THE VALUE CHAIN AND COMPETITIVE ADVANTAGE IN THE CORPORATE BANKING INDUSTRY IN KENYA: THE CASE OF CITIBANK KENYA

BY
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A Management Research Project Submitted In Partial Fulfillment Of The Requirements Of The Master Of Business Administration Degree.

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September 2006

DECLARATION

This research project is my original work and has not been submitted for a degree course in this or any other university.

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This project has been submitted for examination with my approval as a university supervisor

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DEDICATION

To my dad and mum and my entire family for the moral support. To my friends whose support was indeed invaluable.

ACKNOWLEDGEMENT

I would first and foremost thank the Almighty God for giving me the precious gift of life and strength to undertake this research

My heartfelt gratitude to all people who in their special way have made this study a success.

I would like to thank my supervisor Dr Martin Ogutu whose guidance and encouragement was indeed invaluable.

To my fellow colleagues, the managers for their response to my questions.

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ABSTRACT

The value chain framework is an approach for breaking down the sequence (chain) of business functions into the strategically relevant activities through which utility is added to products and services. Value chain analysis is undertaken in order to understand the behavior of costs and the sources of differentiation (Shank & Govindarajan, 1993). In the banking fraternity, differentiation is achieved by creating a perception among targeted customers that the services offered as a whole are unique in some important way, usually by being of higher quality. The appeal of differentiation is strong for banking institutions, for which image and the perception of quality are important. This perception allows the institution to charge higher service fees, and so to outperform the competition in revenues without reducing costs significantly.

To survive in today's highly competitive business environment, any organization must achieve, at least temporarily, a competitive advantage. A low cost/price strategy focuses on providing goods or services at a lower cost than the competition, or superior goods or services at an equal cost. In banking, it might be accomplished by limiting service offerings, by reducing the complexity of the service delivery process, or by limiting service support. This strategy requires as well a tight cost-control system, benefiting from economies of scale in production and experience curve effects.

CHAPTER ONE

INTRODUCTION

1.1 Background of study

The most important business goal of profit-oriented organizations is the realization of more income than their expenses and costs. In order to achieve this aim an organizational strategy is required, which will guide the company on the path to prosperity. A successful business strategy requires the development and maintenance of some form of sustainable relative competitive advantage. In addition to internal facts and figures, external information is also necessary for the decision-makers to gain up-to-date knowledge of market conditions, competitors and customer expectations. This externally oriented approach has been termed **value chain analysis.**

Value chain analysis supplies the financial information required to monitor existing strategies and provides the financial analysis to support the formulation of successful competitive strategies. It achieves this by focusing on the market prospects of existing products, their position in the product life cycle and the portfolio of products.

Citibank NA Kenya

Citibank commenced business on 15th August 1974 under the name "The First National Citibank of New York". This evolved globally to Citibank and Citibank Kenya is a branch of Citibank NA, New York. Citibank is a part of Citigroup, the pre-eminent financial services organization in the world formed in 1998 as a result of the merger between Citibank and the Travellers Group. Citigroup has operations in over 100 countries around the globe, with assets totaling to USD 1.1 trillion and 268,000 employees worldwide.

Citibank has two branches in Kenya. The head office is located at Citibank House in Upperhill, Nairobi. And the Mombasa branch located at Citibank House, Nkurumah Road Citibank Kenya is the head office of the Citibank East Africa organization, which covers Citibank branches in Kenya, Tanzania, Uganda and Zambia. This is a part of the larger South and East Africa cluster of Citibank headquartered in Johannesburg, South Africa.

Citibank Kenya is structured around Business segments, Product Groups, Operations and Technology and Staff Units. The Business segments that cater for our diverse customer base are the Corporate Bank responsible for our Global Relationship Banking and Top-Tier Local Corporate clients. It also has a Financial Institutions group that is responsible for businesses with Banks, Insurance companies and other non-bank financial institutions.

The primary goals of the organization are to encourage entrepreneurship and management initiative, move day-to-day decision making closer to customers and marketplace. Citibank has changed in response to customer needs and markets and they view their ability to anticipate and respond quickly and directly to changing markets as an important reason for success

1.1.1 The Value Chain

The value chain for any firm in any business is the linked set of value-creating activities all the way from basic raw material sources for component suppliers through to the ultimate end-use product delivered to the customer (Johnson and Scholes, 2002). According to Porter (1990), competitive advantage arises out of the way in which firms organize and perform these activities.

Considered in its general form the value chain of a corporate bank can take the shape described in figure below:

