DETERMINANTS OF IMPLEMENTATION OF BLUE OCEAN STRATEGY IN COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

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

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

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DEDICATION

This work is dedicated to my family

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ABBREVIATIONS

BOS	Blue Ocean Strategy
CBK	Central Bank of Kenya
CRM	Customer Relationship Management
US	United States

ABSTRACT

The banking industry in Kenya has achieved tremendous growth over the past years with most of the banks making abnormal profits in the industry. With heightened competition, commercial banks are forced to compete on innovation and this is where the application of blue ocean strategy can be useful. The objectives of this study were to establish the application of blue ocean strategy among banks and to identify factors influencing the application of blue ocean strategy among commercial banks in Kenya.This was a cross-sectional survey of commercial banks in Kenya. The population of this study was 43 commercial banks currently registered by the Central Bank of Kenya as at 30th June 2013 and all were targeted from which 25 banks finally participated. Primary data was collected using questionnaires. The questionnaires were administered by the researcher to the general managers in each of the banks. Since most of the data collected in this study were quantitative, the data was analysed using descriptive statistics (frequencies, mean, and standard deviation). The study found that the factors that should be reduced well below the banking industry's standard were time taken on queues, operating costs, and overheads and indirect costs. The study also found that a number of factors were taken for granted by the banking industry and should be eliminated and included costly activities, operational activities, and programs. It was also found that the factors which the respondents felt that needed to be raised above the banking industry's standard were customer satisfaction, improving customer service, quality and new products. The results also showed that the factors which should be created in the banking industry which have not been offered before included better customer relationships, new products, customer satisfaction, long banking hours and governance. The study found that the factors that influence application of Blue Ocean Strategy in banks were the need to create and capture new demands (84%), breaking the replacement of the value cost (72%), and integration of total system activities of the organization (60%).The study concludes that Blue Ocean Strategy is a concept that is known to most banks and the banks are aware of what issues to eliminate, reduce, raise, or create. It is also concluded that a number of factors affect the application of Blue Ocean Strategy in banks. The study recommends that banks should take cognizance of the factors identified here if they need to do away with competition and make it irrelevant.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The core concept of strategic management is strategy. Strategic decisions influence the way organizations respond to their environment. Schendel and Hofer (1979) define strategy in terms of its function in the organization. They assert that the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment.

According to Juach and Glueck (1984), strategy is a unified comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. Pearce and Robinson (1991) define strategy as large scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. This is putting more emphasis on strategy as it relates the competitive environment of the firm. Most of the definitions cited above look at one aspect of strategy and there is need to look at a more comprehensive definition of strategy.

1.1.1 Concept of Blue Ocean Strategy

According to Hax and Majluf (1991), strategy selects the businesses the organization is to be in or is in, determines and reveals the organizational purpose in terms of long-term objectives, action programs and resource allocation priorities, attempts to achieve a long-term sustainable advantage in each of its businesses by responding properly to the opportunities and threats in the firm's environment and the strength and weaknesses of the organization, is a coherent, unifying and integrative pattern of decisions, engages all the hierarchical levels of the firm (corporate, business, functional), and defines the nature of the economic contributions it intends to make to its stakeholders. From the definitions, it is clear from the authors' perspectives that strategy is incorporating the organization's future and its adaptation to a turbulent environment.

Some companies have strategies at three different levels namely: corporate, business and functional (Ansoff, 1984, Juach and Glueck, 1984, Newman et al., 1989; Pearce and Robinson, 1991; Hax and Majluf, 1991). Each strategy level has a different focus. Corporate strategy concerns itself with defining the overall mission of the firm. This can be within the same industry or even in diverse industries. It therefore gives the widest scope of the firm's activities and deals with how a company's resources will be allocated across the various businesses (Newman et al. 1989; Hax and Majluf, 1991 Pearce and Robinson, 1991). The business level strategy gives attention to how each of the firm's businesses will compete. Concern is on sustaining a competitive edge for each business unit. Emphasis at this level is put on integrating the firm's functional activities in order to attain the desired competitive competence (Hax and Majluf, 1991; Pearce and Robinson, 1991). The functional strategy addressed the efficient utilization of the allocated resources. It involves managers addressing co-ordination of activities within their functional business areas. These activities are important for purposes of effectively supporting the business unit strategy (Hax and Majluf, 1991). All these levels of strategy need to be properly coordinated as they have a bearing on each other's performance.

Kim and Mauborgne (2005) created a new strategy called "Blue ocean strategy". Indeed, Kim and Mauborgne shared the market in two parts: Red and blue oceans.

Red oceans are nowadays existing markets, known market spaces. On the other side, Blue oceans represent none existing markets with unknown market spaces. To implement the new strategy an organization would have to overcome key organizational challenges, including the cognitive, resource, motivational and political hurdles (Kim, Mauborgne, 2005).

Kim and Mauborgne (2005a) contest the dominant position that competition is assumed to play in strategic management. At the heart of this debate is Kim and Mauborgne's view that in the long term firm profits need not be negatively related to the number of firms in its industry. They argue that firms can find markets where they can grow their profits without competition.

Organizations that develop a blue ocean strategy analyzed the market and create a new need, product, service well-adapted to the demand. Red oceans are over-saturated and one of the solutions for companies is to go out of these oceans by accepting the blue ocean strategy challenge. In that challenge, companies will have to create a new market, where the competition will be non-existing at the beginning then irrelevant for a while. The company who create the blue ocean will be monopolistic. To create a blue ocean strategy, leaders have to think outside the box and push limits beyond the barriers (Guillaume, 2011).

Red oceans are existing market spaces, with known products, strategies and competitors. Low price and quality are some of the factors the competition is based-on. The market is overcrowded and all companies' goal is to acquire a bit more market shares every year. All actors' positions are well-known and it is almost impossible for new entrants to settle and compete. Profit and growth are limited due to the strong competition (Guillaume, 2011).

On the contrary, according to Kim and Mauborgne (2005), in blue oceans competition is irrelevant because it is new market space with no boundaries or rules. It is a strategic space, where the first entrant will create the product, demand, rules and it will on a long term perspective extremely beneficial for him. Indeed, by fixing all the criteria, competition will be irrelevant. Nevertheless, creating a blue ocean requires a good analysis, risk-management and of course money.

To create a blue ocean is a necessity for companies who want to move on. Several factors as globalization, technology, innovation, prices, and market shares are facts leading companies to choose their best solution: blue ocean strategy. The strategy is to create a new demand and go in another direction than competition. Thanks to blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant (Guillaume, 2011).

1.1.2 Determinants of the Implementation of BOS

The Blue ocean strategy mainly has got the strategic thought (Pearson, Gordon, 1999) essence and is based on strategists and manager's thought in order to move in the direction of strategic planning activities and processes. For a successful swimming in the Red Ocean, it is always needed to get behind the rivals. Red Ocean has always been of importance and is considered as the facts of business life. But when in more industries, demands are more than supply, the competition for a portion of the squeezing markets, which is so necessary, to maintain a high level of performance, will not be sufficient and the corporations need something beyond the competition

(Johannessen, 2009). They have to create Blue Ocean to reach new profit and growth opportunities Hamel, Gary and C.K. Prahalad, 1994.

