

**COMPETITIVE STRATEGIES AND PERFORMANCE OF  
COMMERCIAL BANKS IN KENYA**

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OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF  
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## **DECLARATION**

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

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**D61/77755/2015**

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

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## **DEDICATION**

This scholarly work is dedicated to my daughter Mary Natasha, husband Daniel Baraza, mum Lucy Gathoni and dad John Kaiba for their tireless effort in encouraging me to pursue my Master degree.

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## **ABBREVIATIONS AND ACRONYMNS**

**ATMs:** Automatic Teller Machines

**CBK:** Central Bank of Kenya

**DCT:** Dynamic Capability Theory

**KBV:** Knowledge-Based View

**RBT:** Resource-Based Theory

**RBV:** Resource-Based View

**SCP:** Structure-Conduct-Performance

**SMEs:** Small and Medium Sized Enterprises

**SPSS:** Statistical Package for the Social Sciences

**USA:** United States of America

**UK:** United Kingdom

**VRIN:** Valuable, Rare, Imperfectly Imitable and Non-substitutable

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## **ABSTRACT**

Firms ability to survive in a competitive business environment is be dependent upon their ability to formulate and implement appropriate strategies that differentiate the firm product offering with the competitors. As the level of competition intensifies, many business units seek profitable ways of differentiating themselves from competitors and the Kenyan banks are not exceptional. The time when banks waited for consumers to come to them and offer similar services to the customers is way gone and instead, they need to identify their niche market and always respond fast enough to the demands of the market. Consequently, all banks should develop appropriate strategies which eventually lead to performance. The objective of this study was to determine the competitive strategies and performance of commercial banks in Kenya. Primary data was collected using questionnaires. The data collected was analyzed by the use of regression analysis, mean and standard deviation while presentations was done using tables, graphs, frequencies and percentages. The findings of the study were that the challenges that impact the banks include competition from other banks, increase in capital requirements by the regulators and cost of operations. The source of competitiveness for the banks include a differentiated product range, a competent work force and internal resources owned by the banks. The areas in which the competitive strategies had influenced most were increased level of competitiveness and increased market share and revenues. The current challenges that the banks face include lack of skilled manpower to implement effectively the bank strategies, lack of top management support to implement the strategies and frequent changes by the regulators. The findings further showed that despite existence of several opportunities, the banks need to re-examine their employee training needs with an aim of equipping them with appropriate skills to guide the organization to fully automation of services. The study concludes that sustainable competitiveness of a firm is crucial to the banks performance and therefore the use of the various competitive strategies by the banks to deal with threats resulting from the rivalry from existing competitors and powers of the suppliers indicates the banks willingness to ensure that they protect their business territory and survive in the dynamic environment. The study recommends that the operational risks that are as a result of the regulatory moves such as capping of interest rates should be an eye opener to the banks and therefore they should be sensitive to the cries of the consumer and be responsive to their needs. Otherwise, a failure to respond accordingly will invite intervention of the government and the other regulators at the same time.

# CHAPTER ONE

## INTRODUCTION

### **1.1 Background of the Study**

Competitive strategies consist the tactics that an organization has and takes to appeal buyers, stand competitive forces and advance its market standing (Thompson and Strickland, 2010). Lester (2009) contended that competitive strategies assist an organization to describe its business at present and tomorrow, and determine the industries or marketplaces to participate in. The framework of the competitive strategies and performance of an organization can be linked to Bain (1956) and Mason (1939) in their research on industry behavior, where the profitability of a firm is as a result of the structure of the industry. Industry features and not the organization are the critical determinants of performance of an organization (Barney, 1986). According to Johnson and Scholes (2008), central capabilities of a firm are more robust and hard to reproduce as they are related to the way linkages in the value chain of a firm are managed.

The universal typologies on strategy as proposed by the Scholars in the 1980s turned out to be the theoretical foundation used in the identification of strategic sets within the industries. Porter (1980) outlined three approaches to competitive strategy which are being a market leader in terms of low cost, strategy for differentiating products and services and strategy on focusing at a particular segment. Miles and Snow (1978) proposed four competitive strategies which include; prospectors, analyzers, defenders, and reactors. According to Penrose (1959), resource based view theory (RBV) embraced the notion that organizations could be regarded as a collection of resources. The theory explained that the organizations source of competitiveness is founded within the

company's ability to manage internal resources (Das andTeng, 2000). The extension of RBV gave rise to knowledge based view theory (KBV) that places emphasis on the knowledge that an organization has in stock as a tactical resource and critical factor for its competitiveness (Nonaka, 1994, Decarolis and Deeds, 1999, Kogut and Zander, 1992). Teece et al. (1997) introduced Dynamic Capability Theory ("DCT"). The "dynamic capabilities" structure inferred that firm level differences in competences were imbedded in assets, processes and paths which resulted in performance.

The need for study on competitive strategies and performance of commercial banks in Kenya cannot be ignored. Though several articles relating to competitive strategies have been analysed, this study will give a viewpoint to the subject matter. It will add knowledge to the various players in the commercial banking services in terms of management of their competitive strategies to enhance performance and survival especially during these turbulent times. The shareholders contributing the share capital will only provide this to the company as long as the shareholders are satisfied that the value they get is greater than the value for alternative investments options (Alchian and Demsetz, 1972).

According to Finneran, (2006), a bank is defined as an institution of financial nature that accepts deposits and provides loans and other banking services. The unparalleled growth in banks is as a result of changes from an environmental and regulatory perspective (Focarelli and Pozzolo; 2001). These changes forced foreign banks to incorporate in other countries (Haq and Howcroft, 2007) which included setting up branches or subsidiaries in Africa.

After Kenya gained independence, the government of Kenya realized the importance of establishing banks. They bought majority of the shareholding in the foreign banks. Due to this reason, local banks were incorporated to give credit facilities to the Kenyan as well as ensuring that the government was in control of the economy after gaining independence.

### **1.1.1 Competitive Strategies**

Porter (2004) viewed competitive strategies as phenomenon that includes the supply and demand side scope of strategy. Later, he streamlined the phenomenon into three basic strategies that include; overall cost leadership', 'differentiation' and 'focus strategy. According to Johnson, Scholes and Wittington (2008), competitive strategies are perceived from a business angle. They took the view it is the attainment of competitive edge by a business unit in the specific market that it participates in. Porter (1980) proposed a logical framework to assess the attraction of an industry as the source of competitiveness. Porter recognizes five forces of competitiveness seen to negatively impact the firm profits. These included entry threat, substitution threat, bargaining power of buyers and suppliers and rivalry among current competitors.

Resource based theorists adopted the idea that organizations could be viewed as a collection of resources which gave firm a competitive edge (Penrose, 1959). The resource-based theory of strategy pursued to explain intra-industry performance differences with firm-specific "resources": tangible and intangible assets like skills, capabilities, reputation and brand. The RBV places emphasis on the organization's resources and the way they are managed to be the central determining factor of competitive advantage and organization performance (Das and Teng, 2000).

The knowledge based view theory (KBV) is an extension of RBV based on the fact that it considers organizations as heterogeneous entities loaded with knowledge (Hoskisson et al., 1999). To the extent that it focuses upon knowledge as the most strategically important of the firm's resources, it is an extension of the RBV. Knowledge is a very tactical resource that doesn't depreciate the way physical assets do and can produce growing returns. Knowledge employees are educated and they apply academic and logical knowledge to come up with new products resulting in performance.

The dynamic capability theory explains how competitive advantage is attained by a firm. Teece et al., (1997) contend that prosperous companies exhibit timely receptiveness to changes in the market. The methodology explains the ways in which organizations cultivate firm explicit competences so as to react to the dynamic environment is as a result of firm's market positions, business process and opportunities. These characteristics form the base used in determining the dynamic capabilities. Business processes involve the way of doing things in companies and have three responsibilities which are learning, reconfiguration and coordination. Positions relate to endowments of technology, complementary assets, customer base, and intellectual property and organization external relations with suppliers are defined as positions. Paths are strategic substitutions available to the organization and these are well-defined in the path dependencies and technological opportunities that a firm can take advantage of. Porter (2002) noted that the eventual goal of competitiveness is to survive in the dynamic environment and to change those rules in the firm's behavior.

### **1.1.2 Organisational Performance**

One of the importance of management study is appreciating the organization's objectives and methods used to measure the achievement (Drucker 1954; Ansoff 1965, Andrews 1987). Performance is a notion connected to the phenomenon being studied Hofer (1979). Each perspective of performance of the organization are argued to be distinctive making measurements of performance fundamentally situational (Cameron and Whetton, 1983).

According to Carton R and Hofer C (2006), the importance of performance is value creation. Where the value received from the assets provided by the shareholders is greater than the alternative investments options, the assets in terms of capital will continuously be provided to the organization resulting in the continued existence of the organization. In a situation where the shareholders feel that they are not getting the value they expect from the capital they have contributed to the business, the shareholders will withdraw the capital contributed and the organization will cease to exist. Creation of value is a mixture of financial and non-financial related goals. For financial results, it would include profitability so that the shareholders are able to get dividends from their investment. The dividend however is dependent on profitability of a firm and the dividend policy. When the shareholders directly manage the organization, value creation for the shareholders would also include non-financial results (Jensen and Meckling, 1976).

### **1.1.3 Competitive Strategies and Organizational Performance**

Porter (2000) contended that higher performance can be attained in a competitive industry through the pursuit of a generic strategy, which include development of an overall cost leadership strategy, differentiation strategy, or focus or niche strategy to industry competition. The above strategies if pursued results in performance of an

organization. According to Thompson and Strickland (2010), a company is competitive if it has an edge over the rivals in safeguarding the consumers and countering competitive pressure. Organizations are an association of productive assets which are physical and capital in nature combined to attain the purpose for existence of the organization (Jensen and Meckling, 1976; Alchian and Demsetz 1972; Barney, 2001; Simon, 1976).

