EFFECT OF BUSINESS STRATEGIES ON CUSTOMER BASE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract: **This study was seeking to establish the effect of business strategies adopted on the customer base performance of commercial banks in Kenya. It also sought to establish the relationship between business strategies and customer base performance in commercial banks in Kenya. Towards the achievement of the objectives, the research adopted a descriptive research design which involved distribution of questionnaires to commercial banks in Mombasa County. A good response rate of 75.9% was realized. This study also established a regression and correlation analysis between the Independent variables and the dependent variable. The findings of the study were that different commercial banks have adopted different business strategies depending on their customer base performance. The study also established that most of the banks involved business innovation, product differentiation, market diversification and skills management. The study concluded that the adoption of these business strategies for the growth of customer base of the commercial bank be part of the long term strategy of the commercial banks for them to improve on their customer base performance. This study therefore recommends that commercial banks should consider adopting these business strategies fully as this will be beneficial in the long run compared to the initial costs involved in the implementation of the strategies.**

Keywords: **business strategies, commercial banks, business innovation, market diversification.**

1. BACKGROUND OF THE STUDY

The recent past has been characterized by intensive business re-engineering in both strategies and processes. This has changed the ways of doing business through great innovations with the aim of cutting cost and improving productivity to enhance business growth by acquiring more customers (Saropa, 2013). In order to keep up with the competition and changing consumer needs and wants in the competitive business environment, Commercial Banks need to use effective strategies in improving their performance. Changing consumer needs and business environment has necessitated Commercial Banks to adopt strategies to survive hence attracting and retaining customers.

In past the economies around the world have crumbled due to different reason dating back to the great depression which was an economic slump in North America, Europe, and other industrialized areas of the world that began in 1929 and lasted until about 1939 (Kosmidou, 2008) It was the longest and most severe depression ever experienced by the industrialized Western world. This caused many banks to be declared bankrupt and others to reevaluate their strategies to ensure they remain afloat. However even in the modern day to date banks are still being declared bankrupt and are put on receivership hence is important to evaluate the effects of business strategies and their effect on performance.

All forms of businesses, including those in the banking industry, regardless of their size or level of development have embraced strategies to survive (Greenstein, 2008). Due to stiff competition and changing consumer needs in the banking industry, organizations have to formulate and implement strategies that will enable them minimize customer service breakdown thus attract and retain them (Porter, 2004). The banking sector has embraced the use of technology to serve its client’s faster and also to do more with less. Emerging technologies have changed the banking industry from paper and branch based banks to digitized and networked banking services.

Strategy is the long term direction which organizations adopt to gain competitive edge in the dynamic business environment by using resources and core competencies to fulfill stakeholder expectations (Johnson Scholes & Whittington 2005). A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategic responses provide opportunities for the organization to respond to the various challenges within its operating environment. Firms also develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 2004). The success of every organization is determined by its responsiveness to the customer needs.

The Kenyan banking industry is one of the broadest and most developed in sub-Saharan Africa with 43 commercial banks, one mortgage finance company, 10 microfinance banks, eight representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and two credit reference bureaus. The aggregate balance sheet grew by 3.4 per cent from Ksh.3.26 trillion in December 2014 to Ksh.3.37 trillion as at March 2015. The major asset components were loans and advances, government securities and placements, which accounted for 58.2%, 21.4% and 5.2 per cent of total assets respectively (CBK annual reports, 2015).

The banks have come together under Kenya bankers association (KBA), which serves as a lobby for the banks interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprises the large banks, offer other services including investment banking. However, there has been a shift from stable, non – volatile and predictable business environment to one which is quite volatile, unpredictable and competitive (Mass &Siedek, 2009).

Up to the late 1990s, many banks in Kenya enjoyed unchallenged monopolies (Kaskende, 2008). Globalization has spearheaded the integration of Kenya's economy with other world class economies such as Singapore, which is now part of the global village (Saropa, 2013). The Global Findex Database 2014 established that 75 per cent, or eight out of every 10 Kenyan adults, is banked this is through bank and mobile money accounts, beating South Africa, which has 70 per cent of its population banked, Nigeria, with 44 per cent, and Ghana with 40.

The powers of information and technology, de-regulation, globalization of markets and stiff competition has made banks better cultured, more inquisitive, refined and deciding (Getanga, 2010). The banking environment has changed tremendously thereby posing serious implications and challenges to the survival and profitability of banks (CGAP, 2003). However, according to (FSAK2009) the Kenyan banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Banks generally earn their revenues from taking in funds and lending them out at a higher rate.

