

**FACTORS INFLUENCING COMPETITIVE ADVANTAGE  
AMONG COMMERCIAL BANKS IN KENYA**

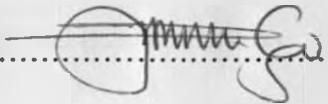
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## DECLARATION

I declare that this project is my original work and that it has not been presented to any other university or Institution for academic credit.

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## DEDICATION

I dedicate this research project to the Almighty God for His grace, mercy and blessings that have seen me through.

To my lovely husband, Joe and beautiful daughters Kiki and Kee who encouraged me whenever I felt like giving up.

To my late Mum Mrs Zipporah Nkanaci who instilled in me the virtuals of hardwork and perseverance.

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## ABSTRACT

The purpose of this study was to establish the factors that influence competitive advantages among commercial banks in Kenya and determine the advantages such factors provide to the various commercial banks. Questionnaires were used to collect primary data while secondary data was collected from the Websites, Strategic Plans and the Audited Financial Statements of the commercial banks. Data was analyzed using SPSS and presented in piecharts, bar charts and frequency distribution tables. The major findings of the study indicated that competition among commercial banks in Kenya is quite stiff and most players have attained competitive advantages through product and service differentiation in terms of cost and customer experiences. The banks have also invested heavily in technological products, processes and institutional changes. Thirdly, the commercial banks have invested in training programmes and employee empowerment practices.

The main conclusions were that commercial banks in Kenya are in very stiff competition and have almost uniformly adopted competitive strategies ranging from superior products and services, technological assets, high quality of human resources and responsiveness to the business environment. The researcher recommends internal mechanisms to spur generation of competitive strategies and tighter regulations from the Central Bank of Kenya to ensure fair competition and guard against exploitation of the consumers. The researcher suggests that a similar study be carried out targeting junior staff to get their perspective of the competitive strategies employed by commercial banks in Kenya.

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## **LIST OF ABBREVIATIONS**

**CBK: Central Bank of Kenya**

**KBA: Kenya Bankers Association**

**R & D: Research and Development**

**SCA: Sustainable Competitive Advantage**

**SME: Small and Medium Enterprises**

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Businesses all over the world are faced with challenges brought about by the ever changing and unpredictable competitive environment. Participants in a given industry compete with each other, but they also must cooperate with one another in many respects. On a level playing field in a market open to all competitors on equal terms, competition will erode the returns of all players to a uniform minimum. Therefore to earn profits above this minimum, a firm must be able to do something that its competitors cannot.

Porter (1980) provided a framework that models an industry as being influenced by five forces; Rivalry between the players, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products and the threat of new entrants. In the banking industry customers including retail customers, ordinary individuals, have no bargaining power whatever as a negotiator. Banks have three suppliers of its product, money: its depositors, the interbank market and the central bank. In real sense, the source of supply can be argued to be infinite. For instance, the Central Bank is effectively the source of last resort. For the most part there is no real threat of substitute products in the banking industry. It could be argued that a personal loan is a substitute for a mortgage, but in reality both are loans and the loan is taken out because the customer wants money to satisfy a certain need or want. There is no real problem in the formation of a new bank, and it is not even an unusual occurrence. The market is so large and so fragmented, that the significance of a new entrant or even entrants is minute. Longer term, a new entrant's increased size and financial strength may alter the market situation slightly. However, the

main source of competition in the banking industry emanates from rivalry between banks through creation of competitive advantages in various areas like service, information technology and quality of employees (Ruckes 2004).

Competition is a fundamental problem facing all the participants in the banking industry in Kenya. The product they sell, money, is totally fungible. It makes no real difference what the customer or the bank does the nature of money does not change. If the product cannot be differentiated then it must be possible to differentiate the service provided to the client in the handling, storage and investment of this most precious of commodities. In fact, even in the information technology sector there is virtually nothing any major bank can do that its competitors cannot match very quickly (Ruckes, 2004)

### **1.1.1 Competitive Advantage**

A firm would be said to possess a Sustainable Competitive Advantage (SCA) when it has value-creating processes and positions that cannot be duplicated or imitated by other firms in employee training, leadership quality, service quality and technology and innovations. Porter (1980) explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are the threat of new entrants to an industry which can raise the level of competition, thereby reducing its attractiveness. The bargaining power of suppliers where the cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability if suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The Bargaining Power of Buyers would also lead to highly unpredictable selling prices which can impact on the profit

margins while The degree of rivalry between existing competitors can push some weak firms out of business and lastly the threat of new substitutes can lower industry attractiveness and profitability because they limit price levels.

### **1.1.2 Banking Industry in Kenya**

Banking business is the accepting from members of the public of money on deposit repayable on demand or at the expiry of a fixed period or after notice, the accepting from members of the public of money on current account and payment on and acceptance of cheques; and the employing of money held on deposit or on current account, or any part of the money, by lending, investment or in any other manner for the account and at the risk of the person so employing the money. (Banking Act of Kenya Cap 488). Apart from accepting deposits and making loans, the banking industry has a wide variety of other business line. Banks today provide a broad range of products and services, such as underwriting and dealing in securities, selling and managing shares in mutual funds and even insurance.

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK) Act and the various prudential guidelines issued by the CBK. The CBK which falls under the Minister of finance's docket is responsible for formulating and implementing monetary policy directed to achieving and maintaining stability in the general price levels and fostering liquidity, solvency and proper functioning of a stable market-based financial system.

As at the end of 31<sup>st</sup> December 2011, the number of financial institutions comprised 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance

institutions, 4 representative offices of foreign banks, 112 foreign exchange bureaus and 2 credit reference bureaus. The 43 commercial banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests and a forum to address issues affecting members.

It is a challenge for banks in Kenya to effectively set their growth strategies in the recent economic market as the effect of the changes on consumers and businesses is not predictable and the challenge remains for banks to grow and effectively manage the spread to generate a return to their shareholders. Globalization has changed the way banks use technology, information and communication to better serve their customers. More banks are rolling out diverse products with the help of technology in order to meet the client's needs. As the banks become more integrated into the global economy, they are facing opportunities and challenges thus the need for establishing the factors that influence competitive advantages which will cushion the firms in the turbulent business environment.

### **1.1.3 Underlying Factors for Competitive Advantage within the Banking Industry**

In an industry, success factors may be many, but key ones or those with strongest effect are few. Porter (1980) describes a success factor in an industry as the aspect that enables firms in the industry to succeed. He adds that sound strategy incorporates efforts to be competent on all key industry success factors and excel on at least one such factor to create a competitive advantage. In any industry the success factors include management excellence, adequate and properly trained human resources, proper equipment or

facilities, controlled cost of production and operations, optimal prices or rates, high product quality, adequate customer care, optimal volume of operations or sales, positive image or reputation, marketing effectiveness, well managed finances, up to date technology, research and development, proper location, and efficient processes or systems.

Although the banking industry players have embraced the generic competitive strategies of cost leadership and product differentiation, Huang et al. (2004) identifies lack of senior management commitment, ineffective communication with employees, insufficient employee training, and failure to get employee support as the major challenges that emanates from ineffective management. Kappelman et al. (2006) identifies lack of top management support, functional performance and scope, project management capability, and ineffective change control processes as the major factors that might affect the competitive advantage of a firm. Biehl (2007), reviewing the literature on global information success factors identifies top management support, business process management, cross-functional team cooperation, communication, and project vision as the main requirements of top management teams in the pursuit of a firm's competitive advantage.

The nature of banking business requires heavy investment in equipment, facilities, processes and systems that ensure better delivery of services in terms of shorter turn-around times and upholding of the service level agreements between the commercial bank and its clients and other industry players like the regulators, clearing houses and settlement agencies. There is the element of the integrity of the technology that the banks use whereby the tools and equipment should guard against frauds, breach of commercial

confidentiality and frequent breakdowns and repairs which might jeopardize service delivery and quality of the product offered by the bank and expose it to the competition (Mintzberg 1994).

Cost control is also a key success factor in the banking industry. The payments of commissions to the marketing teams and advertising agencies should be adequately recovered through competitive prices and rates without affecting the volumes of operations and sales. This requires adequate cost control mechanisms and optimal pricing models to ensure that the contribution margin is within the market expectation and sufficient to repay the cost of production and reward the factors of production (Porter 1980).

Customer care is a factor that is highly regarded by users of banking services. Customer service entails the complaint management systems, communication with the clients through statements of account, mobile alerts, telephone calls and written communications on issues related to the account and new policies. It has been held that a complaining customer is likely to come back but a silent customer is likely to switch loyalty to the competitor. Therefore, it is imperative for all commercial banks to ensure that their clients are encouraged to give feedback and the gathered feedback is used as a basis of improving on future services and product quality (Ho et al., 2005).

