Drivers for Adoption of Retail Banking Strategies in Kenya

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Abstract
The Purpose of this study was to investigate the factors that influence the adoption of retail banking strategies in Kenya. The specific objectives of the study were: to examine the extent to which changing customer preferences affect adoption of retail banking strategies in Kenya; to assess the extent to which competition affects adoption of retail banking strategies in Kenya; to evaluate the extent to which technology affects adoption of retail banking strategies in Kenya. A descriptive design was used to undertake the current research. The population of interest in this study was all commercial banks in Kenya. According to the Central Bank of Kenya report as at 31st December 2010, there were 42 commercial banks in Kenya. A representative sample of 21 commercial banks, representing about 50% of the whole population was selected using stratified random sampling technique. Primary data was collected with the aid of a semi-structured questionnaire. The researcher personally collected the questionnaires. In addition, personal interviews were conducted with 6 of the respondents selected at random. For purposes of the current study, the data was analyzed by employing descriptive statistics such as frequencies, mean scores and standard deviations. The findings of the study indicate that customer preferences influenced the adoption of retail banking strategies. Specifically, customer preferences influenced adoption of the following practices, in order of strength:- reduction of minimum balances to open and maintain account; product diversification; market differentiation; and availability of a personal banker in the branches. Ranked the least was installation of Automated Teller Machines. The findings of the study further indicate that competition influenced the adoption of retail banking strategies. Specifically, competition influenced adoption of the following practices, in order of strength: - product diversification; market differentiation; increased branch network; and reduction of minimum balances to open and maintain account. The least ranked activities were personal selling of bank products and offering bank products online. Further, the findings indicate that Technological changes influenced the adoption of retail banking strategies. Specifically, technological changes influenced adoption of the following practices, in order of strength: - offering bank products online; installation of Automated Teller Machines; and product diversification. In conclusion, changes in customer preferences have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients. The perceived value of the products and services of banks must be proportional to the prices charged while distribution means should be used in order to achieve a high level of satisfaction. Competition has influenced the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. Great attention is paid to all the bank-customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables. The use of information technology in retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet.
Keywords: Retail banking strategies, Changing customer preferences, Competition, Technology

1.0 INTRODUCTION

1.1 Background of the Study

The environment in which financial services organizations operate is constantly changing with different factors exerting influence in the organization. It is vital that organizations constantly scan their environment and are aware of what is happening; only then can strategies be developed that fit both the internal capability of the organization and its environment. Johnson and Scholes (2004) propose that uncertainty increases when environmental conditions are more complex and dynamic.

The banking industry is transforming itself in unpredictable ways (Crane and Bodie, 2004). This transformation is powered in an important way by advances in information technology (Holland and Westwood, 2005). Since around 2000, the Kenyan banking industry has experienced a renewed interest in retail banking. Although there have been other periods in the past when retail banking has been an important area of strategic focus, the recent cycle is particularly significant because of the role of the very largest banks. Anderson and Campbell II (2004) argued that many of these banks have been building large branch networks and increasing the share of retail-related positions on their balance sheets. As this project paper observes, retail banking is clearly an important source of revenue and profit for these banks and, given their systemic importance, it is important to understand the effect of this strategic focus not only for individual banks but for the banking system as a whole.

In recent years, fundamental economic forces have undercut the traditional role of banks in financial

intermediation. As a source of funds for financial intermediaries, deposits have steadily diminished in importance. In addition, the profitability of traditional banking activities such as business lending has diminished in recent years. As a result, banks have increasingly turned to new, nontraditional financial activities as a way of maintaining their position as financial intermediaries (Channon, 2005).

A key policy issue is whether the decline of traditional banking threatens to make the financial system more fragile (Colgate and Nicholas, 2003). If nothing else, the prospect of a mass exodus from the banking industry (possibly via increased failures) could cause instability in the financial system. Of greater concern is that declining profitability could tip the incentives of bank managers toward assuming greater risk in an effort to maintain former profit levels. For example, banks might make loans to less creditworthy borrowers or engage in nontraditional financial activities that promise higher returns but carry greater risk. A new activity that has generated particular concern recently is the expanding role of banks as dealers in derivatives products (Dignam, 2003). There is a fear that in seeking new sources of revenue in derivatives, banks may be taking risks that could ultimately undermine their solvency and possibly the stability of the banking system.

The challenge posed by the decline of traditional banking is the need to maintain the soundness of the banking system while restructuring the banking industry to achieve long-term financial stability (Edwards and Franklin, 2004). oday's customers are getting more and more knowledgeable. Their taste, preferences and quality expectations continue to change and this puts pressure on organizations which seek to meet these changing customer needs. Peck, Payne, Christopher, and Clerk (2005) observed that time-based competition has enabled knowledgeable customers to buy products and services from anywhere in the world. This means that it no longer matters to some customers where they are getting their products and services as long as it meets their expectations, they will get it from anywhere in the world. This is why some Kenyans operate bank accounts with foreign banks located in other continents; the reason is that they perceive those banks as being able to serve their interest well. Cowley and Domb (2003) argued that at any level of the organization, it is important that the needs and satisfaction level of external customers be dealt with first because they "pay the bills" and therefore should be given top priority.

Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use (Cox and Brittain, 2004). Thus retailing involves more than selling tangible products. The purchase of a service such as a bank service is also a retail transaction. For the sake of this research, two major segments of the market in the banking sector are considered as Business banking and Personal banking. Business banking is that which is done for business organizations operating in Kenya, whether multinational or a small local business. Personal banking refers to those banking services offered to individuals, whether small or high net worth individuals. This means that banks have two different kinds of clients, corporate clients and retail clients. Retail banking plays a very important role in the lives of individuals and in the general economic development of a country like Kenya, banks collect surplus funds (savings) from one group of individuals and transfers the same through lending to another group of individuals who are interested in raising funds for investment of consumption.

Retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet. While it offers new opportunities to banks, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models ((Liao and Cheung, 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and West, 2005).

However, to successfully cope with the challenge of the retail banking innovation, the incumbent banks must understand the nature of the change and capability barriers that it presents. Without this understanding, attempts to migrate to retail banking may be doomed to failure. Banks that are equipped with a good grasp of the retail banking phenomenon will be more able to make informed decisions on how to transform them into retail banks and to exploit the retail banking to survive in the new economy (Liao and Cheung, 2003). Given that retail banking is a financial innovation the change may render the organizational capabilities of the traditional banks obsolete.

In order to address the environmental challenges such as competition, legal and technological, banks have adopted different ways. Banks, which have underinvested in their retail business, are considering their approach. Most are working towards coherent strategies on how to differentiate and add value to retail customers. Another adoption is the growing attempt by banks to commit to their strategy with consistent leadership and higher degree of focus. Other banks have adopted other approaches such as having friendly price to customers and also emphasizing service quality and extensive distribution through branch network and deployment of offsite Automated Teller Machines.

There were 42 commercial Banks in Kenya as at 31st December, 2010 (Central Bank of Kenya (CBK), 2011). These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the minister of finance, through the central bank of Kenya. The companies Act,

the Banking Act, the Central Bank of Kenya, govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. (Banking Act Cap 488, pp 6, 10-12).

More specifically, increased competition, technological developments, changes in customer preferences and the growth of the various institutions have significantly altered the environment in which banks operate. At the same time, many banking activities are now performed by non-banking institutions. In reality, banking institutions in developed countries have started to lose their market shares, while technology has minimized transaction costs and the number of competitors is continuously increasing. Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations (Avery, Bostic, Calem, and Canner, 2003; Krishnan, Ramaswamy, Meyer, and Damien, 2003; Orlow, Radecki, and Wenninger, 2004).

The focus of this study will be the influence of the factors identified by Orlow et al. (2004), namely (i) competition; (ii) technological changes; and (iii) changes in customer preferences on adoption of retail banking strategies. Understanding the factors influencing the adoption of retail banking strategies is important for senior management of banking related organizations, because it would potentially help them improve their strategic planning process.

1.2 Statement of the Problem

Today, banks are competing not just on a national arena, but increasingly at international and global level. With 42 banks operating in Kenya, the financial services markets seems oversupplied and margins for many banks are being depressed in a highly competitive market place. Profitability will be determined by the extent to which organizations develop appropriate strategies to ‘combat’ the growing competitive forces. Among the alternative ways that banks have adopted in pursuit of their broad goals and objectives is the adoption of retail banking. In retail banking, the banks are trying to woe individual customers and also meet their expectation with an aim of retaining them through quality service and fair bank charges.

A study by Prowse (2003) shows that research on the factors that influence the adoption of retail banking strategies is indeed scarce. This shortage is confirmed by Oman (2004) who holds a consensus that although the subject of the adoption of retail banking in developing economies has recently received a lot of attention, the literature in developing economies has been almost ignored by researchers, an idea shared by (Stanger, 2004).

