer's subjective and intangible assessment of the brand, above and beyond its objectively perceived value. Its sub drivers include customer brand awareness, customer attitude toward the brand and customer perception of brand ethics. The sub drivers are usually influenced by advertising, public relations among other communication tools. Finally, relationship equity is the customer's tendency to stick with the brand above and beyond objective and subjective assessment of its worth. Its sub drivers include loyalty programs, special recognition and treatment programs, community building programs and knowledge building programs. Relationship equity is critical where personal relationships count for where the customers tend to continue with suppliers out of habit.

In adding structural ties, the firm supplies customers with special equipment or computer linkages that help customers manage orders, payroll and inventory. These ties can be created through long term contracts, charging a lower price to customers who buy larger supplies or make more use of services and turning a product into a long term service.

2.4.2 Customer Retention Strategies

A highly satisfied customer stays loyal longer, buys more as the company introduces new products and upgrades existing products, talks favourably about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company and costs less to serve than new customers because transactions are routine (Kotler 2003).

Kotler (2003) advises that firms must pay attention to customer defection rate and takes steps to reduce it through definition and measurement of defection rate, distinguish causes of customer attrition and identify those that can be managed better. A better comparison of how much is lost by loosing customers and the cost of reducing the attritions. Reichheld (1996) proposes that loyal employees and investors are able to build an inventory of loyal customers through a good value proposition. He emphasises on maintaining loyal employees who share in the same vision of long term partnership between the firm and its customers. He further indicated that the firms need to focus in getting the right customers and not just a lot of them since the easiest customer to win is the quickest to defect.

From a service quality, customer retention is done through customer service quality and satisfaction. Payne and Frow (1997) observed that customer focused quality is of strategic importance and appreciating the customer's perception of quality is critical. Zeithaml and Bitner (1996) highlighted that service quality is imperative to gain and sustain competitive advantage. They advised that service quality is two dimensional. Technical quality being the quality of what is being delivered while functional quality is the quality of how the service is delivered because the customer perceives what he receives as the outcome of the process in the resources are used. Kotler (2003) identifies five determinants of service quality as reliability, responsiveness, assurance, empathy and tangibles.

Reliability is defined as the ability to perform the promised services dependably and accurately while responsiveness is the ability to provide appropriate information to a customer when a problem occurs, having a mechanism to handle returns and complains and provide necessary guarantees (Zeithaml and Bitner, 1996). Empathy is the provision of caring individualised attention to customers while having the customer's interest at heart while tangibles are the appearance of physical facilities, equipment, personnel and communication materials (Kotler, 2003).

Zeithaml and Bitner (1996) present an intuitive classification of a customer's link between satisfaction or loyalty and customer retention placing them into classes – loyalist or apostle having high satisfaction and high loyalty; defector or terrorist who has low satisfaction and low loyalty; mercenary who has high satisfaction with low loyalty and hostage with low satisfaction and high loyalty. Kotler (2003) affirms that customers can be divided based on their degree of loyalty. The completely loyal customer buys one brand all the time, a somewhat loyal are loyal to two or three brands of a given product or favour one but sometimes buys others while others with no loyalty to any brand and mostly buy a brand on sale. Kotler (2003) defines customer satisfaction as the customer's feelings of pleasure or disappointment resulting from comparing a product or services perceived performance in relation to his or her expectations. Satisfaction extends customers' lifetimes and lifetime values and helps eliminate the effects of negative word of mouth.

Boshof (1997) observed that if customers have a problem with the service, rather than with the product, they are less likely to complain while noting that complaining to staff as and when problems occur will only cause additional annoyance and waste of time. He identified the following components of a good complaint system. It included having clear procedures, providing speedy responses, the reliability and consistency of the responses and having a single contact point for complaints with an easy access to the complaints process while keeping the complainant informed of the developments. The complaints should be taken seriously with the employees being empowered to handle the situations while having follow up procedures to check with customers after resolutions while using the data to engineer out the problems using measures based on cause reduction rather than complaint volume reduction.

2.5 Factors that Influence Competitive Strategy

Competitors are firms that satisfy the same customer need. Once a company identifies its primary competitors, it must ascertain their characteristics, specifically their strategies, objectives, strengths, weaknesses and reactive patterns. It would seem a simple task for a firm to identify its competitors, Coca Cola knows Pepsi as its main competitor. However, the range of a firm's actual competitors is in reality much broader. More so, a firm is more likely to be hurt by emerging competitors or new technologies than by current competitors (Kotler, 2003).

2.5.1 External Environment Factors

Goll and Rasheed (1997) observed that uncertainty in the external environment has attracted most interest in strategic decision making studies. According to Fredrickson (1983), in a stable environment, synoptic process should be used i.e. rationality while in an unstable environment, incremental processes, i.e. intuition should be adopted. This is influenced by availability and reliability of data in a stable environment thus less involvement in collection of new data thus limited costs. Decisions made from such data leads to better performance. Dean and Sharfman (1996) observed that environmental instability does not moderate the link between procedural rationality and organisational outcomes. In this regards, it can be hypothesised that the relationship between rationality and strategic decision effectiveness will be positive, but stronger for companies facing low environmental uncertainty

Goll and Rasheed (1997) support the role of the environmental benevolence as a moderator of the relationship between strategy making process and organisational performance. From their study, they observed that a rational decision process is strongly associated with organisational performance in environments that are not hostile. This could be because the environment provides both the resource that rational approach requires and favourable conditions for successful outcomes. Organisations will face the challenge of intense pressure in a hostile environment for example seeking a merger to stave off bankruptcy as observed by Mintzberg et al (1976)

2.5.2 Internal Organisation Factors

Snyman and Drew (2003) and Fredrickson and Iaquinto (1989) have argued that company size can affect the strategic decision making and implementation process. They observed that larger firms will employ a more formal and rational process as compared to smaller firms. They gave the opinion that smaller firms may operate by intuition. This is because, as the number of the employees grows, the distance between top management and organisational staff increases thus decentralisation of strategy making and implementation process.