The image of a banking institution should be highly guarded since lack of confidence in a bank can lead to a run at the bank and escalate to cause a systemic failure of the financial sector. This also encompasses the engagement of the bank in social responsibility programmes and strict adherence to regulatory requirements both at the local and

international level. Once a bank's image is tainted it might be impossible to regain customer confidence and it might spell doom to the affected institution (Huang et al. 2004)

The element of research and development (R&D) is proving to be a key driver of gaining competitive advantage by aligning the firm with the market developments. However, it is a costly venture that might not pay in the long run if it is not well coordinated. Most banks tend to outsource R& D services but there is a trend towards maintaining an in house business intelligence unit that enables the firm to gather information on the competitor from various sources including published sources, electronic media, salespeople, distributors, customers, competitors, employees, industrial espionage, social engineering, reverse engineering and survey research (Cegielski et al., 2005).

The location of banking business is one factor that affects the accessibility of banking services and is a major contributor to the bank's competitive advantage. The location of physical outlets in form of brick and mortar is currently being replaced by presence through banking platforms in form of electronic banking platforms. Some of these platforms include electronic trading, internet banking, mobile banking and electronic funds transfer systems. The banking platforms should not only uphold the service and product quality but also assist in making the processes and systems leaner, faster and secure (Hayes & Pisano 1988). In summary therefore, key success factors in the banking industry are identified through experience, expert opinion and research initiatives.



### **1.1.4 Commercial Banking**

A commercial bank is a profit-seeking business firm, dealing in money and credit. It is a financial institution dealing in money in the sense that it accepts deposits of money from the public to keep them in its custody for safety. It also deals in credit, whereby it creates credit by making advances out of the funds received as deposits to needy people. It thus, functions as a mobilizer of saving in the economy. A bank is, therefore like a reservoir into which flow the savings, the idle surplus money of households and from which loans are given on interest to businessmen and others who need them for investment or productive uses. There are many types of commercial banks such as deposit banks, industrial banks, savings banks, agricultural banks, exchange banks, and miscellaneous banks (Fabozzi et al 2009)

Commercial banks have to perform a variety of functions which are common to both developed and developing countries. These are known as 'general banking' functions of the commercial banks. The modern banks perform a variety of functions. These can be broadly divided into primary functions and secondary functions. Primary banking functions of the commercial banks include: Acceptance of deposits, advancing loans, creation of credit, clearing of cheques, financing foreign trade and remittance of funds. Secondary banking functions of the commercial banks include agency services like insurance services and general utility services like custodian of precious items (Pandey 2011)

## 1.2 Research Problem

Organizations have come to the realization that in today's competitive market every investment ought to deliver returns either in the short run or in the long run. The allocation of resources to different aspects of business is informed by the ultimate competitive advantage that the business stands to gain in relation to its competitors. The benefits that accrue from such investment are usually expected to be in line with the overall purpose of existence of the firm (mission) that is expressed in a plan of action for allocating resources effectively (strategy). Organizations operate in a dynamic environment characterized by technological changes, competition, regulatory requirements, economic changes and opportunistic strategic decisions. The turbulent market conditions makes organizations settle on a specific area of strength to drive the earnings and ensure maximization of the owners' equity (Carroll 1996).

Commercial banks in Kenya have adopted different areas of strength and thus created their respective competitive advantages. The main factors that influence competitive strength in the banking industry include information technology, service quality and leadership capabilities (Ruckes, 2004). An organization chooses a competitive strategy upon consideration of the industry forces inherent in an industry (Porter, 1980). The competitive strategy is converted into superior programmes and processes in comparison with the competition and this forms the competitive advantage of an organization (Porter, 2010). However, a competitive advantage only exists if the competition does not measure up or exceed the organization's parameters (Cohen, 2002). Therefore, every commercial bank needs to evaluate the factors that influence its competitive strategies on a regular basis and strive to consistently improve them in a manner that keeps it ahead of the

competitor and in line with the business environment. The choice of the right competitive strategy and consideration of the factors that influence it is an issue that any commercial bank needs to address seriously if it is to remain in business.

Several studies have been conducted to establish the competitive strategy practices of various organizations in Kenya. Matilu (2010) conducted a survey of the competitive strategy practices adopted by insurance companies in Kenya and found out that most insurance companies are embroiled in pricing wars. She recommends a shift to product innovations as a means to attaining a sustainable competitive advantage in the insurance industry. Kimari (2010) investigated the sources of a sustainable competitive advantage in the Kenyan mobile telephony sector and found out that a wider product range and network coverage were key in ensuring competitive advantage of the players in the sector. Ongeru (2010) studied the strategic planning practices at Citibank Kenya and observes that competitiveness and sustainability are key considerations in the strategic planning process. Wasike (2011) conducted a more entity specific study on the competitive strategies adopted by Barclays Bank of Kenya in response to industry competition and found out that robust marketing of the financial innovations in the Small and Medium Enterprises segment assured the bank of its sustained earnings. Oori (2011) conducted a study of the strategies employed by Kenyan commercial banks in mitigating the turbulence of interest rates and recommended long-term measures like financial deepening and hedging. He observed that there is need for commercial banks in Kenya to come up with standardized controls and strategic practices that can assure the sector of sustained earnings during turbulent market conditions.

The mentioned studies have demonstrated that Kenyan commercial banks are constantly under pressure to deliver returns to their investors amid the inconsistent market conditions like fluctuating interest rates, competition from other players in the financial sector, rivalry amongst the commercial banks and compliance with the regulators. The studies also indicate that there is no particular study that has attempted to establish the factors that influence the general competitive strategies applicable to all commercial banks in Kenya. This constitutes a knowledge gap in the banking industry in Kenya and justifies the need for further research that this study will seek to address by establishing the factors that influence the competitive strategies adopted by commercial banks in Kenya. This research therefore, will investigate the following questions: What are the factors that influence competitive strategies among commercial banks in Kenya and what advantages do such factors provide for the various banks?

### **1.3 Research Objectives**

The objectives of the study were as follows:

- i) To establish the factors that influence competitive strategies among commercial banks in Kenya.
- ii) To determine the advantages such factors provide to the various commercial banks in Kenya.

### **1.4 Value of the Study**

At the end of this study, there will be an increase in the knowledge of the factors that influence competitive strategies that are adopted by Kenyan commercial banks and the most appropriate strategies that can deliver a sustainable competitive advantage. Both the

existing and future management teams of banking institutions can use this information to understand and appreciate the role played by competitive strategies and the factors that influence them in delivering the strategic objectives of their firms. The study will also shed light on major shortcomings and risks that emanate from some of the factors.

The government and other policy makers will find the information useful in improving the regulation and operations of commercial banks in Kenya. Current and future scholars in the field of Strategic Management may use the findings of this research to understand the factors that influence competitive strategies and strategic intents of firms.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter shall document scholars' and practitioners' descriptions, views and contentions on the concept of competitive advantage. It shall also discuss the empirical studies on competitive advantage resulting from service quality, technology and innovations, training of employees and leadership quality. Lastly, this chapter shall provide the conceptual framework of the study.

### **2.2 Generic Competitive Strategies**

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus (Porter 1980).

The focus strategy has two variants; cost focus and differentiation focus. In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost

advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1985)

Mintzberg (1994) argues that the generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants: In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

### **2.3 Competitive Advantage in Service Quality**

Over the past two decades, quality has been heralded as the source of competitive advantage. Quality has gone through an evolution process, from an operational level to a strategic level, and some scholars have given strong support for the view that quality must be adopted as a strategic goal in organizations (Adam, 1992).

Porter (1980) categorized quality as a primary basis for differentiation strategy. He contends that firms adopting this strategy will uniquely position their products based on several attributes leading to a premium price. He specifically suggests that quality creates a differentiation point which separates, even insulates, a firm from competitive rivalry by creating customer loyalty as well as lowering price sensitivity. In this way, the firm will be protected from competitive forces that reduce profitability. Similarly, Philips et al. (1983) noted that among the many sources of differentiation, quality was the approach that most often characterizes a differentiation strategy. They also noted the conventional wisdom which suggests an incompatibility between high quality products and low cost for the reason that quality usually requires more expensive materials and processes, which is not supported under a cost leadership regime. This school of thought, however, does not totally negate the link between high quality and low cost. Rather, it suggests that high quality products will eventually result in lower costs after the firm attains benefits on economies of scale via higher market share (Philips et al., 1983).

