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Response to Business Turbulence by Kenya Commercial Bank

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Abstract

Purpose: Understanding the environmental changes in the banking sector and their effect on banking business could help the players in the banking industry develop rational strategies to effectively respond. This study sought to examine the strategic responses to business turbulence by Kenya Commercial Bank. The study was guided by the following specific objectives: to determine the environmental factors that affect the business of Commercial Banks in Kenya; to establish the strategic responses which have been employed by Kenya Commercial Bank to cope with the business turbulence; and to suggest possible response mechanisms that could be used by Kenya Commercial Bank.**Methods:** The survey method was used to collect data. Since the Kenya Commercial Bank branches to be studied are located in Nairobi and its environs, the researcher administered the questionnaires by hand delivery. In addition, the researcher conducted personal interviews with ten randomly selected respondents using a list of open ended questions, aimed at clarifying certain issues that had not been well responded to in the questionnaires. **Analysis:** The data pertaining to profile of respondents was analyzed by employing content analysis while descriptive statistics were used to analyze data pertaining to objectives of the study. The findings pertaining to the three objectives of the study were presented in form of frequency tables, percentages, charts, graphs and mean scores. **Results:** Findings of the study show that the factors that environmental factors causing business turbulence include an unstable political climate, Government regulations liberalization of the financial sector, socio-cultural factors, abrupt and rapid changes in Information and Communication Technology (ICT), competition and changing Customer Preferences. The responses to business turbulence by Kenya Commercial Bank include adoption of product diversification, market differentiation, increased branch network, personal selling, offering products and services online, reduction of premiums costs and related charges.

Keywords: Turbulence, Kenya Commercial Bank,

ABBREVIATIONS

ICT	Information and Communication Technology
IFA	Independent Financial Adviser
IMF	International Monetary Fund
KCB	Kenya Commercial Bank
KUSCO	Kenya Union of Savings Cooperative Societies
SACCOs	Savings and Credit Cooperative Societies
SPSS	Statistical Package for Social Sciences
U.N.	United Nations
US	United States
WTo.	World Trade Organization

1.0 INTRODUCTION

1.1 Background of the Study

Issues related to environmental changes tend to evoke an image of concern for organizations that would wish to be ahead of competition. Yet, with the turbulent business environment in which they have to operate, it is given that the changes have serious economic effects among the general population as well (Wright, 2002). According to Wright, if ignored, the changes in the environment can ultimately compromise a financial institution's profitability, and long-term viability. In general, we can say the changing global context has been characterized by three key trends: globalization increasing inequality and insecurity; complex political emergencies; and continuous call for international co-operation to address these changes, especially by reforming global institutions. According to Glendy (2000), organization's microenvironment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. When compared to a firm's task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment.

The business environment is comprised of a set of relationships between agents or stakeholders in the environment – relationships that are changed by individual decisions taken. These interactions continuously "co-create" the environment. The business environment is changing faster than ever before (Loewen, 2002; Conner, 2003), with such change occurring in two major dimensions, complexity and turbulence (Robbins, 2001)

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Turbulence is defined as dynamism in the environment, involving rapid, unexpected change in the environmental sub-dimensions (Conner, 2003; Vorhies, 2003). A stable environment changes little, but when it does, the change is predictable. In turbulent environments, there are many unexpected changes. Turbulence is the natural state of the world (Benton and Lloyd, 2002). It is caused by changes in, and interaction between, the various environmental factors especially because of advances in technology and the confluence of computer, telecommunications and media industries (McKenna, 2000; Samli, 2001; Iansiti, 2004). The result of this growth in environmental turbulence has been the reduction of orderly competition, an increasing need for information, innovation and quicker cycles of development, and more difficulty in predicting customer, product and service requirements (Achrol, 2001). Thus, decision windows are shorter, risk of obsolescence is greater, long-term control becomes impossible and managers have to learn new ways to operate in turbulent environments (Chakravarthy, 2002). The net result of these changes is an environment that Lynch (2000, p. 46) refers to as “chaotic, fragmented and unpredictable and complex and turbulent”. Although this seems negative, Mavondo (2002) has shown that destabilization in the environment leads to heterogeneity in the business environment, thereby avoiding “me too” strategies and encouraging differentiation.

Complexity is defined as the measure of heterogeneity or diversity in environmental, sub-factors such as customers, suppliers, socio-politics and technology (Lane and Maxfield, 2000; Chae and Hill, 2001; Chakravarthy, 2002). As complexity increases, the ability to understand and use information to plan and predict becomes more difficult (Black and Farias, 2001). As all systems increase in complexity over time (Farrell, 2002), the increasing complexity leads to more change (Conner, 2003). As the system becomes more complex, making sense of it becomes more difficult (Black and Farias, 2001) and adaptation to the changing environment becomes more problematic (Lane and Maxfield, 2000).

Since complex and turbulent environments can be desirable, but since many businesses are uncertain about how to cope with such situations, it makes sense to identify ways to handle such environments. Many believe that identifying a causative link between environmental variables and management action is not possible because of the complexity of variables and the chaotic nature of environments (Windsor, 2004). However, recent research has stressed the inter-relationship between an organization and its environment (Haleblian and Finkelstein, 2003). Firms co-exist and co-evolve with their environments and therefore are able to influence the environment to a greater extent than previously thought (Brooks and Weatherston, 2002). Organizations shape their environments by influencing their industries or collaborating with each other, thereby gaining some control over some part of their environments. The environment is thus not completely determined by external forces, but can also be influenced by the firm (Windsor, 2004).

According to Tedesco (2001), managers face environmental turbulence in terms of the emergence of new proprietary technologies, rapidly changing economic and political trends, changes in societal values, and shifts in consumer demands. Prendergast and Berthon (2000) argued that the trend in environmental conditions in recent years has definitely been towards increasing environmental turbulence. In the business sector, the majority of researchers have argued quite convincingly that all businesses are facing increasingly complex and turbulent environments. Management has a new and challenging responsibility - to closely monitor environmental conditions and to develop and implement effective strategies for dealing with those conditions. Effective adaptation requires that top management be better informed.

The external environment creates problems for organizations because it is a source of uncertainty and constraints. Some organizations are directly affected by only a few environmental factors, while others are affected by a large number of environmental factors. Organizations that have to interact with a large number of environmental factors, over which they have little or no control, face complexity and turbulence (Prendergast and Berthon, 2000). Economic conditions change; interest rates fluctuate; unemployment levels change; consumer preferences change; government regulations are modified; and new technologies are introduced in many industries. All of these changes create turbulence. Firms dealing with turbulent environments must not only constantly monitor changing environmental conditions; they must also try to forecast and predict future conditions and develop strategies to cope. They must respond quickly.

As stated above, change and turbulence means that organizations must gather more information about their environments. More turbulence raises the amount of information that is required to successfully manage. Managerial preference about how to handle turbulence affects decisions about the resources, competences, and organizational structures that will become the underpinning of the firm’s competitive advantage. Information technology is such a resource. The most common line of argument is that top managers in firms confronting high turbulence must rely on large amounts of information-based planning to cope with the changing, unpredictable conditions, while executives in firms facing low turbulence need less organizational planning (Miller and Friensen, 2003), and in fact, spend less time on decision making. As Miller and Friensen argued, “A dynamic environment must be studied more carefully and diligently to afford executives with an adequate degree of mastery” (2003).

In an analysis of how executives approach individual decisions, Glick, Miller, and Huber (2001) concluded that comprehensive analysis is critical in turbulent industries so that changes can be properly classified as transient or nontransient, and action taken appropriately. To conclude, environmental turbulence increases the need not only for more information, but for more organized, comprehensive, accurate and timely information. The first step here is to identify sources of external turbulence: once this is accomplished, the next step is co-ordination of response activities, implementation and control. This involves the flow of information within the organization to facilitate subunit decisions that are consistent with each other and with response objectives. If organizational well-being is contingent on the quality, speed, and appropriateness of information, it seems logical to give the management of this function what it deserves; namely, a position on the top-level management team. Understanding the environmental changes in the banking sector and their effect on banking business could help the players in the banking industry develop rational strategies to effectively respond. This research project will look at both the strategic and operational responses to changes in the business environment in Kenya Commercial Bank.

1.2 Statement of the Problem

According to Krishnan, Ramaswamy, Meyer and Damien (2003), rapidly changing electronic technology has reshaped how consumers interact with their financial institutions. Deregulation has made competition border-less, allowing not only intrastate branching, which has encouraged consolidation, but also entry of foreign financial institutions into the US market (Orlow, Radecki and Wenninger 2004). Most recently, financial liberalization intensified competition not only within banking institutions (i.e. commercial banks, savings and loans, and credit unions) but also with other non-banking financial firms, such as securities and insurance.

A study by Prowse (2003) shows that research on the responses to the turbulent business environment by financial services providers is indeed scarce. This shortage is confirmed by Oman (2004) who holds a view that although the subject of turbulence in the business environment in developed 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). Studies undertaken in Kenya focusing on the responses of financial institutions to the changing business environment include the following:

Warucu (2001) undertook a study aimed at identifying the competitive strategies employed by commercial banks in Kenya in order to gain competitive advantage; Goro (2003) sought to determine the strategic responses employed by commercial banks in Kenya when faced with the threat of substitute products; Musa (2004) sought to establish the responses employed by National bank of Kenya Ltd when faced by changes in the environment ; Omondi (2004) sought to establish the on responses of Savings and Loans (K) Ltd to threats of new entrants; Adoyo (2005) sought to determine the responses to changes in the external environment by Postbank; Muse (2006) undertook a study aimed at determining responses to environmental challenges by Agricultural Finance Corporation; and Ndubi (2006) sought to establish strategic responses by Nairobi Province KUSCO affiliated SACCOs to changing operating environment.

None of the above studies focused on the responses by Kenya Commercial Bank Ltd to changes in the environment. The current study will attempt to bridge the knowledge gap by seeking answers to the following research questions: - (i) What are the environmental factors that affect the business of Commercial Banks in Kenya?; and (ii) What are the strategic responses that have been employed by Kenya Commercial Bank to cope with the turbulent business environment?; and (iii) what are the possible response mechanisms that can be employed by Kenya Commercial Bank?

1.3 Purpose of the Study

The sought to examine the strategic responses to business turbulence by Kenya Commercial Bank.

1.4 Objectives of the Study

The study was guided by the following specific objectives:-

(i) To determine the environmental factors that affect the business of Commercial Banks in Kenya
(ii) To establish the strategic responses which have been employed by Kenya Commercial Bank to cope with the business turbulence.
(iii) To suggest possible response mechanisms that can be used by Kenya Commercial Bank

1.5 Scope of the Study

The study focused on all the Kenya Commercial Bank branches in Nairobi region, whose number stood at 30 as at 30 June 2008 (KCB, 2008). There was one respondent from each branch, the branch manager. The Kenya Commercial Bank branches in Nairobi area were deliberately selected for convenience of data collection. The study took three months, commencing October, 2008 to December, 2008.

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1.6 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.
Complexity: Complexity is defined as the measure of heterogeneity or diversity in environmental, sub-factors such as customers, suppliers, socio-politics and technology (Lane and Maxfield, 2000; Chae and Hill, 2001)
Turbulence: Turbulence is defined as dynamism in the environment, involving rapid, unexpected change in the environmental sub-dimensions (Conner, 2003; Vorhies, 2003).
Innovation: Innovation is the introduction of new ideas, goods, services, and practices which are intended to be useful (though a number of unsuccessful innovations can be found throughout history). (Sage and Rouse, 2003)
Concept of Strategy: Johnson and Scholes (2002) defined strategy as the directions and scope of an organization over a long term, which achieves advantage for the organization through its configuration of the resources within a changing environment, to meet the needs of the markets and fulfill stake holders' expectations.

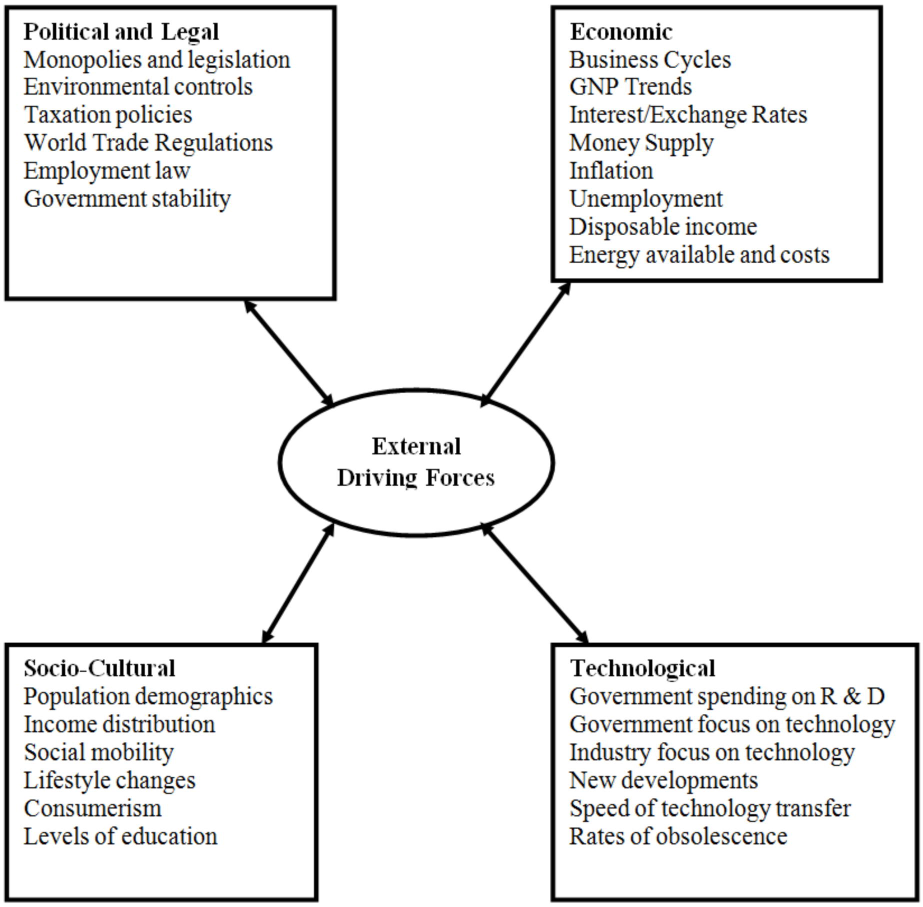
2.0 LITERATURE REVIEW

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 Environmental factors that affect the business of Commercial Banks

This research project will look at the factors that cause turbulence in the business of financial services. The focus of this study is on the factors identified by Orlow *et al.* (2004), namely: competition, technological changes and changes in customer preferences. In addition, the study will discuss the political and economic forces in the environment. PEST Analysis is a strategy framework used to scan the external macro environment in which an organization operates. PEST factors are usually beyond the control of the organization and are considered either threats or opportunities. Sometimes extended forms of analysis are used such as STEEPLE: Social / Demographic, Technological, Economic, Environmental (natural), Political, Legal and Ethical factors. Completing a PEST analysis is relatively simple and can be done in workshops using brainstorming techniques (Diffenbach, 2003). Figure 2.1 below depicts the external forces that impact on operations of organizations.