Whereas the study by Mazrui (2003) focused on marketing strategies used by managers to address customer service challenges in banking in Kenya, the one by Musa (2004) focused on the extent to which commercial banks in Kenya have adopted and implemented integrated marketing. There is thus no known study that focused on the factors that influence the adoption of retail banking strategies in Kenya.

The current study addresses the following research questions:- (i) What is the influence of different customer preferences on adoption of retail banking strategies?; (ii) What is the influence of competition on adoption of retail banking strategies; and (iii) What is the influence of technology on adoption of retail banking strategies?

1.3 General Objective of the Study

The general objective of the study was to determine the factors that influence the adoption of retail banking strategies in Kenya.

1.4 Specific Objectives

The specific objectives of the study were:

(i) To examine the extent to which customer preferences affect adoption of retail banking strategies in Kenya
(ii) To assess the extent to which competition affects adoption of retail banking strategies in Kenya
(iii) To evaluate the extent to which technology affects adoption of retail banking strategies in Kenya

1.5 Definition of Terms

The following is the definition of the various terms used in this study:-

Bank: A bank can be defined as a company, which carries on, or purposes to carry on banking business, (Banking Act, Cap 488). A bank is thus an institution that deals largely with money. It collects deposits from savers and pays interest to the depositors and on the other hand uses the savers deposits to grant loans to borrowers who in turn pay interest and fees.

Competition: Rivalry in the marketplace. Goods and services will be bought from those who, in the view of buyers, provide ‘the most for the money.' Hence competition will tend to reward the more efficient

producers and/or suppliers and so lead the economy toward efficient use of resources (Moore, 2006).

Retail Banking: Retail banking is the cluster of products and services that banks provide to consumers and small businesses through branches, the Internet, and other channels. As this definition implies, banks organize their retail activities along three complementary dimensions: customers served, products and services offered, and the delivery channels linking customers to business segments. (Orlow and Wenninger, 2004).

Strategy: Strategy is about means. It is about the attainment of ends, not their specification. The specification of ends is a matter of stating those future conditions and circumstances toward which effort is to be devoted until such time as those ends are obtained (Robert, 2003).

Technology: The term "technology" is used to refer to the stock of knowledge -whether codified or tacit-about the set of all industrial techniques available at a given time. It should be kept in mind that technology plays a twofold role in the technological innovation process: it is both the output of the innovation process as well as its principal input. The literature uses different terms to refer to the output of the innovation process, such as innovation, discovery, invention, technological knowledge, etc. All of them also signify stock magnitudes (Betz, 2003)

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis and dissertations.

2.2 Changing Customer Preferences and Adoption of Retail Banking Strategies

Changes in customer behavior have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients (Meidan, 2005). The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction.

Since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings (Orlow and Radecki, 2004). However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers.

Banks in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu and Whinston, 2004). According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that banks can create the appropriate marketing strategy. Retail Banking constitutes the sector that has had the largest increase in the last years. The great fall of interest rates along with the offering of new, more flexible and attractive products has led to an increase in demand relating to retail banking products (Eaglesham, 2005). Thus, most of today's banking institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

The rates for the provision of retail banking products have been maintained at particularly high levels for the last years with commercial banks having the leading role (Southard and Siau, 2004). Today's bank clients are more informed on market products due to the load of circulating information, making them capable of directly comparing the various competitive products. According to Orlow and Radecki (2004), clients communicate with other clients, study brochures and receive information from television and the Internet. Therefore, clients are more influenced than in the past by bank pricing policies and seek low borrowing interest rates and low costs for the provision of services. Today's clients turn easily towards the services of another bank than in the past, especially when they only find little and insignificant differences among the various products and services.

According to Kaufman and Mote (2004), Banking institutions, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of bank clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products. Furthermore, interest rate deviations among the various banking institutions are not particularly high. Low interest rates of banking products constitute the main advantage in order to attract customers. Lending capabilities offered to customers along with interest rates offered in specific cases constitute means to make a product more attractive.

In the paper of Boyd, Leonard, and White (2004), the results of the study reveal that reputation, interest charged on loans, and interest on savings accounts are viewed as having more importance than other criteria such as friendliness of employees, modern facilities, and drive-in-service.

According to Stafford (2005), demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers. Even if other types of segmentation variables are used a marketer must know and understand demographics to assess the size, reach and efficiency of the market. The general conclusion of this study is that there is a significant relationship between demographics characteristics and the service quality perception. However, for income the test statistic was not significant. The psychographic segmentation, in the literature, has been extensively researched. For example Beckett, Hewer, and Howcraft (2004) presents and develops a model through which attends to articulate and classify consumer behavior in the purchasing a range of financial products and services. Using and placing the two principal factors that motivate and determine individual contracting choices, namely involvement and uncertainty, on to a simple continuum running from high to low it is possible to construct a two-dimensional matrix of consumer behavior.

The traditional segmentation variables of age, stage in the family life cycle and social class have provided little insight into the financial services customer behavior (Harrison, 2005). In order to take full advantage of the factors which could affect take-up and usage of financial services, Harrison develops a multi-dimensional model. The analysis has suggested four customer segments for financial services on the basis of customers' own perceived knowledge, confidence and interest in financial maturity, defined by the type and complexity of financial services currently in use. Each of the four segments is distinct in terms of the financial objectives exhibited, motivations for financial services usages and attitudes and behavior towards financial services.

Segmentation by expected benefits and attitudes could enhance a bank's ability to address the conflict between individual service and cost-saving standardization (Machauer and Morgner, 2005). Using cluster analysis, segments were formed based on combinations of customer ratings for different attitudinal dimensions and benefits of bank services. The clusters generated in this way were superior in their homogeneity and profile to costumer segments gained by referring to demographic differences. Bostic and Canner (2006) explore borrowing and lending preferences between minority applicants and minority-owned banks. They find no evidence that lending preference exists among minority applicants and minority-owned banks. However, the results for the borrowing preference model shows that minority applicants are more inclined to solicit a bank for a mortgage if that bank's ownership structure is of the same race as the applicant.

In a study conducted by Black, Locket, Ennew, Winkilhofer, and McKechnie, (2003), testing was undertaken to determine whether there is a preference by borrowers and lenders of a particular ethnic or racial group that may predispose them to borrow and lend from each other. The results show that borrowing preferences exist between all applicant groups and banks from the same racial classification. In addition, some cross-racial borrowing preferences exist. Lee and Marlowe (2003) investigate how consumers choose a financial institution for their checking accounts. It was found that, although most customers' value convenience as one of the most important decision-making criteria, their definitions of convenience vary across consumers. Another important finding of the study is that the participants facing new financial needs start their search process from the institution where they have their checking accounts.

The process by which the consumers choose among financial institutions for obtaining the right services was explored (Talaga and Buch, 2003). Their study control for interest rates, and look at five variables: number of points, additional fees, reputation of lender, type of loan and term in years of loan. The most important variable to the respondents was thought to be additional costs and the second most important variable was the number of points. Both loan holders and non-loan holders hold similar views as the general rank importance of the variables. Breslaw, Irvine, and Rahman (2004) postulate two possible behavioral models of consumer behavior for choosing a financial service. The first occurs when payment constraints become strongly binding. The second occur where the monthly payment constraint is less binding and a borrower has the latitude to choose a longer term and a shorter amortization. The most important general result is that borrowers react to market conditions in a risk averse and cost minimizing manner.

In investigating the relative importance of choice criteria according to consumers, Devlin (2004) analyses differences in the importance of choice criteria with respect to a number of demographic and related factors. The study shows that choosing a home loan institution on the basis of professional advice is the most frequently cited choice criterion, closely followed by interest rates. Differences in the importance of choice criteria with respect to gender, class, household income, educational attainment, ethnicity and financial maturity are apparent.

2.3 Competition and Adoption of Retail Banking Strategies

Globalized competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. In the service

economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers (Petruzzellis, D'Uggento and Romanazzi, 2006).

Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences (Morgan and Wyman, 2004). Nowadays great attention is paid to all the bank-customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables (satisfaction and loyalty).

In the past customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival (McDonald and Keasay, 2003). Indeed, the relationship between the customers and the banks seems to be built around two different types of factors: social bonds, namely relational components that result in direct relationships, and structural bonds, namely structural components which provide knowledge about the parties involved.

The services market is becoming ever more competitive, as price competition intensifies and the shifting of loyalty becomes an acceptable practice. Many industries have already experienced a rearrangement of marketing budgets in order to devote more resources to defensive marketing, namely customer retention (Patterson and Spreng, 2003). Several initiatives have been undertaken to improve retention, including value chain analysis, customer satisfaction and loyalty programmes (Gummerson, 2004).