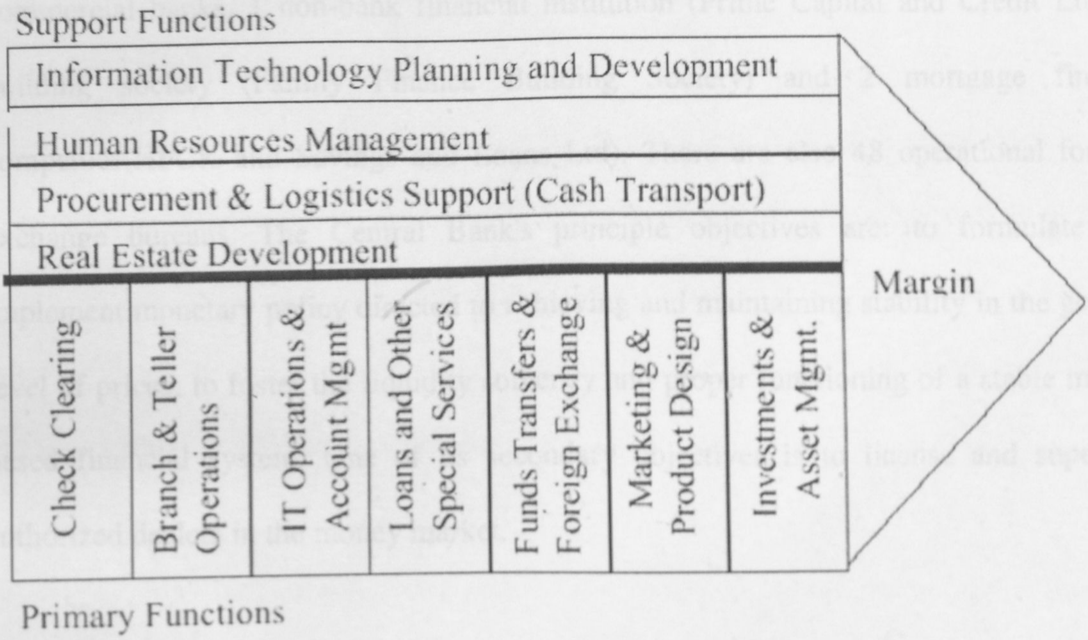

Figure: The Value Chain For A Large Corporate Bank

Customers purchase value, which they measure by comparing the products and services of a company with similar offerings of competitors. It was pointed out by Porter (1990), that to gain competitive advantage over rivals, a firm has two options:

To provide comparable buyer value but perform activities more efficiently than its competitors (lower cost).

To perform activities in a unique way that creates greater buyer value and allows a higher price (differentiation).

1.1.2 The Corporate Banking Sector in Kenya

Kenya's banking environment consists of a Central Bank - The Central Bank of Kenya 41 commercial banks, 1 non-bank financial institution (Prime Capital and Credit Ltd), 1 building society (Family Finance Building Society) and 2 mortgage finance companies(HFCK and Savings and Loans Ltd). There are also 48 operational foreign exchange bureaus. The Central Bank's principle objectives are: to formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices; to foster the liquidity solvency and proper functioning of a stable market based financial system. One of its secondary objectives is to license and supervise authorized dealers in the money market.

In Kenya the corporate banking business is becoming increasingly significant with most retail banks opening up to this business through their corporate divisions. Citibank in Kenya is the only fully corporate bank in Kenya. The Kenyan corporate banking industry has become increasingly competitive due to the following core factors. Firstly, the conversion of several non-bank institutions into fully fledged banks increasing the total number of banks in the country practicing corporate business. Secondly, the relative stability of the Kenyan Shilling after the last general election resulted in smaller foreign exchange spreads forcing banks to rely on core business activities to generate revenues. The key avenues that all banks are focusing on are: cash management, customer service, expanding branch network and investment in technology.

Current challenges for corporate banking in Kenya include stringent licensing requirements as set out in the Banking Act and the Central Bank's prudential guidelines on capital, asset quality, the management and board of directors, earnings and liquidity. Risk management policies and procedures have also been found to be inadequate, and assets and liabilities are mismatched.

There is a trend of non-compliance and it has been estimated that some 16% of the financial institutions are not complying with the Central Bank's requirements in terms of their liquidity ratios and minimum core capital. These financial institutions are now issued with provisional licenses for one year. Also, the Central Bank is laying penalties on these institutions for non-compliance.

Other challenges include a lack of corporate governance, a lack of focus on core business issues, and a lack of economies of scale. Switching between banks is another problem as is the low savings rate and a poverty level of 50 % .Kenya corporate banking sector in Kenya also has an inferior information and communications system with high operating expenses, and a high turnaround time to execute customer instructions.

This industry in Kenya is diversifying from interest-based to non-interest income. They are forming strategic alliances with other financial services providers such as insurance companies e.g. CFC bank with CFC Life for provision of insurance cover to corporate clientele. In addition, new products are introduced to the market and there is a new focus on the rural unbanked market. Kenya's corporate banking industry still has a way to go. However, new legislation, a new IT infrastructure and new strategic directions will strongly contribute towards its growth.

Lead By example is Citibank's maxim, and Citibank's relationship management is a good example of how well this is part of their ethos. Central to the success of relationship management is the unique combination of skill and experience.

Citibank's relationship managers are divided into units, each handling particular industries. The relationship managers within these units have a wealth of banking experience, coupled with both industry and company specific knowledge. They therefore grow with clients by providing the necessary structures and services required for the company to grow. This has proved successful and has resulted to the team.

Historically, banks and their clients in Kenya did not pay too much attention to the structuring of their banking needs and were happy with an overdraft from a bank physically close to the company, feeling this would fulfill their needs. However, in this day and age when internal costs can greatly affect a company's competitiveness, ensuring the correct banking structure, is key to success.

Citibank ensures that the partnership with a client extends to ensuring the client has the correct banking structure in place, which will meet the company's needs. The combination of these services is different for each company as they are based on each company's uniqueness. The Corporate Bank is organized into Global Relationship Banking, Top-Tier Local Corporate and Public Sector making it representative for this study.

1.2 The Research Problem

With the liberalization of the Kenyan economy, new firms have entered into the banking industry. The entry has also been intensified by increased entrepreneurial capacity as well as by the increased economic power of individuals. This has resulted into declining market share and profitability of existing firms. Customers on the other hand have found it difficult to make a choice on the firm to render them services. Customers according to Abrahamsen and Williams (2005), choose on the basis of certain criteria that would enable them discriminate one firm from the other.

In the long run interest of the banks, they must provide a basis on which to stand out in the market place and draw customers' attention as well as offer them an opportunity to try out their products and subsequently create repeat purchase and brand loyalty (Haarla, 2000). Product and service differentiation according to Kotler (2000) is a major way in which firms can improve their competitiveness in a crowded market place as they can draw customers towards their offers. Through differentiation, buyers can perceive a significant contrast between the products or services of one firm and those of the others (Cravlers, 2000).

The value chain activities being the core elements of determination of profitability do analyze relevant activities to determine the behavior of costs and maintain competitive advantage. Given the role played by banks in Kenya and their zeal to remain profitable, as well as grow and prosper there is the need of management to critically analyze value chain activities in order to eliminate unwanted costs for greater margin realization or differentiation for greater customer choice. It is not known however which value chain activities firms may capitalize on to reduce expenses proactively across board in a Kenyan market or create product differentiation for greater choice and ultimate competitive advantage.

The proposed study therefore seeks to fill the gap by providing answers to the following research questions.