If an organization generate enough returns or as much as what is being generated by the industry, that organization is in competitive parity to the industry. If an organization is making losses, it will find the shareholders withdrawing the capital and that organization will find it hard to survive. The ability for a company to constantly make profit is key to the survival of an organization (Drucker, 1954). On this basis therefore, measures of profitability are the most used to represent firm's performance.

#### **1.1.4 Banking Industry in Kenya**

There are a total of 44 banks in Kenya which include 43 commercial banks and Central Bank of Kenya (CBK). In Kenya, banking industry has continued to grow in deposits, balance sheet and profitability as well as products offering over time. The banking industry balance sheet grew by 3.4% from Kshs 3.26 tn in December 2014 to Kshs 3.37 tn in March 2015. (Cytonn, 2016).

According to Cytonn report, the growth in the commercial banking industry in Kenya has mainly been underpinned by; supplementary banking networks such as mobile banking, internet banking, agency banking and branch network expansion strategy. Cytonn report further states that the new regulations in this industry may affect commercial bank performance and survival. To survive during these turbulent times, bank would therefore need to re-align their competitive strategies and competencies (Porter, 1980).

### **1.1.5 Commercial Banks in Kenya**

The commercial banks in Kenya are 43 in number and are regulated by the CBK and licensed under the Banking Act (Cyttonn, 2016). The banks need to observe certain prudential guidelines which include minimum liquidity ratios and cash reserve ratios with the CBK. To date, the Kenyan banks have increased in numbers and grown in terms of branch network, services provided, such as loans, credit facilities, accounts opening , having Automatic Teller Machines (ATMs) in strategic places, mobile banking, internet banking and other services (Lyaga, 2006). These commercial banks are in competition for loans and deposits. Competition is likely to deepen in this industry due to stringent economic times, regulations by the government, innovation and disclosure requirements.

Competition in the Kenya commercial banks spreads beyond the banking industry to include cooperatives, microfinance institutions and other non- deposit taking institutions. Yildirim and Philippatos, (2007), states that competition in the banking industry could result in better quality and pricing of the banking products. It would also result in promotion of financial innovation leading to better skills, techniques and technology. The Kenyan banking industry has metamorphosed through several phases, starting with the deregulation of the industry in early 1990s to the present day, liberalized and competitive industry. These changes have led to increased level of competition to a level never witnessed previously.

### **1.2 Research Problem**

Competitive strategies aim at establishing a profitable and sustainable position for a firm against the forces that determine industry competition. This means that organization needs to know what causes the competition and work towards developing strategies that

are in agreement with the competencies of the organization so as to be in a position to deal with the environmental changes. Successful competitive strategies results in greater performance and maintainable competitive advantage (Porter, 2004). Banking is very old and date back to 2000 BC as demonstrated in prehistoric Roman (Davies, 2002). Mecagni (2015) points out that financial liberalisation, reforms and upgrades in regulatory and supervising capacity have historically set the scene for the transformation of the African banking.

There are 43 commercial banks in Kenya. These banks have realized that increased competition in this industry dictates the development of strategies to compete so as to enhance performance. The strategies developed will also lead to the bank survivals. Banks without clear strategies will find it hard to survive in this market. The banking environment in Kenya has drastically changed due to government regulations and stiff competition. According to Dulo (2006), each bank should know how to venture into the market and thereafter form, guard and uphold its competitiveness.

Preceding research studies focused on the competitive strategies adopted by banks and other institutions. Internationally, Taylor and Francis (2010) examined the cross border strategies in banking. The empirical data was based on the world's 60 largest banks. Ebimobowei (2012) carried out a study on customer services strategies and continued survival of banks in Nigeria in an era of post-alliance. Mariotto and Verdier (2015) carried out a study on the innovation and competition in internet and mobile banking in Paris". Ovidiu (2013) carried out a study on employee motivation and organizational performance.

Locally, Achieng (2013) conducted a study on competitive strategies used by the banks agents to maintain their market share. Arasa (2014) carried out a study on the competitive strategies and firm performance relationship: a case of mobile telecommunication companies in Kenya”. Chepngetich (2012) carried out a research on the “strategies that local commercial banks adopt in dealing with the competitive environment”. Kungu (2014) carried out a study on an assessment of competitive strategies by commercial banks: a case of Equity Bank”.

The above studies have not assessed the relationship between the competitive strategies and performance of commercial banks in Kenya resulting in a gap. It is from this perspective that the study sought to bridge this gap by responding the question: What is the relationship between competitive strategies and performance of the commercial banks in Kenya?

### **1.3 Research Objective**

The objective of the study was to determine the relationship between competitive strategies and performance of commercial banks in Kenya.

### **1.4 Value of the Study**

Focusing on attainment of competitive advantage would aid the commercial banks on being receptive to the changes in the environment and compete in the market. By recognizing their competences, banks will focus on areas that give them a competitive edge in the market or industry (Pearce and Robinson, 2005). The study will be of value to a number of beneficiaries.

To the commercial banks and during these turbulent times that are marked with increased competition in the banking industry and government regulations such as interest capping, non- performing loans disclosure requirements, increased capital requirements that affect the survival of the bank, understanding of the competitive strategies and performance will enable the management to develop competitive strategies, identify their core competences and implement the strategies. This will eventually lead to performance of these banks and give the banks competitive edge in the banking industry.

The study will also add value to the practitioners as they are aware of the competitive strategies but they do not know the reasons some organizations fail to achieve their desired goals. Through this study, they will be able to understand how competitive strategies lead to performance of an organisation which eventually leads to survival. They will also understand the importance of implementation of strategies.

The study will be of great importance as it will add to the existing theories in strategic management, competitive strategies, organizational performance and form a basis for further research on this topic. The study will assist in finding out the connection between competitive strategies and performance of commercial banks during turbulent times.

The findings will also be of great importance to the regulators such as the government and CBK as it will give guidance to develop suitable policies and engage the banks to so that they can concentrate on core competencies. This will improve the overall performance of the banking sector and the cases of failure of banks will reduce.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter covers a review of the pertinent literature addressing the objective of this research. It covers the key concepts, purpose, theoretical and empirical framework. Part 2.2 covers the theoretical foundation and existing literature on the topic of the study. Part 2.3 covers competitive strategies in organisations. Part 2.4 covers organisational performance measurements. Part 2.5 discusses how competitive strategies influence organisational performance while part 2.6 covers empirical studies and research gaps.

#### **2.2 Theoretical Foundation**

The significance of competitive strategies on performance of an organization is examined by different scholars. Porter (1980), states that organizations that have a precise strategy outdo the ones without a strategy. His argument is the foundation for the strategies for enhancing competitiveness. Porter (2000) argued that higher performance can be attained in a competitive industry through the pursuit of a generic strategy which include development of an overall cost leadership, differentiation, or focus approach to industry competition.

Porter argued that an organization is not following any of strategies, it will be caught in between resulting in achievement of lower performance in comparison to the firms following a strategy. He also stated that a firm trying to mix two strategies will be caught up in between and will also achieve lower performance. He argued that the low cost and differentiation strategies are founded on dissenting assumptions and thereby generate trade-offs within the organization. Porter's cost leadership strategy focuses on gaining

competitive advantage by an organization having the lowest cost in comparison to the industry (Hyatt, 2001). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost production, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing them to other organizations with a cost advantage. An organization must also have a large market share (Hyatt, 2001).

Lower costs and cost advantages result from learning curve benefits, economies of scale, process innovations, product designs, reengineering activities and reducing manufacturing time and costs. Only one organization in an industry can be the cost leader and if it's the only difference between the organization and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000). An organization could become a low-cost leader by enjoying access to the raw material in terms of proximity and having technology which assist in lowering of costs (Bauer and Colgan, 2001). As a result of lower cost, the demand rises, increasing the sales and eventually the firms share in the market (Helms et al., 2007). If a firm is a leader in terms of low- cost, this gives that firm competitiveness which act as entry barrier for rivals who would need intensive capital to penetrate the market (Hyatt, 2001).

Porter's (1980) structure is founded on the "structure-conduct-performance (SCP) paradigm". The principle of his model states that organizational performance in market place is cognizant on the characteristics of the industry the firm participate in. Away from the SCP model, Porter states that organizations articulate clear strategies to enhance

performance. These strategies could alter the rules of the industry to favour the organization (an example would be where organizations come up with strategies to prevent entry of rivals). Porter suggests a logical framework to evaluate the desirability of an industry, “the group of companies producing products that are close substitutes for each other”.

Porter identified five basic competitive forces seen as threats to the organizations profits which include threat of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. The collective impact of the five forces and the underlying structure of an industry, determines the intensity of industry competition and the ability of companies in the industry to make profits. Competition corrodes profitability and as competition intensifies, the interest of different stakeholders congregate around the goal of survival (Grant, 2005). Porter notes that the five forces model aids a firm in look outside its immediate competitors. He states that, determining the industry in which competition occurs is important for good industry analysis.

The new entrants’ threat according to Porter is the likelihood that the profits of the existing players in the market will be dwindled by the incoming competitors. This is very common where we have existing players in the market, then a new entrant decides to join the market in which case the customers make a decision on the product to use and could go for the products being provided by the new entrant. According to Porter and as supported by Stahland and Grigby (2007), bargaining power of buyers in the industry is where we have many buyers who push prices of goods and services down and at the same time requesting for quality goods and services or additional services for the same or

lower price by playing competitors. These behaviors of buyers reduces the company's profits and revenues since the customers have capability to reduce the prices and could decide to use cheaper competitors' products if this is not done. The bargain power of supplier states that they can apply bargaining skills in industry and seek to increase prices or lower the quality of the products and services or both at the same time (Barney and Hesterly, 2010).