The customer satisfaction-retention link has received more attention among marketing and management practitioners and academics. Customer satisfaction has long been regarded as a "proxy" for firm success since it is inextricably linked to customer loyalty and retention. Several authors, Bloemer and Lemmink (2003); Bloemer and Kasper (2003); Sharma and Patterson (2004,) highlighted, however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Fournier and Mick, 2003).

Satisfaction has a significant impact on customer loyalty, Sharma and Patterson (2004), and as a direct antecedent, leads to commitment in business relationships, Burnham, Fels, and Mahajan, 2003), thus greatly influencing customer repurchase intention (Morgan and Hunt, 2004). Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment, etc.

However, customer commitment cannot be dependent only on satisfaction (Burnham et al., 2003). Relational switching costs, which consist in personal relationship loss and brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds, have a moderating effect on the satisfaction – commitment link (Sharma and Patterson, 2004). Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with suppliers who do not care for the satisfaction created in the relationship. On the other hand, customer satisfaction is usually the key element in securing repeat patronage; this outcome may be dependent on switching barriers in the context of service provision (Jones Mothersbaugh, and Beatty, 2003).

Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other (Dwyer, Schur, and Oh, 2004). Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship.

Moreover, a switch in suppliers involves set-up costs and termination costs; the former include the cost of finding another supplier who can provide the same or better performance than the current supplier or the opportunity cost of foregoing exchange with the incumbent, while the latter include the relationship specific idiosyncratic investments made by the customer that have no value outside the relationship (Dwyer et al., 2004).

Since a degree of social interaction between the provider and the customer is often required for the service to be "manufactured", the theoretical foundations for the study of switching costs in a service context can be found in social exchange theory (Emerson, 2003). In fact, service encounters can be viewed as social exchange with the interaction between service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes, 2005). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships. In other words, people (or businesses) evaluate their reward (cost) ratio when deciding whether or not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal (liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situation factors (aspects of the psychological environment such as a relationship formed to accomplish some task).

In a services context, considering the level of interpersonal contact needed to produce services, there is a range of psychological, relational and financial considerations that might act as a disincentive for a hypothetic change of service providers. Consistently with the switching costs literature, social capital acts both as a barrier that makes it more difficult or costly (psychological, relational, economic) to change service provider and as an influence, created by the endogenous and contextual interactions, that is distinct ways that consumers might be influenced by their social environments (Patterson, 2004).

Indeed, social capital has been conceptualized in many different ways (for example, Coleman 2004; Serageldin, 2003). Putman (2003) defines it as a representation of the norms of reciprocity and trustworthiness that arise from social relations, while the Organization for Economic Co-operation and Development (OECD) (2003, p. 23), perceives social capital as "the resources gained through social ties, membership of networks and sharing of norms".

Therefore, informal networks of social support, including relatives, friends and other extra household connections such as a supportive community, have value. These networks constitute a locus of access to resources; which in turn determine socio-economic outcomes (Collier, 2004). Moreover, social capital has also been indicated as the primary factor in the success – high rates of credit repayment – enjoyed by Grameen bank and other credit institutions based on the "peer lending model" (Banerjee, 2003; Van Bastalaer, 2003).

Since most studies using the social capital framework are from poor developing countries where the ideal of "community" is prized, it is not clear whether participating in an informal network of social support will have similar effects on performance within the context of an advanced-market economy, especially in those countries like the United States, where individual advancement has a significant value. Moreover, previous research has not revealed whether certain aspects of participating in an informal network of social support are more likely to influence economic performance than others; neither has it revealed the nature of these impacts. In addition, there are few studies specifically focused on the relationship between informal networks of social support and saving outcomes of low-income individuals and households.

The extreme competition and saturation in the financial markets and the growing demand of products and services through new media, such as the Internet and mobile phone, have forced banks to quickly respond to the new changes and challenges with new and different business models (Methlie and Nysveen, 2003; Jun and Cai, 2001; Bradley and Stewart, 2003).

In the service industry, a long term relationship with customers is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the bank (Grönroos, 2003; Berry, 2004).

The extended portfolio does not only offer benefits to customers, but also to banks. Banks have now the opportunity to capitalize on the beneficial characteristics of the various products and channels, for example while electronic channels help to reduce the costs of interaction with the customer by substituting labour intensive operations with automated sales processes, Campbell (2003), the interactivity of a face to face consultation provides various cross-sell opportunities (Clemons, Hitt, Gu, Thatcher, and Weber, 2003).

The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new "product", Eastlick and Liu (2004) that is its adoption depends on the value the "product" can provide to a customer. Such a value is identified by: the "product" service quality, Montoya-Weiss et al. (2003), the convenience it offered, Black et al. (2004); Devlin and Yeung (2003), the risk involved in conducting transactions through the "product", Black et al. (2004); Grewal, Levy, and Marshall (2004); Reardon and McCorkle (2004), and the costs of conducting business through it (Devlin, 2004; Fader, Hardie and Lee, 2003).

Moreover, the bank attributes such as perceived convenience, service quality and price, Bhatnagar and Ratchford (2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 2003). Hence, the importance of a bank attribute for the choice decision might vary for different situations and customers.

Therefore, consistently with the literature, it is possible to distinguish two loyalty dimensions: (1) a past loyalty, Zins (2003), which associates more to the consumer's behavioral loyalty, Snehota and Söderlund (2004); Chaudhuri and Holbrook (2003) and represents the relative importance of a specific banking service in the previous customer's transactions decisions; and a (2) cognitive loyalty, defined as the behavioural intention of using the bank service in future (Methlie and Nysveen, 2003; Van Riel, Liljander, and Jurriens, 2004).

The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Banks should assure a high quality in the services offered to be able to survive in the highly competitive markets and to achieve a sustainable advantage in the long term (Mefford, 2003; Jun and Cai, 2004).

In conclusion, the customer involvement in the production has evolved from servuction according to Eiglier and Langeard (2003), to prosumption according to Sigala (2005), which has two dimensions, namely the willingness to be involved and the competences to take part in designing and projecting the service output. Its

obvious consequence is customer satisfaction, Cermak, File and Prince (2004), and it takes place together, or interacting, with other customers (Kelley, Skinner and Donnelly, 2003). Moreover, customer inputs and their co-production performance considerably affect productivity, added value and efficiency of the provider; thus highlighting the profitability of customer loyalty.

2.4 Technology and Adoption of Retail Banking Strategies

Since the 1980s, commercial banking has continuously innovated through technology-enhanced products and services, such as multi-function ATM, tele-banking, electronic transfers, and electronic cash cards. Over the past decade, the Internet has clearly played a critical role in providing online services and giving rise to a completely new channel. In the Internet age, the extension of commercial banking to the cyberspace is an inevitable development (Liao and Cheung, 2003). Both researchers and practitioners in the financial sector have highlighted the need for banks to broaden their branch-based delivery channels by embracing technological changes in their approach to retail banking.

The use of information technology in retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet. While it offers new opportunities to banks, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu and Whinston, 2004; Liao and Cheung, 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and Westwood, 2004).

However, to successfully cope with the challenge of the Information Technology innovation in retail banking, the incumbent banks must understand the nature of the change and capability barriers that it presents (Southard and Siau, 2004). Without this understanding, attempts to migrate to e-banking may be doomed to failure. Banks that are equipped with a good grasp of the e-banking phenomenon will be more able to make informed decisions on how to transform them into e-banks and to exploit the e-banking to survive in the new economy (Southard and Siau, 2004). Given the e-banking is a financial innovation, Liao and Cheung (2003), the change may render the organizational capabilities of the traditional banks obsolete. From the resource-based view, Grant (2003), Mahoney and Pandian (2005), in such a context, the banks must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the banks redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

Broadly speaking, an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want (Afuah, 2003). To comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully (Zwass, 2003). Abernathy and Clark's (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities of the adopting firm. E-banking is essentially a financial innovation that is enabled by creative use of emerging IT and other business forces (Stamoulis, Kanellis, and Martakos, 2003). Accordingly, the innovation encompasses a set of aspects: IT, customer, finance, marketing, and strategy. These aspects can be classified into two major domains: technology and business model that underpin a bank's capabilities (Holland and Westwood, 2004; Wu and Hsia, 2004). Thus, we propose a two-dimensional model, adopted from Abernathy and Clark, to analyze the e-banking innovation as shown in Figure 2.1.

Business Model \ Technological knowledge	Preserved	Destroyed
Destroyed	Radical Innovation	Disruptive Innovation
Preserved	Incremental innovation	Transitional innovation

Source: Abernathy and Clark, (2004).
Figure 2.1: Changes in technological knowledge and business model

The taxonomic model indicates that the subject of innovation can be described in terms of its technological knowledge and business model. An innovation can be placed anywhere on a continuum from incremental, transitional, radical, to disruptive depending on the extent to which the innovation impacts the technological knowledge and business model of an organization. An innovation is incremental if it preserves the existing technological knowledge and business model; transitional if it destroys technological knowledge but preserves the business model, radical if it destroys the business model but preserves the technological knowledge and disruptive if both the technological knowledge and business model become obsolete.

