IMPACT OF COMPETITIVE STRATEGIES ON THE FINANCIAL PERFORMANCE OF CFCSTANBIC BANK LIMITED

BY

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DECLARATION

This research study is my original work, and has not been presented for the award of a degree in any other university.

Signed date

....11-11- 2009..........

Reuben Koech
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This management research study has been submitted for examination with my approval as the university supervisor.

Signed date

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DEDICATION

To my beloved late father who encouraged me to pursue the MBA course before he passed on, my beautiful wife, Nancy for her relentless support during my study, my two lovely daughters, Brenda and Gloria and handsome son, Morris who gave me encouragement and always wanted to assist whenever my morale was down. They indeed gave me a new purpose for living and a renewed zeal to complete my MBA study.

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ABSTRACT

Companies use various competitive strategies to achieve the desired objectives. The company has to have competitive businesses in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment. The specific competitive market strategy variables to be used here will be the segmentation, price, delivery and distribution as well as the promotional strategies. The other two important variables to achieve a competitive advantage by banks have also been included namely risk management strategies and product or service differentiation strategies. The link between these competitive strategies and the financial performance of commercial banks form the framework of the study.

A case study approach was employed to determine the impact of competitive strategies on the financial performance of commercial banks specifically focussing on CfCStanbic Bank Ltd in Kenya. Content analysis was used to analyse the data collected in this study. The presentation of the analysis and interpretations was captured in two parts: the first part capturing the general information in regard to those sampled, while the second part was further subdivided into parts capturing; Segmentation Strategies; Price Strategies; Delivery and Distribution Strategies; Promotional Strategies; Risk management strategies; Product and service differentiation strategies and performance of the bank.

The results indicate that those companies that are effective at rapidly bringing innovative new products and services to the market have gained a huge competitive edge in today's business world. The results therefore attributed the improvement in financial performance on the competitive strategies that the bank has been undertaking in the past years of its existence.

TABLE OF CONTENTS

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Organisations across the world are exposed to a dynamic and competitive environment characterised by globalisation, mergers, acquisitions and consolidations. Challenges of globalisation and environmental turbulence have inevitably required companies to change their growth strategies to suit the business environment. According to Chandler (1962), changes in an organisation's strategy lead to new administrative problems and economic inefficiencies which require new or refashioned structures for the successful implementation of the new strategy. He argues that organisational structure follows and reflects the growth strategy of the firm in order to most effectively administer the allocation of resources necessary to achieve its long-term goals. Not surprisingly, the chances that an organisations strategy will succeed are far greater when its structure matches its strategy. By the same token, as its basic strategy changes over time, so must its structure (Galbraith et al, 1986).

The more diversified the growth strategy, the more likely a firm has a multidivisional structure. This form of structure is characterised by expansion into different industries and products, defined by both business unit and corporate levels of strategy. Since successful strategy implementation depends in part on the organisation's structure fit, corporate strategy must grow out of and reinforce competitive strategy, preferably in a way that focuses resources to convert distinctive competence into competitive advantage (Andrews, 1987). A corporate strategy based on shared activities clearly meets the better-off test because business units gain ongoing tangible advantages from others within the corporation. The ability to share activities is a potent basis for corporate strategy because sharing often enhances competitive advantage by offering the best avenues for value creation through economies of scope of related diversification (Porter, 1986).

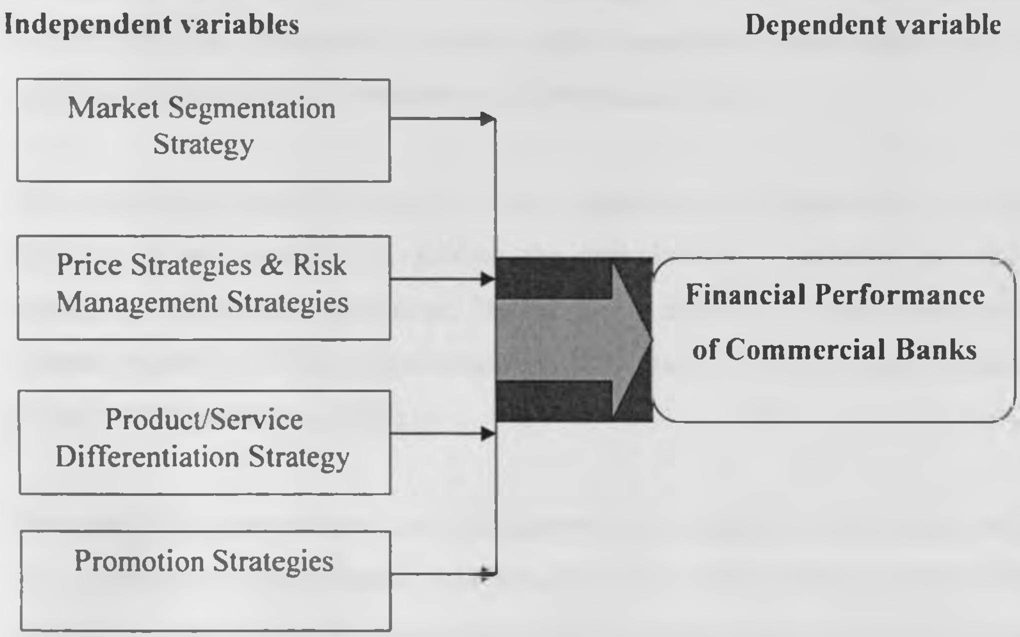
The real sources of competitive advantage are found in the management's ability to consolidate corporate wide technologies and skills into competencies that empower individual businesses to adapt quickly to changing opportunities (Prahalad et al, 1990). As companies extend their presence across borders, it becomes increasingly uneconomical to maintain duplicate processes and infrastructure within each country of operation. Challenges characterised by growing business complexities have been met by companies setting up shared services centres.

Companies respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players (Hamel and Prahalad, 1993). It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the environment.

1.2 Conceptual Framework: The Relationship between the Variables

From the discussion above, it can be observed that there are numerous strategies applied by commercial banks to counter increased competition. Given that the list is wide, for the purposes of this study, the impact of competitive strategies on the desired financial performance considering increased competition in the external environment will be considered as the variables of interest in this study. The specific competitive market strategy variables to be used here will be the segmentation, price, delivery and distribution as well as the promotional strategies. The other two important variables to achieve a competitive advantage by banks have also been included namely risk management strategies and product or service differentiation strategies. The link between these competitive strategies and the financial performance of commercial banks form the framework of the study. In this sense, the interest of the study is to investigate whether the choice of what competitive strategy a firm chooses has an effect on its performance. These are presented in the conceptual framework as illustrated in Figure 1 below. It shows the relationship between the independent variables which are the competitive strategies and the dependent variable which is financial performance.

Figure1: Competitive strategies and financial performance



1.3 Competitive Strategies

Porter (1985) defines strategy as the process of positioning a business to maximize the value of capabilities that distinguishes it from competitors. Since strategy influences the way organisations respond to their environment, strategy is a fundamental planning process. Strategy determines the businesses the organisation will engage in and reveals the organizational purpose in terms of long-term objectives, action programs and resource allocation priorities, and attempts to achieve long-term sustainable advantage in each of its businesses by responding properly to the opportunities and threats in the firm's environment, strengths and weaknesses of the organisation.

Thus, strategy is a unifying theme that gives coherence and direction to the actions and decisions of an organization, guiding the organization to superior performance by establishing competitive advantage. Strategy must match the external environment and internal capability of the organization thus the need for performance measurement (Porter, 1985; Mintzberg, 1987).