In contrast, Papadakis et al (1998) found that size has no significant relationship with politicisation and problem solving in organisations. The meeting point of these diverged positions was Brouthers et al (1998) and Eisenhardt (1989) who found that there is some interaction between organisation size and the political behaviours in organisation which influences strategic decision effectiveness.

2.6 Responses to Competition

A company needs to conduct a customer value analysis which will help it focus its attack on competitors. Kotler (2003) identifies three classes of competitors: strong versus weak, close versus distant and "good" versus "bad". Most firms aim their shots at weak competitors because this requires fewer resources per share point gained. However, there is a limited improved capability in this approach and it is advisable for a firm to compete with strong competitors to keep up with the best. Close versus distant involves competing with firms who resemble the company. A classic example is Coca Cola states that it number one competitor is tap water and not Pepsi unlike Chevrolet competing with Ford and nit Jaguar which is a classic close competition.

"Good" versus "bad" competitors are typical in any industry. A firm should support its good competitors and attack its bad competitors. This is because good competitors play by the industry rules, make realistic assumptions about the industry growth potential, set reasonable prices in relation to cost, they favour a healthy industry, and they motivate others to lower costs or improve differentiation and accept their general level of their share and profits. Bad competitors try to buy share rather than earn it, take large risks, invest in overcapacity and upset industry equilibrium (Kotler, 2003).

2.6.1 Strategic Response to Competition

This is a strategic choice for a firm that comes as a result of exploiting existing resources and capabilities or exploring new opportunities to enhance its competitive advantage. The exploitation leads to increased productivity and efficiency of employed capital and assets through standardisation, systematic cost reductions, and improvement of existing technologies, skills and capabilities (Koza and Lewin, 1998)

According to Thompson and Strickland (2003), winning business strategies are grounded in sustainable competitive advantage. The strategic responses refer to market entry strategies that a firm may use to respond to increased competition by entering into new markets with similar products. This could be markets the firm is currently not serving or new geographical markets. Market entry strategies may include acquisition, strategic alliances, joint ventures, diversification, collaborative ventures and outsourcing. To meet competitor influence, commercial banks in Kenya have entered into mergers and acquisitions for various reasons. The Central Bank of Kenya's website (August 2010) documents that there have been a total of thirty three mergers since 1989 to June 2010 (see appendix four). There was a further three acquisitions of local banks by foreign banks that were expanding their territorial business into Kenya as documented by the same website within the same period. (See appendix five).

These acquisitions came as a result of increased competition and some of the smaller banks could not compete fully. Other reasons were to increase the capital base of the banks which in essence increases the average deal size in terms of corporate loans that the bank can give to a single borrower. The mergers also increased the number of branches for some banks. A notable example was the CfC Bank Limited's merger with Stanbic Bank Kenya Limited. While the former had six branches, the latter had seven branches thus the merged bank started off with thirteen branches most of which were in the major towns only. The merged bank has since increased its branches to twenty two most of which were opened in up country towns like Nanyuki and Meru (www.cfcstanbic.com)

2.6.2 Operational Response to Competition

Strategic collaboration can be regarded as a viable way of combining resources in order to exploit new business opportunities. Shollei (1999) argues that in order to fortify a firm's position against predators, it is important to form joint ventures which effectively reduces the cost of differentiation and enhances competitive advantage. Equity bank has merged with Safaricom to offer two services. First as an Mpesa payment agent through its well spread ATMs across the country and the launch of the M-Kesho, a deposit account that is created off the Mpesa account holders. To increase cash less transaction platform, Standard Chartered pioneered and enhanced utility bill payments off their ATMs. Other banks including Equity, Cooperative and CfC Stanbic have followed suit and build same capability. This is a key demonstration that differentiation may only last for a short while before the competition catches up. Although the Money Gram and Western Union funds transfers were only offered by Cooperative and KCB in the initial stages, the services are now offered across a broad spectrum of commercial banks in Kenya.

Pearce and Robinson (1997) have identified key strategic reasons for outsourcing. The immediate need to improve business focus following realisation that several "how" issues are siphoning off huge amounts of management's resources and attention was the initial driving force. Secondly, it acts as a vehicle to provide world class capabilities due to specialisation of the outsourced company. Thirdly, outsourcing is used to achieve accelerated re-engineering benefits. It is often a by-product of business process re-engineering. The fourth benefit is when firms outsource, they become more flexible, more dynamic and able to adapt to changing opportunities because the partners engage in some capital investment on their behalf. Lastly, outsourcing enables freeing of resources for other purposes. The firm can then re-direct its resources from non-core activities that have the greater return in serving the customer. A number of commercial banks – both small and big, local and multi nationals have contracted Pesapoint and Kenswitch to provide ATM services to their customers. This in essence relieves the banks from investing in more ATMs and the man hours to be spend in managing the logistics of funds float in the ATMs. CfC Stanbic has also partnered with Rentworks to offer higher purchase facilities of huge machinery for commercial use.

2.7 Summary

Kotler (2003) observes that a marketer's task is to build a marketing program to achieve the company's desired objective. The marketing mix gives the set of tools the firm uses to pursue its marketing objectives in the target market. McCarthy (1996) classified these tools into four broad groups that he called the four P's or marketing which include product, price, place and promotion. He observed that a firm typically makes fewer period to period marketing mix changes in the short run than the number of marketing mix variables might suggest and that the four P's represent the seller's view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is designed to deliver a customer's benefit. Lauterborn (1990) suggested that the seller's four P's – product, Price, Place and promotion correspond to the customers' four Cs of Customer Solution, Customer cost, Convenience and Communication respectively.