Statement of the problem:

According to World Bank Policy Research Paper 5020, banking penetration in most of East Africa lies below 20%. Consequently commercial banks have capitalized on this untapped market in their growth strategy by introducing automated teller machines (ATMs), E-banking, and recently agency banking to create convenience and accessibility.

In Kenya as is in the rest of the African continent, there are large percentages of the population that don't have bank accounts (Saropa, 2013). The Kenya's 'unbanked' population is just under 40% of the total population. This number lies very much in line with the developing world, where banking penetration rates are typically between 30 and 50% (Central Bank of Kenya, 2011). This is contributed by the stringent requirement established by most banks based on their strategies and policies. The adoption of business strategies is mainly geared to improve on market share by attracting and retaining their customers, improving their financial performance and create variety of services. Due to recent competition most banks have reviewed these policies and have adopted more inclusive policies to attract the unbanked population. This research therefore endeavored to establish the impact of the strategies adopted vis-à-vis the growth of the banks customer base. This study therefore was aim at assessing the effect of various business strategies on the customer base growth of commercial banks in Kenya.

Scope of the study:

The scope of the study was to assess the effect of adoption of business strategies on the Customer base Growth of commercial banks in Kenya. The focus was on the thirty eight commercial banks in Mombasa County.

2. LITERATURE REVIEW

Dynamic Capability Theory:

Helfat and Peter (2007) defined DCs as the capacity of an organization to purposefully create, extend, or modify its resource base. In the modern literature, the concept of DCs exists because of dynamics interactions between firms 'capability building and environment, and the needs to sustain competitive advantage through capability building. This is because DCs assess the environments and realign the resources base to gain future performance (Arthurs &Busenitz, 2006). When the environment is not constant, the possession of bundle of resources is not strongly favoring the competitive advantage of the firms (Wu, 2007). To sustain competitive advantage and retain a commendable customer base growth in a highly volatile market, firms need to continuously reconfigure resources to create a series of short term competitive advantage (Eisenhardt& Martin, 2000) in which the strategic focus of firms has changed from the effective ways of managing resources to the effective ways of modifying resources (Kylaheiko&Sandstrom, 2007). Hence, without the present of DCs, resources alone will not be able to be translated into performance under environmental change (Wu, 2006). It is conjectured that the firm who holding DCs is capable of meeting the change that is necessary to build competitive advantage. This is because, in the field of business strategy, distinctive capabilities are the basic source of competitive advantage where DCs is the key for sustained success under rapid change (Nelson & Winter, 2002). Hence, even though the concept is still new Czakon, (2009) and the theory itself is still in great debate (Zahra, Sapienza, &Davidsson, 2006), what bring consensus to the scholars is that DCs is to achieve sustainable competitive advantage (Teece, Pisano, &Shuen, 1997; Lopez, 2005; Bhutto, 2005; Kylaheiko&Sandstrom, 2007; Teece, 2007). Others have also related DCs to rent-creation (Makadok, 2001; Blyler&Coff, 2003), and performance (Majumdar, 2000; Zott, 2003; Pablo, Reay,Dewald, &Casebeer, 2007).

This theory encourages product differentiation and market diversification through dynamic capabilities of the business being synergized to ensure the proper responses to the banking environment are enforced. These enhances the establishment of the right product mix and helps makes the enterprise a one stop shop by coming up with capabilities that are able to diversely cover the customer needs.

Strategic Concept Theory:

Strategic theory is the study of correlations between ends and means, including the use, or threat of use, of armed force as a conscious choice of political actors who are intent on rationally pursuing their objectives. Yarger (2006), a great 'Strategic theory opens the mind to all the possibilities and forces at play, prompting us to consider the costs and risks of our decisions and weigh the consequences of those of our adversaries, allies, and others'.The concept of strategy is multifaceted and hence its definition is not solitary. Some of the elements of strategy can apply universally while some are largely dependent not only on the nature of the firm but also on its structure and culture (Hax and Majluf, 1996). Andrews (1971) defines strategy as the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals which enable the company to define what business the company is pursuing, the kind of economic contribution it intends to make to its shareholders, employees and the community at large.