The need for institutionalizing risk management as a strategic tool can hardly be ignored. In the journey of organizational transformation, the critical challenge lies in evolving a performing organization so that the business deliverables can contribute to the operative efficiency of the organization. Measuring organizational success and implementing effective strategies for future success represent continuous challenges for managers, researchers and consultants. Risk management strategies primarily streamline, consolidate and improve processes but also reduce credit risk.

Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, mainly due to their prohibitive lending terms and conditions. The rules and regulations of the formal financial institutions that created the myth that the poor are not bankable because they cannot afford the required collateral. (Adera,1994). Despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986).

Banks use a myriad of strategies to achieve the desired financial performance objectives by responding to competition or any force in the external environment appropriately. These are grouped as asset and liability strategies, market strategies, human resource strategies, information technology strategies, and organisational strategies. These are the strategies that have been used by banks in the past in other countries. The variables of interest to this study are the market strategies. The strategies here include segmentation, price, delivery and distribution, extending products, and promotion (Trethowan, 1991).

1.4 CfCStanbic Bank Limited

CfCStanbic Bank Limited is a fully licensed commercial bank in Kenya. This Bank was formed as a result of a merger between Stanbic Bank and CfC Bank on 1st of June 2008. Stanbic Bank had been operating in Kenya for over 50 years. Previously they traded as Grindlays Bank. The former CFC Bank was a locally owned Kenyan bank and had been in operation for about 25 years.

CfCStanbic Bank has operations across the major towns of Nairobi, Mombasa, Kisumu, Nakuru, Naivasha, Eldoret and Nanyuki.It is part of the Standard Bank Group of South Africa. Standard Bank of South Africa owns a 60% stake at CfCStanbic Group. The other 40% is owned by a local consortium of shareholders. The CfCStanbic Group comprises of CfCStanbic Bank, CfC Life Insurance, Heritage Insurance, CfC Financial Services and Stanbic Investment Management Services Ltd. This was the first successful merger of two medium size banks in Kenya in 2008.The former Stanbic Bank is a member of Standard Bank Group of South Africa which is the largest banking operation in Africa with a presence in 27 countries. In Kenya they are the sixth largest bank in terms of asset base after Barclays Bank, KCB, Equity, Standard Chartered Bank and Co-op Bank. There are 45 licensed commercial banks in Kenya currently. All these banks compete effectively among themselves in terms of market share and profitability.

Commercial banks in Kenya are governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The Central Bank Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting its members.

Commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking. They are faced with a lot of challenges that requires only those with the best mix of personnel and objectives to survive. Such challenge is competition. The increasing competition amongst commercial banks in Kenya has forced the management to use various tools they deem best to manage their employee performance. The choice of method to use to manage employee performance is the challenge that most of the commercial banks face.

1.5 Statement of the Problem

Growing business complexities arising from the application of diversification strategies have led to Structure-Strategy complications which if not well aligned can lead to strategy misfit and ultimately a firm's failure. Organisations are constantly confronted with complications of multiple business units, products and markets that have duplicative supporting processes and staff. These structural complexities in the background of global competitiveness of firms have created a powerful case for uniform strategies in risk handling' due to enormous pressure to cut bad debts further to maintaining their margins and strategic readiness.

Managers operating in organizations perform a number of activities including planning and organizing the work of their subordinates, motivating them, controlling what happens and evaluating results. Decisions by managers have a strategic impact and contribute to strategic change. The organization is shown as one of a number of competitors in an industry; and to a greater or lesser degree these competitors will be affected by the decisions, competitive strategies and innovation of the others (Pearce and Robinson, 1997).

These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction. The competitive environment is affected by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation; market growth; the stage in the life of the products or services in question and the frequency of new product launches; capital intensity; and economies of scale (Pearce and Robinson, 1997). It is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention.

To succeed in the long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers. Strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful organization has this business self-awareness and every successful business seems to have this clarity of vision, even though it does not arise from a formal planning process (Pearce and Robinson, 1997).

Previous research on competitive strategies by Kenyan companies have been undertaken, however most of the studies have dealt on strategic responses in relation to the external environment for example, (Kandie, 2001;did a case study on strategic responses to a changing environment by Telkom Kenya, Kiptugen, 2003;did a case study on strategic responses by KCB.). None of the studies have tackled the impact of competitive strategies to counter increased competition among commercial banks in Kenya and the effect on their financial performance. It is in this light that the researcher seeks to fill the existing gap in this area of study by answering the question: What impact do competitive strategies have on the financial performance of commercial banks in Kenya: with special reference to CfCStanbic Bank Limited.

1.6 Objective of Study

This objective of the study was to determine the impact of competitive strategies on the overall financial performance of CfCStanbic Bank Limited in Kenya.

1.7 Importance of the Study

The policy makers will obtain knowledge of the financial sector dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector participation. Secondly, the study will provide information to potential and current scholars on competitive strategies employed by commercial banks in Kenya in order to attain competitive advantage. This will expand their knowledge on competitive strategies applied by financial institutions and also identify areas of further study. Finally diversified organizations, both public and private including Banks and other financial institutions, will benefit from the source of information regarding structural alignment to strategy specifically the competitive strategies. The study will document CfCStanbic Bank's experience thus others will not need to 're-invent the wheel'.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter reviews literature related to competitive strategies applied by banks to achieve their financial performance objectives. These are discussed in the next subsection. Different sectors of the economy employ various strategies to compete effectively in their respective industries. The following is a discussion of the various variables considered important as competitive strategies in the banking industries worldwide.

2.2 Application of Competitive Strategies by Commercial Banks

Kiptugen (2003) did a case study on strategic responses to a changing competitive environment by Kenya Commercial Bank. The study found out that the Bank responded to the changing environment by expanding its coverage as well as by segmenting the market. The bank also used the cost cutting strategies in the initial stages by closing down some branches. There is stiff competition among commercial banks in Kenya. Banks compete among themselves for the same customers. A good number of customers are multi banked hence it is common to find several banks sharing clients. Banks who are able to satisfy the needs of their clients and transform them into loyal clients will get a bigger share of their business as compared to those banks that are not sensitive to their clients` needs. This contributes directly to their bottom-line profitability.

2.2.1 Asset and Liability Strategy

Banks differ from most organizations in that their trading position is directly influenced by the profile of their balance sheets. This is due to regulations set by banking regulatory body which is the Central Bank of Kenya in this case. The importance of capital to bank regulators is that it is seen as the primary insurance policy to cover risks in the industry. Banks actively manage their balance sheets to maintain capital adequacy and liquidity ratios that meet the regulatory requirements, borrowing short-term capital when necessary from the inter-bank market, and assessing the impact on the balance sheet of marketing and pricing policies. Indeed, capital adequacy will be the key element in the formation of strategy in retail banking.

Banks make strategic decisions that can be summed as asset and liability strategy. These include entering new markets, through acquisitions. However, the legacy of these decisions is that the banking industry is now under-capitalized. Access to fresh capital from the stock market is limited, as regulations place a ceiling on the amount of loan stock that can be held by banks, and the stock market also frowns on rights issues called for merely to rectify financial difficulties. This means capital adequacy is not necessarily the key strategy but one of many myriad strategies used by banks to achieve the desired financial performance.

