COMPETITIVE STRATEGIES ADOPTED BY COMMERCIAL BANKS IN RWANDA

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DECLARATION

This research project is my original work and has not been presented to any University or institution of higher learning for a degree or any other award.

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This research project has been submitted with my approval as the University of Nairobi Supervisor**.**

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DEDICATION

First of all the Almighty God who gave me this Scholarship and enabled me to go through it well, the Holy Spirit for inspiration, the people of God who spiritually and emotionally supported me through my studies, my late father Rugundana John, my mother Rugundana Muhongaseko Jacqueline, my brothers Rugundana Philibert Happy, Rugundana Felix and Ngenzi Ivan, my sister Umutoni Louise, classmates and friends, without forgetting the Government of Rwanda which sponsored me

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In my literature review, I have cited quite a lot of scholarly publications. Some are from earlier research finding from projects done by other MBA students. I have also used scholarly papers from the wider academia. These are works without which I could not have had a scholarly insight into this research

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ABSTRACT

Strategy is the unifying theme that gives coherence and direction to the decisions of an organization. It is the framework through which an organization asserts its vital continuity whilst managing to adapt to the changing environment to gain a competitive advantage. Firms under competition can either use generic strategies, marketing growth strategies or even management firm-specific strategies to respond to the environment. There are three basic generic competitive strategies, namely, cost leadership, differentiation and focus, to counter the fives forces intensifying industry competition. Managers have applied strategic approaches as a panacea to counter competitive challenges facing their firms. This study was a survey investigating competitive forces in the Rwandan market that affected the banking industry. It sought to find out the competitive strategies the commercial banks companies in Rwanda adopted in the face of various forces of competition in the industry. The research relied on primary data. The study found out that the industry was mainly characterized by the following: the challenges of competitors seeking greater market share, the threat of substitutes from competitors and the ever-changing customer needs and preference. On the contrary, information technology changes, strategic planning, managing customer relationships and security issues posed the least competitive challenge. When faced with the challenges, most companies reacted through strategies aimed at focusing on needs of customers, maintaining strong customer relationships, offering professional services to customers, innovating products and processes, improving banking systems, enhancing the banks' corporate image, offering reputable quality products and services, controlling bank expenditures, and new product development. The least used strategies were reducing the banks' overhead costs, maintaining low administrative costs, product re-engineering, strengthening marketing capabilities, relying on high quality research, and joining strategic alliances to reduce costs. This study has several recommendations to make. First the banking industry in Rwanda should be reorganized to allow for more competition. In a competitive market the most efficient and productive companies survive. The government should reduce its presence in the banking industry to allow for more competition from within and without the country. Mechanisms should be put in place to allow more globalization to embrace the amalgamation of the East African countries.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Environmental turbulence in the modern banking business has forced banks to adopt strategic reactions for survival and continuity. Banks predominantly react by diversifying their loan portfolio or by stepping up their screening and monitoring. During a financial crisis arranging banks retain larger portions of loans and form more concentrated syndicates, reflecting an increased need to screen and monitor borrowers. During a crisis, agency problems are attenuated in syndicates that lend to repeat borrowers and that are composed by experienced arrangers (Taylor, 2008).

During difficult financial times, banks apply the game theory for strategic repositioning. Game theory applies to a wide range of class relations, and has developed into an umbrella term for the logical side of science, to include both human and non-humans, like computers. Classic uses include a sense of balance in numerous games, where each person has found or developed a tactic that cannot successfully better his results, given the other approach. Banks could for example try to balance between management supervision and government legislation besides handling competition (Camerer, 2003).

Strategic conflict analysis is a part of comparative politics that could be used by banks. It is a very simple idea in theory, where a specific conflict is analyzed relative to its causes and possible consequences. The analysis must be specific to the conflict and should include a substantial amount of historical data to ground the present grouping of combatants. There are four types of analysis based on conflict theoretical models that can be applied to different kinds of conflict in the banking industry. One is economic analysis. This assumes that the motives for violence are based on a sense of economic discrimination or disadvantaged status. Another approach deals with a more general sense of grievance. Violence occurs because groups feel themselves second-class citizens, ruled by a government that is alien in some sense. Many approaches also seek to combine different levels where applicable. Lastly, there is the dynamic model that posits that causes for violence and the positions of actors change as the war continues. What began the conflict gets placed into the background as the body count rises. This requires a close watch over the actors and their stated (and often unstated) purposes and agendas (Aula & Siira, 2007).

A liberalized and attractive banking industry especially in developed countries coupled with an increasingly complex and dynamic business environment has created hyper-competition not only in the banking sector but in different industries (Chandan, 1997). In Africa commercial banks such as Kenya`s Equity bank as well as Eco bank from Nigeria are fighting for more business case in Rwanda. The competition is more on savings account and credit accounts as these are seen as the main cash cows in the banking industry. Such competition creates low revenues thereby reducing profitability. So far the commercial banks in Rwanda are therefore faced by dwindling market share in the number of the saving and credit accounts available in the markets (National Bank of Rwanda Financial Report, 2009).

Faced with the above prospects the commercial banks in Rwanda must therefore come up with responses strategies to the challenges of competition in the banking industry. Unless they do this, these banks are likely to be side stepped and their competitive edge destroyed. It is on this basis therefore that this research is based. This study therefore examines the response strategies by commercial banks to challenges of competition in the banking industry. The study will also establish the challenges of competition faced by commercial banks in Rwanda.

1.1.1 Industry Competition

An industry is a group of companies that provide closely related products and services to a common group of consumers using, in most cases similar technology (Newman, 1989). Industry competition involves business firms which compete for the same customers. This means therefore that if new markets are not created the number of customers would decline with the declining profitability of the firms in the same industry.

Industry environment factors directly influence a firm's prospects and they include; entry barriers, competitor rivalry, availability of substitutes and the bargaining power of buyers and supplier, among others (Porter, 1980). For companies in competition against one another, the external environment constitutes the industry within which the firms operate.

It is through industry analysis that a firm would understand its position relative to other companies that produce similar products or services. Understanding the forces at work in the overall industry is an important component of effective strategic planning. Industry analysis enables business owners to identify the threats and opportunities facing their businesses, and to focus their resources on developing unique capabilities that could lead to a competitive advantage creation. Through industry analysis firms get to understand major elements affecting business. These elements include the underlying forces at work in the industry; the overall attractiveness of the industry; and the critical factors that determine a company's success within the industry. For example Porter's five forces model affecting industry competition shows that rivalry among firms in industry depends upon five forces: the potential for new competitors to enter the market; the bargaining power of buyers and suppliers; the availability of substitute goods; and the competitors and nature of competition (Porter, 1980).

Suppliers influence industry operation / competition through price increases or reductions products/services supplied. They can also reduce or improve on the quality of the goods/services supplied. Suppliers can also be powerful where the industry is dominated by few companies and is more concentrated than in the industry it sells to, and there are substitute products for sale to the industry. Similarly the bargaining powers of the suppliers will be high if the industry is not an important customer of the supplier group, the product is an essential input to the buyer business and the supplier’s products are differentiated (Nyangau, 2003) .

1.1.2 Competitive Strategies

Competitive strategies involve the changes in a firm’s strategic behaviors to assure success in transforming the future environment (Ansoff & McDonnel, 1990). They therefore, constitute a set of decisions and actions that result in the formulation and implementation plans designed to achieve a firm's objectives. It is a reaction to what is happening in the environment (Pearce & Robinson, 1991). Equally they involve the changes in a firm's strategic behaviors to assure success in transforming the future environment (Ansoff & McDonnel, 1990).

Porter (1980) has come up with yet 3 basic generic competitive strategies to counter his fives forces intensifying industry competition. These are cost leadership differentiation and focus. Firms' interest here could be to gain a differential value advantage in the provision of products with more differential value to customers.

The focus in cost leadership strategy is cost reduction better than competitors. Companies dealing with similar production processes could use economies of scale, control of overhead costs, and cost reduction on non-key accounts, outsourcing of non-core functions, and employing of qualified staff to avoid wastages as some of the cost reduction strategies. Focus strategy is put on specific niche markets, specific product lines or consumer groups and there is concentration to develop this market. Finally, that the competition finds it hard to do market niching to attend to customer needs then the organization doing the focus. Again the firm doing focus his financial and other resources to do so but productively and enjoys good will from customers.