What activities are referred to as the value chain in a corporate bank?

What are the value chain activities through which a corporate bank develops competitive advantage?

1.3 The Research Objectives

The objectives of the study are to

1.) Determine the activities that constitute the value chain of a corporate bank.

2) Determine the value chain activities through which a corporate bank develops competitive advantage.

CHAPTER TWO

LITERATURE REVIEW

2.1 Concept of The value Chain

The value chain was described and popularized by Michael Porter in his 1985 best seller, Competitive Advantage: Creating and Sustaining Superior Performance, New York, NY The Free Press. The value chain categorizes the generic value-adding activities of an organization. The "primary activities" include: inbound logistics, production, outbound logistics, sales and marketing, and maintenance. The "support activities" include: administrative infrastructure management, human resources management, Research and Development, and procurement. The costs and value drivers are identified for each value activity. The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tool for strategic planning. Its ultimate goal is to maximize value creation while minimizing costs.

The concept has been extended beyond individual organizations. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic actors, each managing its own value chain. According to Johnson and Scholes (2002), a good product could result from how a set of linked activities are performed from design, component manufacture, assembly process core and speed of distribution, storage, installation and after sales service. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Porter (1990) terms this larger interconnected system of value chains the "value system." A value system includes the value chains of a firm's supplier (and their suppliers all the way back), the firm itself, the firm distribution channels, and the firm's buyers.Capturing the value generated along the chain is the new approach taken by many management strategists. For example, a manufacturer might require its part suppliers to be located nearby its assembly plant to minimize the cost of transportation. By exploiting the upstream and downstream information flowing along the value chain, the firms may try to bypass the intermediaries creating new business models, or in other ways create improvements in its value system.

In most industries it is rare for a single organization to undertake in house all of the value activities from the product design through to the delivery of the final product or service to the final consumer. There is always specialization of role and any one organization is part of the wider value system (Johnson and Scholes, 2002)

2.2 Value Chain Activities

The value chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organization. The 'margin' depicted in the diagram is the same as added value. The organization is split into 'primary activities' and 'support activities'.

Beteman and Zeithaml (1990) acknowledge that corporate legitimacy often constraints the pursuit of competitive advantage which is linked to the way an organization executes its value activities. Corporations thus are legitimate to the extent that goods, purpose and methods are consistent with those of society.

2.2.1 Primary Activities

Inbound Logistics

These are activities that are concerned with receiving, storing and distributing the inputs from a company's suppliers to the product/service. They are stored until they are needed on the production/assembly line. In the banking industry they include check clearing, branch operations and teller operations. With regard to inbound logistics low cost is a fundamental basis for competitive advantage, according to Mintzberg and Quinn (1991) cost analysis is important in asset acquisition to rationalize the product mix and price correctly ensuring maximum returns realization.

Operations

This is where goods are manufactured or assembled. Individual operations could include account management, IT operations and loans. Generally operations have to be effective and efficient. Hofer (1986) concluded that for the optimal success of an organization there is need for both a strong operating and strategic position.

Outbound Logistics

Here goods are collected, stored and distributed to customers. For services this is majorly concerned with bringing the customer to the service if it is in a fixed location. Examples include funds transfer and foreign exchange in a corporate bank.

Marketing and Sales

In true customer orientated fashion, at this stage the organization prepares the offering to meet the needs of targeted customers. This area focuses strongly upon marketing communications and the promotions mix. It does provide a means whereby customers/users are made aware of product/service and are able to purchase it.

Henderson (1979) reckons that in marketing the product portfolio if well utilized realizes greater margins. In his publication On Corporate Strategy, 1976 pp 163-169 all products eventually become a 'cash cow' or a 'dog'. The value of a product is completely dependent upon obtaining a leading share of its market before the growth slows.

Service

This includes all areas of service such as installation, after-sales service, complaints handling and training .The activities herein do enhance or maintain value of a product or service. The characteristics of services of intangibility, inseparability, homogeneity and people influence require quality in order to satisfy the recipient. Crosby (1984) refers to quality as to conformance to requirements. The organization must first establish requirements and conform to them.

2.2.2 Support Activities

Procurement

This function is responsible for all purchasing of goods, services and materials. The aim is to secure the lowest possible price for purchases of the highest possible quality. They will be responsible for outsourcing and e Purchasing (using IT and web-based technologies to achieve procurement aims).Cash management is one example of procurement and logistic support within the banking fraternity. Johnson and Scholes (2002), affirm that procurement bodies being part of the wider value system do underpin excellence in creating best value in products.

Technology Development

Value activities do posses technology even if it is just mere know-how. Technology is an important source of competitive advantage. Companies need to innovate to reduce costs and to protect and sustain competitive advantage. This could include production technology, Internet marketing activities, lean service delivery, Customer Relationship Management (CRM), and many other technological developments.

Key technologies are majorly specific to a product, process or particular resource and this is fundamental to the innovative capacity of the organization. Winter (1990) argues that well managed technology can simultaneously deliver both low cost outputs and maximum personalization and customization for customers. In accomplishing this firms often obtain strategic advantage through focusing on the smallest activity or cost units that can be efficiently measured and replicated and then clones this across a wide geographical and application range

Human Resource Management (HRM)

Employees are an expensive and vital resource. An organization would manage recruitment and selection, training and development, and rewards and remuneration. The mission and objectives of the organization would be driving force behind the HRM strategy. Human resource formulate the organization character which entrenches the perspective influencing the way an organization develops new ideas, considers and weigh options, and respond to changes in its environment (Peter and Waterman, 1980).

Firm Infrastructure

Systems of planning, finance, quality control and information management are crucially important to an organization's performance in its primary activities. This activity includes and is driven by corporate or strategic planning. It includes the Management Information

System (MIS), and other mechanisms for planning and control such as the accounting department.

