CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Finance is the life blood of trade, commerce and industry in any country. Currently banking sector acts as the backbone of modern trade and commerce in Kenya. Many businesses especially in Kenya depend on the banking system for their success, (Manoj, 2012). It is therefore important for the banks to compete in the harsh competitive environment by responding strategically, so that they can sustain the country's economy. The banking industry is a vital part of any country's financial system and has continued to develop and innovate, products that address customers' needs (World Book Encyclopedia, 2008). The banking industry provides a major source of financial intermediation and plays a major part in a country's payment system and saving system. The banking sector is dominated by five large banks which account for the bulk of deposits. They also provide a greater pool of savings to finance the productive investments (Kenya Vision 2030, 2007). In order to increase the capacity and efficiency of Kenya's banks and to reduce costs and high interest rates spread, the government will encourage mergers and consolidation in the sector.

According to Finneran, (2006), Bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in form of deposits and it lends the money to those who need it. It is therefore important that Kenyans banks be in a position to provide the financial services to the customers because the aspect of saving is very vital and drives the economy. Banking is defined in section 5 (b) of the Banking Regulation Act as the acceptance of deposits of money from the public for the purpose of lending or investment repayable on demand, Finance Intelligence Unit (FIU, 2006). Thus a bank must perform two essential functions; acceptance of public deposits and lending or investment of such deposits alongside other services that the banks are currently offering. Evaluating Banks overall performance and monitoring their financial condition in the current competitive and challenging environment, the need to assess efficiency is an important aspect for the banks to sustain a competitive advantage globally, this is important to depositors, owners, potential investors, managers and regulators. If financial institutions become more efficient, we might expect improved profitability, greater amounts of funds intermediated, better prices, better service quality for consumers, greater safety and soundness, better returns to shareholders and improvement of the overall country's economy, because it forms a major source of the country’s savings. Banks efficiency can be regarded as socially beneficial to the customers and the country at large, since it minimizes

The cost of financial intermediation, i.e. reducing the wastes of real resources due to the transfer of funds from the sources to producers is a very important function that all the financial providers undertake by (Finneran, 2006). Commercial banks assaulted by the pressure of globalization, competition from non-banking financial institutions, and volatile market dynamic- are constantly seeking new ways to add value to their services. The question “what drives performance?’ is at the top of the minds of managers and policy makers, as the first step in understanding superior performance and hence, striving for it. Substantial research efforts have gone into addressing this question, starting from the strategic level and going down to operational details by (Andreas and Starvros, 1997).

The banking system acts as the medium through which national savings are mobilized for development of the economy. The banks do this by providing safe custody for depositor’s money and they use the deposits for the disbursement of loans to customers for development and growth of the economy. Through this system, national savings are accumulated and invested in productive sectors of the economy leading to national wealth creation in a broader context. Indeed the bulk of the money that banks give as loan to investors is from such depositors. It is on the basis of high level of trust that depositors keep their money in the bank hoping to collect it at their convenience whenever need arises (Upadhyaya, 2011).

The mobilization of saving is crucial in national economic activities since it is these savings that are invested to spur economic growth. A high saving rate is therefore vital to the growth of any economy as it provides vital resources for investment (Shekhar, 2005). Banks should position itself strategically so that they can be able to provide these important services to the customer and sustain a competitive advantage over the competitors who provide the same services that banks are providing and survive in the current competitive, local and global challenging environment. The strategic positioning needs creative thinking and experimentation with new business models and the ability to recognize what form of restructuring is needed, (Meyer, 2009). Since the changing environment in which commercial Banks in Kenya are operating has become more competitive and challenging. There has been an increase in financial services providers like the MFIS, Faulu Kenya, Savings and Credit Cooperative societies and other financial service schemes all providing almost the same services and competing for the same customers, these banks have to position themselves strategically to remain on course as well as to achieve their vision and mission and to sustain a competitive advantage over the competitors. The need to modernize equipment, adopt the latest I.T, develop human resource, continuously improve management styles, create efficient and low cost innovative services and to provide services that are differentiated from the competitors other than the usual services so as to attain customer loyalty (Finneran, 2006), is a great challenge to the banks given the dynamic nature of the business environmental factors and competition in the industry.

The commercial banks should be able to come up with strategies that will ensure that they adapt to the changes and the intense competition that are taking place in the industry and be relevant to the challenging environment that they are operating in. Despite the challenging macro economic environment characterized by high interest rates, high inflation and volatile exchange rates, the banks will need to position themselves strategically in order for these banks to survive in this fragile economy and to continue to provide the services without inconviencing the customers, International Monetary Fund (IMF,2005), prepared by Hauner and Shanakaj.

1.2 Nakuru Town

Nakuru town is located 160 km North west of Nairobi and is the fourth largest urban centre in Kenya after Nairobi, Mombassa and Kisumu. It is situated at an altitude of 1859m above the sea level and it is within the region of the Great Rift Valley whose formation gave rise to a unique natural structure. The town started as a railway station on Kenyan-Uganda railway at the turn of this century.The major economic sectors of the Nakuru urban economy are: commerce, industry, tourism, agriculture and tertiary services. The commercial sector in Nakuru contributes about 19% of the economy of the town. Within the Central Business District (CBD), retail activity occupies 26%; wholesale has 10%, the informal sector enterprises 18% of all the commercial activity space.There is a significant network of financial institutions providing banking, insurance and credit services to the business community (Mwangi, 2001)

The town has a vibrant economy based on broad sectors such as commerce and trade, manufacturing industry, service and tourism, agriculture and forestry, and informal trade and industry.Three years ago, Nakuru town had only 18 functioning banks but two years down the line, the town has seen that number grow tremendously upto 24 banks by Steve (2012). Boniface Muhia attributed this growth to the overwhelming population that has continued to grow steadily, since the last post election violence that hit the country. "Nakuru town for a very long time has been known as a town that cherishes agriculture and mainly maize farming but that has changed with time, the town now mainly deals with great investors who are coming in because of great potential interms of business investment"

For the last one year, Nakuru town has witnessed new banks that have come to cater for the overwhelming population that is still unbanked and the new entries include; CFC Stanbic, Diamond Trust , Smep ,Consolidated Bank ,Faulu, Eco Bank and others that are, Bank of Baroda,Dubai Bank,Chase Bank and Commercial Bank.

1.3 Statement of the problem

Commercial banks in Kenya are now operating in a more competitive and challenging business environment than before since the government introduced liberalization in the industry. This has led the banking industry to be flooded with financial service providers' who provide similar services/products that the banks provide, thus increasing competition. There has been an increase in financial services providers like the MFIs, savings and Credit Cooperative Societies. The competitive challenging business environment has caused major restructuring in the banking industry and this has been accompanied by a lot of changes in the industry. The response to the competitive challenging environment will be accompanied by a lot of changes and a decline in profit, that started being observed in the early 1990s (Kyalo 2002), as the banks try to adapt to the competitive environment by coming up with new products that beats the standards of the rivalry products/services. The need to continuously improve the services and offer low cost innovative services is a great challenge to the banks given the dynamic nature of the business environmental factors and competition in the industry. It is therefore important for the banks to invest in the competitive strategies, by emphasizing on the differentiation, cost leadership, customer focus, focus strategy and other strategies as a response to the competitive environment despite the fact that it is challenging, costly and it will first erode the profits of the banks. Several studies have been done on the strategic response by the commercial banks, but none has been done on the challenges commercial banks are facing due to competition in the industry and the strategic response to these competitive challenges. Therefore the study intends to focus on the strategies adopted by local commercial banks in response to the competitive environment.

1.4 Objectives of the Study

1.4.1 Main Objective

The main objective of this study was to identify the strategies adopted by the local commercial banks in response to the competitive environment.

1.4.2 Specific Objective

i. To determine the challenges facing the local commercial banks as a result of competition in the banking industry.

ii. To establish the strategies the local commercial banks are putting in place in response to the competitive business environment.

iii. To investigate the extent to which the competitive forces influence the banking industry operation.

1.5 Research Questions

1.5.1 Main Research Question

What are the strategies adopted by local commercial Banks in response to the competitive environment?

1.5.2 Secondary Research questions

i. What are the challenges facing the local commercial banks in Kenya as a result of the competitive environment?

ii. What are the strategies the local commercial banks are putting in place in response to the competitive business environment?

iii. How do the competitive forces affect the banking industry operation?

1.6 Significance of the study

The study benefited the following groups: firstly policy makers in the banking industry in Kenya have known the challenges that affect them due to intense competition and how they can overcome these challenges, by coming up with competitive strategies.

Secondly the central bank of Kenya as a regulator of banks also found out the competitive factors affecting the banking industry in Kenya and come in to give direction or lay emphasis in regulation and supervision of all financial providers in Kenya and lastly other researchers will use this study as a point of reference for future studies.

1.7 Scope of the Study

The scope of the study was the commercial banks in Nakuru town. The study considered employees at the top, middle and lower management levels in the banks. The main aim is to identify strategies planned from the top management, consisting senior management level and above who are the policy makers, where the researcher interviewed one branch manager from each bank.

Strategy implementation from the middle management consisted of section managers from each bank and the researcher interviewed, two from each bank and the lower cadre consisting of bank officers were the researcher also interviewed two from each bank, to access the full implementation of these strategies. Using the Central Bank's records there are forty three commercial banks in Kenya, but in Nakuru town there are 24 Commercial Banks. Taking five management staff from each bank as the respondents for this study gave a sample study of 120 respondents.

1.8 Definition of Terms

Strategic Response: According to Thompson (1997), strategic response is the adaptation as changes that take place over time to the strategies and objectives of an organization. It is also an organizational behavior provoked by a situation or an event called stimulus. In the study strategic response is therefore the changes that will take place to the strategies overtime and the study uses the definition of Thompson.