A second line of argument supports the link between quality and low cost. Deming (1982), with his quality improvement chain concept, argued that organizations can enhance their competitiveness by improving quality. This will result in cost reduction through eliminating scrap and rework. The concept of quality costs developed by Crosby (1979) provides explanations on the link between quality performance and cost reduction. The idea of quality cost suggests that any defective products (i.e. poor quality) will incur costs, commonly labeled as failure costs, which include the costs of rework and scrap. In the light of the link between quality performance and quality costs, firms need to devote their efforts on controlling processes to minimize defects in their outputs, which will also



reduce the failure costs. In turn, this reduction will result in lower production costs and overall operation costs (Millar, 1999). This is because the improvement of quality performance will not only impact on one particular functional area (i.e. production) but also inter-functional areas within organizations (Mandal, 2000).

Several other studies have exemplified the link between quality performance and cost reduction. For example, Maani et al. (1994) showed that quality performance (in terms of scrap, rework, and customer complaints) not only has a favorable impact on the operational variables but that its impact will also be apparent at the business performance level. The arguments for quality costs have been extended to the point where firms can achieve better financial performance by reducing failure costs rather than by improving sales (Harrington, 1987). This was evidenced in the 1980s when the lower price and higher quality of the Japanese products flooded global markets which had previously been dominated by Western companies (Raisinghani et al., 2005). This causal link between quality and cost, therefore, is different from that held in a classical economics theory, as was noted earlier. Here, quality is considered as directly inverse to cost. This seems to be compatible with a cost leadership strategy that seeks the lowest possible unit cost in production.

The chain of reactions starts with quality improvement which results in cost reduction, which results in firms having the opportunity to offer high quality with low prices. In this way, firms will be rewarded with higher market share and a better competitive position in the market (Deming, 1982). In essence, this school of thought holds that there is no conflict between quality and cost as opposed to the traditional view which suggests that higher quality means higher costs.

Aside from the opposing arguments outlined above, several scholars have suggested the unification of differentiation and cost leadership brought by quality. Belohlav(1993), for example, argued that attaining high quality performance allow firms to pursue not only a differentiation strategy, but also a cost leadership strategy. He further suggested that quality bridges the two different perspectives of strategy into one dimension called the value dimension.

From a theoretical point of view, this argument allows the compatibility between cost leadership and differentiation strategies which has been extensively debated in strategic management literature (Hill, 1988). Moreover, it is consistent with the demand for pursuing cumulative dimensions of performance (Noble, 1995). Specifically, Reed et al. (1996) show how quality simultaneously encompasses both differentiation and cost leadership. They argue that by focusing on customer needs, quality is concerned with providing better products that satisfy customers' needs. This is associated with differentiation strategy. At the same time, by focusing on internal processes, quality also leads organizations to reduce cost as a result of the elimination of defects and waste. This makes it compatible to cost leadership strategy. The implication of this notion is that competing on quality will provide firms with double advantages by providing customers with both differentiated products and lower costs (Ho et al., 2005).

## **2.4 Competitive Advantage in Technology and Operations**

The integration of technology with strategy is not enough, and technology management should involve the strategic guidance of technology as a source of sustainable competitive advantage (Werther et al., 1994). Failure may indeed begin when the very

early stages of a project converge too quickly on an IT strategy. It may begin when not enough attention has been given to the market leader's use of IT and attention has been prematurely focused on requirements planning, systems design, project management, schedules and budgets. While it is important to align corporate and IT strategy (Hirschheim and Sabherwal, 2001) it is not unreasonable to suggest that, at the same time, effective integration strategies depend upon an understanding of how competitors use this technology in support of their own company's strategic objectives. Learning how competitors use IT, however, is very challenging because a competitor's strategy may be difficult to observe, measure, and interpret. As a result, some organizations may be inclined to avoid an extensive analysis of their competitor's IT strategy and thereby limit their understanding by focusing inward on their own firm, their own supply chain, and their own customers (Cegielski et al., 2005). The challenge, then, is to avoid the temptation to move too quickly at the early stages and to take the time necessary to understand the competitive environment.

A good strategy focuses less and less on the product or the service itself and more and more on the rendering of services, reputation and so forth. In developing the IT infrastructure, other factors play a role as well. These factors are, among other things: User-friendliness where for instance user friendliness is then enforced for every use at every place of work and even for function tests. This can also go in the direction of graphic presentations of data, the use of a mouse and the use of pull-up and down menus for the entering of data coding. User-friendliness requires computer capacity and may have consequences for the filling in of blueprints. Secondly, the cost control factor depends on the question as to whether intelligent terminals are being used, or not, at the

workstation, on the installation of applications and the data storage at the workstation. Here the costs of hardware, communication and control should be weighed against each other. Thirdly, of consideration should be the hardware policy where different computer suppliers should be questioned whether it is sufficient to deal with just one specific supplier, because of the desired functionality and the choices made in the IT architecture. Products of different suppliers, however, cannot always be linked. Fourth is the accessibility of systems where the organization needs to consider the transaction costs, availability and timeliness of accessing the facilities. Lastly, there should be consideration of the safety factor where for instance as information becomes more and more valuable, it becomes necessary to ensure its protection from unauthorized access and manipulations. In financial transactions extremely large amounts of money are sometimes involved. The publicity of an attempt at electronic burglary alone may influence the image of the concerned institution (Parthasarthy and Sethi 1992)

Hayes and Pisano (1988) contend that from a managerial point of view, this study suggests that firms can develop successful strategies through focusing not only on the product building block but extending their strategies for conveying their meanings also through other building blocks, e.g. by partner network, distribution channels, suppliers and customers relationships. This can reinforce the meaning itself by conveying it through different means. Second is by conveying the meaning, addressing the language not only to customers, but also to other and different stakeholders (suppliers, politicians, other companies of the same ecosystem, citizens, etc.). This calls for a differentiation of strategies and languages, customized for different users. Third, is by sensing the environment and understanding the signs, weak signals in order to imagine scenarios in

advance. The managers need to imagine the future meanings and to study a strategy to assist in conveying them through building blocks. Fourth is by drawing the current meaning or rather building a block matrix. This helps the manager to understand the structure of its company in terms of design and languages shown to the stakeholders. Fifth is by deciding the action to be taken as regards these relationships. This assists the strategy manager to focus on the uncovered building blocks and the less-represented meanings which assures the organization of a competitive advantage in the industry.

Congden (2005) notes that implementation of different systems is complicated due to the interconnectivity, complexity and implications of poor implementations. The implementation process either can help achieve benefits expected or derail performance throughout the system. A few key implementation considerations include redesigning the governance model to ensure the system serves its purpose when resources are tight and requests are many, but also ensures that it is not too slow nor does it focus on meaningless updates and roadblock reviews. Therefore, a new, more nimble governance model should be created around business processes and allow for continuous improvements. Miller (1986) argues that in the definition innovation strategy of business model languages, companies have to face three main decisions. First they have to choose between a proactive approach based on the proposal of new meanings and on the actions on new building blocks with old or new meanings and a reactive approach based on the languages already sensed and adopted in the market. Secondly, they have to determine the variety and heterogeneity of languages in their strategic portfolio (and the addressee of the languages, e.g. the customers, the suppliers, etc.) and thirdly, they have to

determine the range of building blocks where to act within the meaning of the innovation strategy.

Porter (1980) advocates for the open innovation strategy which among other requirements provides that challenge of innovation should be clear and important, have meaningful rewards, be competitive, and protect the core system while providing opportunities for collaboration and renovation of the innovation approach. He also holds that market orientation and technology leadership can give competitive advantage. He contends that the pursuit of successful strategies, particularly strategy-technology integration, is associated with certain organizational conditions including a relatively long period for implementation and a need for careful planning with clear mission and objectives. Congden (2005) also holds that the investment should be linked to the implementation of the firm's business strategy, and the role of technology should be defined in the strategy and that the top management should develop their knowledge about computer-based technologies. Lastly, measures should be taken to improve engineers' skills in computer-based technologies, provide on-going training to technical staff, and build a culture of innovation.

## **2.5 Competitive Advantage in Human Resources**

Adequate number of employees and effective training strategies that focus on an organization's intangible assets will have significant impact on the competitive advantage of any organization (Brown 2001). Organization theory and person-environment fit has consistently demonstrated the need for congruity or fit between organization structure, process, technology and environment as well as between people and their organization

(Pervin, 1968; Schein and Diamante, 1988; Thompson, 1967). The reduced cost and increased capabilities of computer technology has triggered significant increases in the delivery of knowledge, which includes computer based training, web-based training, multimedia learning environments and e-learning (Brown, 2001).

(Hitt et al., 2001) hold that this advancement in technological training has provided organizations with a unique opportunity to focus on increased training of the people in their different business functions while not sacrificing the abundant amount of resources required for training strategies like in the past. This opportunity in technological innovation is now allowing organizations to provide more training across all boundaries of an organization. A greater commitment from department leaders in development of an innovative training strategy will allow organizations to ensure that knowledge creation, transfer and utilization is maximized and efficient at all levels of the organization.