Jen-te Yang (2012) paid to identification of The Blue Ocean strategy features in some of the Taiwan hotels in his research. Based on the results of this research, the Blue Ocean Strategy features were identified in including the perception of the guests, the distinct provided innovation added value, the development of new market segments, brand making and renewal brand making, create a unique atmosphere in the hotel, setting up distribution channels and create strategic alliances. Also the results of the hotel confirming, is on the aspects of distinct value added which has been created through CRM (Yang, Jente, 2012).

Dennis Pitta (2009) noted that in order to describe a perceptual strategy that have application in product development start to study the Blue Ocean Strategy. He came to the conclusion that companies can use the blue ocean strategy to renew the structure of their products and services which offer to new customers and can escape from their industrial rivals.

Sheehan and Vaidyanathan (2009) in a research examine the application of a value making for discovering blue oceans, In their research they explained the discovery of the Ocean Blue, A unique way to discover the Blue Ocean, the logic of value creation in action, Which logic value creation?, Your Blue Ocean (Combination of value creation logics),changing the game rules.

Parvinen, et al (2011) studied the role of the new mechanism of value creation in the company sales strategies. They start with the use of value creation and strategic marketing as the theoretical approaches to scrutinize the Foundation of the Blue

Ocean strategy and the assortment of ways in which this strategy is reflected in the sales management activities.

1.1.3 Overview of Banking Industry in Kenya

According to the Central Bank of Kenya, there are 43 licensed commercial banks in Kenya. Three of the banks are public financial institutions with majority shareholding being the Government and state corporations. The rest are private financial institutions. Of the private banks, 27 are local commercial banks while 13 are foreign commercial banks (CBK, 2013).

Bank financial performance in the recent past has significantly improved since 2000. Data from the Central Bank of Kenya shows a significant growth in the industry in all areas including financial performance (CBK, 2013). The banking industry in Kenya has grown over the years since the Central Bank of Kenya put up measures to regulate the banks in order to streamline the activities and more so to prevent the collapse of the banking industry as had been before.

Banks expand internationally by establishing subsidiaries and branches or taking over established foreign banks. This internationalization of banking systems has been encouraged by the liberalization of international financial markets (Muthungu, 2003).

1.2 Research Problem

The Blue Ocean Strategy seeks to render competition irrelevant (Kim and Mauborgne, 2005). Through applying blue ocean strategy, a company can get a total new opinion of old industry and find new chances. BOS theory was applied in US wine market and found that the most important interest for customers is not drinking but fun. They identified a new market avoid full of wine producers, fun market attracting other consumers from beer and cocktail market.

The banking industry in Kenya has achieved tremendous growth over the past years with most of the banks making abnormal profits in the industry (Oloo, 2013). With heightened competition, commercial banks are forced to compete on innovation and this is where the application of blue ocean strategy can be useful. As Kim and Mauborgne's research showed, fun was the new market for US wine producers. The present study seeks to determine the fun market for the banks in Kenya. Other than that, it is important to understand whether foreign banks apply Blue Ocean Strategy differently from the indigenous banks in Kenya.

Studies on this concept are very few in Kenya given that this is a new theory which was introduced in 2005. The study by Kyengo (2009) surveyed the adoption of Blue Ocean strategy by mobile content providers in Kenya. While it was the first study on BOS to be done on Kenya, it only focused on the telecommunications sector and did not address how firms can use the strategy to grow but rather documented the practice of the same in the industry. Nyambane (2012) studied the challenges of implementing BOS in banks and therefore was limited on the scope by the fact that it only focused on indigenous banks and not the entire industry. Further, it only addressed the challenges of implementing BOS and not the application of the strategy in the industry. Abishua (2010) studied the strategies that Equity bank uses to compete and one of the strategies addressed was the BOS. The study was limited in scope as it was a case study rather than a survey. Given the limitations of previous research on BOS in Kenya, the present study addresses the gap by focusing on the question: what determines the application of BOS in commercial banks in Kenya?

1.3 Research Objectives

The objectives of this study were:

1. To establish the application of blue ocean strategy among banks.
2. To identify factors influencing the application of blue ocean strategy among commercial banks in Kenya.

1.4 Value of the Study

This study will add on to the growing body knowledge of strategy and especially the blue ocean strategy. This way, the application of strategy from the banking sector will inform the application of Blue Ocean as a strategy from a developing nation. Further, the study will provide a theoretical basis for further strategic management in organisations without competition as the main problem within which to operate.

The study will be important to the management of various banks included in the study. The results will give an insight into the extent to which the banks have integrated blue ocean strategies into their operations. As such, it would help in reinforcing the use of various strategies for better performance.

The study will be important to the industry players for purposes of establishing to what extent they have applied BOS. It will also go a long way in contributing to the body of knowledge in Strategic Management.

The study will also be useful to those interested in carrying out more studies as far as the application of blue ocean strategies is concerned. Thus, future researchers will find this study a useful guide as it form a basis upon which other studies will be done on other industries in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. First, the chapter provides a theoretical review of Blue Ocean strategy. This is followed by a review of prior studies on blue ocean strategies. Lastly, the chapter concludes by providing a summary of the chapter and a research gap.

2.2 Theoretical Foundation

A number of theories in strategy have been devised to explain why and how strategy is applied in organisations to compete in the market. In this regard, theories such as Miles and Snow typology and Porter's competitive theory have been devised. But with the introduction of Blue Ocean Strategy, competition is rendered irrelevant. Therefore, this section provides a summary of the two theories of competing in the market and why these two theories are not relevant for application in Blue Ocean Strategy. An important theory that applies to Blue Ocean Strategy is the value innovation theory which focuses on how to be different in the market. This theory is also discussed.

2.2.1 Miles and Snow Typology Theory

Miles & Snow's (1978) typology classifies firms into four distinct groups, i.e. defenders, prospectors, analyzers and reactors, based on how a firm responds to three major problems facing it, i.e. entrepreneurial, engineering, and administrative problems. According to them, the entrepreneurial problem defines an organization's product-market domain; the engineering problem focuses on the choice of technologies and process for production and distribution; and the administrative problem involves the formulization, rationalization and innovation of an organization’s structure and policy processes (see Miles et al., 1978, p.20-23).

Miles and Snow have produced a typology of business-level strategies. As opposed to corporate-level strategy, i.e., decisions related to what businesses should the firm be in, business-level strategy is related to how the organisation competes in a given business (Hambrick, 1983). Miles and Snow proposed that firms in general develop relatively stable patterns of strategic behaviour in order to accomplish a good alignment with the perceived environmental conditions.

