STRATEGIES FOR ASSET FINANCING TO ENHANCE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

REYNOR CHRISTINE AKOTH OGUK

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DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:………………………………….. Date:…………………………………

REYNOR CHRISTINE AKOTH OGUK D61/73432/2009

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature…………………………………..….Date………………………………….

DR. MARY KINOTI
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this project to my beloved husband Mr. Paul Sunday Kinanga, for his love and support and encouragement. May the good Lord keep and bless you abundantly.

ACKNOWLEDGEMENTS

First, my sincere gratitude goes to Our Almighty Father who by His grace I was able to do and complete this study.

Second, for the development and production of this work I feel a deep sense of gratitude to my supervisor Dr. Mary Kinoti, for her guidance and supervision.

My further appreciation also goes to all my beloved parents, sisters, brothers, friends and colleagues for their support throughout this demanding journey. I would wish to extend my gratitude to my employer and my colleagues at work for their unwavering support and encouragement.

ABSTACT

Organizations often formulate company strategies, product and service strategies, and strategies that drive operational, support and managerial processes. The study was guided by the following research objectives: To determine the strategies used for assets financing by commercial banks in Kenya and to establish the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya.

The study adopted a descriptive survey because of its ability to build a profile about a phenomenon. Primary data was collected using a questionnaire. The questionnaire comprised of open and closed ended questions. The questionnaires collected from the field was inspected for completeness and consistence then entered into Statistical Package for Social Sciences for processing. The edited data was coded for ease of classification in order to facilitate tabulation.

On if the Bank has used competitive interest rates in asset financing, the respondents agreed to a great extent. Whether the Bank has used diversified asset class in asset financing, the respondents agreed to a moderate extent. On if the Bank has applied market segmentation strategy in asset financing, the respondents agreed to a little extent. Concerning whether the competent staff in asset financing department has improved asset performance in the Bank the respondents agreed to a moderate extent. On if schemes established with customers have improved asset performance in the Bank the respondents agreed to a moderate extent.

The study concludes that the bank has employed quality service delivery in asset financing, the respondents agreed to a great extent and that banks adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.The study recommends that it is very necessary for banks to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies and respond to competitive forces.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The rapid and discontinuous change taking place in the environment has a direct impact in the manner in which organizations operate. Following these changes in the operating environment the teams responsible for management are finding that old techniques for adoption to changes in the operational environment are no longer effective hence the need for developing new strategies in respond to the challenges posted by the environment (Bessis, 2002). These changes both in the operational environment as well as within the organization have an impact on the performance of these organizations and if now well countered could lead to the closure. Porter, (1996) points out that management of organizations need to be aware of these changes in order to adapt to them. Commercial banks face various risks which have different impact on their performance.

Asset financing is a form of credit where the financial institution extends a loan to a borrower based on the fixed asset investments which is used as security for the advanced loan (Basel, 1999). Asset financing provides some form of capital for organizations to expand their businesses and grow. The level of competition in these markets has intensified as bank seeks to increase their market share. Asset finance mostly comprises of an agreed percentage of total asset cost with remaining repayments done by installments which factor in the capital value and accrued interest rates (Munene, 2010). In many cases, ownership passes from the bank to the other parties after the final installment is settled. Asset financing does offer flexible financing terms for a period up to 48 months making it a lucrative choice for most businesses that require an expansive capital outlay.

High competition within the banking sector in Kenya has affected greatly the industry players forcing them to expand their services (Basel, 1999). Banks have ended up developing new products and extending the ones they already have in order to remain competitive. These strategies have included venturing into new market segments and segmenting their markets so as to increasing their competitiveness. Over the years, there have been an increased number of significant bank problems in both matured and emerging economies. Credit problems, especially weakness in credit risk management (CRM), have been identified to be a part of the major reasons behind banking difficulties (Bessis, 2002). Loans constitute a large proportion of credit risk as they normally account for 10-15 times the equity of a bank (Kitua, 1996). Thus, banking business is likely to face difficulties when there is a slight deterioration in the quality of loans. Poor loan quality has its roots in the information processing mechanism as BrownBridge (1998) observed that these problems are at their acute stage in developing countries.

1.1.1 Concept of Strategy

A strategy is simply a plan. It is an executable plan of action that describes how an organization will achieve a stated mission. Organizations often formulate company strategies, product and service strategies, and strategies that drive operational, support and managerial processes (Ansoff, 1995). Strategy is all about combining activities into a reinforcing system that creates a dynamic fit with the environment (Markides, 1999). A strategy consists of competitive moves and business approaches to produce successful performance. It is the management's "game plan" for running the business, strengthening the firm's competitive position, satisfying customers and achieving performance targets (Johnson and Scholes, 2002).

Strategy is useful in helping managers tackle the daily problems that face. Organizations and thus ensure survival. It is a tool that offers significant help for coping with turbulence confronting many firms (Ansoff, 1995). Historically, hundreds of strategists and organizations have used many different approaches to strategy formulation to achieve a variety of strategic objectives. In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in strategic planning that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

1.1.2 Asset Financing

Asset finance is a loan that is used to obtain equipment, be it office equipment, plant and machinery or cars (Munene, 2010). It can offer a flexible alternative to a normal loan, providing cash flow and tax benefits. It is secured on the asset being provided and differs from a loan in that the finance cannot be recalled during the lifetime of the agreement. The item or equipment can usually be updated or replaced at the end of the lifetime of the agreement (Djankov, McLiesha and Shleifer. 2007). Asset Financing refers to transactions using balance sheet assets (such as accounts receivable, short-term investments or inventory) to obtain a loan or borrow money - the borrower provides a security interest in the assets to the lender. This differs from traditional financing methods, such as issuing debt or equity securities, as the company simply pledges some of its assets in exchange for a quick cash loan.