Technological knowledge here refers to the technical capabilities to mobilize and deploy the new information and communication technologies that help maintain a retail banking environment within and across the organizations. Sannes (2003) proposed three technical functions of retail banking transaction, customer service, and self-help. Sourthard and Siau (2004) looked at five functions: informational, administrative, transactional, portal, and others. In sum, the essential dimensions of technological knowledge can be classified into three areas: IT-infrastructure, transaction, and service.

Business model is often used to describe the key components of a given business. Chesbrough and Rosenbloom (2003) defined business model as a coherent framework that converts the new technologies through markets into business value and identified the six components of a business model: value proposition, market segment, cost structure, profit potential, value network, and competitive advantage. Afuah and Tucci (2003) proposed a set of components of Internet business model, including profit site, customer value, scope, pricing, revenue sources, implementation, capabilities, and sustainability. Based on the literature, the functions of a business model are to: articulate the value proposition (customer value); distinguish a market scope; estimate the cost structure; assess the profit potential; identify the structure of the value network within the bank needed to collaborate with their customers and other stakeholders. We therefore define the dimensions of the business model, including value proposition, market scope, cost structure, profit potential, and value network.

Based on the resource-based view, Grant (2003), a firm's competitive advantage depends on its superior deployment of capabilities (Christensen and Overdrof, 2003). There are growing evidences that core capabilities are often critical drivers of firm performance (Teece, Pisano, and Shuen, 2003). The core capabilities refer to the firm-specific ability to combine efficiently a number of resources, identify market opportunities, determine strategic situation, and create competitive advantage. In this respect, the development of core capabilities reflects a firm's ability to cope with the change in a timely way. Following the core capabilities perspective, several scholars explored the core capabilities for an electronic business (e-business). For instance, Rindova and Kotha (2004) employed the perspective to examine how the organizational form, function, and competitive advantage of E-business co-evolve. Heijden (2003) identified three information technology (IT) capabilities such as IT governance, business system thinking, and relationship building in an electronic commerce (e-commerce) context.

Daniel and Wilson (2003) identified eight core capabilities that are necessary for E-business transformation and identified practices in developing these capabilities that are both effective and common across firms. Wheeler (2004) proposed the Net-Enabled Business Innovation Cycle (NEBIC) model for measuring, predicting, and understanding a net-enabled business's ability to create customer value through the use of innovative IT. This approach incorporated both a process view of net-enabled business innovation and defined four essential capabilities: choosing new IT, matching economic opportunities with technology, executing business innovation for growth, and accessing customer value for net-enabled business innovation that creates customer value. The strengths or weaknesses of these capabilities can be used to predict the net-enabled business's ability to create value in the face of technological change.

A firm's ability to embrace and exploit an innovation is a function of the extent to which the innovation renders the firm's existing capabilities obsolete (Afuah, 2003). The foregoing discussions show that e-banking is a disruptive innovation that will render the incumbent banks' established capabilities obsolete. In other words, e-banking will overturn the existing technical knowledge related to network infrastructure, service offerings, and transaction security mechanisms and will lead to a radical overhaul of the way of doing business for the traditional banks. In facing the change, the incumbent banks need to undergo business transformation in order to exploit e-banking. To do this, banks have to change their conventional mindsets and reconfigure their capabilities around the needs of e-banking. It requires careful coordination with the development of core capabilities in order to successfully respond to the technological and business changes (Wheeler, 2004; Daniel and Wilson, 2003).

The results of comparison suggest pronounced differences in technological knowledge and business model between traditional banking and e-banking. The differences raise a number of challenges including issues related to the technical infrastructure, service offerings, and transaction security, which means a radical overhaul of the way of doing business for the banks.

3.0 METHODS

3.1 Introduction

This chapter defines the research design and methodology used in the study. It contains a description of the study design, target population, sample design and size, data collection instruments and procedure.

3.2 Research Design

According to Brown, Askew, Baker, Denvir, and Millett (2003), research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the project, which include the samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions.

Descriptive design was used to undertake the study. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive. "What" questions invariably lead to descriptive designs. Descriptive research is designed to describe the characteristics or behaviors of a particular population in a systematic and accurate fashion. Survey research uses questionnaires and interviews to collect information about people's attitudes, beliefs, feelings, behaviors, and lifestyles.

Descriptive design was preferred because no matter what method is chosen to collect the data, all descriptive designs have one thing in common: they must provide descriptions of the variables in order to answer the question. The researcher sought to determine the relationship between given variables, customer preferences, competition and technology on one hand and the adoption of retail banking strategies on the other hand. The question is "What is the relationship between or among variables?" The variables are known, so the study is beyond the scope of an exploratory study. The variables of interest have been studied before, either independently, as in an exploratory study, or with other variables, so that there is sufficient information to ask a question about the relationship between them. The researcher is able to relate the variables in the study to a concept or conceptual framework so that the study does build on previous work. The major consideration is accuracy in the measurement of the variables.

Descriptive design dictates how the variables are to be measured in testing their relationship. In this type of design, the variables are partly controlled by the situation, as they are in exploratory design, but they are also partly controlled by the investigator, who chooses a sample for the study. You are not interested in controlling the other variables, merely in observing them.

3.3 Population and Sampling Design

3.3.1 Population of the Study

According to the Central Bank of Kenya report as at 31st December 2010, there were 42 commercial banks in Kenya (see appendix II). The population of interest in this study was all commercial banks in Kenya. These are the banks licensed by the Central Bank of Kenya to undertake Commercial Banking Business.

3.3.2 Sampling Design

Sampling Frame: The sampling frame is the list of ultimate sampling entities, which may be people, households, organizations, or other units of analysis. For purposes of the current study, the sampling frame was the commercial banks in Kenya as at 31st December 2010.

Sampling Technique: Researchers usually cannot make direct observations of every individual in the population they are studying. Instead, they collect data from a subset of individuals, referred to as a sample and use those observations to make inferences about the entire population. Ideally, the sample corresponds to the larger population on the characteristic(s) of interest. In that case, the researcher's conclusions from the sample are probably applicable to the entire population. For purposes of the study, a two- stage stratified random sampling technique was employed to select the banks for the study. According to Coleman and Briggs (2004) stratified sampling is used where there might be a reason to judge that some particular characteristic of the sample members is of such importance that it is necessary to impose further control over how it is distributed or represented in the sample. This procedure is considered effective as each bank had a non zero chance of being included in the study.

Sample Size: The error of estimation is a function of the size of the sample, the size of the population, and the variance of the data. Researchers usually opt for an economical sample that provides an acceptably low error of estimation at reasonable cost and effort. It would have been desirable to use a census of the whole population of the Commercial Banks in Kenya, but owing to such limitations as the distances to be covered to each bank, which are spread in the City Centre and the costs that would be involved in covering them and the given time frame among other reasons, a representative sample of 21 commercial banks, representing about 50% of the whole population was selected at random, which is within the limits of the generally accepted statistical condition. Table 3.1 below presents the sample size.

Table 3.1: Sample size

Strata (Category of bank ownership)	Population (Number of banks)	Sample size (50% of population)
Government owned	10	5
Local-privately owned	20	10
Foreign owned	12	6
Total	**42**	**21**

3.4 Data Collection Methods

A semi-structured questionnaire was used to collect primary data from the respondents. Closed ended questions were presented on a likert scale. The Likert scale, commonly used in business research was used because it allows participants to respond with degrees of agreement or disagreement. The rating was on a scale from 1 (lowest impact or least important) to 5 (highest impact or most important).

The questionnaire was structured in two main sections. Section I captured the profile of the respondent banks whereas section II captured information on pertinent issues touching on retail banking practices as per objectives of the study.

3.5 Research Procedures

The questionnaire was pre-tested on five randomly selected respondents to enhance effectiveness and hence data validity. Since all the commercial banks have their head office in Nairobi, the researcher administered the questionnaires by hand delivery. A letter of introduction, which stated the purpose of the study, was attached to each questionnaire. In addition, the researcher made telephone calls to the respective respondents to further explain the purpose of the study and set a time frame for the completion of the questionnaires.
Once completed, the researcher personally collected the questionnaires. This gave her the opportunity to conduct clarify certain issues arising from the various responses. In addition, personal interviews were conducted with 6 of the respondents selected at random, aided by an interview schedule. In this case the researcher was able to obtain additional information to corroborate findings from the questionnaire.

3.6 Data Analysis Methods

According to Marshall and Rossman (2003), data analysis is the process of bringing order, structure and interpretation to the mass of collected data. For purposes of the current study, the data were analyzed by employing descriptive statistics such as frequencies, mean scores and standard deviations. Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics help us to simply large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary.