Consumers of banking services have already begun to experience these strategies in their everyday dealings, as the banks seek to increase profitability in ways that reduce their reliance on capital cover. Strategies to conserve capital include banks re-examining the quality of their existing lending portfolios, and taking steps to increase the quality of future advances. This usually has implications for commerce and industry as the economy seeks recovery, as banks are increasingly risk averse in their lending policies to incur fewer bad debts in the future.

The main strategy employed to reduce dependence on capital is the growing emphasis on "off-balance sheet" or non-interest income, for example, commissions for services that previously were performed free of charge. Non-interest income has the added attraction to banks of incurring little risk of bad debt. This strategy is achieved in two main ways: Increased emphasis on charging for services consumed through fees and commissions. Banking is one of the few professional services where the consumer had come to expect cheap or even free service, as costs were traditionally absorbed by the banks when they were building market share in their mass marketing phase in more profitable times; Have also sought to supplement their non-interest income by expanding their operations to complementary non-core activities that are sources of commission income, such as life assurance broking and manufacturing.

The most radical capital strategies involve selling off subsidiaries, which is chiefly used when conditions prevent access to institutional capital, or, in extreme cases, merger with another institution.

2.2.2 Market Strategy

The influence of depleted capital has already been highlighted as dictating strategy in banking. The other key factor that influences progress in the industry is the market strategy adopted by the banks. Capital is in short supply in banking, with over-capacity in the financial services industry; therefore banks are making the classic strategic decisions as to which market segments they wish to service and in what way. Banks had previously attempted to be "all things to all men" as they embarked on mass marketing campaigns; now increasing efforts are being expended in determining which customer segments provide the most profit potential.

The basic thrust of bank marketing strategies is to increase the penetration of products to their existing customers through more effective cross-selling. Gavigan (1992) has articulated this strategy as: it is much easier, and cheaper, to sell to "warm bodies"; and farming an existing account base is much better than hunting for new customers.

2.2.3 Segmentation

Huge relational databases are being built that capture data on customers from their day-to-day transactions through the bank's Information Technology (IT) systems. This provides bank marketers with information to improve techniques to identify customer segments and predict customer needs. Segmentation, in the past, was a crude affair used to blanket the market with fairly unsophisticated marketing techniques such as the ubiquitous mail shot. The objectives of segmentation today are to profile the lifestyle of those in the customer base (in addition to their demographics) in order to tailor products and delivery to meet the needs of the selected segments.

2.2.4 Price

Banks are increasingly anxious to measure the profitability of their products, and with this knowledge, to aggregate a customer's product portfolio to determine the profitability of each customer. Similarly, by consolidating the profitability of similar customers, segment profitability can be determined, and this indicates which segments are attractive for bank marketing. Shapiro et al. (1987) explain customer profitability as falling into quadrants as shown in the figure below.

Table 1: Shapiro's matrix of customer traits

Passive	**Carriage trade**
➢ Will pay high prices (due to high dependence or low product significance)	➢ Will pay top prices ➢ Tailored products that include quality and service
Bargain basement	**Aggressive**
➢ Sensitive to price ➢ Relatively insensitive to service ➢ Quality standards set for low costs	➢ Powerful customers ➢ Price sensitive ➢ Quality sensitive ➢ Service sensitive

These classes of customer are increasingly being recognized, with banks tailoring their strategies to target those segments that match their own positioning. Crane and Eccles (1987). suggest that business units be treated as a separate business. Once separated then each division can develop its own strategy based on the segment it serves.

A retail bank may adopt a relationship strategy based on attracting the low profit cash transmission business of customers in the "carriage trade" segment, and then deepen the relationship by superior service, to cross-sell more profitable products. The same bank may use another division to service the "bargain basement customers", through a non-branch telephone banking system, which has a product based focus. Obviously those banks that operate on low costs and have good credit policies can offer lower prices, and will dictate prices in the industry.

2.2.5 Delivery and Distribution

Changing lifestyles and increased affluence have led to higher service expectations by the customer. This has made distribution the key marketing variable. The traditional delivery channel is the branch network. The mass marketing era saw the establishment of branches on every main thoroughfare, however as this investment took place it was not fully recognized that these new non-business customers did not have the same discretionary time to visit the branches as the business community on which banks had traditionally focused.

This new mass market was engaged in earning their incomes in the 10.00 a.m. until 3.30 p.m. slot that the banks chose to do their business. Prior to the introduction of computers, banks needed time to perform manual account administration, at which times the public were seen as an "inconvenience". This is now changing, with 9.00 a.m. until 5.00 p.m. opening, and late evening and Saturday opening returning.

The introduction of widespread networks of cash machines and the willingness of retailers to give cash on the growing numbers of debit cards is reducing the need for personal customers to come into a branch. The delivery of products to the personal sector is an important area of strategic thinking, as there is a perception of non-availability of branch service, and this is coupled with the increasing number of non-branch outlets for obtaining cash. Pottruck (1992) states that product innovation no longer offers banks a source of sustainable competitive advantage as sophistication in IT means that products can be quickly copied.

Marketing strategy is thus increasingly focused on delivery. The survey by Trethowan (1991) showed that 84 per cent of respondents believe that the numbers of banks offering an alternative to the traditional branch network will increase, and 84 per cent also believed that direct marketing and branch networks will also increase. Direct marketing offers the advantages of convenience, totally sales orientation and low maintenance costs Branch networks are the primary delivery channels for bank services, and also act as a barrier to entry in the industry.

Many branches were designed in the past to reflect the solidity of the parent bank, not the needs of the mass market personal customer. However, their architectural features have attracted preservation orders making them difficult to renovate for today's needs. This increasingly leads to the following strategic issues (Trethowan and Scullion, 1997): Are branches necessary and in appropriate locations? Is a high street presence valued over convenient car parking? Is an acceptable payback achieved by amalgamating or relocating selected branches?

2.2.6 Products

Products are no longer seen as providing banks with sustainable competitive advantage. However extending the range of services that are available through branches may improve the effectiveness of these channels. Banks have the people and the systems to distribute "information-based" products that are linked to their core activities, such as travel services, house sales and conveyance. Aggressive product marketing is done through distribution of information brochures, flyers and direct sales representatives who do a one on one with existing and prospective clients in chosen locations depending on their target market.

2.2.7 Promotion

Banks at present use a mix of advertising and sponsorships at national, regional, and local levels. Many banks' promotion strategies are now turning to building a cultural identity of sales and service excellence that will be recognizable to their customers and the marketplace in general. Whitley (1991) suggests four points to achieve good third party reputations through the quality of their sales and service.

First, service quality must be intertwined. This requires commitment to the concept from the whole organization. The burden should not fall solely on front-line staff in each "moment of truth" for quality, to achieve the required standards of service. The production and support process must be tracked back through the organization and the contribution of all involved should meet these standards. Secondly, there should be consistency in product and delivery standards. This requires careful design of both factors to minimize the variability of the human resource. Thirdly, control of standards must be achieved by adopting techniques that will turn service into tangible measurements. Lastly, quality will continue to improve, therefore what was good today may not be good enough in a year's time. Therefore, chosen quality levels must be kept under review.

Banks today need to work hard to repair their image; it is a paradox that when the consumer is seeking higher standards of quality, much of the focus of bank strategy is on managing to survive with depleted capital following past strategic mistakes.