Strategy: According to Tregoe and Zimmerman (1980) strategy is a framework which guides those choices that determine the nature and direction of an organization. For this study a strategy is a broad program for defining and achieving an organization's objectives, the organization's response to its environment overtime. The study will adopt Tregoe and Zimmerman definition.

Strategic Management: According to Pearce II and Robinson (1991), strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It is the management process that involves an organization engaging in strategic planning and then acting on those plans, therefore strategic management planning and implementing the plans that have been put in place. For the study the definition of Pearce II and Robinson has been used.

Competitiveness: this is the relative standing of one company against other companies. An organization is said to be competitive when it possesses skills or resources that provide superior value to customers and that are difficult to imitate, (Hamel and Prahalad, 1989). Competitive environment comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitability. According to the following definition, a firm is said to be competitive when the products and services they are offering to the customers are unique, and create a strong value to the customers and difficult for the competitors to imitate the secret behind the value of the products/services. The definition of Hamel and Prahalad has been used for this study.

Banking: Banking is defined in section 5 (b) of the Banking Regulation Act as the acceptance of deposits of money from the public for the purpose of lending or investment repayable on demand, Finance Intelligence Unit (FIU, 2006).Financial institution which deals with deposits and advances and other related services. Therefore according to the following definitions a bank is an organization that does the following: receives deposits, pays interest on the deposit, advances loans and invest insecurities, so the major function is receiving deposits for the purpose of lending it to borrowers with an interest. The study has adopted the definition by (FIU 2006).

CHAPTER TWO

LITERATURE REVIEW

2.1 Banking

According to Manoj (2012), Bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in form of deposits and it lends the money to those who need it. It is therefore important that Kenyans banks be in a position to provide the financial services to the customers because the aspect of saving is very vital and drives the economy. Banking is defined in section 5 (b) of the Banking Regulation Act as the acceptance of deposits of money from the public for the purpose of lending or investment repayable on demand, Finance Intelligence Unit (FIU, 2006). Thus a bank must perform two essential functions; acceptance of public deposits and lending or investment of such deposits alongside other services that the banks are currently offering. Banking sector in Kenya is made up of 43 lincesed banks that carry out the business of financial intermediation, 33 are locally owned and 10 are foreign owned. Banks operation in Kenya is guided by the prudential guidelines issued by the Central Bank of Kenya (CBK) Kenya Bankers Association (KBA) (www,centralbank.go.ke). The banking sector was liberalized in 1995 and exchange controls lifted this lead to more financial institutions providing similar financial services, flood the industry and was accompanied by competition, (Banking Survey, 2010).

2.2 History of banking in Kenya

Banking as an institution is as old as authentic history. It is evidenced in ancient Greece, ancient Rome and as far back as 2000 BC, (Davies, 2002). During the early period, although private individuals mostly did the business, many countries established public banks either for the purpose of facilitating commerce or to serve the government. Banking sector in transition economy have experienced a major transformation throughout the 1990s. While some countries have been successful in eliminating underlying distortions and restructuring their financial sectors, in some cases financial sectors remain underdeveloped and the rates of financial intermediation continue to be very low, an article by (Grigorian and Manole 2006). From the websites of Kenyan banks and specifically the websites of Central Bank of Kenya (CBK) and the Kenya Commercial Bank, the history of banking in Kenya can be grouped into three periods namely; the colonial period being the period before independence and prior to 1963. The banking sector was characterized by foreign banks. A bank such as National Bank of India was opened in 1896 with the first branch in Mombasa. In 1958 it merged with Grindlays Bank of Britain and formed the National Bank and Grindlays Bank.

The East African community being the period after independence of the three East African countries. After gaining independence in 1963, the Kenyan government saw the need of forming banks and buying majority shares from the foreign banks. It is for this reason that the local banks were formed, with the objectives of helping Kenyans to access credit and control their economy after independence. The Kenya Commercial Banks website narrated that in 1970, the government acquired 60% share-holding in National Grindlays Bank and renamed it the Kenya Commercial Bank. Later the shares were increased to 100% by 1976, to get full control of the bank. In 1968, the Cooperative Bank of Kenya was formed to serve farmers and cooperative societies. The three East African states had the desire to have independent monetary and financial policies. This led to the collapse of the East African Currency Board (EACB) in the mid 1960s, which used to act as the central financial institution for the three countries. In 1966, the central bank was created to further the above desires. The central bank was formed to maintain price stability and foster liquidity, solvency and proper functioning of a stable market based financial system. Its other function includes: issuing notes and coins, provision of banking services to other banks, provision of banking services to government, foreign exchange operation, executing monetary policy, supervising and regulating depository institution, and assisting governments financing; post East African community period being the period after the breakup of the East African Community in the mid 1960s.

It covers up to the present period. There have been mergers between small banks to form large banks. In the 1990s when central bank discouraged the operation of finance companies, most of them merge red with their sister banks: for example the first American Finance merged with First American Bank of Kenya, while others like NIC transformed to banks. Some of the remaining foreign banks sold off their interest in Kenya: for example First National Bank of Chicago sold its shares to locals in 1987, who then renamed it First American Bank of Kenya. Banks such as the commercial Bank of Africa were also formed in the same way. According to the Central Bank, as of January, 2011, there were 43 commercial banks in Kenya; 7 public banks, 10 foreign owned with the rest being private local banks.

2.3 The Concept of strategy

Strategy is a concept borrowed from the military; it means maneuvering troops into position before the enemy is actually engaged. Once the enemy is engaged, attention shifts to tactics, (Nichols, 2000). Strategy has been borrowed by business with troops being substituted with resources. Strategy is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization (Grant, 2005), strategic concept is therefore important in most of the organizations because it guides the direction and actions the firms will choose. Strategy can also be defined as the framework, which guides those choices that determine the nature and direction of an organization (Grant, 2005). The concept of strategy is important for all the organization to survive in the current turbulent environment, it is therefore necessary for all organization to understand and incorporate the concept of strategy. Strategy then has no existence a part from the ends sought. It is general framework that provides guidance for actions to be taken, and at the same time it is shaped by the actions taken. This means that the necessary precondition for formulating strategy is a clear and widespread understanding of the ends to be obtained. The firms performance is largely determined by how the organization effectively and efficiently the firm business strategy is implemented, and a strategy put in place without it being implemented is like a limping lion, (Olson, Slater and Hult 2005).

2.4 Strategic management

Given the many challenges and opportunities in the dynamic business environment, today's managers must do more than just set long-term strategies and hope for the best. It is therefore important that the concept of strategic management is incorporated to most of the organization to survive in the competitive environment (Thomas and David 2008). The strategic management of the organization must become both a process and a way of thinking throughout the organization. Dess, Lumpkin and Taylor, (2005) define strategic management as the analysis, decisions, and actions an organization undertakes to create and sustain a competitive advantage. Strategic management is also the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce II and Robinson, 2010). These decisions and actions need top management involvement because they provide the overall direction to the whole organization. Strategic management according to Ansoff (1990) is a systematic approach to position and relate the firm to its environment in way that will assure its continued success and make it secure from environment surprises and challenges. Strategic management is therefore important in any organization to have a competitive advantage over the competitors, and therefore commercial banks in Kenya should not ignore the concept of strategic management because it determines the success of the organization. Strategic managers must become strategic thinkers with the ability to evaluate the changing environment, analyze the data, questions, assumptions and develop new ideas. A major task of the future strategic thinkers is to develop objective or analytical means and logical sequence to strategic planning for the success of the organizations by (Swayne, Jack and Ginter 2006).

2.5 Strategy, Environment and Capability

Changes in the organizations behavior are necessary if success in the transformation of the future environment is to be assured, that's according to Ansoff and McDonnell (1990). They noted that such changes, which involve the organizations strategy and capability, would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis, which states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behavior matches the turbulence of its environment; the responsiveness of the firm's capability are supportive of one another. When one of these three aspects is lacking, then the firm's performance potential will be less than optimum. The real-time response is the specific action that is chosen and implemented in order to realign the organization's strategic aggressiveness to the environment turbulence.

Managing the firm's adaptation to the Environment

E1 Current Environment — E2 Future Environment

S1 Current Strategy — S2 Future Strategy

C1 Current Capability — C2 Future Capability

Figure 1: firm's dependence on the environment

(Source: Ansoff and McDonnell, 1990, P40)

The above diagram clearly shows the firm's dependence on its environment. Where there is an environmental shift from E1 to E2, then the organizations strategy has to be changed from S1 to S2 in order to adapt to the changed environmental conditions. However this is only when organizations capability is changed from C1 to C2. Therefore an organization has to monitor its environment continuously so that it can identify any shifts that require it to adjust its strategies in response to such changes. This requires that the firm's capabilities be constantly updated to ensure that they support the chosen strategy. As the organizations environment changes, it is necessary that the firm continuously adapts' its activities and internal configurations to reflect the new external situation. Failure to this endangers the future success of the organization (Aosa, 1998). Porter (1991) explains the concept of strategic fit. He states that firms create and sustain competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantages throughout the value chain to more sophisticated types and employing higher level of skills and technology. According to grant (2000), a successful strategy is consistent with the organization's goal and values, external environment, resource and capabilities and organizational systems. This indicates the fact that the organization depends on the environment for its survival and responses to the environmental situation will determine it performance. Thus, when there are changes in the environment, the organization's capabilities and strategy would have to be changed in order to ensure a continued 'strategic fit'.

2.6 Strategic Response

A competitive action is defined as a specific and visible initiative taken by a company (such as the introduction of a new product or a price reduction) in order to improve or define its competitive position. In the same way, a response is defined a counteractive, specific and detectable initiative, caused by the initial action, carried out by a company to defend or improve, its market share (Chen and MacMillan, 1992; porter, 1980).