Asset-backed securities (ABS) are bonds backed by the cash flow of a variety of pooled receivables or loans (Duffie and Singleton, 2003). ABS can be securities backed by any type of asset with an associated cash flow, but are generally securities collateralized by certain types of consumer and business loans as opposed to mortgage-backed securities, which are backed by mortgages. Fixed asset financing refers to the financing for real estate and equipment needs of a business. Fixed asset investments are needed for several reasons: Provides core facilities for business operations; Supports a firm's expansion to meet increased sales or have branch presence in new markets; Upgrade or introduce new technology, processes, cost saving improvements; Provide supporting facilities for: Research and development; Warehouse and distribution; Retail outlets; Headquarters and administrative offices (Hasan and Wall, 2004).

1.1.3 Firm Performance

Kirkman, et al., (1999) define performance as the achievement of organisational goals in pursuit of business strategies that lead to sustainable competitive advantage. Although widely used in empirical and theoretical research, the notion of organisational performance remains largely unexplained and recourse is taken to commonly used operationalisations of performance. Organisational performance may be measured in terms of accounting measures, operational measures, market based measures, and survival measures. Measures of economic value creation are also popular in practice but are not frequently used in strategic management or entrepreneurship (Carton, 2004).

Performance outcomes result from success or market position achieved (Hooley, Greenley, Cadogan and Fahy, 2005). Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. It might stand for financial performance, market performance, customer performance or overall performance depending on the context in which the researcher is working from. Financial performance literally refers to financial measures, such as profit margin and return on investment (ROI). Market performance includes: how well the partnership delivers social services to the public through Public-Private-Partnership. Although the concept of organizational performance is easily thought to be simple and unequivocal, however, it is not just something one observes and measures. It is a relative concept defined in terms of some referent employing a complex set of time-based and causality-based indicators bearing on future realizations. Above all, performance is about the capability to generate future results (Lebas and Euske, 2002).

1.1.4 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Kenya currently has 43 licensed commercial banks and one mortgage finance company. Of these 44 institutions, 31 are locally owned and 13 are foreign owned. Citibank, Habib Bank and Barclays Bank are among the foreign-owned financial institutions in Kenya. The government of Kenya has a substantial stake in three of Kenya's commercial banks. The remaining local commercial banks are largely family owned.

Kenya is hailed as having the most resilient financial system of its neighbors and a mature private sector that welcomes foreign investors. Kenya's commercial banks play a crucial role in ensuring Kenya's economic progress. In 1986, Kenya's financial sector experienced a crisis that resulted in 37 failed banks. Loans in default were at the center of the financial crisis. To protect Kenya's commercial banks from undergoing a similar crisis, the Parliament passed a series of regulations to govern the banking industry, and the Central Bank of Kenya strengthened its regulatory role. Banks perform important role in economic development by mobilizing funds from savers and lending them to borrowers in an efficient manner. The loan market in Kenya has faced high competition as commercial banks seek to maximize their returns. The industry Gross Loans stood at Ksh. 914,910 millions in 2010 which grew to Ksh. 1,190,985 Millions. However the numbers of banks are many hence bringing in competition.

1.2 Problem Statement

The banking industry in Kenya has become very competitive as more and more Deposit taking microfinance are promoted into full fledged commercial banks. In addition, more and more commercial banks have joined the Kenyan market which has made the industry very competitive. According to the Central Bank of Kenya, the number of commercial banks operating within the country has been stable at 43 despite the number of banks that have joined. This was attributed to the mergers and acquisitions which matched the new entrances. This has meant that the competition is maintained high as they new entrants seek to capture their share of the market. This has led to high product innovations and market segmentations so as to meet the expectations of customers. As a result, asset financing has been adopted as one of the key strategies to improve bank performance.

In response to these changes, banks in Kenya have used several strategies to develop and grow their market share and improve profitability. Competition among commercial banks has increased as more and more microfinance institutions were granted license to either operate as deposit taking microfinance or fully fledged commercial banks. The competition has expanded as more and more banks launch their asset financing products that had been a preserve of only a few banks. In order to protect their market segments, commercial banks in Kenya have employed several strategies aimed at either maintaining or increasing their financial performance.

Several studies have being done in the area of strategy; Munene (2010) analyzed the Introduction of Mortgage backed securities in Kenya Capital Market. The findings of the study revealed 40% of the financial institutions hold mortgage loans of over Kes I billion showing the capability of originating mortgage loans for securitization and 70 % of financial institutions raised additional funds to finance their expansion plans indicating the need for additional funds. Ogilo (2012) reviewed the impact of credit risk management on financial performance of commercial banks in Kenya. The study analyzed the impact of credit risk management on the financial performance of commercial banks and also attempted to establish if there exists any relationship between the credit risk management determinants by use of Capital adequacy, Asset quality, Management quality, Earning ability and Liquidity (CAMEL) indicators and financial performance of commercial banks in Kenya. Ongore (2013) looked at the determinants of financial performance of commercial banks in Kenya and found out that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. But the overall effect of macroeconomic variables was inconclusive at 5% significance level. From the above discussions, limited studies have focused on strategies for asset financing and firm performance among commercial banks in Nairobi, Kenya. This study therefore sought to fill this knowledge gap by answering the following research questions: What strategies have been used by commercial banks in Kenya in asset financing? What is the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya?