Threat relating to availability of substitutes is based on notion that organizations compete to produce non differentiated products which are close substitutes (Cravens and Piercy, 2009). These products limit possibility of an organization making profits since they can't sell goods at higher costs compared to the industry. The products of diverse companies can satisfy their needs so they choose to buy products from the competitors. In respect of the competition within the industry, Porter states that organization uses strategies like advertising, promotions, and warranties and after sales services to increase service to customers. Competition occurs when competitors feel the force or act on a chance to advance their organizations' position. As a result of this, companies in the industry fight to gain, increase and sustain to market share (Porter, 2005).

The importance of formulation of a strategy is to assist in dealing with competition and the collective strength of these forces determines the ultimate profit latent of an industry. Designing viable strategies for an organization requires a detailed appreciation of the firm's industry and competition. Evaluating firm's competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. Development of competitor profile enables an organization to more accurately forecast both its short and long term growth and its profit latent (John et al., 2009). According to

Jones, (2009), the logical analysis of forces in the industry environment using the Porter framework is a powerful tool that helps managers to think strategically in terms of how to be competitive. Industry analysis leads managers to think analytically about the way their strategic choices will both affect and be affected by the five forces of industry competition.

The resource based theory (RBV) emphasizes that the resources managed by a firm are the key determinant of its competitiveness and performance. The theory explains that the organizations source of competing with rivals is founded within the company's ability to manage the internal resources (Das and Teng, 2000). Resource heterogeneity uniqueness is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument is that because some resources can be specific to organizations and are not easily imitated, organizations differ in terms of their resource base. This distinctiveness is essentially what leads to competitive advantage.

Barney (1991) came up with a more concrete, detailed framework for analysing the characteristics of the resources owned by a firm that would give the firm competitive advantage. These attributes (VRIN variables) are the heart of RBV. They include "valuable" in the logic that they exploit opportunities and/or counterbalance threats in an industry, rare among a firm's current and potential competitors, inimitable and non-substitutable". Many scholars (Amit and Schoemaker, 1993; Mahoney and Pandian, 1992; Peteraf, 1993) have accepted and even extended Barney's view to include "resource durability, non-tradeability and peculiar nature of resources". The fundamental intention of the RBV is that organizations are unique in respect of the strategic resources they own and govern.

It is largely proposed that this uniqueness is as a result of resource-market deficiencies and resource rigidity (Barney, 1991), and firms' incapability to modify their collective stock of resources over period (Carroll, 1993). Each organization is viewed as heterogeneous resource group of both physical and intangible assets as well as competences (Wernerfelt, 1984). Resources, which are the elementary unit of analysis for resource based theory can be well-defined as those assets that are secured semi-permanently to the organization (Maijoor and Witteloostuijn, 1996; Wernerfelt, 1984). These includes financial, human, physical, commercial and technological, assets used by firms to develop, produce, and supply products and services to its customers (Barney, 1991).

Capabilities is the firm's ability to organize diverse resources combined using organizational processes, to achieve the anticipated goals (Amit and Shoemaker, 1993; Grant, 1996; Prahalad and Hamel, 1990). Capabilities arise from the crucial information and processes that are intangible in nature and distinct to an organization and advanced through compound connections amongst the organization's resources (Kogut and Zander 1992; Leonard, 1992; Winter, 1987). They are viewed as intermediate goods' produced by organization for boosting production of resources, increase flexibility and safeguarding its final output.

Foss (1998) pointed out that the RBV does not run away from the difficulty of determining the suitable element of analysis. Most theories within the RBV take the distinct resource as the pertinent unit of analysis to study competitive advantage. Foss states that this choice may only be legitimated if the pertinent resources are adequately well defined and free standing. If, in contrast, there are strong relations of

complementarity among resources, it is the way resources are grouped and how they interplay and fit into the system that is important to the understanding of competitive advantage. The conceptual framework takes this problem into account by relating competitive advantage to strategy rather than to individual resources of an organization.

The growing importance of intangible assets has resulted in the emergent of knowledge based view (KBV) which is an extension of RBV. This is based on the fact that organizations in this theory are considered as unique and full of knowledge (Hoskisson et al., 1999). By considering knowledge to be the most critical resource owned by organisation, it's an outgrowth of RBV. Observing an organization from a KBV perspective puts importance to knowledge as the crucial resource that gives that firm competitiveness (Nonaka, 1994, Decarolis and Deeds, 1999, Kogut and Zander, 1992). In accordance with KBV, organizations should encourage behavior geared towards innovation and review their technical developments alongside the ones owned by the competitors (Barton, 1995). Knowledge is also considered central to several quite unique research traditions such as, the management of technology, organizational learning and managerial cognition.

Knowledge is a very tactical resource that doesn't devalue the way physical assets do and can produce growing returns. Knowledge employees are educated and they apply academic and logical knowledge to come up with new products resulting in performance. According to Drucker (1997), other resources differ from knowledge as it continuously change and advance in a way that the great knowledge today is perceived as tomorrows ignorance. This is what makes knowledge workers and their ability to analyze, combine and create knowledge so important. In addition, knowledge makes resources mobile:

knowledge workers own their means of production, and can take it with them wherever they go – also out of the company. While present literature on the KBV contributes importantly to the appreciation of firm, various shortcomings have been associated with this theory. The researchers have argued that the KBV of a firm can be independent of opportunism (Foss, 1996). Retention of knowledge needs to be managed actively in order to retain the necessary knowledge available within a firm (Campbell, 1960; Lane et al., 2006). By so doing, a firm will be less swayed by the loss of knowledge caused by termination of a specific skill or routine, or when an employee leaves the firm (Szulanski, 1996; Walsh and Ungson, 1991).

Essential to KBV of the firm is the notion that the critical contribution in production and principal source of value is knowledge. Machlup (1980) classifies 13 different 'elements of knowing which include “being acquainted with, being familiar with, being aware of, remembering, recollecting, recognizing, distinguishing, understanding, interpreting, being able to explain, being able to demonstrate, being able to talk about, and being able to perform”. Machlup (1980) also identifies five 'classes of knowledge' including” practical knowledge, intellectual knowledge, pastime knowledge, spiritual knowledge, unwanted knowledge and cultural knowledge that is related to culture, giving stories among others.

There are two ways in which a firm can create value; by producing outputs that are of higher value than the inputs during the transformation process and through arbitrage, either in terms of trading or speculative methods. Additional value can be created by moving products to different markets without necessarily altering their form. According to (Gavetti and Levinthal 2000) manager’s KBV goal is to generate new knowledge that is valuable. In most cases, the preferred knowledge is nonexistence and therefore

managers cannot make a choice of the knowledge to acquire. Managers should therefore choose problems and try to solve the ones which if resolved would result in the necessary knowledge and competence. The focus of this theory is therefore problem solving and creation of new knowledge. The manager's essential knowledge-based objective is to sustain above-normal profits by regularly realizing new knowledge or new explanations that form from unique blends of existing knowledge.

Nelson and Winter (1982) explicitly define a firm's knowledge (or capability) as the "input-output combinations achievable with all possible mixes and levels of activities known to the firm. Knowledge-based competences are reflected to be the most tactically important ones to produce and sustain competitive advantage (DeNisi et al., 2003). Superior talent is acknowledged to be the main creator of constant competitive advantage in high performance organizations (Hiltrop, 1999). The ability to learn faster than competitors could end out being the only sustained competitive advantage (Geus, 1988)).

Dynamic Capability Theory (DCT) contributes to RBV and therefore improving this theory based on the fact that DCT tries to explain the characteristics of sustainable source of competitiveness (Teece et al., 1997). DCT tries to make use of capabilities which are unique to an organization and state how they are developed, organised and secured. DCT classifies three factors in trying to assist in determining the source of competitiveness and these are; processes, describing ways of doing things in an organization: positions, presenting the asset type as owned by and organization and how an organization relates with suppliers and paths, which relates to the strategic direction of an organizations. DCT states that successful firms respond timely to the dynamic environment and product invention resulting in competitiveness. Furthermore, successful companies are able to

efficiently organise and redistribute internal and external capabilities. The capacity to attain competitive advantage in this framework is referred to as the Dynamic Capability. The term dynamic according to Teece means the ability of a firm to redeploy competencies to achieve congruence with dynamic environment; this is very important where market time is crucial and competition nature is hard to describe and analyse”.

Capabilities are referred to as “the key role of strategic management in appropriately adapting, integrating and reconfiguring, internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment. The methodology describes that the way organizations develop firm specific capabilities to respond to changes in the business environment is ultimately linked to the firm’s business processes, market positions, and opportunities. These factors form the foundation for determining DC’s.

Business processes involve the way of doing things in companies and have three responsibilities which are learning, reconfiguration and coordination. Positions relate to endowment in technology, corresponding assets, wide coverage of customers and technology as well as organization’s relationship with suppliers. “Paths refer to the strategic substitutes available to the firm, these are well-defined by path dependencies and technological opportunities”.

Teece (2007) suggested an expounded structure consisting of three factors; sensing, seizing, and reconfiguring. The sensing is the idea that in a fast-paced, competitive environment, where consumer needs are continuously varying, firms need to be able to identify opportunities. This requires firms to continuously scan, search and explore new market drifts. It requires firms to capitalise in research activities and the monitoring of

customer requirements and technological potentials. Upon identifying opportunities, firms' they need to be seized. Seizing can be achieved by the firm developing and distributing new products matching the customers' needs and investing in commercializing the products. Companies are also required to improve complementary assets and technology, to ensure that once the opportunities are ripe, the organization can enter the market quickly and faster than the competitors. Upon seizing the opportunities firms' experience growth, requiring the firm to enhance the resources it owns, which results in reconfiguration of business process. Companies are also required to sustain business model redesign, have strong leaders and managers and re-align assets.