Pearce and Robinson (2009**)** define strategic responses, as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firms objectives. It is thus a reaction to what is happening in the environment of organizations. Operational responses issues are concerned with setting broad policies and plans for using the resources of a firm to the best support its long-term competitive strategy. Thus operational responses can be viewed as part of a planning process that coordinates with those of the larger organization (Porter, 2005). Inflection points can be subtle or radical. Pascale (1990) said that relentless change requires that businesses continuously reinvent themselves. His famous maxim is "Nothing fails like success" by which he means that what strength yesterday becomes the root of weakness today. We need to depend on what worked yesterday and refuse to let go of what worked so wee for us in the past. Prevailing strategies become self confirming. In order to avoid this trap, businesses must stipulate a spirit of inquiry and healthy debate. They must encourage a creative process of self renewal based on constructive conflict.

2.7 Competitive strategy

Competitive strategy on the other hand is about being different or unique in the eyes of the customer, by deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 2005). Porter continues to define competitive strategy as a combination of the ends for which the firm is striving and the means by which it is seeking to get there. It is also a search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. Competitive strategy set forth a framework for analyzing industries and competitors. He therefore embraces strategy as both a plan and position. Competition erodes profitability; as competition increases the interest of different stakeholders converge around the goal of survival (Grant, 2005). It is therefore important that these banks respond strategically to survive the competitive challenging environment. According to Thomson, Strickland and Gamble (2010), a competitive strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals. The objective of competitive strategy is to knock the socks off rival companies by doing a better job of satisfying buyer needs and preferences. He continues to say that there are countless variations in the competitive strategies that companies employ mainly because of each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment. According to Jones (2009), the five distinct competitive strategy approaches stand out:

A low-cost provider strategy: striving to achieve lower overall costs than the rivals and appealing to a broad spectrum of customers. A broad differentiation strategy: seeking to differentiate the company's products and services offering from rivals' in ways that will appeal the customers. A best-cost provider strategy: giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals. A focused (or market niche) strategy based on low costs: concentrating on a narrow buyer segment and outcompeting rivals by having lower cost than rivals and thus being able to serve niche numbers at a lower price. A focused (or market niche) strategy based on differentiation: concentrating on a narrow buyer segment and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than the rivals products.

Porter presented the generic strategies that a firm can use to overcome the five forces and achieve competitive advantage. One study analyzed strategic business units and found out that the businesses combining multiple forms of competitive advantage outperform businesses that use only a single form. The lowest performers were those that did not identify with even a single type of advantage, (Dess *et al* 2005). The hosts of external environment factors influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. Many of the world's largest corporations are realizing that business activities must no longer ignore the environmental concerns. It is therefore important that the commercial banks that are currently operating in a competitive environment to continuously adapt to the environmental changes, because it determines the direction of any organization, (John, Pearce, Richard and Robinson, 2009).

The five generic competitive strategies: Each stakes out a different market position

Broad Differentiation Strategy

Market Targe

Overall low-cost provider strategy

Best Cost Provider Strategy

Focused lo cost Strategy

cused Differentiation strategy

Lower cost

Differentiation

Figure 2: Generic strategies

Type of competitive Advantage Being Pursued: Source Porter, Competitive Strategy (1980), pp35-40

2.8 Tool used to analyze Business Environment

Before an organization begins strategy formulation, it must scan the external environment to identify possible opportunities and threats and its internal environment for strengths and weaknesses. It is therefore important that organization scan the environment and this Involves, monitoring, evaluation and dissemination of information from the external and internal environment to key people within the corporation (Thomas and David, 2008). Two traditional tools used to analyze the environment are: PEST analysis and SWOT analysis. Morrison (2002), corporations uses these tools to avoid strategic surprises and to ensure its long term health. Research has found a positive relationship between environmental scanning and profits. She continues to discuss the tool: Managers must analyze the external environment to minimize or eliminate threats and exploit opportunities. This involves a continuous process of environmental scanning and monitoring as well as obtaining competitive intelligence on present and potential rivals (Dess *et al* 2005).

2.9 Political, Economical, Social and Technological Analysis

Analysis of the external environment may be expressed by the acronym PEST, standing for political, economic, sociocultural, and technological factors. PEST analysis is a useful tool for monitoring and evaluating forces which affect the organization over a long term (Porter, 2005). Political legal environment: the political environment explains more on the stability of the government. The ability of the government to influence the success of the business, the regulations that the government impose on businesses will strongly determine how to carry on with the business. Economic environment: this explains the level of economic development, trends in gross domestic product (GDP), the rate of inflation, strength of currency and convertibility and the rates of taxation. Sociocultural environment: it analyzes the level of social cohesion, education attainment levels and the growth rate of population and age distribution of population; it regulates the values, morals and customs of society. Technological environment: it analyzes the level of government spending on R&D, legal regime for patent protection, energy availability and costs, innovation system, including availability of skilled workforce, and the level of technology transfer, it generate problem solving inventions.

2.10 Organizational Strength, Weaknesses, Opportunities and Threats Analysis

It is commonly used as a planning tool, which assesses the firm's strategic profile in terms of its strengths, weaknesses, opportunities and threats. Focusing on both internal and external environments, it serves to highlight a firm's distinctive competences, which will enable it to gain a competitive advantage. The strengths and weaknesses relates to the organization itself, while the opportunities and threats reflect aspects of the external environment (Jones, 2009).

Environmental analysis is critical component of strategic management because it produces much of the organizational information required to assess the outlook for the future, it is therefore important that the managers in any organization have information on what is going on in the environment and this becomes a source of strength to the organization. The environment is a significant source of change. Some organizations become victims of change, while others use change to their advantage. Organizations are more likely to be able to turn changes to their advantage if they are forewarned and this is a major purpose of the environmental analysis process. Environmental analysis and competitive analysis identify threats to and opportunities for the organization. Competitive analysis and internal organizational analysis identify the strengths and weaknesses of the organization. this type of analysis is often referred to as strengths, weaknesses, opportunities and threats (SWOT) analysis (Byars, Rue and Zahra, 1996).

2.11 Competitive Environment and the challenges due to competition

The competitive environment consists of many factors that are particularly relevant to a firm's strategy. The nature of competition in an industry, as well as the profitability of a firm, is more directly influenced by development in the competitive environment (Dess *et a l,* 2005).These include competitors (existing or potential), customers, and suppliers. Competition tends to be more intense among firms within a strategic group than between strategic groups. Michael Porters five-force model illustrates how these forces can be used to explain low profitability in the industry. According to John *et al* (2009) competitive environment comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. Thus firm's can be much more proactive in dealing with competitive environment than in dealing in remote environment *(John et al,* 2009).

2.12 Porter's five-forces model of industry competition.

The "five forces" model developed by Michael Porter has been the most commonly used analytical tool for examining the competitive environment (Dess *et al,* 2005). He described the competitive environment in terms of five basic competitive forces.

The threat of new entrants

The bargaining power of buyers

The bargaining power of suppliers

The threat of substitute products and services

The intensity of rivalry among competitors in the industry

Dess *et al,* (2007) continue to say that each force affect a firm's ability to compete in a given market, and together they determine the profit potential for a particular industry. It is important as a manager to be familiar with the five-force model because it helps managers to decide whether their firm's remain in or exit an industry, it also provides the rationale for increasing or decreasing resource commitments and helps the managers assess how to improve the firm's competitive position with regard to each of the five forces. According to Grant (2005), he explains the Porter's Five Forces as;

Porter's five forces model is shown below:

POTENTIAL ENTRANTS

Bargaining power of suppliers

Threat of new entrants

INDUSTRY COMPETITOR

Rivalry among Existing Firms

SUPPLIERS

BUYERS

Threat of Substitute products/ service

Bargaining power of buyers

Figure 3: Porters five forces

Competitive strategy: Techniques for analyzing Industries and competitors by Michael E. Porter, 1980.The threat of new entrants: Pearce and Robinson, (2007) the threats to new entrants refer to the possibility that the profits of established firms in the industry may be eroded by new competitors. The extent of the threat depends on existing barriers to entry and the combined reactions from existing competitors. It is commonly a threat to most of the organization when another organization offering similar products enters the market because competition increases and customers will decide to use the substitute product.

The bargaining power of buyers: According to Stahland and Grigby (2007), buyers threaten an industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other. These actions erode industry profitability, because customers have the ability to influence the prices of a product down, otherwise they decide to use the competitor's product which is relatively cheap and offer satisfaction to them.

The bargaining power of suppliers: suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. The power of suppliers becomes a threat to the industry because they influence the price of products and fluctuation of prices is a major challenge in the industry, this is supported by (Barney and Hesterly, 2010)

The threat of substitute products and services: According to Cravens and Piercy (2009), all firms within an industry compete with industries producing substitute's products and services. Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge. The products/services of different industries can satisfy the similar customer needs, so a customer chooses the products he/she prefers and this increases competition in the Industry.

The intensity of rivalry among competitors in an industry: Firm's uses tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs when competitors sense the pressure or act on an opportunity to improve their position. This becomes a competitive struggle between companies in an industry to gain market share from each other, this is according to (Porter, 2005).

The essence of strategy formulation is coping with competition; the collective strength of these forces determines the ultimate profit potential of an industry. Designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. Development of competitor profile enables a firm to more accurately forecast both its short- and long-term growth and its profit potential (John *et al,* 2009). According to Jones, (2009), the systematic analysis of forces in the industry environment using the Porter framework is a powerful tool that helps managers to think strategically. Industry analysis leads managers to think systematically about the way their strategic choices will both affect and be affected by the five forces of industry competition and change conditions in the industry. The forces will lead to changes in the industry and this is the reason why managers should be ready for the changes and respond strategically to the changes.