2.3 Competitive Advantage

According to Hill and Jones (2000), competitive advantage is the ability of a company to out-perform competitors within the same industry

Competitive advantage can also be defined as an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. (Johnson and Scholes, 2002)

Hill Jones (2001) observed that successful innovation could revolutionalize industry structure. He went further to state that one of the most common consequences of innovation has been to lower fixed costs of production thereby reducing barrier to entry and allowing new and smaller enterprises to compete with larger established operations. Following on from his work analyzing the competitive forces in an industry, Michael Porter (1980) suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of businesses' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The emerging critique of positioning during the 1990s led to the development of alternative views. These views form the basis of what has become known as the **resource-based approaches** that take a largely **inside-out approach** to the creation of sustainable competitive advantage which depends on; hard to imitate organizational capabilities based on business processes which distinguish a company from its competitors in the eyes of the customers (Stalk, 1992). It also depends on core competences based on skills and technologies – the collective learning of the organization (Prahalad & Hamel, 1990). Writing on the same Hall (1994), records that sustainable competitive advantage also depends on possession of capability differentials, which are fed from a feedstock of intangible resources. Further, depending on distinctive capabilities which are features of its relationships and which others lack or cannot easily reproduce Kay, (1995).

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry. Five forces notably Threat of new entrants, bargaining power of suppliers, bargaining power of buyers, Threat of substitutes and intensity of rivalry depict the state of competition in an industry (Porter, 1980).According to Hill and Jones (2002) the distinctive competences of an organization arise from two complementary sources; resources and capability. The durability of competitive advantage depends on barriers to imitation, capability of competitors and general dynamism of the industry environment.

Xavier and Strebel (1986, The handbook of Business Strategy) observed that superior profitability requires either higher perceived value or low delivered cost than the competition. This is achieved either through superior performance in at least on of the business-system activities, or through a creative and innovative combination of several activities which form the basis of all successful strategies.

Two observations however suggest that this range of possible competition formula is not very wide. Firstly the internal logic to each business system. The balance between perceived value and delivered cost cannot be established for one activity independently of others. Secondly high-perceived value and low delivered cost constitute only possible generic competitive moves. There are only variations around these two main themes, as allowed by the expectations of different market segments. Strategic advantages are obtained by combining them in a sequence, preferably in a way that prepares the implementation of other at a later time. According to Porter (1985) the fundamental basis of above average performance in the long run is sustainable competitive advantage.

Strategy - Differentiation

This strategy involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a **premium price** for the product often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. A firm that can achieve and sustain differentiation will be an above average performer in its industry if its price premium exceeds the extra cost incurred in being unique (Porter, 1985).

Strategy - Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry. Many market segments in the industry are supplied with the emphasis placed on minimizing costs. If the achieved selling price can at least equal or near the average for the market, then the lowest-cost producer will enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Strategy - Differentiation Focus

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a **valid basis for differentiation** - and that existing competitor products are not meeting those needs and wants.

Strategy - Cost Focus

Here a business seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's". Variants of focus in the endeavor to seek low cost advantage rests in the focuser's target segment and other segments in the industry

2.4 The Value Chain and Competitive Advantage

To better understand the activities through which a firm develops a competitive advantage and create shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the value chain. Competitive advantage stems from many discrete activities that a firm performs. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation (Porter, 1985).

The firms' margin or profit depends on its effectiveness in performing activities efficiently, so that the amount that the customer is willing to pay for the products exceeds the cost of the activities in the value chain. It is in these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower costs or better differentiation. Mckinsey and others capture the idea that a firm is a series of functions and that analyzing how each is performed relative to competitors can provide useful insights.

The value chain model can be used to define a firm's core competency and the activities in which it can pursue a competitive advantage through cost advantage and differentiation. What activities a business undertakes is directly linked to achieving competitive advantage. For example, a business which wishes to outperform its competitors through **differentiating** itself through higher quality will have to perform its value chain activities better than the opposition. By contrast, a strategy based on seeking **cost leadership** will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

The Value chain and Cost Advantage.

A firm may create cost advantage through reduction of costs of individual value chain activities or reconfiguring the value chain as a whole. A cost analysis assigning costs to value chain activities can be performed and reallocated properly to value creating activities. Michael Porter identified some drivers of cost related to the value chain activities. These include; Capacity utilization, linkages among activities, geographical location, economies of scale, timing of market entry, Interrelationships among business units.

A firm will develop cost advantage by controlling these drivers better than its competitors. This can also be achieved through reconfiguration of the value activities notably structural changes like new production, different sales approach, and different distribution channels.

The Value Chain and Differentiation

Differentiation advantage can arise from any part of the value chain. This stems from uniqueness that creates uniqueness in the final product/service offered to the consumer. Many drivers of differentiation also serve as cost drivers resulting in a trade off between costs and differentiation.

Porter identified several drivers of differentiation. These Include; Policies of organization, linkages among activities, location and Integration. A firm can also reconfigure its value chain in several ways to create uniqueness .It can backward integrate to have control over its inputs. It may implement new process technologies or utilize new distribution channels. Ultimately, the firm may need to be creative in order to develop a novel value chain configuration that increases product differentiation.

Sustainable Competitive Advantage

The benchmark of profitability is a company's cost of capital. To consistently make profits in excess of its cost of capital a company must poses some form of sustainable competitive advantage. Competitive advantage is achieved by an organization when it has value creating processes and positions that cannot be duplicated or imitated by other firms that lead to the production of above normal economic rents. Durability of competitive advantage depends on barriers to imitation, capability of competitors and general dynamism of the industry environment (Hill and Jones, 2001).

Competitive advantage is a position a firm attains that lead to superior financial performance. The processes and positions that engender such a position are not necessarily non-duplicable or inimitable. It is possible for some companies to temporarily make profits above the cost of capital without sustainable competitive advantage. A key difference between competitive advantage and sustainable competitive advantage is that the processes and positions a firm may hold are non-duplicable and inimitable when a firm possesses a sustainable competitive. Hence a sustainable competitive advantage is one that can be maintained for a significant amount of time even in the presence of competition (Porter, 1985).