2.3 Performance Measurement

The need for institutionalizing Performance Management as a strategic tool can hardly be ignored. In the journey of organizational transformation, the critical challenge lies in evolving a performing organization so that the business deliverables can contribute to the operative efficiency of the organization. Measuring organizational success and implementing effective strategies for future success represent continuous challenges for managers, researchers and consultants. Whilst financial measures are clearly important, new measures have emerged in the recent years that take into account a broader range of measures. These frameworks aim to respond to the criticisms levelled at the use of financial measures alone, namely that they are backward looking in that they record a 'history of the firm' (Chakravarthy, 1986). The new frameworks have increasingly purported to represent not merely a way of measuring the success of an organization but go further in that they offer managers a 'road-map' by which they can manage. In particular they focus on the way in which it is possible to realize a strategic vision, that is, on the strategic implementation. Consistency is an important element in financial performance given that it attracts investors, increase shareholder value and also motivates employees and other stakeholders to do even better.

2.4 Strategy and Performance

Strategy is the broad way in which an organization seeks to maintain or improve its performance. This is relatively enduring and unlikely to change substantially in the short term (Zajac and Shortell 1989). A broad range of management research supports this contention. For example, the literature on population ecology argues that once an organization is established so its structure and overall approach is set (Hannan and Freeman, 1977), and a range of evidence indicates that organizations are relatively inert; once routines are set they are difficult to change (Amburgey, et al., 1990).

Earlier on Porter (1980 and 1986) pointed out that a firm can gain its competitive advantage by producing value to its customers. The author emphasized that a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors. Based on these activities, Porter developed the following three generic business strategies; low cost, differentiation and focus (niche). In a low cost strategy, the firm attempts to reduce cost and increase profit as well as sales by using economies of scale, scope and technology. In a differentiation strategy, the firm emphasizes on developing ways to make products appear unique and different. Finally, in a niche (focus) strategy, the firm focuses on product development and marketing efforts in a particular market segment that the firm has a cost or differentiation advantage.

Porter's three generic competitive strategies (low cost, differentiation and focus), Schroeder, et al., (1995) indicated the linkage between the generic strategies and manufacturing technology. In addition, Mosakowski (1993) found that entrepreneurial firms that adopted focus and differentiation strategies performed better than firms that do not use these strategies.

Although, many studies have found that different companies in different countries tend to emphasize on different performance measurement, the literature suggests financial profitability and growth to be the most common measures of organizational performance. Nash (1993) pointed out profitability as the best indicator to identify whether an organization is doing things right and hence profitability can be used as the primary measure of organization success. Furthermore, Doyle (1994) pointed profitability as the most common measure of performance in western companies. Profit margin, return on assets, return on equity, return on sales are considered to be the common measures of financial profitability (Galbraith and Schendel, 1983). Abu Kassim et. Al (1989) found sales, sales growth, net profit and gross profit were among the financial measures preferred by the manufacturing firms.

2.5 Competitiveness

This is the ability to provide products and services more effectively and efficiently than the relevant competitors. In the global trading sector, this means sustained success in international and national markets without protection or subsidies. Although transportation costs might allow national firms to compete successfully in their home market or in adjacent markets, competitiveness usually refers to advantage obtained through superior productivity. Measures of competitiveness in the global trade include firm profitability, the firm's export quotient (exports or foreign sales divided by output), and national, regional or global market share.

At the industry level, competitiveness is the ability to the national firms to achieve sustained success against (or compared to) foreign competitors, without protection or subsidies. Measures of competitiveness at the industry level include overall profitability of the national firms in the industry, the nation's trade balance in the industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level. Competitiveness at the industry level is often a better indicator of the economic health of the nation than competitiveness at the firm level.

At the national level, competitiveness means that ability to the nation's citizens to achieve a high and rising standard of living. In most nations, the standard of living is determined by the productivity with which the nation's resources are deployed, the output of the economy per unit of labor and/or capital employed. A high and rising standard of living for all living for all the nation's citizens can be sustained only by continual improvements in productivity, either through achieving higher productivity in exiting businesses or through successful entry into higher productivity business. Competitiveness at the national level is measured by the level and growth of the nation's standard of living, the level and growth of aggregate productivity, and the ability of the national firms to increase their penetration of world markets through exports or foreign direct investment.

2.5.1 Competitive Advantage

According to Hill and Jones (2001), competitive advantage is the ability of a company to outperform competitors within the same industry. They go on to say that innovations, efficiency, quality and customer responsiveness are the main building blocks of competitive advantage. Together, these four factors help a company create more value by lowering costs or differentiating its products from those of competitors. CfCStanbic Bank through their risk management strategies is motivated by the need to achieve competitive advantage.

Writing on the future of competition, Prahaland and Hamel (1990) posed the question, "is management fully alert of the dangers posed by new unconventional rivals and are potential threats to the current business model widely understood?" Aosa (1992) found that for the competitive strategy model to be applicable in Kenya, it required the inclusion of additional strategic forces when compared to similar models put forward in a developed country's context. He identified these additional forces as customers, suppliers, competitors, logistics, power play and government. This is very much in line with Risk management fundamental pillars of customer focus, people involvement, factual approach to decision-making, leadership, and mutually beneficial relationship with suppliers, process approach, systems management and continual improvement.

Models of competitive advantage revolve around position or environmental concepts and the resource based view. Proponents of the position or environment model argue that to achieve a competitive advantage, the firm is required to make a choice about the type of competitive advantage it seeks to attain the scope within which it will attain it. Choosing the competitive scope or the range of the firm's activities plays a powerful role in determining competitive advantage for the firm because it aims to establish a profitable and sustainable position against the forces that determine the industry competition (Porter 1985).

In a 1960's study at the Harvard School, the approach to the analysis of competitive advantage focused on the influence of the external environment on a firm's strategy. According to this perspective, firms operating in the same industry receive identical inputs and are forced to adopt identical strategies. All the firms operating in the same industry receive identical opportunities and should adopt identical strategies, obtaining the same results. Eventual diversity is possible only in the short period. Therefore, the firm's success is the result of the firm's ability to respond to threats and opportunities existing in the specific industrial environment in which it operates. The relationship between the firm and the industrial environment in which it operates is responsible for realizing a successful market position and develops along three dimensions (Andrews K & Guth W 1965)

First of all, the firm develops a consistent system of strategic objectives, adopting a complex of coherent functions policies. Secondly, the system of objectives and policies must be kept consistent with the external conditions of the market; that is, the strengths and weaknesses of the industry, which the firm must consider in deciding strategies and policies. Finally, the strategy must pursue the creation of 'distinctive competencies', which are 'patterns of resources and skill deployments that will help it achieve its goals and objectives. The firm is therefore able to develop and organize a set of resources through which it can obtain a position of competitive advantage. The industrial environment continues to be important but, at the same time, the firm's ability to develop its own strategy as the result of its distinctive competencies begins to be considered.

Porter (1985) shows that the five competitive forces, namely, the entry of new competitors, the threat of substitutes, the bargaining power of suppliers, the bargaining power of buyers, and the rivalry among the existing competitors play a major role in the company's success or failure. The collective strength of these five competitive forces determines the ability of firms in an industry to earn on average, a rate of return on investment in excess of the cost of the capital. He further notes that a business can develop a sustainable competitive advantage by following the two strategies cost leadership strategy or differentiation strategy.