The other strategies are the product/market matrix strategy by Ansoff (1987) that allows the management staff to grow the business either thorough new/existing product, in existing and or new markets. Hence we have four possible product/market mix scenarios. These come in the form of product/market combinations and help firms make decisions on the course of action to take. Market penetration for existing markets and existing products occurs wherever a firm enters a market with current products. Ideally, the company gains competitors customers by taking over part of the competitor's market share attracting non users of the product, at the same time encouraging current customers to consume more of the product and this forms the basis for market penetration strategy.

Also, product development (existing market, new products) firms with an already existing market for its1product, of response could work the magic of remaining competitive in the market. Diversification results in the firm going into markets it had no presence before most of the time. New skills new techniques and new facilities are required leading to establishment of a new organizational structure. Product development, which requires a new product and market extension requiring a new market are more riskier than market penetration (existing product. existing market) while diversification (new product and new market) carries the greatest risk of all these strategies (Ansoff ,1987).

1.1.3 The Banking Industry in Rwanda

The dominant economic features in the banking industry in Rwanda include the market size and growth rate, number of rivals, scope of competitive rivalry, buyer needs and requirements, degree of product differentiation, product innovation, supply and demand conditions, pace of technological change, vertical integration, economies of scale, learning curve effects. In addition the specific drivers of change that will shape the Rwanda`s banking industry for years to come include: structural changes in the economy such as Africa's dependence on the West diminishing; trends in technology such as agricultural biotechnology and the ascent of renewable energy replacing conventional fuels and changes in the international economic game like new approaches to development aid. There are also physical and human drivers of change relating to climate change/global warming and the demographic dividend respectively. These drivers of change will result in the following major outcomes: Urbanization will accelerate; migration will increase; agriculture is likely to decline in importance; and natural resources will remain important (Institute of Economic Affairs, 2010).

The key success factors include globalization and consolidation, improved customer service, promotion of compliance with the Banking Act and better risk management. Other key success factors in Rwanda`s banking industry are adoption to demographic shifts, effective customer management, strategic cost reduction and inorganic growth. Rwandan banks are operating in a more economical turbulent and politically risky environment. An analysis of the current Rwandese environment reveals the economic challenges listed below which are affecting the banking industry. Firms can convert challenges to opportunities, so their impact on individual banks will depend on the strategies used by its management to respond to the environment.

The rising inflation is likely to negatively impact on the Rwandese banking industry. The overall 12-month inflation increased from 21.9 percent in January 2009 to 25.1 percent in February 2009 due to increases in the prices of most of the seasonal food products. The 12-month underlying inflation was 8.7 percent in February 2009 (Central Bank of Rwanda, 2010). This inflation is likely to erode the public purchasing power, something that can force customers to withdraw or consume their bank deposits.

1.1.4 Commercial Banks in Rwanda

The basis of competition in Rwanda`s banking industry include: market structure, contestability, level of economic development and the quality of the institutional framework, banks` specific conditions and the liquidity preference of banks. Since independence, the commercial banks in Rwanda have grown both in number, branches, and the variety of services they offer like loans, credit and debit card services, and introduction of automatic teller machines (ATMs), electronic banking and other services. Several foreign banks for example Ecobank Bank, Access Bank, Kenya commercial Bank and Equity Bank Ltd have entered into the market competing for the market base among the commercial Banks in Rwanda (Poghosyan, 2010).

In this period the banking industry, has experienced several upheavals that have led to several reforms in the industry. This reforms are reflected in the 2009 Banking Act (and its amendments), Central Bank Act 2009, and other CBR regulations. Commercial Banks in Rwanda have also made very heavy investment in information technology. Modern banks are very dependent on technology. Banks use technology to operate their communication networks, operate ATMS, and offer e-banking services among others. These systems are operated by very expensive ERS (Enterprise Resource Systems) like Oracle, SAP and Flexi-cube, which cost several million dollars (Boyd, De Nicoló & Jalal, 2009).

1.2 Research Problem

Competition, both national and international, is increasing in virtually every industry. The key features and the implications of this trend are outlined with specific reference to the banking and financial services industry. The competitive strategy for the banking industry has largely been the identification of potential market niches and segments which could be developed. Due to globalization and liberalization in the world, economies have seen more firms entering into the global markets in general and in the banking industry particularly in upcoming markets. Rwanda which has been experiencing political turmoil up to as late as 1980s has recently, that is, 1990s experienced political stability and a growing economy (Raff, 2001).

A liberalized banking sector in Rwanda has witnessed increased competition in the banking industry in Rwanda. More banks especially from foreign countries such as Equity, Kenya commercial Bank from Kenya, Fina Bank, Access Bank and Eco Bank from Nigeria have invaded Rwanda`s banking sector. In addition to this there are more financial institutions still entering into Rwanda. With the increased competition commercial banks in Rwanda are experiencing a strain on their market share and hence their profitability (National Bank of Rwanda Financial Report, 2009). They have to come up with response strategies to competition-this is the basis of this study.

There is a gap between theoretical background and operation of the strategic responses used by various banks in the face of competition in the banking industry in Rwanda. “Large diversified banks have been a dominant factor in the economies of many developing countries, Rwanda included. However, they have received only limited research attention. Accordingly, the knowledge in this area is inadequate (Nachum, 1999). So far only a few studies have been carried out on the banking industry but not in Rwanda. For example Okal studied on competitive strategies adopted by non-governmental organisations dealing with HIV-AIDS in Kenya to cope with increased competition for funding (2006). At the same time, Obada (2005) studied the competitive strategies employed by sugar manufacturing firms in Kenya.

However, these studies while shading so much light on competitive and response strategies by commercial banks did not deal with the case of Rwanda specifically even though some of those responses maybe applicable in Rwanda given that Rwanda, just like Kenya, is a developing country. To address this knowledge gap and address increased competition with this consequent reduced market share and profitability of banks in Rwanda there is indeed a need for a study on the same. The question to be addressed should be; what are the competitive strategies adapted by commercial banks in Rwanda to competition in the banking industry?

1.3 Research objectives

This study was guided by the following two objectives.

(i) To establish the challenges of competition faced by commercial banks in Rwanda

(ii)To determine the competitive strategies adopted by commercial banks in Rwanda.

1.4 Value of study

The findings of this study will be important to various banking industry players and their stakeholders. First, bank managers will find the study useful as it will help them in evaluating and getting feedback on the progress and success of various response strategies to challenges of competition. This may serve as the foundation of undertaking relevant competitive strategies to challenges of competition in the future.

To the scholars, the findings of this study will contribute to the reservoir of knowledge in the area under investigation. Future researchers will fall back on the findings of this study on issues such as literature review, identification of the research problems and research methodology issues among others hence this research findings will form the theoretical basis for further research by scholars. In terms of policy the findings of this research will be important not only to the bankers in Rwanda but also to the government policy makers in for example looking at issues of the effects of competitive strategies to challenges of competition.

1.5 Scope of study

The study was carried out in Rwanda`s banking industry players competitive strategies to challenges of competition. The study targeted all commercial banks in Rwanda.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the literature review of the study. The chapter covers what other researchers have discussed and researched on in the area under study or areas related to the study. The chapter covers industry competition, the concept of strategy and organizations and the environment. This chapter equally highlights on challenges of competition and response strategies which organizations could adapt to deal with competition.

2.2 Concept of strategy

Strategy is the unifying theme that gives coherence and direction to the decisions of an organization. It is a framework through which an organization can assert its vital continuity whilst managing to adapt to the changing environment to gain competitive advantage. Strategy is intended to focus on the interdependence of the adversaries' decisions and on their expectations about each other's behavior. Strategy is the determination of the basic long run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Porter, 1985).

Wright & Calof (2006) sees strategy as the pattern of objectives, purposes or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. It covers the unity, coherence and internal consistency of a company`s strategic decisions that position a company in its environment and give the firm its identify, its power to mobilize its strengths and its likelihood of success in the market place.

On the other hand Quinn (1980), defines strategy as the pattern or plan that integrates an organization`s major goals, policies and action sequences into cohesive whole. A well formulated strategy helps to marshal and allocate an organization`s resources into a unique and viable posture based on its relative internal competencies and short comings. Mintzberg and Quinn (1991) suggest strategy as the interrelationship between the 5 P`s of plans, ploys, patterns, position and perspective.

2.3 Industry Competition

Competing firms must operate competitively in a competitive environment by crafting competitive responses to the environmental challenges. Indeed, as we talk of the challenges facing firms in the external environment, the competitive environment becomes the most serious of them all. This is because all the sets the three interrelated factors of operating remote and industry environment form the basis of opportunities and threats that a firm faces in its competitive environment (Pearce & Robinson, 2003). Factors in the industry environment directly influence firm’s prospects and include; entry barriers, competitor rivalry, availability of substitutes and the bargaining power of buyers and supplier, among others (Porter, 1980). Competitive strategies involve the changes in a firm’s strategic behaviors to assure success in transforming the future environment (Ansoff & McDonnel, 1990).