Miles & Snow have also proposed that the four different types of strategy would differ in three basic dimensions of what they have called the adaptive cycle. Strategy differentiation is based on distinct approaches to: a) entrepreneurial problems: definition of a market-product domain; b) engineering problems: choice of technical systems; c) administrative problems: related to organisational structure and processes.

Central to Miles and Snow's model is the specific relationship between the four strategic types and environment. Coherent with the environment enactment process, defenders will carve a niche in the market where stability can be found even in more dynamic industries, whereas prospectors will be the source of instability in an industry by constantly producing innovations. Hambrick (1983) found that, as predicted by Miles and Snow's model, prospectors tend to thrive in innovative, dynamic environments, capitalising on growth opportunities, whereas defender type firms were most prevalent in stable, mature, and non-innovative industries.

2.2.2 Porter’s Competitive Theory

Porter’s (1980) typology claims that a company can follow only three generic strategies, i.e. a cost leadership strategy, a differentiation strategy and a focus strategy. Built on the dimensions of a business’ scope and the segment differentiation, Abell (1980)’s classification also suggests three possible generic strategies, namely differentiated, undifferentiated and focus strategy.

Several commentators have questioned the use of generic strategies claiming they lack specificity, lack flexibility, and are limiting. Porter stressed the idea that only one strategy should be adopted by a firm and failure to do so will result in “stuck in the middle” scenario (Porter, 1980). He discussed the idea that practising more than one strategy will lose the entire focus of the organization hence clear direction of the future trajectory could not be established. The argument is based on the fundamental that differentiation will incur costs to the firm which clearly contradicts with the basis of low cost strategy and on the other hand relatively standardised products with features acceptable to many customers will not carry any differentiation (Panayides, 2003) hence, cost leadership and differentiation strategy will be mutually exclusive (Porter, 1980). Two focal objectives of low cost leadership and differentiation clash with each other resulting in no proper direction for a firm. In particular, Miller (1992) questions the notion of being "caught in the middle". He claims that there is a viable middle ground between strategies. Many companies, for example, have entered a market as a niche player and gradually expanded. According to Baden-Fuller and Stopford (1992) the most successful companies are the ones that can resolve what they call "the dilemma of opposites".

2.2.3 Value Innovation Theory

Value innovation, the cornerstone of blue ocean strategy, is the simultaneous pursuit of differentiation and low cost, creating a leap in value for both buyers and the company (Amit and Zott, 2012). Because value to buyers comes from the offering's utility minus its price, and because value to the company is generated from the offering's price minus its cost, value innovation is achieved only when the whole system of utility, price, and cost is aligned. This can be done by answering the following questions: what factors can be eliminated that the industry has taken for granted? What factors can be reduced well below the industry's standard? What factors can be raised well above the industry's standard? What factors can be created that the industry has never offered?

To fundamentally shift the strategy canvas of an industry, a company must begin by reorienting its strategic focus from competitors to alternatives, and from customers to noncustomers of the industry. The strategy canvas contains two parts, a diagnostic and an action framework. The former one refers to the current state of play in the know market space. The latter one is a four action frameworks can be used to formulate a new blue ocean for companies in existing market (Amit and Zott, 2012).

First, eliminate factors should be eliminated well below the industry's standard. These factors are those the companies spent a lot costs to compete in for a long time but have less meaning for companies' competitiveness and bring no profits. Second, reduce factors should be reduced well below the industry's standard. These factors mainly refer to those products and services the companies overdesigned in the completion. They bring too much stress to companies' cost structure that companies can gain little from these overdesigned services (Kim and Mauborgne, 2005).

Third, raise factors should be raised well above the industry's standard. These factors are those have important meaning for customers but ignore by companies in their competition. They commonly haven't got enough inputs. Fourth, create factors should be created that the industry has never offered. These factors refer to those factors which can create new demand for customers and new market for companies. Finally, the Eliminate-Reduce-Raise-Create Grid can be applied to identify the new market-blue ocean. It is a supplementary analytic to the four actions which pushes companies to create a new value curve. It encourages companies not only focus on "eliminate" and "create" factors but also "reduce" and "raise" factors. The grid can be easily understood by managers and help companies find new market space more economical (Amit and Zott, 2012).

As soon as Blue Ocean strategy was born, its theory of creating new demand from unknown market space has become one of the most famous theories in business administration fields. At the same time, its authors haven't stop improving their theory. Kim and Mauborgne (2004) propose that blue ocean strategy help companies to build brands and create brands equity that can be last for decades. Kim and Mauborgne (2005) explained demand in the blue ocean strategy; reason behind importance of the strategy in business; distinction between the strategy and innovation. Although blue ocean strategy is distinct with innovation, it is a good strategy to achieve value innovation (Kim and Mauborgne, 2005). Any company may use such strategy to get rid of the factors it competes upon and create something new for new market demands (Kim and Mauborgne, 2007). For diversified business in multiple industries, both competition environment and companies' structure should be taken into consideration when designing companies' strategies. (Kim and Mauborgne, 2009)

Blue ocean strategy is a totally new strategy which lead companies to leave current market and go into an unknown market to reduce their costs and capture new customers from other industries therefore enhance companies' competitiveness. This new market actually existed before but ignored by most of the managers. Traditional strategies and theories artificially demarcate the border of industry and help a lot for companies' competition in current market. However, the industry defined by old theory might be a fake one. The service and products which can bring companies most profits may be ignored by old industry. Obviously substitute products and other factors directly or indirectly affected competition in these industries but their roles are marginalized. In many industries especially in sunset industry, as the raising of the costs and reducing of profits, companies' survival faces serious threats. It's useless and meaningless to use traditional strategies to capture current limited market. It might be a good idea for companies from all existing market to search for a new market without competitors. To some degrees, only blue ocean strategy can provide commercial banks in Kenya a real competitive environment and a broad competition space.

2.3 Empirical Review

Blue ocean strategy has been treated by many scholars as a good strategy for companies to create uncontested market in which competition is irrelevant. (Layton, 2005; Webber, 2005; Kehnen, 2006; McClenahen, 2005; Srinivasan, 2006; Sarfati, 2006; Kiley, 2005; Gordon, 2005; Scherer,2007; Madan, 2007; Goldberg, Godwin and Cannon, 2006; Andersen & Strandskov, 2008; Azar, 2008). Dahl (2005) proves that blue ocean strategy is widely used by successful companies. Abraham (2006) suggests that correctly defining the market space of companies help companies find an industry they monopoly in. Madden (2009) compares blue ocean strategy and simply better approach and find Blue Ocean has advantage in identifying a more clearly market since simply better approach is lack of thinking of impacts from consumers' demands. Sheehan and Vaidyanathan (2009) state that blue ocean strategy enable managers to capture unique value for consumers.