(Cegielski et al., 2005) suggest that the best practice in training includes moving resources around within sub-specialized areas, swapping application experts around to new applications, cross-training between the employees and outsourcing for the improvement of existing applications to gain beneficial suggestions. There is also need to be careful not to do the outsourcing haphazardly to ensure the organization is building bench strength and giving opportunity for growth to its teams. In addition, there is also need to find any opportunity to incorporate unique ways of sharing information where for instance the teams should hold internal training classes to the entire working force. This will allow them to compile documentation, hone their presentation skills and share knowledge, which helps to break down knowledge silos.

Liu and Barrar (2008) observe that organizations have gone so far as to teach a course at a state college that brings the students to their specific department, where they are attached in the department during the semester to learn about the processes and applications. This forces the training team to document information and present it in a format that is ideal for training and also establishes a potential pipeline of future talent that is somewhat familiar with your environment.

## **2.6 Competitive Advantage in Leadership Quality**

Several definitions of leadership have been given by different management writers. Rosenbach & Taylor (1989) describe leadership as an influence process directed at shaping the behaviour of others which can be interpreted to mean that leadership is shaping the behaviour of others through influence. Schwartz (2012) describes leadership as the art of inspiring subordinates to perform their duties willingly, competently and enthusiastically. So a leader becomes one who by example and talent plays a directing role and commands influence over others. In simple terms leadership could be described as getting others to follow or getting others to do things willingly. In management, leadership could be seen as the use of authority in decision making. Leadership could be exercised as an attitude of position, or because of personal knowledge and wisdom, or as a function of personality. So leadership could be looked at from many perspectives but what is clear is that it is a relationship through which one person influences the behaviour of others towards the achievement of a common objective.

Luthans (2005) holds that in order to attain competitive advantage of an organization the leadership more especially the top management should perform two major functions:

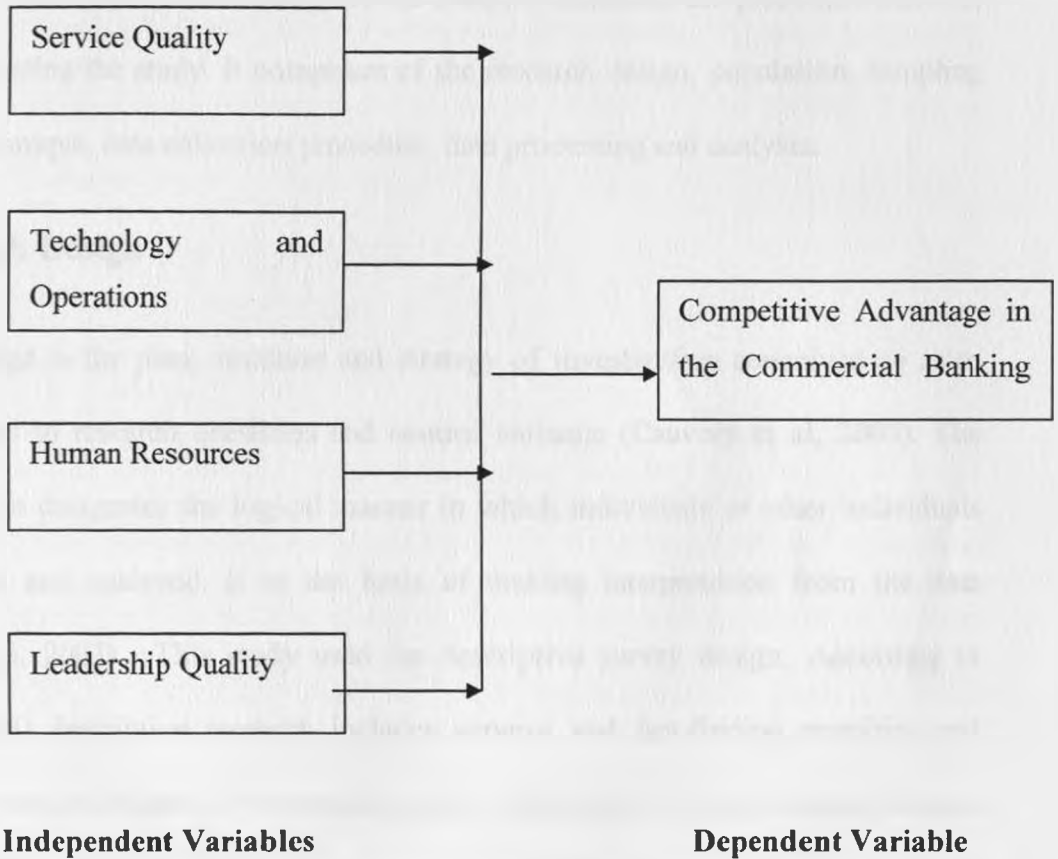


Firstly, they should create a strategic imperative acting in unison to showcase the need for change and involving middle managers in the choice of fast projects and secondly they should manage the organization context by choosing project leaders who are likely to be successful while able to balance power and monitoring of the projects , providing protection to the teams, and managing the expectations of the rest of the organization.

Congden (2005) also contends that the roles of leadership in attaining competitive advantage include; teaching while learning, enforcing strategic consistency, oversight of the process and focus on key questions. For instance the key questions leaders should ask before investing in a new venture include; do market characteristics justify the need is the project technically feasible and if it is easy for an organization to implement. Characteristics of leaders who can create competitive advantage include; credibility within the organization, well-honed tactical and implementation skills, sound knowledge of the organization and people within it and good relationship with the middle managers across the organization and other stakeholders.

## 2.7 Conceptual Framework

Figure 2.1 Conceptual relationships between variables



Source: Author (2012)

The researcher contends that the overall competitive advantage of any commercial bank would involve a combination of superior service and product quality, technology and operations, adequate properly trained employees and visionary leadership to combine these independent strengths so that they can together lead to the organization's ability to gain a sustainable competitive advantage within the banking industry.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the methodology of the study. It describes the procedure that was used in conducting the study. It comprises of the research design, population, sampling frame and technique, data collection procedure, data processing and analysis.

### **3.2 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance (Cauvery et al, 2003). The research design designates the logical manner in which individuals or other individuals are compared and analyzed. It is the basis of making interpretation from the data (Cauvery et al, 2003). This study used the descriptive survey design. According to Kothari, (2008) descriptive research includes surveys and fact-finding enquiries and describes the state of affairs as it exists at present. A descriptive research design helps to ascertain and be able to describe the characteristics of the variables of interest in a situation (Sekaram, 2006). It portrays the characteristics of a particular situation and it has the advantages of accuracy and flexibility (Cauvery et al, 2003). The descriptive research design enabled the researcher to summarize the findings in a way that provided information on the factors that influence competitive advantage among the commercial banks in Kenya.

### **3.3 Population**

According to Curvery et al, (2003), a population refers to an entire group of persons or elements that have at least one thing in common. A population is a group of individuals, objects or items from which samples are taken for measurement. The target population was made of all the 43 commercial banks in Kenya licensed by the Central Bank of Kenya as at 31<sup>st</sup> December 2011. These included 6 large commercial banks, 14 medium sized banks and 23 small banks (Appendix I).

### **3.4. Sample Design**

The study employed stratified random sampling design. All the 43 commercial banks were stratified into three strata consisting of six large commercial banks, 14 medium sized banks and 23 small commercial banks. The sample size consisted of 6 large commercial banks, 8 medium sized banks and 9 small banks to make a sample size of 18 commercial banks.

### **3.5 Data Collection**

Data was collected by use of questionnaires. The questionnaires were availed to the respondents by the researcher and collected within 24 hours after administration. The target respondents were managers in charge of strategy at the various banks. They included the Chief Executive Officers, Functional Heads and Departmental Heads. Before collection of the filled questionnaires, the researcher relied on telephone calls to remind the respective respondents through their personal assistants to fill the questionnaires. This assisted the researcher to attain a high response rate.

The data collection tools enabled a trade-off between cost, speed, accuracy, detail, comprehensiveness, response rate, clarity and anonymity which are useful for validity and reliability. Permission to disseminate questionnaires was sought through an introduction letter (Appendix II).