For companies in competition against one another, the external environment constitutes the industry within which the firm operates. Competitive strategies therefore, constitute a set of decisions and actions that result in the formulation and implementation plans designed to achieve a firm's objectives. It is a reaction to what is happening in the environment (Pearce & Robinson, 1991'). An industry as a group/set of companies that provide closely related products and services to a common group of consumers using, in most cases similar technology (Newman, 1989). Almost a similar description is captured by Nyangau (2003) who outlines Porter's (1980) description of industry as a group of firms producing products that are close substitutes for each other.

Competition thrives in industry and to fight it, competitive strategies are required. The knowledge of the underlying competitive pressure therefore forms the basis for strategic agenda to deal with the unfamiliar challenges. The nature of competition in industry determines the nature of strategies adopted by firms to competition. Porter's five force model has extensively been applied in determining the forces of industry competition. A thorough understanding of the five forces model determining industry competition is crucial in crafting the strategies to match the extent of the competition so established.

Substitute products compete for the same consumers because they usually offer similar satisfiers to customers. Firms producing soft drinks goods must therefore add more value to their goods and services so as to gain consumer acceptance in relation to competing substitutes. The likely entry of new players into an existing industry has the impact of claiming part of the market share in that industry. Taking away part of the market in an industry is not good news for the existing firms in the industry. Threat to entry depends on the existing barriers to entry and the likely responses to the entry by the existing firms in that industry. Threat to entry is dependent on such factors as the government policy, expected retaliation from the existing competitors, access to distribution channels, economies of scale and products differentiation to name just but a few examples. Any firm which wants to bar entry into its industry must therefore elect barriers to entry and be seen or be capable lethal 3ompetitive retaliation to potential entrants for this threat of entry to be low. Schemes such as cost leadership, product differentiation, focus strategies; new market entry and development, improved services delivery and lobbying government support clearly elect barriers to the entry (Isaboke, 2001).

The extent of rivalry among the existing competitors in the industry also determines the nature of competition and the subsequent responses to this competition. Rivalry among existing competitors at times is dependent on the product life cycle stage. Porter (1980) correctly argues that at the decline stage of the product life cycle profits starts dwindling. As a consequence there is intense rivalry as the competitors fight off for their survival in the industry.

Intensive rivalry could also result from other factors such as high exit barriers like inability to find use for expensive machinery upon existing players, numerous competitors who want to be the market leaders so as to determine pricing, lack of differentiation, high strategic stakes whereby a firm's business is strategically important to an extent where a company is ready to do everything possible to survive in the market, slow industry growth where firms fight to retain their market share, and high fixed costs which may lead to oversupply and pricing wars among others. High fixed costs industry also affects competitive rivalry hence high capital outlay and intensity may increase price wars and less sales margins. Similarly, high rate of market growth means more entrants, increased market capacity and increased competition on a similar note customers tend to switch on and off competitors in a market arena where products are highly undifferentiated.

Suppliers influence industry operation / competition through price increases or reductions products/services supplied. They can also reduce or improve on the quality of the goods/services supplied. Suppliers can also be powerful where the industry is dominated by few companies and is more concentrated than in the industry it sells to, and there are substitute products for sale to the industry. Similarly the bargaining powers of the suppliers will be high if the industry is not an important customer of the supplier group, the product is an essential input to the buyer business and the supplier’s products are differentiated (Nyangau, 2003) .Buyers and buyer groups who are powerful usually interfere with pricing of the products, quality of goods and intensify competition among competitors who try to woo them using several tactics. The power of the buyers is high if they pose real threat of backward integration, if they buy goods in great quantities, and if the products are standard or undifferentiated among others.

2.4 Organizations and Environment

Organizations and environment are interdependent on each other. This is because the environment provides the raw materials to the organization which the organization in turn translates into finished products that are released into the environment for consumption.

While in the general environment is important in organizational existence, the competitive environment plays a significant role in the existence of the firm. The competitive environment is also called the operating environment or the task environment. It has factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services (Jeffs, 2008).

The factors include the firm's competitive position, the composition of its customers, its reputation among suppliers and creditors and its ability to attract capable employees. The task environment in much more subject to the firm's control than the remote environment, thus firms can be more much proactive as opposed to reactive in dealing with the remote environment. The analysis of a firm's competitive position improves a firm's chances of designing strategies to optimize in the environment. Competitor profiles on the basis of product line breadth key, account advantages, pricing, personnel, caliber and experience for instance, defines, a firm's competitive position so as to avoid vulnerability of the firm to competitor strategies (Robinson & Pearce, 2003).

2.5 Challenges of Competition

For companies to create a competitive edge for themselves, they have to embrace the realities of the challenges of competition. The struggle for a greater market share, provision of a diversified product portfolio, the changing information technology, and the timings to the market is some of the challenges of competition. This is in addition to security issues, managing customer relationships and internal organizational challenges of the firms.

Modern businesses are competitively challenged to embrace the dynamic tastes and preferences of the customers especially in modern globalized environment where customers are more than ever before yearning for around the clock business. There are no closed signs in e-business. Online businesses have to be available for a customer any time. Transactions happen even when the business owners and their teams are asleep. The information technology team in a competitive organization has the challenge of creating more than just websites and order processing systems without glitches; they also have to build systems that help businesses learn about customers they may never actually speak with from the first visit to the processing of their transactions. At the same time modern businesses require that firms embrace online services to enhance their competitiveness. The speed at which business operates online forces business owners to rush to the market. Less time to plan and prepare for a new product launch can lead to poor decisions. Other challenges of competition include informal risky movements, strategic vulnerability as cost mismanagement or impossibility to learn from past experiences among others (Boot & Thakor, 1998).

The other challenge of competition is that of security. The demands of technology never stop when it comes to security. Hackers are just as busy creating ways to break into accounts. Both customers' personal information and business information are constantly at risk. It is therefore those firms which are capable of offering security to their own business accounts and the accounts of their customers that could remain competitive in the market.

The management of customer relationship is also a crucial factor in the challenges of competition. Good customer relationship will almost automatically assure growth in customer base for any business enterprise. Firms therefore need to be more proactive than reactive in building long lasting customer relationships so as to create a sustainable competitive advantage. The above challenges besides being applicable in the overall industry practice they also pose a challenge of competition to the banking industry .The increasingly competitive environment poses challenges to bankers. The proliferation of transaction-oriented banking thus trading and financial market activities does however seriously challenge relationship banking. Two key dimensions are necessary. First, competition from financial markets destabilizes traditional durable relationships thus, contrary to what many believe, banks may optimally respond by increasing relationship-specific investments. Second, transaction-oriented activities increasingly become an integral part of banking institutions (Mayer, 1988).

Consequently, the business of banking is changing rapidly. 'Traditional' relationship banking is under siege. The proliferation of financial innovations advances in securitization and underwriting push funding to the financial markets. This tilts the comparative competitive advantage to the transaction-oriented financial markets. The internal organization and relationship banking are also some of the greatest challenges of competition. Banks have increasingly become somewhat opaque institutions. Some degree of opaqueness is an unavoidable consequence of the strict operations of the business of banking. Relationship-oriented finance goes hand in hand with proprietary information. Opaqueness of bank loan portfolios is therefore unavoidable. Banks like to combine many different portfolio products and activities. This distinguishes banks from many of their competitors, e.g. non-banking financial institutions like mutual funds and finance companies (Merton, 1993).

All in all the main challenges of competition zero down on the need for the banks to compete for more customers as well as the ever increasing diversified portfolio of saving account. Transaction-oriented banking has become more important within banks. Banks tend to broaden their activities; transaction banking like proprietary trading co-exists with relationship banking.

2.6 Competitive Strategies

Firms under competition can either use generic strategies, marketing growth expansion strategies or even management firms` specific strategies to respond to the environment. Porter (1980) has come up with yet 3 basic generic competitive strategies to counter his fives forces intensifying industry competition. These are cost leadership differentiation and focus which could either be handled singularly or at the same time depending on the firm’s management. Firms’ interest here could be to gain a differential value advantage in the provision of products with more differential value to customers. Essentially this is a case of having customers perceive the premium value in the products versus those of competitors. Indeed different is often but not always associated with higher price because it makes price less critical (Wright & Calof, 2006).