Some researchers found that there is a mutually reinforcing relationship between Blue Ocean strategy and innovation. Colman and Buckley (2005) advise that companies create Blue Ocean through value innovation. Meyer (2005), Kim and Mauborgne (2005) finds that blue ocean strategy help organizations to innovate and bring new products to market. Leavy (2005) proves pursing blue ocean leads companies to create more value. Sushil (2006) proposes the existence of blue ocean force enterprises to change. Moyer (2006) finds refining and enhancing existing products keeps companies in the existing market. By innovating or even making small changes can bring companies to Blue Ocean where no one else is and build competitive advantages for companies.

Morris (2007) demonstrates organizations using blue ocean strategy to meet the challenge of innovation will bring themselves substantially advantages with their innovation. Kim, Baik, Kazman and Han (2008) propose that many new techniques cannot help a lot for in current highly competitive markets but contribute much to those potential markets where competition doesn't exist. Marcet (2008) discusses innovation and new technology could increase companies' competitiveness better through creating new business in Blue Ocean. Kim, In and Baik (2008) study the case that Value-Innovative Requirements Engineering guide software development organizations in creating uncontested new market and satisfying new customers' needs through applying blue ocean strategy. Côté (2005) describes the competitive space for organization to swim with blue ocean strategy and suggest organizations should re-invent their products to achieve their strategy.

Some studies of Blue Ocean strategy focus on its impacts on corporate supplying high quality services and products. Lewis (2005) uses blue ocean strategy to define industry and propose its contribution of the competition on the quality of products and services. Yang, Kim and Kim (2007) apply blue ocean strategy in Korean power market and develop the value added services successfully. Chang (2008) does a case study of Samsung Total and find Samsung apply their strategy by developing new products to create new electronics markets in China.

Many scholars prove that applying Blue Ocean strategy can make corporate more profitable while improving cost structure. Snell (2008) studies the case of Anheuser-Busch using blue ocean strategy to save their costs. Wanless (2009) studies a case of a bank Pender Financial Group which uses blue ocean strategy to create a new market space and make it more profitable.

Some researchers have done some attempts to apply Blue Ocean strategy to some specific industries. Menon (2008) researches Indian software as Service business and suggests companies in the industries to make their services wider. His study contributes a lot to other businesses in the country. Motley (2008) applies blue ocean strategy to bank industry and finds they can reduce costs of operations and increase profits by entering different market segment without competitors. Savage and Brommels (2008) explore how to create a blue ocean for medical education in Sweden. Shen and Zhang (2008), Kim, Yang and Kim (2008) demonstrate that blue ocean strategy help third party logistics strengthen their core competitiveness and lower their costs.

Other scholars concern about the overall application of the Blue Ocean strategy. Becher (2008) explores the relationship between Chaos Theory, the blue ocean theory and their foundations. Mietnka (2006) proposes the First World can use blue ocean strategy as the way to compete in the global economy. Butler (2008) analyzes the differences of blue ocean strategy formulation between the firms of different size. Mohamed (2009) applies blue ocean strategy to 14 different agencies.

Kyengo (2009) surveyed the adoption of Blue Ocean strategy by mobile content providers in Kenya. Through interviewing managers in four mobile companies, the study noted that there was evidence of blue ocean strategy orientation among the firms and concluded that competition could not be totally ignored in the sector. While it was the first study on BOS to be done on Kenya, it only focused on the telecommunications sector and did not address how firms can use the strategy to grow but rather documented the practice of the same in the industry.

Nyambane (2012) studied the challenges of implementing BOS in banks in Kenya. Interviewing strategy managers of three largest commercial banks in Kenya, the study found that the banks focused on blue ocean strategies to create and sustain their market share. However, this study was limited on the scope by the fact that it only focused on indigenous banks and not the entire industry. Further, it only addressed the challenges of implementing BOS and not the application of the strategy in the industry.

Abishua (2010) studied the strategies that Equity bank uses to compete. The study used secondary data and found that the bank a number of strategies including blue ocean strategy to compete in the industry. The study was limited in scope as it was a case study rather than a survey. Being a case study, it cannot be generalized to the entire industry.

2.4 Summary and Research Gap

The studies above clearly show that there is a gap that still needs to be addressed as far as the application of blue ocean strategy in the banking industry is concerned. Given the limited avenues to compete on using the traditional methods, the Blue ocean strategy offers an avenue through which banks can create uncontested markets to serve. The present study therefore seeks to address this gap by providing an analysis of how blue ocean strategy can be applied in the banking industry in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the method that was used in the collection of data pertinent in answering the research questions specifically research design, population and sample design, data collection, and data analysis methods.

3.2 Research Design

This was a cross-sectional survey of commercial banks in Kenya. A cross-sectional survey seeks to examine an issue across a population of firms at a particular point in time. The aim of the study was to explore the application of blue ocean strategy in commercial banks in Kenya. Given the objectives the study sought to achieve, descriptive survey is best suited for the study.

3.3 Population of the Study

The population of this study was 43 commercial banks currently registered by the Central Bank of Kenya as at 30th June 2013. Since the number of banks currently operating in Kenya is not so large, the study targeted all the 43 commercial banks for the sample. Therefore, this was a census survey of commercial banks in Kenya.

3.4 Data Collection

Primary data was collected in this study using questionnaires. The questionnaires were administered by the researcher to the respondents in order to get accurate results and enhance the quality of data collected. The respondents were the general managers in each of the 43 targeted commercial banks. These were selected because they were more conversant with strategic issues in their banks.

3.5 Data Analysis

Since most of the data collected in this study were quantitative, the data was analysed using descriptive statistics (frequencies, mean, and standard deviation). The analysis was performed to identify the salient factors influencing application of BOS as well as examine the application of BOS in banks. This way, the results are organised on the two objectives.