### **3.6 Data Analysis**

This being a descriptive study the data collected was qualitative in nature. The raw data from the questionnaires was cleaned and checked for completeness by eliminating unusable data, interpreting ambiguous answers and eliminating contradictory data from related questions. The Statistical Package for the social Sciences (SPSS) program was used to analyze the cleaned data. Frequency tables, pie charts, bar graphs, means and percentages were used to present the information.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter contains analysis of the results from the study. The chapter analyses the data systematically by focusing on the study objective: To find out the factors that influence competitive advantages among commercial banks in Kenya and establish the advantages such factors provide to the various commercial banks. The results are presented as a report of the questions answered by the respondents

### **4.2 General Information**

The respondents included the Chief Executive Officers, Functional Heads and Departmental Heads of the selected commercial banks in Kenya. All the respondents returned fully filled questionnaires making a 100% response rate. The Statistical Package for Social Sciences (SPSS) was used to analyze the data and came up with the maximum score, minimum score, average score and the standard deviation from the mean scores for every question that was aimed at identifying the factors that influence competitive advantages among commercial banks in Kenya and the benefits such factors provide to the selected commercial banks.

### 4.2.1 Nature of Commercial Banks

The results indicated that the nature of commercial banks could be divided into two categories: Local commercial banks and Subsidiary of international banks. The sample size was made of 17 local commercial banks and 6 subsidiaries of international banks. The data shows that local banks have dominated the market more than the foreign banks.

**Table 4.1 The Nature of Commercial Banks.**

<b>Nature of Commercial Bank</b>	<b>Number</b>	<b>Percentage</b>
Local Commercial Bank	17	74
Subsidiary of International Bank	6	26
<b>Total</b>	<b>23</b>	<b>100</b>

Table and figure 4.2.1 indicate that the sample consisted of 17 (74%) local commercial banks and 6 (26%) subsidiaries of international banks. This ratio reflects the fact that Kenyan commercial banking sector is made up more local banks than international banks. This could be attributed to stringent licensing procedures by the Regulator.

### 4.2.2 Role of Respondents

The respondents who participated in the research study included 6 functional heads and 17 departmental heads. Not a single Chief Executive Officer participated in the study.

**Table 4.2 Role of the Respondents**

<b>Role of Respondent</b>	<b>Number</b>	<b>Percentage</b>
Chief Executive Officers	0	0
Functional Heads	6	26
Departmental Heads	17	74
<b>Total</b>	<b>23</b>	<b>100</b>

**Figure 4.2.2 Role of the Respondents**

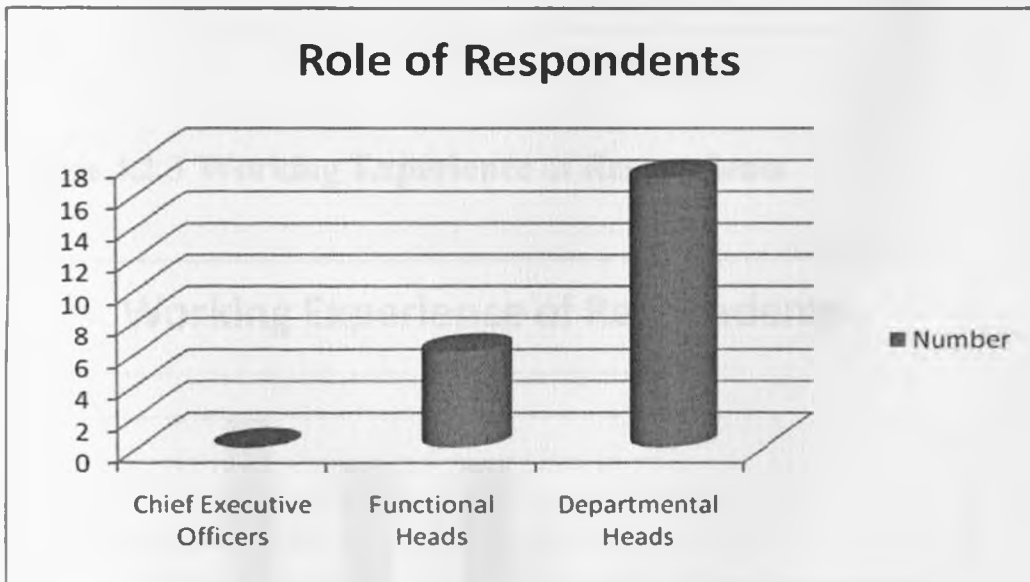


Table and figure 4.2.2 indicate that the respondents included 6 functional heads and 17 departmental heads. This implied that the respondents under study were functional and departments heads, an indication that, CEOs could not be reached due to their busy



schedules. The bulk of the respondents were departmental heads and a few functional heads.

**Table 4.2.3 Working Experience of Respondents**

Length in years	No. of Respondents	Percentage
Less than 1 yr	1	4
1-5 Years	7	31
6-10 Years	6	26
11-15 Years	6	26
16 Years and above	3	13
<b>Total</b>	<b>23</b>	<b>100</b>

**Figure 4.2.3 Working Experience of Respondents**

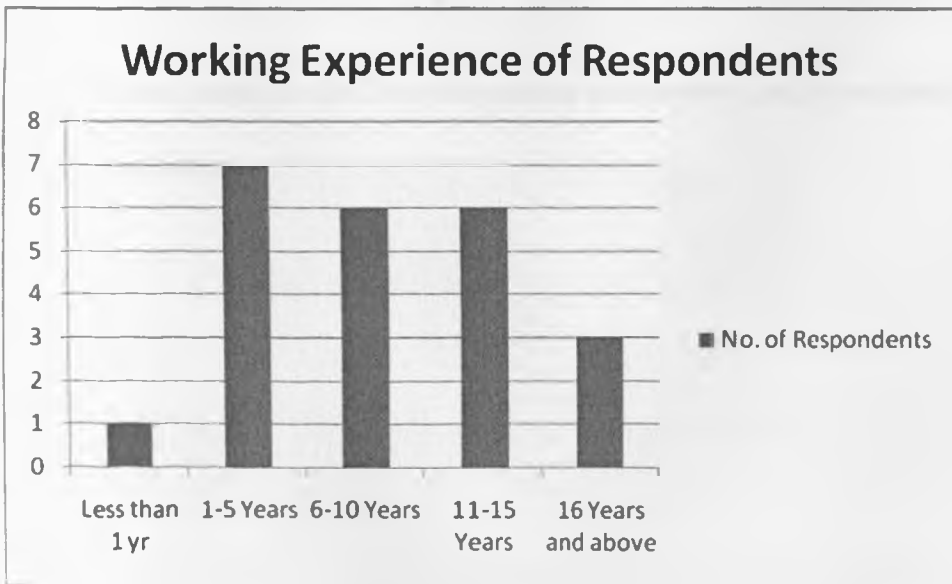


Table and figure 4.2.3 shows that most employees have worked for over 6 years of continuous service. The sum total of the years of experience of the respondents indicate they had quite sufficient experience in the job and they had vast knowledge in the banking business. Thus their responses are dependable and can be used to form an opinion.

### **4.3 Types of Competitive Strategies in Commercial Banks**

The findings of the study indicated that the different commercial banks have different competitive strategies ranging from provision of superior products and services, technological sophistication, institutional financial innovations , process innovations, product innovations, relevant knowledge and skills of employees and high quality of leadership skills.

#### **4.3.1 Product and Service Quality Standards in Commercial Banks**

The researcher sought to find out the product and service quality standards at the various commercial bank.

### 4.3.1 Product and Service Quality Standards in Commercial Banks

The researcher sought to find out the product and service quality standards at the various commercial bank.

**Table 4.3.1 Description of Product and Service Standards**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Describe the product standards at your bank	23	1	5	3.782609	0.951388
Describe service quality standards at your bank	23	2	5	3.869565	0.868873

From the above descriptive statistics table the findings of the study indicated that the product quality standards were averagely high (3.78) among the 23 commercial banks that were sampled. It was also found out that the service quality standards at the commercial banks were equally high (3.86). In comparison, the service quality standards were higher than the product quality standards. The standard deviation from the mean was 0.95 for product quality and 0.86 for service quality. This therefore, indicates that in both cases the position held was generally uniformly shared by a considerable number of the respondents.

### 4.3.2 Level of Technological Sophistication of Processes in Commercial Banks

The researcher sought to find out the level of technological sophistication of processes at the various commercial banks.

**Table 4.3.2 Level of Technological Sophistication of Processes in Commercial Banks**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Describe the level of technological sophistication of processes at your bank	23	2	5	3.565217	0.843482

The findings of the study as represented in table 4.3.2 indicated that the level of technological sphostication was moderate (3.57) with an average standard deviation of 0.84 indicating that the sampled respondets held a uniform view that technological sophistication was moderate tending to high sophistication in the commercial banks that were sampled.

### 4.3.3 The Extent of Financial Innovations in Commercial Banks

The researcher sought to find out the extent of financial innovations in commercial banks.