2.13 Increased Competition and its impacts on the organization

The 1980s and 1990s have been characterized by discontinuous an unpredictable business environment. Consequently, business has been forced to change their strategies regularly to be able to match their resources with the environment, Thompson and Strickland (2010), organization depend on the environment for the survival and therefore it is necessary for them to scan the environment in an effort to identify changing trends and conditions that could eventually affect the industry and adapt to them. Scholes (1999), organizations operate within environment, which are turbulent and rapidly changing. Therefore the relationship is seen as mutual and it is important that effective strategies be in place to facilitate the relationship. He continues to say that most important environmental factors that influence and determine the success of competitive strategies adapted by an organization are found within the competitive environment which constitutes the industry within which organization operates. Due to the fact that environment is constantly changing, it is imperative that an organization has to constantly adapt its activities to reflect to the new environment requirements. Yesterday cannot be used to predict tomorrow. Companies which would like to survive must adapt and adapt to the change (Porter, 2005).

The MFIs, Microfinance institutions, have come to the force of the Kenya's financial and credit sector as a powerful force driving the economy. K-Rep the very first MFI founded in 1984 started driving small loans to the entrepreneurs instead of giving them grants. To date the MFI has been given a right to operate as bank and others like the KWFT and Faulu soon given the right to operate as banks, this will bring competition to the banks this according to (Erick Murithi, 2011). He continues to say that Equity bank which laid its foundation as a microfinance institution is as of a report on the banking sector concluded in October 2010; is the country's largest commercial bank in terms of customer base, a total of 5.7 million accounts. This comprises of more than 57% of all the Banks accounts in the republic. Infact according to the financial audit report for the year ended 31st December, 2011; the Bank's shareholders were US$336.7 million (kshs 28.3 billion). A study by Darius,(2011), showed that there was a general banking crisis in the country and a few indigenous banks like National bank were collapsing and there was panic in the industry. The public perceived that the indigenous banks were collapsing so they started massive change of strategies in the banking industry and the banks thought of developing strategies that will help them survive in the harsh competitive environment. The strategies they were putting in place was strong branch network, the IT strategy and even offering their services through the internet.

Though competition occupies a prominent place in the history of economic thoughts among economists today, there is still a limited and sometimes contradictory understanding of its impacts. Existing models in industrial organization or new growth economics all predict a negative effect of competition on innovation and growth: namely that competition is bad for growth because it reduces monopoly rents that reward successful innovators. On the other hand recent empirical studies point to a positive effect of competition on productivity and growth (Aghion and Griffith, 2008).

2.14 How organizations respond to increased competition

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm’s activities that can contribute to its performance such as innovations, a cohesive culture, or a good implementation (Porter, 2005). Competition in this essence brings about change of actions in every organization. These are some of the strategic responses that other organizations have adopted.

2.14.1 Strategic management

According to Ansoff (1990) is a systematic approach to position and relate the firm to its environment in way that will assure its continued success and make it secure from environment surprises and challenges. Strategic management is therefore important in any organization to have a competitive advantage over the competitors, and therefore commercial banks in Kenya should not ignore the concept of strategic management because it determines the success of the organization.

2.14.2 Skill and Resources

Hamel and Prahalad (1989), states that organization has a foundation for sustained competitive advantage when it possesses skills or resources that provide value to customers and that are difficult to imitate, in a turbulent environment, the more enduring advantage is ability to anticipate evolving customer needs and to generate value creating capabilities based on that knowledge. The skills and abilities of an organization are the capability of appropriate implementation and combination of organizational resources in a way that leads to the best performance and highest competitive position in the business market for that organization. Skills and abilities put the resources in competitive status and they cannot easily be copied and imitated (Talebnejad, 2008).And unless there is an advantage over competitors that is not easily duplicated or connected, long term profitability is likely to be elusive. Skills and resources are the most valuable asset an organization needs to invest in, so that they can be able to survive in the current changing and competitive environment. Banks need to invest majorly on the skills and resources so that they can survive the dynamic environment and remain relevant in the industry.

2.14.3 The organization must be Customer oriented

In the 1990s, many companies have acknowledged the critical importance of being customer oriented. Customers pay attention to after sales service, knowledge and responsiveness of employers (Kotler, 2007). Customers are the reason why the organizations are still market, they determine the survival of an organization and most companies that are customer oriented will survive in the future. Customer’s needs should be provided and the organizations should be ready to provide goods and services that satisfy the customer

2.14.4 Differentiation and value addition

Porter, (2005) observes that a firm differentiates itself from its competitors “when it provides products that are unique that is valuable to buyers’ beyound simply offering a low price”. Differentiation advantage occurs when a firm is able to obtain from its differentiation a price premium in the market that exceeds the cost of providing the differentiation. Differentiation is not simply about offering different product features; it is about identifying and understanding every possible interaction between the firm and its customers and asking how these interactions can be enhanced or changed in order to deliver additional value to the customers.

Greenstein and Mazzeo (2006) observes that long term success of organizations, involves creating, managing and exploiting assets and skills that competitors find it difficult to match or counter. The attraction of differentiation as a basis for competitive advantage is its potential for sustainability and is less vulnerable to being overturned by changes in the external environment and is more difficult to replicate Management by (Lismen and Shaffer, 2004). This involves a three step process;

a) Identifying relevant skills and assets by observing successful and unsuccessful firms, key customers motivations, large value added items, and mobility barriers.

b) Selecting those skills and assets that will provide an advantage over competitors, will be relevant to the market, and will be feasible, sustainable and appropriate for the future.

c) Develop and maintain those assets and skills and neutralize those of competitors.

2.14.5 Marketing

The American marketing Association has defined marketing as the performance of business activities that direct the flow of goods and services from the producer or seller to the consumer or user. According to Kotler, marketing is defined as the satisfaction of human needs and wants through exchange processes. Stanton goes further by saying that marketing comprises a system of business activities designed to plan, price, promote and distribute want satisfying products and services to present and future potential consumer segments. All the above authors have mentioned marketing as involving business activities that are geared towards satisfying human wants for profit purposes. Czinkota and Ronkainen (2010) defines marketing as the performance of those activities that attempt to satisfy a given individual or organization’s target group needs and wants for the mutual benefits.

The marketing concept is the orientation that all marketing decision-making should start by understanding the target consumer and then work backwards to the organization. The marketer should first identify the needs and wants that consumers are trying to satisfy through marketing research before identifying a product that will satisfy those needs and wants at a profit. Johansson, (2007) observes that marketing helps to define the business mission, as well as analyzing the environmental, competitive and business situations. It therefore plays a major role in the organization’s strategic planning process. The strategic marketing responses are based on the marketing mix elements of product, price, distribution and promotion.

2.14.6 Technology

Senge (1990) in popularizing the theory of a learning organization concluded that a company’s ability to gather, analyze and use information is a necessary requirement for business success in the information age. The emergence of the digital firm has changed the focus and emphasis of business strategy from competing head to head against other firms in the market, to exploring, identifying and occupying new market niche before competitors, understanding the customers value chain better and learning faster and more deeply than competitors (Laudon, 2005). Information systems can play an important role of acting as environmental scanning instruments, alerting on the environmental changes that require an organizational response (Laudon, 2005)

Information technology especially the use of networks can help a firm lower cost of market participation, making it cheaper to contact external suppliers instead of using internal sources. IT can also change the hierarchy of decision making in organizations by lowering the costs of information acquisition and the distribution of information (Malone, 1997). Successful firms have aligned IT to the organizations business plan, firm's business processes and senior management strategic plans. If organizations business plans, processes and management strategy are outdated, there is need to change the organization and IT to achieve an optimal 'fit' (Laudon, 2005). Technology capability is important in promoting a firm's competitive advantage, having a diversity of technological resources and capabilities is also important for developing firm's technology capability. The main purpose of this paper is to provide an inclusive framework of active capabilities supporting how firm's ability to accomplish new and unusual forms of competitive advantage in an active environment.

2.15 Conceptual Framework

The study is based on the assumption that the independent variable affects the dependent variable. The independent variable in this study is the competitive environment that is determined by the Porter's Five Forces that has been discussed in the literature review. The strategies that commercial banks will adopt will be determined by or will depend on the competitive environment that the banking industry is facing. The nature of the response will lead to a competitive advantage to the banks, it is clear that, how these Banks will ensure that they are embracing the technology and are accepting the changes that they are facing, gives it a competitive advantage over the competitors. The Banks' strategies like the cost leadership, differentiation, focus strategy, value addition, product development and delivery and quality are therefore the dependent variable. The sociological, cultural and the politics in the organization are the moderating variable between the competitive environment and the strategies that the banks will adopt in this study. Responding strategically to the competitive environment is important to the bank's effectiveness and success in the future; this will largely depend on how these banks will react to the competitive environment.

The framework below shows the relationship between independent, dependent and intervening variables. The competitive environment determines how the Banks will respond strategically to the environment and the strategies that the banks will adopt to remain on course. This relationship is also moderated by the sociological, cultural factors and the politics in the bank. The outcome is efficiency or inefficiency in creating sustainable competitive advantage in the banking industry,by responding strategically to the competitive environment and success or failure of the business strategies.

Conceptual framework

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Depende variable

Competitive environment Factors determined by the Porter's five forces.

- Power Suppliers
- Power Buyers
- Potential Entrants
- Substitute products
- Rivalry among firms

Strategies adopted by commercial banks.

- differentiation
- low cost
- focus
- customer focus

Independent variable

Sociological factors

Cultural factors

Politics in the banks

Moderating variables

Figure 4: Conceptual framework

Competitive Environment: it comprises of factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. It is therefore the independent variable because it wil determine how the banks will respond to the competitive environment and sustain a competitive advantage so that they will survive and remain in the market. This will depend on the ability of the banks to challenge innovation and imitation, because thse are the direct form of competition in the environment

Strategies: the strategies that position the the commercial banks to respond to the competitive environment. The bank managers evaluate and choose strategies that will make the commercial banks sustain a competitive advantage over the rivals and become successful even in the future, despite the competition. The commercial banks will remain in the indusrty and become successful if they posses some advantage relative to their competitors and have strategies that position the banks as the best financial service providers.