Differentiation basically is to do thing differently/uniquely so that in the eyes of the customers the product is unique. Porter (1998) claims that this uniqueness creates loyalty to customers by building acceptance of the product and thus creating nightmares to competitors. Use of technology, design, marketing, promotion, service delivery and distribution that are done in a unique manner is all but differentiation and creates a unique value to customers. Differentiation then makes sense if it creates a difference in the eyes of the customer and through such perception of the difference the customer goes for the product and the company gains. Differentiation should critically satisfy the customer needs through the creation of uniqueness, affordability superiority, and perceptiveness in addition to creating above average returns to the firm enterprises (Kotler, 2008).

The focus in cost leadership strategy is in the cost reduction better than competitors. Companies dealing with similar production processes could use economies of scale, control of overhead costs, and cost reduction on none — key accounts, outsourcing of non-core functions, and employing of qualified staff to avoid wastages as some of the cost reduction strategies. Procurement at low cost, cost effective distribution among others could cushion a firm against the five forces affecting industry competition. The emphasis of cost leadership is efficiency using this strategy produces high volume standardized goods by taking advantage of experience curves and economies of scale. Focus strategy is put on specific niche markets, specific product lines or consumer groups and there is concentration to develop this market. Essentially then this devotions and energies service the market to the very best thus effectively and efficiently than competitors who might be struggling to serve a very large area. Premium creation by offering superior service at low cost and differentiation will produce a competitive advantage. Contribution on the focus strategy by Thompson and Strickland (2003) on focus is based on cost leadership and differentiation is more attractive to firms if the industry has multi niches-segments and therefore allows a firm to pick on a niche that could give the greatest returns and where it could utilize its resource distinctive competences to the fullest.

Some managers have applied strategic management tools as a panacea to solving problems in their firms. Much of the time the managers, given the turbulent nature of the competitive environment have worked with speed to embrace the most immediate strategy tools such as benchmarking, re-engineering and total quality management - among others (Prescott & Bhardwaj, 1995) while some of these tools gradually graduate into strategies, they do not pass the test of gaining a sustainable competitive advantage for the firm nor do they graduate into offering a sustainable profitability for firms.

The product market matrix strategy by Ansoff (1987) allows the management staff to grow the business either thorough new/existing product, in existing and or new markets. Hence we have four possible product/market mix scenarios. Market penetration for existing markets and existing products occurs wherever a firm enters a market with current products. Product development (existing market, new products) firms with an already existing market for its product. In Market development (new markets/existing products) established products could be targeted to different customer segments to earn more revenue for the firm. Diversification results in the firm going into markets it had no presence before most of the time. New skills new techniques and new facilities are required leading to establishment of a new organizational structure.

Firms may respond to increased competition by entering into new markets with similar products. These could be markets they are currently not serving or new geographical markets. The needed market entry strategies such as joint ventures or partnerships, strategic alliances and acquisitions may be required in addition to development of new products and services as responses to competition.

Acquisitions may take the form of forward diversification which may incorporate acquiring businesses not within the current market scope or product scope (Pearson & Robinson, 2003). Firms may also use collaboration where they have complementary resources which if combined will help tap existing business opportunities. In collaboration some firms may not have the skills that the co-partners have and thus the need for such kind of collaboration.

Collaboration, therefore, provides a holistic set of resources to enable the development of firm combined resource capabilities for growth and development. Differentiation as earlier argued could be used as a response to competition by firms. The application of differentiation could be used as a response to competition by firms. The application of differentiation could be aimed at fortifying a firm against competitors' entry, create barriers to substitutes and make a firm's products more difficult to imitate (Porter, 1985).

The cost of differentiation may be reduced through strategic alliance, mergers and acquisitions and in the long run create a competitive edge for firms. Related to the grand strategies are expansion strategies. Responses to competition may come in the form of expansion strategies which may be used by a firm to ground and position a firm competitively. Expansion strategies may take the focus of internal development of new products and/or make new technologies, licensing, and importation of new product lines manufactured by other firms or even acquisitions. All this must take place while taking into consideration the available opportunities, and the firm's mission, vision, the resulting opportunities and the resources available thereof to support this strategy (Prescott & Bhardwaj, 1995).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design and target population. It will also cover data collection as well as data analysis.

3.2 Research Design

This research utilized a cross sectional survey design. It was a survey of the competitive strategies by commercial banks in Rwanda to challenges of competition in the banking industry. Cross sectional survey designs aim to provide data on the entire population under study, may be used to describe some feature of the population and they may support inferences of cause and effect. A cross sectional survey focuses on a set of organizations carrying out similar business ventures in this case the commercial banks in Rwanda. It involves an extensive study of the particular firms under investigation. Survey designs are of particular value when one is seeking help on investigating challenges in which interrelationships of a number of strategies are involved, and in which it is difficult to understand the individual strategies without considering their relationships with each other (Cooper & Schindler, 2000). This is the situation at commercial banks in Rwanda. A cross sectional survey design therefore, enabled the researcher to collect in depth data on the population under study and allowed the researcher to be more focused in giving specific and relevant recommendations.

3.3 Population of Study

The population of study consisted of all the commercial banks in Rwanda. There are 14 banks in Rwanda and since this is a small number, this study was conducted as a census. (See appendix II).

3.4 Data Collection

Questionnaires with both closed ended and open ended questions were used in the collection of primary data. Closed ended questionnaires provide accurate and precise data which has the advantage of accuracy in interpretation. Open ended questions provided detailed data from the respondents. The questionnaire was adopted from Ogutu and Nyatichi (2012). It was divided into four sections, A, B, C and D. Section A of the questionnaire sought general information about the banks. Section B dealt with the competitive position. Section C sought to establish the challenges of competition faced by commercial banks in Rwanda as they try to survive in the market. Section D covered competitive strategies.

The respondents to the questionnaires were the heads of the department of marketing from all the commercial banks in Rwanda. Thus the head of marketing from each of the 13 commercial banks was to respond to the questionnaires. This is because competitive strategies are usually undertaken by the head of marketing in conjunction with the overall top management team. The questionnaires were self-administered and were dropped and picked by the researcher herself.

3.5 Data Analysis and Presentation

Quantitative techniques were used in the analysis of data. The analysis of the study findings was also undertaken using statistical measures of central tendency such as the means and the mode. The mean was used to analyze to establish the importance of competitive strategies adopted by commercial banks in the banking industry, as per objective number two. Further, mean scores were used to identify the most encountered challenges as in objective one of the study. Statistical measures of deviation such as the standard deviation were also used in the analysis as per the objectives of the study. These were used to determine the variations in the competitive strategies and challenges of commercial banks as set out in the objectives. The presentation of the data was done quantitatively using tabular form.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The data presented in this chapter has three major sections. The first two sections are a presentation of the findings relating to the first and second objectives, respectively, while the third section contains the discussion of these findings. Other than the general description of the Rwandese banking industry, the analysis of the challenges facing the industry, based on various characteristics of the industry is presented. In addition, the responses that were provided by the banks are presented. A discussion of the results is presented in the final part of this chapter.

4.2 General information

One category of respondents was covered in the study. These were the marketing managers in all fourteen commercial banks in Rwanda. However only 13 out of the 14 responded because the fourteenth bank, Zigma Credit and Savings Scheme, is only for soldiers and policemen. It has no competitors, their clients are known and civilians are not allowed any access to it. Information about the age, number of branches, country of origin and kind of services offered by the commercial banks is also presented.

4.2.1 Distribution of Banks by Age

According to Table 1 below, the responses indicated that four banks (30.77%) had been operating in Rwanda for a maximum of five years. Three banks (23.08%) had been in Rwanda for over five years but had not yet done a decade. The rest (46.15%) had been in Rwanda for over a decade.

Table 1 Distribution of Banks by Age

Age In Years	Number Of Banks	Percentage
0-5	4	30.77 %
6-10	3	23.08 %
Over 10	6	46.15 %
Total	**13**	**100.00 %**

4.2.2 Distribution of Banks by Origin

Table 2 below reveals that 61.54 % of banks in Rwanda were local. The rest of the banks have a foreign origin. There are three banks (23.08 %) originating from Kenya, one from Togo and another from Nigeria.

Table 2 Origin of the banks

Country Of Origin	Number Of Banks	Percentage
Kenya	3	23.08 %
Rwanda	8	61.54 %
Nigeria	1	7.7 %
Togo	1	7.7 %
Total	**13**	**100.00 %**

4.2.3 Number of Branches

Most of the banks in Rwanda have few branches. Among the thirteen banks that were studied in this study, eight hanks (61.54 %) had fifteen branches or less. According to Table 3, only five banks (38.46 %) had more than fifteen branches.