The investigation targeted institutional innovations, process innovations and product innovations

**Table 4.3.3 The Extent of Financial Innovations in Commercial Banks**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Describe the extent of institutional innovations at your bank	23	1	5	3.26087	0.751809
Describe the extent of Process Innovations at your bank	23	2	5	3.652174	0.934622
Describe the extent of Product Innovations at your bank	23	2	5	3.782609	1.042572

The findings of the study as presented in table 4.3.3 indicated that the extent of financial innovations were averagely moderate in all the sampled commercial banks. Product innovations had the highest score of 3.78 followed by process innovations at 3.65 while institutional innovations had a score of 3.26. Therefore, while process innovations and product innovations tended to be high the institutional innovations tended to be low. The standard deviation of the scores were 0.75 for institutional innovations, 0.93 for process

innovations and 1.04 for product innovations. This indicated that the respondents had a common view on the extent of institutional and process innovations while their opinion on product innovations was not uniform.

#### **4.3.4 The Level of Relevant Knowledge and Experience of Employees**

The researcher sought to find out level of relevant knowledge and experience of employees in commercial banks. The investigation targeted top managers, middle managers, line managers, clerical staff and support staff.

**Table 4.3.4 The Level of Relevant Knowledge and Experience of Employees**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Describe the level of relevant knowledge and experience of Top Managers at your bank:	23	3	5	4.434783	0.662371
Describe the level of relevant knowledge and experience of Middle Managers at your bank:	23	2	5	4.173913	0.777652
Describe the level of relevant knowledge and experience of Line Managers at your bank:	23	2	5	3.782609	0.795243
Describe the level of relevant knowledge and experience of Clerical Staff at your bank:	23	2	5	3.26087	0.864312
Describe the level of relevant knowledge and experience of Support Staff at your bank:	23	1	5	3.173913	0.984063

The findings of the study as presented in table 4.3.4 indicated that the level of relevant knowledge and experience was quite high (4.43) among the top managers and also significantly high (4.17) among the middle managers . The other cadres of employees had moderate level of relevant knowledge and experience ranging from 3.78 for line managers, 3.26 for clerical staff and 3.17 for the support staff. This indicated that in the sampled commercial banks, the level of knowledge and experience was highest at the top management level and lowest at the support staff level.

The standard deviations of the scores were 0.66 for top managers, 0.78 for middle managers, 0.80 for Line Managers, 0.86 for clerical staff and 0.98 for support staff. This indicated that the views of the respondents were uniform and the individual respondent's score did not vary much from the mean scores.

#### **4.3.5 The Quality of Leadership Skills of Employees**

The researcher sought to find out the quality of leadership skills of employees in commercial banks. The investigation targeted top managers, middle managers, line managers, clerical staff and support staff.



**Table 4.3.5 The Quality of Leadership Skills of Employees**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Describe the quality of leadership skills of Top Managers at your bank	23	3	5	4.173913	0.834058
Describe the quality of leadership skills of Middle Managers at your bank	23	2	5	3.73913	0.751809
Describe the quality of leadership skills of Line Managers at your bank	23	2	5	3.652174	0.647281
Describe the quality of leadership skills of Clerical Staff at your bank	23	1	5	2.956522	0.877924
Describe the quality of leadership skills of Support Staff at your bank	23	2	5	2.869565	0.814881

The findings as presented in table 4.3.5 indicated that the quality of leadership of top managers was significantly high (4.17). The middle managers and line managers had moderate quality of leadership skills that tended to be high at 3.73 and 3.65 respectively. The clerical staff and support staff had low quality of leadership skills that tended to be moderate at 2.96 and 2.87 respectively. The findings indicated that the quality of leadership skills of employees was highest among the top managers and lowest among the support staff.

The standard deviation of the scores were 0.83 for top managers, 0.75 for middle managers, 0.64 for line managers, 0.88 for clerical staff and 0.81 for support staff. This indicated that the views of the respondents were uniform and the individual respondent's score did not vary much from the mean scores.

#### **4.4 Competitive Advantages of Commercial Banks**

The findings of the study indicated that different commercial banks have attained competitive advantages emanating from high level of sales due to superior product and service quality, cost leadership due to technological sophistication in processes, superior knowledge, experience and leadership capabilities of employees.

##### **4.4.1 Impact of Product and Service Quality on Sales Volumes**

The researcher sought to find out the extent to which high product and service quality affects the level of sales at commercial banks.

**Table 4.4.1 Impact of Product and Service Quality on Sales Volumes**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
High Product quality standards affect the level of sales of the bank	23	3	5	4.434783	0.662371
High Service quality standards affect the level of sales of the bank	23	3	5	4.73913	0.540824

The findings of the study as presented in table 4.4.1 indicated that the respondents agreed that high product quality and high service quality were instrumental in affecting the level of sales of the sampled commercial banks. High product quality had a high approval (4.43) while high service quality had a higher approval (4.74). The standard deviations of the scores were low at 0.66 and 0.54 for product quality and service quality respectively. This indicated that the respondents had a uniform view that superior service and product quality standards resulted in competitive advantages of the sampled commercial banks.

#### 4.4.2 Role of Technological Sophistication of Processes in Saving Costs

The researcher sought to find out the extent to which technological sophistication enabled the commercial banks to save on costs.

**Table 4.4.2 Role of Technological Sophistication of Processes in Saving Costs**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Technological sophistication of processes enables the bank to save costs	23	3	5	4.478261	0.665348

The findings of the study as presented in table 4.4.2 indicated that the respondents agreed (4.48) that technological sophistication of processes enabled the commercial banks to save costs. The low standard deviation (0.66) indicated that the respondents held a uniform view on the role of technologically sophisticated processes in delivering competitive advantages to commercial banks through saving of costs.

### 4.4.3 Role of Employee Knowledge and Experience in Delivering Superior Products and Services

The researcher sought to find out the role of employee knowledge and experience in delivering superior products and services.

**Table 4.4.3 Role of Employee Knowledge and Experience in Delivering Superior Products and Services**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The level of Employee Knowledge	23	2	5	4.391304	0.783
The level of Employee Experience	23	3	5	4.434783	0.59

The findings of the study as presented in table 4.4.3 indicated that the respondents agreed that the level of knowledge and experience of employees played a role in delivering superior products and services. The level of knowledge had a high approval (4.39) and the level of employee experience had a slightly higher approval (4.43). This therefore indicated that the level of employee knowledge and experience were important contributors to the creation of competitive advantage through creation of superior products and services among the sampled commercial banks.

#### 4.4.4 Impact of Quality of Leadership in Responsiveness to External Environment

The researcher sought to find out the extent to which the quality of leadership determined the ability of the commercial banks to respond to the business environment.

**Table 4.4.4 Impact of Quality of Leadership in Responsiveness to External Environment**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The quality of Top Level leadership determines the ability of the bank to respond to the business environment:	23	3	5	4.782609	0.599736
The quality of Middle Level leadership determines the ability of the bank to respond to the business environment:	23	3	5	4.347826	0.647281
The quality of Low Level leadership determines the ability of the bank to respond to the business environment:	23	1	5	3.73913	1.053884

The findings of the study as presented in table 4.4.4 indicated that the respondents tended to strongly agree (4.78) that the quality of top level leadership affected the ability of the

commercial banks to respond to the external business environment. The findings also indicated that the respondents agreed (4.34) that the leadership quality of middle manager's determined the ability of the commercial banks to respond to the business environment. Lastly, the respondents tended to agree (3.73) that the leadership quality of low level managers determined the ability of the commercial banks to respond to the business environment.

The standard deviations were 0.60, 0.65 and 1.05 for quality of top level leadership, middle level leadership and low level leadership respectively. This indicated that the respondents had a fairly uniform view that leadership quality was a source of competitive advantage through responsiveness to the external business environment of the sampled commercial banks.

#### **4.5 Priority in Addressing Competitive Strategies of Commercial Banks**

The researcher sought to find out the priority with which various competitive strategies should be addressed in by commercial banks in Kenya.

**Table 4.5 Priority in Addressing Competitive Strategies of Commercial Banks**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Describe the level of priority to be given to Service and Product Quality	23	3	5	4.695652	0.558796
Describe the level of priority to be given to Technology and Innovations	23	3	5	4.478261	0.593109
Describe the level of priority to be given to Human Resources	23	3	5	4.434783	0.589768
Describe the level of priority to be given to Leadership Skills	23	3	5	4.565217	0.662371

The findings as presented in table 4.5 indicated that the respondents held the view that service and product quality needed to be addressed as a matter of very high priority (4.70) among the commercial banks in Kenya. Technology and Innovations was also identified to deserve a significantly high priority (4.48) among the sampled commercial banks. Human resources deserved an equally high priority (4.43) among the sampled commercial banks. Lastly, the leadership skills required to be addressed with a



significantly high priority (4.56) if the sampled commercial banks were to attain the desired competitive advantages.