The findings pertaining to the three objectives of the study are presented in form of percentages. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis. For purposes of presentation, frequency tables, charts and bar graphs were used.

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter covers the data analysis, presentation and interpretation. The data used was obtained from the questionnaires distributed to either Branch managers or Retail managers of sampled Commercial banks in Kenya. The general objective of the study was to determine the factors that influence the adoption of retail banking strategies in Kenya.

Twenty one questionnaires were distributed, out of which 18 were returned completed (86% response rate). The high response rate could be attributed to the researcher's good relationship with the respondents, who made a follow up of every questionnaire sent out. The information is presented and discussed as per the objectives and research questions of the study.

4.2 Demographic Data

4.2.1 Respondent Banks

The respondents were asked to indicate their respective banks. The question was meant to establish the banks that actually participated in the study. The 18 banks responded are shown in Appendix III.

4.2.2 Period of Operation in Kenya

The respondents were asked to indicate the time period which their respective banks had been in operation in

Kenya. The longer a bank operated in a given environment, the more experience it had in as far as environmental forces are concerned and the higher the ability to respond appropriately. The findings indicate that out of the 18 respondents, 14 of the banks had been in operation in Kenya for at least 16 years while 4 of them had operated in Kenya for between 6 and 10 years. Further probing revealed that some of the banks recorded to have operated in Kenya for between 6 and 10 years had actually been in operation for longer periods of time but had changed names as a result of mergers and acquisitions.

It can thus be concluded that the respondent banks had been in operation in Kenya for a long period of time and as such, their responses would be objective. The responses are summarized and presented in table 4.1 below.

Table 4.1: Period of Operation in Kenya

Period of Operation in Kenya	Distribution	
	Frequency	Percentage
Less than 1 year	0	0
1 to 5 years	0	0
6 to 10 years	4	22
11 to 15 years	0	0
16 years and above	14	78
Total	**18**	**100**

4.2.3 Bank Ownership

The respondents were asked to indicate ownership of their respective banks. The responses are summarized and presented in table 4.2 below.

Table 4.2: Bank Ownership

Bank ownership	Distribution	
	Frequency	Percentage
Predominantly local (51% or more)	7	39
Predominantly foreign (51% or more)	7	39
Balanced between foreign and local (50/50)	4	22
Total	**18**	**100**

The banking sector is controlled almost equally by foreign and local banks, with each having 39% of the banks in the sector, with only 22% being taken up by banks that are co-owned by both foreign and local investors.

4.2.4 Products and Services offered by Commercial Banks

The respondents were asked to list products and services offered by their respective banks in Kenya. The researcher sought to establish the extent to which the products were differentiated. The listing of the products and services were found to be similar across banks, though bearing different names and differentiated on basis of the features. These are summarized and presented in table 4.3 below.

Table 4.3: Products and Services offered by Commercial Banks

Category of products and services	Actual products and services
Personal banking	Savings accounts
	Loans
	Investments
	Convenience services
Business Banking	Savings accounts
	Current accounts
	Treasury management
	Commercial loans
Mortgage	Retail
	Wholesale
N=18	

4.2.5 Number of Full Time Employees

The researcher sought to determine the size of the banks by establishing the number of full time employees. The higher the number, considering that all commercial banks are now automated, the more the operations and hence the bigger the size of the bank. The responses are summarized and presented in table 4.3 below.

Table 4.4: Number of Full Time Employees

Number of full time employees	Distribution	
	Frequency	Percentage
Less than 25	0	0
26 to 50	2	11
51 to 75	4	22
76 to 100	5	28
101 and above	7	39
Total	**18**	**100**

The findings show that majority of the commercial banks in Kenya are relatively large in size, employing more than 75 people (12 out of 18 banks).

4.2.6 Period Respondent worked in Current Organization

The respondents were asked to indicate the period of time they had worked in their current organizations. The longer one worked in an organization, the more conversant they became with the strategies and operations of the organization, hence the more objective the responses were expected to be. The responses are summarized and presented in table 4.5 below

Table 4.5: Period Respondent worked in Current Organization

Period Respondent worked in Current Organization	Distribution	
	Frequency	Percentage
Less than 1 year	1	6
1 to 5 years	2	11
6 to 10 years	4	22
11 to 15 years	6	33
16 years and above	5	28
Total	**18**	**100**

The findings indicate that majority of the respondents (11 out of 18) had worked in their current organizations for a period exceeding 10 years. It can be concluded that the respondents had worked in their respective banks for a period long enough to understand operations of the banks. Their responses would thus be objective.

4.2.7 Current Position

The researcher sought to determine the position of the respondent (either branch manager or retail manager). The responses indicate that 13 (72%) of the respondents were branch managers while 5 (28%) of the respondents were retail managers. The findings indicate that the researcher managed to reach the target respondents.

4.2.8 Number of Branches

The number of branches a bank has is a pointer to the size of the bank and area of coverage in the country. The wider the branch network, the wider the area of coverage. The responses are summarized and presented in terms of numbers and percentages in table 4.6 below.

Table 4.6: Number of Branches

Number of Branches	Distribution	
	Frequency	Percentage
Less than 5	8	8
Between 5 and 10	4	22
Between 11 and 20	3	17
20 and above	3	17
Total	**18**	**100**

The findings indicate that majority of the banks (12 out of 18) had 10 branches or less countrywide. The findings also show that most foreign owned banks have less than five branches countrywide. The banks with the largest networks are locally owned.

4.2.9 Market Segment served by the Banks

The responses show that whereas only two of the banks catered for the Business market only, the rest (16) served both Personal and Business market segments. None of the banks catered for only the personal market. The findings are presented in table 4.7 below.

Table 4.7: Market Segment served by the Banks

Market Segment served by the Banks	Distribution	
	Frequency	Percentage
Business Market Segment only	2	11
Personal Market Segment only	0	0
Both Business and Personal Market Segments	16	89
Total	**18**	**100**

4.3 Extent of Adoption of Retail Banking Practices

The respondents were asked to indicate the extent to which their respective banks had undertaken listed activities in pursuit of the adoption of retail banking using a scale of 1-5. The responses are summarized and presented in table 4.8 below in absolute numbers. Where: To no extent = (1); To a small extent = (2); To some Extent = (3); To a large extent =
(4); To a very large extent = (5).

Table 4.8: Extent of Adoption of Retail Banking Practices

Activity undertaken	1	2	3	4	5
Branch network both rural and urban	9	1	2	2	4
Modified products to maintain clients	3	3	4	2	6
Introduced new products for individuals	5	4	2	2	5
Have a customer care help desk/centre	1	4	5	2	6
Have a customer care officer	1	4	5	2	6
Effective of queue management practice	0	5	3	4	6
Have spacious banking halls	5	6	3	2	2
Have a personal banker in the branch	6	4	1	2	5
N=18					

The findings depict that various activities were adopted by the various commercial banks in pursuit of retail banking strategies. The activities are listed below in terms of strength in level of adoption by the banks along the five point scale (To some extent; To a large extent; and To a very large extent). Have a customer care help desk/centre, indicated by 13 out of 18 respondents; Have a customer care officer, indicated by 13 out of 18 respondents ; Effective of queue management practice, indicated by 13 out of 18 respondents; Modified products to maintain clients, indicated by 12 out of 18 respondents; Introduced new products for individuals, indicated by 9 out of 18 respondents; Branch network both rural and urban, indicated by 8 out of 18 respondents; Have a personal banker in the branch, indicated by 8 out of 18 respondents; and Have spacious banking halls, indicated by 7 out of 18 respondents.

Table 4.9: Extent of Adoption of Retail Banking Practices

Activity undertaken	Mean scores	Standard deviations
Branch network both rural and urban	1.605	3.209
Modified products to maintain clients	0.759	1.517
Introduced new products for individuals	0.759	1.517
Have a customer care help desk/centre	1.037	2.074
Have a customer care officer	1.037	2.074
Effective of queue management practice	1.151	2.302
Have spacious banking halls	0.909	1.817
Have a personal banker in the branch	1.037	2.074
N=18		

The findings presented in table 4.9 indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the responses “Modified products to maintain clients” and “Introduced new products for individuals” scored a mean score of 0.759, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the left, were recorded with regards to “Branch network both rural and urban”

4.3.1 Retail Banking Strategies Adopted

In order to establish the extent to which Commercial banks had adopted some of the retail banking strategies in order to satisfy the customers in terms of ease of accessibility to their accounts, the respondents were asked to indicate the extent to which their respective banks had adopted the various listed strategies in order to make accessing accounts more convenient to retail customers; using a scale of 1-5. The findings are summarized and presented in table 4.10 below. ***Where:*** To no extent = (1); To a small extent = (2); To some Extent = (3); To a large extent = (4); To a very large extent = (5).

