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Contemporary Strategic Approaches towards Sustainable Competitiveness in the Kenyan Banking Industry

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ABSTRACT

Today's local and global banking industry, like other business sectors is constantly under terrific fluidity occasioned by various factors that not only pose new challenges but also offer unique opportunities to the industry players. Technological developments, heightened customer expectations and increased levels of competition are just but a few among a plurality of factors that have heightened competition in the banking industry. This has compelled the industry players to develop new approaches and strategies as they seek to remain relevant and sustain competitiveness in such a dynamic industry. This paper is a narrative review of some of the current trending strategies adopted by leading banks in Kenya. Literature related to current innovative strategies adopted by Kenyan banks was analyzed from secondary sources, including research publications, and various banks' reports in the last four years. Some of the strategies discussed include; aggressive focus on small and medium-sized enterprises (SMEs) and low income earners; Various forms of diversification; Mobile banking; increased branch network through agency banking and ensuring easy accessibility and affordable banks products. The paper concludes that in order for banks operating in the Kenyan environment to succeed, they must continue to invest in and enhance the identified strategies so as to build and sustain their competitive fronts towards optimal performance. This paper recommends continued search and investment in technologically enabled products that enhance customer convenience and flexibility, diversified financial services, attracting and maintaining of masses through strong branch networks and partnerships as these are fundamental for any bank seeking to hold a strategic position in the Kenyan Banking Industry. Finally, the paper recommends that government and other regulatory bodies should set policies that encourage and reward innovation by commercial banks as this will not only enhance performance of these institutions but will also have a positive impact in the country's social economic development.

Keywords: Kenyan banking industry, diversification strategy, mobile banking

INTRODUCTION

The global business environment is changing at terrific rate propelled by among other factors technological innovation and international competition. The success of any business firm in the current environment is dependent on among other factors the capacity of its management to generate and execute new ideas. Management gurus contend that, in order for a business organization to grow, stay competitive and survive, they have to constantly change their strategies to meet new business demands. One such a topical idea is creativity and innovation to circumvent market imperfections. Ability to innovate therefore is a necessary condition not only to survive but also remain competitive in such a turbulent environment. One of the most affected industries by the current global developments is the banking industry. How have the Kenyans banks responded to these developments? This paper is a narrative review seeking to establish innovative Competitive Strategies adopted by top performing banks in Kenya. According to the central bank of Kenya report 2013, Kenya has a total of 44 banking institutions. Based on their size in terms of asset base, geographical spread and market share, 6 out of the 44 are classified as top six commercial banks. They include: Kenya Commercial Bank Limited (KCB), Equity Bank Limited, Barclays Bank (K) Limited, Standard Chartered (K) Limited, Cooperative Bank of Kenya and CFC Stanbic Bank (K) Limited. This paper focused on these institutions considering they are the main players in the Kenyan banking industry and therefore their significant role to the Kenyan economy.

The Problem

The Kenyan banking industry like other business sectors has for a fairly long time operated in a relatively stable environment. However, today the industry is facing aggressive competition considering Kenya’s high relative ratio of banks to the total population. For example a report by Cytonn investments (2015) shows that there are 43 commercial banks in Kenya serving a country of 44 million people, compared with Nigeria's 22 for 180 million inhabitants and South Africa's 19 for 55 million. This clearly demonstrates a highly competitive industry.

For instance there is a general observation that bank profitability on average has not been impressive. According to statics by central bank of Kenya as cited in Onuonga (2014), in the period 2008-2013, increases in profits before Tax (PBT) in the banking industry was below 20% on average terms. In the year 2013 PBT of the Kenyan commercial banks increased by 16.6% as compared to the year 2012 when PBT increased by 20.6%. In the year 2009, PBT of the Kenyan banks increased by 12.9% as compared to the year 2008 when PBT increased by 13.4%. The year 2010 is the only year that PBT increased by around 52%. Commercial banks in Kenya are realizing that stiff competition within the banking industry necessitates the design of both innovative and competitive strategies to guarantee their performance. This scenario requires research and documentation of relevant literature on various competitive strategies in the banking industry both in Kenya and world over. However, there exists limited amount of research and literature on innovativeness especially in the banking industry in Kenya. This paper therefore, sought to make a contribution by reviewing and documenting some of the innovative strategies adopted by leading banks in Kenya.