Analysis of factors of profitability is the subject of numerous theories of strategy including the five forces model pioneered by Porter. In marketing and strategic management, sustainable competitive advantage is an advantage that one firm has relative to competing firms. The source of the advantage can be something the company does that is distinctive and difficult to replicate, also known as core competency.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This is a qualitative research constituting of a descriptive case study intended to establish the activities that constitute the value chain activities of a bank and the extent to which banks in Kenya can use these activities to develop competitive advantage. This will involve an in-depth, longitudinal examination of a single instance; Citibank Kenya in this case. According to Donald and Pamela (1998), a study concerned with finding out whom, what, which and how of a phenomenon is a descriptive design. This study is mapped on a similar concern. Kandie (2001), and Koigi (2002), have used the descriptive design in related studies.

3.2 Data Collection Method

The primary data will be collected using a semi-structured questionnaire (see appendix 2) .Self introduction to the respondents on the issue of concern will be made through an introductory letter (see appendix 1). The respondents will be persons that make strategic decision in the bank for example operations head, financial institutions head, sales and treasury head, financial control head. Only one to two persons per department preferably the unit heads will be required to complete the questionnaire. Drop and pick later method will be used to administer the questionnaire. Follow up will be done via personal visits, telephone calls or e-mail to facilitate responses and also enhance the response rate.

The questionnaire has been divided into 3 parts. Part 1 contains questions on the general information of the respondent.

Part 11 contains questions on a likert scale aimed at determining the extent to which value chain activities have been adopted for differentiation strategies in respect to product differentiation, services differentiation, personnel differentiation. Channel differentiation and image differentiation. Part 111 will focus on specifically which value chain activities significantly create profitability and enhance shareholder value. Secondary data will also be collected through company journals, newsletters and magazines.

3.3 Data Analysis

Descriptive statistics will be used to analyze data. Data in part II of the questionnaire will be analyzed using mean score and standard deviation to determine the extent of practice of various activities within the value chain of the corporate banking industry. Data in part III will be analyzed using content analysis will be used to determine the key value chain activities, which create competitive advantage within the industry.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

Introduction

The following is a presentation of the data analysis and findings obtained from fieldwork. This chapter will focus dominantly on the study results. The results are presented in order of the study objectives. The first part of these findings represents data on the value chain activities of a corporate bank. The second part present data on value chain activities and competitive advantage within the corporate banking industry.

4.1 Corporate Banking value chain Activities

In order to determine the value chain activities within the corporate bank data was collected using a 5-point rating scale to uncover unbiased answers that can lead to actionable results where 1='Not At All' and 5='Very Large Extent'. In this research response was obtained from 18 respondents representing a population of 130 employees. This sample captured individuals in managerial, supervisory and non-management positions. To analyze this data mean scores were used. The higher the mean score the greater the extent of emphasis that was given to the activity in the value chain within the corporate banking sector. The results are shown in Table 2.

Table 1: Extent of Activities in Corporate Banking Operations

Activities	Mean	Standard Deviation
Ensure that logistics of inputs for service delivery are awarded on a competitive bid.	4.00	1.9983
Ensure that inputs for branch operations are above reproach in terms of features and technology	4.38	2.1609
Educate the customers on the full scope of product features and confirm their appreciation.	4.33	2.0105
Provide a range of differently price quality levels of products and services.	4.22	1.8151
Conduct checks to ensure that all operations conforms to required procedures	4.72	2.8974
Conduct checks to ensure that any flaws in processes are addressed and corrective actions put in place.	4.55	2.4340
Adequate number of fully skilled staff in all departments	4.05	1.8584
Ability of operations staff to resolve issues that may arise causing possible customer dissatisfaction.	4.33	2.2585
Ability of staff to meet target goals and achieve required deliverables.	4.27	2.3604

Table 1: Continued

Activities	Mean	Standard Deviation
Seek to understand customers emotional response to the style and mode of service delivery.	3.72	1.7087
Seek to know customer's satisfaction on service delivery time frames	4.33	2.0105
To what extent do you roll out any new products that you may have to the market	3.83	1.5212
Scrutinize requirement of your target market	3.83	1.3345
How realistic are your sales/revenue targets	3.55	1.7680
Resolution of customer queries	4.55	2.4340
Provision of prompt service to customers.	4.61	2.5054
Practice of relationship management	4.77	2.9577
Employee empowerment enhancing service delivery.	4.05	1.8584
Training customers on full functionality of products they purchase.	4.11	2.0395
Advising, customers on the introduction of new products and services.	4.33	2.2585
Upgrade your processes on the basis of improved technology.	4.50	2.4097
Advising customers on full range and extent of your firm's products and service.	4.44	2.2058

Table 1: Continued

Activities	Mean	Standard Deviation
Outsource functions not core to your business	3.94	1.7680
Secure lowest possible prices for input purchases of the highest quality	3.83	1.7272
Innovate in terms of technology	4.83	3.1689
Technology ease delivery of services to customers.	4.72	2.7729
Reward and remunerate your employees on an equitable basis.	3.70	1.8373
Recognize superior performance	4.27	1.8584
Review the strength and weaknesses of your staff periodically.	3.88	2.0395
Willingness to help customers.	4.27	1.9207
Caring and understanding by staff when dealing with customers.	4.33	1.5370
Price your products with regard to the customers' purchasing power and product differentiability.	3.72	1.6576
Training staff in customer service.	4.05	1.7100
Carrying out regular surveys to identify employee needs.	4.00	1.7609
Willingness and promptness in solving complaints.	4.11	1.6576

Table 1: Continued

Activities	Mean	Standard Deviation
Carrying out regular surveys to identify employee needs	4.23	2.3604
Segregate your market to identify target customers.	4.27	2.0105
Seeking customer perception on the view that the firm is competent in corporate banking services delivery.	4.33	2.2058
Monitoring compliance to service level delivery as agreed with customers.	4.44	1.8584
To what extent is your firm structured to ensure service delivery is optimal.	4.22	2.2585
Agree service level delivery with customers.	4.16	1.5555
Developing a customer oriented culture	4.05	1.4955
Conduct survey to identify customer needs.	4.00	1.9687
Setup customer service desk and monitor performance.	4.29	2.2640
Caring and individualized customer attention for large customers	4.52	1.9324
Setting a price premium for distinctive services.	4.23	2.5250
Attach importance to the distinctiveness of the company brand or symbol.	4.58	1.6958
Communicate company vision and mission to staff.	4.12	1.8584