### **2.3 Competitive Strategies in Organisations**

Competitive strategies consist the tactics that an organization has and takes to attract buyers, withstand competitive forces and advance its market standing (Thompson and Strickland, 2010). Porter (1980), states that organizations that have a precise strategy outdo the ones without a strategy. Porter (2000) argued that higher performance would be attained in an industry that is filled with competition through pursuing strategies which include being a leader in terms of low cost, strategy for differentiating products and services and strategy on focusing at a particular segment. If an organization is not following any of strategies, it will be caught in between resulting in achievement of lower performance in comparison to firms following a strategy.

Competitive advantage in an organization is also founded in the company's capability to take care of resources it owns internally (Das and Teng, 2000). Heterogeneity (or uniqueness) of resources is viewed as essential condition for a bundle of resources to led to competitiveness. The argument is that due to uniqueness of resources owned by the

firm, they cannot be easily imitated. The feature of uniqueness in terms of not being imitated results in competitiveness for the firm; these variables in essence enable the company to earn superior returns (Bowman and Ambrosini 2003). The source of competitiveness in an organization could also be as a result of ability of a company to quickly respond to changes in the environment and flexibility in terms of product innovation while at the same time being in a position to manage the firms' capabilities and also being in a position to organize and redeploy these resources.

The source of competitiveness associated with this believe is based on the fact that the specific assets owned by a firm are unique and cannot be traded in the market and this is what give the firm a competitive edge over the competitors. This implies that separating competencies and capabilities should be in built within the firm (Teece et al., 1997). In competitive market, organization must grab existing opportunities and be receptive to threats so as to outsmart the competitors and survive in the industry. Strategy is the scope and direction an organization has to assist in achievement of its long term goals and provide enduring benefit to the organization through the designing of resources in the challenging and dynamic environment. There are three levels of strategies in an organization which are corporate, business and functional (Thompson, 1986).

Strategist in an organization develop strategies by following up the four processes which consists of the following steps: (1) analyzing the internal and external environ; (2) crafting the strategy; (3) Putting the strategy into action (4) appraisal of the strategy (Borza et al., 2008). Porter (1996) states that a good strategy is concerned with the structural evolution of the industry as well as with the firm's own unique position within that industry. A good strategy makes the company different, giving the company a unique

position, involving the delivery of a particular mix of value to some array of customers, which represents a subset of the industry. Kay (2000) argues that strategy is no longer about planning or 'visioning' because we are deluded if we think we can predict or, worse, control the future. It is about using careful analysis to understand and influence a company's position in the market place. If a company wants to serve a particular target customer group with a particular definition of value, this must be inconsistent with delivering other types of value to other customers. Therefore a good strategy proves the value of the company in competitive environment.

Strategic management emphasizes on being cognizant to the firms strengths and weaknesses and at the same analyzing and monitoring threats and opportunities resulting from changes in the environment. Managers in the business level are required to make the decisions on how to achieve competitive edge which is important for bringing the firm into the scope of sustainable competitiveness. This is due to the fact that formulating competitive strategies would result in better and superior performance and would give a firm a competitive edge over the rivals. The impact of competitiveness on firms' performance is a major issue that the organizations have been facing and policy makers have been playing a great role in trying to refine the performance of the firm for long.

Competitiveness results from developing strategies which will help an organization to sustain its market position and standing. This position if favorable results into higher profits in comparison to those generated by the rivals (Calcagno, 2007). Understanding which resources and behaviors of a firm lead to competitiveness is considered as an important aspect in strategic management (Porter, 1980; Ghemawat, 1986).

## **2.4 Organisational Performance Measurements**

Performance measurements has gathered significant interest recently among both academicians and experts. For many years, performance in an organization has been conceptualized different by many studies of strategic management. Two important characteristics of the organizational performance in management of strategy include; whom does the organization perform for and what are the angles of measurements. The following studies have been conducted to give perspective to the subject matter in respect of organizational performance.

According to Barnard (1938) organizational performance is defined as achievement of organizational objectives. It is the efficiency as to which the personal motives are accomplished and at the same time become satisfactory. Value could be tangible, intangible, based on operations and measured in terms of finances. Listed companies trading on securities exchange view increase in the securities prices and market share as well as being able to pay dividends as their crucial objective (Blyth, Friskey and Rappaport, 1986; Copeland, Koller, and Murrin 2000; Porter, 1987; Scott, 1998; Stewart, 1991; de Waal, 2001).

For non- public companies, due to the fact that it's hard to measure the prices of stocks or shares, value creation include both financial and non-financial measures. When the shareholders receive value from the capital they contribute to the company, they continue to invest in that company. When no value is achieved or they receive less value than their expectations, they withdrawal the capital and invest elsewhere. When the shareholders directly manage the organization, value creation for the shareholders would also include non-financial results (Jensen and Meckling, 1976).

There are four classifications of measurements of organization performance based on the recent studies. These include (1) accounting measures, (2) operational measures, and (3) market based measures, and (4) survival measures of performance. Accounting measures include variables like profitability. The ability of continuously making profits by an organization is taken to be key for survival (Drucker, 1954). For public traded companies, the major research in respect of the accounting measures include the content of the information of the earnings and how this relates to the organizations valuation (Ball and Brown 1968; Beaver 1968; Lev 1989).

Based on this, accounting measurements focus have been moved to corporate rules and procedures from its current significance depending on the length in which the returns of the securities of the listed companies are in line with the information content (Lev, 1989). This above performance measures do not only imply the causal relationship between the content of the information on the financial information of an organization and the equity of the stock returns but also the correlation between the two aspects. This makes the accounting performance based measures useful for determining the alternatives for market returns or creation of value to the shareholders. On this basis therefore, profitability measures are the most common for determining organizational performance.

Kaplan and Stratton (1984) proposed that effective and efficient measures of the performance of an organization should be conducted using a balance scorecard. Kaplan and Stratton stated that organizations still requires measures which are not financial in nature due to the fact that the financial measures such as accounting arise from key operational measures. They argued that accounting measures are historical because the financial statements are prepared based on historical information and not the

opportunities for future investments. The accounting measures do not consider the time value of money. On this basis, they concluded that a combination of operational and financial measures are important in determining the organizational performance. Balance scorecard is multi-disciplinary and has been adopted by many organizations for incorporation of strategy performance measurements (Kaplan 1984; Kaplan and Norton1992).

The variables for balanced scorecard include “market share, changes in intangible assets such as patents or human resources, customer satisfaction, and stakeholder performance”. Most of these measures may lead to questions of the validity of the responses due to the fact that they require primary data from management in the form of their assessment of their own performance.

The primary advantage of using operational measures in conjunction with financial performance measures is that they provide information about opportunities that have been created, but not yet financially realized. The fact that the balanced scorecard approach utilizes operational measures that are unique to each organization is one major weakness. While practical for implementation by organization insiders, it limits the utility to researchers since it is specific to the organization and not situationally generic (Stewart, 2001).

Performance measures that are market related include ratios or rates of change that incorporate the market value of the organization. The calculation of these variables requires a valuation of the companies and is mostly available for only public listed companies. The variables include (1) return to shareholders, (2) market value added,

(3) holding period returns, (4) Jensen's alpha, and (5) Tobin's Q. The calculation of these variables requires a market valuation for the company and is generally only available for publicly traded companies. As there are no publicly available market valuations for privately held companies, the use of market-based measures for entrepreneurship research is problematic.

Survival measures of organizational performance indicate whether an organization remains a going concern. . Barnard (1938) contended that the principal measure of how efficient and effective an organization is, is its capability to survive. He proposed a multi-dimensional view of organizational performance measurement. Drucker (1954) argued that the critical measure of performance of a company is its ability to survive.

Drucker proposed eight different performance dimensions that he felt were essential for the survival and prosperity of a firm. These dimensions included (1) market standing relative to the market potential both now and in the future, (2) innovation, (3) productivity, (4) physical and financial resources, (5) profitability sufficient to cover the risk premium for being in business, (6) manager performance and development, (7) worker performance and attitude, and (8) public responsibility. According to Drucker, these eight dimensions are all necessary for the long-term survival of the organization, which is the ultimate test of performance. As with Barnard, Drucker's perspective is both multi-constituency and multi-dimensional.

## **2.5 How Competitive Strategies Influence Organisational Performance**

The issue on organizational performance and competitive strategies is a complex unresolved issue (Pearce et al., 2007). The framework of the competitive strategies and performance of an organization can be linked to Bain (1956) and Mason (1939) in their

research on behavior of an industry, where the profitability of a firm is as a result of the structure of the industry. Industry characteristics and not the organization are the critical determinants of performance of an organization (Barney, 1986). In accordance with Johnson and Scholes (2008), core competencies of a firm are extra robust and hard to imitate as they are related to the way linkages in the value chain of a firm are managed.

Drucker (1954) argued that the survival of the firm is the definitive measure of organizational performance. Porter (1985) argues that a business can make best use of performance either by endeavoring to be the low cost manufacturer or by differentiation. Existing literature on strategy-performance is based on the notion that a strategy custom-made to a firm's internal and external environment is more than likely to result in superior performance (Hamilton and Shergill, 1992; Zajac, Kraatz, and Bresser, 2000; Brouthers and Arens, 1999 ;).