CHAPTER FOUR: RESULTS AND DATA ANALYSIS DISCUSSION

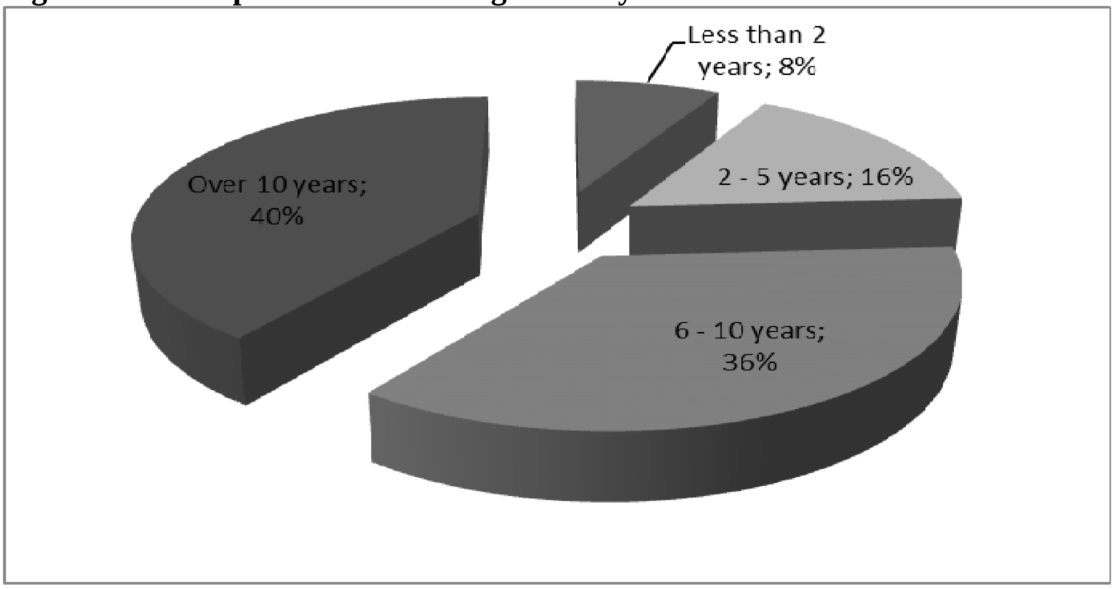
4.1 Introduction

This chapter presents the results and interpretation of findings. The chapter is organized as follows. The first section presents the results on bio-data. This will show the operational period of the banks and the ownership of banks. The second section presents the results of descriptive and factor analysis on the application of blue ocean strategy in the banking industry.

4.2 Profile of the Respondent Banks

This section presents the results on the profile of respondents and the banks. Of the 43 banks that were targeted by the study, 25 banks agreed to take part in the survey giving a response rate of 58%. This section presents the results on the operational years of banks and the ownership of banks. These results are presented in terms of descriptive statistics especially percentages.

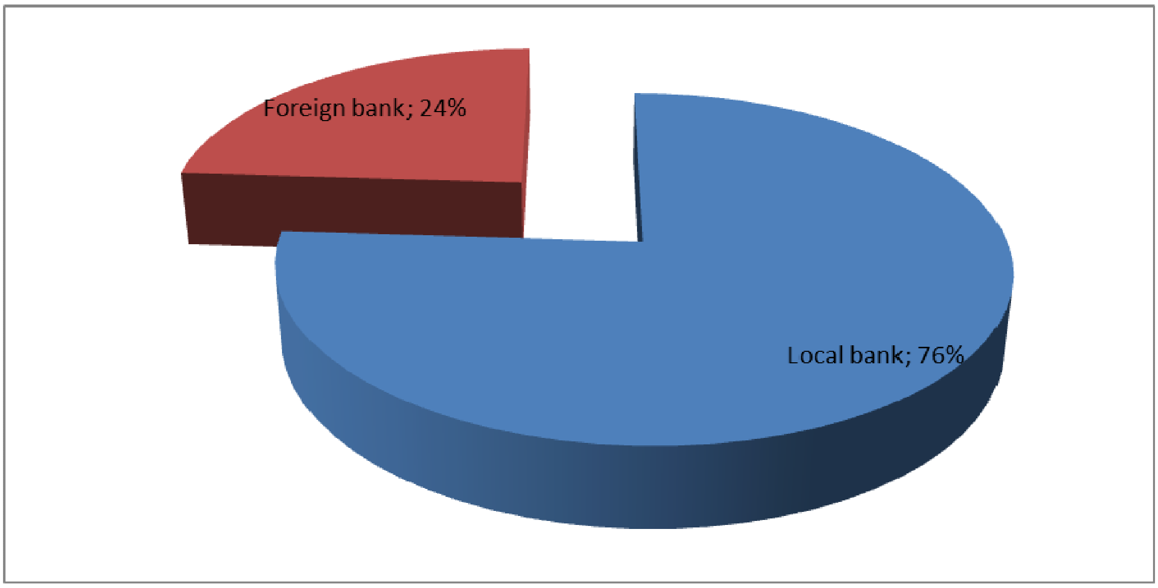
Figure 4.2.1: Experience in Banking Industry



As shown in Figure 4.2.1, the results reveal that 2% had less than 2 years of operation, 16% had 2-5 years of operation, 36% had 6-10 years of operation, and 40% had over

10 years of operation. Thus most (92%) of the banks had over 2 years of operation in the industry and therefore were familiar with the industry practices.

Figure 4.2.2: Bank Ownership

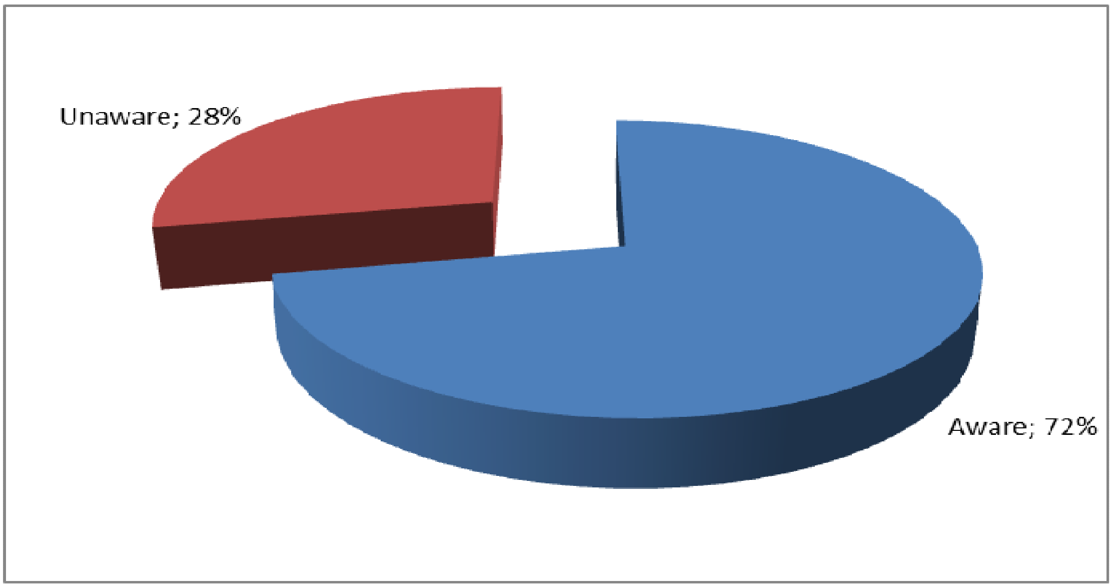


The respondents were asked to state whether their banks were foreign or local banks in terms of their ownership. The results are shown in Figure 4.2.2. As shown in Figure 2 reveal that 76% of the banks were local while 24% were foreign. This means that majority of the banks surveyed were local banks. This is consistent with the composition of banks in general as there are usually more local than foreign banks in Kenya.

4.3 Application of Blue Ocean Strategy

This section presents the results on the application of blue ocean strategy in banks. The results are presented based on the descriptive analysis through percentages, mean scores, and standard deviations. The results are presented in pie charts and tables where necessary.