Table 4.10: Retail Banking Strategies Adopted

Activity undertaken	1	2	3	4	5
Have ATM's on- site	1	1	2	6	8
Have off-site ATM's	1	2	4	5	6
Offer debit cards	6	4	2	3	3
Offer credit cards	7	3	1	4	3
Offer access to account on internet	7	5	2	2	2
Access to accounts through cell phone	6	3	2	4	3
N=18					

The findings depict that various activities were adopted by the various commercial banks in order to enable retail customers to access their accounts more conveniently. The activities are listed below in terms of strength in level of adoption by the banks along the five point scale. The responses are summarized in terms of (To some extent; To a large extent; and To a very large extent) as shown below.

Have ATM's on- site, indicated by 16 out of 18 respondents; Have off-site ATMs, , indicated by 15 out of 18 respondents; Access to accounts through cell phone, indicated by 9 out of 18 respondents; Offer debit cards, indicated by 8 out of 18 respondents; Offer credit cards, indicated by 8 out of 18 respondents; and Offer access to account on internet, indicated by 6 out of 18 respondents

Table 4.11: Retail Banking Strategies Adopted

Activity Undertaken	Mean Scores	Standard Deviations
Have ATM's on- site	1.605	3.209
Have off-site ATM's	1.037	2.074
Offer debit cards	0.759	1.517
Offer credit cards	1.046	2.091
Offer access to account on internet	1.151	2.302
Access to accounts through cell phone	0.759	1.517
N=18		

The findings indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the responses "Offer debit cards" and "Access to accounts through cell phone" scored a mean score of 0.759, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, was recorded with regards to "Have ATM's on- site".

4.4 Factors that Influence the Adoption of Retail Banking Strategies

In order to meet the three objectives of the study, the respondents were asked to indicated the extent to which the listed factors, changing customer preferences; Competition; and technological changes had influenced the adoption of the listed retail banking practices in your organization by ticking as appropriate along a five-point scale. The responses are summarized and presented in table 4.12. ***Where:*** Not at all =(1); Neutral = (2); Somehow = (3); Much = (4); Very much = (5).

4.4.1 Changing customer preferences

The responses are summarized and presented in table 4.12.

Table 4.12: Influence of Changing Customer Preferences on Retail Banking Strategies

Influence of customer preferences on adoption of retail banking practices	1	2	3	4	5	Mean Score	Standard Deviation
Product diversification	1	1	3	6	7	1.397	2.793
Market differentiation	0	2	2	8	6	1.643	3.286
Personal selling of bank products	4	2	3	5	4	0.570	1.140
Offering bank products online	6	4	4	2	2	0.837	1.673
Installation of Automated Teller Machines	8	6	2	1	1	1.605	3.209
Increased branch network	6	5	3	2	2	0.909	1.817
Establishment of customer care desks/centers	5	3	2	4	4	0.570	1.140
Effective management of queues in the banking halls	8	3	5	1	1	1.483	2.966
Availability of a personal banker in the branches	1	1	3	7	6	1.397	2.793
Reduction of minimum balances to open and maintain account	0	1	3	5	9	1.789	3.578
N=18							

The findings of the study indicate that customer preferences influenced the adoption of the Listed activities in the following order in terms of strength of influence:

Product diversification, indicated by 16 out of 18 respondents; Market differentiation, indicated by 16 out of 18 respondents; Availability of a personal banker in the branches, indicated by 16 out of 18 respondents;

Personal selling of bank products, indicated by 12 out of 18 respondents; Establishment of customer care desks/centers, indicated by 12 out of 18 respondents; Offering bank products online, indicated by 8 out of 18 respondents; Increased branch network, indicated by 7 out of 18 respondents; Effective management of queues in the banking halls, indicated by 7 out of 18 respondents; and Installation of Automated Teller Machines, indicated by 7 out of 18.

The findings indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the responses "personal selling of bank products" and "Establishment of customer care desks/centers" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Reduction of minimum balances to open and maintain account"

4.4.2 Influence of Competition on Adoption of Retail Banking Practices

The findings of the study indicate that competition influenced the adoption of the listed activities in the following order in terms of strength of influence:

Product diversification**,** indicated by 15 out of 18 respondents; Market differentiation**,** indicated by 15 out of 18 respondents; Increased branch network, indicated by 15 out of 18 respondents; Reduction of minimum balances to open and maintain account**,** indicated by 15 out of 18 respondents **;** Establishment of customer care desks/centers**,** indicated by 14 out of 18 respondents**;** Effective management of queues in the banking halls, indicated by 13 out of 18 respondents**;** Installation of Automated Teller Machines, indicated by 13 out of 18 respondents**;** Personal selling of bank products, indicated by 12 out of 18 respondents; and Offering bank products online, indicated by 12 out of 18 respondents. The responses are summarized and presented in table 4.13. ***Where:*** Not at all =(1); Neutral = (2); Somehow = (3); Much = (4); Very much = (5).

Table 4.13 Influence of Competition on Adoption of Retail Banking Practices

Influence of competition on adoption of retail banking practices	1	2	3	4	5	Mean Score	Standard Deviation
Product diversification	2	1	4	5	6	1.037	2.074
Market differentiation	1	2	6	4	5	1.033	2.066
Personal selling of bank products	2	3	3	5	4	0.570	1.140
Offering bank products online	3	3	5	4	3	0.447	0.894
Installation of Automated Teller Machines	3	2	3	6	4	0.804	1.607
Increased branch network	2	1	2	6	7	1.351	2.702
Establishment of customer care desks/centers	2	2	4	5	5	1.033	2.066
Effective management of queues in the banking halls	2	3	3	5	5	0.671	1.342
Availability of a personal banker in the branches	2	2	2	8	4	0.994	1.987
Reduction of minimum balances to open and maintain account	1	2	3	7	5	1.012	2.023
N=18							

The findings indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response "personal selling of bank products" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Increased branch network"

4.4.3 Influence of Technological Changes on Adoption of Retail Banking Practices

The findings indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response "Product diversification" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Offering bank products online". The responses are summarized and presented in table 4.14. ***Where:*** Not at all =(1); Neutral = (2); Somehow = (3); Much = (4); Very much = (5).

Table 4.14 Influence of Technological Changes on Adoption of Retail Banking Practices

Influence of Technological changes on adoption of retail banking practices	1	2	3	4	5	Mean Score	Standard Deviation
Product diversification	3	2	4	5	4	0.570	1.140
Market differentiation	5	2	2	5	4	0.759	1.517
Personal selling of bank products	8	5	3	1	1	1.483	2.966
Offering bank products online	0	0	2	7	9	2.080	4.159
Installation of Automated Teller Machines	0	1	2	5	8	1.636	3.271
Increased branch network	2	2	3	5	4	0.652	1.304
Establishment of customer care desks/centers	9	5	3	1	0	1.789	3.578
Effective management of queues in the banking halls	6	3	3	4	2	1.759	3.517
Availability of a personal banker in the branches	8	4	6	0	0	1.789	3.578
Reduction of minimum balances to open and maintain account	9	6	3	0	0	1.956	3.912
N=18							

The findings of the study indicate that Technological changes influenced the adoption of the listed activities in the following order in terms of strength of influence:- Offering bank products online, indicated by all the 18 respondents; Installation of Automated Teller Machines, indicated by 15 out of 18 respondents; Product diversification, indicated by 14 out of 18 respondents; Increased branch network, indicated by 12 out of 18 respondents; Market differentiation, indicated by 11 out of 18 respondents; Effective management of queues in the banking halls, indicated by 11 out of 18 respondents; Availability of a personal banker in the branches, indicated by 6 out of 18 respondents; Personal selling of bank products, indicated by 4 out of 18 respondents; Establishment of customer care desks/centers, indicated by 4 out of 18 respondents; and Reduction of minimum balances to open and maintain account, indicated by 4 out of 18 respondents

4.5 Summary of the Major Findings

The findings of the study indicated that customer preferences influenced the adoption of retail banking strategies. Specifically, customer preferences influenced adoption of the following practices, in order of strength:- (i) Reduction of minimum balances to open and maintain account, indicated by 17 out of 18 respondents; (ii) Product diversification, indicated by 16 out of 18 respondents; (iii) Market differentiation, indicated by 16 out of 18 respondents; and (v) Availability of a personal banker in the branches, indicated by 16 out of 18 respondents. Ranked the least was "Installation of Automated Teller Machines", as indicated by 7 out of 18.