Each organization selects a strategy that determines the means by which the organization intends to successfully meet and outmaneuver competitive challenges (Porter, 1980). Better certainty and information about the environment tend to improve performance (Katz, Zarkeski, and Hall, 2000; Thompson, 1967). In most cases managers devote a lot of time in planning but the most important part of a strategy is the implementation part. As mention by scholars, strategy that is formulated in a brilliant manner is not useful if it is not implemented (Hill et al, 2009; Olson et al, 2005; Simons, 1995; Giles, 1991; Hambrick et al, 1989).

Of late, there have been a crisis in the banking sector caused unparalleled changes in the environment and regulations resulting in the transformation of the competitive structure of the banking industry. As a result, of this crisis, banks are being forced to re-look their strategies and implement the ones that will give the banks a sustainable competitive edge and also lead to performance. Such moves notwithstanding the fact that they are based on low cost, differentiation or expanding in the market typically focus on customer service portfolio and application of modern technology to achieve competitiveness (Gardener, Howcroft, and Williams, 1999).

The Kenyan banking industry has metamorphosed through several phases, starting with the deregulation of the industry in 1990 to the present day, liberalized and competitive industry. The number of banks has increased from 28 in late nineties to the present day 43 operational banks. This changes has led to increased level of competition to a level never witnessed before. The CBK has demanded that the Tier 3 banks increase their capital base to Kshs 3 Billion by the end of 2018 and this is a challenge to most of the banks because raising their capital base to Kshs 2 billion in 2012 was actually a challenge.

In addition, the government has capped the interest on loans to 400 basis points above the CBR rate and this in itself is going to impact negatively on the profitability of the banks. Any bank that will not be able to meet the changes in the environment will find it hard to survive and will be acquired by other banks or end up in receivership. The banks therefore need to develop strategies to meet these regulations and be competitive during these times. This will help the banks to maintain their market standing and enhance survival.

## **2.6 Empirical Studies and Research Gaps**

Competitive strategies aim at establishing a profitable and sustainable position for a firm against the forces that determine industry competition. Successful competitive strategies results in greater performance and maintainable competitive advantage. Several researches have been conducted on competitive strategies in various sectors, industries and countries.

Taylor and Francis (2010) examined the strategies used in cross border banking. Data analysed was based on the world's largest 60 banks. Their findings were that most banks studied concentrated on countries or geographical regions in which they have affinity in terms of culture or economic. The results also showed that most of these banks were international as opposed to global.

Mariotto and Verdier (2015) carried out a study in Paris on the innovation and competition in the internet and mobile banking. Their findings showed that present framework of the literature on the industrial organization may be enhanced by ensuring that policy makers are able to balance the competition and stability in the banking industry.

Ebimobowei (2012) carried out a study on customer services strategies and continued survival of banks in Nigeria in an era of post-merger. The study sought to find out if consumer service strategy is applied on the survival of commercial banks in the post consolidation era in Nigeria. The data analysis provided a substantial relationship exists between performance and customer service strategies as well as between the government regulatory structure and customer service strategy in the Nigeria banking industry.

Ovidiu (2013) carried out a study on employee motivation and organizational performance. From his study, he found out that employee job security and meeting other needs by the organization are crucial to their existence. Once satisfied, effort is put by the employees on the job leading to performance. A qualified, motivated workforce was seen as vital to a firm that seeking to improve customer satisfaction and productivity. Not only does the empowerment and participation of employees enhance growth, innovation and efficiency but also lead to trust and motivation of employees. Higher staff motivation levels and effectiveness influence the attainment of high levels of performance regardless of the degree of technical automation.

In Kenya, Achieng (2013) carried out a study on competitive strategies used by the bank agents to maintain their market share: a case of commercial banks in Migori County. From her findings, the success of agency banking depends on how well the customers are served, the level of efficiency of technology used, how knowledgeable the agents are on the product offering and visibility and support received from the organization through the organizations structure. Knowledgeable agents have confidence of their clients and in turn this results in loyalty from their customers. Product knowledge on business account was lacking and tariff guides on bank products was also lacking at most of the agent premises. Her findings also indicated that an organization structure that supports communication between the agents and the bank is good for banks growth.

Arasa (2014) carried out a study on the “relationship between the competitive strategies and performance of an organization: a case of mobile telecommunication companies in Kenya”. The study showed that competition is high in this industry forcing most companies to come up with competitive strategies to enhance survival for the companies.

Kungu (2014) carried out a study on an assessment of the effectiveness of the competitive strategies by commercial banks: A case of Equity Bank”. Based on the findings of his study, commercial banks in Kenya apply different strategies to be competitive. These include providing products and services at lowest cost, differentiation of products and focusing on certain market segment. Secondly, the study determined that there are two sources of competitive forces which were mainly external and included fights for market share and quality customer services.

Chepngetich (2012) carried out a study on “strategies adopted by local commercial banks in dealing with the competitive environment: a case of banks in Nakuru town. From her findings, the competitive strategies have direct impact on the banks operations since they respond to competitive environment. The strategies applied to achieve this also assist the banks in surviving in dynamic environment.

Competitive strategies applied by the banks such as being low cost leader, focus strategy on products, customers and services, differentiation, are crucial and ensure that the banks have competitive edge over the rivals in the industry. This study also determined the receptiveness of the banks to the changes in the environment. Of importance is for the banks to implement these strategies to respond to dynamic environment.

From the above studies, it is clear that none focused on determining the relationship between competitive strategies and performance of commercial banks in Kenya. It is clear that the above studies only concentrated on competitive strategies adopted by the banks. This research has bridged this gap by conducting a study aimed at determining the competitive strategies adopted by commercial banks in Kenya and the relationship between these competitive strategies and performance of these banks.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The major purpose of this research was to investigate the competitive strategies and performance of commercial banks in Kenya. This chapter covers a description of the procedures and methods used in conducting the study. The chapter describes the research design, population of the study, methods used in data collection, data analysis and presentation methods.

#### **3.2 Research Design**

Burns and Grove (2003) define research design as a guide for conducting a study with maximum control over factors that may interfere with the validity of the findings. According to Parahoo (1997) research design is a plan that defines how, where and when the data will be collected and analysed. The study used a cross sectional survey of the Kenyan commercial banks. This design method was selected on the basis that it can collect diverse information types and is quick and less costly. (Jorde, 2008) states that cross sectional survey is aimed at determining the frequency of a specific attribute, in a defined population at a given point in time

The study also used the descriptive survey design as it sought to answer the question of what is going on which is an important aspect to consider for social researchers. According to Saunders et al., (2003) descriptive studies gather information relating to the current position of phenomena to define "what exists" in respect of variables or situations.

### **3.3 Population of the Study**

Population is described by Mugenda, (2003) as entire team, group or items, in the field of study, being considered and have shared characteristics. This study was census of commercial banks in Kenya since the population of the study is small. In Kenya, we have 43 commercial banks currently and the employees targeted by the researcher were those in the management levels of these banks.

In the current study, the researcher's intent was to study the Kenyan commercial banks as the environment in which these banks operate is dynamic and competitive. It is therefore essential to understand competitive strategies applied by each bank to enhance performance. The researcher was also interested in determining whether those competitive strategies applied by the commercial banks in Kenya enhance performance.

### **3.4 Data Collection**

This study depended on the primary data obtained using self-administered questionnaires, which were administered to the senior management in the commercial banks. These included the directors, head of departments, senior managers and managers as these are the people involved in developing and implementing competitive strategies to enhance performance of commercial banks. The choice of this instrument was based on the fact that the information obtained is satisfactory and precise for the purpose of the research

The questionnaires were designed by the researcher based on the research objectives. The primary data was collected using the questionnaire attached in Appendix 2 consisting of open and close ended questions. The researcher personally administered the questionnaires and provided guidance to the respondents where necessary. In some instances, research assistant also assisted in administering questionnaires and collection.

### 3.5 Data Analysis

After the data was collected, it was cleaned to remove the inaccurate, incomplete and unreasonable data. This resulted in improvement of quality through the correction of errors and omissions. Thereafter, coding of data was done to facilitate categorization. Analysis of data was done using regression analysis, mean and standard deviation and the tool used was “Statistical Package for the Social Sciences (SPSS)”. Regression analysis was chosen since the study objective was to research on the relationship between variables.

A key aim of statistical examination is to determine relationships and this makes it possible to forecast the variables in respect of the other variables (Freund, 2001). The relationship between the competitive strategies (independent variable) to the dependent variable (performance of commercial banks in Kenya) was determined using the regression formula below:

$$y = \alpha + \beta x_i + \varepsilon : \text{Where}$$

$y$  is the dependent variable (performance of commercial banks).

$\alpha$  is the intercept (or constant) and measures the value at which the regression line crosses the  $y$  axis

$\beta$ , the coefficient  $x$ , and represents the slope of the straight line as described by the equation

$x_i$ , the independent or explanatory variable (competitive strategies adopted)

$\varepsilon$  was the coefficient or the slope measuring the steepness of the regression line

The data analyzed was presented in tables and graphs.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The objective of this research was to establish the competitive strategies and performance of commercial banks in Kenya. The chapter covers the data analysis, results and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviation and regression analysis.

#### **4.2 Response Rate**

For the purpose of this study, 42 questionnaires were distributed to the respondents and out of the 42, 31 were returned presenting a response rate of 73.8%. This response rate was considered sufficient for data analysis since it follows Mugenda (2003) stipulation that for a census, 70% or more response rate is adequate. In addition, considering the period that the researcher took on follow up with the respondents, the chances of more questionnaires being received declined with time and therefore, this was considered adequate for the research analysis.

#### **4.3 General Information**

The general information that was considered in this study included the gender of the respondents, level of education and in this case from college to post graduate, position in the management level, number of years of work experience and the type of ownership of the commercial bank. The findings are presented in Table 4.1 and Figures 4.1 and 4.2.