1.3 Research Objective

The study was guided by the following research objectives:

i. To determine the strategies used for assets financing by commercial banks in Kenya and
ii. To establish the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya.

1.4 Value of the Study

This study would important to the banking sector, government and academicians. To the Management of the banking sector, the findings of this study would inform the management of commercial banks in Kenya on how to use the asset financing products to improve their firm performance. Through the findings of this study, the managers in these banks would be able to formulate strategies that will boost the performance of their banks.

The findings of this study would also be beneficial to the Government of Kenya policy makers on issues pertaining to the operations of asset financing in Kenya for an accelerated economic development. The findings of this study, policy makers may be able to use the findings in informing their decisions on policy formulation in asset backed markets.

The findings of this study would also be beneficial to future researchers and academicians. Through the findings of this study, future researchers and academicians would find source of reference on asset financing and also establish other areas of future studies in as far as asset finding is concerned because this study suggested areas of further studies in chapter five.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter undertakes to review literature relevant to this research with the aim of getting views and opinions on strategies for asset financing to enhance performance of commercial banks in Kenya. Specifically, the chapter outlines the theoretical foundation, concept of strategy, types of strategies, firm performance and measures of firm performance and the relationship between strategies and firm performance.

2.2 Theoretical Foundation of the Study

The study is founded the competitive theory. Early literature on the theories of trade between nations provided the basis for competitiveness theory. It alluded to the development of sustainable competitive advantage well before its time. Competitiveness theory evolved from the traditional trade theories, fundamentally 'The effect of the Wealth of Nations' Adam Smith in 1776 (later translated in 1937), which was revolutionary. In his book Adam Smith disputed the then existing philosophy Mercantilism view on trade which suggested that trade was a zero sum game in which a trade surplus of one country is offset by a trade deficit in another country. Smith in his argument viewed trade as a positive sum game in which all trading partners can benefit if countries specialized in the production of goods and services in which they had absolute advantage. This came to be known as the theory of absolute advantage.

Competitiveness theories proposed some kind of advantage as enabling a country gain more out of international trade. The same is true for the firm. If sustainable superior performance (which equals sustainable competitive advantage) is to be achieved a firm must differentiate itself. Alderson (1937) hinted at a basic tenet of sustainable competitive advantage, that a fundamental aspect of competitive advantage is the specialization of suppliers to meet the variations in buyer demand. Later Alderson (1965) recognized that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of the consumer. He stated that differential advantage might be achieved through lowering prices, selective advertising appeals and/or product improvement and innovations. While these concepts lay the core foundation for firms in moving toward sustainable competitive advantage, the intense nature of competition today requires that firms be more innovative and entrepreneurial in their strategy planning than just lowering prices or improving existing products. The most important question then would be how then can companies build sustainable competitive advantage?

2.3 Concept of Strategy

Strategy helps to position a firm in the wider external environment. It also defines the obligation of the firm to its stakeholders (Johnson and Scholes, 1999). Strategy helps to define the specific business of the firm in terms of products, markets and geographical scope. Strategy can also be considered as a firm's game plan that enables the firm to create competitive advantage (Pearce and Robinson, 2000). The firm needs to look at itself in terms of what the competitions are doing. This is critical because firms in the same industry tend to compete for the same customers. Ansoff and Mc Donnell (1990) define strategy as a set of decision making rules for guidance of organizational behavior. This strategy is used as a yardstick to measure firm's performance and to define its relationship with the external environment. Strategy needs to take into consideration both the immediate and remote environment.

A strategy is designed to effectively relate the organization to its internal and external environment. Backer (1980) argues that the major significance of strategy is that it gives organizations a framework for developing abilities for anticipating and coping with change in the environment. Further indicates that a strategy helps an organization to deal with future uncertainty by defining goal accomplishing procedures.

2.4 Types of Strategies

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition.

Aaker (1992) also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kotler (1998) says that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts does leadership and strategic management have on an organization in relation to its external environment.

In most corporations there are several levels of strategy they are corporate level, business level and operational levels. The “lowest” level of strategy is operational strategy and is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies. According to (Porter, 1998), developing a competitive strategy is developing a broad formula on how a business is going to compete, what its goals will be and what policies would be needed to carry out these goals.According to Pearce and Robinson (2005) it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

Corporate strategy refers to the selection and development of the markets in which a firm competes (Pearce and Robinson, 2005). Corporate strategy deals with what industries a firm seeks to compete in thereby facilitating the development of appropriate strategies to ensure the firm enters and survives in the said industry. Business level strategies including low cost, differentiation, and focus are how a firm competes in a single market or industry. Fundamental forces of change have been experienced in the global business environment resulting in unprecedented competition. Organizations responding to these changes have realized their existing strategies and configurations may no longer serve them (Ansoff and McDonnell, 1990). Ansoff and McDonnell (1990) see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises. Hamael and Prahalad (1990), perceived an organization as a foundation for sustained competitive advantage when it poses skills or resources that provide superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate new values creating capabilities based on that knowledge. And unless there is an advantage over competitors that is not easily duplicated or connected, long term profitability is likely to be elusive.

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization. At a general strategic level Ansoff and McDonnell (1990), suggests three reasons why firms diversify. The objectives can not be achieved by continuing to operate in their existing market.