Porter's (1980) generic strategies give a good focus on competitive strategies and are easily aligned to the adaptation strategies observed by Miles and Snow (1978), Kotler (2003), McCarthy (1996) and Lauterborn (1990). The latter's strategies are ideally fitting into the former's strategy of cost, differentiation and focus by giving supporting models of how the firm will want to face the competition, either by adopting the defender, prospect, analyser or reactor response options. Porter (1980) gives the strategy to be adopted while the rest give the approaches that a firm may use while they adopt the Porter's generic strategies.

In using an example, Porter's strategy is a policeman with a gun hunting for robbers. The Miles and Snow's strategy is options he will take while hunting the robbers – this is whether to protect the police station through the defender strategy or go out and look for them through the prospector strategy. Other option is to observe the robbers from a distance through the analyser strategy or wait to be shot dead by the robbers in the reactor strategy.

CHAPTER THREE – RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a census survey because this was a cross sectional study involving all the commercial banks in Kenya. A comparative analysis was used to satisfy the objectives of the study.

3.2 Target Population

The target population for the purposes of this study was all the 43 commercial banks in Kenya according to the Central Bank of Kenya' website on Commercial Banks and Mortgage Finance Institutions as at fifteenth October 2010 and the Central bank Annual Supervision report (2009). (www.centralbank.go.ke/financialsystem/banks/Introduction.aspx). All these banks have their Corporate and Commercial banking units in Nairobi with regional representation across the country through their branch networks. .

3.3 Data Collection

The study employed a direct collection of primary data through questionnaires which were structured into closed and open ended questions to cover issues of competitive strategy and the attraction and retention of corporate customers. Email and the drop-and-pick method of delivery were employed to distribute and collect completed questionnaires from respondents. Prior formal requests through courtesy calls and telephone calls were conducted to increase acceptance to undertake the questionnaire. Where necessary, follow up discussions were conducted to seek clarification on some responses provided in the questionnaire. The questionnaire was split into two parts "A" and "B". Part "A" focused on the background information on the banks while part "B" captured data relevant to the objectives of the study. Respondents were Relationship Managers and Account Executives Officers within the 43 commercial banks in Kenya who are designated to perform these roles.

3.4 Data Analysis

Data was analysed using descriptive statistics such as frequencies, mean score, percentages and standard deviations to measure and compare the results.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The data collected with the use of questionnaires is analysed and presented in this chapter. The results are presented in the form of frequencies, means, standard deviations, percentages, tables, bar charts and pie charts.

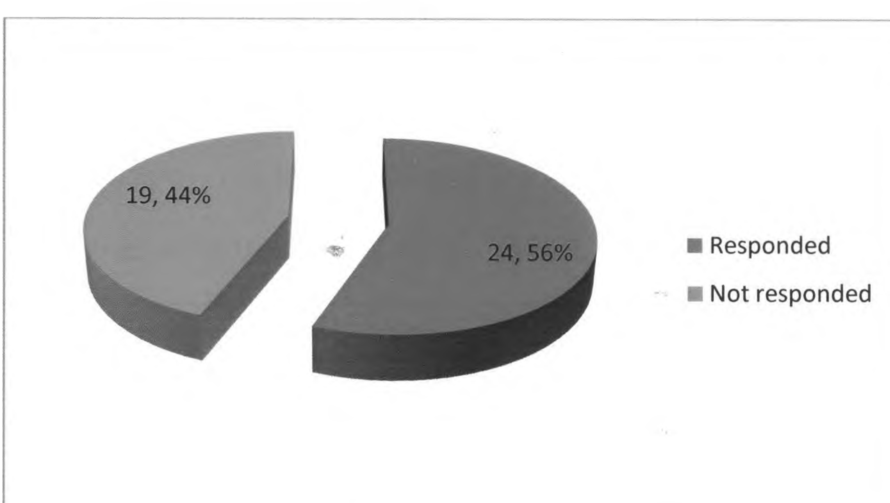
4.2 General Information

The variables considered in this section were mainly aimed at providing insight information on the response rate and the profile of the respondents and their organisations.

4.2.1 Response Rate

Questionnaires were sent to all 43 banks except Charterhouse bank which is undergoing investigation and is under receivership. Only 24 banks participated in the exercise and all questionnaires that were received were usable for the analysis. The response rate was 55.81%, which is considered adequate for the purpose of this study.

Figure 4.1: Response Rate



4.2.2 Number of Employees

33% of the respondent banks had a number of employees ranging from 101 to 500, 25% had workforce ranging from 51 – 100, another 25% had over 1000 employees, while 16.67% of the banks had workforce ranging between 501 and 1000 employees. These statistics are represented in table 1 below.

Table 4.1: Distribution of banks by workforce

Number of Employees	No. Of Banks	Percentage
Below 50	0	0%
51 – 100 Employees	6	25.00%
101 – 500 Employees	8	33.33%
501 – 1000 Employees	4	16.67%
Over 1000 Employees	6	25.00%

4.2.3 Number of Branches

Most banks (41.67%) fell in the 11 – 30 branches bracket. Only 7 banks (29.17%) had over 50 branches. These banks are considered as large banks and have presence in some remote towns compared to majority that had branches in key towns only.