Table 3 Number of Branches

Branches	Banks	Percentage
Less than 15	8	61.54 %
More than 15	5	38.46 %
Total	**13**	**100.00 %**

4.2.4 Services Offered by Bank

The results of the responses from the questionnaire as captured by Question 5 in Section A showed that all the banks in Rwanda provide the banking services that the population of Rwanda required. The services ranged from corporate, individual, credit, to savings and others like money transfers, mobile banking, investment services, custody and SME banking. These are generally the common banking services. Only one bank out of the thirteen, Rwanda Development Bank, focused on corporate and the savings market.

4.2.5 Competitive Position

Table 4 provides a summary of the methods used by the banks to attract and retain customers. According to the table, 61.54 % of the banks used a combination of low pricing and product differentiation to attract and maintain customers. Only one bank (7.7 %) focused on charging low prices alone. The rest focused on providing unique products alone.

Table 4 Customer Attraction and Retention Methods

Customer Attraction Method	**Banks**	**Percentage**
(a) Charging low prices or commissions	1	7.7
(b) Providing unique or different products	4	30.77
(c) Both (a) and (b)	8	61.54
Total	**13**	**100.00**

Table 5 below shows the distribution of the banks according to the markets they serve. According to the table 84.62 % serve many market segments while only 15.38 % focus on a small section of the market.

Table 5 Target Market

Target Market	**Banks**	**Percentage**
Many market segments	11	84.62
One or few market segments	2	15.38
Total	**13**	**100.00**

4.3 Challenges of Competition

This section sought to establish the specific challenges that the banks in Rwanda face from competition. The respondents were asked to indicate the extent to which they faced certain challenges from competition. They were to rate the extent on a 5 –point scale, where, 1=Not at all and 5=very great extent. Analysis was done by computing mean scores and the greater the mean, the greater was the extent of the challenges and vice versa. The results are shown in the Table 6.

As Table 6 shows, a grand mean of 2.44 suggests that, in general, the challenges were not greatly felt. Greatly felt challenges were greater market share, threat of substitutes and changing customer preference with mean scores of 3.00, 2.77 and 2.77, respectively. Least felt challenges were security issues, managing customer relationships and strategic planning with mean scores of 1.62, 2.23 and 2.31, respectively.

Table 6 Challenges of Competition

challenges of competition	Mean	STD. DEV
Greater market share	3.00	1.15
Diversified product portfolio	2.46	1.27
Information technology changes	2.38	1.33
Security issues	1.62	0.96
Managing customer relationships	2.23	1.24
Internal challenges	2.46	1.39
Threat of Substitutes	2.78	1.42
Changing customer preference	2.77	1.30
Strategic planning	2.31	1.18
Grand Mean	**2.40**	**1.27**

Table 7 shows the analysis of the challenges classified according to the age of the banks in Rwanda. Among those that had been in Rwanda for less than fifteen years, the challenges were not greatly felt. The grand mean score was 2.42. Among them, the most felt challenges were those arising from market share, threat of substitutes and information technology changes with means of 3.13, 3.13 and 2.75, respectively. The least felt challenges were those arising from security issues (mean of 1.75), and strategic planning (1.88). Diversified product portfolio, managing customer relationships and changes in customer preference were next in that order with an equal mean of 2.25. In the category of those that have been in Rwanda for over fifteen years, the challenges were even less felt, returning a grand mean of 2.38 as shown in Table 7. The most felt challenges among them were those arising from changing customer preference, market share, and product diversification. These challenges had means of 3.20, 2.80 and 2.80, respectively. The least felt challenges among these were security issues, information technology changes, managing customer relationships and threat of substitutes. The mean scores recorded for these challenges were 1.40, 1.80, 2.20 and 2.20, respectively.

Table 7 Challenges for Banks and Years in Rwanda

Challenges	Mean Score	
	Below 15 yrs	**Above 15 yrs**
	Mean	**Mean**
Greater market share	3.13	2.80
Diversified product portfolio	2.25	2.80
Information technology changes	2.75	1.80
Security issues	1.75	1.40
Managing customer relationships	2.25	2.20
Internal challenges	2.38	2.60
Threat of Substitutes	3.13	2.20
Changing customer preference	2.25	3.20
Strategic planning	1.88	2.40
Grand Mean	**2.42**	**2.38**

Table 8 shows the results analysed according to the origin of the banks. Among the local banks the challenges were not felt to a great extent as shown by the grand mean of 2.47. However, the most felt challenges were those arising from changing customer preference and market share which had means of 3.00 and 2.88, respectively. Those that were least felt were those arising from security issues, strategic planning, and managing customer relationships with means of 1.75, 2.00 and 2.00, respectively. Among the foreign banks, the grand mean was 2.40 only marginally higher than that of local banks. Their greatest challenges were those relating to market share and the threat of substitutes, scoring a mean of 3.20 and 2.80, respectively. The least felt challenges were those arising from security issues, product diversification, and strategic planning which had means of 1.40, 2.00 and 2.20 respectively.

Table 8 Challenges According to Origin of the Banks

Challenges of competition	**Mean Scores**	
	Local Banks	**Foreign Banks**
Greater market share	2.88	3.20
Diversified product portfolio	2.75	2.00
Information technology changes	2.38	2.40
Security issues	1.75	1.40
Managing customer relationships	2.00	2.60
Internal challenges	2.75	2.40
Threat of Substitutes	2.75	2.80
Changing customer preference	3.00	2.60
Strategic planning	2.00	2.20
Grand Mean	**2.47**	**2.40**

Table 9 shows the analysis of the challenges based on the number of branches that a bank had. Banks with less than 15 branches were considered to have few branches; otherwise, they had many branches. The grand mean among banks with few branches was 2.41 indicating that the challenges were not felt by these banks to a great extent. The most felt challenges were those arising from market share, the threat of substitutes, and changing customer preference with mean scores of 3.22, 2.78 and 2.78, respectively. The least felt challenges were those arising from security issues, managing customer relationships and strategic planning. These had means of 1.67, 1.89 and 1.89, respectively.

Table 9 Challenges According to Number of Branches

Challenges of competition	**Mean Scores**	
	Few Branches	**Many Branches**
Greater market share	3.22	2.00
Diversified product portfolio	2.67	2.00
Information technology changes	2.56	2.00
Security issues	1.67	1.50
Managing customer relationships	1.89	3.00
Internal challenges	2.22	3.50
Threat of Substitutes	2.78	2.75
Changing customer preference	2.78	3.00
Strategic planning	1.89	2.50
Grand Mean	**2.41**	**2.47**

4.4 Competitive Strategies

This section was aimed at capturing the mechanisms that the respondent banks use to respond to the challenges identified. The respondents were required to provide responses based on a 5-point scale, where, 1=Not at all and 5=very great extent. Analysis was done by computing mean scores. The greater the mean, the greater was the extent of the bank's usage of the identified strategies in the face of challenges. The interpretation was that "1" meant that the respondent bank did not apply the strategy at all while "5" meant that the respondent bank used that strategy to a very great extent. The findings were summarized in Table 10 below.

As shown in the table, the grand mean was 3.97 which indicated that the banks used the strategies to a great extent. The most used strategies were focusing on needs of customers, maintaining strong customer relationship, offering professional services to customers, innovating products and processes, improving bank systems, emphasizing bank corporate image and offering reputable quality products and services. They had means of 4.54, 4.54, 4.46, 4.31, 4.31, 4.31 and 4.31, respectively. Those that were least used were joining strategic alliances to reduce costs, relying on high quality research, strengthening marketing capabilities, and re-engineering with means of 3.23, 3.31, 3.46 and 3.54, respectively. According to Table 10, cost leadership strategies are used to a lesser extent (mean of 3.83) than the product differentiation strategy strategies which had grand mean of 4.10.