Strategies adopted by companies reflect the firm's internal strengths and the opportunities faced in the external environment. Strategy will also consider how best to deal with internal weakness and avoid external threats. Hill and Jones (2001) note that internal new venturing is a strategy employed when a company has a set of valuable competencies in its existing business that can be leveraged to enter a new business area. Science based companies use their technology to create market opportunities in related areas mainly through internal new venturing. A firm can also use this strategy to enter and compete in a new business area or an emerging market where there are no established players.

According to Johnson and scholes (2000) corporate level deals with overall scope and purpose of the organization and it decides on the business of the organization. The business level strategy determines how the organization competes in its market. Operational refer to the responses developed to aid the smooth operation in an organization. They are mainly developed to ensure high level of effectiveness and efficiency in the achievement of organizational vision, mission and objectives. They provide daily directions in the organization. These strategies are important because of their detailed outline of how operations are supposed to be conducted in an organization.

A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value. The issues related to good business model design are all interrelated, and lie at the core of the fundamental question asked by business strategists concerning how one build a sustainable competitive advantage and turn a super normal profit? In short, a business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits. To profit from innovation, business pioneers need to excel not only at product innovation but also at business model design, understanding business design options as well as customer needs and technological trajectories (Johnson and Scholes, 2002). Developing a successful business model is insufficient to assure competitive advantage as imitation is often easy: a differentiated (and hard to imitate) yet effective and efficient business model is more likely to yield profits. Business model innovation can itself be a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for incumbents and new entrants alike.

According to Pearce and Robinson (2005) operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

Further, organizations may apply decisive strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviours to assure success in transforming future environment. Pearce and Robinson (2005) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

All organizations lend themselves to the external environment, which is highly dynamic and continually posing challenges as well as opportunities. Firms therefore need to develop capabilities to manage threats and exploit emerging opportunities. Pearce and Robison (2005) point out that this calls for a proactive approach to business and the formulation of strategies that constantly match capabilities to the environment. The environment in an industry has great influence on the growth, survival and profitability of firms. According to Kotler (2000) to survive and prosper in an industry, a firm must meet two criteria; first, it must supply what customers want and second, it must survive the competition. He is of the view that it is very necessary for firms to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies and respond to competitive forces.

2.5 Firm Performance

Performance outcomes result from success or market position achieved (Hooley, Greenley, Cadogan and Fahy, 2005). Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. It might stand for financial performance, market performance, customer performance or overall performance depending on the context in which the researcher is working from. Financial performance literally refers to financial measures, such as profit margin and return on investment (ROI). Market performance includes: how well the partnership delivers social services to the public through Public-Private-Partnership.

Although the concept of organizational performance is easily thought to be simple and unequivocal, however, it is not just something one observes and measures. It is a relative concept defined in terms of some referent employing a complex set of time-based and causality-based indicators bearing on future realizations. Above all, performance is about the capability to generate future results (Lebas and Euske, 2002).

There are various measures of performance include financial and non financial measures. Most of these measures make use of the financial statements. Financial statement analysis seeks to evaluate management performance in several areas including profitability, efficiency and risk (Reily and Brown, 1997). Microfinance performance can take many forms depending on what the stakeholders are interested in. Different stakeholders require different performance indicators to enable them make informed decisions.

2.6 Measures of Firm Performance

Performance is the ability to generate and sustain income, stability and growth. It is a measure of relative investment and can be relative to one of the following factors: Assets, capital adequacy, liquidity, liabilities, number of employees and other size measures. According to Pandy, Brealey and Myers, (2000) the following are the most common measures of financial performance:

This is the most common measure of financial performance. The measures are used to assess how well management is investing the firms' total capital and raising funds. Profits serve as a cushion against adverse conditions such as losses on loans, or losses caused by unexpected changes in interest rates. Consequently, creditors and regulators concerned about failure also look to profits to protect their interests although the measures ignore firm's risk.

Profits depend on three primary structural aspects of financial institutions: Financial leverage, Net interest margin and non portfolio income sources. Return on Equity (ROE) and Return on Assets (ROA) are the most commonly applied profitability ratios used to assess financial performance. In this study we will use Return on Investment (ROI) as the measure of a commercial bank's financial performance.

They relate to the firm's overall use of financial leverage. Generally firms with high financial leverage will experience more volatile earnings behavior. It indicates the extent to which a bank's capital base covers the risks inherent in its operations. Important capital adequacy ratios include: Shareholders equity to total assets; shareholders equity to total loans and Shareholders equity to total customer deposits (gearing ratio). Solvency refers to the ability of a bank to survive over a long period of time. It is the same concept as liquidity except that it is for long term rather than short term. Ratios to assess long term solvency are measures of a bank's riskiness. There is no absolute ratio that has been put forward theoretically as the best measure of a good level of solvency. Total liabilities to Total assets and Shareholders funds to Total Assets are some of the ratios that measure solvency.

2.7 Strategic Management and Firm Performance

Economic environment is changing rapidly and this change is characterized by such phenomena as the globalization, changing customer and investor demands, everincreasing product-market competition. To compete successfully in this environment, organizations continually need to improve their performance by developing and implementing appropriate strategies like reducing cost, innovating products and processes and improving quality, productivity and speed to market. Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved, assesses its competitors and set goals and strategies to meet all existing and potential competitors, and then reassess each strategy regularly as necessary to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial or political environment" (Lamb, 1984). Achieving a competitive advantage position and enhancing firm performance relative to competitors are the main objectives that business organizations in particular should strive to attain (Raduan, Jegak, Haslinda and Alimin, 2009).