Source: Diffenbach, (2003). "Corporate Environmental Analysis in Large U.S. Corporations", Long Range Planning 16, No. 3: 109.

2.2.1 Political/legal forces

Decisions made by government affect the operations of business enterprises to a varying degree. The political arena has a huge influence upon the regulation of public and private sector businesses, and the spending power of consumers and other businesses. Political factors include government regulations and legal issues and define both formal and informal rules under which businesses must operate. The Central Government is the major regulator, deregulator, subsidizer, employer and customer of organizations. Political, governmental and legal factors, therefore, represent key opportunities or threats for both small and large organizations. Political forecasts can be the most important part of an external audit. Changes in patent laws antitrust legislation, tax rates and lobbying activities can affect firms significantly The increasing global independence among economies, markets, governments and organizations makes it imperative that firms consider the possible impact of political variables on the formation and implementation of competitive strategies (Fred, 2001).

2.2.2 Economic forces

All businesses are affected by economical factors nationally and globally. Whether an economy is in a boom, recession or recovery will also affect consumer confidence and behavior. Economic factors affect the purchasing power of potential customers, and the state of the internal/external economy in the short and long-term. Business entities may need to consider: economic growth; interest rates; inflation rate; budget allocation; the level of inflation; employment level per capita; and long-term prospects for the economy.

Economic factors have a direct impact on the potential attractiveness of various strategies for example; if interest rates rise then funds needed for diversification may be too costly or unavailable. (Fred, 2001). Fred further argues that as interest rate rise discretionary income declines, and the demand for discretionary goods falls, and stock prices increase in the desirability of equity as a source of capital for market development increases. Social and Cultural changes have a major impact upon virtually all products, services, markets and customers. Small and large profit and non-profit organizations in all industries are being staggered and challenged by the opportunities and threats arising from them changes in social cultural demographic and geographic variables (Fred, 2001).

2.2.3 Socio-cultural forces

Social, cultural, demographic, and geographic changes have a major impact upon virtually all products, services, markets, and customers. Small and large profit and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and geographic variables. The demographic changes, trends in the way people live, work and think and cultural aspects of the macro environment. These factors affect customer needs and the size of potential markets. Although Hofstede's cultural dimensions model has been criticized by relevant literature (Baskerville, 2003; Hofstede, 2001), it is still extensively used. More precisely, Hofstede (2001) initially highlighted four criteria: (i) *Power distance:* (the extent to which society honors the unequal distribution of power between institutions and organizations); (ii) *Uncertainty avoidance:* (the extent to which the members of a culture feel threatened by ambiguous and unknown situations); (iii) *Individualism/collectivism:* (the extent to which society members have loose or close connections, and whether they focus on taking care of themselves or of the extended family or group to which they belong); and (iv) *Masculinity/femininity:* (refers to the way in which emotions may differ according to gender: i.e. in a masculine society, men are supposed to be assertive, tough and focused on material success, while women are expected to value quality of life).

2.2.4 Technological Changes

Deregulation of the banking sector and advances in information technology have made it easier for banks to manage a large number of branch locations and expand services beyond existing geographical boundaries. Many new software applications have improved management capabilities as well as reduced the cost of providing customer services. The use of the internet as a vehicle to provide banking products and services is eliminating geographical limitations (Bradley and Stewart, 2003). Likewise, the pervasive use of “hard information” such as credit reports, income statements, as well as financial data in making lending decisions has greatly simplified the loan approval process (Berger, 2003; Cole *et al.,* 2004). These regulatory changes and technological advancements have generated a wave of mergers, acquisitions, and expansions in the banking sector (Avery and Samolyk, 2004). As a result, the number of banking institutions is decreasing but bank size and the number of branches operated by the remaining institutions is increasing (Petersen and Rajan, 2002).

In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction. 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. 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 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 organizations, the nature of the change and capability barriers that it presents must be understood by the organizations (Southard and Siau, 2004). Without this understanding, attempts to transform organizations may be doomed to failure. Organizations that are equipped with a good grasp of the e-business phenomenon will be more able to make informed decisions on how to transform them into e-companies and to exploit the e-business to survive in the new economy (Southard and Siau 2004). From the resource-based view (Grant 2003), in such a context, the organizations must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the organizations redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

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). Thus, the researcher proposes a two-dimensional model, adopted from Abernathy and Clark, to analyze the e-business innovation as described below.

According to Abernathy and Clark (2004), 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.

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 banking sector needed to collaborate with their customers and other stakeholders. We therefore define the dimensions of the business model, including value proposition, market scope, and 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 *et al*., 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-business is a disruptive innovation that will render the incumbent organizations' established capabilities obsolete. In facing the change, the incumbent banks need to undergo business transformation in order to exploit e-business. To do this, organizations have to change their conventional mindsets and reconfigure their capabilities around the needs of e-business. 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-business. 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 organizations. Based on the proposed innovation model and the core capabilities perspective, a business's ability to exploit the e-business relate to two generic capabilities: technical and business.

2.2.5 Competition

According to Petruzzellis, Uggento and Romanazzi, (2006), 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. Peruzzellis *et al*. (2006) assert that the higher the (perceived) service quality, the more satisfied and loyal the customers.

Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led organizations 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 customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables.

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 organizations 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 and environment. 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 (Burnham *et al*., 2003), 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, 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, F.R Schurr, P.H & Oh, S, 2004) Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship. The extreme competition and saturation in the financial services markets and the growing demand of products and services through new media, such as the Internet and mobile phone (Methlie and Nysveen, 2003; Bradley and Stewart, 2003), have forced organizations to quickly respond to the new changes and challenges with new and different business models.

In the financial services industry, a long term relationship with customers (Grönroos, 2003) 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 insurer.

The extended portfolio does not only offer benefits to customers, but also to organizations. The organizations 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, 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 the convenience it offered, the risk involved in conducting transactions through the "product", and the costs of conducting business through it (Devlin, 2005).

Moreover, the organizational attributes such as perceived convenience, service quality and price, 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 an organizational 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: 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 organization's service in the previous customer's transactions decisions; and A cognitive loyalty, defined as the behavioral intention of using the organization's service in future (Methlie and Nysveen, 2003). The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Organizations 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).

In conclusion, the customer involvement in the production has evolved from servuction (Eiglier and Langeard, 2003) to prosumption (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 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.

2.2.6 Changing Customer Preferences

According to Bonoma (2005), customer needs are one of several powerful forces for change in the demand for, and delivery of financial services. Bonoma further argued that the key developments causing customer needs to change include; changing demographics, changing work patterns, increasing financial assets and liabilities of households, increasing awareness of value, and willingness to adopt technology. According to Peppers and Rogers (2003), changes to consumer lifestyles, improved living standards and the trend towards a diversification of product requirements means that customer demand for products that conform to individual tastes is increasing day by day. One-on-one marketing has emerged as a result and this trend has encouraged the banking industry to turn its attention to the development of a plethora of "individualized services". Among these developments is the use of e-business implementation by the financial services sector to integrate, filter, organize and analyze data collected from policy sales, appraisals, and claim settlements. This further assists personnel to obtain these data on demand for use in satisfying customer requirements and providing individualized services. Organizations operating in the banking industry are faced with working in an environment that is rapidly changing and increasing in its complexity (Bonoma, 2005). New market entrants, changing customer preferences and market erosion across product lines demand creative approaches to product development, and a willingness to keep up with the rapid changes in technology.

Meidan (2005) argued that 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. Orlow *et al.* (2004) asserted that 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. 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.

A study by Clarkson *et al*. (2004), suggests that the characteristics and financial service requirements of consumers vary with age, and that these differences could be used in developing marketing strategies for such services. Clarkson *et al.* (2004) stated that demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers. Even if others 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. Harrison (2005) concludes that 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. 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.

Machauer and Morgner (2005) prefer segmentation by expected benefits and attitudes could enhance an organization's ability to address the conflict between individual service and cost-saving standardization. Machauer and Morgner investigate dhow 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 varies 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. Devlin (2005) 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.

2.3 Strategic responses used to cope with the business turbulence

After identifying and analyzing business risks associated with changes in the business environment, management decides how these risks should be managed. This requires comparing the costs of reducing business risks against the costs of potential loss from risks. Hofer and Schendel (2000) argue that there are four categories of possible responses to business risks - accept, transfer, avoid, and reduce. The first three are passive responses to risk while the last response is active. The four categories may be defined as follows:

(i) ***Accept:*** Accepting a business risk means doing nothing to avoid it. This response is based on a conscious decision that the costs of other responses outweigh the potential benefits or that the risk is acceptable;

(ii) ***Transfer:*** Transferring the business risk to another party alleviates management's responsibility for managing it. Examples of this response are buying bank products and outsourcing;

(iii) ***Avoid:*** Avoiding the business risk is a decision to change a business objective because no other response can reduce the business risks to an acceptable level in a cost-effective manner; and

(iv) ***Reduce:*** Reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact. Management usually establishes an effective control environment to reduce business risks.

As the Miles and Snow model essentially is based on the behavioral patterns of an organization when it responds or adapts to changes in the business environment, a measure of the business environment was incorporated in the research model. A scale developed by Ansoff (1990) was adopted as it has been used in a number of studies that have reported reliable results. Ansoff (1990) defines the degree of changeability of environmental challenges as the level of environmental turbulence. The latter is determined by a combination of numerous factors, which include: Changeability of the market environment; Speed of change Intensity of competition; Fertility of technology; Discrimination by customers; and Pressures from governments and .influence groups. The more turbulent the environment the more aggressive must be the firm's response, but common experience shows that some firms take full advantage of the opportunities offered by turbulence and others lag behind. Ansoff developed a strategic success formula (SSF) that is based on the thesis that to optimize a firm's performance, management must align the firm's strategies and capabilities with the state, or turbulence level of the environment. Their model includes 5 levels of environmental turbulence: (i). repetitive: no change; (ii) expanding: slow incremental change; (iii). Changing: fast incremental change; (iv) discontinuous: discontinuous predictable change; and (v). Surprise: discontinuous unpredictable change. The main elements of the survey are represented in the model below (figure 2.2 below)

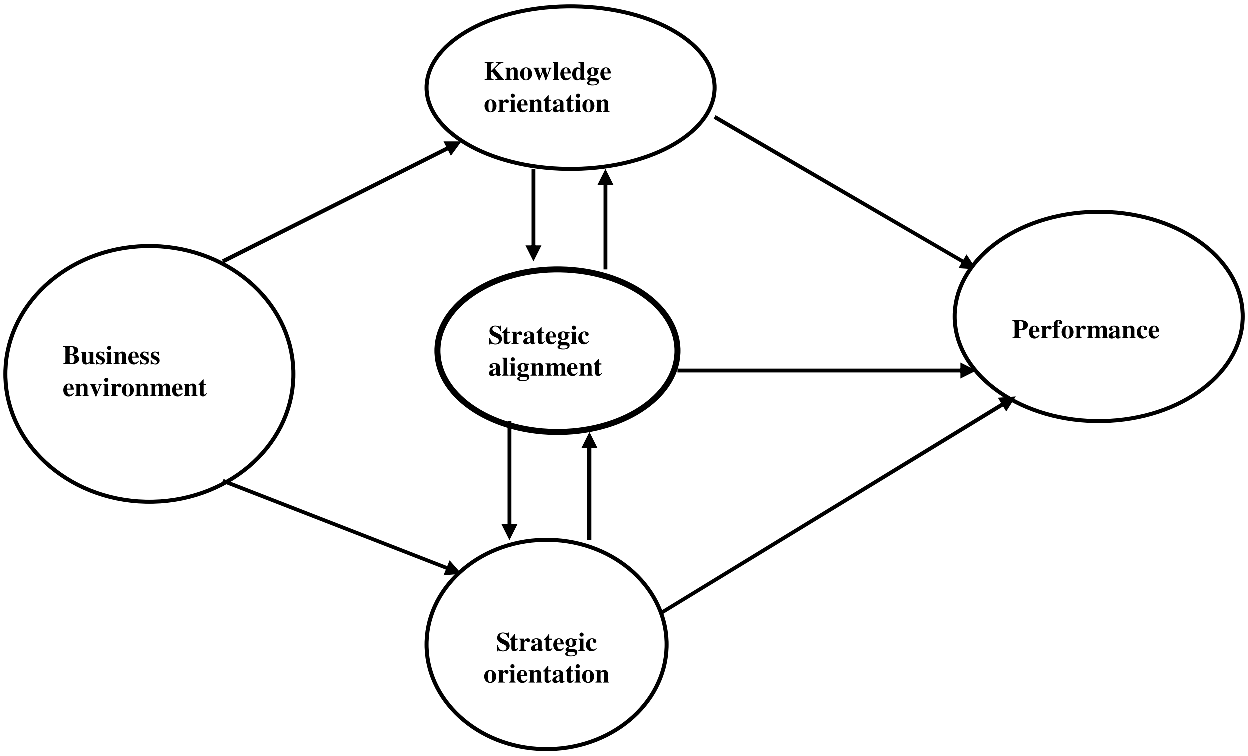


Figure 2.2: Miles & Snow's typology

Source: Miles R E, Snow CC. 1978. *Organizational Strategy, Structure and Process*. McGraw-Hill: New York. P. 69.