Table 1: Continued

Activities	Mean	Standard Deviation
Attract best employees in job market	4.22	1.2914
Attach great importance to the choice of advertising media used.	3.29	1.3421
Importance attached to having an advertising strategy and budget.	3.00	1.4775
Use of public relations.	3.41	1.8030
Safety and appearance of firm facilities and equipment.	4.24	1.5495
Perception of customers about attractiveness of offices and safety of surrounding areas.	4.06	2.0658
Office locations project a good image for the firm.	4.18	1.8924
The firm sponsors specific events.	3.91	2.0002
Attach importance that a large number of customers associate with events sponsored by firm.	3.53	2.3981
Project an excellent ethical stand by the firm	4.59	2.3684

Table 1 shows most of the activities sited constitute of the value chain activities within the corporate banking industry. More important value chain activities although could be reflected by activities of a mean score of 4.5 and above. From table 1 these include; conducting checks to ensure that all operations conforms to required procedures (4.72), practice of relationship management (4.77), Innovation in terms of technology (4.83), etc

4.2 Value chain activities and Competitive Advantage

The second objective sought to the value chain activities that create competitive advantage within the corporate banking industry. Data to determine this was collected through an open-ended question that read 'Please indicate any six activities performed by your organization that you think make your bank the number one choice within the Kenyan market'

This question sought to determine the respondents' perception towards what they felt contributed much more towards competitive advantage. The results were analyzed through content analysis which captured the most recurrent responses from different people. This has been tabulated in percentages. The higher the percentage the higher the competitive advantage inherent in the activity. A total of eighteen responses was sampled and the percentage scores .The results are presented in Table 2.

Table 2: Value Chain Activities and Competitive Advantage

Key subject for Competitive Advantage	Word Frequency	Percentage n=18
Competitive products and services	2	11
Corporate social responsibility	2	11
Choice of best employees in the market	5	28
Innovative technology and efficient operations	12	67
Effective training of employees	1	6
Global presence	2	11
Increased advertising , customer awareness and focus	4	22
Seek to know customer satisfaction levels	10	56
Regular survey to identify employee needs	8	44
Relationship management	1	6
Effective process control measures	3	17
Excellent ethical stand by the firm	1	6
Clearly defined processes and procedures or functions	2	11
Reward and recognition for exemplary work	2	11
Focus only on corporate banking with clear target market	2	11
Product differentiation	5	28
Ensure resolution of customer queries	1	6
Pricing strategies	1	6
Focus on long term goals of organization	1	6

As Table 2 shows we can deduce that some chain activities are perceived to create competitive advantage to a larger extent than others. From the findings it is evident that innovative technology and operations (67%), endeavor to know customer satisfaction levels (56%) and regular survey to identify employee needs (44%) contribute to a large extent in competitive advantage.

CHAPTER FIVE
CONCLUSION

Introduction

These chapters present a summary of results, discussion of results and conclusion drawn on the results. Also presented are limitations of the study, recommendations for further research and recommendations for policy and practice.

5.1 Summary, Discussions and Conclusions

The first objective of this research sought to determine the activities that constituted value chain activities within the corporate banking industry. The results show that most activities are important to the value chain within the corporate banking industry but some appear to be critical. These include checks on conformity to procedures, resolution of customer queries, relationship management, improved technology and individualized customer care.

From the forgoing observations the following conclusion may be drawn. In the corporate banking industry as stipulated by research findings value chain activities and how they are performed do create value to customers who are the main focus of any business. The use of adequate training to staff to ensure hands on knowledge is attained for the smooth running of bank operations is vital this is captured by a mean of 4.05 in Table1.

Generally operations should be conducted in an efficient and effective manner. This culminates to all possible day-to-day activities that may affect the general process towards service delivery. Noted examples include account services operations, Funds transfer, foreign Exchange, Loans processing, Trade processing and controls.

In a service industry the major concern is to bring the customer to the service if it is in a fixed location like in banks. Services are intangible and customers will more often than not depend on perception to make choices between alternatives. The mode of presentation of loan advancements, online banking facilities, current account holdings is in a manner likely to create repeat purchase behavior by the target market as evident by the quest to know the customers' satisfaction levels in the findings above.

Marketing and sales within the corporate banking industry prepares the offering to meet the needs of targeted customers. This focuses strongly upon marketing communications and the promotions mix. The elements of price, product, place and promotion are quite vital. For good performance this should entail customer sensitization, determination of customer satisfaction levels, full extent of new products rollout into the market, and to a very large extent the practice of relationship marketing.

After-sales service, complaints handling and training herein do enhance or maintain value of a product or service. Services being intangible, inseparable, homogeneous and of people influence require quality in order to satisfy the recipient. This quality can only be realized if one conforms to the desires of the target recipient. Prompt resolution of customer queries, willingness to help customers understand products, monitoring of complaints and putting preventive measures towards avoiding recurrence appear to be key in order to attain customer satisfaction.

For efficiency within the corporate banking industry outsourcing of non-core business activities is necessary to ensure more time is allocate towards the main goals of the business. Cash management is one example of procurement and logistic support within the banking fraternity; others include catering services, documentary storage, security services, teller services, which could be, outsource to security firms in charge of bulk cash transit.

Key technologies are majorly specific to a product, process or particular resource and this is fundamental to the innovative capacity of the corporate banking industry. Through technology companies will reduce costs, protect and sustain competitive advantage. The turbulence within the technological development also needs to be considered. Here activities include upgrading of systems to ensure improved technology, continuous innovation, and continuous modifications to ensure delivery to customers

For any successful business venture employees are an expensive and vital resource. The management of recruitment and selection, training and development, and rewards and remuneration should be driving force behind the human resource management strategy. Competence within employees is vital and corporate banks should strive to achieve this .In essence this help minimize process flaw due to lack of understanding, increase ability to meet target goals and enhances service delivery targets

Systems of organization reference to planning, finance, quality control and information management are crucially important to an organization's performance in its primary activities. An executable structure in essence would necessitate optimal service delivery and put checks into possible losses. Activities here in a corporate bank include: reporting structures, compliance and internal control measures, and quality assurance.