Features of cost leadership and Differentiation strategies

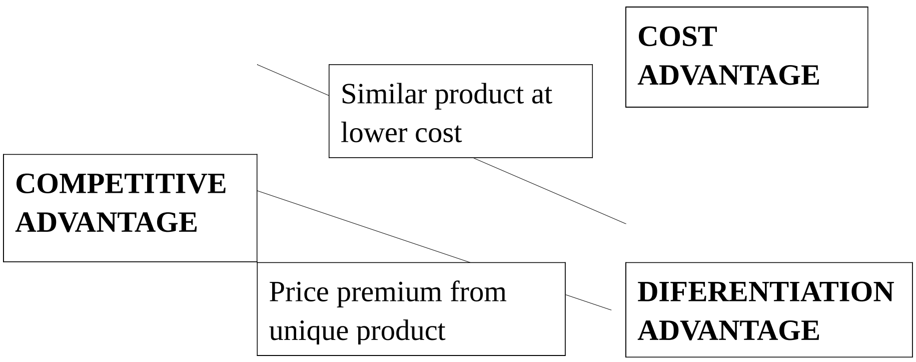

Figure 5: sources of competitive Advantage by Michael. Porter 1980,1998

The two sources of competitive advantage explain the most effective fundamentally different approaches to business strategy and the competitive strategies the commercial banks must adopt to sustain a competitive advantage. Commercial banks that compete on low cost is distinguishable from the bank that competes through differentiation in terms of market positioning, resources and capabilities, and organizational characteristics, Grant (2010). He continues to say that a firm achieves a higher rate of profit over a rival in one of two ways: it can either supply identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. The commercial banks should focus on pursuing the cost advantage and offering differentiated products and other strategies that will enable them sustain a competitive advantage over the competitors.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter contains a description of the methods and procedures that will be used to carry out the study. It gives summary information regarding the methodologies to be adopted and used in this study. It describes the research design, target population, sampling strategy, data collection procedures and methods used for analyzing and presenting the data.

3.2 Research Design

A research design is a plan according to which we obtain research participants and collect information from them. According to Heron (1998) a research design refers to a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision. This study adopted a descriptive survey of all the commercial banks in Nakuru town. The descriptive survey helped to locate and obtain data for the study and described issues as they were. According to Gay (1981), a survey is “an attempt to collect data from members of the population in order to determine the current status of the population with respect to one or more variables”. He says that a descriptive study determines and reports the way things are and commonly involves assessing attitudes, and opinions towards individuals, organizations and procedures. A survey design was selected since it can be used to collect many different kinds of information, it is also quick and low cost, as compared to experimental method and it is carefully designed to ensure that there was complete description of the situation as they were, making sure that there is minimum bias in collection of data and reduced errors during interpretation stage.

3.3 Target population

Mugenda (2003) defines population as entire group of individuals, events or objects having common observable characteristic.This study targeted all the commercial banks in Nakuru town. There are a total of 24 commercial banks and the researcher targeted those employees at the management levels of these commercial banks. The target population consisted of the top managers, the middle managers and the lower managers of the banks, because these are the people concern with the strategies that are in place to ensure that the banks are responding to the competitive environment. In this study, the researcher was interested in studying all the commercial banks in Nakuru town, because all the banks are currently operating in a more competitive business environment and it was necessary to understand how each bank responded to the competitive environment.

3.4 Sampling strategy

The survey was done in all the commercial banks in Nakuru town. The study used stratified sampling where the researcher stratified the respondents from the banks into three distinct management levels, which were the top, middle and lower management levels employees from each bank. The study employed random sampling by selecting any five staffs at the management level of each bank due to a large number of employees in each bank. Random sampling involves selecting randomly the respondents that are easiest to obtain from the sample. The total sample for the research was 120 respondents. This was obtained from selecting one top manager from each bank, making 24 top managers, two middle managers from each bank, making 48 middle managers and two lowers management employees from each bank, making 48 employees. The total selected sample was 120 respondents from all the commercial banks.

Table 3.4 Distribution of Sample size

Category	Respondents from each bank	Distribution	Percentage
Top level managers	1	24	20%
Middle level managers	2	48	40%

Lower level managers	2	48	40%
Total Respondents	5	120	100%

3.5 Study frame

The study targeted a population of 24 commercial banks and the respondents consisted of five management staffs from each commercial bank in Nakuru town. The five management employees from each bank were able to fill the questionnaires that were distributed to them by the researcher and gave the information, though not all the questionnaires were returned. The management staffs of each bank are the people concern with implementing the strategies the local commercial banks adopted in responding to the competitive environment.

3.6 Data collection

Data collection tools used to collect the data was the questionnaires. The study collected the primary data by distributing the questionnaire the senior employees from every bank. These employees comprised those who formulate strategies used by the commercial banks in response to the competitive environment and were responsible in overseeing implementation of the strategies. The researcher designed the questionnaire on the basis of objectives of the research. The primary data was collected using a structured questionnaire guide consisting of open and closed ended questions attached as Appendix 2. Drop and pick method was used to collect the questionnaires.

3.8 Validity and reliability of the instrument

The research instrument was carefully developed with the assistance of the supervisor and refined through personal interview with the relevant respondent and academicians. The researcher first carried out a pilot (pre-test) on two (2) respondents, Gulf bank and Guardian bank, being the most recent Banks that has brought competition in the industry. This was done to check the instrument wording and to verify the ability of the instrument to tap the competitive strategies adopted by the commercial banks and the challenges due to competition, the dimensions of interest in the study. The researcher personally administered the original questionnaire for these pilot tests to the respondents. The questions not fully understood was identified by the researcher and explained. Comments made during the filling in were considered when making the final draft of the questionnaires. This meant to enable the researcher establish the validity and reliability of the instrument (questionnaire) in the study.

3.7 Data analysis and presentation

Once the responses were received the questionnaires were checked for completeness and consistency before processing. Thereafter the data were coded to facilitate categorization. The data was analyzed using descriptive statistics like the measures of central tendency, frequencies and percentages, and with the help of the SPSS. Thereafter correlation analysis was done to determine the relationship between the independent variable in this case the competitive environment determined by the Porters five forces to another dependent variable, in this case the strategies the commercial banks are putting in place to respond to the competitive environment. A major objective of any statistical investigation is to establish relationships which make it possible to predict one or more variables in terms of other variables (Freund, 2001). The analyzed data was presented in graphs, tables and pie charts.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter deals with the presentation and analysis of the findings of the study. It presents findings on the Strategies Adopted by Local Commercial Banks in Response to the Competitive Environment using a statistical package for social sciences (SPSS version 17) for the analysis. Out of the total target number of 120 respondents, 110 respondents i.e. (91.67%) of the targeted population returned the questionnaire completed satisfactorily. These respondents were from 24 commercial banks in Nakuru town. A total of 24 respondents from all the 24 commercial banks in Nakuru did return the questionnaire satisfactorily completed. This formed 100% of the targeted population. This study considered a census as the number of commercial banks in Nakuru. From the 24 commercial banks in Nakuru a total of 120 questionnaires were distributed out of which a total of 110 questionnaires fully completed were returned. This formed 91.67%.

Data analysis in this study involved synthesizing of information obtained through the mentioned methods of data collection into a coherent description of what has been observed or otherwise discovered.This chapter is centered on the data analyzed based on the information gotten from the respondents. Descriptive and inferential statistics were utilized thus data has been presented in terms of frequency distributions, pie charts, bar graph and tabular displays.

4.2 Demographic analysis

4.2.1 Gender of the Respondents

Table 4.2 Gender

	Frequency	Percent
Male	63	57.3
Female	47	42.7
Total	110	100.0

From a total of 110 questinnaires received 63 questionnaires were from the male respondents and 47 were from the female respondents, this showed that from the sample selected 57.3% respondents were males while 42.7% were females as illustrated in table 4.2 above. This showed that there existed gender disparity in the organizational set up of the banking industry and this might become a challenge to the banks because the proportion of men to women is not equal, this affects the decisions made in the banks.

4.2.2 Level of Education attained by the respondents

Figure 4.3 Respondents level of Education

The respondents were asked to indicate the highest level of education they have attained and from figure 4.3 it was evidenced that most of the respondents had gone to the university. This attributed to 78.2% and those who had gone to college only had 21.8% of the total number of respondents. This is a clear indication that that most of the employees in the bank are university graduates and they are in a position to effectively implement the competitive strategies since they have the knowledge on how to position the commercial banks strategically as illustrated by (Jones, 2009), it is important for organization to position themselves strategically to be able to survive the current competitive environment.

4.2.3 **Position Held in the bank**

Table 4.4 position held in bank

	Frequency	Percent
Branch manager	18	16.4
Section manager	45	40.9
Bank officer	47	42.7
Total	110	100.0

Position held in the bank

The sample included all the decision making personnel of the bank which included, the branch manager, section manager and bank officers from each of the 24 banks in Nakuru. From the data collected, 16.4% were branch managers, 40.9% were section managers and 42.7% were Bank officers. The branch managers are the employees responsible in overseeing the general operations of banks and formulating the strategies, and the section managers who are the credit managers, sales managers and the operation managers are the people concern with operalization of the strategies and the bank officers who are the credit officers, and clerks are responsible in the actual implementation of the strategies. The distribution of staffs in the three levels of management is acceptable in most of the organizations where the majority are managed or supervised by the minority this was according to (Eosoo, Ram and Stimpert,2004).

4.2.4 Work experience.

Table 4.5. work experience

	Frequency	**Percent**
0-5yrs	23	20.9
6-12yrs	76	69.1
13-20yrs	11	10.0
Total	110	100.0

The respondents were asked to indicate the duration of time they have spent working at the current bank. The table 4.5 above indicates that a higher percentage of the workforce have worked for the bank for 6-12 years, this makes 69.1%, followed by those who have worked for 0-5 years which makes 20.9%. and the last group are those in the 13-20 years experience in the banking sector which attributes to 10%. This shows that most of the employees have worked for the organization for a relatively long duration of time, with 76 employees having worked for more than five years. This shows that the banking sector have most of the employess who are experienced in the sector thus assuring the continuity of organizational successful strategy implementation since they have useful knowledge.