Figure 4.3: Awareness of Blue Ocean Strategy Concept



The respondents were asked whether they were aware of the concept of Blue Ocean strategy. The results in Figure 4.3 show that 72% of the respondents were aware while 28% were not aware of the concept of Blue Ocean Strategy. This suggests that there is a higher level of awareness among commercial banks as regards the concept studied here. Given the fact that this is a new concept in strategy which was introduced in 2005, it can be understandable why 28% of the respondents did not have a clue about what this concept was all about.

The study sought to examine the application of Blue Ocean Strategy in commercial banks in Kenya. To do this, descriptive data was captured into SPSS and analysed using mean scores, standard deviations, and percentages. The results of the same are presented in Table 4.1.

Table 4.1: Application of Blue Ocean Strategy

Reduce	**Agree (%)**	**Mean**	**SD**
Operating costs	92	4.12	0.02
Tangibles	44	2.36	0.98
Overheads and indirect costs	80	3.98	0.45
Reduce time taken on queues	96	4.26	0.14
Average		**3.68**	**0.40**
Eliminate			
Programs	48	3.01	0.47
Product variations	40	2.46	0.69
Costly activities	92	4.31	0.89
Operational activities	64	3.56	0.45
Average		**3.34**	**0.63**
Raise			
Quality	76	3.75	0.85
Improving customer service	84	3.94	0.78
More customer satisfaction	80	4.08	0.91
New products	64	3.46	0.64
Average		**3.81**	**0.80**
Create			
Customer satisfaction	84	4.18	0.34
New products	92	4.28	0.05
Better customer relationships	96	4.37	0.09
Governance	64	3.49	0.41
Long banking hours	80	4.15	0.10
Investments	44	2.17	0.47
Average		**3.77**	**0.24**

As shown in Table 4.1, the factors that should be reduced well below the industry's standard were found to be time taken on queues (mean = 4.26; SD = 0.14), operating costs (mean = 4.12; SD = 0.02), and overheads and indirect costs (mean = 3.98; SD = 0.45). The results also showed that tangibles did not need to be reduced in the banking industry (mean = 2.36; SD = 0.98). The results in Table 1 also show that a number of factors were taken for granted by the industry and should be eliminated. These factors are costly activities (mean = 4.31; SD = 0.89), operational activities (mean = 3.56; SD = 0.45), and programs (mean = 3.01; SD = 0.47). The respondents did not consider eliminating product variations (mean = 2.46; SD = 0.69).

The results also show a number of factors which the respondents felt that could be raised above the industry's standard. These factors are more customer satisfaction (mean = 4.08; SD = 0.91), improving customer service (mean = 3.94; SD = 0.78), quality (mean = 3.75; SD = 0.85) and new products (mean = 3.46; SD = 0.64). The results in Table 1 further show the factors which should be created in the banking industry which have not been offered before. These factors are better customer relationships (mean = 4.37; SD = 0.09), new products (mean = 4.28; SD = 0.05), customer satisfaction (mean = 4.18; SD = 0.34), long banking hours (mean = 4.15; SD = 0.10) and governance (mean = 3.49; SD = 0.41). Investments was not considered as one of the factors that needs to be created (mean = 2.17; SD = 0.47).

Figure 4.4: Eliminate and Reduce Grid of 25 Banks

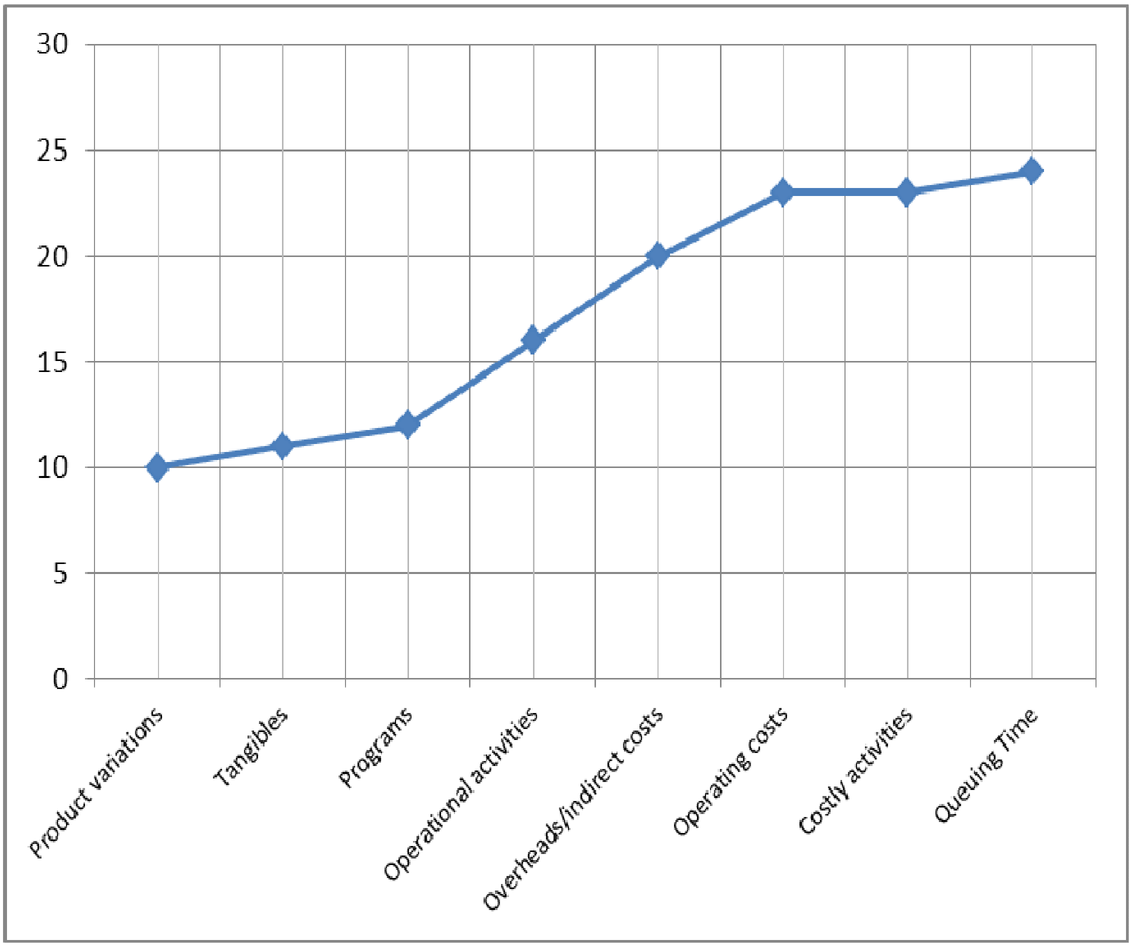


Figure 4 shows eliminate-reduce grid for the 25 banks in this study. The results show that for banks to "eliminate" or "reduce" some of the utilities, the focus should be on the efficiency of serving clients followed by costly elements such as operational costs before delving on programs such as corporate social responsibility and products variations.