The second objective sought to determine the value chain activities that create competitive advantage .The results show that most chain activities help create competitive advantage but others are more critical. Through this research the findings show that technology and innovation, human resource management and customer focus are more critical in competitive advantage within the corporate banking industry.

Technology and innovation

Technology suffices as key in competitive advantage within the corporate banking industry as depicted by a score of 66.66% in Table 2 findings above. This factor though has limitations which have to be put into consideration

Two critical shifts must take place in order to realize significant return on investment: a shared vision, a client focus and a proactive mindset.

A shared vision - The firm must first to share its vision of where it is going with all levels of staff. That vision will give purpose and substance to the question asking, "Why are we investing in this, and what does it mean to the client and the firm?" Once this buy-in is established, the firm has a good opportunity to establish some standardized work processes that ultimately will improve utilization and cross training of staff members.

A proactive mindset - Technology personnel at services firms must be freed to move away from being reactive and toward being proactive. They must be rewarded for aligning the firm's technology investments with its business strategy. They need to be encouraged to have the perspective that technology is a means to leverage their business initiatives and to manage their critical assets: time, people and money. And they must appreciate the need to drive as a means of controlling overhead costs, leveraging resources and providing quantifiable return on investment.

Human Resource management

The benefit an organization realizes from human capital investment is directly proportional to the quality of its human resource strategy, processes and overall management. For our purposes, human capital is defined as individual, as well as collective, skills, talents, and capabilities. The outcomes of an organization's human resource processes are critical capabilities, like enhanced leadership, managerial competency, employee efficiency and proficiency, and workforce collaboration. Human resource management can be a major change agent, but must have a strategic vision and an understanding of how technology can transform the human resource function. Human resource's challenge is to develop and implement a technology strategy linked tightly to the business strategy. An efficient human resource organization empowers employees, managers, suppliers, and partners and leverages technology to accomplish strategic business goals. In this research human resource management with regard to employee needs scored 44.44%

Customer Focus

Most important, corporate banks must shift their focus to center on the client (external) rather than the individual (internal). The client is the ultimate consumer of a firm's services. Therefore, in the corporate banking industry firms need to focus on how to deliver services more effectively to meet and anticipate the needs of its client base. Obtaining buy-in to this different approach to operations will shift the way everybody in the organization works, thereby reaping significant returns for the firm.

Today, due to increasing convergence of industries from deregulation and emerging technologies companies face a threat to their customer base from traditional as well as new 'competitors'. Customer loyalty is the only true asset for many firms. Successful customer management has never been more important than today, and poses a significant challenge for organizations across all sectors. Customer expectations for personalized treatment have increased significantly. Simultaneously, new technologies are making it possible to build superior relationships with large numbers of customers.

5.2 Limitations of the Study

Information collected in the study was of a self-report nature which, depending on the subject areas being queried, may be prone to some inaccuracy as a result of less than accurate recall, lack of information, or discomfort with self-disclosure. The most important limitation of this qualitative research is that the findings cannot be directly generalized to the larger population being studied. This is especially true when the definition of the population is broad e.g. the whole corporate banking industry in Kenya.

The number of participants in this research study was small to be representative of the population. Focus groups or interviews with just eighteen members of a target audience, the population of which numbers in the thousands or more, cannot meet the statistical assumptions to project the results accurately or reliably to the total audience. Some participants tendended to express views that are consistent with social standards and try not to present themselves negatively. This social desirability bias led respondents to self-censor their actual views, especially when they are in a group setting.

The corporate banking industry's value system is not limited to a simple linear two-dimensional view; rather it is made up of a group, or a strategic network, of companies that do not necessarily work in a serial fashion as in the traditional value chain models. A better way to understand the interrelationships between each network is through the lens of the dynamic multidimensional strategic network model, which was very difficult to realize while undertaking this research.

5.3 Suggestions for Further Study

Technology, products and structures can be copied by competitors; however no one can match highly charged, motivated people who care. People are a firm's most important asset and the most underutilized resource. Human resources are a firm's repository of knowledge and skill base that create competitiveness. Well-coached and highly motivated people are critical to the development and execution of strategies, especially in today's fast world where top management alone can no longer assure your firm's competitiveness. Based on this finding this can suffice as a subject for further research.

Hyper competition is a key feature of the new company. New customers want delivery quick, cheaper, and in their way. The fundamental quantitative and qualitative shift in competition requires organizational change on an unprecedented scale. Today, sustainable competitive advantage should be built upon your corporate capabilities and must constantly be reinvented. The larger focus is if this could hold in the future.

Building on Thompson's (1967) typology of long-linked, intensive, and mediating technologies, this paper explores the idea that the value chain, is a distinct generic value configuration models required to understand and analyze firm-level value creation logic across a broad range of industries and firms. The generalization of this concept could be taken over as a subject of finding for future research.

5.4 Suggestions For Policy and Practice

Organizations achieve a competitive advantage by managing the value chain better than other institutions in their industry. Managing the value chain implies increasing the quality of products and services, while reducing the institution's costs and increasing revenue, thus increasing competitive advantage. Examining a firm's value chain and comparing it to those of key rivals indicates areas of cost advantage or disadvantage. A corporate banks decision to undertake certain activities is directly linked to achieving competitive advantage. For example, a corporate bank wishing to outperform its competitors by differentiating itself through higher quality will have to perform its value chain activities better than the competition. By contrast, a strategy based on seeking cost leadership will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used. A corporate bank might also choose to follow a focus strategy by targeting a specific market segment or a specific offering.