The primary focus of a cost leadership strategy is to achieve low costs relative to competitors, which might often require additional investment in automated facilities, equipment and employees' skill and sharing of services. On the other hand, differentiation strategy focuses on creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. In today's business environment, an essential element to an organization's success is adaptability. You must be able to manage at the speed of change and it takes creativity and innovation. Those companies that are effective at rapidly bringing innovative new products and services to the market have gained a hug competitive edge in today's business world.

The resource-based view of the firm is touted as an alternative theory of strategy to that developed by Porter (1985). Instead of focusing on positioning in the product market, it argues that firms achieve sustainable competitive advantage by developing resources, which add unique or rare value, which cannot be easily be copied by others. Thus the firm with superior access to physical resources, which others cannot buy, holds a superior advantage. For example, a manufacturing firm, which invents a superior process or technology, holds an advantage over its rivals. Barney and Kitchen (2001) suggest that in order to understand sources of sustained competitive advantage, it is necessary to build a theoretical model that begins with the assumption that firm resources may by heterogeneous and mobile. To have this potential, a firm resource must have four attributes i.e. it must be valuable, in the sense that it exploits opportunities and/or minimizes threats in a firm's environment, it must be rare among a firm's current and potential competition, it must be imperfectly imitable and lastly, there can not be strategically equivalent substitutes for this resource.

While writing on competitive strategy in hyper competitive conditions, Johnson et al. (2005) argue that organizations in such environments need to acknowledge that advantage will be temporary. They propose that competitive advantage will relate to organizations ability to change, speed, flexibility, innovation and disruption of markets. Hypothetically, an organization that has implemented Risk management concept successfully can be expected to possess most, it not all of the above attributes and therefore be able to enjoy and sustain competitive advantages through such moves as blocking first mover advantages and imitating competitors.

Organisations across the world are exposed to a dynamic and competitive environment characterised by globalisation, mergers, acquisitions and consolidations. Challenges of globalisation and environmental turbulence have inevitably required companies to change their growth strategies to suit the business environment. According to Chandler (1962), changes in an organisation's strategy lead to new administrative problems and economic inefficiencies which require new or refashioned structures for the successful implementation of the new strategy. He argues that organisational structure follows and reflects the growth strategy of the firm in order to most effectively administer the allocation of resources necessary to achieve its long-term goals. Not surprisingly, the chances that an organisations strategy will succeed are far greater when its structure matches its strategy. By the same token, as its basic strategy changes over time, so must its structure (Galbraith et al, 1983).

The more diversified the growth and operational strategy, the more likely a firm has a multidivisional structure. This form of structure is characterised by expansion into different industries and products, defined by both business unit and corporate levels of strategy. Since successful strategy implementation depends in part on the organisation's structure fit, corporate strategy must grow out of and reinforce competitive strategy, preferably in a way that focuses resources to convert distinctive competence into competitive advantage (Andrews, 1987). A corporate strategy based on shared activities clearly meets the better-off test because business units gain ongoing tangible advantages from others within the corporation. The ability to share activities is a potent basis for corporate strategy because sharing often enhances competitive advantage by offering the best avenues for value creation through economies of scope of related diversification (Porter, 1987).

The real sources of competitive advantage are found in the management's ability to consolidate corporate wide technologies and skills into competencies that empower individual businesses to adapt quickly to changing opportunities (Prahalad et al, 1990). As companies extend their presence across borders, it becomes increasingly uneconomical to maintain duplicate processes and infrastructure within each country of operation. Challenges characterised by growing business complexities have been met by banks coming up with risk management strategies in their lending policies.

Firms therefore focus on gaining a competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core strengths, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Hamel and Prahalad, 1993). According to Johnson and Scholes (2002), core strengths are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Markets are changing all the time. It does depend on the type of product the business produces, however a business needs to react or lose customers. Some of the main reasons why markets change rapidly are that customers develop new needs and wants, new competitors enter a market, new technologies meaning that new products can be made, a world or countrywide event happening e.g. war, and government introducing new legislation e.g. increases minimum wage.

Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in (Hamel and Prahalad, 1993). A business could react to an increase in competition (for instance, a launch of rival product) by cutting prices (but can reduce profits), improving quality (but increases costs), spend more on promotion (such as do more advertising, increase brand loyalty; but costs money), and cutting costs (Porter, 1998), for instance use cheaper materials. Some may opt to product improvement, divestiture, and diversification through entry into new markets or even merging or buying out competitors. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. Sustainable competitive advantage is born out of core strengths that yield long term benefit to the company.

Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics. First it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals (Montgomery and Porter, 1991). To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for.

2.5.2 Risk Management

Effective risk management. from the point of view of financial institutions, is the key to the future success in banking and therefore these institutions should focus on professional management of risk in order to attain a sustainable competitive advantage. The successful financial institutions are and will increasingly be those that develop focused strategies, lower their overhead ratios, ingeniously exploit their advantages and know how to calculate their risks. The most important areas of concern to banks in credit risk management is to be integrative in terms of risk a bank is taking in doing business by client, by channel, by product, by business, by industry, by currency and by country. Banks will put out of lines of business as well as of areas, where the risk they are taking is disproportionate compared to the profit they make or hope to make.

The need for institutionalizing risk management as a strategic tool can hardly be ignored. In the journey of organizational transformation, the critical challenge lies in evolving a performing organization so that the business deliverables can contribute to the operative efficiency of the organization. Measuring organizational success and implementing effective strategies for future success represent continuous challenges for managers, researchers and consultants.

Risk management techniques primarily streamline, consolidate and improve processes but also reduce credit risk. The centralization of a core administrative function leads to a more customer focused approach to the service provided, bringing about changes in management and delivery. Research elsewhere (www.coda.com) has shown that the most obvious opportunities for companies come from eliminating non-value-added activities such as multiple authorization processes and reconciliations. The organization can gain economies of scale and improved productivity by consolidating and centralizing repetitive or transaction-based activities.

One of the most important prerequisite of risk management is that of planning for, the unknown. This requires asking questions such as how do we know when adversity will hit and how hard. Have we examined ahead of time where our financial staying power lies? Do we know what is to be our line of defense against any risk associated with a nay line of business we are entering into? Secondly, can we anticipate, respond and cope with changes in the business environment? Operating a financial business has always been a matter of foreseeing and rapidly coping with change. Banks and their customers keep constantly changing, therefore all financial institutions should focus on providing quality services. To a large measure adapting to the new environment means changing culture, altering not only the way we have been operating in the past, but also adapting new ways of thinking and doing business (Thygerson,1994).

In more than one reason, risk is a corollary to competitiveness. To be properly managed money needs brains, open perspectives and adequate tools. Risk management has the same requirements but not every financial institution seems to be convinced that risk control policies can both limit undue exposure and give the bank a competitive edge. Risk are significantly increased when a bank losses its grip in the market as well as when it falls back in skills and technology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the methodology that was used in carrying out the study. A case study approach was employed to determine the impact of competitive strategies on the performance of commercial banks specifically focussing on CfCStanbic Bank in Kenya.

3.2 Research Design

A case study approach was preferred as it enables the analysis of data collected from the members of the defined population. This method was appropriate as it increases the researcher's familiarity with the problem, in gathering information about practical problems, clarifying concepts, in formulating a problem for more precise investigation and in establishing priority for further research. A case study is characterized by its flexibility with respect to the way used to gain insight and develop hypothesis. This method also allows for the much needed flexibility required to obtain useful data for analysis and interpretation as it allows the researcher to ask, probe and draw conclusions form various members of the defined population.