Table 4.2: Distribution of the Banks by Number of Branches

Number of Branches	No. Of Banks	Percentage
Below 10	6	25.00%
11 – 30 Branches	10	41.67
31 – 50 Branches	1	04.17
Over 50 Branches	7	29.17%

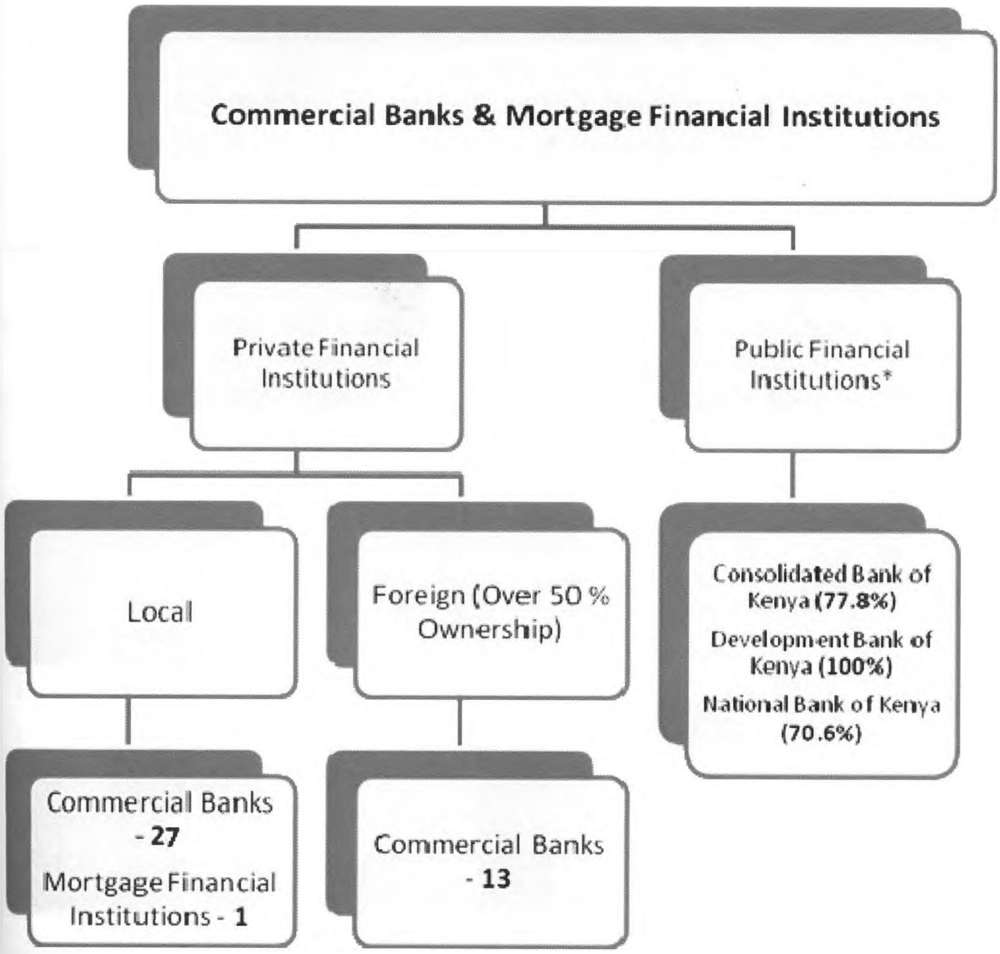
4.2.4 Ownership of the Banks

With over 40 commercial banks operating in Kenya, the Kenyan banking industry is generally considered to be saturated. Over the past six years, the Central Bank of Kenya (CBK) has encouraged consolidation in the sector through mergers and acquisitions, and a number of mergers have been effected. Banks have also resorted to mergers in order to comply with changes in legislation Also, the minimum core capital has been increased.

The banking act imposes a single shareholder limit such that no one is permitted to hold, directly or indirectly, or otherwise have a beneficial interest of more than 25% of the share capital of any banking institution. This requirement does not apply to other financial institutions, the Kenyan Government, a government of a foreign state, a state corporation as defined by the state corporation act or a foreign company licence to carry on the business of a banking institution in its country of incorporation in line with the CBK prudential guidelines and the anti money laundering regulations. The guidelines give restriction to shareholders with more than 5% of the share capital to be an executive director or form part of the management of the institution.

Out of the 43 licensed commercial banks and 1 mortgage finance company in Kenya, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions include 3 banks with significant government and state corporation shareholding and other 27 commercial banks. The chart below gives a pictorial presentation of the ownership structure of the commercial banks in Kenya. In the presentation, the only Mortgage finance company which trades as a bank is included because a local Bank, Equity Bank Limited, has controlling shareholding in the company

Figure 4.2: Ownership of banks in Kenya – Source http://www.centralbank/go.ke



Only 10 banks, which comprise 23.26% of all banks, are listed in the Nairobi Stock Exchange with 3 (6.98%) of all banks being listed in other stock exchanges in the world. (http:/www.africalegalnetwork.com/images/shareownershipinkenyanbanks)

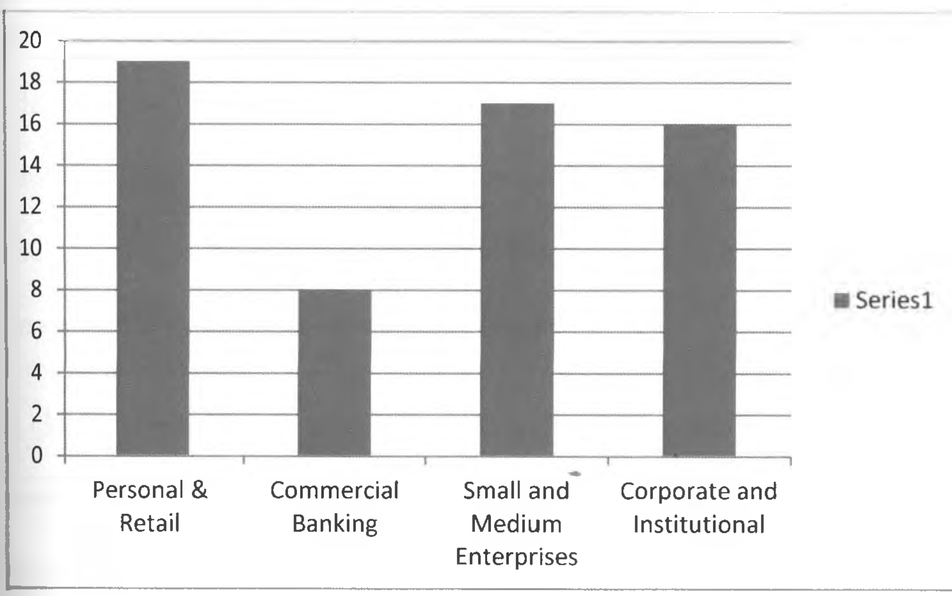
4.3 Customer Attraction and Retention Strategies

Commercial banks use a mix of the various attraction and retention strategies in different proportions to reach their classified target markets. The strategies are used interchangeably at the various stages of the attraction and retention of the corporate customers. Commercial banks classified corporate customers in different groups and adopted different strategies for the different classes of customers. Customer classification is further discussed below.