#### **4.6 Current Level of Competition among Commercial Banks in Kenya**

Banking has become very competitive as banks try to tap to the unbanked and retain their customers with new products and services. The competition for business is very stiff with the top 6 banks who control over 75% of the business with the balance of 37 banks sharing out the remaining market share. Bigger banks have sophisticated technology while medium and small banks have less sophisticated technology. Small banks offer high interest in order to attract customers from the bigger banks. Competition has become cut throat with everyone chasing after the SME clientele and its expected to get even tougher as the financial markets become more liberalized. Competition has seen the banks become more innovative and lower the cost of products which is good for a growing economy. The winners are those commercial banks who maintain emotional bonds with their clients: Customer experience is very critical.

There is also very stiff competition between banks and other deposit taking micro finance institutions. Commercial banks will therefore remain competitive through technological edge, innovation and quality service delivery. Product innovation as well as quality of services offered is also a determining factor. Banks that have superior customer service quality and meets the changing customer needs are able to have an edge.

## **4.7 Discussion of Results**

The following paragraphs discuss the findings of the study in relation to empirical studies and their linkage to the established theories in the field of Strategic Management.

### **4.7.1 Relationship to Empirical Studies**

Several studies have been conducted to establish the competitive strategy practices of various organizations in Kenya. Matilu (2010) conducted a survey of the competitive strategy practices adopted by insurance companies in Kenya and found out that most insurance companies are embroiled in pricing wars. This study also established that the prices of products and services is a basis upon which commercial banks seek to attain a competitive advantage over its competitors. Kimari (2010) investigated the sources of a sustainable competitive advantage in the Kenyan mobile telephony sector and found out that a wider product range and network coverage were key in ensuring competitive advantage of the players in the sector. This study also established that superior products and higher market share were key in ensuring competitive advantage for commercial banks in Kenya. Wasike (2011) conducted a more entity specific study on the competitive strategies adopted by Barclays Bank of Kenya in response to industry competition and found out that robust marketing of the financial innovations in the Small and Medium Enterprises segment assured the bank of its sustained earnings. This study reported similar findings through establishment of the fact that innovations in products, processes and institutions were key in assuring commercial banks of a competitive advantage in their respective market niches.

## 4.7.2 Linkage of the Findings to Theory

Porter (1980) holds that there are two basic types of competitive advantages a firm can possess: low cost or differentiation. The two basic types of competitive advantage lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The findings of the study confirmed that the competitive strategies of the commercial banks oscillated around cost leadership in product and services, differentiation of products and services through provision of superior quality and different customer experiences and focus on their respective customer segments in a bid to expand customer and market shareholdings.

Congden (2005) contends that the roles of leadership in attaining competitive advantage include; teaching while learning, enforcing strategic consistency, oversight of the process and focus on key questions: Do market characteristics justify the need to invest in a project and is the project technically feasible and easy to implement?. The findings of the study indicated that the ability of leaders to respond to external business environment cannot be overemphasized. It also ascertained that the leadership quality, the level of knowledge and experience of the top managers, middle managers, line managers, clerical staff and support staff is critical if any organization is to attain competitive advantage and sustain it in a dynamic business environment.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter provides the summary of the findings from chapter four and also gives the conclusions and recommendations of the study based on the objectives of the study which included establishing the factors that influence competitive advantages among commercial banks in Kenya and determining the advantages such factors provide to the various commercial banks in Kenya.

## 5.2 Summary of the findings

The findings indicated product quality standards were averagely high (3.78) among the 23 commercial banks that were sampled. It was also found out that the service quality standards at the commercial banks were equally high (3.86). In comparison, the service quality standards were higher than the product quality standards. The level of technological sophistication was moderate (3.57) while the extent of financial innovations were averagely moderate in all the sampled commercial banks: Product innovations had the highest score of 3.78 followed by process innovations at 3.65 while institutional innovations had a score of 3.26.

The quality of leadership of top managers was significantly high (4.17). The middle managers and line managers had moderate quality of leadership skills that tended to be high at 3.73 and 3.65 respectively. The clerical staff and support staff had low quality of

leadership skills that tended to be moderate at 2.96 and 2.87 respectively. The respondents also agreed that high product quality and high service quality were instrumental in affecting the level of sales and therefore, product quality had a high approval (4.43) while high service quality had a higher approval (4.74).

The respondents agreed (4.48) that technological sophistication of processes enabled the commercial banks to save costs and that the level of knowledge and experience of employees played a role in delivering superior products and services. The level of knowledge had a high approval (4.39) while the level of employee experience had a slightly higher approval (4.43)

The respondents tended to strongly agree (4.78) that the quality of top level leadership affected the ability of the commercial banks to respond to the external business environment. The findings also indicated that the respondents agreed (4.34) that the leadership quality of middle manager's determined the ability of the commercial banks to respond to the business environment. Lastly, the respondents tended to agree (3.73) that the leadership quality of low level managers also determined the ability of the commercial banks to respond to the business environment.

The respondents held the view that service and product quality needed to be addressed as a matter of very high priority (4.70) among the commercial banks in Kenya. Technology and Innovations was also identified to deserve a significantly high priority (4.48) among the sampled commercial banks. Human resources deserved an equally high priority (4.43). Lastly, the leadership skills of employees in the sampled commercial banks required to be addressed with a significantly high priority (4.56).

### 5.3 Conclusions

The researcher concluded that superior product and service quality was one of the main competitive strategies of the commercial banks. All the banks aimed at differentiating their products from those of the competitors through delivery of differentiated value propositions and customer experiences. Technological advancements was another competitive strategy targeted by commercial banks. This was reflected in product innovations, process innovations and institutional innovations ranging from new types of accounts, new money remittance processes and strategic and functional alliances with financial market institutions respectively. The superior product and service quality, technological advancements and financial innovations were the main drivers of increased sales and market share of the sampled commercial banks.

The quality of leadership skills among the top managers is a key competitive strategy among the commercial banks in Kenya. The top managers are appointed on the basis of relevant knowledge , skills and experience in their repective areas of specialization. Development of leadership capabilities of middle managers, line managers and other staff is also emphasized in order to maintain a continuous supply of capable human resources within the organization.

Technological investments is another area that has received much attention from commercial banks in Kenya. The technological platforms range from mobile banking, internet banking, online trading and real time money transfer processes. The technological advancements cut across the banking industry in Kenya and almost all

banks are never left behind. However, the dominant commercial banks possess first mover advantages due to their heavy and consistent investments in technological assets.

The main competitive advantages of the commercial banks emanate from superior products and services through cost differentiation and varied customer experiences. Other competitive advantages are derived from technological assets through product, process and institutional innovations. Lastly, the commercial banks also create a competitive advantage through investment in their human resources through enhancement of leadership capabilities, creativity and technical know how.

#### **5.4 Recommendations for Policy and Practice**

The researcher made the following recommendations in a bid to ensure sustained competitive advantages among commercial banks in Kenya.

First, there is need for commercial banks to come up with policies that will ensure that their products and services are of uncompromised quality by adhering to laid down standards and regulations from the Central Bank of Kenya. By so doing, the commercial banks will minimise customer complaints and possible litigations that might dent their public image.

Second, the commercial banks need to come up with policies that guide their technological investments. This will ensure that they do not invest in technological assets that might end up being obsolete before delivering the envisioned benefits. In addition, there is need to invest in robust and aggressive research and development functions so that the commercial banks are in tandem with the changes in the business environment mostly in terms of technological developments.

Third, the commercial banks need to develop policies that would ensure that their human resources are continuously improved through training and exposure to more challenging situations. This would be achieved through institution of relevant training programmes, sponsorship of employees to access higher education in colleges and other academic institutions and rotation of employees within the various functions of the banks in a bid to create all rounded workers who understand the various aspects of commercial banking.

The researcher also recommends that the regulator, Central Bank of Kenya, institutes tougher measures to deter commercial banks from arbitrary increment of interest rates, commissions and fees for products and services. This would ensure a fair playing ground for all commercial banks and benefit the consumers. Though price controls may not be feasible, policy guidelines that might introduce price ceilings and formulae for fixing fair prices might achieve the same goal.

Lastly, the Central Bank of Kenya should continue with its supervision of commercial banks and tighten the regulatory environment to guard against failure of any financial institution to ensure stability of the financial sector in Kenya which is highly dominated by commercial banks.

### **5.5 Limitations of the study**

The study, having adopted a descriptive survey design, makes it easy to generalise the findings to all commercial banks in Kenya. However, commercial banks are not the only players in the financial sector and therefore there is need for a similar study that would target other financial institutions like insurance companies, investment banks, micro finance institutions, cooperative societies and investment groups.