In controlling costs in a value chain, managers try to answer the following questions; can we reduce costs in this activity, holding value (revenue, service, credibility, etc.) constant? Can we increase value in this activity, holding costs constant? Can we reduce assets in this activity, holding costs and value (revenue, service, credibility, etc.) constant? Costs for an activity can be reduced only if the reduction does not adversely affect strategic advantage. For example, an across-the-board spending cut may result in a short-run cost reduction, but it could be a disastrous long-run strategy. Benchmarking against similar institutions is another way to gain cost advantage, acquire good practices, and create differentiation advantage (Jackson & Lund, 2000). Thus, internal value chain analysis makes one thing clear: value chain activities are interrelated, and no activity should be managed independently without considering its impact on all other activities.

To better understand the activities through which a firm develops competitive advantage and create shareholder value, it is useful to separate the business system into a series of value generating activities referred to as the value chain. This chain should not be looked into in isolation rather it should form a larger system that would include the value chains of suppliers and downstream channels and customers.

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APPENDIX 1

INTRODUCTORY LETTER

Steve Biko Odero
Faculty of Commerce
C/O MBA Office
Department of Business
Administration
University of Nairobi
P. O. Box 30197
NAIROBI

June 2006

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the faculty of Commerce. In order to fulfill the degree requirement. I am undertaking a management research project on 'The Value Chain and Competitive Advantage in The Corporate Banking industry in Kenya-A case study of Citibank Kenya.

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filing out the accompanying questionnaire, which I will collect from yourself.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report. A copy of the final paper will be availed to you upon request.

Your co-operation will be highly appreciated.

Thank you in advance.

Yours faithfully,

STEVE BIKO ODERO
MBA STUDENT
UNIVERSITY OF NAIROBI

APPENDIX 2
QUESTIONNAIRE

PART I

General Information

i. Your Name ....(Optional)

ii. Job Title ....(Optional)

iii. How long have you been working for Citigroup. (Please tick one)

Less than 5 years	( )	5-10 years	( )
15-20 years	( )	Over 20 years	( )

iv. Using the categories below, please indicate the number of staff you oversee In your department. (Please tick one)

Less than 1-5	( )	Between 5 -10	( )
Between 10-15	( )	More than 15	( )

PART II

Please indicate the extent to which your organization practices the following, on a scale of 1-5 where,

5 = To a very large extent

4 = To a large extent

3 = To some extent

2 = To a small extent

1 = Not at all

Issue	(5) Very large extent	(4) Large extent	(3) Some extent	(2) Small extent	(1) Not at all
Ensure that logistics of inputs for service delivery are awarded on a competitive bid.					
Ensure that inputs for branch operations are above reproach in terms of features and technology					
Educate the customers on the full scope of product features and confirm their appreciation.					
Provide a range of differently price quality levels of products and services.					
Conduct checks to ensure that all operations conforms to required procedures					
Conduct checks to ensure that any flaws in processes are addressed and corrective actions put in place.					
Adequate number of fully skilled staff in all departments					
Ability of operations staff to resolve issues that may arise causing possible customer dissatisfaction.					
Ability of staff to meet target goals and achieve required deliverables.					

Issue	(5) Very large extent	(4) Large extent	(3) Some extent	(2) Small extent	(1) Not at all
Seek to understand customers emotional response to the style and mode of service delivery.					
Seek to know customer's satisfaction on service delivery time frames					
To what extent do you roll out any new products that you may have to the market					
Scrutinize requirement of your target market					
How realistic are your sales/revenue targets					
Resolution of customer queries					
Provision of prompt service to customers.					
Practice of relationship management					
Employee empowerment enhancing service delivery.					
Training customers on full functionality of products they purchase.					
Advising, customers on the introduction of new products and services.					
Upgrade your processes on the basis of improved technology.					
Advising customers on full range and extent of your firm's products and service.					

Issue	(5) Very large extent	(4) Large extent	(3) Some extent	(2) Small extent	(1) Not at all
Outsource functions not core to your business					
Secure lowest possible prices for input purchases of the highest quality					
Innovate in terms of technology					
Technology ease delivery of services to customers.					
Reward and remunerate your employees on an equitable basis.					
Recognize superior performance					
Review the strength and weaknesses of your staff periodically.					
Willingness to help customers.					
Caring and understanding by staff when dealing with customers.					
Price your products with regard to the customers' purchasing power and product differentiability.					
Training staff in customer service.					
Carrying out regular surveys to identify employee needs.					
Willingness and promptness in solving complaints.					

Issue	(5) Very large extent	(4) Large extent	(3) Some extent	(2) Small extent	(1) Not at all
Differentiate your products to ensure the customer has a variety to choose from.					
Carrying out regular surveys to identify employee needs					
Segregate your market to identify target customers.					
Seeking customer perception on the view that the firm is competent in corporate banking services delivery.					
Monitoring compliance to service level delivery as agreed with customers.					
To what extent is your firm structured to ensure service delivery is optimal.					
Agree service level delivery with customers.					
Developing a customer oriented culture					
Conduct survey to identify customer needs.					
Setup customer service desk and monitor performance.					
Caring and individualized customer attention for large customers					
Setting a price premium for distinctive services.					
Attach importance to the distinctiveness of the company brand or symbol.					

Issue	(5) Very large extent	(4) Large extent	(3) Some extent	(2) Small extent	(1) Not at all
Communicate company vision and mission to staff.					
Attract best employees in job market.					
Attach great importance to the choice of advertising media used.					
Importance attached to having an advertising strategy and budget.					
Use of public relations.					
Safety and appearance of firm facilities and equipment.					
Perception of customers about attractiveness of offices and safety of surrounding areas.					
Office locations project a good image for the firm.					
The firm sponsors specific events.					
Attach importance that a large number of customers associate with events sponsored by firm.					
Project an excellent ethical stand by the firm					

PART III

A

From the above please indicate any six activities performed by your organization that you think make your bank the number one choice within the Kenyan market. (Explain briefly)

1. ______________________________

2. ______________________________

3. ______________________________

4 ______________________________

5. ______________________________

6. ______________________________