METHODOLOGY

This paper is a narrative review article on Current top Competitive strategies adopted by leading banks in Kenya. Literature related to various competitive strategies adopted by Kenyan banks were reviewed and analyzed from secondary sources, including research publications and various reports of commercial banks in Kenya and regulatory bodies.

DISCUSSION OF FINDINGS

Strategies Adopted By Leading Banks in Kenya

Different commercial banks in Kenya have adopted varying strategies in their search to compete and remain relevant in this very competitive industry. While there exists some similarities in some of their strategies, there is also a significant difference in their designs and execution. Each bank tries to emphasize different strategic components or constructs as they seek not only to compete favorably but also to position themselves as market leaders. For example a report by the Cytonn Investments (2015) indicates that the aggregate balance sheet of Kenya’s banking sector grew by 3.4% between Dec 2014 and March 2015. This growth according to the report can be attributed to among other factors; Banks responding to the needs of the Kenyan market for convenience and efficiency through alternative banking channels such as mobile, internet and agency banking, Industry and wide branch network expansion strategy both in Kenya and in the East African community region. other strategies identified and discussed in this paper include; aggressive focus on small and medium-sized enterprises (SMEs) and low income earners; Various forms of diversification; Mobile banking; increased branch network through agency banking and ensuring easy accessibility and affordable bank products.

Aggressive focus on SMEs and Low Income Earners

According to Calice et al. (2012), a critical factor to the development of SMEs, is the access to affordable capital financing thus the significance of banks to this important sector. However, pioneering banks in the Kenyan market targeted large multinational corporations, government establishment and high income earners in society. To a large extent this model excluded SMEs and low income earners who constitute the largest portion of the Kenyan population. However, this trend has drastically changed as banks shift to a more inclusive approach that view this segment as a strategic priority. For instance, according to a survey by FinAcess commissioned by the World Bank (2015), involvement of Kenyan banks in the SME segment is growing, both in terms of size and the diversity of their approaches to the SME client. The report notes that Kenyan banks have invested in new approaches that have been fairly successful in ensuring that the SMEs and low income earners are not left out. For example statistics from the survey show that about 17.4% of total bank lending goes to SMEs in Kenya, compared to only 5% in Nigeria, and 8% in South Africa. These numbers are supported by the innovations strategies in the banking sector that suggest a strong appetite for SMEs and low income earners.

In a survey done by Calice et al. on Bank Financing to SMEs in East Africa, the survey established that a number of factors including the legal and contractual environment constrain banks' engagement with the SMEs. However, banks have developed innovative mechanisms to adapt and rise above these constraints. This survey further wanted to find out the drivers of banks involvement with SMEs and from its finding, 50% of the banks surveyed reported that they were motivated by the profitability from engaging SMEs and small income earners. As a result of this approach that promotes inclusivity, the proportion of adult population using some form of formal financial services has increased from 27.4% in 2006 to 43% in 2009 and stood at 66.7% in 2013 is one of the highest in Africa (Mwega, 2014).

Diversified financial services

Leading commercial banks in Kenya have invested to a great deal in diversification strategy as a response to heightened competition but also as an avenue of expansion and growth. For instance, the central bank supervision report (2012) observes that Kenyan commercial banks are under pressure to survive which has driven them to prolifically diversify in non-traditional intermediation such as investment banking and banc-assurance. Further, in terms of geographical diversification, commercial banks are growing their networks by opening new branches in areas for long considered unprofitable.

It is generally expected that there exists a linear relationship between diversification and organizational performance though sometimes researchers have come to varied conclusions. According to Bael et.al as cited in Mulwa et al. (2015), in banking, diversification is done by combining into a conglomerate such activities as commercial banking, securities trading, insurance and other financial services. Mulwa *et al.* in their research on commercial bank diversification found out that some of the major approaches to diversification by banks include; geographical diversification, international diversification, product diversification, asset diversification, and income diversification.