4.2.5 Type of ownership of the banks

Table 4.6. type of ownership

	Frequency	**Percent**
Local banks	8	33.33
Multinational banks	12	50
Other types	4	16.67
Total	24	100

The table 4.6 indicates the type of ownership of this type of business undertaking and from the table it is clear that the majority of the players in this market are the multinational corporations. The multinational corporation engaged in this business in Kenya comprised a total of 12 companies which is 50% of the business that participated in the study. The commercial banks that are locally owned are 8 comprising of 33.33%.

4.2.6 Descriptive statistics.

Figure 4.7 challenges facing the banks

The researcher asked the respondents to indicate whether the banks are faced with any challenges due to the competition and from the bar graph above, it is evident that most of the banks agreed that they face challenges this makes 96.4%. A few respondents form the banks said that they were no challenges and this accounted to 3.6%. it is evidenced that most of the banks are facing challenges due to competition. Grant,(2005), said that competition is accompanied by alot of changes and this changes brings alot of challenges since the industry is uncertain of what is going to happen, and so the banks will invest alot in the preparedness of the uncertainities that comes with the competition. The fact that the banks have to be prepared and formulate strategies that will enable then withstand the competition becomes a challenge.

4.2.7 The Challenges Facing the Bank.

Table 4.8. challenges in the banks

CHALLENGES	**Mode**
High expectation from customers	5
Government regulations	4
Bureaucracy	4
Marketing	4

From the table 4.7 it is evidenced from most of the respondents agreed that these are the challenges that tend to affect the operations of a number of commercial banks were the high cost of operation, high expectation from customers, government regulations, bureaucracy and marketing.From the table 4.7 above the most banks agreed that high cost of operation is the challenge to the banks. This proves that the banks are incuring alot of costs in trying to adopt to the competitive environment. Competition has lead to restructuring the banking industry and this has accounted to more operations in the banks taking place. According to Porter, (2005), power of buyers in this case banks customers is a threat to the industry and that is why most of the banks agreed that high expectations from customers is a great challenge to the banks. The customers are bargaining for high quality products/services thus the banks will have to invest in offering products and services that satisfy the customers thus eroding the profitability in the banks. According to Kotler,(2005) Marketing is another challenge that the banks are facing, since the banks need to convience the customers to use their products/services other than them using the substitutes products, thus spending alot in marketing to get the customers informed on the availability of the product .

4.3 Challenges affecting banking operations.

Table 4.9. How challenges affect banks operation

CHALLENGES	**Great extent**	**Slight extent**	**Fairly**	**A little**	**Not at all**	**Frequency**
	Freq	Freq	freq	freq	Freq	
High cost of operation	54	48	5	2	1	102
High expectation from customers	72	37	1	0	0	109
High rate of competition	55	40	14	1	0	95

Government rules	10	70	23	3	4	93
Bureaucracy	13	53	27	15	2	80
Marketing	13	64	22	10	1	86

From the research it was further inquired to what extent these challenges faced affected the banking operation; most of the banks agreed as indicated by the frequency that high expectation from customers affect the operation to a greater extent, and this is evidenced in the literature review that the power of buyers who are in this case the customers can influence and are the threat to the industry and they determine the success of any organization. According to Dess et al,(2005) competition affects the normal of operation of an industry and it is clear from the above table that competition affects the banking operation to a greater extend followed by high rate of competition at then high cost of operation, marketing,government rules and lastly bureacracy. It evidenced that the these challenges affect the banks operation, though the bureacracy does not greatly affect the banks operation

4.4 Intensity of Competitive forces to the banks operation

Table 4.10. Intensity of severity of competitive forces

COMPETITIVE FORCES SEVERITY	**Mode**
Barriers to entry	4
Rivalry in industry	4
Threat of substitute	5
Power of buyers	4
Power of suppliers	4

The results from table 4.10 shows that this is an indication that the majority in the banking industry faces a number of forces of competition either from other organisations or alternative products used in the banking industry in Kenya. Given that most of the banks agreed that the competitive forces were intense and severe to the commercial banks operations and these were, the Power of buyers, the power of supplies,the rivalry in the industry and the barriers to entry, this shows that these forces affect and changes the normal operations of the banks. Other respondents were for the idea that the intensity of the competitive forces to the banks operation is very high and this is supported by Porter (2005), that the threats of substitute products/services is a major threat and it causes competition in the idustry. Most of the banks agree that the financial industry is flooded by the other financial service providers like the MFIS and the Saccos, that are providing almost the same services to the customers as the banks do,(Banking Survey, 2009). This a clear indication that their is high intensity of the competitive forces to the banks operation and the banks should be ready to push the forces down by improving their service to remain competitive.

4.4.1 Banks' Decision on challenges.

Table 4.11. Should the bank respond to Challenges

Response	Frequency	Percentage
Yes	102	92.7
No	8	7.3

From table 4.11. It is evident that the bank should respond to challenges. This has been attributed by the greater percentage of the respondents from the banks agree that the banks should respond and yes with 92.7% with few banks saying No only at 7.3%. Almost all the 24 commercial banks agreed that they should respond strategically to the competitive challenging environment.

4.5. Competitive strategies put in place.

Table 4.12.   Competitive strategies put in place to respond to competitive environment

STRATEGIES PUT IN PLACE	Mode
Differentiation	4
Cost leadership and management	4
Focus strategy	4
Customer focus	4

The respondents were asked to indicate the competitive strategies the commercial banks are putting in place in response to the competitive environment. It is evidenced that the commercial banks are using the following competitive strategies as Thomson, Strickland and Gamble,(2010) agree that these are some of the competitive strategies most managers are applying in the organization; differentiation, cost leadership and management, focus strategy and the customer focus among the other strategies. But the most strategy that is applied by the banks from the above table is the differentiation, then cost leadership, then customer and lastly the customer focus strategy.

4.5.1 Differentiation

Figure 4.12.1 Differentiation strategy

It is evidenced from the bar graph that the most of the banks strongly agreed and agreed that differentiation should be adopted as a strategy and this contributed to 41.8% and 52.7%, though some few of the respondents from the banks disagreed with differentiation as a strategy and this was 3.6% and 1.8% respectively, this shows that differentiation is an important strategy for the banks.

4.5.2 Costleadership and management.

Figure 4.12.2 Cost leadership strategy

Most of the banks agreed that cost leadership as a strategy should be adopted in response to the competitive environment and this comprised of 30% and 52.7% of the respondents from the banks who strongly agreed and agreed on the adoption of the strategy. This was evidenced from the banks that the strategy is important because most of the respondent from the various banks agreed. Though a few of the respondents disagreed cost leadership as a strategy and they were 11.8% and 3.6% respondents who disagreed and strongly disagreed.

4.5.3 customer focus strategy

Figure 4.12.3 Customer focus strategy

A large number of the banks agreed that customer focus should be adopted as a strategy and this from the bar graph is evidenced that 30.9% and 53.6% of the respondents from the banks strongly agreed and agreed with the adoption of the strategy, though some of the respondents from the banks disagreed and comprise 3.6% and 4.5%, most of them were for the idea that the strategy be adopted.

Those who indicated that their banks respond strategically to competitive environment were further asked to indicate the specific kind of competitive strategies they apply on differentiation, cost leadership, focus strategy and the customer focus.

4.5.4 Application of differentiation strategies

Table 4.13 table showing application of differentiation strategies

Variables of differentiation	Mode
Economies of scale through merger and consolidation	4
Strong branch network	4
Broad service/product range	4
Major expenditure on technology	4
New products/service development	5

It is evidenced from the table that most of the banks are applying the above specific differentiation strategies. This is supported by the fact that most of the banks agreed that they use the above strategies to differentiate themselves from other competitors. The application of the new product/services development was highly used by mostof the banks as the strategy of differentiating themselves from the competitors. These strategies enable the banks gain competitive advantage over the competitors and that is why the are applying the above differentiation strategies.

4.5.5 Application of Cost Leadership.

Table 4.14 table showing specific cost leadership strategies

Variables of cost leadership	**Mode**
Pricing below the competitors	4
Following the actions of the competitors	4
Keeping lower overheads than the competitors	4
Keeping the same overhead cost as competitors	4

It is evidenced from the table above that most of the banks are applying the above strategies on cost leadership. It is very important that the banks consider pricing below competitors, following the actions of competitors, keeping lower overheads than that of the competitors and keeping the same overheads cost as competitors, this is to enable them survive the competition and be able to have a competitive advantagr over the competitors. That is why most of the banks are applyin the specific strateges on the cost leadership. Most of the banks agreed that these are some of the specific strategies applied by the commercial banks so that they can be able to survive the harsh competitive environment.

4.5.6 Application of Focus Strategy

Table 4.15 table showing specific focus strategies

Variables on focus strategies	**Mode**
Maintaing lending capacity	4
Narrow limited range of services/products	4
Emphasis on marketing of speciality products	4
Products offered in lower priced market segment	4
Only serve specification geographic markets	4

From the above results it is evidenced that most of the banks are applying the above strategies on focus strategies. The banks are concentrating on maintaining lending capacity, only serving the specific geographic markets and offering products in lower priced market segment as some of the strategies they are applying to gain competitive advantage over the competitors. Most of the banks agreed thatthe above strategies are used by the banks and these enables the banks to survive in the harsh competitive environment. Given that most of the banks are using the specific focus strategies then it is clear that organizations should invest in applying these strategies since it enables the organizations stand out and compete with the competitors despite the competition.