Figure 4.5: Raise and Create Grid of 25 Banks

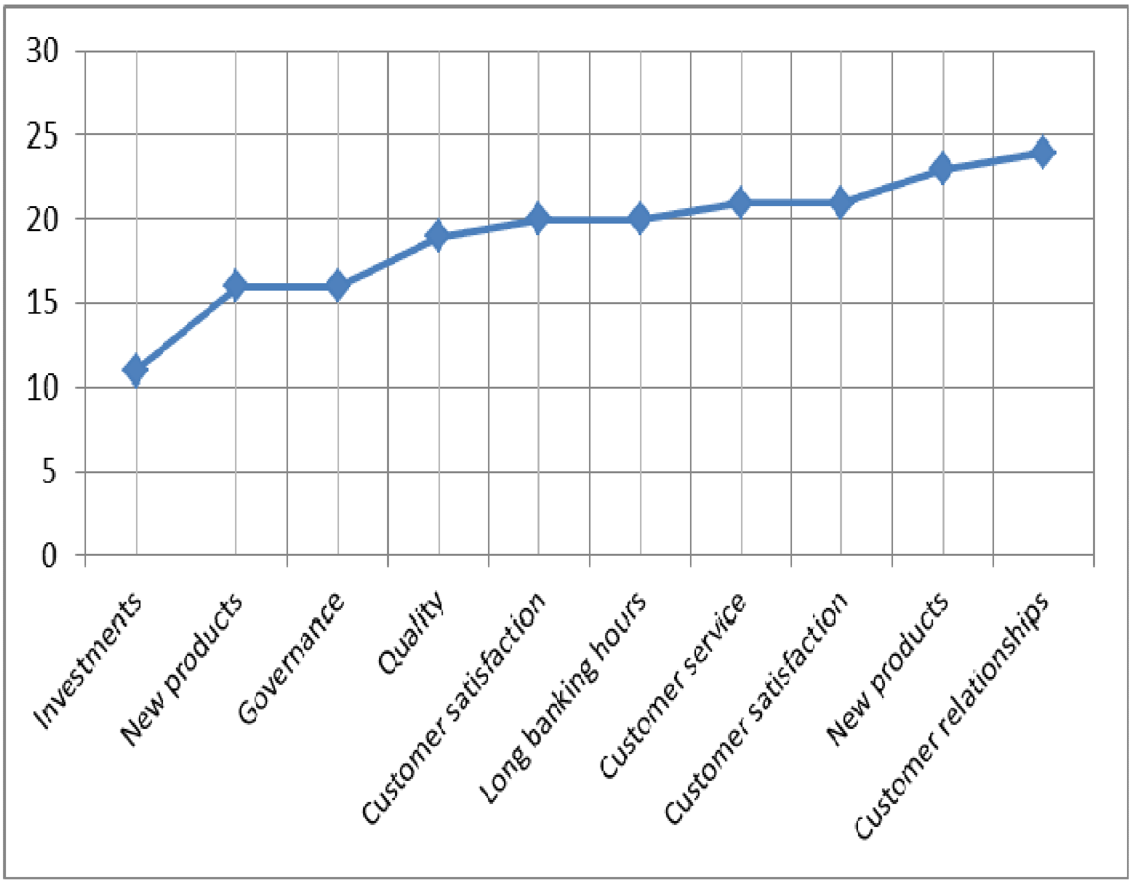


Figure 4.5 presents the raise-create grid of 25 banks. As the results show, for banks to "raise" or "create" utilities for customers, they need to focus on customer relations, satisfaction and service as they chrun out new products. Banks should be customer-centric.

4.4 Factors Influencing Application of Blue Ocean Strategy

The respondents were asked to state the extent to which they agreed with a number of factors influencing the application of blue ocean strategy in banks. To do this, the analysis was done using mean scores, standard deviations and percentages in order to present the factors as they had been envisaged by the study in the questionnaires. The descriptive results are shown in Table 2.

Table 4.4.1: Factors Influencing Application of Blue Ocean Strategy

Factor	Agree (%)	Mean	SD
Creating non-competitive market space	52	3.62	0.12
Making no sense of competition	40	2.94	0.62
Creating and capturing new demands	84	4.51	0.14
Breaking the replacement of the value-cost	72	4.05	0.22
Integration of total system activities of the organization to realize the simultaneous distinctions and low cost	60	3.95	0.41
Average		**3.81**	**0.30**

The results in Table 4.4.1 show that most (84%) of the respondents cited creation and capturing new demands followed by breaking the replacement of the value cost (72%), and integration of total system activities of the organization (60%). The mean values also show that all the factors except making sense of competition were the main determinants of application of Blue Ocean Strategy in the banks. Overall, these factors had a significant impact on the application of Blue Ocean strategy in the banks as shown by the mean score of 3.81.

4.5 Discussion of Findings

The study sought to establish the application of blue ocean strategy among banks. The results showed that the factors that should be reduced well below the banking industry's standard were time taken on queues, operating costs, and overheads and indirect costs. The study also found that a number of factors were taken for granted by the banking industry and should be eliminated. These were costly activities, operational activities, and programs. It was also noted that the factors which the respondents felt that needed to be raised above the banking industry's standard were customer satisfaction, improving customer service, quality and new products. The results also showed that the factors which should be created in the banking industry which have not been offered before included better customer relationships, new products, customer satisfaction, long banking hours and governance.

The findings above suggest that the banking industry is at a position that it can create uncontested markets to serve hence rendering competition irrelevant by applying the blue ocean strategy. These findings are consistent with Meyer (2005) and Kim and Mauborgne (2005) who found that that blue ocean strategy help organizations to innovate and bring new products to market. Commercial banks in Kenya have been found to be innovative in providing new products in the market. This is indeed consistent with Leavy (2005) who proved that pursing Blue Ocean leads companies to create more value.

The study sought to identify factors influencing the application of blue ocean strategy among commercial banks in Kenya. The study found that the factors were creation and capturing new demands, breaking the replacement of the value cost, and integration of total system activities of the organization. The mean values also show that all the factors except making sense of competition were the main determinants of application of Blue Ocean Strategy in the banks. The results showed that these factors had a significant impact on the application of Blue Ocean strategy in the banks. These results are also consistent with the factors which were identified by Kim and Mauborgne (2005).

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, conclusions made from the findings, limitation of the study, recommendations for policy and practice, and suggestions for further research.

5.2 Summary

The study found that most (92%) of the banks had over 2 years of operation in the industry. The results showed that 76% of the banks were local while 24% were foreign. It was noted that 72% of the respondents were aware while 28% were not aware of the concept of Blue Ocean Strategy.