The research instrument used was an interview guide. This was appropriate because the respondents were from different business units which have specific competitive strategies which are all aligned to the overall strategy of the bank. An interview guide will give objective responses as the researcher is able to probe where further clarification is required.

The researcher used a combination of both quantitative and qualitative research methods. This enabled the researcher to ask respondents to describe how competitive strategies affect the financial performance of CfCstanbic Bank in Kenya.

This was appropriate, as it involved the researcher interviewing respondents on the impact of competitive strategies on the financial performance of CfCStanbic Bank Limited. There was need to retain flexibility in the data collection process by using both qualitative and quantitative information to enable the researcher make informed decisions when reaching conclusions.

The use of open ended questions also enabled the researcher to gather unexpected information which would have not been raised in close ended questions. This also allows for the collection of information that will help in interpreting and clarifying the numeric data collected.

3.3 Data Collection.

Primary data for the purpose of this study was collected using an interview guide. Open-ended questions were used to get responses from the managers of CfCStanbic Bank Limited. It was administered to the Managers at their offices. The administration of the interview guide was to get responses, record, analyse, probe and draw conclusions. This enabled respondents to be objective in as far as the questions are concerned.

The data specification is from CfCStanbic Bank managers who included Director of Personal and Business Banking, Head of Business Banking, Product and Marketing Managers, Senior Branch Managers, Senior Relationship Managers, Credit Risk Managers and Operations Managers. Data was collected in relation to; Segmentation Strategies; Price Strategies; Delivery And Distribution Strategies; Promotional Strategies; risk management strategies; product and service differentiation strategies and performance of the bank.

The various market segmentation strategies, asset and liability strategies, delivery and distribution, product and service differentiation enabled the researcher to determine what impact each of these strategies has on the overall financial performance of CfCStanbic Bank.

The impact of these strategies also enabled the researcher to determine how commercial banks managed their business goal objectives in terms of which markets to focus on, which appropriate product mix to develop and most importantly who are the right people to deliver the results .

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged before final analysis. The complete interview guides were edited after completion of each interview. They were then checked and the one which was not fully completed or with errors corrected where possible.

CHAPTER FOUR

DATA ANALYIS AND FINDINGS

4.1 Introduction

This chapter presents data analysis and interpretation of the research findings.

Content analysis was used to analyse the data collected in this study. The purpose of this analysis was to simplify, organize, summarize describe and interpret data and communicate the results in a meaningful way.

The presentation of the analysis and interpretations was captured in two parts: the first part capturing the general information in regard to those sampled and the data was mainly qualitative, while the second part was further subdivided into parts capturing; Market penetration, segmentation and price strategies; Asset and liability strategies; Delivery, distribution and Promotional strategies; Credit risk management strategies; Performance measurement and overall strategy of the bank.

4.2 Qualitative Data Analysis

The study sought to collect data by the use of an interview guide. The interview guides were personally administered to the various bank managers which included; Director of Personal and Business Banking, Head of Business Banking, two Product and Marketing Managers, three Senior Branch Managers, three Senior Relationship Managers, two Credit Risk Managers ,two Operations Managers and one Human Resources Manager. The total number of respondents targeted was fifteen in number.

Out of the 15 respondents targeted, 12 were available for the interview. This represented a respondent rate of 80%. After completion of the interview, the responses were checked for errors and mistakes to ensure that they were acceptable. All the 12 were found to have been completed well and therefore none was discarded.

The respondents all were of the view that competitive advantage is the ability of a company to outperform competitors within the same industry. They went on to say that innovations, efficiency, quality and customer responsiveness are the main building blocks of competitive advantage. Together, these four factors help a company create more value by lowering costs or differentiating its products from those of competitors.

The firm's strategy is the main tool for ensuring that the bank performs well and all business units participates in its development. First of all, the firm develops a consistent system of strategic objectives, adopting a complex of coherent functions policies. Secondly, the system of objectives and policies must be kept consistent with the external conditions of the market; that is, the strengths and weaknesses of the industry, which the firm must consider in deciding strategies and policies. Finally, the strategy must pursue the creation of 'distinctive competencies', which are 'patterns of resources and skill deployments that will help it achieve its goals and objectives.

4.3 Market Penetration, Segmentation & Price Strategies

In all instances, the respondents agreed strongly that the firm adopts these three strategies to a varied extent. The bank operates on a differentiation as well as a low cost strategy to specific market segments. The cost of operating most of the banks products is also among the lowest in the industry.

CfCStanbic Bank focuses on a differentiation and cost leadership strategy to achieve higher revenues relative to competitors, which might often require additional investment in automated facilities, equipment and employees' skill and sharing of services. Cost leadership at CfCStanbic Bank is pursued together with the differentiation strategy which focuses on creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. To this end, the study found out that, in today's business environment, an essential element to an organization's success is adaptability. You must be able to manage at the speed of change, and that takes creativity and innovation. The results indicate that those companies that are effective at rapidly bringing innovative new products and services to the market have gained a huge competitive edge in today's business world.

Huge relational databases are being built that capture data on customers from their day-to-day transactions through the bank's Information Technology (IT) systems. This provides bank marketers with information to improve techniques to identify customer segments and predict customer needs. Segmentation, in the past, was a crude affair used to blanket the market with fairly unsophisticated marketing techniques such as the ubiquitous mail shot. The objectives of segmentation today at CfCStanbic Bank are to profile the lifestyle of those in the customer base (in addition to their demographics) in order to tailor products and delivery to meet the needs of the selected segments.

Banks are increasingly anxious to measure the profitability of their products, and with this knowledge, to aggregate a customer's product portfolio to determine the profitability of each customer. Similarly, by consolidating the profitability of similar customers, segment profitability can be determined, and this indicates which segments are attractive for bank marketing.

4.4 Asset and Liability Strategies

CfCStanbic Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of liquidity risk, specifically by putting in place measures which lead to an optimal asset-liability mix. Assets refer to the loans and advances whereas liabilities refer to deposits which banks collect from their customers. It is important to note that these deposits are payable on demand hence the banks need to have some liquidity level. The Central Bank of Kenya has set has set the minimum cash ratio held by banks at 5%. These funds are held under Deposit Protection Fund to mitigate loss of customer deposits incase the bank collapses. Commercial banks on the other hand need to maintain a liquidity ratio of about 20% since more deposits will push the cost of funds high while an asset ratio of 75% to80% is ideal as more revenue will come from loans and advances through interest income.

There is a synergy between the various business units in as far as working towards the right asset- liability mix. CfCStanbic Bank's business units such as wholesale banking and personal banking work in synergy with support units like global markets, credit and treasury department to ensure the banks liquidity position is favorable and that the bank is able to spot the opportunities that arise in foreign exchange trade and overnight borrowing.

In trading activities; credit risk arises due to non-performance by counterparty for payments linked to trading related financial obligations. Credit risk is managed at CfCStanbic Bank by means of a governance structure with clearly defined mandates and delegated authorities and also the use of relevant credit assessment tools in evaluation of new loan commitments and outstanding facilities for the customers under the respective business units discussed below. Credit risk is the risk that a counter - party will be unable to pay principle and interest in full, when it falls due.

Liquidity risk on the other hand arises if the Bank has insufficient funds or marketable assets available to fulfill its current or future cash flow obligations at the least possible cost. The nature of banking and trading activities results in a continuous exposure to liquidity risk. The CfCStanbic Bank's liquidity risk management framework however is designed to measure and manage the liquidity position at various levels to ensure that all payment obligations can be met under both normal and stressed conditions. The following elements are important in a cohesive liquidity management process:

Maintaining a structurally sound balance sheet; foreign currency liquidity management; ensuring the availability of sufficient contingency liquidity; preserving a diversified funding base; undertaking regular liquidity stress testing and maintaining adequate liquidity contingency plans.