Mobile Banking

One of the most acclaimed innovations in the Kenyan financial sector in the recent past is the roll out of mobile phone financial services. According to an annual report by Central Bank of Kenya, the adoption and usage of ATM banking in Kenya has been surpassed by mobile banking in the last few years (CBK, 2013). A research by Okiro and Ndungu (2013), on the impact of mobile and internet banking on performance of financial institutions in Kenya, revealed that customer turn out level was high (63.3%) as a result of the use of internet banking. Further, 66.7% of the respondents indicated that internet banking had a positive impact on performance

The rapid growth of mobile money banking services shows its ability to overcome problems of physical access and high relative costs (Spratt, 2013). Mobile banking has introduced alternative channels at financial service provision to conventional banking and has provided clear, quick and convenient platforms to conduct a range of financial transactions. According to Mwega (2014), currently, the four mobile money services (M-PESA, Airtel Money, YuCash and Orange Money) have close to 20 million customers, handling over US$ 54.4 million worth of transactions per day. M-

PESA however remains dominant with 82% of market share, Airtel Money 15%, YuCash 2% and Orange Money 1%.

Increased branch network Through Agency Banking

A banking agent is a retail or postal outlet contracted by a financial institution or a mobile network operator to process client's transactions (Chitelei, 2013). This has been one of the revolutionary innovative strategies by the commercial banks especially in the rural Kenya. According to Mwando (2013), there is a low bank business transaction in rural Kenya partly because of what he describes as the high cost of opening and maintaining bank branches in rural areas which cause commercial banks to shy off from these regions. This position is shared by Spratt (2013) who assert that providing physical access to banks in rural areas is inherently expensive, and therefore extending financial access in such areas tends to be unattractive for commercial banks.

Mwando (2013), in his descriptive survey study on the contribution of Agency banking on financial performance of commercial banks in Kenya established that agency banking strategy has had a positive impact on the performance of commercial banks in Kenya especially by increasing their market share thus greater scale of operational costs that translate to increased profitability. This finding corroborates with that of Wanjiru and Njeru (2014) on the impact of strategic response to change on financial performance of commercial banks in Kenya and this study also established that there exists a correlation between expansive network and bank performance.

Ensuring low transactions cost and Affordable Products

There has been general feeling among Kenyans that the costs of providing basic banking services are often high, and credit is either unavailable or prohibitively expensive. These perception caused the majority of Kenyans to avoid mainstream service providers and instead seek for alternative "banking & credit" services from informal providers. Therefore, one of the major challenges for most commercial banks in Kenya is how to lower the average transactional cost and provide financial access that is both affordable and suited to the needs of majority people (Spratt, 2013). Some of the notable innovative approaches on this front as provided by Oloo (2013) in a banking survey 2013, include; investing in new technology (ATMs, mobile phones, etc) that have reduced the cost of doing business, and the need for human resource requirements; agency banking, with 16,000 agents that are now available to banks at nominal cost; and introduction of credit reference bureau to reduce information asymmetries and risk.

According to a survey by FinAccess Kenya (2015) on Bank Financing of SMEs in Kenya, cost of credit is still a constraint hindering optimal participation of this sector. The survey observes that while there has been positive developments, there is still considerable room for product innovation in the SME finance space for example; factors including limited sharing of positive information about borrowers, inefficiencies in collateral registration, cost of judicial process and high overhead cost. These therefore, require banks to be more innovative on how to reduce the costs and attract more participants from among the SMEs