4.3.1 Customer Classification

Most banks split their business segments into four key groups with 16 banks (66.66%) having an exclusive classification for corporate customer segment. 19 banks (79.17%) also served personal and retail customers. 8 (33.33%) banks had a commercial banking segment while 17 (70.8%) banks had segments taking care of the SME customers. The profiles of the respondents are that the customers were served from different service suits to further segregate the customer classes. This is further illustrated in figure 4.2 below.

Figure 4.3: Customer Classification



4.3.2 Segment Priority and Profitability

Most commercial banks gave first priority to the Corporate and Institutional Banking, then to Small and Medium Enterprises while Commercial banking took least priority among the corporate customers. Corporate and Institutional banking got priority because of their business volume and profitability per customer which were comparatively high, thus giving them low operational per unit cost in meeting their needs.

Small and Medium Enterprises are a mass market segment which had small volumes and profitability per customer but the huge numbers of customers were a quick opportunity for the banks to break even on operational costs. Commercial banking segment served as middle ground for banks as these customers hedged in between the Corporate and Institutional Banking targets and the Small and Micro Enterprise segment.

4.3.3 Competitive Strategies Adopted by the Banks

Michael Porter (1980) developed three generic strategies that are frequently adopted by commercial banks for attraction and retention of customers.

For the three key classes of corporate customers, 11 (45.83%) of the commercial banks adopted the differentiation strategy as the dominant strategy for their competitive business strategy. This involves having products and services designed for a specific customer group and a similar pricing system applicable for the target customer segment. However, there may be very little variations across the segments.

8 (33.33%) banks got a step further and adopt a focus differentiated which addresses a specific customer segment with products specially designed for them. This means that each of the three keys customer segments of Corporate and Investment Banking (CIB), Small and Medium Enterprises (SME) and Commercial Banking (CB) will have a different set of products that address their individual business needs.

The focus integrated strategy was used by 6 (25%) banks as it couples both pricing and differentiation thus giving the banks an avenue to have tailored products and services correctly priced with the target segment in mind. The cost leadership strategy is used by 6 (25%) banks to further address the specific needs of the CIB, SME and CB customer segments in levels that are able to meet individual customer needs in situations where there is a high stake in an individual customer and competition is high among the banks.

4.3.4 Customer Adaptation Strategies

The Raymond Miles and Charles Snow adaptation strategies come in handy for commercial banks in an effort to ring fence their business and customers. The defender strategy is the most utilised strategy by 13 (54.17%) of the commercial banks as they protect their existing customers from the competition. Specific customers are given tailored products and services that make it next to impossible for the customer to shift from one bank to another. A key example is the University of Nairobi and UNES' relationship with Barclays bank that has tailored systems to meet the former's needs including establishing a branch in the latter's compound. This was also evident by Equity bank placing a branch in Kenyatta University while St Paul's University had National Bank of Kenya setting up shop at its Limuru campus.

7 (29.17%) banks also adopt an Analyser strategy for new developments in service provision and develop systems based on the success and / or failures of the competition. The Mpesa value proposition initially integrated to banking by CfC Stanbic bank has seen developments where other banks have come with varied improvements in the system with Cooperative Bank's most recent innovation – M-karo for school fees collection targeting education institutions and Equity Bank's M-Kesho that enables Mpesa accounts to be converted into bank accounts a solution that Cooperative bank gave a slice by enabling cash deposit to accounts at Cooperative bank from their Mpesa account. Mpesa is a cash transfer solution from Kenya's key Mobile Telephony service provider that enables subscribers to securely transfer funds to registered members.

The prospecting strategy was adopted by 5 (20.83%) of the banks who took the risks in creating new products for the industry. Citi Bank with CitiDirect leads the pack on new innovations and how they lock in corporate customers. There was only one bank that took a reactor strategy as it served a classified set of customers.

4.4 Strategic Responses to Competition

The level of competition amongst the commercial banks is high as they chase the top CIB names and the limited established SME relationships, most of them appearing in the Nairobi All Share Index (NASI) comprising of 56 corporates of which 10 (17.85%) are commercial banks. 8 (33.33%) of the respondents adopt diversification as a key response to competition. Through diversification, the banks create several products and services options targeting the same customer segment where the corporate customer makes the choice. Citi bank has created a niche with its internet banking solution "CitiDirect" which has solved their customer's contact with the bank. The off side of differentiation options is that it can only be a key differentiator for a given time after which the other banks will have created a similar solution.

Strategic alliances and collaboration comes in as a second option to 7 (29.17%) of the respondents as a response to competition. In this strategy, the commercial bank partners with another commercial bank of other financial or non financial institutions to give a tailored product or services to meet expected customer needs. Mobile network service provider – Safaricom has become a key partner to most banks. Most of the key banks – Cooperative Bank, Equity Bank, CfC Stanbic Bank, CBA and Citi Bank have all signed up different product deals that are embedded on Safaricom's Mpesa money transfer solution.

4 (16.67%) respondent have entered into joint ventures to create a solution that meets the banks' corporate customer needs. This was evident in The Telkom Kenya syndicated loans in 2007 where 8 commercial banks closed ranks and jointly financed the organisations to a tune of Kes 5.835 Billio. A further 4 banks (16.67%) rely on outsourcing of professional services that is not in their core business in order to beat the competition.