Table 10 Competitive Strategies

Cost Leadership	**Mean**	**SD**
Maintaining low administrative costs	3.62	1.39
Strengthening marketing capabilities	3.46	1.08
Innovating products and processes	4.31	0.91
Reducing organization overhead costs	3.69	0.99
Enhancing Employee productivity	3.77	1.31
Controlling bank expenditures	4.15	1.10
Improving bank systems	4.31	0.72
Re-engineering	3.54	0.84
Total quality management	4.00	0.96
Market penetration	4.08	0.83
Joining strategic alliances to reduce costs	3.23	1.48
Using skilled and experienced staff	3.85	1.10
Grand Mean	***3.83***	***1.13***
Differentiation		
Offering professional services to customers	4.46	0.63
Emphasizing bank corporate image	4.31	0.91
Offering reputable quality products and services	4.31	0.99
Focusing on needs of customers	4.54	0.84
Relying on high quality research	3.31	1.32
Rewarding employees for creativity	3.85	1.17
Maintaining strong customer relationship	4.54	0.84
Improving customer service	4.00	1.41
Brand Development	3.85	1.23
Improved public relations	3.85	1.23
Market development	4.08	0.83
New product development	4.15	1.10
Grand Mean	***4.10***	***1.13***
Overall Grand Mean	**3.97**	**1.14**

Table 11 shows the analysis of the strategic responses according to the scope of focus. The scopes were divided into wide and narrow. Banks in both categories (narrow and broad focus) showed preference towards differentiation strategies with means of 4.50 and 4.06 for narrow and broad, respectively, over cost leadership strategies where the score was 3.83 for both categories. Among the firms with a narrow focus, the most preferred differentiation strategies were offering professional services to customers, maintaining strong customer relationship, focusing on the needs of customers and offering reputable quality products and services. These strategies scored 5.00 each. Among the banks with a broad focus, the most preferred differentiation strategy was maintaining strong customer relationship with a mean of 4.64. The most preferred cost leadership strategy were innovating products and processes and improving bank systems each having a score of 4.27.

Table 11 Competitive Strategies and Scope

Competitive Strategies	**MEAN SCORES**	
	Narrow scope	**Broad scope**
Cost Leadership		
Maintaining low administrative costs	3.50	3.73
Strengthening marketing capabilities	4.00	3.36
Innovating products and processes	4.50	4.27
Reducing organization overhead costs	3.00	3.45
Enhancing Employee productivity	4.00	3.82
Controlling bank expenditures	5.00	4.00
Improving bank systems	4.50	4.27
Re-engineering	3.50	3.45
Total quality management	4.50	4.00
Market penetration	4.00	4.09
Joining strategic alliances to reduce costs	1.50	3.55
Using skilled and experienced staff	4.00	4.00
Grand Mean	***3.83***	***3.83***
Differentiation		
Offering professional services to customers	5.00	4.27
Emphasizing bank corporate image	4.50	4.27
Offering reputable quality products and services	5.00	4.27
Focusing on needs of customers	5.00	4.55
Relying on high quality research	4.00	3.18
Rewarding employees for creativity	4.50	3.91
Maintaining strong customer relationship	5.00	4.64
Improving customer service	4.50	3.91
Brand Development	4.00	3.82
Improved public relations	4.00	3.82
Market development	4.00	4.18
New product development	4.50	3.91
Grand Mean	***4.50***	***4.06***
Overall Grand Mean	**4.17**	**3.95**

Table 12 analyses the use of the strategic responses according to the number of branches that a firm had. The firms were further categorized according to their market focus. Among those firms that had fewer branches and a narrow market focus, differentiation strategies were more preferred as they had a mean score of 4.50, higher than the mean of 3.83 scored by the cost leadership strategies. The most preferred differentiation strategies were offering professional services to customers, maintaining strong customer relationship, focusing on needs of customers and offering reputable quality products and services. Each had a mean score of 5.00. The most preferred cost leadership strategy was controlling of bank expenditures with a similar mean of 5.00. Among the banks with fewer branches that had a broad market focus, preference for product differentiation was shown by a mean score of 3.94, which was higher than the 3.67 scored by cost leadership strategy. The most preferred differentiation strategy for this class was emphasizing bank corporate image (4.50). The most preferred cost leadership strategy was improving bank systems which had a mean of 4.17.

Among the banks with many branches, two observations can be made: none had a narrow market focus while their preference for cost leadership and differentiation strategies was in equal measure, scoring 4.28 each. The most preferred cost leadership strategies were innovating products and processes, controlling bank expenditures and improving bank systems all which scored 4.80. Only one differentiation strategy, market development, scored a similar mean of 4.80.

Table 12 Competitive Strategies and Scope

Competitive Strategies	Mean Scores			
	Few Branches		Many Branches	
Cost Leadership	**Narrow**	**Broad**	**Narrow**	**Broad**
Maintaining low administrative costs	3.50	3.17	-	4.40
Strengthening marketing capabilities	4.00	3.33	-	3.40
Innovating products and processes	4.50	3.83	-	4.80
Reducing organization overhead costs	3.00	4.00	-	4.00
Enhancing Employee productivity	4.00	3.50	-	4.60
Controlling bank expenditures	5.00	3.83	-	4.80
Improving bank systems	4.50	4.17	-	4.80
Re-engineering	3.50	3.17	-	4.20
Total quality management	4.50	3.83	-	4.00
Market penetration	4.00	3.83	-	4.20
Joining strategic alliances to reduce costs	1.50	3.33	-	4.00
Using skilled and experienced staff	4.00	4.00	-	4.20
Grand Mean	***3.83***	***3.67***	**-**	***4.28***
Differentiation				
Offering professional services to customers	5.00	4.17	-	4.60
Emphasizing bank corporate image	4.50	4.50	-	3.80
Offering reputable quality products and services	5.00	4.00	-	4.60
Focusing on needs of customers	5.00	4.33	-	4.60
Relying on high quality research	4.00	3.33	-	3.60
Rewarding employees for creativity	4.50	4.00	-	4.20
Maintaining strong customer relationship	5.00	4.67	-	4.20
Improving customer service	4.50	3.33	-	4.20
Brand Development	4.00	4.00	-	3.80
Improved public relations	4.00	3.67	-	4.40
Market development.	4.00	3.67	-	4.80
New product development	4.50	3.67	-	4.60
Grand Mean	***4.50***	***3.94***	**-**	***4.28***
Overall Grand Mean	**4.17**	**3.81**	**-**	**4.28**

Table 13 shows the analysis of the responses of the banks based on whether they were local or foreign. Both the foreign and local banks were analyzed according to whether they had broad based or narrow market approaches. The table shows that differentiation strategies were favoured over cost leadership strategies regardless of the category of the bank. Among the narrow-focused foreign banks, differentiation strategies had a mean score of 4.75 which was higher than the 3.92 scored on cost leadership strategies. Among these banks the most preferred cost leadership strategies were maintaining low administrative costs, innovating products and processes, controlling bank expenditures and total quality management all with a score of 5.00 each.

Among the foreign banks with broad market approaches differentiation strategies scored 4.08 compared to 3.77 for cost leadership. The most preferred differentiation strategies were focusing on needs of customers, maintaining strong customer relationship and improving customer service. They had a mean score of 4.50 each. The most preferred cost leadership strategies were maintaining low administrative costs, improving bank systems and innovating products and processes each of which had a mean score of 4.25. The overall mean score for foreign banks with a broad market focus was 3.93.

According to Table 13, differentiation strategies among local banks with a narrow market focus had a preference mean score of 4.25 compared to 3.77 for cost leadership strategies. The differentiation strategies that were most preferred were offering professional services to customers, offering reputable quality products and services, maintaining strong customer relationships and focusing on needs of customers, each scoring 5.00. The most preferred cost leadership strategies were strengthening marketing capabilities, controlling bank expenditures and market penetration all having a mean score of 5.00. The broad-focused local banks had a 4.18 preference for differentiation strategies compared to 4.05 for cost leadership. The most preferred differentiation strategy was maintaining strong customer relationship which had a mean of 4.71. The most preferred strategy in cost leadership was controlling bank expenditures with a mean of 4.57.