4.5 Delivery, Distribution and Promotional Strategies

The introduction of widespread networks of cash machines and the willingness of retailers to give cash on the growing numbers of debit cards is reducing the need for personal customers to come into a branch (Trethowan 1991). The delivery of products to the personal sector is an important area of strategic thinking, as there is a perception of non-availability of branch service, and this is coupled with the increasing number of non-branch outlets for obtaining cash. Pottruck (1992) states that product innovation no longer offers banks a source of sustainable competitive advantage as sophistication in IT means that products can be quickly copied.

Marketing strategy is thus increasingly focused on delivery. The survey by Trethowan 1991) shows that 84 per cent of respondents believe that the numbers of banks offering an alternative to the traditional branch network will increase, and 84 per cent also believe that direct marketing and branch networks will also increase. Direct marketing offers the advantages of convenience, totally sales orientation and low maintenance costs. Branch networks are the primary delivery channels for bank services, and also act as a barrier to entry in the industry.

Many branches were designed in the past to reflect the solidity of the parent bank, not the needs of the mass market personal customer. However, their architectural features have attracted preservation orders making them difficult to renovate for today's needs. This increasingly leads to the following strategic issues (Trethowan 1991): Are branches necessary and in appropriate locations? Is a high street presence valued over convenient car parking? Is an acceptable payback achieved by amalgamating or relocating selected branches?

4.6 Credit Risk Management Strategies

The study sought to establish the risk management strategies used and how long the respondents had been using the particular strategies. This was necessary because it would give an indication of the widely used strategies and if they are in use in the entire organization. These corresponded with the duration the employees had been in the organization apart from a few respondents who have been in the organization for more than 10 years.

Risk management techniques primarily streamline, consolidate and improve processes but also reduce credit risk. The centralization of a core administrative function leads to a more customer focused approach to the service provided, bringing about changes in management and delivery. The results indicate that the most obvious opportunities for companies come from eliminating non-value-added activities such as multiple authorization processes and reconciliations. The organization can gain economies of scale and improved productivity by consolidating and centralizing repetitive or transaction-based activities.

One of the most important prerequisite of risk management is that of planning for, the unknown. This requires asking questions such as how do we know when adversity will hit and how hard. Have we examined ahead of time where our financial staying power lies? Do we know what is to be our line of defence against any risk associated with a nay line of business we are entering into? Secondly, can we anticipate, respond and cope with changes in the business environment? Operating a financial business has always been a matter of foreseeing and rapidly coping with change. Banks and their customers keep constantly changing, therefore all financial institutions should focus on providing quality services.

4.6.1 6 C's Credit Appraisal

The 6 C's credit appraisal system is a key credit tool used by CfCStanbic Bank and many other commercial banks in Kenya to appraise credit applications in relation to the risk of default and other associated risks. The 6 C's represent character, capacity, completion, condition, contribution and common sense.

The responses were required to specify the factors they considered when appraising, assessing and evaluating credit risk of their customers. The Credit managers and analysts of CfCStanbic Bank use the 6 C's to evaluate a customer as a potential borrower. The 6 C's help the bank to decrease the risk of default, as they get to know their customers. CfCStanbic Bank defines the 6 C's are; Character, Capacity, Completion, Condition, Contribution and Common sense. Other additional Cs that can be used by banks to decrease the default risk include; Collateral, Capital, Credit, Control, Communication and Cycle. The entire C's combined form the 12 C's of credit appraisal.

4.6.2 Credit Risk Assessment

One of the findings on credit risk assessment is that banks need to gather adequate information about potential customers to be able to calibrate the credit risk exposure. The information gathered will guide the bank in assessing the probability of borrower's default and price the loan accordingly. Much of this information is gathered during loan documentation. The bank should however go beyond information provided by the borrower and seek additional information from third parties like credit rating agencies and credit reference bureaus.

The respondents stated that applying 'CAMPRI' technique or model during the initial assessment of the borrower will help in determining whether a loan is good or bad, recoverable or not recoverable. CAMPRI is a technique by which the viability of a proposal is assessed and evaluated. It is an acronym that stands for; Character (says a lot about the probability of a loan arrangement going sour), Ability (borrower's ability in managing financial affairs), Margin (the bank should obtain a reasonable return in view of risk taken), Purpose (should be acceptable to the bank), Amount (the potential customer should justify the amount requested), Repayment (lender should ensure the source of repayment is clear), Insurance (Security is necessary incase the repayment proposals fail to materialize).

4.7 Performance Measurement

Measuring organizational success and implementing effective strategies for future success has been a challenge at the bank. Whilst financial measures are clearly important, new measures have emerged in the recent years that take into account a broader range of measures. Consistency is an important element in financial performance given that it attracts investors, increase shareholder value and also motivates employees and other stakeholders to do even better.

The study found out that CfCStanbic Bank has put in place a performance management system whereby all employees sign performance contracts every year and pledge to live the values of the bank. These values include; delivering to shareholders, guarding against arrogance, growing their people, being proactive, team work, being responsive and respect to each other. The performance contract is used to appraise the employees every quarter to determine how each is performing. The performance contract is a tool for measuring performance of employees. The performance contracts are designed based on the key performance indicators of the job. For example a sales consultant will be appraised mainly on financial performance parameters of balance sheet and income growth. He/She will also be measured on the number of new clients as well as value of the deals booked whereas a human resource consultant will be appraised mainly on the efficiency of the selection, recruitment and placement process including staff record keeping and maintenance. The document is completed, discussed and agreed between the employee and the line manager or supervisor. The results of the performance will be graded and the bank motivates top performers through rewards, promotions, recognition certificates, bonuses, and salary increments.

4.8 Strategy and Performance

Strategy is the broad way in which an organization seeks to maintain or improve its performance. The results are in line with Porter (1980 and 1986) who pointed out that a firm can gain its competitive advantage by producing value to its customers. The author emphasized that a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors. Based on these activities, Porter developed the following three generic business strategies; low cost, differentiation and focus (niche). In a low cost strategy, the firm attempts to reduce cost and increase profit as well as sales by using economies of scale, scope and technology. In a differentiation strategy, the firm emphasizes on developing ways to make products appear unique and different. Finally, in a niche (focus) strategy, the firm focuses on product development and marketing efforts in a particular market segment that the firm has a cost or differentiation advantage.

CfCStanbic Bank Limited registered strong financial performance for the year ended 31 December 2008, with a pre-tax profit of Kshs 1,313 million; an increase of Kshs 118 million from the results of the year ended 31 December 2007. Profit after tax increased by 7.8 percent from Kshs 828 million in 2007 to Kshs 892 million in 2008. As a result, earnings per share for the year increased from Kshs 6.8 per share to Kshs 7.3 per share.
The growth in profitability was due to an increase of both net interest income and noninterest revenue that increased by Kshs 1,255 million and Kshs 723 million respectively. The proportion of operating income accounted for by non-interest income is 35.3 percent compared to 34.4 percent in 2007. Operating costs grew by Kshs 1,378 million, a 104 percent increase from the previous year. The cost to income ratio increased to 58.5 percent from 50.2 percent in 2007.The respondents attributed the improvement in financial performance on the right mix of competitive strategies the bank has been employing over the years.