**Table 4.1 General Information**

Category	Item	Frequency	Percentage	Cumulative
Gender	Male	7	21.4	21.4
	Female	24	78.6	100.0
Level of Education	University- Under graduate	14	46.4	46.4
	University- Post graduate and above	17	53.6	100.0
Position	Manager	20	64.3	64.3
	Senior Manager	4	14.3	78.6
	Head of Department	7	21.4	100.0

**Source: Research Data (2016)**

The above findings indicates that (78.6%) of the respondents were female while 21.4 % were male. The result implies that majority of the staff holding the management positions that were targeted in the research were female. This shows that in the Kenyan banks, the management position is no longer the preserve of only the male gender as earlier perceived.

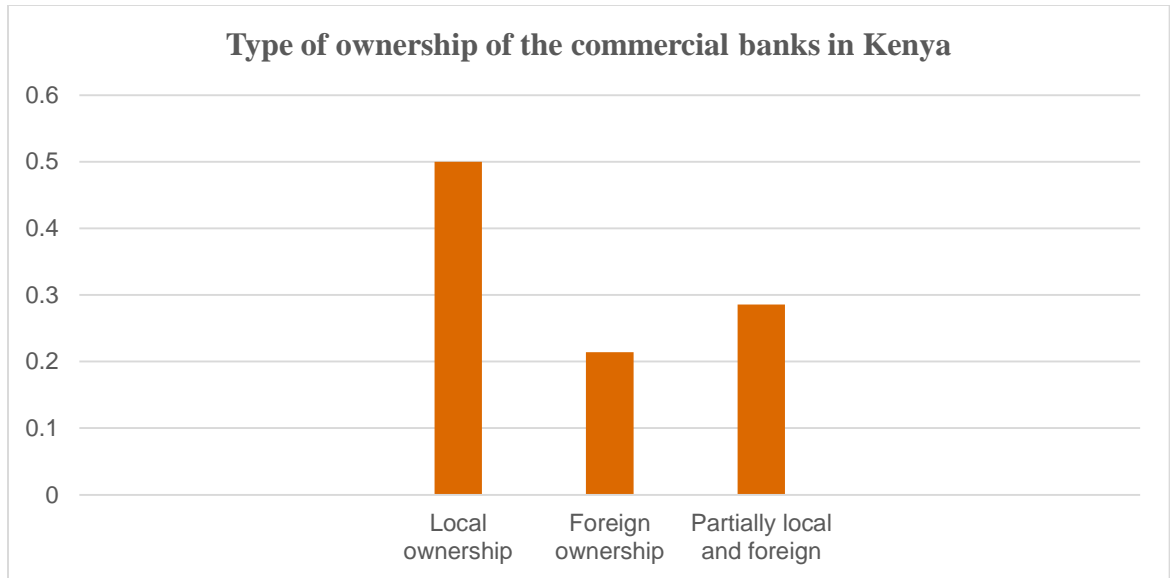
On the question of the level of education, the results show that most of the respondents had at least university degree with post graduate level of education with majority (53.6%) of the respondents having a post-graduate qualifications. Education is very important as it results in knowledge. Competencies that are based on knowledge are deemed to be crucial as they result in creation and sustainability of competitiveness in an organization and (Denisi et al., 2003).

For higher performance companies, superior talent is considered to result in sustained competitiveness (Hiltrop, 1999). With regard to respondents position in the banks, the results show that majority (64.3%) of the respondents were managers in their respective banks while 21.4% of the respondents were heads of departments. These are employees are involved in implementation of competitive strategies and therefore data was collected from these employees



**Figure 4.1 General Information on the years of experience**

From the above findings, (80%) of the respondents had more than 6 years of work experience. Experience is important as it results in knowledge. Employees who are educated apply academic and logical knowledge to come up with new products resulting in performance. The findings also indicate that some of the respondents (20%) in management positions had less than 5 years of experience. This indicates a paradigm shift where educated, qualified employees are rising fast due to excellent performance.



**Figure 4.2 General Information on ownership of the commercial banks**

The findings on type of ownership of commercial bank indicate that majority of the respondents 50.0% suggested that their banks had local ownership while 28.6% of the respondent said that their banks had partial local and foreign ownership. The respondent further indicated that 21.4% of the respondent said their banks were in the class of foreign ownership. This indicates that most of the commercial banks are in the local ownership and they are valuable to the realization of the research objective.

#### **4.4 Competitive Strategies and Performance of the Commercial Banks**

This section of the questionnaire sought to find out the various challenges that the banks face in their present business environment as well as the severity of the same challenges. In addition, the section sought to find out what gives the banks competitive edge. Further, the researcher pursued to determine if there was a relationship between competitive strategies and performance of these banks. Range used was ‘Not at all ‘(1) to ‘Greatly ‘(5). The scores for disagreeing were taken to represent a variable which had a mean

score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq S.D < 2.4$ ). The scores of ‘Neutral’ were taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M.E. < 3.4$ ) and the score of both agree and strongly agree were taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; ( $3.5 \leq S.A. < 5.0$ ). A standard deviation of  $> 0.9$  implies a significant difference on the impact of the variable among respondents.

#### 4.4.1 Forms of Challenges facing Commercial Banks

The researcher, sought to establish the challenges the banks face in their current business context. The findings are presented in Table 4.2.

**Table 4.2 Forms of challenges facing commercial banks**

Challenge	Mean	Std. Deviation
Competition from other bank	3.000	.943
Capital requirements by CBK	2.750	1.404
Cost of operations	2.143	.8483
Un-performing loans	2.107	.994
High expectations from customers	1.821	.612
Government regulations	1.714	1.013
Competition from other Non-banking Institutions	1.571	.690

From the findings, competition from other commercial banks was highlighted as the most dominant form of competition ( $M=3.000$ ) as well as the capital requirements targets set by the regulators CBK and government ( $M=2.750$ ). This indicates that competition is a key challenge that banks face and therefore it’s important to develop competitive

strategies to enhance survival during turbulent times. The government regulations was also pointed out as a major challenge facing banks. However, the standard deviation on the capital requirements by CBK had high standard deviation (SD = 1.404). The other challenge was the cost of operation (M=2.143) while the challenges least felt include competition from non-banking institutions (M=1.571) government regulations (M=1.714).

#### 4.4.2 Competitive Forces to the Banking Industry Operations

This section sought to establish the severity of the competitive forces that face the Kenyan Commercial banks. The findings are presented in Table 4.3.

**Table 4.3 Severity of Competitive Forces facing Banks**

<b>Competitive Force</b>	<b>Mean</b>	<b>Std. Deviation</b>
Rivalry in the industry	4.164	.922
Power of Suppliers	3.893	.685
Power of buyers/customers	1.821	.772
Threat of substitutes	1.714	.810
Barriers to Entry	1.679	.612

**Source: Research Data (2016)**

The finding suggest that rivalry in the industry (M=4.164) and the power of suppliers (M=3.893) were found to affect the industry the most. On the other hand, barriers to entry (M=1.679) and threat of substitutes (M=1.714) were found to be the least threatening form of competitive forces that the banks in Kenya face.

### 4.4.3 Source of Competitive Edge to the Commercial Banks

This section of sought to establish the sources of competitiveness to the banks over the other industry players. The results are presented in Table 4.4.

**Table 4.4: Competitive edge over other banks**

Source of Competitiveness	Mean	Std. Deviation
Differentiation of services	3.828	.790
Qualified human resource base (knowledge based theory)	3.336	.744
Internal resources owned by banks(resource based theory)	2.893	.786
Focusing on market segment	2.557	.848
Flexible and fast in dealing Changes in the market environment (dynamic capabilities)	1.786	.630
Lower interest rates	1.429	.504

The result shows that differentiation of the banks products and services came out as the most source of competitive edge (M=3.828) and high qualified human resource base (M=3.336). On the other hand lower interest costs (M=1.429) and the flexible and fast in dealing changes in the market environment (=1.786) came out as minor source of competitive edge.

### 4.4.4 Competitive Strategies and Performance of Commercial Banks

In this section, the researcher requested the respondents to identify the areas that the competitive strategies applied by commercial bank influence most in terms of performance. The results on the areas that the strategies applied influenced most are presented in Table 4.5:

**Table 4.5: Performance areas influenced most by competitive strategies**

	Mean	Std. Deviation
Increased competitiveness (sustained market standing and survival)	3.964	.922
High market share (market based measures)	3.229	.604
High revenues (accounting measures)	3.643	.558
Customer satisfaction (balanced scorecard)	2.535	.508

**Source: Research Data (2016)**

The findings show that the strategies adopted by the banks had led to increased competitiveness of the (M=3.964) and also high market share (M=3.229) as well as increased revenues (M=3.229). To a lower extent, the strategies had led to improved customer satisfaction (M=2.535).

#### **4.4.5 Relationship between Competitive Strategies and Performance**

For quantitative analysis, the study used regression analysis to determine the relationship between competitive strategies and performance. To determine the same, the relationship between the overall mean of each of the competitive strategies in section 4.4.3 was regressed with the resultant mean from the performance measure in section 4.4.4 for each questionnaire.

From their overall means of each factor, and as noted by Gill and Beger (2012), use of regression analysis could result in endogeneity, whereby, measurement errors occur due to omission of certain variables. If the measurement errors occur, the findings will not be accurate and may not be relied upon. The critical variables that constitute firms competitiveness was used to minimize this error.