If management decides to actively reduce risk, it must develop an effective multilevel control environment. The control environment sets the tone of the organization. It provides (or fails to provide) the discipline and structural foundation for all components of control. The control environment also has a pervasive influence on how an organization sets objectives and structures its business activities. A multilevel control environment consists of three elements: strategic, management, and process controls:

(i) Strategic controls refer to those activities within the strategic management process that help management to understand the effect of external and internal factors on the business and strategy. Strategic controls define the environment of risk and control behavior and align the organization with these strategies;

(ii) Management controls are those activities and elements that must be present in the control system throughout the organization if it is to effectively identify, assess, and react to business risks and attain its objectives. These controls develop from the results of environmental review performed during the strategic planning process; and

(iii) Process controls are the control activities performed at the process, or function, level. They are normally the responsibilities of process, or functional, owners who ensure that the control activities are in place and meet their objectives. Strategic controls and management controls are implemented at the organization level, while process controls must be implemented for each business process. The acquisition, maintenance, and service of research collections are business processes. Management controls represent the link between the strategic level and process level, as well as among the processes themselves. Effective management control drives effective business risk and control management throughout the organization.

Strategic diagnosis identifies whether a firm needs to change its strategic behavior to be sure of success in the future environment. If the diagnosis confirms the need , the next step is to select and execute specific actions which will bring the firm's aggressiveness and responses in line with the future environment (Ansoff,1990). The adaptation starts with a forecast of future growth/profitability in each of the firms' business areas and the factors which will be key to success. The information is used to select the strategic response which will assure the firm's future success. To assure effective implementation, the firm also needs to define the capability which will enable it to initiate and support the new strategy. The planned strategic response and the capability design must next be put into practice. Whenever the gap between the present and desired capability is discontinuous, implementation of change typically encounters organizational resistance. In summary, the conceptual model describes strategic management through 4 closely inter-related activities. (1) Strategic diagnosis which identifies the need for a new strategic response; (2) Strategic planning which determines the future strategic response; (3) organizational design which determines the future strategic response; and change management which implements the response and capability plans. Figure 2.3 below presents a summary of the contingent success formula discussed.

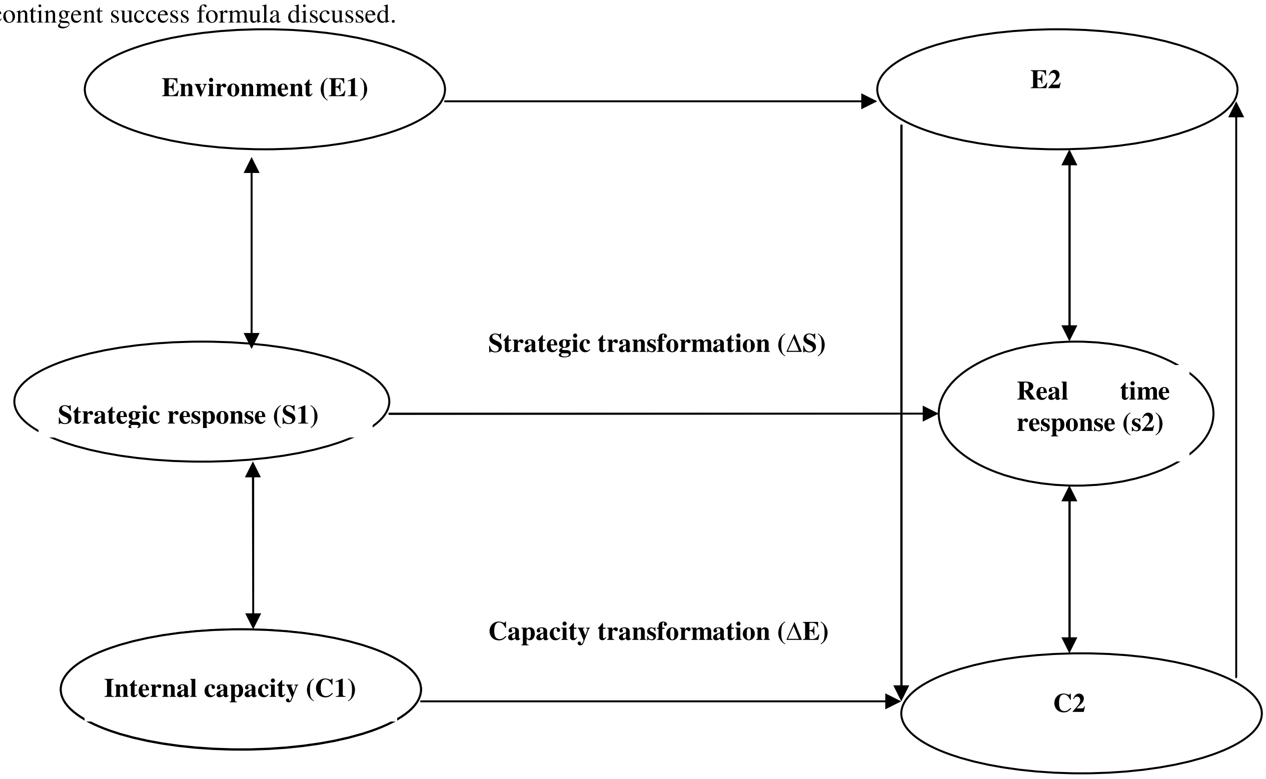


Figure 2.3: Contingent Success Formula – Managing firm's adaptation to environment
Source: Igor Ansoff, Edward McDonnel, 2nd Edition, Prentice Hall, Europe 1990.

E1 – Present state environment
E2 – Future state of the environment
ΔE – Difference in the level of turbulence

Pearce and Robinson (2002) argue that strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organization. Strategic responses are concerned with the long-term strategy of an organization involving high investments and embracing the organization as a whole. Strategic responses are usually on a long-term basis. Their implementation takes over one year and the responsibility lies in corporate and business level management. They are company wide and huge amounts of resources are required to enforce them.

Senior (2001), notes that there are various catalysts for organizational change such as restructuring. These catalysts may include the purchase of new IT equipment or systems, business process intensification/ extensions, redesign of group jobs, staff right sizing and subsequent staff cutbacks as well as redundancies. Ansoff and Mc Donnel (1990) note that strategic responses may take many forms depending on the organization's capability and the environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for the firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology and culture change (Kiptugen, 2003).

Ansoff (1990) proposed four strategies for growth which can be neatly summarized in the matrix below: To portray alternative corporate growth strategies, Ansoff (1990) presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown in figure 2.4 below.

New	Market Development	Diversification
Markets Existing	Market Penetration Existin Products and Services	Product Development New

Figure 2.4: The Ansoff Matrix – Business

Source: Ansoff (1990). Optimizing profitability in turbulent environments: A formula for strategic success for Long Range Planning 26(5): 24

The Matrix essentially shows the risk that a particular strategy will expose you to, the idea being that each time you move into a new quadrant (horizontally or vertically) you increase risk. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, some as the "suicide cell" has referred to this quadrant of the matrix. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

Operational responses are targeted at specific departments in the operational level of management. They do not require a huge amount of resources to implement and they are on a short-term basis (usually less than one year). They guide, monitor and evaluate progress in meeting annual objectives. According to Pearce and Robinson (2002), operational controls provide post action evaluation and control over short periods usually from one month to one year.

Banks, in response to changes in interest rates, which negatively affect their profitability, pass on the additional costs to the clients. In addition, the banks reduce loan sizes when faced with reduction in donor funding. The Banks that had not developed the new product, insurance scheme, stopped lending to clients that were HIV/AIDS positive as their operations were negatively affected (Kiptugen, 2003). The current and potential clients were sensitized on the need to actively participate in income generating activities instead. Cultural beliefs in many communities prohibit women from participating in income generating activities. According to Pearce and Robinson (2002), the banks continuously invested in new ICT by upgrading existing equipment, procuring new equipments and capacity building of their staff. In addition, the clients were sensitized on the need to transact with legally registered Banks.

2.4 Improvements sought by Commercial Banks

There have been significant developments in the structure of the financial services sector in the past 30 years. According to Devlin (2005), until the early 1970s functional demarcation was predominant with many regulator restrictions imposed, one main consequence being limited competition both domestically and internationally. As a result, there was heavy reliance on traditional branch based delivery of financial services and little pressure for change. This changed gradually with deregulation of the industry and the increasingly important role of information technology brought stiffer competition and pressure for quick changes. 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, 2002).

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. Edwards and Franklin, 2002), noted that 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. 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 (2000) 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.

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 Westwood, 2004). The sections below discuss some of the improvements sought by commercial banks in the recent past.

2.4.1 Shift towards Integrated Banking Business

In order to stay competitive and achieve goals and objectives, banks are periodically reevaluating the ways they conduct their business. Most banks strive towards achieving an integrated banking business which is operationally efficient (Pearce and Robinson, 2002). Generally banks aim to achieve strong organic revenue growth, improve customer loyalty, improve productivity, and realize growth in retail market share and corporate banking market share. 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. 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 respond to customer needs appropriately (Bloemer and Kasper, 2003).

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. 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 (Fournier and Mick, 2003). 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. 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. 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 (Orlow *et al,* 2004).

2.4.2 Products Innovations

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 (Stanger, 2004). In recent years, retail banking has become a key area of emphasis in the Kenyan banking industry. The banking sector plays a crucial role of providing a forum in which supplier of funds and demanders of funds can transact business. People and organizations in need of funds are brought together by commercial banks. One of the major changes the business environment is the stiff competition that has forced many banks to pursue ways that enable them to compete favorably in the increasingly turbulent business environment. As observed by McNealy (2003), customer service is the key weapon in the new millennium for any competitive organization.

Changes in customer behavior have 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). 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 retail banking phenomenon will be more able to make informed decisions on how to transform them into e-banks and to exploit the retail banking to survive in the new economy. Given the retail banking is a financial innovation; the change may render the organizational capabilities of the traditional banks obsolete (Liao and Cheung, 2003). From the resource-based view (Grant, 2003; Mahoney and Pandian,2002), 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.

2.4.3 Market Segmentation

The importance of segmentation in the financial institution sector has been well documented. The importance of identifying profitable customer groups is increasing and market segmentation strategies, which recognize the importance of concentrating on the needs of homogeneous groups within a larger heterogeneous market, are receiving greater attention. Stafford (2001), argued that demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers.

Harrison concludes that 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. 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 (Machauer and Morgner, 2005). The clusters generated in this way were superior in their homogeneity and profile to costumer segments gained by referring to demographic differences.

i. Bostic and Canner (2003) 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.
ii. Bostic and Canner test 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.
iii. Fader, Hardie and Lee (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.
iv. 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.

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. 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 (2001), 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.

2.4.4 Adoption of Customer Retention Strategies

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. 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 (Edwards and Franklin, 2002). The services market is becoming ever more competitive, as price competition intensifies and the shifting of loyalty becomes an acceptable practice. Several initiatives have been undertaken to improve retention, including value chain analysis, customer satisfaction and loyalty programmes (Gummerson, 2004).

Edwards and Franklin (2002) argued that 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 (Sharma and Patterson, 2000; Bloemer and Lemmink, 2003; Bloemer and Kasper, 2003) 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 and, as a direct antecedent, leads to commitment in business relationships, thus greatly influencing customer repurchase intention. Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service and environment (Sharma and Patterson, 2000). In fact, in certain conditions, a customer might be less than satisfied with a service supplier, but still continue to deal with it because the costs of leaving are perceived to be too high. Thus, the so called loyalty programmes clearly are an example of programmes designed to weaken switching barriers. 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, Schurr and Oh , 2004). Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship.

3.0 METHODS

3.1 Introduction

This chapter covers a description of the study design, target population, sample design, data collection methods, research procedures and data analysis and presentation.

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. A case study will be used to undertake the current research. Case studies involve collecting empirical data, generally from one or a small number of cases. It usually provides rich detail about those cases, of a predominantly qualitative nature (Yin, 2004). Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

A case study generally aims to provide insight into a particular situation and often stresses the experiences and interpretations of those involved. It may generate new understandings, explanations or hypotheses. However, it does not usually claim representativeness. Therefore, researchers using case studies should be careful not to over-generalize (Ball, 2004).

Case study research excels at bringing researchers to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research (Hamel *et al*, 2003). According to Eisenhardt (2004), case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Social scientists, in particular, have made wide use of this qualitative research method to examine contemporary real-life situations and provide the basis for the application of ideas and extension of methods (Miles and Huberman, 2003).

Many well-known case study researchers such as Stake (2005), Simons (2003) and Yin (2004) have suggested techniques for organizing and conducting the case study research successfully. This case study research draws upon their work and proposes six steps that the should be used are, determine and define the research questions, select the cases and determine data gathering and analysis techniques, prepare to collect the data, collect data in the field, evaluate and analyze the data, and prepare the report. A case of Kenya Commercial Bank was undertaken. The study took a holistic, in-depth approach and as such, the case study will be the most appropriate methodology. According to Feagin *et al* (2004), case study is an ideal methodology when a holistic, in-depth investigation is needed. Case studies are multi-perspective analyses. The researcher considers not just the voice and perspective of the actors, but also of the relevant groups of actors and the interaction between them. This one aspect is a salient point in the characteristic that case studies possess.

However, case studies tend to provide in-depth information about a limited number of subjects, and may produce new insights that generate additional studies. The major challenge expected in using the case study approach is that the researcher is required to have excellent knowledge of the topic when designing questions. The researcher approaches the subjects of study with an inquisitive mind and an openness that permits subjects to respond in an unlimited number of directions. This less structured approach may take the researcher down avenues he did not anticipate traveling and open doors to new kinds of understanding.

3.3 Population and Sampling Design

3.3.1 Population

The population of interest will be Kenya Commercial Bank branches located in Nairobi region, whose number stood at 30 as at June 30th 2008 (Kenya Commercial Bank, June 2008), see Appendix I. The respondents in each of the branches were the Branch manager since they are the people charged with the responsibility of spearheading the strategic marketing direction of their respective branch's business.