4.5.7 Improved Performance based on the strategies applied

Table 4.17 Performance based on the strategies

RESPONDING STRATEGICALLY ENHANCES BANKS PERFORMANCE	Mode
Performance based on differentiation	4
Performance based on cost strategy	4
Performance based on focus strategy	4
Performance based on customer focus	5

The respondents were asked to indicate the if the banks have improved the performance based on the strategies they have adopted and these were the results. Most of the banks agreed that the performance of the banks have improved based on the indivial strategy that was used, based on differentiation, cost strategy and focus strategy, most of the respondents agreed that the banks performance have improved since they started applying the strategy, to respond to the competitive environment. Customer focus strategy was strongly agreed and this meant that most banks use the strategy to respond to the competitive environment, according to (Kotler,2007), it is agreed that customers are the most valuable assest in any organizational success. From the above it is evidenced that these strategies are all important, because they improve the banks performance and it is therefore important that the commercial banks and other organization respond strategically to the competitive environment because it enable the banks have a competitive advantage over the competitors

4.6 Correlation Analysis

Descriptive Statistics

	Mean	Std. Deviation	N
Strategies adopted	2.0727	1.01103	110
Competitive environment	3.6545	1.22239	110

Table 4.18

Table 4.19 correlation

		Strategies adopted	Competitive environment
Pearson Correlation	Strategies adopted	1.000	.859
	Competitive environment	.859	1.000
Sig. (1-tailed)	Strategies adopted	.	.000
	Competitive environment	.000	.
N	Strategies adopted	110	110
	Competitive environment	110	110

The Table 4.18 below indicates the correlation analysis between the competitive environment determined by Porters five forces and the strategies adapted by the local commercial banks in response to the challenging competitive environment. The correlation table above indicates that there is a significant positive correlation (0.859) between strategies adopted by commercial banks i.e the differentiation, cost leadership, focus strategy, and customer focus and the competitive environment under which the banks operate. This shows that the data collected and analyzed has a consistent trend as attributed by both the mean and standard deviation. If for instance differentiation is on a positive trend, so will be the competitive factors like the power of buyer.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This research set out to study the strategies adopted by the local commercial banks in response to the competitive environment. The previous four chapters provided the premise on which the researcher now winds up the report of this study.

In chapter 1, the background and the problem of the study were given and the study variable indicated. Research questions were posed as a way of determing the responses of the local commercial banks to the competitive challenges or competitive forces. In chapter 2, a detailed review of the literature on the topic of the research was done. In this chapter the relevant academic journals and books highlighting the various aspects of the study especially the variables in the study were used to shed more light to the study. Chapter 3, presented the methodology of the study while chapter 4 presented the analysis of the findings and interpretation of the study.

In this chapter, the results of the study as presented in the chapter 4 are discussed and conclusions are drawn upon which recommendations and areas thought necessary for further research will be identified. This chapter is divided into four parts. Section 5.2 of this chapter deals with the discussions, section 5.3 deals with the conclusion while section 5.4 highlights the recommendations and section 5.5 finally looks at areas of further research on this topic.

5.2.1: Summary on the commercial banks and the challenges to their business

There are a number of challenges that commercial banks are faced with in their efforts to adopt strategies that will make them respond well to the competitive environment under which they operate. Among the challenges outlined in this research are high expectations from customers, high rate of competition, government rules, bureaucracy, marketing and high cost of operation. How commercial banks respond to these challenges will determine how they operate in the competitive environment.

The first objective was achieved through establishing that many of the respondents agreed that the industry is currently pretty competitive with liberalization of the industry by the government of Kenya and currently there are 43 different commercial banks in Kenya (Central Bank of Kenya) and 24 commercial banks in Nakuru town, this shows that the industry is growing and is becoming more competitive as the number of commercial banks increases. This is composed of both the local banks and the multinational banks that are mostly dealing with the similar products and offering almost the same services, this according to (Ndun'gu, 2010)

It was found out that the challenges facing the local commercial banks affect the banks operations and there was need to react to these challenges by responding strategically. The firms performance is largely determined by how organization effectively and efficiently the firm business strategy is put in place and implemented, Olson, Slater and Hult, (2005). Most of the commercial banks state that one of the areas that pose a great challenge to them is high expectation from customers and the high cost of operation, so the banks need to invest in these sectors so as to stabilize the banking business. Bureaucracy is not a major challenge in the banking industry, though some of the banks are still facing the challenge.

5.2.2 Intensity of the competitive forces to the banks operations

It was also evidenced that the threat of substitute was highly intense and this pose a major threat to the banking industry, because this leads to the competition in the industry which is a major challenge to the industry. Currently they are many financial service providers in the industry competing for the same customers causing intense competition in the industry and the commercial banks need to improve their services to reduce the force of competition caused by the threat of substitute products and (Porter, 2005) agrees that competition is mainly caused by the threat of substitute products. Power of buyers is also highly intense in the industry, because the customers who are the buyers in case have the power to influence the banks operation and they are expecting to be served better otherwise will choose to use the competitors products and services and this becomes a challenge because the banks will try by all means to provide better services to cater for the needs of the customers. Other competitive forces, the power of suppliers, rivalry in the industry, and the barrier to entry are also causing some forces in the banking industry driving competition very high and thus the industry becomes very competitive, the severity of competition increase when the forces increases and so Porter agrees that these forces bring changes to the industry and drive competition very high as we have seen from the findings.

5.2.3Competitive response strategies

From the findings, product differentiation, cost leadership and management, focus strategy and customer focus are some of the strategies adopted by the local commercial banks in response to the competitive environment. The competitive environment under which the local commercial banks operate has been structured and outlined based on the five forces as outlined by porter. This includes Power of Suppliers, Power of Buyers, potential Entrants, Threat of Substitute products and Rivalry among firms.

The study examines the strategies adopted by local commercial banks in response to the competitive environment in the industry. The study investigated the way the commercial banks were using the competitive strategies of product and service differentiation, cost leadership, focus strategies and customer service differentiation in the currently competitive environment the commercial banks are operating in. As per the findings of this study, the commercial banks have a number of similarities among them in terms of such attributes as products and services offerings, challenges they are facing in marketing of their products/services. These challenges range from, high cost of operation, high expectation from customers, cut throat competition in terms of pricing of the products in the market and the brand confidence among the prospective customers. The other challenge the players in the industry are facing involves government regulations, marketing, difficulty in accessing qualified and experienced staff and the increased competition in the industry from other entrants in the banking sector.

The difficulty in responding to an action is directly related to its novelty (new actions are far from the usual initiatives) and the difficulty of implementing it. This means that the information about actions that is radically different from the past patterns and from the usual operating procedures of an industry will be less certain, since managers cannot use knowledge derived from the past experience. What is more important, they may not perceive the need to respond. Hence we argue that the best actions are those that defy the usual patterns of an industry. On the other hand, less innovative actions provide familiar information to competitors and will make it easier for them to predict and assess its results. As the originality and/or difficulty of implementation of an action increase, so does the difficulty rival companies experience in decoding and interpreting it, hence, decreasing their chances of response. Thus the difficulty of an action is indirectly linked to the probability of response. In this sense, Thompson et al. (2010) found that a response is less likely to occur when radically new products are introduced in the market.

Based on the study, a number of commercial banks rated competition in the industry as being stiff and it is a threat to most of the banks. This they stated was due to a number of factors such as barriers to entry in the business due to high financial requirements, very stringent industrial requirement such as the capital requirement to start the business, government regulation and requirement and increased competition from other organization not in the banking sector that also provide similar financial services into the same market. The customers are also expecting much from the financial service providers, becoming a challenge to convince the customer to continue using your service because he can get better service from other competitors. According to Kotler, (2007) it is important to pay attention to customers' needs, because customers are the reason most organization and businesses still exist. A number of the respondents in the study stated that they mostly use the following to respond to the competition in the industry and retain their competitiveness; having their products/service available when and where the customers require them by being located most appropriately to them, selling the products/service at a very competitive prices and in most cases attempting to sell them at a price lower than those of other competitors.

It should be noted here that the interview with one of the Managers during the process of filling the questionnaire, it was established that commercial banks all offer almost the same products all through and the only way in which the marketers in the commercial banks attempt to make their products/services different (differentiation) is in the brand names, offering spectacular products and the packaging of the services or the products. The aspects the commercial banks also tend to lay more emphasis on, especially the most competitive, state that to make customers prefer their products/services is in the strong branch network, and developing new products/service.

According to the respondents who participated in the study, the extent to which they use their actions plans to beat competition in the market in respect to the product and services offering include focus strategy and this was by looking for the selected profitable geographical markets, emphasis on marketing of specialty services/products, service and products offered in lower priced market segment. As for the action plan about pricing and cost management, a number of the commercial banks agreed that they use a great extent the following; major expenditure on technology based delivery systems to lower cost and continuously developing and refining existing products/services offering.

In respect to staffing the great number of respondents stated that they usually try to employ competent staff and also train their staff in customer care issues and they put in specific efforts to insure a pool of highly trained and experienced employees' so as to enhance extensive customer service capabilities. The training given to employees are important in order to achieve continuity and enhancement of employees confidence and develop good customer relationships as this is being seen as increasingly important in a range of markets and particularly in the banking industry,(Crosby, 2002).From the study it was also evident that a number of commercial banks are spending a major part of corporate expenditure on technology to differentiate their services and products to the customers and also improving their banking systems to ease their operating costs. Laudon, (2005) suggests that successful firms have aligned IT to the organizations business plan, firm's business processes and senior management strategic plans, this is because technology capability is important in promoting a firm's competitive advantage. The banks put a lot of emphasis on staffs marketing knowledge so as to enhance innovation in the marketing techniques methods. Most of the respondents agreed that the strategies the commercial banks have adopted have continuously improved the banks performance overtime. According to Porter, (2005), responding strategically leads to a competitive advantage and will overtime position an organization the leading and competitive service provider. It was evidenced that strategies were very effective and were successful in responding to the competitive environment, as most of the respondent agreed that it is important that the commercial banks respond strategically so that they can have a competitive advantage and survive in the harsh competitive environment. Responding strategically to the competitive environment is very vital and important in the banking industry because currently the industry is becoming very competitive.