CHAPTER FIVE

SUMMARY, CONCLUSION S AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study in relation to the objective of the study. A case study approach was employed to determine the impact of competitive strategies on the financial performance of commercial banks specifically focussing on CfCStanbic Bank in Kenya.

5.2 Summary of Findings

The study revealed that financial performance of a bank whether positive or negative is dependent upon the competitive strategies employed. The rationale for various competitive strategies is largely based on principal/agent theory. The principal can only observe outcomes and cannot measure accurately the effort expended by the agent or distinguish the effects of effort from other factors affecting performance. In this case the overall financial performance of the CfCStanbic Bank is dependent upon all the business units as well as support units and every other member of the bank coming up with various competitive strategies relevant to the unit or department but aligned to the overall strategy of the bank. These strategies are also changed as and when it is necessary in a bid to counter any environmental changes which may affect the financial performance of the bank negatively.

The results indicate that CfCStanbic Bank Limited recorded improved financial performance after increasing their asset base and employing more of marketing strategies such as promotion and quality in order to survive. To counter the threat of substitute products, the company employed more of market strategies such as advertising and quality so as to maintain their market share. CfCStanbic Bank Limited reduced their costs of operation by cutting down on excess staff by merging support units that were duplicating roles. This led to a huge saving in staff costs which comprise a large portion of the operating expenses. This directly had a positive impact on the bottom line profit.

CfCStanbic Bank focuses on a cost leadership strategy to achieve low costs relative to competitors, which might often require additional investment in automated facilities, equipment and employees' skill and sharing of services. Cost leadership at CfCStanbic Bank is pursued together with the differentiation strategy which focuses on creating uniqueness such that the organization's goods and services are clearly distinguished from those of its competitors. To this end, the study found out that, in today's business environment, an essential element to an organization's success is adaptability. You must be able to manage at the speed of change, and that takes creativity and innovation. The results indicate that those companies that are effective at rapidly bringing innovative new products and services to the market have gained a huge competitive edge in today's business world. The results therefore attributed the improvement in financial performance on the competitive strategies the bank has been applying in the last past years of its existence.

5.3 Lessons Learned and Recommendations

The study demonstrated that banks across the world are exposed to a dynamic and competitive environment characterised by globalisation, mergers, acquisitions and consolidations. Challenges of globalisation and environmental turbulence have inevitably required companies to change their growth strategies to suit the business environment. Accordingily the study concludes that, changes in an organisation's strategy lead to new administrative problems and economic inefficiencies which require new or refashioned structures for the successful implementation of the new strategy. It argues that organisational structure follows and reflects the growth strategy of the firm in order to most effectively administer the allocation of resources necessary to achieve its long-term goals. Not surprisingly, the chances that an organisations strategy will succeed are far greater when its structure matches its strategy. By the same token, as its basic strategy changes over time, so must its structure also leading to improvement in the financial performance.

There is need for a good definition of outputs and solid performance measures. This requires a well-defined training program for the employees to support implementation. Other instruments of control such as quality service charters and regulations concerning transparency and accountability must complement the risk management strategies. Performance measurement tends to emphasize competition among staff to meet their targets. Competition if not well-controlled may bring conflicts with values hence interfere with organization culture.

Risk management strategies are not a substitute for poor management. This will only succeed where best management practices are practiced. Top management key competencies and participatory approach to decision making is crucial. There should be regular overall evaluations and audits of benefits and drawbacks of the implemented policies in order to learn from experiences.

The study was limited to CfCStanbic Bank due to time and cost constraints. Replication of this study through comparative study using samples from other institutions is thus recommended. This will provide a complete picture of the impact of competitive strategies on the overall financial performance of commercial banks.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Dear Sir / Madam,

The purpose of this interview guide is to examine the extent to which commercial banks in Kenya apply competitive strategies in order to achieve their financial performance objectives in both the short and the long term: a case of CfCStanbic Bank Limited.

My sincere request is to urge you respond to the questions sincerely. The research is carried out purely for academic purposes and all the information obtained from you will be treated with the confidentiality it deserves. It is only the researcher and the project supervisor who will have access to the information given. Upon request, the summary of the results will be made to you after the information collected is duly analyzed.

Thank you very much for your valuable time and co-operation. .

Yours sincerely,

Appendix II

INTERVIEW GUIDE

Please freely answer the questions below. The information provided will be treated with the highest degree of confidence.

Part A: General information

1. Which department or business unit do you represent?

....

2. How long have you worked in this department?

....

3. How has the bank performed in the last one to two years?

....

4. What overall strategy is used by the bank to achieve its objectives?

....

5. Other than the overall strategy, what other competitive strategies are applied by the bank in order to counter competition?

....

6. How are the strategies developed and implemented?

....

7. How are the various strategies aligned to the overall strategy of the bank?

....

8. To what extent is your department/business unit involved in the development of these strategies

....

....

Part B

Section I: Market Penetration, Segmentation & Price Strategies

1. What market penetration strategies are used in order to grow your market share?

....

2. How is your business unit involved in the development of these strategies?

....

3. Does the bank have a specific target market or it targets the mass market?

....

4. Which of your competitors are employing similar strategies?

....

5. Overall as a bank, what market share of the Kenyan banking business do you command?

....

6. How does the bank segment its customers?

....

7. How does the bank determine which pricing strategy to use for which market segment?

....

8. What promotional strategies does your bank employ?

....

9. To what extent is your department involved in determining the promotion and advertising budget.

....

SECTION II: Asset and Liability Strategies

1. What strategies does the bank use to mobilise deposits from customers?

....

2. To what extent is your department involved in developing these strategies?

....

....

3. What is the bank's liquidity level currently both in value and percentage terms?

....

4. How does it compare to the same period one year ago?

....

5. How does it compare to your competitors currently?

....

6. How does the bank manage excess liquidity in their books?

....

7. How often does the bank review its interest rates on deposits and loans?

....

Section III: Risk Management Strategies

1. What risk management strategies are used by the bank?

....

2. What extra risk requirements does the customer have to meet before the approval of the loan application?

a) ....

b) ....

c) ....

d) ....

e) ....

Section IV: The Credit Appraisal method

1. What process of credit appraisal is used by your bank?

....

2. How do you measure performance for credit appraisers in the management of credit risk?

....

3. To what extent does the bank apply and adhere to Basel II credit appraisal rules

....

4. How often are your risk management strategies reviewed?

....

....

5. What problems have lending solved in commercial banks especially in meeting the needs of customers?

....

....

6. What is the perception of the general public on lending?

....

....

Section IV: Credit Risk Assessment

1. What are the techniques used in measuring risk in your bank?

....

....

2. What was the bank's overall credit risk performance rating last year as per Central Bank Audit?

....

3. Which factors do you think greatly affects risk assessment?

....

4. What can you say as the general trend of the performance of the bank after the introduction of risk management strategies (tick one)

....

Section V: Performance Management

1. How many employees are currently in the bank's payroll?

....

2. Is your department directly involved in determining the payroll budget?

....

3. What is the ratio of permanent employees to contractual or temporary employees?

....

4. How do you determine the above ratio on headcount?

....

5. Which performance appraisal management system is used by your bank?

6. What key deliverables are used to measure performance?

....

7. How do you manage under performing employees?

....

....

8. What are the key challenges that you experience in evaluating performance of the various individual employees as well as the specific business units?

....