3.3.2 Sampling Design

Sampling Frame: A sampling frame is a list from where the population is drawn. For purposes of the current study, the sampling frame list was obtained from Kenya Commercial bank head office in Nairobi. Each of the branches was represented by the branch manager.

Sampling Technique: It would have been desirable to use a census of the whole population of all the Branches of Kenya Commercial Bank in Nairobi region, but owing to such limitations as the distances to be covered to each branch bank, which are spread all over the country, the costs that would be involved in covering them and the given time frame among other reasons, a representative sample of 23 branches located in within Nairobi City and its environs, representing 77% of the whole population was selected using convenience sampling technique, which is within the limits of the generally accepted statistical condition. A convenience sampling design was used to select the branch manager as the respondent from each organization. The branch manager was selected on the assumption that being the person charged with the day running of the branch, besides being charged with charting the strategic business direction of the branch. The branch manager was expected to provide objective information on the changes occasioned by turbulence in the environment and the responses adopted.

Sample Size: The following Nairobi region branches did participate in the study owing to their distances from Nairobi:- Marala, Loitokitok, Mandera, Marsabit, Moyale, Wajir and Hola.

Table 3.1: Sample Distribution

No.	**Location of Branch (Population)**	**Number of Branches (Sample Size)**
1	Nairobi Central Business District and its environs	16
2	Industrial Area	3
3	Kiambu District	3
4	Ongata Rongai	1
Sample Size		**23**

3.4 Data Collection

A structured approach to collecting data will be utilized. Since all the branch managers to participate in the study have their offices located within Nairobi and its environs, they the questionnaires through hand delivery. A letter of introduction, stating 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 from respondents.

3.5 Data Analysis Method

Once all the data is collected, data cleaning was undertaken in order to enhance accuracy. The cleaning exercise ensured that only relevant data was retained for analysis. The data was then be coded to enhance manageability before analysis is undertaken.

According to Marshall and Rossman (1999), data analysis is the process of bringing order, structure and interpretation to the mass of collected data. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher prefered SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. The SPSS was used to generate percentages, frequencies, mean scores and standard deviations.

For purposes of the current study, the data pertaining to the profile of respondents was analyzed by employing content analysis. Content analysis is a research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyze the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts, the writer(s), the audience, and even the culture and time of which these are a part. Texts can be defined broadly as books, book chapters, essays, interviews, discussions, newspaper headlines and articles, historical documents, speeches, conversations, advertising, theater, informal conversation, or really any occurrence of communicative language. To conduct a content analysis on any such text, the text is coded, or broken down, into manageable categories on a variety of levels - word, word sense, phrase, sentence, or theme - and then examined using one of content analysis' basic methods: conceptual analysis or relational analysis.

Computation of frequencies in tables, charts and bar graphs were used in data presentation. In addition, the researcher used standard deviations and mean scores to present information pertaining to the study objectives. The information was presented and discussed as per the objectives and research questions of the study.

4.0 FINDINGS AND DISCUSSION

4.1 Introduction

The current study sought to examine the responses to the turbulence in the business environment by Kenya commercial bank in Kenya. A combination of both quantitative and qualitative techniques was used in data collection. All the 23 questionnaires distributed were returned completed (100%) response rate. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used to analyze data pertaining to the two objectives of the study. Computation of frequencies and percentages, standard deviations and mean scores were used in data presentation. The information is presented and discussed as per the objectives and research objectives of the study.

4.2 Demographic Data

4.2.1 Period of Operation in Kenya

The respondents were asked to indicate the time period which their respective branches had been in operation in Kenya. The longer a branch 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 23 KCB branches that participated in the study, 8 of them had operated in Kenya for less than 1 year, 6 branches had operated for between 1 and 5 years, 2 of the branches had been in operation for between 6 and 10 years, 2 branches had operated for between 11 and 15 years and 5 branches had operated for at least 16 years. It can thus be concluded that the respondent branches 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 figure 4.1 below.

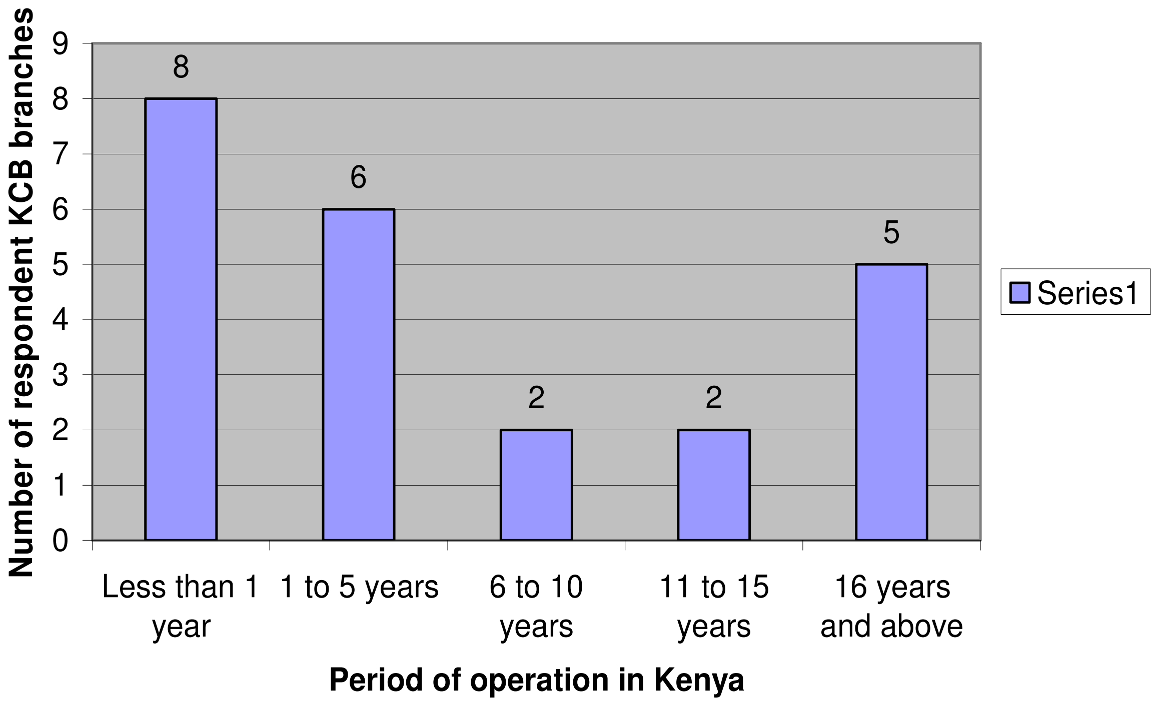


Figure 4.1: Period of Operation in Kenya

4.2.2. Products and Services Offered by KCB branches

The respondents were asked to list products and services offered by their respective branches. 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 the branches. These are summarized and presented in table 4.1 below.

Table 4.1: Products and Services offered by Commercial Banks

Category of products and services	Actual products and services
Personal banking	Savings products - salary account, pillar accounts, penthouse, foundation, cub accounts, student accounts, savings and current accounts, fixed deposit accounts
	Loan products - Investments and Convenience services, salary advance, easy pay loans, current accounts. Loans and overdrafts, SME loans
	Mortgage products - Fixed mortgage, mortgage plus, fluctuating mortgage.
Business Banking	Savings accounts, Current accounts, Treasury management and Commercial loans, Loans, overdrafts, KCB Connect, Treasury bills, bonds and guarantees, loans, credit cards, check off loans, safety deposit boxes, , debit and credit cards, fixed deposit accounts, SME loans
Mortgage	Retail and Wholesale
Other services	Western union money transfer, M-pesa, custodial services, Products – Grace loans, ABF unsecured loans, , AKS Various, fixed deposit, simba, mapato, jiinueA/c's etc

4.2.3 Number of Full Time Employees

The researcher sought to determine the size of the KCB branches in Nairobi by establishing the number of full time employees. The higher the number, considering that all KCB branches in Nairobi are now automated, the more the operations and hence the bigger the size of the branch. The responses are summarized and presented in figure 4.2 below.

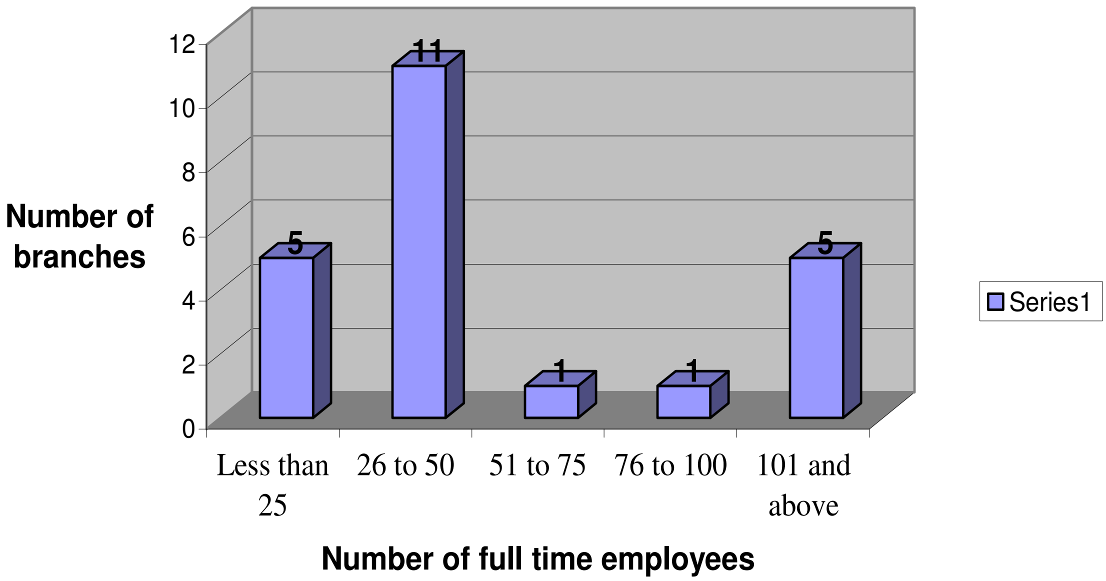


Figure 4.2: Number of Full Time Employees

The findings show that 5 out of the 23 respondent KCB branches had less than 25 full time employees in their establishments. The findings also show that 11 branches had between 26 and 50 employees, 1 branch had between 51 and 75 employees, 1 branch had between 76 and 100 employees and 5 branches had at least 101 employees.

4.3 Turbulence in the business environment

4.3.1 The environmental factors that affect the business of Commercial Banks in Kenya

In order to meet the first objective of the study, "to determine the environmental factors that affect the business of Commercial Banks in Kenya", the respondents were asked to indicate the extent to which listed factors affected operations of their respective branches by ticking as appropriate along a five point scale. The responses are summarized and presented in table 4.2 below.

Table 4.2: Factors affecting operations of KCB branches

Factors affecting operations of KCB branches	Very much	Much	Somehow	Slightly	Not at all	Mean score	Standard deviation
An unstable political climate	9	7	4	2	1	1.680	3.360
Government regulation through restrictions such as restrictive use of the word 'Finance'	1	4	8	7	3	1.440	2.881
Liberalization of the financial sector – interest rates determined by market forces	5	12	5	1	0	1.210	2.408
The increased rate of infection of clients with HIV/AIDS and other terminal diseases	1	5	6	11	0	2.220	4.393
Such cultural factors as women not being empowered to engage in economic activities	1	6	5	5	6	1.040	2.074
Abrupt and rapid changes in Information and Communication Technology (ICT)	13	7	2	1	0	2.860	5.718
Competition from the big banks for your target market	10	7	5	1	0	2.080	4.159
Changing Customer Preferences	9	8	5	1	0	2.020	4.037

Findings of the study show that out of the 23 respondent bank branches, 9 of them indicated that an unstable political climate affected their operations very much, 7 respondents indicated that they were affected "much", 4 respondents indicated that they were somehow affected, 2 respondents indicated that they were slightly affected while 1 respondent indicated, "Not at all".

With respect to Government regulation through restrictions such as restrictive use of the word 'Finance', whereas 1 respondent branch indicated "very much", 4 respondents indicated "much", 8 respondents indicated "somehow", 7 respondents indicated "slightly" and 3 respondents indicated, "Not at all". Whereas 5 respondents indicated that liberalization of the financial sector – interest rates determined by market forces affected their operations very much, 12 respondents indicate "much", 5 respondents indicated "somehow" and 1 respondent indicated "slightly".

Findings of the study also show that the increased rate of infection of clients with HIV/AIDS and other terminal diseases affected operations of 1 of the 23 respondent KCB branches very much, 5 respondents indicated that they were affected "much", 6 respondents indicated that they were somehow affected and 11 respondents indicated that they were slightly affected. Such cultural factors as women not being empowered to engage in economic activities affected operations of KCB branches very much, as indicated by 1 KCB respondent branch, 6 respondents indicated that they were affected "much", 5 respondents indicated that their operations were somehow affected, 5 respondents indicated that they were slightly affected and 6 respondents indicated "Not at all".

With respect to abrupt and rapid changes in Information and Communication Technology (ICT), findings of the study show that whereas 13 respondents indicated that their operations were affected very much, 7 respondents indicated that they were affected "much", 2 respondents indicated that they were somehow affected and 1 respondent indicated having been slightly affected. Findings of the study also show that competition from the big banks for KCB target market had affected operations of KCB branches very much, as indicated by 10 of the respondents, 7 respondents indicated "much", 5 respondents indicated "somehow", while 1 respondent indicated "slightly" affected. Changing customer preferences affected operations of KCB branches very much, as indicated by 9 of the respondent, 8 respondents indicated "much", 5 respondents indicated "somehow" and 1 respondent indicated "slightly".

4.3.2 The strategic responses which have been employed by Kenya Commercial Bank to cope with the turbulent business environment.