5.3 Conclusion

Strategies adopted by commercial banks have a direct effect on their operation since the strategies respond to the competitive environment. Competitive strategies like product differentiation, cost leadership and management, focus strategy and customer focus play a vital role in enabling banks adopt to the competitive environment under which they operate and have competitive advantage over other financial service providers. It is therefore important for commercial banks to fully implement these strategies in order to properly cope with the competitive environment.

Banks that pursue critical competitive methods related to a broad differentiation strategy all emphasized on the development of a strong branch network, on investment in technology to differentiate services and products, on providing a broad range of products/services to customers, and on the development of new products and services. Most of the managers in the study agree that they use cost leadership strategies in their efforts to gain competitive advantage through good management of their overhead costs, ensuring that they employ competent staffs, and giving good training to their staff in customer care and product knowledge issues to ensure that they understand their customer and product well in order to enforce customer satisfaction and ensure customer loyalty to the products and services offered by the individual commercial banks.

Banks pursuing a cost leadership strategy emphasized the development and refinement of existing products, invested in technology to drive down the costs, employed highly trained/experienced personnel, and invested in training and organizational learning. A number of the banks emphasized each of these competitive strategies. The customer service strategy was characterized by the emphasis of three critical strategic competitive responses identified as providing immediate services to the customers, extensive customer service capabilities and building banks name and reputation.

As for the other strategy of product differentiation all the commercial banks who did participate in the study mentioned that they use product differentiation as a strategy to gain competitive advantage by ensuring that they brand their services so that they can have a strong brand either in their company name of products and services associated with them so that the customer would not confuse the product with that of the other competitors. They also stated that they always try to offer broad range of products/services that are not provided by the competitor. This is evidenced in the various names of products and services the various banks label them. This is to make customers see the differences of various brands of the same product. Another area they use to show product differentiation is in the use of the technology, and it is clear that the banks have advanced with the use of technology for instance the ATMs, the M-pesa banking and the Mobile Banking that most of the banks are currently using.

5.4 Recommendations

The study gave out the following recommendations;Commercial banks should focus on developing and implementing effective strategies that will enable them survive in the competitive environment under which they operate. The banking sector is currently facing lots of challenges and new products like Mpesa seem a threat to the industry but if proper strategies are put in place, commercial banks will stay operational in the competitive environment.

Competitive strategies used by the banks in the financial service industry conform to generic strategy types and banks follow a cost leadership strategy while some banks pursue a broad differentiation, customer service differentiation, or focus strategy as their strategic responses to the challenging competitive environment. In fact, banks following a broad differentiation, cost leadership, customer service differentiation, or focus strategy are able to achieve significant competitive advantage in the industry and so banks and other organizations should always use the strategies so that they can survive the harsh competitive environment.

This part of the report brings forward recommendations that according to the researcher would help improve the cases that have been observed under this study on strategies adopted by local commercial banks in response to the competitive environment. Based on the results of the study, these recommendations will help improve on the situations that have been observed. However, these recommendations do not only apply to those in the banking or finance industry only but also to all other organizations in Kenya and other developing countries that would want to improve on their competitiveness and to generate competitive advantage over the competitors. For a company to be more competitive and to generate competitive advantage it is recommended that it must be in a position to understand his customers and be able to offer business solutions to meet their customer' needs by delivering unique values and adopt strategies that would generate profitability to the organization and delight to its customers.

The study is recommended to the following:

i. Firstly policy makers in the banking industry in Kenya since they now are aware of the challenges that affect them due to intense competition and are in a position to formulate and implement strategies that will them overcome the competition and remain in the industry.

ii. Secondly the central bank of Kenya as a regulator of banks also have known the competitive factors affecting the banking industry in Kenya and are in a position to strategically give directions or lay emphasis in regulation and supervision of all financial providers in Kenya.

iii. Lastly other researchers are in a position to use this study as a point of reference for future studies, since they are now conversant with the study.

5.5 Areas for further research

This study by its nature has not been able to extensively investigate all the variables that explain all the strategies undertaken to respond to the competitive environment in the industry. The following areas are therefore recommended to be carried out for further investigations or study.

- The other area of study in which further research is needed is on customers' perception of the benefits of each of the competitive strategy used against the other competitive strategies.
- A comparative study should be carried out on the comparative performance advantage on the different competitive strategies used in the industry, challenges to both the organization and the customers

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Appendix I: Questionnaire

INSTRUCTION:

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

STRATEGIES ADOPTED BY LOCAL COMMERCIAL BANKS IN RESPONSE TO THE COMPETITIVE ENVIRONMENT.

SECTION A: GENERAL INFORMATION

1.Gender

Male ☐ female ☐

2.Age:

3.Highest level of Education:

i. Secondary school [ ]

ii. College/polytechnic [ ]

iii. University [ ]

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

5.Position held in the bank:

Branch Manager ☐ Section Manager ☐ Bank Officer ☐

6.Work experience:

0- 5 year

6-12 years

13-20 years

7. The type of ownership of the commercial bank:

local ownership ☐ nultinational ownership ☐ her type of ownership ☐

SECTIONB: THE COMPETITIVE CHALLENGING ENVIRONMENT FACED BY THE LOCAL COMMERCIAL BANKS

8.Is your bank currently facing any challenges due to competition?

Yes ☐ No ☐

9.Do you agree that these are some of the challenges currently facing the banking industry due to competition?

CHALLENGES	STRONGLY AGREE	AGREE	UNDECIDED	DISAGREE	STRONLY DISAGREE
High cost of operation					
High expectation from customers					
Government regulations					
Bureacracy					
Marketing					

10.To what extent do these challenges affect your banks operation?

CHALLENGES	Great Extent	Slight Extent	Fairly	A little	Not at all
High cost of operation					
High expectation from customers					
High rate of competition					
Government rules					
Bureacracy					
Marketing					

11.To what intense is the severity of the competitive forces to the banking industry operation?

COMPETITIVE FORCES SEVERITY	Very lntense	Slightly Intense	Not intense	Slightly Low	Very Low
Barriers to Entry					

Rivalry in industry

Threat of substitutes

Power of buyers

Power of suppliers

SECTION B: STRATEGIES ADOPTED BY COMMERCIAL BANKS

12.In your opinion, is your bank responding Strategically to the competitive environment?

Yes ☐ No ☐

13. If yes, Do you agree that these are some of the competitive strategies your bank is putting in place to respond to the competitive environment?

STRATEGIES	**Strongly Agree**	**Agree**	**Undecided**	**Disagree**	**Strongly Disagree**
Differentiation					
Cost leadership and management					
Focus strategy					
Customer focus					

14. Does your bank apply the following specific strategies on differentiation?

PRODUCTS AND SERVICE DIFFERENTIATION OFFERING	**SA**	**A**	**D**	**SD**
Economies of scale achieved through merger or consolidation				
Strong branch network				

Promotion expenditure above the industry range

Major expenditure on technology to different services

Broad service/product range

New products/service development

Does your bank apply the specific strategies on cost leadership?

COST LEADERSHIP AND MANAGEMENT	SA	A	D	SD
Pricing below the competitors				
Following the actions of the competitors				
Keeping lower overheads than the competitors				
Keeping the same overheads costs as competitors				

Does your bank apply these specific strategies on focus strategies?

FOCUS STRATEGY	SA	A	D	SD
Narrow,limited range of services/products				
Emphasis on marketing of specialty services/products				
Services/products offered in lower priced market segment				
Only serve specific geographic markets				
Products offered in lower market price				

15. Responding strategically to the competitive environment is very vital and will enhance performance in the banks. Do you agree?

RESPONDING STRATEGICALY ENHANCES BANK'S PERFORMANCE	Strongly Agree	Agree	Disagree	Strongly Disagree
PERFORMANCE BASED ON DIFFERENTIATION				

PERFORMANCE BASED ON COST STRATEGY

PERFORMANCE BASED ON FOCUS STRATEGY

PERFORMANCE BASED ON CUSTOMER FOCUS

Thankyou: Lydia Koech Chepngetich

APPENDIX II: PROJECT WORKPLAN

Project Objective: To identify the competitive challenging environment faced by the local commercial bank and to establish the strategies that these banks will apply to respond to these challenges.

Researcher: Lydia Koech Chepngetich

Project Moderators : Dr. Lillian Njanja & Prof. A.M Katwalo

Start Date : 2nd, June, 2012

End Date : 25th, August, 2012

DATES	ACTIVITIES
2nd, June, 2012 – 24th June 2012	Proposal Writing
28th, June,2012	Presentation to the panel members
3rd,July,2012-12th,July,2012	Correction and incoporation of the recommendatiom
13th July 2012-21st July 2012	Data collection
21st July 2012- 27th July 2012	Data analysis
30th July 2012-22nd July 2012	Reseach report writing
30th July 2012	Submission of report for examination

Budget

Printing & Stationery –	Kshs. 4,000
Transport expenses –	Kshs. 2,000

Telephone expenses –	Kshs. 1,000
Entertainment expenses -	Kshs. 2,000
Miscellaneous -	Kshs. 1,000
TOTAL =	**Kshs.10,000**

Appendix III: LIST OF COMMERCIAL BANKS IN NAKURU COUNTY

1. Kenya Commercial Bank (KCB)
2. Standard Chartered Bank
3. Barclays Bank of Kenya
4. Bank of Baroda
5. Commercial Bank of Africa (CBA)
6. Cooperative Bank
7. National Bank of Kenya (NBK)
8. Bank of Africa Kenya
9. Dubai Bank
10. Consolidated Bank
11. Credit Bank
12. Transnational Bank
13. Chase Bank
14. CFC Stanbic Bank
15. African Banking Corporation
16. NIC Bank
17. Eco Bank
18. Fina Bank
19. Equity Bank

20. I&M Bank

21. Diamond Trust Bank

22. K-Rep Bank

23. Family Bank

24. First Community Bank