Conceptual Framework

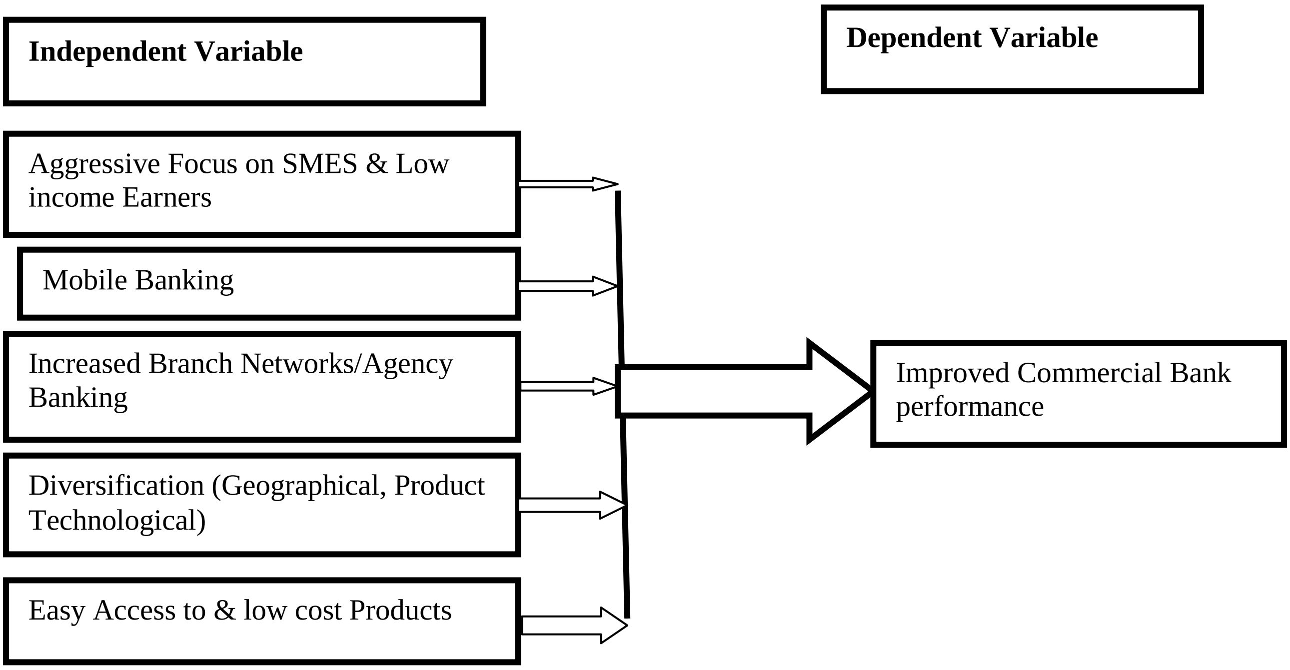

Figure 1: Conceptual Framework of innovative Strategies by Kenyan Banks and Performance

Figure 1 shows the various innovative strategies developed and adopted by the leading commercial banks in Kenya in their struggle to remain relevant and competitive in the Kenyan banking industry. The figure shows that among the major innovative strategies adopted and that positively impact on performance of commercial banks in Kenya include; aggressive focus on SMEs and low income earners, mobile banking, increased branch network through agency banking, investing in different forms of diversification and finally by ensuring easy access to low and affordable products.

CONCLUSIONS AND RECOMMENDATION

This paper sought to establish some of the contemporary competitive approaches adopted by leading commercial Banks in the Kenyan banking industry. From the reviewed empirical literature, the paper established that among other innovative strategies adopted by leading Kenyan banks include; aggressive focus on small and medium-sized enterprises (SMEs); investing in various forms of diversification, mobile banking, increased branch networks through agency banking, and ensuring access to low cost and affordable products. The paper recommends that in order for banks operating in the Kenyan environment to succeed, they must continue to invest in and enhance the identified strategies so as to build and sustain their competitiveness and optimize performance. The paper further recommends continued search and investment in technologically enabled products that enhance customer convenience and flexibility, diversified financial services, attracting and maintaining of masses through strong branch networks and partnerships as these are fundamental for any bank seeking to hold a strategic position in the Kenyan Banking Industry. Finally, the paper recommends that government and other regulatory bodies should set policies that encourage and reward innovation as this will not only enhance performance of commercial banks but also have a positive impact in the wider social economic development.

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