Table 13 Competitive Strategies, Scope and Origin of Banks

Competitive Strategies	**Mean Scores**			
	Foreign Banks		**Local Banks**	
Cost Leadership	**Narrow**	**Broad**	**Narrow**	**Broad**
Maintaining low administrative costs	5.00	4.25	2.00	3.43
Strengthening marketing capabilities	3.00	3.75	5.00	3.14
Innovating products and processes	5.00	4.25	4.00	4.14
Reducing organization overhead costs	3.00	3.75	3.00	4.14
Enhancing Employee productivity	4.00	3.50	4.00	4.29
Controlling bank expenditures	5.00	4.00	5.00	4.57
Improving bank systems	4.00	4.25	5.00	4.43
Re-engineering	4.00	3.25	3.00	4.00
Total quality management	5.00	3.75	4.00	3.86
Market penetration	3.00	3.75	5.00	4.14
Joining strategic alliances to reduce costs	2.00	3.00	1.00	4.00
Using skilled and experienced staff	4.00	3.75	4.00	4.43
Grand Mean	**3.92**	**3.77**	**3.75**	**4.05**
Differentiation				
Offering professional services to customers	5.00	3.75	5.00	4.43
Emphasizing bank corporate image	5.00	4.25	4.00	4.29
Offering reputable quality products and services	5.00	4.25	5.00	4.29
Focusing on needs of customers	5.00	4.50	5.00	4.29
Relying on high quality research	4.00	3.25	4.00	4.00
Rewarding employees for creativity	5.00	3.75	4.00	4.00
Maintaining strong customer relationship	5.00	4.50	5.00	4.71
Improving customer service	5.00	4.50	4.00	3.86
Brand Development	5.00	3.75	3.00	4.00
Improved public relations	4.00	4.25	4.00	4.00
Market development	4.00	4.00	4.00	4.29
New product development	5.00	4.25	4.00	4.00
Grand Mean	***4.75***	***4.08***	***4.25***	***4.18***
Overall Grand Mean	**4.34**	**3.93**	**4.00**	**4.11**

Table 14 shows the results of an analysis of the data on competitive strategy based on the market scope, scope and the age of the bank. In each age category of the banks, there were those that had a narrow and a broad scope. Those with a narrow scope targeted a few customer segments as opposed to those with a broad scope who targeted more. In response to the challenges presented, all banks favoured the use of product differentiation strategies more than cost leadership strategies. Among the younger banks with a narrow focus, cost leadership strategies scored 3.75, which was lower than 4.50 scored by the differentiation strategies. The most likely cost leadership strategies among these banks were strengthening marketing capabilities, controlling bank expenditures, improving bank systems and market penetration. These strategies scored 5.00 each. Under differentiation, there were 7 strategies that were more likely to be used by the narrow focused banks with less than 15 years, all which had a mean of 5.00. These were offering professional services to customers, offering reputable quality products and services, focusing on needs of customers, maintaining strong customer relationships, improved public relations, market development and new product development.

As indicated in Table 14, the young banks with a broad scope favoured the differentiation strategies more than the cost leadership strategies by scoring 3.82 for the former and 3.60 for the latter. The most preferred differentiation strategy was maintaining strong customer relationship which had a score of 4.57 while the most preferred cost leadership strategy was improving bank systems which had score of 4.29.

Among the older banks with a narrow scope, differentiation strategies had an overall mean score of 4.75 while cost leadership strategies had 3.92. The cost leadership strategies that were most favoured included maintaining low administrative costs, innovating products and processes, controlling bank expenditures and total quality management. The scoring patter for differentiation strategies was most interesting in that there were only 2 scores: the maximum 5.00 for 9 out of the 12 strategies. Only 3 strategies had a lower, but similarly uniform, mean score of mean score of 4.00. These were reliance on high quality research, improved public relations and market development. Those with a broad scope had a 4.75 preference for product differentiation compared to a 4.56 means score for cost leadership. The most preferred cost leadership strategy was innovating products and processes with a mean score of 5.00. The most preferred product differentiation strategies were offering professional services to customers, offering reputable quality products and services, focusing on needs of customers, maintaining strong customer relationship and new product development. Each of them scored 5.00.

Table 14 Competitive Strategy, Scope and Age of Bank

Competitive Strategies	**Mean Scores**			
	Under 15 Yrs		**Over 15 Yrs**	
Cost Leadership	**Narrow**	**Broad**	**Narrow**	**Broad**
Maintaining low administrative costs	2.00	3.43	5.00	4.25
Strengthening marketing capabilities	5.00	3.14	3.00	3.75
Innovating products and processes	4.00	3.86	5.00	5.00
Reducing organization overhead costs	3.00	3.71	3.00	4.50
Enhancing Employee productivity	4.00	3.57	4.00	4.75
Controlling bank expenditures	5.00	4.00	5.00	4.75
Improving bank systems	5.00	4.29	4.00	4.75
Re-engineering	3.00	3.14	4.00	4.50
Total quality management	4.00	3.43	5.00	4.75
Market penetration	5.00	3.71	3.00	4.50
Joining strategic alliances to reduce costs	1.00	3.00	2.00	4.75
Using skilled and experienced staff	4.00	3.86	4.00	4.50
Grand Mean	***3.75***	***3.60***	***3.92***	***4.56***
Differentiation				
Offering professional services to customers	5.00	4.00	5.00	5.00
Emphasizing bank corporate image	4.00	3.86	5.00	4.75
Offering reputable quality products and services	5.00	3.86	5.00	5.00
Focusing on needs of customers	5.00	4.14	5.00	5.00
Relying on high quality research	4.00	3.14	4.00	4.00
Rewarding employees for creativity	4.00	3.86	5.00	4.50
Maintaining strong customer relationship	5.00	4.57	5.00	5.00
Improving customer service	4.00	3.57	5.00	4.75
Brand Development	3.00	3.43	5.00	4.75
Improved public relations	5.00	3.71	4.00	4.50
Market development.	5.00	4.00	4.00	4.75
New product development	5.00	3.71	5.00	5.00
Grand Mean	***4.50***	***3.82***	***4.75***	***4.75***
Overall Grand Mean	**4.13**	**3.71**	**4.34**	**4.45**

4.5 Discussion of Findings

The generic strategies used to compete are cost leadership, differentiation and focus. Cost leadership enables a firm to deliver the same services as its competitors but at a lower cost. Differentiation advantage enables a firm to delivers superior products at the same price or lower price than its competitors. Under the focus strategy a firm concentrates its marketing effort on a narrow market segment (market niche), aiming at achieving a local rather than industry wide competitive advantage (Porter, 1994)

The findings from this study in the Rwandan banking industry do not seem to agree with the views advanced by Porter. The analysis of the forces of competition and the responses seemed to be disjointed. On the one hand the data shows that the issues identified were not the strong drivers of strategy in the Rwandan market as they had a grand mean of 2.444. This was weak when placed on a scale of 1 to 5. However, the responses were not commensurate with the feeling that the forces were not important. The response was stronger than the indication provided by the results of the forces of competitive analysis. If strategy is a response to forces of competition then, possibly the two results should have been almost equal.

On the other hand, this study seems to confirm the findings of Petrou (2008) that emerging country foreign entries of banks are mostly regional in order to mitigate for resource deficiencies and concentrate operations so that they benefit from economies of scope and scale. Similar differences are also observed when examining financial sector entries. Significant number of developing country foreign entries is in financial sectors which is in line with the findings that suggest that bank internationalization is influenced by asset seeking motivations. This research found that the banks in Rwanda are mainly local and did not offer serious threat to the foreign banks that seek to maintain the status quo.

The study was done in the context of Rwanda a country with heavy government presence. This situation is partly due to the fact that Rwanda is an economically weak country and like many such countries, the role played by governments is great. Further, like many other such governments, political patronage is a very serious issue even in business. This argument is based on the fact that one of the main banks did not actually find serious challenges from other banks indicating a harmonious collaborative environment rather than a competitive one.

The study also seems to confirm the findings of DeYoung &Rice (2004) that banks in emerging markets use mainly two strategies. The first of these two generic strategies is a traditional banking strategy in which small banks operating in local markets develop close relationships with their customers, provide value to depositors through person-to-person contact at branch offices, and make “relationship loans” to information-opaque borrowers (for example, small businesses) that do not have direct access to financial markets. Although these locally focused banks operate with relatively high unit costs, they can potentially earn high interest margins. They pay low interest rates to a loyal base of core depositors and they charge high interest rates to borrowers over which they have market power due to information-based switching costs. These banks earn fee income mainly through service charges on their deposit accounts. The response to the identified forces of competition showed that the challenges do not affect the operations of the Rwandan banks meaning that they could be using the traditional banking approaches to banking.

Across the borders, the findings are in contrast with a study done by Kipkenda (2005) in the more developed Kenya which found that KCB still applied several strategies in retaining its customers. These strategies were communicated to the staff through the bank's core values. The first core value was putting the customer first while the other was caring for the community. It also emphasized on employee issues through the value of working together as a team. It was found that KCB had a strong pricing strategy with 86% of its customers indicating that KCB charged fairly for its service. Wide branch network also came out strongly with customers indicating that the fact that they were able to transact across the region made them stay in KCB. Corporate image was also a strong factor in that KCB had given a lot back to the community through its corporate social responsibility activities under the cover of KCB Foundation. KCB was however challenged with service quality, communication with customers, competitiveness and lack of documented customer retention strategy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary of the study, the conclusions, limitations, suggestions for further research and recommendations. It provides a deduction of which are the main challenges facing the commercial banks in Rwanda. It goes further, based on findings, to deduce which are the responses used to face the competitive challenges. The implications of the findings to the practice of strategic management in Rwanda are discussed.