Staff mobility between commercial banks has diluted the effects of responses to competition. As the staff move from one bank to another, they tend to share good practice from their previous employer to the new employer.

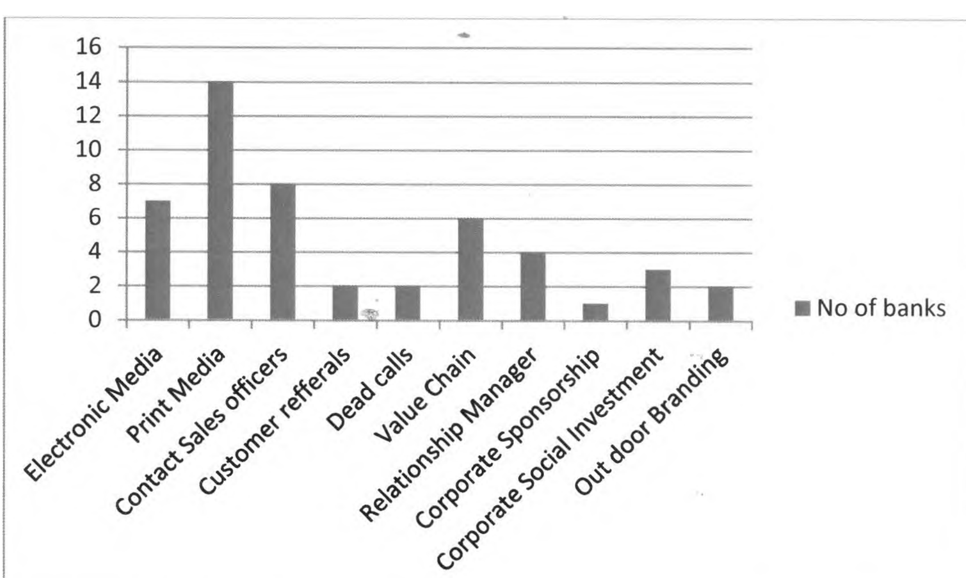
4.5 Customer Communication Channels

Commercial banks have adopted different methods to engage with their customers – both existing and prospecting.

4.5.1 Marketing Channel

Print media still ranks high, being rated by 58.33% of the banks that participated in the study as the most commonly used for their notices and advertisements. The Direct sales ranked second at 33.33%, while electronic media and value chain came at third and fourth most used media with 29.17% and 25% respectively. These findings are illustrated in Figure 4 below.

Figure 4.4: Marketing Channels



4.5.2 Customer Feedback Channels

All the commercial banks have adopted a Relationship Manager model of customer service. In this model, the bank assigns a number of corporate customers to one or two members of staff, usually senior managers, to act as the key point of contact to the customer and their key role is to ensure that the customer's needs are met and that they experience a seamless interaction with the bank.

4.6 Discussion

The research is consistent with the expectations of the relevant theories developed by Michael Porter and Miles and Snow. The research has demonstrated consistency in the banking industry in how customers are classified between Corporate, Commercial, SME and retail customers. The only variance is in the banks appetite in servicing the various classes of these customers and the how.

The study has further demonstrated that 45.83% of commercial banks use the differentiation strategy in which their product features make them stand out from the competition to attract and retain corporate customers. This is closely followed at 33.33% by respondents' adoption of the Focus – Differentiation strategy which is a more refined strategy as it focuses on a specific customer segment with products specifically designed for them. The focus integrated strategy was adopted by 25% of the respondents. The other strategies being, Cost leadership – both high and low and Focus – Low cost are least used as they all achieved a 12.5% usage. An additional finding is that the defender strategy ranks high as an adaptation strategy at 54.17% of the banks ring - fencing their customers against competition. Another 29.17% are laid back from being very innovative in their quest to retain their customers while 21% are always chasing the leading pack for the "left overs"

In driving their attraction and retention strategies while taking care of their customer adaptations, the study has demonstrated that the print media 58.33% is a key communication channel to corporate customers. This is closely followed by bank officers at 33.33%.

The study is in tandem with earlier studies in the industry. Kiptugen (2002) identified that KCB had to look at and address the changes in the banking industry to remain competitive. Ochieng (2009) and Anampiu (2009) further looked at the challenges in strategic planning and the effects of strategic decision process and its consequent effects respectively. This study had demonstrated consistency in their finding that banks must be in the watch for the changes in the environment and strategically choosing which strategy to adopt to protect their niche. The key ingredient in the strategy implementation is in the strategic planning and decision process as this will affect the final implantation and consequent success.

The results of the study also demonstrate to management of the commercial banks, who will comprise the key users of the findings of the study that other than having the right strategy and the best implementation plan, the additional resource of the organisations' human resources and the right media coverage will enhance it position as the market leader. There needs to be involvement of all the cadre of the staff in creating the strategy to approach so that they own it and are bound to keep and defend the strategy to success.

CHAPTER FIVE – SUMMARY AND CONCLUSIONS

The study was employed to explore the competitive strategies that commercial banks adopt to attract and retain corporate customers. The study strongly borrowed from Michael Porter (1980)'s generic strategies for attraction and retention of customers and Miles and Snow's adaptation strategies.

5.1 Summary

From the sample of 24 of the 43 commercial banks, it is evident that the different banks employ different strategies in their customer attraction and retention. The strategies are interchanged and used in different forms to different customer segments.

5.2 Conclusions

The differentiation strategy is the most adopted strategy used by commercial banks in attracting corporate customers. However, the focus differentiation strategy comes out strongly as a strategy that strongly supports a retention strategy. The focus – integrated comes as a middle ground position in events where the banks are facing strong competition from a cross section of the banks and would like to ring fence the business.

5.3 Limitation of the Study

A number of studies have been done in the area of strategic planning among organizations including banks but not specific attention has been given to attraction and retention of corporate customers by commercial banks in Kenya. Further to this, there has not been a study focusing on coping strategies developed by these banks to mitigate the migration of customers from one bank to another.