In order to meet the second objective of the study, "to establish the strategic responses which have been employed by Kenya Commercial Bank to cope with the turbulent business environment", the respondents were asked to indicate the extent to which they agreed or disagreed with given statements regarding measures their respective branches. The responses are summarized and presented in tables as follows:-

Table 4.3: Political/legal measures undertaken by KCB branches when with turbulence in the business environment

Political/ Legal measures	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
We do not operate in areas affected by conflicts such as ethnic clashes.	2	4	2	3	12	2.110	4.219
We comply with any new Government statutory regulation with ease	8	11	1	2	1	2.308	4.615

Findings in table 4.3 show that in response to political/legal forces, the Kenya Commercial bank branches employ various measures. To the statement "we do not operate in areas affected by conflicts such as ethnic clashes", whereas 12 of the 23 respondents disagreed, 3 of them slightly disagreed, 2 respondents somehow agreed, 4 respondents agreed and 2 respondents strongly agreed.

The findings further indicate that Kenya Commercial bank branches complied with any new Government statutory regulation with ease, as indicated by 8 respondents who strongly agreed, 11 respondents who agreed, 1 respondent who somehow agreed, 2 respondents who slightly agreed and 1 respondent who disagreed.

Table 4.4: Economic measures undertaken by KCB branches when with turbulence in the business environment

Economic measures	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
We adjust our lending rates depending on the changes in the market interest rates.	10	10	1	1	1		4.930
We adjust our loan size depending on the availability of donor funding.	2	3	2	5	11	2.465	3.782

In response to economic forces, 10 of the 23 respondents strongly agreed that their respective branches adjusted their lending rates depending on the changes in the market interest rates, 10 respondents agreed, 1 respondent somehow agreed, 1 respondent slightly agreed and 1 respondent disagreed. The findings also show that in response to the statement, "we adjust our loan size depending on the availability of donor funding", while 11 respondents strongly disagreed, 5 respondents slightly disagreed, 2 respondents somehow agreed, 3 respondents agreed and 2 respondents strongly agreed.

Table 4.5: Socio-cultural measures undertaken by KCB branches when with turbulence in the business environment

Socio-Cultural	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
The increased rate of clients' infection with HIV/AIDS has led to new products development	2	3	5	3	10	1.605	3.210
We do not lend to HIV/AIDS infected clients	0	1	1	1	20	4.10	8.620
Sensitization of communities on behavior change to actively participate in income generating activities	15	3	2	2	1	2.929	5.857

In response to socio-cultural forces, various measures were employed by KCB. The findings show that in response to the statement, "the increased rate of clients' infection with HIV/AIDS has led us to develop new products", while 10 of the 23 respondents disagreed, 3 respondents slightly agreed, 5 respondents somehow agreed, 3 respondents agreed and 2 respondents strongly agreed. The findings also show that in response to the statement, "we do not lend to HIV/AIDS infected clients", many of the respondents (20 out of 23) disagreed, 1 respondent slightly agreed, 1 respondent somehow agreed, and 1 respondent agreed.

The findings also show that the KCB branches sensitized communities on the need to encourage women to actively participate in income generating activities and shift from the restrictive cultural beliefs that women should only handle household tasks. While 15 out of the 23 respondents strongly agreed, 3 respondents agreed, 2 respondents somehow agreed, 2 respondents slightly agreed and 1 respondent disagreed.

Table 4.6: Technological measures undertaken by KCB branches when with turbulence in the business environment

Technological changes	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
Continuous investment in new equipment and upgrading of systems	13	7	2	1	0	3.103	6.205
Continuous staff capacity building to so as to adapt to any changes in the environment	9	10	3	1	0	2.308	4.615

Findings of the study show that in response to technological changes, KCB continuously invest in new equipment and upgrade the systems. While 13 out of the 23 respondents strongly agreed, 7 respondents agreed, 2 respondents somehow agreed, and 1 respondent slightly agreed. To the statement, “we continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment”, while 9 respondents strongly agreed, 10 respondents agreed, 3 respondents somehow agreed, and 1 respondent slightly agreed.

Table 4.7: Competitive measures undertaken by KCB branches when with turbulence in the business environment

Competition	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
Investment in marketing activities - advertising, heavy personal selling, publicity, new product development	17	6	0	0	0	3.702	7.403
Continuous expansion into new markets to remain competitive	18	5	0	0	0	3.899	7.797
Sensitization of clients on the importance of dealing with financial institutions that operate legally so that they avoid exploitation	8	10	3	2	0	2.110	4.219

In response to the competitive environment, Investment in marketing activities - advertising, heavy personal selling, publicity, new product development is one of the measures undertaken by KCB, as indicated by 17 out of the 23 respondents who strongly agreed, and 6 respondents agreed.

In response to the statement, “we continuously look for new markets to expand our reach to remain competitive”, while 18 respondents strongly agreed, the other 5 respondents agreed. The findings also show that KCB branches educated their clients on the importance of dealing with financial institutions that operate legally so that they avoid being exploited by illegal operators. This was confirmed by 8 respondents who strongly agreed, 10 respondents agreed, 3 respondents somehow agreed and 2 respondents slightly agreed.

Table 4.7 continued

Competition	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree	Mean score	Standard deviation
We network and collaborate with other Banks to enjoy synergy instead of looking at them as enemies when there is competition	7	10	3	1	2	1.891	3.782

Further, the findings show that the KCB branches network and collaborate with other banks to enjoy synergy instead of looking at them as enemies when there is competition, as confirmed by 7 respondents who strongly agreed, 10 respondents agreed, 3 respondents slightly agreed and 2 respondents disagreed.

4.3.3 Possible response mechanisms that can be used by commercial banks in Kenya

In order to meet the third objective of the study, “to suggest possible response mechanisms that can be used by commercial banks in Kenya" the respondents were asked to indicate whether their respective branches had adopted listed practices as a result of changing customer preferences, competition and technological changes.

4.3.3.1 Response mechanisms to changing customer preferences

(i) Product diversification

Findings of the study show that as a result of changing customer preferences, all the 23 KCB branches adopted product diversification. Table 4.8 below presents a summary of the responses.

Table 4.8: Responses to Adoption of product diversification

Responses to Adoption of product diversification	Distribution	
	Frequency	Percentage
Yes	23	100
No	0	0
Total	**23**	**100**

When asked to list the new products adopted, the responses were diverse. Multiple responses were allowed. They are summarized and listed in table 4.9 below.

Table 4.9: Products developed in response to changing customer preferences

Products developed	Distribution	
	Frequency	Percentage
Mortgage plus	14	61
Repackaged accounts such as pillar (transaction account) penthouse (long term saving), foundation (house ownership) are all savings accounts	18	79
Advantage banking products such as Jiinue, chama, mapato, Banccassurance, unsecured loan, grace loans, salary advance, Tuungane account, Simba savings, KCB Tuungane, KCB Connect, salary advance and Boresha biashara	23	100
Micro banking products	19	83
S&L Developers club	12	53
KCB Personal loans	13	57
KCB Advantage	15	66
KCB connect, quick pay, e-statement	21	92
Accounts, lending – various sectors are catered for	20	87
N=23		

Findings in table 4.9 show that all the respondents KCB branches adopted the following products: Advantage banking products such as Jiinue, chama, mapato, Banccassurance, unsecured loan, grace loans, salary advance, Tuungane account, Simba savings, KCB Tuungane, KCB Connect, salary advance and Boresha biashara. KCB connect, quick pay, e-statement were adopted by 92% of the respondents.

(ii) Market differentiation

Findings of the study show that as a result of changing customer preferences, 18 out of the 23 KCB branches adopted market differentiation. Figure 4.3 below presents a summary of the responses.

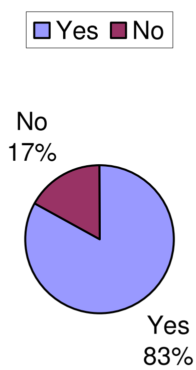


Figure 4.3: Responses to Adoption of market differentiation

The findings show that whereas 83% of the respondents indicated that as a result of changing customer preferences, they had adopted market differentiation while 17% of the respondent banks had not. When asked to indicate the markets being served by their respective branches, the responses were diverse. Multiple responses were allowed. They are summarized and presented in table 4.10 below.

Table 4.10: Markets served by KCB branches

Markets served by KCB branches	Distribution	
	Frequency	Percentage
Mainly urban centers with major towns financing is 90% while other towns 80%	15	66
Advantage banking – this will serve the needy and the upper class in the society	12	53
Youth-institutions of higher learning	18	79
Corporate, SME, Personal, GOK & Quasi GOK, Micro enterprises	18	79
Women grace loans, corporate world and retail customers	19	83
Specialized in women, government organizations	15	66
Business, Corporate and high profile individuals	16	70
Retail & Corporate	15	66
Micro finance / SME	17	74
Employed and unemployed individuals, children, women	18	79
Women in business, investment groups, Muslims, young entrepreneurs etc	18	79
Rwanda, Tanzania, Uganda & south Sudan	15	66
N=23		

(iii) Personal selling

Findings of the study show that as a result of changing customer preferences, all the 23 branches of KCB adopted personal selling. Table 4.12 below presents a summary of the responses.

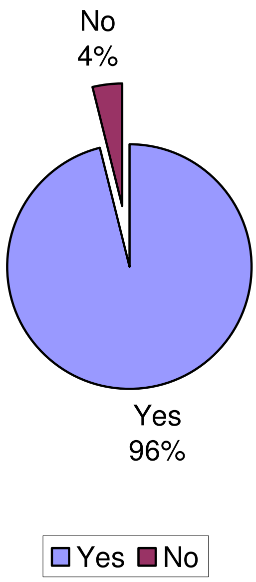


Figure 4.4: Responses to Adoption of Personal selling

The findings show that as a result of changing customer preferences, 96% of the respondent branches adopted personal selling. The respondents were further asked to briefly explain how the personal selling activities are undertaken by their respective branches. Multiple responses were allowed. The responses are summarized and presented in table 4.11.

Table 4.11: Personal selling activities

Personal selling activities	Distribution	
	Frequency	**Percentage**
Engagement of sales representatives, they visit sites of construction, employees, Saccos and the ministries to negotiate terms	18	79
Sales representatives are employed who then collect a database and approach the customer	21	92
Sales teams business bankers & personal bankers meet customers at their offices/ business to sell KCB products	20	87
Speaking to potential customers one on one	18	79
Mainly through open days, road shows & mass activation activities	19	83
Everyone is encouraged to sell the products	20	87
Employing sales representatives	18	79
Through cross selling	16	70
Giving loans to special clients by visiting their offices/organizations	18	79
Personal selling by customers care reps and direct sales reps	19	83
Door to door selling of banking products	21	92
Each member of staff is involved in it as we've formed buddy teams which have targets and each has to participate in order to meet the targets	20	87
Check-offs- parastatals, individuals, micro-credit	21	9
The bank has employed personal, business and micro-credit bankers that target specific individuals and organizations, a direct sales team also offers personal selling	19	83
Road shows and Media advertising – including TV & Radio adverts	20	87
Through direct sales of accounts and loans by sales representatives	19	83

(iii) Offering products online

Findings of the study show that as a result of changing customer preferences, 74% of the 23 KCB braches that participated in the study started offering products online. Figure 4.5 below presents a summary of the responses.

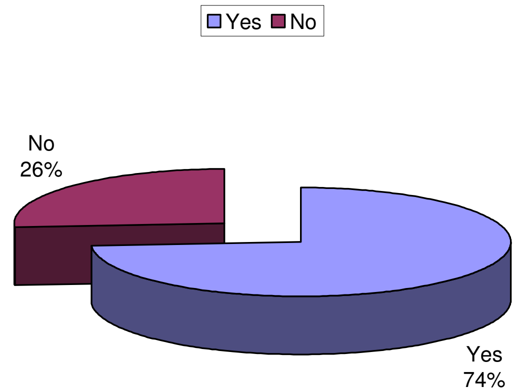


Figure 4.5: Offering of products online

The respondents were further asked to indicate the products they offered online. Multiple responses were allowed. The responses are summarized and presented in table 4.15 below.

Table 4.12: Products offered online

Products offered online	Distribution	
	Frequency	Percentage
Customer statements and balance, instructions to pay issue cheques	19	83
Product information, application forms are accessible online, however this has not been to push customers to the site	21	92
Site not very active but is available for one to open an account	15	66
E-statements, KCB Connect, SMS banking, balance inquiries	20	87
Instructions to pay and issue cheques	18	79
Product information, application forms are accessible online, however this has not been to push customers to the site	21	92
N=23		

(iv) Establishment of customer care desks/centers

Findings of the study show that as a result of changing customer preferences, 21 out of the 23 KCB braches established customer care desks/centers. Table 4.6 below presents a summary of the responses.

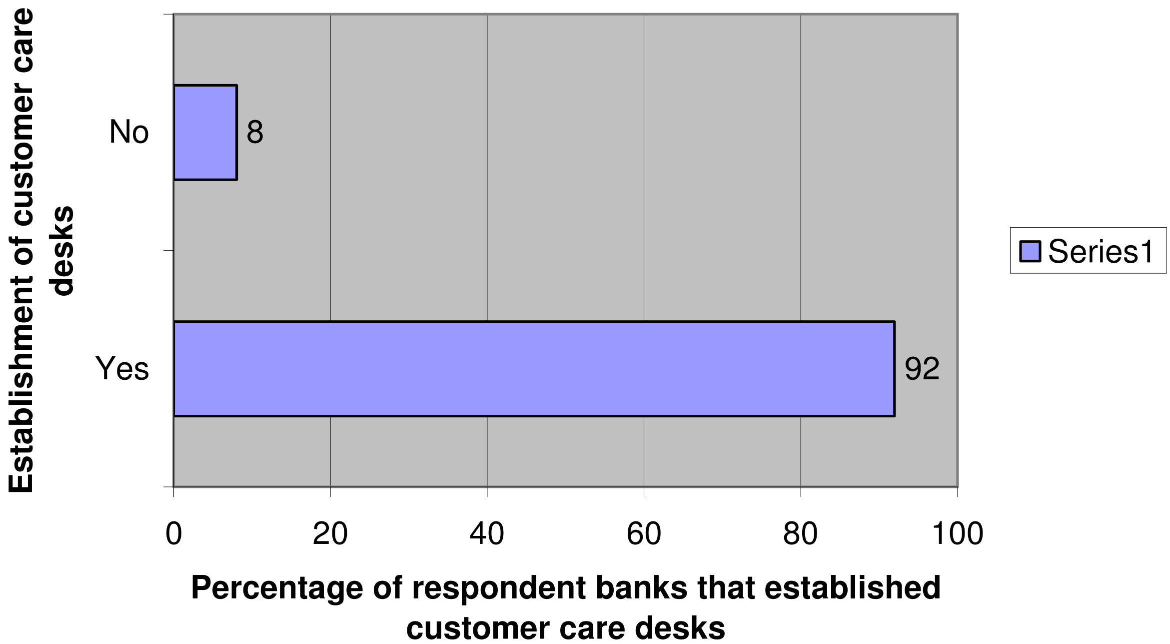


Figure 4.6: Establishment of customer care desks/centers

The respondents were further asked to briefly explain the type of services offered to customers at the customer care desks. The responses are summarized and presented in table 4.13 below.