The study sought to examine the application of Blue Ocean Strategy in commercial banks in Kenya. The results showed that the factors that should be reduced well below the banking industry's standard were time taken on queues (mean = 4.26), operating costs (mean = 4.12), and overheads and indirect costs (mean = 3.98). The study also found that a number of factors were taken for granted by the banking industry and should be eliminated. These were costly activities (mean = 4.31), operational activities (mean = 3.56), and programs (mean = 3.01).

It was also noted that the factors which the respondents felt that needed to be raised above the banking industry's standard were customer satisfaction (mean = 4.08), improving customer service (mean = 3.94), quality (mean = 3.75) and new products (mean = 3.46). The results also showed that the factors which should be created in the banking industry which have not been offered before included better customer relationships (mean = 4.37), new products (mean = 4.28), customer satisfaction (mean = 4.18), long banking hours (mean = 4.15) and governance (mean = 3.49). Investments was not considered as one of the factors that needs to be created (mean = 2.17).

The respondents were asked to state the extent to which they agreed with a number of factors influencing the application of blue ocean strategy in banks. The study found that most (84%) of the respondents cited creation and capturing new demands followed by breaking the replacement of the value cost (72%), and integration of total system activities of the organization (60%). The mean values also show that all the factors except making sense of competition were the main determinants of application of Blue Ocean Strategy in the banks. Overall, these factors had a significant impact on the application of Blue Ocean strategy in the banks as shown by the mean score of 3.81.

5.3 Conclusion

Most banks are aware of the concept of blue ocean strategy which is a good indication given that this is a new concept in the field of strategic management. The study concludes that factors which the banking industry needs to reduce are time taken on queues, operating costs, and overheads and indirect costs. On the other hand, factors which should be eliminated are costly activities, operational activities, and programs.

Further, those that need to be raised are customer satisfaction, improving customer service, quality and new products. The factors which should be created in the banking industry are better customer relationships, new products, customer satisfaction, long banking hours and governance.

The study also concludes that the factors influencing the application of blue ocean strategy in banks are creation and capturing new demands, breaking the replacement of the value cost, and integration of total system activities of the organization. These factors have a significant impact on the application of Blue Ocean strategy in the banks.

5.4 Limitations of the Study

The study has solely focused on commercial banks in Kenya. This focus makes the results of the study only applicable to the banking industry in Kenya and any attempt to interpret the results outside the contextual scope in the study should be approached with utmost care.

The study could only get data from 25 banks in Kenya. This is 58% of what had been targeted. While this sample may be low, it is understandable that surveys usually have very low response rates, some less than even 20% but are still acceptable in surveys. Further, commercial banks in Kenya are usually not willing to take part in surveys as the managers who should be respondents are usually very busy professionals and do not accord students time to be interviewed.

5.5 Recommendations

The study recommends that banks should take cognizance of the factors identified here if they need to do away with competition and make it irrelevant. Specifically, banks need to reduce time taken on queues, operating costs, and overheads and indirect costs. For instance, time taken on queues can be reduced by a clear operational plan that understands the busy times in the banking halls and avail more attendants from the back-office to serve at the counters. As is currently the norm in

Kenya, banks are mostly crowded during lunch hours and from 4pm when people are out of their employers' premises. This is the time that queues are longest. This is the time that all the counters need to be operational and extra ones provided where necessary to serve customers faster.

The study recommends that banks should focus on eliminating costly activities, operational activities, and programs. Costly activities in a bank can be identified and eliminated in order to reduce costs and therefore make the bank competitive. The same is true for operational activities and programs.

Further, the study recommends that commercial banks should focus on raising customer satisfaction, improving customer service, quality and new products. By improving operational hitches in banks and thereby improving customer satisfaction, the company can be on the way to better performance as it will have created a niche market for itself where nobody else will be able to compete with it. By coming up with products that customers want, it will be a better strategy for a bank to create its own market and serve it.

The study also recommends that banks need to create better customer relationships, new products, customer satisfaction, long banking hours and governance. These factors have to do with make the customer experience better than others. Knowing the dynamics of work-life in Kenya, longer banking hours for banks would achieve a blue ocean market where those that operate longer than the rest, and even on days traditionally viewed as rest days such as Sundays, would be a blue ocean market to the banks that seek to go that way. Currently, just a few banks operate longer than the usual 9 am – 4 pm timeline while only just a few bank branches operate on Sundays.

5.6 Suggestions for Further Research

Further studies should replicate this study in other industries in Kenya in order to enhance comparability and application in other sectors of the economy. The study also recommends that a longitudinal study be carried out to gather the evolution of issues related to Blue Ocean Strategy application in commercial banks in Kenya. Further research also needs to improve on the response rates by covering a wider number of banks than were covered in the present study.

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APPENDIX

Appendix 1: Research Questionnaire

Section A: General Information

1. Your designation in the bank: ……………………………………………….
2. How many years has your bank been in existence in Kenya?

   Less than 2 years [ ]

   2 – 5 years [ ]

   6 – 10 years [ ]

   Over 10 years [ ]
3. Bank ownership

   Local bank [ ]

   Foreign bank [ ]

Section B: Blue Ocean Strategy

4. Are you aware of the concept of Blue Ocean strategy?

   Yes [ ]

   No [ ]
5. To what extent do you agree that the following factors should be reduced well below the industry's standard?

Factor	**SA**	**A**	**MA**	**D**	**SD**
Operating costs					
Tangibles					
Overheads and indirect costs					
Reduce time taken on queues					

SA = Strongly Agree; A = Agree; MA = Moderately Agree; D = Disagree; SD = Strongly Disagree

6. To what extent do you agree that the following factors are taken for granted by the industry and should be eliminated?

Factor	**SA**	**A**	**MA**	**D**	**SD**
Programs					
Product variations					
Costly activities					
Operational activities					

SA = Strongly Agree; A = Agree; MA = Moderately Agree; D = Disagree; SD = Strongly Disagree

7. To what extent do you agree that the following factors should be raised well above the industry's standard?

Factor	**SA**	**A**	**MA**	**D**	**SD**
Quality					
Improving customer service					
More customer satisfaction					
New products					

SA = Strongly Agree; A = Agree; MA = Moderately Agree; D = Disagree; SD = Strongly Disagree

8. To what extent do you agree that the following factors should be created that the industry has never offered?

Factor	**SA**	**A**	**MA**	**D**	**SD**
Customer satisfaction					
New products					
Better customer relationships					
Governance					
Long banking hours					
Investments					

SA = Strongly Agree; A = Agree; MA = Moderately Agree; D = Disagree; SD = Strongly Disagree

9. To what extent do you agree that the following factors influence the application of blue ocean strategy in your bank?

Factor	**SA**	**A**	**MA**	**D**	**SD**
Creating non-competitive market space					
Making no sense of competition					
Creating and capturing new demands					
Breaking the replacement of the value-cost					
Integration of total system activities of the organization to realize the simultaneous distinctions and low cost					

SA = Strongly Agree; A = Agree; MA = Moderately Agree; D = Disagree; SD = Strongly Disagree

The End