The criteria used to determine the attraction and retention strategies for corporate customers in commercial banks in Kenya concentrated mainly on the Relationship Managers and

Account Executive Officers from various banks. This can lead to subjective or biased responses. Some of the commercial banks considered the information sought as being very sensitive and would not respond and give a clear picture of the situation for fear of the information being used by competition.

The amount of time for the study was short as a result the research concentrated only on the commercial banks in Kenya. If more time would be allocated to the study, then multinational and international banks would be included in the research.

5.4 Recommendation for Further Research

From this study, the researcher recommends that for the banks to succeed in the strategic planning process towards the attraction and retention of corporate customers, they should involve all the employees within the organisation in the strategic planning stages. This is because, according to the Porter (1980) Value Chain, all departments play a role in the final production of the product r the service. He also recommends that top managers should fully support the strategic planning process for it to be successful in these organizations.

Further research should be done to determine the effectiveness of the strategies for attraction and retention of corporate customers and further explore if multinational and international banks have adopted similar strategies and what their successes were. It is important to identify any challenges experienced and identify mitigating solutions. A research could also be done in strategic planning and how information technology can be adopted in managing the customer retention models.

Replicate studies should be carried out by in the different customer industry segments, e.g. a separate study for parastatals, manufacturing, telecommunication etc, to see the correlation of the findings. The strategists would therefore have patterns for comparison. Further studies should be carried out in the different industries besides banking, to gauge the correlation of the findings. The researcher would therefore have patterns for correlation.

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APPENDICES

Appendix 1 - Letter of Introduction

The Head of Corporate and Investment Banking

CfC Stanbic Bank Ltd

P. O. Box 30550 – 00100

Nairobi.

Attention: Mr Ken Ouko

Dear Sir,

RE: REQUEST FOR RESEARCH DATA – COMMERCIAL BANKS IN KENYA

I am a Post Graduate student at The University of Nairobi Pursuing a Master of Business Administration Degree in Strategic Management. In partial fulfilment of the requirements of the degree, I am conducting a research on "Strategies Kenyan commercial banks use to attract and retain corporate customers".

Your bank has been selected for this research. I will greatly appreciate if you complete the attached questionnaire. The information obtained will be purely used for academic purposes and the finding of the research shall be made available to you upon request.

Feel free to avail any additional information that is relevant to the research but may not have been covered in the questionnaire.

Thanks you for your cooperation

Yours faithfully,

Collins Wanyonyi

MBA Student

University of Nairobi

Prof. Peter K'Obonyo

Deputy Dean

School of Social Sciences

Appendix 2 – Questionnaire

PART A: GENERAL INFORMATION

1. Details of bank and respondent

a) Name of your bank

____

b) Name and title of respondent (optional)

____

2. Number of employees
   a) Below 50 ( )
   b) 51 – 100 ( )
   c) 101 – 500 ( )
   d) 501 – 1000 ( )
   e) Over 1000 ( )
3. Number of Branches?
   a) Below 10 ( )
   b) 11 – 30 ( )
   c) 31 – 50 ( )
   d) Over 50 ( )
4. Number of managerial levels? ____________________
5. Company Ownership. Please mark **(X)** appropriately
   a) Is the bank a Public or Private company?
      i. Public ( )
      ii. Private ( )
   b) Is the bank a Local or Foreign Bank (foreign = 50% foreign ownership)?
      i. Local ( )
      ii. Foreign ( )
   c) Does the Government of Kenya own any of your shares? Yes ( ) No ( ). If Yes, what Percentage of total shares __________%
   d) Is the bank listed in the Nairobi Stock Exchange? Yes ( ) No ( )
   e) Is the bank listed in any other Stock Exchange? Yes ( ) No ( ). If yes, please indicate which stock exchange and country ____________________

   ____

PART B: CUSTOMER ATTRACTION AND RETENTION STRATEGIES

6. What are the key customer classifications in the bank? Please mark **(X)** in the brackets below.
   a) Personal / retail Customers ( )
   b) Commercial Banking customers ( )
   c) Small and Medium Enterprises ( )
   d) Corporate and Institutional customers ( )
   e) Others (Specify) ____________________________________

   ____

   ____

7. The bank gives priority to some customer segments listed in 6 above as compared to others. In terms of priority, with 1 being less priority and 5 being highest priority, please appropriately rank the segments with **(X)** in the table below.

Least — Highest

	1	2	3	4	5
Personal / Retail customers					
Commercial banking customers					
Small and Medium Enterprises					
Corporate and Institutional Customers					
Others (Please specify)					

____

____

8. Which customer segments listed below give the bank more business in revenue collection? With 1 being least revenue and 5 highest revenue, please mark **(X)** in the table below.

Least — Highest

	1	2	3	4	5
Personal / Retail customers					
Commercial banking customers					
Small and Medium Enterprises					
Corporate and Institutional Customers					

Others (Please specify)					

____

____

____

9. Who are your major competitors and why do you consider them so?

____

____

____

____

10. Michael Porter has developed three generic strategies to be adopted in attracting and retaining customers. In a scale of 1 being rarely adopted and 5 being most adopted, please indicate **(X)** which strategies you adopt in the table below.