The efficiency with which an organization implements its policies and programs and accomplishes its strategic intent in terms of its mission and vision is of paramount concern because of its impact on its performance. Askarany and Yazdifar (2012), investigating the diffusion of six proposed strategic management tools of the past few decades through the lens of organizational change theory, examined the relationship between the adoption of these techniques and organizational performance in both manufacturing and non-manufacturing organizations in New Zealand. The findings suggest a significant association between the diffusion of these relatively new strategic management tools and organizational performance.

Gichunge (2007) examined the effect of formal strategic management on organizational performance of medium sized manufacturing enterprises in Nairobi, Kenya. It examined the extent to which formal strategic management is adopted by medium sized manufacturing enterprises in Kenya and investigated the effect of various administrative/legal factors on the extent to which formal strategic management are adopted. It also determined the relationship between level of competition and adoption of formal strategic management and investigated the effect of administrative/legal factors on organizational performance. Finally the study assessed the relationship between adoption of formal strategic management and organizational performance. The data was analyzed statistically using the Statistical Package for Social Sciences (SPSS) and packages through tabulation, proportions and logit analysis. Results showed that the Medium Enterprises (MEs) have not adopted any formal strategic management. It is consistent with past studies that administrative/legal factors affect both adoption of formal strategic management and organizational performance. Competition also influences adoption of formal strategic management. Organizations with formal strategic management perform better than those without formal strategic management.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used to carry out the survey. The research design, population of the study, sampling size, the data collection instrument and how data was analyzed and data interpretation is detailed here below.

3.2 Research Design

The study adopted a descriptive survey design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Descriptive research design has been selected upon because of its ability to build a profile about a phenomenon.

Inferences about relationships between variables were made from concomitant variations of independent and dependent variables. Descriptive research design was used in cases where researcher expects to have target group explain or describe certain issues about important variables of the study.

3.3 Population

The target population comprised all commercial banks in Nairobi, Kenya. As at June 30th 2013, there were 44 financial institutions in the banking industry in Kenya. Following this small number, the study included all the banks in the study hence a census study was conducted.

3.4 Data Collection

Primary data was collected using a questionnaire. The questionnaire comprised of open and closed ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that was not be captured in the close-ended questions. The questionnaire was administered using a drop and pick later method. Secondary data was also collected for this study. One questionnaire was administered to staffs at the various banks in Nairobi.

The researcher administered questionnaires to the various respondents selected in the sample frame using a drop and pick later method. The questionnaire was as simple as possible and includes both open and close ended questions with the aim of meeting the objectives outlined earlier in this study. The researcher employed a likert scale to measure the degree of response. This scale consists of numbers and descriptions e.g. (SD-Strongly Disagree to SA-Strongly Agree) which are used to range the feelings or intangible components in research (Mugenda and Mugenda 2003).

The questionnaire was pre-tested to increase the validity and reliability of responses. Pre-test is a means to determine to what extent the questionnaire is communicating and enables the researcher revise questions that are not clear to the respondents and which are likely not to be answered (Chandran, 2004). According to Mugenda and Mugenda (2003) the pre-test sample is between 1% and 10% depending on the sample size. Pre-testing was done on 10 respondents from the target population who was not part of the actual sample. The 10 respondents were encouraged to make comments and suggestions concerning instructions, clarity of questions and relevance.

3.5 Data Analysis

Data analysis involves cleaning and organizing the data for analysis, describing the basic features of the data in the study and inferential statistics which involves hypothesis and models testing (Mugenda & Mugenda, 2003). The questionnaires collected from the field was inspected for completeness and consistence then entered into Statistical Package for Social Sciences for processing. The edited data was coded for ease of classification in order to facilitate tabulation.

The closed ended questions were coded and analyzed quantitatively, based on percentages and frequencies and presented in tables and charts. Further, the Likert scale type questions were analyzed using mean scores and standard deviations. Mean scores were used to show the statements that most of the respondents agreed with. The open-ended questions were analyzed qualitatively using content analysis and the results presented under identified themes as per the objectives of the study.

To quantify the strength of the relationship between the variables, the researcher used Karl Pearson's coefficient of correlation. In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis of the data on the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya.

4.2 Response Rate

The study targeted a sample of 44 commercial banks out of which 31 returned dully filled questionnaires giving a response rate of 68%. This response was good enough because it conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate, rate of 60% is good while response rate of 70% and above is excellent as a basis for analysis and reporting.

4.3 General Information

4.3.1 Period worked with the Bank

The study sought to establish the Period which the respondent had worked with the Bank**.** The findings are presented in the Table 4.1.

Table 4.1: Period worked with the Bank

	Frequency	Percent
Below 3 years	10	32.3
4-6 Years	13	41.9
7-10 years	3	9.7
Above 10 years	5	16.1
Total	31	100

From the findings, majority (41.9%) of the respondents indicated that they had worked with the Bank for a period of between 4-6 years, 32.3% of the respondents indicated that they had worked with the Bank for a period of below 3 years, 16.1% of the respondents indicated that they had worked with the Bank for a period of Above 10 years while 9.7% of the respondents indicated that they had worked with the Bank for a period of between 7-10 years, from the findings, the respondents had worked in their banks for a long duration long hence were familiar and experienced in the banks. As such, this implied that the responses obtained from them were reliable in addressing the objective of the study.

4.3.2 Position held in the organization

The study sought to find out the position held by the respondents in the organization. The findings were presented in Table 4.2.

Table 4.2: Position held in the organization

	Frequency	Percent
Top level management	5	16
Middle level management	17	55
Other category	9	29
Total	26	100.0

It is evident from the findings that, 55% of the respondents were in the middle level management, 29% of the respondents were in other categories of management while 16% of the respondents were in the top level management. This implied that all levels of management were represented in the study hence reliability of the findings.