Table 4.13: Services offered at the customer care desks

Services offered at the customer care desks	Distribution	
	Frequency	Percentage
Account opening, product knowledge of mortgages of savings accounts, guidance in financial management	21	92
Support for all customer queries	20	87
Customers make all enquiries at the desk and anything that cannot be handled there is escalated to me	19	83
Account enquiries of all kind, account opening , FDR's, call A/c's, statements issuance	18	79
Information to customers and referring them to the straight people	18	79
Balance enquiries, printing statements, blocking and warming ATM Cards	19	83
Balances, amendments to accounts, complaints and compliments	21	92
Pin numbers, advice to customers on good products / services	19	83
Request for ATM's cheque books, application forms, account opening,	22	96
Queries, issues statements, balances, cheque books	21	92
Attending to customer queries, Que management	19	83
Project star	12	53
Balances, statements, cheques books	18	79
Attending to all customer enquiries, dispatch of customer statements, receiving customer mails	19	83
Promotion of company products, selling of products and services	20	87
Complaints, queries, money transfer	21	92
N=23		

Findings in table 4.13 show that services offered at the customer care desks include Request for ATM's cheque books, application forms, as indicated by 96% of the respondents; account opening, account opening, product knowledge of mortgages of savings accounts, guidance in financial management, as indicated by 92% of the respondents; complaints, queries, money transfer, as indicated by 92% of the respondents; queries, issues statements, balances and cheque books, as indicated by 92% of the respondents; balances, amendments to accounts, complaints and compliments, as indicated by 92% of the respondents; and promotion of company products, selling of products and services, as indicated by 87% of the respondents.

4.3.3.2 Response mechanisms to competition

(i) Product diversification

Findings of the study show that as a result of competition, at least 20 out of the 23 respondent branches had adopted product diversification. Figure 4.7 below presents a summary of the responses.

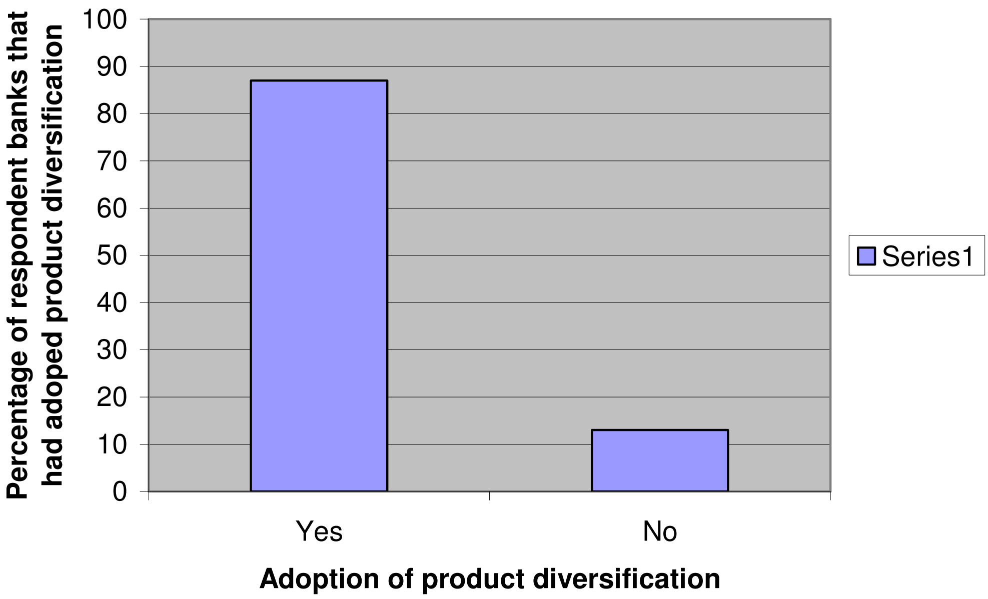


Figure 4.7: Responses to Adoption of product diversification

The respondents were asked to indicate the classification of the new products developed. Multiple responses were allowed. The responses are summarized and presented in table 4.19 below.

Table 4.14: Classification of new products developed

New products developed	Distribution	
	Frequency	Percentage
Pillar for all, foundation for those who wish to take mortgage later, penthouse for long term savers	19	83
Micro banking products such as micro finance lending	18	79
Products tailored to capture mainly, corporate clients, business clients and personal clients	19	83
Grace loans, Boresha accounts, Pre-paid cards, Biashara club, grace loans and advantage banking	20	87
Affordable accounts, unsecured loans	20	87
Accounts targeting high end, low end mass market launched recently, for instance, Jiinue account which are tailored to suit low earners bracket with minimal charges	21	92
ATM Deposits	21	92
Personal and business banking products	19	83
N=23		

Findings in table 4.14 show that the new products developed include Accounts targeting high end, low end mass market launched recently, for instance, Jiinue account which are tailored to suit low earners bracket with minimal charges, as indicated by 92% of the respondents; ATM Deposits, as indicated by 92% of the respondents; Grace loans, Boresha accounts, Pre-paid cards, Biashara club, grace loans and advantage banking, as indicated by 87% of the respondents; and Affordable accounts and unsecured loans, as indicated by 87% of the respondents.

(ii) Personal selling

Findings of the study show that as a result of competition, at least 17 out of the 23 respondent branches had adopted personal selling practices. Figure 4.8 below presents a summary of the responses.

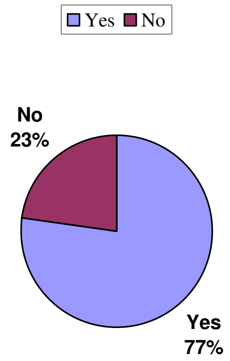


Figure 4.8: KCB branches that adopted personal selling as a result of competition

Further, the respondents were asked to briefly explain the benefits derived from personal selling in their respective branches. The responses are summarized and presented in table 4.15 below.

Table 4.15: Benefits derived from personal selling practices

Benefits derived from personal selling practices	Distribution	
	Frequency	Percentage
Increased sales volumes in accounts opened, loans booked and deposit increase. Customers feel valued as they are visited in their areas of work.	19	83
Give the customer opportunity to enjoy personalized attention/ service/ products	15	65
Face to face service is always preferred, the bank gets to know customers personally, thus bundling customer retention and increased customer service	16	70
Increased personal attachment to customers by bank staff and the staff are able to answer the queries raised immediately	18	78
Increased revenue, more interaction with clients hence more feedback realized	17	74
Assists in internalizing by staff and total ownership of the organization	15	65
Customer loyalty/ retention	20	87
Creates confidence to the customer, enables personal attention to client needs, enables cross selling of other bank products	21	91
Creation of employment	13	57
Bigger profit margins and more product and service awareness	17	74
N=23		

Findings of the study in table 4.15 show that the benefits derived from personal selling practices of the KCB branches include creation of confidence to the customer, enabling personal attention to client needs and enabling cross selling of other bank products, as indicated by 91% of the respondents; customer loyalty/ retention, as indicated by 87% of the respondents; increased sales volumes in accounts opened, loans booked and deposit increase, as indicated by 87% of the respondents; increased sales volumes in accounts opened, loans booked and deposit increase, as indicated by 83% of the respondents; and increased personal attachment to customers by bank staff and the staff are able to answer the queries raised immediately, as indicated by 78% of the respondents.

(iii) Increased branch network

Findings of the study show that as a result of competition, at least 19 out of the 23 respondent branches indicated that KCB had increased the branch network as a result of competition. Figure 4.9 below presents a summary of the responses.

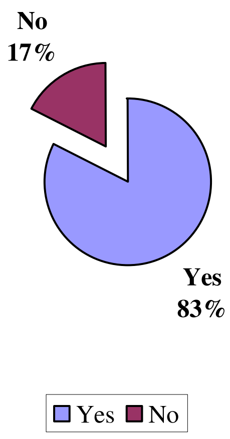


Figure 4.9: Increased branch network

The respondents were further asked to indicate the number of new branches opened by KCB in order to remain competitive. The findings indicate that about 30 new branches were opened countrywide during the year 2008, besides the front office desks/shops in KCB branches such as Moi Avenue, Gateway and Nyeri. Out of the 30 new branches, 9 of them are located in Nairobi. The newly opened branches outside Kenya include Rwanda, Uganda and Burundi.

(iv) Establishment of customer care desks/centers

The respondents were asked to indicate whether competition had influenced the establishment of customer care desks/centers. The findings show that 19 out of the 23 branches had established customer care desks as a result of competition. The responses are summarized and presented in figure 4.10 below.

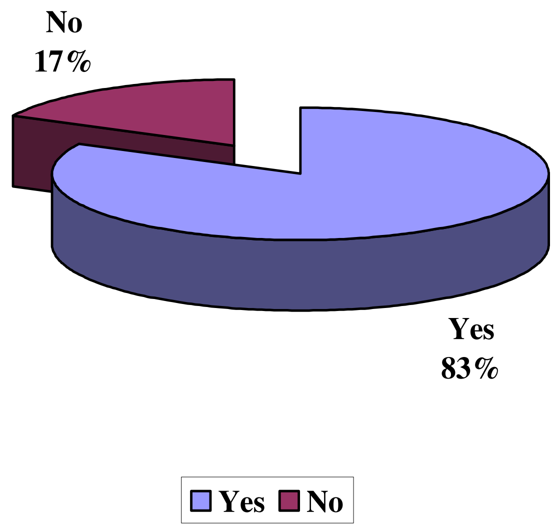


Figure 4.10: KCB branches that established customer care desks as a result of competition.

The respondents were further asked to briefly explain the benefits derived from establishment of customer care desks. The responses are summarized and presented in table 4.16 below.

Table 4.16: Benefits derived from establishment of customer care desks

Benefits derived from establishment of customer care desks	Distribution	
	Frequency	Percentage
Attention accorded to clients faster, personal touch exists, staff know clients better, staff and client can engage and transact	21	91
Ensures that customer issues are sorted out from a central point, customers want a contact point in the branch from where they can channel issues and follow up on the same	19	83
More ccommitment to meet and deal with customer complaints - Prompt resolution of customer queries, customer satisfaction.	20	87
Customers explain their needs and register complaints with the aim of improving services	18	78
Higher volume sales, more feedback from customers and higher customer awareness and hence loyalty	20	87
Customer satisfaction through quick service and close customer attention	18	78
N=23		

Findings in table 4.16 above show that the benefits derived from establishment of customer care desks include the following:

Attention accorded to clients faster, personal touch exists, staff know clients better, staff and client can engage and transact, as indicated by 91% of the respondents; higher volume sales, more feedback from customers and higher customer awareness and hence loyalty, as indicated by 87% of the respondents; More ccommitment to meet and deal with customer complaints - Prompt resolution of customer queries, customer satisfaction, as indicated by 87% of the respondents; Ensures that customer issues are sorted out from a central point, customers want a contact point in the branch from where they can channel issues and follow up on the same, as indicated by 83% of the respondents; Customer satisfaction through quick service and close customer attention, as indicated by 78% of the respondents; and Customers explain their needs and register complaints with the aim of improving services, as indicated by 78% of the respondents.

(v) Reduction of premium costs and related charges

The respondents were asked to indicate whether competition had influenced reduction of premium costs and related charges in their respective branches. The findings show that out of the 23 respondent branches, 16 of them indicated that they had decided to reduce premium costs and related charges to remain competitive. Figure

4.11 presents a summary of the findings.

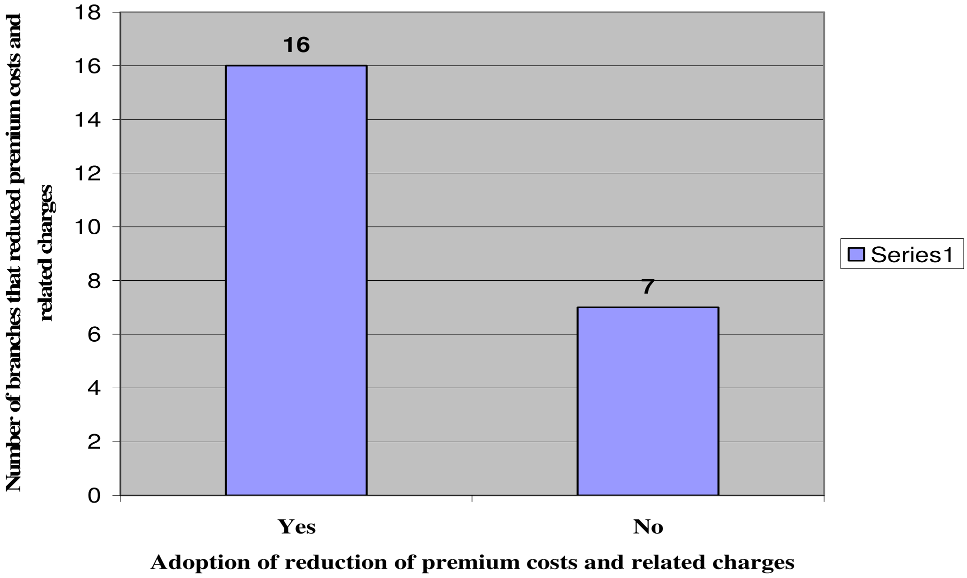


Figure 4.11: Adoption of reduction of premium costs and related charges

The respondents were further asked to briefly explain how the reduction of premium costs and related charges had affected the business of their respective branches. The responses are summarized and presented in table 4.17 below.