The findings further indicated that the responses from the various banks were diverse across the five point scale. In terms of distribution, the responses "personal selling of bank products" and "Establishment of customer care desks/centers" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Reduction of minimum balances to open and maintain account"

The findings of the study also indicated that competition influenced the adoption of retail banking strategies. Specifically, competition influenced adoption of the following practices, in order of strength: - (i) Product diversification; (ii) Market differentiation; (iii) Increased branch network; and (iv) Reduction of minimum balances to open and maintain account**,** as indicated by 15 out of 18 respondents**.** The least ranked activities were "Personal selling of bank products" and "Offering bank products online", as indicated by 12 out of 18 respondents. The findings further indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response "personal selling of bank products" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Increased branch network"

The findings of the study also indicated that Technological changes influenced the adoption of retail banking strategies. Specifically, Technological changes influenced adoption of the following practices, in order of strength: (i) Offering bank products online, as indicated by all the 18 respondents; (ii) Installation of Automated Teller Machines, as indicated by 15 out of 18 respondents; and Product diversification, as indicated by 14 out of 18 respondents. The least ranked activities were (i) Establishment of customer care desks/centers; and (ii) Reduction of minimum balances to open and maintain account, as indicated by 4 out of 18 respondents

The findings further indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response "Product diversification" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to "Offering bank products online".

Chapter five presents the discussion, conclusions and recommendations.

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of important elements of the study, including the purpose of the study, specific objectives, methodology and major findings of the study. The chapter also presents the discussion and conclusions drawn from the research findings. The chapter further presents recommendations for practice and for further studies.

5.2 Summary

The purpose of the study was to determine the factors that influence the adoption of retail banking strategies in Kenya. The specific objectives of the study were:- (i) To determine the influence of different customer preferences on adoption of retail banking strategies; (ii) To establish the influence of competition on adoption of retail banking strategies; and (iii) To determine the influence of technology on adoption of retail banking strategies

A case study was used to undertake the current research. The study was meant to take an in-depth approach and as such, the case study would be appropriate. The population of interest in this study was all commercial banks in Kenya. According to the Central Bank of Kenya report as at 31st December 2010, there were 42 commercial banks in Kenya. A representative sample of 21 commercial banks, representing about 50% of the whole population was selected at random, which is within the limits of the generally accepted statistical condition. A two- stage stratified random sampling technique was employed to select the banks for the study. Desk study was undertaken, in which a review of the relevant literature was carried out. In addition, primary data was collected with the aid of a semi-structured questionnaire. Since all the commercial banks have their head office in Nairobi, the researcher administered the questionnaires by hand delivery. Once completed, the researcher personally collected the questionnaires. In addition, personal interviews were conducted with 6 of the respondents selected at random, aided by an interview schedule. In this case the researcher was able to obtain additional information to corroborate findings from the questionnaire. For purposes of the current study, the data was analyzed by employing descriptive statistics such as percentages, frequencies and tables.

The findings of the study indicated that customer preferences influenced the adoption of retail banking strategies. Specifically, customer preferences influenced adoption of the following practices, in order of strength:- Reduction of minimum balances to open and maintain account, indicated by 17 out of 18 respondents; Product diversification, indicated by 16 out of 18 respondents; Market differentiation, indicated by 16 out of 18 respondents; and Availability of a personal banker in the branches, indicated by 16 out of 18 respondents. Ranked the least was “Installation of Automated Teller Machines”, as indicated by 7 out of 18

The findings further indicated that the responses from the various banks were diverse across the five point scale. In terms of distribution, the responses “personal selling of bank products” and “Establishment of customer care desks/centers” scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to “Reduction of minimum balances to open and maintain account”

The findings of the study indicate that competition influenced the adoption of retail banking strategies. Specifically, competition influenced adoption of the following practices, in order of strength: - product diversification; market differentiation; increased branch network; and reduction of minimum balances to open and maintain account**,** as indicated by 15 out of 18 respondents**.** The least ranked activities were “Personal selling of bank products” and “Offering bank products online”, as indicated by 12 out of 18 respondents.

The findings further indicated that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response “personal selling of bank products” scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to “Increased branch network”

The findings of the study indicated that Technological changes influenced the adoption of retail banking strategies. Specifically, Technological changes influenced adoption of the following practices, in order of strength: offering bank products online, as indicated by all the 18 respondents; installation of Automated Teller Machines, as indicated by 15 out of 18 respondents; and product diversification, as indicated by 14 out of 18 respondents. The least ranked activities were the establishment of customer care desks/centers; and the reduction of minimum balances to open and maintain account, as indicated by 4 out of 18 respondents

The findings further indicated that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response “Product diversification” scored a mean score of 0.570, indicating an almost even distribution of responses across the scale. The widest dispersion of responses, skewed to the right, were recorded with regards to “Offering bank products online”

5.3 Discussions

5.3.1 The influence of customer preferences on adoption of Retail Banking Strategies

The findings of the study indicate that customer preferences influenced the adoption of the listed activities in the following order in terms of strength of influence:-

The reduction of minimum balances to open and maintain account was sited by 17 out of 18 respondents. According to Eaglesham (2005), the great fall of interest rates along with the offering of new, more flexible and attractive products has led to an increase in demand relating to retail banking products. Thus, most of today's banking institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

In the paper of W. Boyd et al. (2004), the results of the study reveal that reputation, interest charged on loans, and interest on savings accounts are viewed as having more importance than other criteria such as friendliness of employees, modern facilities, and drive-in-service. Hence the support for the lowest costs possible to open and maintain accounts

Product diversification was sited by 16 out of 18 respondents. Banks in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu and Whinston, 2004).

Changes in customer behavior have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients. The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction (Meidan, 2005).

Talaga and Buch (2003) explore the process by which the consumers choose among financial institutions for obtaining the right services. Their study control for interest rates, and look at five variables: number of points, additional fees, reputation of lender, type of loan and term in years of loan.

According to Kaufman and Mote (2004), Banking institutions, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of bank clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products.

Market differentiation was sited by 16 out of 18 respondents. Machauer and Morgner (2005) prefer segmentation by expected benefits and attitudes could enhance a bank's ability to address the conflict between individual service and cost-saving standardization. Using cluster analysis, segments were formed based on combinations of customer ratings for different attitudinal dimensions and benefits of bank services.

Availability of a personal banker in the branches was sited by indicated by 16 out of 18 respondents. Devlin (2004) investigates the relative importance of choice criteria according to consumers and also analyses differences in the importance of choice criteria with respect to a number of demographic and related factors. The study shows that choosing a home loan institution on the basis of professional advice is the most frequently cited choice criterion, closely followed by interest rates. Differences in the importance of choice criteria with respect to gender, class, household income, educational attainment, ethnicity and financial maturity are apparent.

5.3.2 Influence of Competition on adoption of retail banking practices

The findings of the study indicate that competition influenced the adoption of the listed activities in the following order in terms of strength of influence:-

Product diversification was sited by 15 out of 18 respondents. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers (Petruzzellis, D'Uggento and Romanazzi, 2006).

Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences (Morgan and Wyman, 2004).

Moreover, the bank attributes such as perceived convenience, service quality and price (Bhatnagar and Ratchford, 2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 2003). Hence, the importance of a bank attribute for the choice decision might vary for different situations and customers. Market differentiation was sited by 15 out of 18 respondents. The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new "product", Eastlick and Liu (2004), which is its adoption, depends on the value the "product" can provide to a customer. Such a value is identified by: the "product" service quality, Montoya-Weiss et al. (2003), the convenience it offered, Black et al. (2004); Devlin and Yeung (2003), the risk involved in conducting transactions through the "product" Black et al. (2004); Grewal, Levy, and Marshall (2004); Reardon and McCorkle (2004), and the costs of conducting business through it (Devlin, 2004; Fader, Hardie and Lee, 2003).

Increased branch network was sited by 15 out of 18 respondents. The extreme competition and saturation in the financial markets and the growing demand of products and services through new media, such as the Internet and mobile phone, have forced banks to quickly respond to the new changes and challenges with new and different business models (Methlie and Nysveen, 2003; Jun and Cai, 2001; Bradley and Stewart, 2003). Establishment of customer care desks/centers was sited by 14 out of 18 respondents**.** Customer satisfaction has long been regarded as a "proxy" for firm success since it is inextricably linked to customer loyalty and retention. Several authors i.e Bloemer and Lemmink (2003); Bloemer and Kasper (2003); Sharma and Patterson (2004), highlighted however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Fournier and Mick, 2003).

Installation of Automated Teller Machines was sited by 13 out of 18 respondents**.** Banks have now the opportunity to capitalize on the beneficial characteristics of the various products and channels, for example while electronic channels help to reduce the costs of interaction with the customer by substituting labor intensive operations with automated sales processes, Campbell (2003), the interactivity of a face to face consultation provides various cross-sell opportunities (Clemons et al., 2003).

Personal selling of bank products was sited by 12 out of 18 respondents. The findings indicate that the responses from the various banks were diverse across the five point scale. In terms of distribution, the response "personal selling of bank products" scored a mean score of 0.570, indicating an almost even distribution of responses across the scale.

In the service industry, a long term relationship with customers according to Grönroos (2003) and Berry (2004), is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the bank.