4.3.3 Type of asset financing offered by the banks

The study sought to establish the type of asset financing offered by the Bank. The findings were presented in the Table 4.3.

Table 4.3: Type of asset financing offered by the banks

	Frequency	Percent
Mortgage	13	41.9
Motor Vehicle	12	38.7
Machinery	5	16.1
Other	1	3.2
Total	31	100.0

It is evident from the findings that, 41.9% of the respondents indicated that the bank offered mortgage asset financing, 38.7 % indicated that the bank offered motor vehicle asset financing, 16.1 % indicated that the bank offered machinery asset financing and 3.2 % indicated that the bank offered other asset financing. These findings show that mortgage financing and motor vehicle asset financing were the most commonly offered by banks compared to other asset financing.

4.4 Asset Financing Strategies

The study sought the respondents' extent of use of various asset financing strategies.

4.4.1 Asset financing Strategies Adapted to a Great Extent

The study sought to establish the asset financing strategies adopted by the Bank. The findings were presented in the Table 4.4

Table 4.4: Asset financing Strategies Adapted to a Great Extent

	Mean	Std. Deviation
The bank has employed competent staff in its asset financing department	4.4839	.72438
The Bank has entered into schemes with customers	4.3226	.79108
The bank has employed quality service delivery in asset financing	4.1935	.74919

The bank has used focused market strategy in asset financing	4.1613	.63754
The Bank has used diversified asset class in asset financing	4.0000	.77460
Average	4.2322	0.06026

It is evident from the findings that the bank has employed competent staff in its asset financing department, the respondents agreed to a great extent as indicated by a mean of 4.4839. On whether the Bank had entered into schemes with customers, the respondents agreed to a moderate extent as indicated by a mean of 4.3226. On whether the bank has employed quality service delivery in asset financing, the respondents agreed to a great extent as indicated by a mean of 4.1935. Asked if the bank has used focused market strategy in asset financing, the respondents agreed to a great extent as indicated by a mean of 4.1613. Whether the Bank has used diversified asset class in asset financing, the respondents agreed to a great extent as indicated by a mean of 4.0000. The findings indicated that asset financing strategies were adopted by the Bank to a great extent as shown by an average mean of 4.2322.

4.4.2 Asset financing Strategies Adapted to a Moderate Extent

The study sought to establish the asset financing strategies adopted by the Bank. The findings were presented in the Table 4.5.

Table 4. 5: Asset financing Strategies Adapted to a Moderate Extent

	Mean	Std. Deviation
The Bank has used competitive interest rates in asset financing	3.9032	1.07563

The bank has used media advertising in asset financing	3.9032	1.04419
The Bank has applied market segmentation strategy in asset financing	3.8710	.76341
The Bank has encouraged customers to refer their customers	3.8065	1.27591
The Bank has used promotion activities in asset financing	3.6774	1.13687
The Bank has created a database from which to get customers	3.5484	1.20661
The Bank has used strategic alliances in asset financing	3.4839	.72438
The Bank has dealership incentives for its customers	3.4516	1.33763
Average	3.7056	0.22402

It is evident from the findings that the bank has used media advertising in asset financing, the respondents agreed to a great extent as indicated by a mean of 3.9032. On if the Bank has used competitive interest rates in asset financing, the respondents agreed to a great extent as indicated by a mean of 3.9032. On if the Bank has applied market segmentation strategy in asset financing, the respondents agreed to a great extent as indicated by a mean of 3.8710. On if the Bank has encouraged customers to refer their customers, the respondents agreed to a moderate extent as indicated by mean of 3.8065. On if the Bank has used promotion activities in asset financing, the respondents agreed to a moderate extent as indicated by a mean of 3.6774.On if the Bank has created a database from which to get customers, the respondents agreed to a moderate extent as indicated by mean of 3.5484. On whether the Bank has used strategic alliances in asset financing, the respondents agreed to a moderate extent as indicated by mean of 3.4839. Finally, on if the Bank has dealership incentives for its customers the respondents agreed to a moderate extent as indicated by mean of 3.4516.From the findings above, banks have to a great extent employed competent staff, media advertising, diversified asset class, competitive interest rates, focused market and market segmentation strategy, employed quality service delivery and have entered into schemes with customers. The findings above indicated that asset financing strategies were adopted by the Bank to a great extent as shown by an average mean of 3.7056.

4.5 Asset financing strategies on the performance of the Bank

The study sought to establish the extent to which asset financing strategies affected the performance of the Bank. The findings are presented in Table 4.6.

Table 4.6: Asset financing strategies on the performance of the Bank

	Frequency	Percent
Very Great Extent	17	54.8
Great Extent	9	29.1
Moderate Extent	5	16.1
Total	31	100.0

It is evident from the findings that, 54.8% of the respondents indicated that asset financing strategies affected the performance of the Bank to a very great extent, 29% of the respondents indicated that asset financing strategies affected the performance of the Bank to a great extent and 16.2 % of the respondents indicated that asset financing strategies affected the performance of the Bank to a moderate extent. This implied that asset financing strategies had great influence on the performance of the Bank hence leading to their adoptions.