The study was further limited by the fact that the researcher only administered questionnaires to top functional heads and departmental heads of the commercial banks. Therefore only the managerial perspective informed the findings of the study while the perspective of junior employees was not factored.

### **5.6 Suggestions for Further Study**

The researcher suggests that a study whose respondents include junior staff be carried out to provide great insight in their perception of the factors affecting competitive advantages among commercial banks in Kenya. Another area that would require attention is the establishment of a competitive strategy implementation model that ensures that any commercial bank or business organization has a clear and measurable mechanism of implementing its competitive strategies. The model will guide the commercial banks in balancing their investments and measuring the returns while at the same time ensuring that each commercial bank is abreast with environmental changes.

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## APPENDICES

### APPENDIX I: LIST OF COMMERCIAL BANKS & THEIR MARKET SHARE IN GROSS ASSETS

Rank	BANK	% Gross Assets
	<b>6 LARGE BANKS &gt;5%</b>	
1	Kenya Commercial Bank Ltd	14.2%
2	Equity Bank Ltd	8.6%
3	Co-operative Bank of Kenya Ltd	8.5%
4	Barclays Bank of Kenya Ltd	8.4%
5	Standard Chartered Bank Kenya Ltd	7.9%
6	CFC Stanbic Bank Kenya Ltd	6.7%
	<b>14 MEDIUM BANKS (1-5)%</b>	
7	Commercial Bank of Africa Ltd	4.1%
8	I & M Bank Ltd	3.8%
9	Diamond Trust Bank Kenya Ltd	3.7%
10	NIC Bank Ltd	3.6%
11	Citibank.N.A. Kenya	3.5%
12	National Bank of Kenya Ltd	3.5%
13	Chase Bank Ltd	1.9%
14	Bank of Africa Kenya Ltd	1.8%
15	Bank of Baroda Kenya Ltd	1.8%
16	Prime Bank Ltd	1.7%
17	Ecobank Kenya Ltd	1.4%
18	Family Bank Ltd	1.3%
19	Imperial Bank Ltd	1.3%
20	Bank of India Ltd	1.1%

	<b>23 SMALL BANKS &lt;1%</b>	
21	<b>Consolidated Bank of Kenya</b>	<b>0.8%</b>
22	<b>Fina Bank Ltd</b>	<b>0.7%</b>
23	<b>Gulf African Bank Ltd</b>	<b>0.6%</b>
24	<b>African Banking Corporation Ltd</b>	<b>0.6%</b>
25	<b>Equatorial Commercial Bank Ltd</b>	<b>0.6%</b>
26	<b>Giro Commercial Bank Ltd</b>	<b>0.6%</b>
27	<b>Development Bank of Kenya Ltd</b>	<b>0.6%</b>
28	<b>Fidelity Commercial Bank Ltd</b>	<b>0.5%</b>
29	<b>K-Rep Bank Ltd</b>	<b>0.5%</b>
30	<b>Guardian Bank Ltd</b>	<b>0.5%</b>
31	<b>First Community Bank Ltd</b>	<b>0.4%</b>
32	<b>Habib Bank A.G. Zurich</b>	<b>0.4%</b>
33	<b>Transnational Bank Ltd</b>	<b>0.4%</b>
34	<b>Victoria Commercial Bank Ltd</b>	<b>0.4%</b>
35	<b>Charterhouse Bank Ltd</b>	<b>0.3%</b>
36	<b>Habib Bank Ltd</b>	<b>0.3%</b>
37	<b>Credit Bank Ltd</b>	<b>0.3%</b>
38	<b>Paramount Universal Bank</b>	<b>0.3%</b>
39	<b>Oriental Commercial Bank</b>	<b>0.2%</b>
40	<b>Middle East Bank Kenya Ltd</b>	<b>0.2%</b>
41	<b>UBA Kenya Ltd</b>	<b>0.1%</b>
42	<b>Dubai Bank Ltd</b>	<b>0.1%</b>
43	<b>Jamii Bora Bank Ltd</b>	<b>0.1%</b>

Source: CBK



## **APPENDIX II: LETTER OF INTRODUCTION**

Catherine G. Gitonga

P.O. Box 431-00200

Nairobi.

Tel: 0722-337165

Dear Sir/Madam,

### **RE: LETTER OF INTRODUCTION**

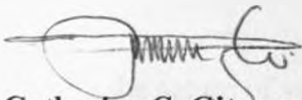
I am a student undertaking a degree of Master of Business Administration at the University of Nairobi. As a requirement to complete the program; I will need to submit a project report on a management problem. I would like to do a research project on the factors influencing Competitive Advantage among Commercial Banks in Kenya.

I do hereby request for your permission to fill a questionnaire towards the research.

The results will be used solely for academic purposes and a copy of the same will be availed to you on request.

Thank you.

**Yours faithfully,**



**Catherine G. Gitonga**

**MBA Student.**

**Supervisor,**

**University of Nairobi**

## APPENDIX III: QUESTIONNAIRE

### Instructions

Dear Sir/Madam,

You are kindly requested to answer all questions in this research study questionnaire. The information that you will provide shall be treated with a high level of confidentiality and strictly used for the purpose of this research study. This study aims at investigating factors influencing competitive advantage of commercial banks in Kenya.

NB: Please do not write your name anywhere on this questionnaire.

### PART A: GENERAL INFORMATION

Please tick appropriately where applicable in the spaces provided

1. State the nature of your commercial bank:

Type of Commercial Bank	
Local Commercial Bank	
Subsidiary of International Bank	

2. State the nature of your role in the organization structure?


Nature of Role	
Chief Executive Officer	
Functional Head	
Departmental Head	

3. What is your total working experience in the banking industry?

- 1. Less than 1yr ( )
- 2. 1-5 years ( )
- 3. 6-10 years ( )
- 4. 11-15 years ( )
- 5. 16 years and above ( )

**PART B: TYPES OF COMPETITIVE STRATEGIES.**

4. Describe the Product and Service quality standards at your bank:

- 1. Very Low   2. Low   3. Moderate   4. High   5. Very High**

	1	2	3	4	5
Product Quality Standards					
Service Quality Standards					

Comment.....

5. Describe the level of technological sophistication of processes at your bank:

**1. Very Low   2. Low   3. Moderate   4. High   5. Very High**

	1	2	3	4	5
Technological Sophistication					

Comment.....

6. Describe the extent of financial innovations at your bank:

**1. Very Low   2. Low   3. Moderate   4. High   5. Very High**

Type of Innovations	1	2	3	4	5
Institutional Innovations					
Process Innovations					
Product Innovations					

Comment.....

7. Describe the level of relevant knowledge and experience of employees at your bank:

**1. Very Low   2. Low   3. Moderate   4. High   5. Very High**

Employee Category	1	2	3	4	5
Top Managers					
Middle Managers					
Line Managers					
Clerical Staff					
Support Staff					

Comment.....

8. Describe the quality of leadership skills of employees at your bank:

1. Very Low   2. Low   3. Moderate   4. High   5. Very High

Employee Category	1	2	3	4	5
Top Managers					
Middle Managers					
Line Managers					
Clerical Staff					
Support Staff					

Comment.....

**PART C: Competitive Advantages that Emanate from Competitive Strategies**

9. Product and Service quality standards affect the level of sales of the bank:

1. Strongly Disagree   2. Disagree   3. Not sure   4. Agree   5. Strongly agree

	1	2	3	4	5
High Product Quality					
High Service Quality					

Comment.....

10. Technological sophistication of processes enables the bank to save costs:

1. Strongly Disagree   2. Disagree   3. Not sure   4. Agree   5. Strongly agree

	1	2	3	4	5
Technologically sophisticated processes					

Comment.....

11. The level of knowledge and experience of employees enables the bank to deliver superior products and services:

- 1. Strongly Disagree   2. Disagree   3. Not sure   4. Agree   5. Strongly agree**

	1	2	3	4	5
Employee Knowledge					
Employee Experience					

Comment.....

12. The quality of leadership determines the ability of the bank to respond to the business environment:

- 1. Strongly Disagree   2. Disagree   3. Not sure   4. Agree   5. Strongly agree**

	1	2	3	4	5
Top Level Leadership Quality					
Middle Level Leadership Quality					
Low Level Leadership Quality					

Comment.....

**PART D: COMMENTARY**

13. Describe the level of priority to be given to each of these competitive strategies in the Kenyan Banking Industry:

**1. Very Low   2. Low   3. Moderate   4. High   5. Very High**

<b>Competitive Strategy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Service and Product Quality					
Technology and Innovations					
Human Resources					
Leadership Skills					

Comment.....

14. Comment on the current level of competition in the Kenyan banking industry

.....  
.....

**END.**

**Thank you for the Response.**