	Rarely Adopted				Mostly Adopted
	1	2	3	4	5
Cost Leadership (High): The bank's costs being perceived as low compared to competition					
Cost Leadership (Low): The bank's costs being perceived as high compared to competition					
Differentiation: The bank having specific product features that make it stand out from the competition					
Focus – Low cost: Having a specific customer segment with a relatively low pricing strategy					
Focus – Differentiation: Having a specific customer segment with products specifically designed for them.					
Focus – Integrated: Having a customer segment where both cost and differentiation are merged to make the product / services more appealing					
Any Other (Please Specify)					
Any Other (Please Specify)					

____

____

____

11. Is the bank perceived to be a high cost bank? Yes ( ) No ( ). Is this in line with the bank's strategy? Yes ( ) No ( ). In your opinion, why is the bank perceived to be high cost? ____

____

____

12. In comparison to other banks, which are the key differentiators of your bank ranked in priority? ____

____

____

____

____

13. Of the differentiating factors listed in No. 11 above, which of them fits in the bank's long term strategy? ____

____

____

14. Which corporate banking segments is the bank currently focussing on and why? _____

____

____

15. Is the bank keen on innovation of new products and solutions? Yes ( ) No ( ). If yes, how often are the new products and solutions produces

    a) Annually ( )
    b) Quarterly ( )
    c) Bi – Annually ( )

16. Are the solutions new product and solutions above released in response to competition? Yes ( ) No ( ). If yes, how often?

    a) Very often ( )
    b) Often ( )
    c) Not very often ( )

17. Are there any products and / or services within the bank that compliment each other? Yes ( ) No ( ). If Yes, How do they compliment each other and is this part of the bank's strategy? ____

____

____

____

____

18. Raymond Miles and Charles Snow have identified four adaptation strategies usually adopted by firms in their attraction and retention of customers. In the scale of 1 – 5; 1 being rarely adopted and 5 being mostly adopted, please rank the strategies in the table below

	Rarely Adopted 1	2	3	4	Mostly Adopted 5
Defender Strategy: Protecting a specific customer segment or product offering from the competition					
Prospective Strategy: Being on the fore front with new product innovation and solutions to beat competition					
Analyser Strategy: Being non committal on the line of action as the bank waits on the success or failure of other banks in the same line of activity (product / service)					
Reactor Strategy: Being laid back and only respond after the competition has launched something new that challenges your comfort					
Any Other (Please Specify)					
Any Other (Please Specify)					

____

____

____

19. Which of the following strategic responses to Competitive strategies does the bank use to attract and retain corporate customers?

	Rarely Adopted 1	2	3	4	Mostly Adopted 5
Diversification: Creating several product and service options targeting the same customer segment where the individual corporate customer can choose from					
Strategic Alliances and Collaboration: Partner with other organisations to give a tailored product or services to meet expected customer needs					
Joint Venture: Partner with a competitor organisation to create a solution that meets the bank's corporate customer's needs					
Outsourcing: Contracting professional service providers to operate their core products and services within the bank as agents of the bank					
Any Other (Please Specify)					
Any Other (Please Specify)					

____

____

____

20. Which marketing avenues do you adopt in reaching out to your target customers?

	Rarely Adopted 1	2	3	4	Mostly Adopted 5
Electronic Media: Use of radio, television and internet channels					
Print Media: Use of newspapers, magazines and other periodicals					

Contact / Direct Sales Officers: Having staff "hawk" from office to office and pitch desks at malls					
Referrals from existing customers: Having existing customers invite their partners					
Dead Calling program: Calling customers whom the bank have never had contact with and introduce its products and services					
Value Chain: Identify a supply chain for products and follow all the partners from the producer to final beneficiary					
Relationship Manager: A designated officer to approach customers in a given segment					
Corporate Sponsorships: Sponsor activities e.g. games, tours, workshops and seminars					
Corporate Social Investments: Partner with organisations to give humanitarian support to communities.					
Out door branding: Use of bill boards, branded public vehicles, T-Shirts, road signs etc					
Others (Please Specify)					

____

____

____

21. Which models does the bank use to source feedback from customers? With 1 being least adopted and 5 being highly adopted, please rank with (X) in the table below

	1	2	3	4	5
Customer Care Centre					
Branch Managers					
Relationship Managers					

Research Company e.g. Steadman Synovate					
Suggestion boxes					
Others (Please specify)					

Appendix 3 – Schedule of Commercial Banks and Mortgage Company in Kenya

Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda Kenya Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Chase Bank Kenya Limited
8. Charterhouse Bank Limited (under Statutory Management)
9. Citibank N. A. Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co-operative Bank of Kenya Limited
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank Kenya Limited
16. Dubai Bank Kenya Limited
17. Ecobank Limited
18. Equatorial Commercial Bank Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Fidelity Commercial Bank Limited

22. Fina Bank Limited
23. First Community Bank Limited
24. Guardian Bank Limited
25. Gulf African Bank Limited
26. Giro Commercial Bank Limited
27. Habib Bank A. G. Zurich
28. Habib Bank Limited
29. Imperial Bank Limited
30. I & M Bank Limited
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank Kenya Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Standard Chartered Bank Kenya Limited
41. Trans National Bank Limited
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Limited

Mortgage Company

1. Housing Finance Company of Kenya Limited

Appendix 4 – Mergers of Commercial Banks in Kenya since independence

No.	Institution	Merged with	Current Name	Date approved
1	9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	1989
2	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
3	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
4	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
5	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
6	Bank of India	Bank of India Finance Ltd.	Bank of India (Africa) Ltd.	15.11.1995
7	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
8	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
9	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
10	CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996
11	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.1997
12	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
13	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
14	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
15	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999

16	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
17	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
18	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
19	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
20	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
21	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
22	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
23	Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16.10.2001
24	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07.12.2001
25	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
26	Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	Investment & Mortgage Bank Ltd.	01.12.2002
27	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
28	East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005
29	Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01.01.2008
30	CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	01.06.2008
31	Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01.02.2010
32	City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11.02.2010
33	Equatorial	Southern Credit	Equatorial	01.06.2010

	Commercial Bank Ltd	Banking Corporation Ltd	Commercial Bank Ltd	

Source: Central Bank of Kenya www.centralbank.go.ke

Appendix 5 - Acquisition of Commercial Banks in Kenya since independence

No.	Institution	Acquired by	Current Name	Date approved
1	Mashreq Bank Ltd.	Dubai Kenya Ltd.	Dubai Bank Ltd.	01.04.2000
2	Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30.04.2004
3	EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16.06.2008

Source: Central Bank of Kenya www.centralbank.go.ke