4.5.1 Effects of Strategies Used in Assets Financing on Firm Performance to a Great Extent

Table 4.7: Effects of Strategies Used in Assets Financing on Firm Performance to a Great Extent

The study sought to establish the strategies used in assets financing that effect firm performance to a great extent. The findings were presented in the Table 4.7

	Mean	Std. Deviation
Quality service delivery in asset financing has improved asset performance in the Bank	4.3871	.84370
Competent staff in asset financing department have improved asset performance in the Bank	4.3548	.66073
The Charging of competitive interest rates in asset financing has improved asset performance in the Bank	4.3548	.66073
Market segmentation strategy in asset financing has improved asset performance in the Bank	4.1613	.93441
Focused market strategy in asset financing has improved asset performance in the Bank	4.0645	.81386
	4.2645	0.11985

It is evident from the findings that the quality service delivery in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 4.3871. On the Charging of competitive interest rates in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 4.3548. Concerning whether the competent staff in asset financing department has improved asset performance in the Bank the respondents agreed to a moderate extent as indicated by a mean of 4.3548. On the market segmentation strategy in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 4.1613. On the focused market strategy in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 4.0645.These findings indicate that strategies used in assets financing that effect firm performance to a great extent as shown by an average mean of 4.2645.

4.5.2 Effects of Strategies Used in Assets Financing on Firm Performance to a Moderate Extent

The study sought to establish the strategies used in assets financing that effect firm performance to a moderate extent. The findings were presented in the Table 4.8

Table 4.8: Effects of Strategies Used in Assets Financing on Firm Performance to a Moderate Extent

	Mean	Std. Deviation
Schemes established with customers have improved asset performance in the Bank	3.9677	.91228
Diversified asset class in asset financing has improved asset performance in the Bank	3.9355	.62905
Media advertising in asset financing has improved asset performance in the Bank	3.9355	.81386
Dealership incentives for customers have improved asset performance in the Bank	3.9677	.83602
Promotion activities in asset financing have improved asset performance in the Bank	3.9032	.83086
Customers referrals have improved asset performance in the Bank	3.7419	.99892
Use of strategic alliances in asset financing has improved asset performance in the Bank	3.3548	.98483
Average Mean	3.8294	0.12548

It is evident from the findings that, schemes established with customers have improved asset performance in the Bank the respondents agreed to a moderate extent as indicated by a mean of 3.9677. On whether dealership incentives for customers have improved asset performance in the Bank the respondents agreed to a moderate great extent as indicated by a mean of 3.9677. On diversified asset class in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 3.9355. On if the media advertising in asset financing has improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 3.9355.

On promotion activities in asset financing have improved asset performance in the Bank the respondents agreed to a great extent as indicated by a mean of 3.9032. Asked if the customers' referrals have improved asset performance in the Bank the respondents agreed to a moderate extent as indicated by a mean of 3.7419. On the use of strategic alliances in asset financing has improved asset performance in the Bank, the respondents agreed to a moderate extent as indicated by a mean of 3.3548. It is evident from these findings that, the strategies used in assets financing that effect firm performance to a moderate extent as shown by an average of 3.8294.

4.6 Correlation Analysis

The study conducted a correlation analysis to establish the strength of the factors in affecting the performance of commercial banks in Kenya with regard to asset financing. The study used net profit as the measure of performance as it an actual measure of the returns for commercial banks. From the research findings, the study established that there existed a strong positive relationship between strategic alliances and financial performance of commercial banks in Kenya as indicated by a correlation coefficient of 0.774. There is also a strong positive relationship financial performance and media advertising as indicated by correlation coefficient of 0.723.

There is a moderate relationship between financial performance and competent staff as indicated by correlation coefficient of 0.552. There is also a moderate relationship between financial performance and charging of competitive interest rates on asset finance as indicated by correlation coefficient of 0.532.

Diversified asset class posted correlation coefficient of 0.500 depicting that it had a moderate relationship with financial performance while focused strategy had 0.586. Market segmentation strategy and quality service delivery had a weak relationship with financial performance as indicated by correlation coefficient of 0.373 and 0.165 respectively. From these analyses, it can be deduced that there was high correlation between strategic alliances and media advertising with financial performance of commercial banks than any other strategy.

Table 4.9: Correlation Analysis

	Financial Performance
Financial Performance	1
strategic alliances	.774
	.0474
Charging of competitive interest rates	.532
	.005
Diversified asset class	.500
	.009
Focused market strategy	.586
	.002
Market segmentation strategy	.373
	.041
Quality service delivery	.165
	.0419
Competent staff	.552
	.003
Media advertising	.723
	.000
Dealership incentives for customers	.782

	Financial Performance
	.000

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, the conclusions and recommendations of the study based on the objectives of the study. The study aimed at determining the relationship between strategies used in assets financing and firm performance of commercial banks in Kenya.

5.2 Summary of the Findings

The findings of the study established that from the findings, majority of the respondents indicated that they had worked with the Bank for a period of between 4-6 years. On the position held by the respondents in the organization most of the respondents were in the middle level management. On the type of asset financing offered by the bank, majority of the respondents indicated that the bank offered mortgage asset financing.

With regard to asset financing strategies, the study findings established that banks had; employed competent staff in its asset financing department, entered into schemes with customers, employed quality service delivery, used focused market strategy in asset financing, used diversified asset class in asset financing, used media advertising in asset financing and competitive interest rates in asset financing as agreed by the respondents. The study findings further established that the respondents agreed to a great extent that Banks had applied market segmentation strategy in asset financing. The study findings established that asset financing strategies affected the performance of the Bank to a very great extent as indicated by majority of the respondents.