Table 4.17: Effect of reduction of premium costs and related charges on the business of KCB

Effect of reduction of premium costs and related charges on the business of KCB	Distribution	
	Frequency	**Percentage**
Commission income reduced but more business since cost has reduced, interest income reduced but more loans booked hence higher interest incomes	21	91
Personal banking – savings accounts are now cheaper therefore revenue from ledger fees, transactions is lower	19	83
Premium rates help in retention of customers who could otherwise exit to competition and allows for acquisition from competition and public at large	20	87
It has enabled the bank to extend its services to the poor and to the government employees who could not afford loans	18	78
Increased income through an increase in client base and customer satisfaction	21	91
Reduced charges and accounts maintenances has increased accessibility to the service offering	19	83
N=23		

Findings in table 4.17 above show that the effect of premium costs and related charges on the business of KCB include the following:

Increased income through an increase in client base and customer satisfaction, as indicated by 91% of the respondents; Commission income reduced but more business since cost has reduced, interest income reduced but more loans booked hence higher interest incomes, as indicated by 91% of the respondents; Premium rates help in retention of customers who could otherwise exit to competition and allows for acquisition from competition and public at large, as indicated by 87% of the respondents; Personal banking – savings accounts are now cheaper therefore revenue from ledger fees, transactions is lower, as indicated by 83% of the respondents; and Reduced charges and accounts maintenances has increased accessibility to the service offering, as indicated by 83% of the respondents.

4.3.3.3 Response mechanisms to technological changes

The respondents were asked to indicate whether their respective branches had adopted product diversification as a result of technological changes. The findings indicate that 18 out of the 23 branches had been influenced by technological changes to adopt product diversification. The responses are summarized and presented in figure 4.12.

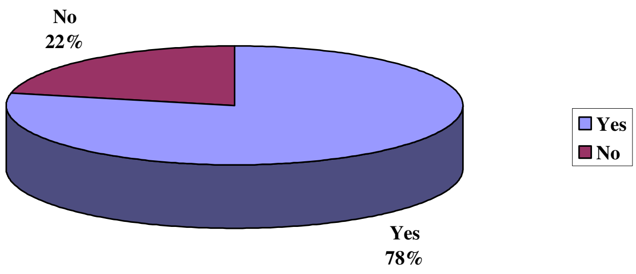


Figure 4.12: Adoption of product diversification

The respondents were further asked to briefly explain the benefits derived from adoption of new products their respective branches. The responses are summarized and presented in table 4.18 below.

Table 4.18: Benefits derived from adoption of new products by KCB

Benefits derived from adoption of new products by KCB	**Distribution**	
	Frequency	**Percentage**
E-banking as new product has led to faster processing (online, real-time)	22	96
Growth in business as product diversification means we can accommodate more customers with diversified needs	19	83
KCB Connect, easy access to account information	18	78
It has increased business and volumes of accounts	20	87
Reduced risks	18	78
Increased customer base	19	83
Partnered with Mpesa hence increased revenues	17	74
Increased income streams, market share and retention of customers	18	78
N=23		

Findings in table 4.18 above show that the benefits derived from adoption of new products by KCB include the following:

E-banking as new product has led to faster processing (online, real-time), as indicated by 96% of the respondents; It has increased business and volumes of accounts, as indicated by 87% of the respondents; Increased customer base, as indicated by 83% of the respondents; Growth in business as product diversification means we can accommodate more customers with diversified needs, as indicated by 83% of the respondents; Increased income streams, market share and retention of customers, as indicated by 78% of the respondents; Reduced risks, as indicated by 78% of the respondents; KCB Connect, easy access to account information, as indicated by 78% of the respondents; and Partnered with Mpesa hence increased revenues, as indicated by 74%.

(ii) Personal selling of products and services

The respondents were asked to indicate whether technological changes had influenced adoption of personal selling practices in their respective branches. The findings show that 16 respondent branches had been influenced by technological changes into adopting personal selling practices. The responses are summarized and presented in figure 4.13 below.

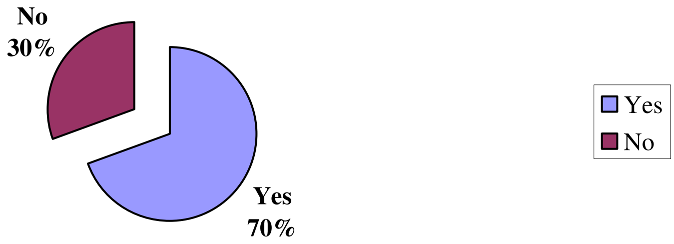


Figure 4.13: Adoption of personal selling of products and services

The respondents were further asked to briefly explain the impact of technological changes on personal selling activities. The responses are summarized and presented in table 4.19 below.

Table 4.19: Impact of technological changes on personal selling activities

Benefits derived from adoption of new products by KCB	**Distribution**	
	Frequency	**Percentage**
Faster processing, more selling activities	23	100
Data bases can be effectively put to use	17	74
With T24, selling of products is easier as one branch banking is a reality	15	62
Efficiency that comes with improved technology cannot be over emphasized	18	78
It has reduced the customers from coming to the baking a lot when they need to know their statements.	22	96
Bigger customer coverage, more sophisticated customer practices	21	91
Faster TAT and better service	16	70
There is more efficient and faster processing of the various transactions	19	83
Customers can do mobile banking and access statements	20	87
N=23		

Findings in table 4.19 above show that the benefits derived from adoption of new products personal selling activities:

Faster processing, more selling activities, as indicated by all the respondents; It has reduced the customers from coming to the baking a lot when they need to know their statements, as indicated by 96% of the respondents; Bigger customer coverage, more sophisticated customer practices, as indicated by 91% of the respondents; Customers can do mobile banking and access statements, as indicated by 87% of the respondents; There is more efficient and faster processing of the various transactions, as indicated by 83% of the respondents; and Efficiency that comes with improved technology cannot be over emphasized, as indicated by 78% of the respondents.

(iii) Offering products and services online

The respondents were asked to indicate whether their respective branches had been influenced by technological changes to offer products ad services online. Findings of the study show that 17 out of the 23 respondents indicated that their respective branches had been influenced by technological changes to start offering products and services online. The responses are presented in figure 4.14 below.

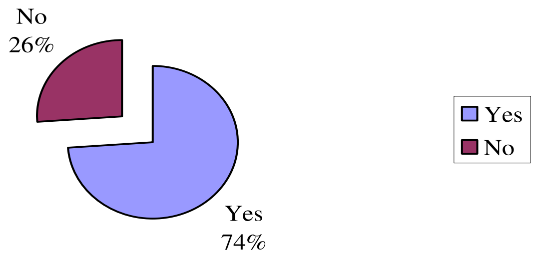


Figure 4.14: Offering of products and services online

The respondents were asked to list and briefly explain how new technologies are applied in products and services offering in their respective branches. The responses are summarized and presented in table 4.20 below.

Table 4.20: Use of new technologies in offering products and services

Use of new technologies in offering products and services	**Distribution**	
	Frequency	**Percentage**
Online banking and KCB Connect has facilitated issuance of statements online via e-statement, balances are online via e-statements, ATMs and mobile banking	20	87
Facilitation of such products as cash back and pay mate have led to faster service delivery, increased efficiency and reduced costs	21	91
Quick pay system, enables salaries to be paid easily	19	83
New technology meets customer needs without coming to the banking hall – online account access, access of accounts through mobile phones and payment of utility bills	20	87
Services are quick and have increased, accessibility of products and services all over the region have been enabled at ease	21	91
Enhanced marketing of bank products online	18	78
N=23		

Findings in table 4.20 above show that the applications of new technologies in offering products and services include the following:

Services are quick and have increased, accessibility of products and services all over the region have been enabled at ease, as indicated by 91% of the respondents; Facilitation of such products as cash back and pay mate have led to faster service delivery, increased efficiency and reduced costs, as indicated by 91% of the respondents; New technology meets customer needs without coming to the banking hall – online account access, access of accounts through mobile phones and payment of utility bills, as indicated by 87% of the respondents; Online banking and KCB Connect has facilitated issuance of statements online via e-statement, balances are online via e-statements, ATMs and mobile banking, as indicated by 87% of the respondents; Quick pay system, enables salaries to be paid easily as indicated by 83% of the respondents; and Enhanced marketing of bank products online, as indicated by 78% of the respondents.

(iv) Increased branch network

The respondents were asked to indicate whether KCB had been influenced by technological changes to increase the branch network. The findings show that 18 respondents indicated that technological changes had influenced increase in branch network. The responses are summarized and presented in figure 4.15 below.

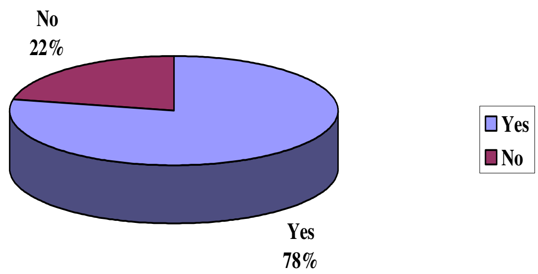


Figure 4.15: Increased branch network

The respondents were further asked to briefly explain how technology is applied on the branch network. Multiple responses were allowed. The responses are summarized and presented in table 4.21 below.

Table 4.21: Use of technology in branch network

Use of technology in branch network	Distribution	
	Frequency	Percentage
All branches transact without discrimination of customers	21	92
One branch bank concept – branchless banking (One bank has become a one branch bank)	19	83
The new technology has allowed for former satellite branches to be stand alone branches	18	79
It has made products more affordable, enabled customers to know the rates if they can afford them	20	87
Focus has shifted to sales instead of lengthy operational processes	15	66
KCB has one branch network hence clients can access services from any branch without inconveniences	22	96
Technology enables us to serve customers from different branches	19	83
Online real time banking	18	79
Introduction of the new banking system has made it easier to do transactions	20	87
Technology has enhanced accessibility to customers. (bringing services closer)	21	92
N=23		

Findings in table 4.21 above show that use of technology in the branch network had resulted into the following:

KCB has one branch network hence clients can access services from any branch without inconveniences, as indicated by 96% of the respondents; All branches transact without discrimination of customers, as indicated by 92% of the respondents; Technology has enhanced accessibility to customers (bringing services closer), as indicated by 92% of the respondents; It has made products more affordable, enabled customers to know the rates if they can afford them, as indicated by 87% of the respondents; Introduction of the new banking system has made it easier to do transactions, as indicated by 87% of the respondents; Technology enables us to serve customers from different branches, as indicated by 83% of the respondents; One branch bank concept – branchless banking (One bank has become a one branch bank), as indicated by 83% of the respondents; Online real time banking, as indicated by 79% of the respondents; and The new technology has allowed for former satellite branches to be stand alone branches, as indicated by 79% of the respondents.

(v) Reduction of premium costs and related charges

The respondents were asked to indicate whether technological changes had influenced reduction of premium costs and related charges. Findings of the study show that 12 out of the 23 respondents indicated that technological changes had influenced the reduction of premium costs and related charges. The responses are summarized and presented in figure 4.16 below.

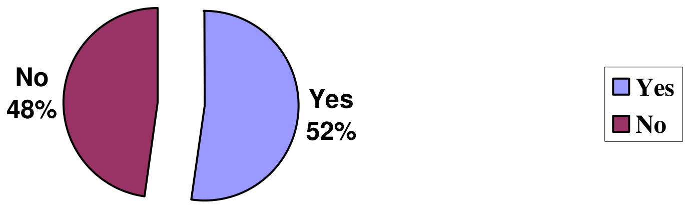


Figure 4.16: Adoption of reduction of premium costs and related charges

The respondents were further asked to indicate how new technologies influence reduction of premium costs and related charges. Multiple responses were allowed. The responses are summarized and presented in table 4.22 below.

Table 4.22: Influence of new technologies on reduction of premium costs and related charges

Influence of new technologies on reduction of premium costs and related charges	**Distribution**	
	Frequency	**Percentage**
Higher volumes of loans and savings deposits hence rise in profits	19	83
There has been a reduction on transfer charges from branch to the other	21	92
New technology has enabled customization of rates which could encompass premium fees	20	87
A customer can access balances at minimal cost through KCB Connect	23	100
Increased customers growth	18	79
Reduced travel costs	19	83
Services are faster / cheaper	23	100
Use of ATM's has reduced withdrawal charges	18	79
The new technology has reduced the use of unnecessary stationary and thus reducing the total cost of opening accounts	21	92
N=23		

Findings in table 4.22 above show that new technologies influenced reduction of premium costs and related charges in the following ways:

A customer can access balances at minimal cost through KCB Connect, as indicated by all the respondents; Services are faster / cheaper, as indicated by all the respondents; The new technology has reduced the use of unnecessary stationary and thus reducing the total cost of opening accounts, as indicated by 92% of the respondents; There has been a reduction on transfer charges from branch to the other, as indicated by 92% of the respondents; New technology has enabled customization of rates which could encompass premium fees, as indicated by 87% of the respondents; Reduced travel costs, as indicated by 83% of the respondents; Use of ATM's has reduced withdrawal charges, as indicated by 79% of the respondents; and Increased customers growth, as indicated 79% of the respondents.

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 Discussions

This section presents discussion of the key findings of the study.

5.2.1 The environmental factors that affects the business of Commercial Banks in Kenya

Findings of the study show that an unstable political climate affected business of KCB branches in Kenya as indicated by at least 22 out of the 23 respondent branches; increased rate of infection of clients with HIV/AIDS and other terminal diseases affected operations of all the respondent KCB branches, as indicated by all the 23 respondents; cultural factors as women not being empowered to engage in economic activities affected operations of 17 out of the 23 respondent KCB branches; and abrupt and rapid changes in Information and Communication Technology (ICT) affected operations of commercial banks, as indicated by 22 out of the 23 respondents.