5.3.3 Influence of Technological changes on adoption of retail banking practices

The findings of the study indicate that Technological changes influenced the adoption of the listed activities in the following order in terms of strength of influence:

Offering bank products online was sited by all the 18 respondents; and Installation of Automated Teller Machines was sited by 15 out of 18 respondents. Since the 1980s, commercial banking has continuously innovated through technology-enhanced products and services, such as multi-function ATM, tele-banking, electronic transfers, and electronic cash cards. Over the past decade, the Internet has clearly played a critical role in providing online services and giving rise to a completely new channel. In the Internet age, the extension of commercial banking to the cyberspace is an inevitable development (Liao and Cheung, 2003). Both researchers and practitioners in the financial sector have highlighted the need for banks to broaden their branch-based delivery channels by embracing technological changes in their approach to retail banking. Stamoulis et al. (2003) asserts that e-banking is essentially a financial innovation that is enabled by creative use of emerging IT and other business forces.

Product diversification was sited by 14 out of 18 respondents. According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want.

Market differentiation was sited by 11 out of 18 respondents. Chesbrough and Rosenbloom (2003) defined business model as a coherent framework that converts the new technologies through markets into business value and identified the six components of a business model: value proposition, market segment, cost structure, profit potential, value network, and competitive advantage.

Sannes (2003) proposed three technical functions of retail banking transaction, customer service, and self-help. Sourthard and Siau (2004) looked at five functions: informational, administrative, transactional, portal, and others. In sum, the essential dimensions of technological knowledge can be classified into three areas: IT-infrastructure, transaction, and service.

In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction (Gilbert et al., 2004; Glynn, 2004). Organizations that do not learn and adapt to changing technology can face painful competition, but integrating technology can require substantial re-thinking of the exact nature of customer relationships (Zineldin, 2003). For high-level financial services, it is frequently difficult to separate technology from the relationship between firms and their customers. Some technology implementations may reduce interaction across the employee – customer interfaces (Quinn, 2005). However, customer satisfaction in many services depends strongly on the service encounter (Jones and Suh, 2005). For technology to enhance competitiveness, it must deliver real value to customers in the service interaction, and customers must like it. Thus, the impact of technology on customer satisfaction in the service interaction is a critical area of research.

The use of information technology in service offering creates unprecedented opportunities for

organizations in the ways they organize their product development, delivery, and marketing via the Internet. While it offers new opportunities to organizations, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu *et al.* 2004, Liao and Cheung 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and Westwood 2004). According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want. Zwass (2003) argues that in order to comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully. Abernathy and Clark’s (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities of the adopting firm. Accordingly, the innovation encompasses a set of aspects: IT, customer, finance, marketing, and strategy. These aspects can be classified into two major domains: technology and business model that underpin an organization’s capabilities (Holland and Westwood 2004, Wu and Hsia 2004).

5.4 Conclusions

5.4.1 Changing Customer Preferences and adoption of retail banking strategies

As competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that banks can create the appropriate marketing strategy. Changes in customer preferences have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today’s demanding clients. The perceived value of the products and services of banks must be proportional to the prices charged while distribution means should be used in order to achieve a high level of satisfaction. The banks, in order to face the challenges of the external environment successfully focus on market-driven products and create and enhance long lasing relationships with their clients.

5.4.2 Competition and adoption of retail banking strategies

Competition has influenced the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. Further, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences. Great attention is paid to all the bank-customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables. The focus for many banks now is on customer retention as a survival strategy rather than attracting new customers through establishment of customer care desks and deployment of personal bankers. There is also the need for banks to develop customer-driven products, involve the customers in the product development process.

5.4.3 Technology and adoption of retail banking strategies

The Internet has clearly played a critical role in providing online services and giving rise to a completely new channel. In the Internet age, the extension of commercial banking to the cyberspace is an inevitable development. The use of information technology in retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet. While the Internet connectivity and related activity continue to be concentrated, free and full-time network access in one form or another is limited (only available in the major towns. However, rural connectivity is practically non-existent, and where it exists, it is offered only via long distance dial-ups to major centers only.

5.5 Recommendations

5.5.1 Recommendations for policy and practice

Changing Customer Preferences and adoption of retail banking strategies: The following measures are recommended:

Adequate investment in Research and Development activities and undertaking of customer satisfaction surveys on a continuous basis; banks should invest in in cost-effective innovations to ensure that products and services are developed and distributed at the lowest possible costs; there is need to involve the customers and prospects in all stages of product development; and there is need for the banks to create and enhance mutual and sustainable relationships with the customers.

Competition and adoption of retail banking strategies: In order for the banks to gain and sustain competitive advantage in the industry, the following measures are recommended:-

There is need to scan to environment on a continuous basis and employ the appropriate strategies so as to remain relevant; the increased competition calls for product and market differentiation and striving to remain the market leader in the chosen markets and for the products adopted; and value addition in products and service offerings. The banks must therefore not only strive to offer the right products; at the right price; at the right time and in the right form, as perceived by the customers, but also do it better than the competition.

Technology and adoption of retail banking strategies: The following measures are recommended:-

The use of appropriate training and strategic use of the technology would enhance security of retail banking procedures; the banking industry players should be aware of and understand the legal issues arising from the adoption of the new technologies; and the technology users should plan and strategize such that technology can integrate smoothly in their work practices, culture, as well as that of their working partners.

5.5.2 Recommended areas of further studies

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: (1) Whereas the current study focused on responses from the management of the commercial banks, future studies should focus on responses from the customers; and (2) Future studies should seek to establish the nature, extent and adoption profile of usage of retail banking strategies in other sectors of the economy in Kenya.

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APPENDIX II: LISTING OF COMMERICIAL BANKS IN KENYA

1.	African Banking Corporation
2.	Akiba Bank
3.	Bank of Baroda
4.	Bank of India, Nairobi
5.	Barclays Bank of Kenya, Nairobi
6.	CFC Bank, Nairobi (listed on NSE)
7.	Charterhouse Bank Ltd, Nairobi
8.	Chase Bank Ltd, Nairobi
9.	Citibank, Nairobi (foreign owned)
10.	City Finance Bank, Nairobi
11.	Co-operative Bank of Kenya, Nairobi
12.	Commercial Bank of Africa
13.	Consolidated Bank of Kenya Ltd, Nairobi
14.	Delphis Bank, Nairobi
15.	Development Bank of Kenya, Nairobi
16.	Diamond Trust Bank, Nairobi
17.	Dubai Bank Kenya Ltd, Nairobi
18.	Equatorial Commercial Bank Ltd, Nairobi
19.	Fidelity Commercial Bank Ltd, Nairobi
20.	Fina Bank Ltd, Nairobi
21.	Giro Commercial Bank Ltd, Nairobi
22.	Guardian Bank, Nairobi
23.	Habib Bank A.G. Zurich, Nairobi (foreign owned)
24.	Habib Bank Ltd, Nairobi (foreign owned)
25.	Housing Finance Co. Ltd, Nairobi
26.	Imperial Bank, Nairobi
27.	Industrial Development Bank, Nairobi
28.	Investment & Mortgages Bank Ltd, Nairobi
29.	K-Rep Bank Ltd, Nairobi
30.	Kenya Commercial Bank Ltd, Nairobi
31.	Middle East Bank, Nairobi
32.	National Bank of Kenya, Nairobi
33.	National Industrial Credit Bank Ltd, Nairobi
34.	Oriental Commercial Bank Ltd, Nairobi
35.	Paramount Universal Bank Ltd, Nairobi
36.	Prime Bank Ltd, Nairobi
37.	Prime Capital and Credit Ltd, Nairobi
38.	Southern Credit Banking Corp. Ltd, Nairobi
39.	Stanbic Bank Kenya Ltd, Nairobi
40.	Standard Chartered Bank, Nairobi
41.	Trans-National Bank Ltd, Nairobi
42.	Victoria Commercial Bank Ltd, Nairobi

Source: CBK, 2011

APPENDIX III: COMMERICIAL BANKS THAT PARTICIPATED IN THE STUDY

1.	Akiba Bank
2.	Bank of Baroda
3.	Bank of India, Nairobi
4.	Barclays Bank of Kenya, Nairobi
5.	Citibank, Nairobi (foreign owned)
6.	Co-operative Bank of Kenya, Nairobi
7.	Commercial Bank of Africa
8.	Consolidated Bank of Kenya Ltd, Nairobi
9.	Dubai Bank Kenya Ltd, Nairobi
10.	Habib Bank Ltd, Nairobi (foreign owned)
11.	Housing Finance Co. Ltd, Nairobi
12.	Industrial Development Bank, Nairobi
13.	K-Rep Bank Ltd, Nairobi
14.	Kenya Commercial Bank Ltd, Nairobi
15.	Middle East Bank, Nairobi
16.	National Bank of Kenya, Nairobi
17.	National Industrial Credit Bank Ltd, Nairobi
18.	Standard Chartered Bank, Nairobi

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