On the effects of strategies used in asset financing on firm performance, the study findings established that the quality service delivery in asset financing has improved asset performance in the Banks, Charging of competitive interest rates in asset financing has improved asset performance, competent staff in asset financing department has improved asset performance in the Bank, Market segmentation strategy in asset financing has improved asset performance in the Bank and focused market strategy in asset financing has improved asset performance in the Bank to a great extent as well as schemes established with customers, dealership incentives for customers, diversified asset class in asset financing. In addition, the study findings established that media advertising in asset financing has improved asset performance in the bank the respondents agreed to a great extent as well as promotion activities in asset financing, customers' referrals and the use of strategic alliances. The study findings also established that that asset financing strategies affected the performance of the Bank to a great extent.

The study conducted a correlation analysis to establish the strength of the factors in affecting the performance of commercial banks in Kenya with regard to asset financing. From the research findings, the study established that there existed a strong positive relationship between strategic alliances and financial performance of commercial banks in Kenya. There is also a strong positive relationship financial performance and media advertising. There is a moderate relationship between financial performance and competent staff. There is also a moderate relationship between financial performance and charging of competitive interest rates on asset finance while market segmentation strategy and quality service delivery had a weak relationship with financial performance.

5.3 Conclusions

The study concludes that the bank has employed quality service delivery in asset financing, the respondents agreed to a great extent and that banks adopt strategies directed at improving, the effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.

The study further concludes that the Banks had used competitive interest rates in asset financing, the respondents agreed to a great extent and that to survive and prosper in an industry, a firm must meet two criteria; first, it must supply what customers want and second, it must survive the competition.

5.4 Recommendations for Policy and Theory

The study recommends that it is very necessary for banks to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies and respond to competitive forces.

The study further recommends that the banks needs to look at what the competitions are doing to effectively design a strategy that relates the organization to its internal and external environment. The strategy should help an organization to deal with future uncertainty by defining goal accomplishing procedures.

5.5 Limitation of the Study

While conducting this research, the respondents especially staff members could give responses which are biased due to fear of higher authorities. Resources were also a challenge in undertaking this study as well as time. The researcher had however made adequate provisions to reduce the challenges.

5.6 Recommendations for Further Studies.

This study recommends that further studies be done on the influence of governments' policies on asset financing in Kenya. This will help bring to the fore the influence of government policy on asset financing in Kenya.

Future studies should also be done on the challenges in asset financing so as to develop ways in which these challenges can be dealt with.

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APPENDICES

Appendix 1: Questionnaire

Kindly answer the questionnaire by ticking in the appropriate box

Section A: General Information

1. Name of the bank___________________________________
2. Period worked with the Bank

   Below 3 years ( ) 4-6 Years ( )

   7-10 years ( ) Above 10 years ( )

3. Position held in the organization

   Top level management ( )

   Middle level management ( )

   Other category ( )

4. What type of asset financing do you offer?

   Mortgage ( ) Motor Vehicle ( )

   Machinery ( ) Other (Please specify ( )

SECTION B: ASSET FINANCING STRATEGIES

Below are statements on the various strategies that commercial banks use in markets their asset finance loans. On a scale of 1-5 where (1= Not at all, 2= small extent, 3= moderate extent, 4= great extent and 5= very great extent), please rank your level of agreement with each statement as it applies to your bank.

	1	2	3	4	5
5. The Bank has used strategic alliances in asset financing					
6. The Bank has used competitive interest rates in asset financing					
7. The Bank has used diversified asset class in asset financing					
8. The bank has used focused market strategy in asset					

financing					
9. The Bank has applied market segmentation strategy in asset financing					
10. The bank has employed quality service delivery in asset financing					
11. The bank has employed competent staff in its asset financing department					
12. The Bank has entered into schemes with customers					
13. The bank has used media advertising in asset financing					
14. The Bank has dealership incentives for its customers					
15. The Bank has created a database from which to get customers					
16. The Bank has encouraged customers to refer their customers					
17. The Bank has used promotion activities in asset financing					

18. What other strategies apart from those identified above has your bank used in asset financing?

____

____

____

____

19. To what extent have these strategies affected the performance of your Bank in asset financing?

Very Great Extent ( ) Great Extent ( )
Moderate Extent ( ) Small Extent ( )
Not at all ( )

SECTION B: Effects of Strategies Used in Assets Financing on Firm Performance

Below are statements on effects of Strategies Used in Assets Financing on Firm Performance. On a scale of 1-5 where (1= Not at all, 2= small extent, 3= moderate extent, 4= great extent and 5= very great extent), please rank your level of agreement with each statement as it applies to your bank.

	1	2	3	4	5

20. Use of strategic alliances in asset financing has improved asset performance in the Bank					
21. The Charging of competitive interest rates in asset financing has improved asset performance in the Bank					
22. Diversified asset class in asset financing has improved asset performance in the Bank					
23. Focused market strategy in asset financing has improved asset performance in the Bank					
24. Market segmentation strategy in asset financing has improved asset performance in the Bank					
25. Quality service delivery in asset financing has improved asset performance in the Bank					
26. Competent staff in asset financing department have improved asset performance in the Bank					
27. Schemes established with customers have improved asset performance in the Bank					
28. Media advertising in asset financing has improved asset performance in the Bank					
29. Dealership incentives for customers have improved asset performance in the Bank					
30. Customers referrals have improved asset performance in the Bank					
31. Promotion activities in asset financing have improved asset performance in the Bank					

32. In general, to what extent have these strategies affected bank performance?

Very Great Extent ( ) Great Extent ( )
Moderate Extent ( ) Small Extent ( )
Not at all ( )