Competition from the big banks for KCB target market had affected operations of KCB, as indicated by 22 of the 23 respondents. According to Morgan and Wyman (2004), the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led organizations to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences. Changing customer preferences affected operations of KCB branches, as indicated by 22 of the 23 commercial banks. Bonoma (2005) argued that new market entrants, changing customer preferences and market erosion across product lines demand creative approaches to product development, and a willingness to keep up with the rapid changes in technology. According to Meidan (2005), 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. According to Orlow *et al.* (2004), 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. Findings of the study corroborate the factors causing business turbulence, as identified by Orlow *et al.* (2004), namely: competition, technological changes and changes in customer preferences.

5.2.2 The strategic responses which have been employed by Kenya Commercial Bank to cope with the turbulent business environment.

The findings of study show that in response to political/legal forces KCB continued operating in areas affected by conflicts such as ethnic clashes, as indicated by 15 of the 23 respondents; and the bank complied with any new Government statutory regulation with ease, as indicated by at least 20 respondents. According to Hofer and Schendel (2000), accepting a business risk means doing nothing to avoid it. This response is based on a conscious decision that the costs of other responses outweigh the potential benefits or that the risk is acceptable.

The bank also responded to economic forces by adjusting the lending rates depending on the changes in the market interest rates, as indicated by 16 out of the 23 respondents; measures employed in response to socio-cultural forces included development of new products in the wake of increased rate of clients' infection with HIV/AIDS, as indicated by 10 of the 23 respondents; Hofer and Schendel (2000) argued that transferring the business risk to another party alleviates management's responsibility for managing it. In addition, the bank continued lending to HIV/AIDS infected clients, as indicated by 20 out of the 23. Accepting a business risk means doing nothing to avoid it (Hofer and Schendel, 2000). The bank, in response to changes in interest rates, pass on the additional costs to the clients, besides reducing loan sizes when faced with reduction in donor funding. The Banks that had not developed the new product, insurance scheme, stopped lending to clients that were HIV/AIDS positive as their operations were negatively affected (Kiptugen, 2003). According to Hofer and Schendel (2000), reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact. Management usually establishes an effective control environment to reduce business risks. In response to technological changes, KCB branches continuously invest in new equipment and upgrade the systems, as indicated by all the respondents. Senior (2001) noted that there are various catalysts for organizational change such as restructuring. According to Pearce and Robinson (2002), the banks continuously invested in new ICT by upgrading existing equipment, procuring new equipments and capacity building of their staff.

5.2.3 Possible response mechanisms that can be used by commercial banks in Kenya

Response mechanisms to Changing Customer Preferences: Findings of the study show that as a result of changing customer preferences, the bank, as indicated by all the respondents; the bank adopted market differentiation, as indicated by 18 of the 23 respondents; the bank adopted personal selling, as indicated by 22 of the 23 respondents; the bank adopted selling of products online, as indicated by 17 of the 23 respondents; and the bank established customer care desks/centers, as indicated by 21 of the 23 respondents. The types of services offered to customers at the customer care desks include account opening, product knowledge of mortgages of savings accounts, guidance in financial management; support for all customer queries; and balance enquiries, printing statements, blocking and warming ATM Cards.

Response mechanisms to competition: In response to competition, the bank adopted product diversification, as indicated by 20 out of the 23 respondents; the bank adopted personal selling, as indicated by

17 of the 23 respondents; the banks have increased branch network, as indicated by 19 of the 23 respondents; the bank established customer desks, as indicated by 19 of the 23 respondents; and the banks reduced premium costs and related charges, as indicated by 16 respondents. The findings also show that the reduction of premium costs and related charges had affected the business of their respective branches. The effects of reduced premium costs include reduction in interest income, increased retention of customers who could otherwise exit to competition and allows for acquisition from competition and public at large and enabling the bank to extend its services to the poor and to the government employees who could not afford loans.

Response mechanisms to technological changes: In response to technological changes, the bank adopted product diversification, as indicated by 18 of the 23 branches; the bank adopted personal selling, as indicated by 16 of the 23 respondents; the banks started offering products online, as indicated by 17 of the 23 respondents; the bank undertook to increase branch network, as indicated by 18 of the 23 branches; and the bank reduced premium costs and related charges, as indicated by 12 of the 23 respondents. The effect of new technologies on reduction of premium costs and related charges include higher volumes of loans and savings deposits hence rise in profits, a reduction on transfer charges from branch to the other, new technology has enabled customization of rates which could encompass premium fees, a customer can access balances at minimal cost through KCB Connect; and the new technology has reduced the use of unnecessary stationary and thus reducing the total cost of opening accounts.

5.3 Conclusions

This section presents the conclusions to the findings of the study.

5.3.1 The environmental factors that affects the business of Commercial Banks in Kenya

In view of the findings of the study, a scan of the external macro-environment in which the firm operates can be expressed in terms of the following factors: Political, Economic, Social and Technological. The operations of KCB branches in Nairobi were affected by unstable political climate affected business of KCB branches in Kenya, Government regulations, such social factors as restriction of women from engaging in economic activities, abrupt and rapid changes in Information and Communication Technology (ICT), competition from other players in the financial services sector, and changing customer preferences.

5.3.2 The strategic responses which have been employed by Kenya Commercial Bank to cope with the turbulent business environment.

After identifying and analyzing business risks associated with changes in the business environment, management decides how these risks should be managed. This requires comparing the costs of reducing business risks against the costs of potential loss from risks. The strategic responses adopted by the KCB branches may be categorized into four - accept, transfer, avoid, and reduce.

The first three are passive responses to risk while the last response is active. The four categories may be defined as follows: *Accept:* Accepting a business risk means doing nothing to avoid it; *Transfer:* Transferring the business risk to another party alleviates management's responsibility for managing it; *Avoid:* Avoiding the business risk is a decision to change a business objective because no other response can reduce the business risks to an acceptable level in a cost-effective manner; and *Reduce:* Reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact.

In response to the harsh political conditions for instance, KCB branches continued operating in areas affected by conflicts such as ethnic clashes. KCB branches also complied with any new Government statutory regulation with ease, which a way of accepting the business risks. In response to economic forces, KCB branches adjusted their lending rates depending on the changes in the market interest rates. In Addition, loan sizes were not adjusted to reflect availability of donor funding.

In response to the increased rate of clients' infection with HIV/AIDS, KCB developed new products, including insurance services to cover any business risks, which is a way of transferring the business risk to another party, thus alleviating management's responsibility for managing it. KCB also continued lending to HIV/AIDS infected clients as a way of accepting the business risks. KCB also sensitized communities on the need to encourage women to actively participate in income generating activities and shift from the restrictive cultural beliefs that women should only handle household tasks.

In response to technological changes, KCB branches continuously invest in new equipment and upgrade the systems besides continuous investment in staff capacity building. In response to the competitive environment, KCB branches invested in marketing activities - advertising, heavy personal selling, publicity and new product development. So as to remain competitive, KCB sought new markets in order to expand their outreach, including venturing into nontraditional financial product markets such as insurance, broker/dealer, mutual funds, and real estate services.

5.3.3 Possible response mechanisms that can be used by commercial banks in Kenya

Response mechanisms to Changing Customer Preferences: KCB responded to the changing customer preferences by adopting product diversification. The new products developed included the following: Mortgage products and repackaged accounts such as pillar (transaction account) penthouse (long term saving), foundation (house ownership). In addition, KCB branches adopted market differentiation. The markets being served include the following: Mainly urban centers with major towns financing is 90% while other towns 80%; Advantage banking – this will serve the needy and the upper class in the society; Corporate, SME, Personal, GOK & Quasi GOK, Micro enterprises ; and Women in business, investment groups, Muslims, young entrepreneurs.

KCB also responded to changing customer preferences by adopting personal selling practices. The personal selling activities included the following: Engagement of sales representatives, they visit sites of construction, employees, Saccos and the ministries to negotiate terms; sales representatives are employed who then collect a database and approach the customer; and each member of staff is involved in it as we've formed buddy teams which have targets and each has to participate in order to meet the targets. As a result of changing customer preferences, KCB braches started offering products online. The products offered online include the following: Customer statements and balance, instructions to pay issue cheques; product information, application forms are accessible online, however this has not been to push customers to the site; product information, application forms are accessible online, however this has not been to push customers to the site; and instructions to pay and issue cheques. In addition, KCB braches established customer care desks/centers. The types of services offered to customers at the customer care desks include the following: Account opening, product knowledge of mortgages of savings accounts, guidance in financial management; support for all customer queries; and balance enquiries, printing statements, blocking and warming ATM Cards.

Response mechanisms to competition: In response to competition, KCB branches had adopted product diversification. The new products developed include Pillar for all, foundation for those who wish to take mortgage later, penthouse for long term savers; Micro banking products such as micro finance lending; and products tailored to capture mainly, corporate clients, business clients and personal clients. In addition, competition resulted to the adoption of personal selling practices. The benefits derived from personal selling include Increased sales volumes in accounts opened, enhanced customer satisfaction, hence loyalty, and increased revenue, more interaction with clients hence more feedback realized.

Competition also led to increased branch network by KCB, besides establishment of customer care desks. The benefits derived from establishment of customer care desks include the following: Attention accorded to clients faster, personal touch exists, staff know clients better, staff and client can engage and transact; ensuring that customer issues are sorted out from a central point, customers want a contact point in the branch from where they can channel issues and follow up on the same; and more commitment to meet and deal with customer complaints. Competition also led to reduction in premium costs and related charges, which resulted to retention of customers who could otherwise exit to competition and allowed for acquisition from competition and public at large and increased accessibility to the service offering.

Response mechanisms to technological changes: Technological changes influenced the adoption of product diversification. The benefits derived from adoption of new products include the following: E-banking as new product has led to faster processing (online, real-time); Growth in business as product diversification means we can accommodate more customers with diversified needs; KCB Connect, easy access to account information; and it has increased business and volumes of accounts. Personal selling was also adopted. The impact of information technology on personal selling being faster processing, more selling activities; efficiency and effectiveness of data bases and faster processing of the various transactions. In addition KCB started offering products and services online besides increase in branch network. Changing technology has enables all branches to transact without discrimination of customers and made products more affordable.

The effect of new technologies on reduction of premium costs and related charges include the following: Higher volumes of loans and savings deposits hence rise in profits; There has been a reduction on transfer charges from branch to the other; New technology has enabled customization of rates which could encompass premium fees; A customer can access balances at minimal cost through KCB Connect; and The new technology has reduced the use of unnecessary stationary and thus reducing the total cost of opening accounts.

5.4 Recommendations

5.4.1 Recommendation for Improvement

Responses to Changing Customer Preferences: Changes in customer preferences affect decisions related to the development of products and services and the markets to serve by KCB. In view of the findings of the study, the following recommendations are made:

In response to changing customer preferences, KCB should adopt market differentiation strategies, in which specific needs of the various market segments should be identified and addressed accordingly. The companies should, through product diversification, develop products that address the specific needs of the market segments identified. KCB should involve the customers in the product development process to ensure that their needs are addressed adequately, but also invest in research and development activities.

In response to changing customer preferences, it is recommended that KCB adopts personal selling practices. Personal selling will only be effective if adequate investment is made through availability of the necessary resources in terms of personnel, equipment and facilities. The offering of products online is highly advised as it supplements the efforts of the sales force in the it enhances the ability to reach many customers in a short time and is cost effective.

In order to provide more accurate information to the customers and enhance customer care and relations, it is advisable that KCB establishes customer care desks in all branches.

Responses to competition Changing Customer Preferences: Competition affects decisions related to the development of products and services and the markets to serve banks. In view of the findings of the study, the following recommendations are made:

When faced with competition, it is highly recommended that the KCB scans the environment to identify the strengths and weaknesses of the competitors. Adoption of personal selling becomes handy in that a face to face interaction is an effective source of market information. In order to supplement the efforts of the sales force, it is also recommended that customer care desks be established, from where customer complaints and other needs can be adequately addressed. In addition, expansion of branch network would lead to services being taken closer to the customers and an expanded geographical area of coverage.

KCB, in response to competition in the industry, should strive to develop the products and services cost-effectively so as price them competitively. There is also need to undertake market surveys and establish the prevailing market prices for similar products and services. Where need be, KCB may be called upon to reduce premium costs and related charges. In order to spread risks as a result of industry competition, it is advisable that the KCB adopts product diversification.

Responses to Technological changes: Technology not only acts as the channel of interaction and communication among commercial banks, but also changes the way an organization works and practices. When faced with technological changes, it is highly advisable that KCB takes advantage and invest in such technologies as developing websites, from which products and services can be offered online, leading to reduced operational costs. Technology too enhances the effectiveness of the sales force when used as a communication tool.

Since technological changes lead to reduced costs of products and services development, it is advisable that KCB adapts the new technologies in products and service development, which enhances product diversification. As a result of reduced product and service development costs, KCB will be able to reduce premium costs and related charges and remain competitive.

Owing to changes in technology, it is recommended that KCB expands the branch network and interlink them so that the customers can be served from any branch in the same way they would have been served in the head office.

5.5.2 Recommended areas of further research

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:

(i) Whereas the current study focused on responses from the management of KCB branches, future studies should focus on responses from the customers. This will shed light on the kind of responses the customers employ when affected by changes in the business environment; and

(ii) Findings of the study should be replicated to other sectors of the economy. All sectors of the economy are affected by changes in the business environment. It would thus be important to know how they respond.

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APPENDIX I: LIST OF KENYA COMMERCIAL BANK BRANCHES IN NAIROBI

No.	Branch
1	Eastleigh
2	Industrial Area
3	Industrial Area- Mashariki
4	Industrial Area-Gateway
5	Jogoo Road
6	Jogoo Road-Buruburu
7	Kiambu
8	KICC
9	Kikuyu
10	Kipande House
11	Limuru
12	Milimani
13	Milimani-Capital Hill
14	Moi Avenue
15	Moi Avenue-Tom Mboya
16	Ongata Rongai
17	River Road
18	Sarit Centre
19	Sarit Centre-Karen
20	UN Gigiri
21	UN Gigiri-Lokichoggio
22	University Way
23	Village Market

Source: Kenya Commercial Bank, June 30th 2008

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