**Table 4.6: Coefficients (Relationship between Competitive Strategies and Performance)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.284	0.236		-5.436	0.001
Differentiation Strategy, X1	2.546	0.151	0.527	3.616	0.000
Lower Interest cost, X2	0.450	0.119	0.410	3.790	0.015
Focus Strategy X3	0.351	0.094	0.326	3.734	0.021
Qualified Human Resource, X4	0.613	0.065	0.408	6.815	0.007
Internal Resources X5	0.012	0.002	0.016	-6.681	0.001

Based on the output generated in Table 4.8 above, the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$ ) converts into:

$$Y = -2.284 + 2.546X_1 + 0.450X_2 + 0.351X_3 + 0.613X_4 + 0.012X_5$$

From the regression model obtained above, if a unit change of a variable is tested holding the other variables constant, the results are as follows: the study revealed that a unit change in differentiation strategy applied would change the bank competitiveness by a factor of 2.546, a change in unit of lower interest cost would change the bank competitiveness by a factor of 0.450, a unit change in focus strategy would change the bank competitiveness by a factor of 0.351, a change in unit of human resource capacity would change the bank competitive by a factor of 0.613 and that a change in unit of internal resources would lead to an increase in the bank competitiveness by a factor of 0.012.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and  $\alpha=0.05$ . If the probability value was less than  $\alpha$ , then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than  $\alpha=0.05$ .

**Table 4. 7: Model Summary**

**Regression model**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.729	0.532	.569	.37489

The study used coefficient of determination to evaluate the model fit. The adjusted  $R^2$ , also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination ( $R^2$ ) of 0.532 and which implied that 53.2% on the variations the bank performance is explained by the independent variables understudy ( differentiation strategy, lower interest rate, focus strategy, human resource base, internal bank resources). The result suggested that there exist a relationship between competitive strategies and performance exhibit with (R) of 0.729. In addition, there exists positive relationship between the competitive strategies and performance meaning increased strategies lead to increased performance.

**Table 4.8: Pearson Correlation Analysis**

		Performance	Differentiation Strategy	Lower Interest cost	Focus Strategy	Qualified Human Resource	Human Resource	Internal Resources
Performance	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	31						
Differentiation Strategy	Pearson Correlation	.459	1					
	Sig. (2-tailed)	.001						
	N	31	31					
Lower Interest cost	Pearson Correlation	-.219**	.026	1				
	Sig. (2-tailed)	.000	.898					
	N	31	31	31				
Focus Strategy	Pearson Correlation	.148**	.158	.077	1			
	Sig. (2-tailed)	.002	.202	.535				
	N	31	31	31	31			
Qualified Human Resource	Pearson Correlation	.139**	.103	.021	.820**	1		
	Sig. (2-tailed)	.000	.406	.863	.000			
	N	31	31	31	31	31		
Internal Resources	Pearson Correlation	.367**	.293*	.168	-.583*	-.580**	1	
	Sig. (2-tailed)	.003	.016	.173	.000	.000		
	N	31	31	31	31	31	31	31

**Source: Research Data (2016)**

Table 4.8 shows the Pearson correlation coefficient generated from the data. If efficient response strategies are to affect the performance of the bank, then we expect a positive relationship between the measures of response strategies and bank performance. The correlation matrix is negating the existence of multicollinearity among the independent variables as all the correlations are below 0.90.

#### **4.4.6 Challenges facing Implementation of the Competitive Strategies**

The development and implementation of strategies by a firm will ordinarily face both internal and external challenges. As a result, the researcher sought to find out the challenges that the banks face when implementing their respective competitive strategies.

The findings are presented in Table 4.9:

**Table 4.9: Challenges facing implementation of the competitive strategies**

<b>Challenge</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of skilled people to implement	3.671	1.052
Lack of commitment to implement	3.193	1.100
Frequent changes by regulators	2.950	.887
High implementation costs	2.607	.567
Complexity in needs of customers	2.464	.744
Rise in the cost of borrowing	2.143	1.044

From the results, it is evident that the most prevalent challenge among the banks was a lack of skilled people to implement (M=3.671), a lack of commitment to implement the strategies by top management (M=3.193) and frequent changes by regulators (M=2.950). However, the least challenge to the banks was the rise in cost of borrowing (M=2.143) and the complexity in needs of customers (M=2.464).

#### 4.4.7 Opportunities for Commercial Banks to Compete against other Banks in Future

This section of the questionnaire sought to establish the opportunities for commercial banks to compete against other banks in future. The strategies adopted by a bank are expected to create opportunities to the bank to face challenges arising from their business environment which will eventually lead to their survival. The results are indicated in Table 4.10:

**Table 4.10: Opportunities for Commercial Banks to be Competitive in the Future**

Opportunities	Mean	Std. Deviation
Highly differentiated services	4.057	.942
Increasing banks resources (assets)	3.862	1.084
Qualified human resource	3.586	.855
Mergers and strategic alliance	3.179	.945
Reduced government regulations	2.910	1.122
Reduced capital requirement	2.400	.943
Lowering the costs of interest rates	1.929	.979

**Source: Research Data (2016)**

The finding suggest that the most dominant opportunity to the banks is existence of highly differentiated products (M= 4.057) and also increasing bank resources (assets) (M= 3.862). In addition, the other opportunity that the banks have is a qualified human resource base (M=3.586). However, the least opportunities that was evident from the results was lowering of the interest rates (M=1.929) and possibility of the reduced capital requirement (M = 2.400).

#### **4.5 Discussion of the findings**

In the present day business environment, almost all industries, face some level of competition and indeed the competition has become so stiff. The era of monopolistic tendencies are over and therefore with the increased level of competition, firms will need to come up with appropriate strategies to counter the ever evolving challenges. Commercial banks in Kenya are not an exception. As Thompson and Strickland (2010) state, competitive strategies consist the tactics that an organization has and takes to attract buyers, stand competitive forces and advance its market standing. According to Porter (1980), the organizations that have a defined strategies outpace the ones without. This argument constitutes the base of his competitive strategies and he noted that the crucial purpose of competitiveness is to achieve superior performance and to alter the industry rules in the firm's favor. To survive during these turbulent times, banks would therefore need to re-align their competitive strategies and competencies.

The Kenyan banking industry has metamorphosed through several phases, starting with the deregulation of the industry in 1990 to the present day, liberalized and competitive industry. The number of banks have increased from 28 in late nineties to the present day 43 operational banks. These changes have led to increased level of competition to a level never witnessed before. The challenges that the study found out to impact the banks include competition from other banks, increase in capital requirements by the regulator and cost of operations. The CBK has demanded that the Tier 3 banks increase their capital base to Kshs 3 Billion by the end of 2018 and this is a challenge to most of the banks because raising their capital base to Kshs 2 billion in 2012 was actually a challenge.

The government has capped the interest on loans to 400 basis points above the CBR rate and this in itself is going to impact negatively on the profitability of the banks. To survive, commercial banks need to implement competitive strategies. The researcher pursued to determine the sources of competitive edge for the banks. The results show that the source of competitive edge for the banks include a differentiated product range, a competent work force, and internal resources owned by the banks. On the other hand a lower interest rate, focus on a particular market segment and flexibility in dealing with market changes came out as a lesser source of competitive edge to the banks.

Porter's competitive strategies theory is coming out clearly in the findings in the terms of differentiation strategy. The knowledge based view theory is also coming out clearly in the findings in terms of competent work force. Knowledge employees are educated and they apply academic and logical knowledge to come up with new products resulting in performance. According to Drucker (1997), other resources differ from knowledge as it continuously change and advance in a way that the great knowledge today is perceived as tomorrows ignorance. This uniqueness of knowledge makes employees ability to create new knowledge critical giving a firm competitive edge. Knowledge is not static and it's movable since it's stored in the brains of employees and therefore they use this knowledge to produce goods and services and move it from one working place to the next.

The findings are also in support of resource based theorists that adopted the idea that firms could be viewed as group of resources. The RBV explains intra industry performance dissimilarities with firm specific (non-imitable) "resources": tangible and intangible assets like capabilities, reputation, brand and skills as the source of

competitiveness. The findings are in line with this theory that explains that the organization source of competitiveness is founded within the company's ability to manage internal resources (Das and Teng, 2000). Heterogeneity (or uniqueness) of resources is viewed as essential condition for a bundle of resources to result in competitiveness. The argument is due to uniqueness of resources owned by the firm, they cannot be easily imitated. This is similar to the findings above that internal resources gives banks a competitive edge.

The dynamic capability theory by Teece et al. (1997) is not supported by this research. The theory explains how competitiveness is attained by firms by demonstrating that effective companies are receptive to market dynamics and innovation in terms of products and services. The research findings do not seem to indicate that timely response to dynamic environment result in competitiveness. Therefore, the research findings are consistent with the Porters competitive strategies theory, resource based theory and knowledge based theory but were less supportive of the dynamic capabilities theory.

On the question on the areas in which the competitive strategies had influenced most, the results were that the strategies employed by the banks had increased their level of competitiveness as well as resulted in their increased market share and revenues. Indeed the findings are in support of the research by Lester (2009) which found that the strategies applied by a firm to enhance its competitiveness enable a firm to determine its business today and tomorrow and to determine the industry or market to compete. The research findings indicate that the competitive strategies had resulted in increased level of competitiveness by the banks leading to market standing and survival.

According to Porter (2000), a firm can achieve superior performance compared to the competitors by developing three strategies which are: low-cost leadership, differentiation strategy and focus strategy. The results were also supportive of measures of performance such as accounting since the competitive strategies are seen to lead to higher revenues. In terms of the market measures, most of the respondents also indicated that the competitive strategies resulted in high market share.

On the question relating to the challenges that the banks face in implementing their strategies, the research findings highlighted these to include a lack of skilled people to implement the strategies, lack of top management support to implement the strategies and frequent changes by the regulators. As Olson, Slater and Hult (2005) say it, 'doing is harder than dreaming'. Unfilled space exists between strategy written on paper and realization. A higher performance goes with effective and successful implementation of strategies. In most cases, managers spend a lot of time in planning but the most important part of a strategy is the implementation. As Thompson (1997) pointed out, the indispensable input of a leader in an organization is to provide vision, drive and direction which an organization should take in a competitive environment.