5.2 Summary of findings

This paper was a survey on the competitive forces in the Rwandan market that affected the banking industry. It also sought to find out the competitive strategies the banking companies in Rwanda adopted in the face of the various forces of competition. The research was a survey covering all the commercial banks in Rwanda. The research was conducted through the use of primary data.

The study found that the main strategic issues in the banking industry of Rwanda were the challenge of competitors seeking greater market share, the threat of substitutes from competitors, the ever changing customer needs and preferences. On the contrary, information technology changes, strategic planning, managing customer relationships and security issues posed the least competitive challenge.

When faced with the challenges, most companies reacted through focusing on the needs of customers, maintaining strong customer relationships, offering professional services to customers, innovating products and processes, improving banking systems, enhancing the bank's corporate image, offering reputable quality products and services, controlling bank expenditures, and new product development. The least used strategies were reducing bank's overhead costs, maintaining low administrative costs, product re-engineering, strengthening marketing capabilities, relying on high quality research, and joining strategic alliances to reduce costs.

5.3 Conclusions of the study

This study aimed at establishing the competitive forces in the Rwandan banking industry and the strategies used to respond to them. This was a descriptive study where data was collected using a questionnaire administered among banks in Rwanda. The responses indicated no formal strategies among these banks. However, despite this fact, the study found that the main strategic issues in the banking industry of Rwanda are the challenge of competitors seeking greater market share, the threat of substitutes from competitors, the ever changing customer needs and preference. On the contrary, information technology changes, strategic planning, managing customer relationships and security issues posed the least competitive challenge.

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5.4 Limitations of the study

This study has several limitations. First, the study employs the Likert scale which is highly qualitative and based upon the opinions and attitudes of the respondent. This in effect meant that the responses provided may be mere opinions of the respondent and not necessarily the situation on the ground. The Likert scale is highly dependent upon the irrationalities of the person providing the response.

The findings only address a specific point in time, that is, the time when the questionnaires were filled. Strategic management is a highly dynamic activity dictated by the ever changing factors in a business' internal and external strategic environment. This therefore limits the extent to which the results can be applied elsewhere. The population of study was also small. Other countries have environments with many banks. This study does not provide the confidence that such findings are applicable to such countries.

5.5 Suggestions for Further Research

The findings of this study can be improved if more empirical methods can be used to establish for example the market share, financial structure, the strengths of the forces of competition and such. This is because much of the data used was qualitative in nature whose strength is highly subject to the individuals providing the responses.

The study can be repeated in other countries that have similarities with Rwanda, to establish if the situation is the same. The universalization of this research cannot be assumed without the research being done in other countries for comparative purposes. There is likelihood that the findings may not be the same due to the dynamic nature of strategy.

The finding\s of the study are static i.e. they may be true to the extent of the time context when the data was collected. There is need to conduct this study at some other time to ascertain whether the results hold. There is also a need to conduct a study to find out if it is possible to have a research that is generalizable across time.

5.6 Recommendations for Policy and Practice

This study has several recommendations to make. First the banking industry in Rwanda should be reorganized to allow for more competition. In a competitive market, the most efficient and productive companies survive, while poor and inefficient firms get naturally weeded out. If this environment was allowed to thrive, possibly the Rwandan population would have more efficient banking products for its people at a lower cost.

The government should reduce its presence in the banking industry to allow for more competition from within and without the country. As such, as much diversification as possible is desired and banks should be let free to explore many ways of diversification. Reduced government control will allow space for more companies to develop and an entry of international banks to come in for the benefit of the Rwandan economy.

Mechanisms should be put in place to make the banking industry more global to embrace the amalgamation of the East African countries. There seemed to be a tendency of the banking firms wanting to maintain perceived stability and order of things. An aggressive business environment, however, improves quality of service while driving down prices for the good of the consumers of insurance products.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

University of Nairobi
School of Business
Department of Business Administration
P.O. BOX 30197
Nairobi,
Date:……/……./2012

Dear Respondents,

RE: <u>COLLECTION OF SURVEY DATA</u>

I am a postgraduate student at University of Nairobi, School of Business. I am undertaking a management research project on "**COMPETITIVE STRATEGIES ADOPTED BY COMMERCIAL BANKS IN RWANDA** "

You have been selected to form part of this study. This therefore, is to kindly request you to assist me to collect the data by filling in the accompanying questionnaires. This information provided will exclusively be used for academic purposes and will be treated with utmost confidence; neither your position nor any other details shall appear in my report.

Your co-operation is highly appreciated

Thank you in advance

Yours faithfully,

MBABAZI MAUREEN **Prof. Ogutu Martin**
(Student) **(Supervisor)**

APPENDIX II: QUESTIONNAIRE

SECTION A: BANK DATA

1. Department/section you work in ……………………………………………………..
2. Age of bank (Tick)

   1- 5 years ( )

   6-10 years ( )

   More than 10 years ( )
3. Number of Branches of the bank in Rwanda ……………………………………
4. Country of Origin ……………………………………………………………….
5. Kind of services offered by the bank (Tick)

   i) Corporate ( )

   ii) Individual ( )

   iii) Credit ( )

   iv) Savings ( )

   v) Others (Specify) ……………………………………………..

SECTION B: COMPETITIVE POSITION

1. Which one of the following does your bank rely on in order to attract and /or retain customers? (Tick one only)

(a). ( ) charging low prices or commissions to customers.

(b). ( ) providing to customers services that are unique, or different from those of other banks, as much as possible.

(c). ( ) Both of the above i.e. A and B as stated above.

2. Which one of the following represents your bank's target market?(Tick one only)

(a). ( ) Our bank's target market comprises many market segments.

(b) ( ) Our bank's target market comprises only one or a few market segments

SECTION C: CHALLENGES OF COMPETITION

(a).To what extent does your bank encounter each of the following challenges of competition? Use a five point scale, where:

1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent

Challenges of competition	1	2	3	4	5
1. Greater market share					
2. Diversified product portfolio					
3. Information technology changes					
4. Security issues					
5. Managing customer relationships					
6. Internal challenges					
7. Threat of Substitutes					
8. Changing customer preference					
9. Strategic planning					

(b) What other challenges to competition are faced by your bank?

i) ……………………………………………………..

ii) ……………………………………………..............

iii)…………………………………………………….

iv)…………………………………………………….

SECTION D: COMPETITIVE STRATEGIES

(a). To what extent does your bank apply each of the following strategies to cope with the challenges of competition? Use a five point scale, where:

1= Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent**.**

Competitive Strategies	1	2	3	4	5
1. Maintaining low administrative costs					
2. Strengthening marketing capabilities					
3.Innovating products and processes					
4. Reducing organization overhead costs					
5. Enhancing Employee productivity					
6. controlling bank expenditures					
7. Improving bank systems					
8. Re-engineering					
9. Total quality management					
10. Market penetration					
11.Joining strategic alliances to reduce costs					
12.Using skilled and experienced staff					
13.Offering professional services to customers					
14.Emphaising bank corporate image					
15. Offering reputable quality products and services					
16.Focusing on needs of customers					

17.Relying on high quality research					
18. Rewarding employees for creativity					
19. Maintaining strong customer relationship					
20. Improving customer service					
21.Brand Development					
22.Improved public relations					
23 Market development					
24.New product development					

b). What other strategies to competition are utilized by your bank?

……………………………………………………………………………………………

……………………………………………………………………………………………

…………………………………………………………………………………………

APPENDIX III: LIST OF COMMERCIAL BANKS IN RWANDA

1. BANQUE COMMERCIALE DU RWANDA
2. BANQUE DE KIGALI
3. FINA BANK S.A
4. ECOBANK RWANDA SA
5. ACCESS BANK RWANDA S.A.
6. COMPAGNIE GENERALE DE BANQUE
7. URWEGO OPPORTUNITY MICROFINANCE BANK SA
8. KENYA COMMERCIAL BANK RWANDA S.A.
9. CREDIT AND SAVING SCHEME
10. EQUITY BANK LIMITED
11. BANQUES POPULAIRES DU RWANDA
12. BANQUE RWANDAISE DE DEVELOPPEMENT
13. AGASEKE BANK
14. UNGUKA BANK

Source: Central Bank of Rwanda. Date: 13 December 2011