Right managers must be in the right positions for effective implementation of a fresh strategy (Hill and Jones, 1997). Lack of senior management support in the implementation of strategies will result in the strategies not being implemented resulting in failure of the banks. The future competitiveness opportunities for banks include differentiation of services, internal banks resources and a qualified workforce.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a summary of the key findings, conclusion, recommendations, study limitations, suggestions for further research and implications of the study. The research objective was to establish competitive strategies and performance of commercial banks in Kenya.

#### **5.2 Summary**

In summary, most management staff interviewed were female meaning that the top positions in the banking industry are being occupied by both genders and no longer the preserve of a particular gender. This change in the management position might be attributed to the female members of staff pursuing their educational careers since most of the respondents had attained post-graduate education level. Further, the findings show that most of the banks are locally owned.

The challenges that the study found to impact the banks include competition from other banks, increase in capital requirements by the regulator and cost of operations. This is supported by the fact that CBK has demanded that the Tier 3 banks increase their capital base to Ksh 3 Billion by the end of 2018. In addition, the government has capped the interest on loans to 400 basis points above the CBR rate and this in itself is going to impact negatively on the profitability of the banks since bulk of their revenue has been generated from interest income. The present source of competitiveness for the banks include a differentiated product range, a competent work force, and internal resources owned by the banks. The areas in which the competitive strategies had influenced most

increased level of competitiveness and increased market share and revenues. The results are in support of RBV theory that embraced the idea that firms could be regarded as groups of resources and that the differences in the firm-competitiveness is intra industry performance variances with firm-specific resources: tangible and intangible assets like capabilities, reputation and equity results in performance.

The results are also in support of knowledge based theory that provides that knowledge is a very tactical resource that doesn't depreciate the way physical assets do and can produce growing returns. The results are also supportive of Porter's competitive strategies theory on differentiation of products and services. The measures of performance such as accounting and market measures are also seen in the results in terms of high revenues and market share.

The present day challenges that the banks face are lack of skilled manpower to implement effectively the bank strategies, lack of top management support to implement the strategies and frequent changes by the regulators. The results shows that despite existence of several opportunities, the banks need to re-examine their employee training needs with an aim of equipping them with appropriate skills to guide the organization to fully automation of services.

### **5.3 Conclusion**

Based on the research findings, the following conclusions are made regarding this study. The Kenyan banks should be alive to the fact that the time of dictating the phase of the sector keep on changing with stiff competition from the mainstream commercial banks and the non-banking institutions that are offering similar products. In addition, the level

of competition from the mobile phone companies has increased such that the services such as withdrawals and deposits of monies can be transacted anywhere outside the brick and mortar buildings that the banks used to be associated with. Consequently, there is need for the banks embrace new technologies being introduced in the market. Banks need to acknowledge the importance of formulating appropriate competitive strategies to achieve superior performance. These strategies could alter the industry rules in the bank's favour.

Sustainable competitiveness of a firm is crucial to its business and therefore the use of the various strategies by the banks to deal with threats resulting from rivalry in the industry and power of suppliers is important. The banks should also note that their capacity to compete effectively in the markets will come out of their internal competencies such employees, level of automation, internal resources, diversification of their product range and top management support. In addition, banks will need to listen to the customers. This research shows that customer satisfaction is not a key measure of performance in the banks. Banks would need to ensure that customer satisfaction is key as customer is the king. This will avoid regulators intervention in the future.

#### **5.4 Recommendations**

From the findings of the study, the following recommendations are made: Commercial banks, micro-finance institutions and policy makers have to be wary about increasing level of competition in the banking industry and put in place appropriate competitive strategies to mitigate the challenges that come with the competition. These competitive strategies will enhance their performance and eventual survival in the industry.

The operational risk that come from regulators such as capping of interest rates should be an eye opener to the banks that they need to be sensitive to the cries of the consumer needs otherwise they will invite intervention of the government and the regulator at the same time. The intervention affects the industry negatively by reducing profitability.

The findings also supported the view that the banks competitiveness has largely come from differentiation of products, the internal resources and qualified personnel. The top management should therefore support the implementation of these strategies by increasing the budget for employee training and development and internal resources such as innovation and improvement of the brand.

### **5.5 Limitations of the Study**

The major weakness of this study is that it was limited in scope and cannot be overgeneralized. The study was taken based on the Kenyan banks and therefore there is limited room for comparison of findings with other industries which would include cooperative institutions, merry-go-rounds , non- banking financial institutions, other sectors such as manufacturing, entertainment, health among others.

This study was also limited by other factors in that some respondents may have been biased or dishonest in their answers considering that they were all commenting on their employer. More respondents would have been essential to increase the representation of respondents in this study and allow for better check of consistency of the information given. However, despite the above limitations, the findings presented in this paper have important policy implications.

## **5.6 Suggestion for Further Research**

This research indicated that a positive relationship exists between competitive strategies and performance of commercial banks in Kenya. The research also found out that sustainable competitiveness of a bank is crucial to its business and therefore the use of the various strategies by the firms to deal with threats resulting from entry by competitors, power of substitute products and the competition from existing competitors.

The researcher therefore suggests further research on the effect of regulatory moves on the banks strategies and also how the same can be incorporated in the banks strategies. This is based on the fact that this research found out that recent regulations by the government and CBK seems to be a major challenge that the commercial banks have faced recent past.

## **5.7 Implications of the Study**

To the practice and specifically the commercial banks, competitive strategies largely result from qualified and knowledge personnel, differentiation of products and services and internal resources. These competitive strategies result in increased market share, competitiveness and increased revenues and therefore senior management should support the implementation of the strategies to enhance performance.

To the policy makers and in this case the CBK and the government, the recent changes in the regulations have been indicated as a major challenge that the banks are facing. Policy makers should work with the commercial banks to ensure that the regulations do not affect the banks adversely. This study supports the existing theories such as KBV, RBV, and Porter's competitive strategies theories and therefore strengthening them.

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# APPENDICES

## Appendix 1: Data Collection Introductory Letter



UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE... 20/9/2016

### TO WHOM IT MAY CONCERN

The bearer of this letter... SALOME MUMBI KAIBA  
Registration No... D61/77755/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



  
PATRICK NYABUTO  
SENIOR ADMINISTRATIVE ASSISTANT  
SCHOOL OF BUSINESS

## Appendix 2: Questionnaire

### INSTRUCTIONS:

The information given on this questionnaire will be held with strict confidence and will be used only for the purpose of the study.

### TOPIC OF THE STUDY: COMPETITIVE STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

#### Section A: General Information

1. Gender

Male  Female

2. Level of education:

College

University- Undergraduate

University-Post graduate and above

3. The name of the bank you are working for: .....

4. Position held in the bank:

Manager  Senior Manager  Head of Department  Director

5. Work experience:

0- 5 year

6-10 years

11-20 years

21 years or more

6. The type of ownership of the commercial bank:

Local ownership  Foreign ownership  Partially local and foreign

**Section B: Competitive Strategies and Performance of the Commercial Banks**

7. What are the forms of challenges facing your bank today and to what extent?

	Greatly	Considerably	Moderately	Remotely	Not at all
Competition from other banks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High expectations from customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost of operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Un-performing loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Capital requirements by CBK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competition from other Non-banking institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. To what extreme is the severity of the competitive forces to the banking industry operation (forces in the industry)

	Greatly	Considerably	Moderately	Remotely	Not at all
Barriers to Entry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rivalry in the industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Threat of substitutes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Power of buyers/customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Power of suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. What gives your bank a competitive edge over other banks?

	Greatly	Considerably	Moderately	Remotely	Not at all
Differentiation of services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lower interest costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Focusing on market segment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Qualified human resource	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal resources owned by banks (fixed assets, brand)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexible and fast in dealing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changes in the market environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**10. Which areas do competitive strategies applied by your bank (refer to question 9) influence?**

	Greatly	Considerably	Moderately	Remotely	Not at all
High market share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High revenues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer satisfaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increased competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**11. Challenges faced in implementing the competitive strategies**

	Greatly	Considerably	Moderately	Remotely	Not at all
Lack of skilled people to implement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High implementation costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rise in the cost of borrowing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequent changes by regulators	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of commitment to implement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Complexity in needs of customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**12. Opportunities to enable your bank to compete favorably against other banks in future**

	Greatly	Considerably	Moderately	Remotely	Not at all
Reduced government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduced capital requirement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Highly differentiated services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Qualified human resource	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lowering the costs of interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increasing banks resources (assets)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mergers and strategic alliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*Thank you for taking time to complete this questionnaire*

### **Appendix 3: Licensed Commercial Banks in Kenya**

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CfC Stanbic Holdings
7. Charterhouse Bank Limited (Under - Statutory Management)
8. Chase Bank Kenya (In Receivership)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Ecobank Kenya
17. Equity Bank
18. Family Bank
19. Fidelity Commercial Bank Limited
20. First Community Bank
21. Giro Commercial Bank
22. Guaranty Trust Bank Kenya

23. Guardian Bank
24. Gulf African Bank
25. Habib Bank AG Zurich
26. Housing Finance Company of Kenya
27. IandM Bank
28. Imperial Bank Kenya (In receivership)
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. Middle East Bank Kenya
32. National Bank of Kenya
33. NIC Bank
34. Oriental Commercial Bank
35. Paramount Universal Bank
36. Prime Bank (Kenya)
37. Post Bank Kenya
38. Sidian Bank
39. Spire Bank
40. Standard Chartered Bank of Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

**Source: Central Bank of Kenya (CBK) report 2015**