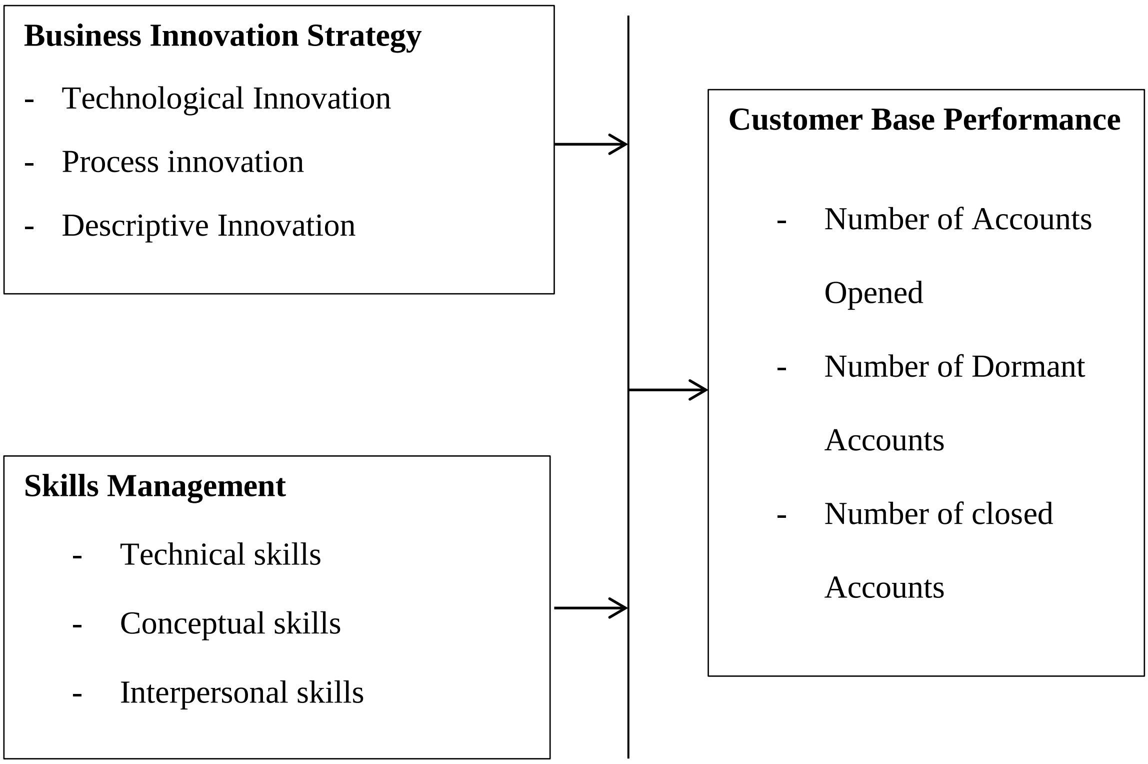
Ansoff and McDonnell (1990) have defined strategy as a set of rules for decision making that guide organization behavior which can be in either of the following forms: Yardsticks also called objectives, product or business strategy, rules for establishing internal relations called organizational concept, or rules for conducting day to day activities also known as operating policies. Chandler (1962) refers to it as the determination of the basic long term goals and objectives of an organization and the adoption of courses of action and allocation of resources necessary for meeting the goals.

Thompson and Strickland (1998) define strategy as the game plan that the management has for positioning the company in its chosen market in order to compete successfully, please its customers and also achieve good business performance. It thus involves choosing among alternatives. This shows that organizations must be aware of the competition in order to position themselves successfully (Strydom, 2004).

To sustain a competitive advantage, a firm must keep learning how to do things better and keep spreading that knowledge throughout its organization. Firms must leverage the power of knowledge. Day and Wensley (1998) argue that all knowledge is not the same and that there is explicit knowledge that can be written down. Such knowledge as patents, procedures, formulations or engineering designs is referred to as explicit. Implicit knowledge is far less tangible and is deeply embedded into an organization's (Central Bank of Kenya, 2011).

Conceptual framework:

INDEPENDENT VARIABLES **DEPENDENT VARIABLES**



Research Gap:

The existing explorations on the subject of business strategies and their effects on growth of customer base are diverse and focus on different factors that relate to it and its effect to other dependent variables. The adoption of these business strategies is mainly geared to improve on market share by attracting and retaining their customers, improving their financial performance and create variety of services. To this end, it is not clear whether the adoption has led to increase in market share and financial performance. This study therefore aimed at assessing the effects of business strategies adopted by commercial banks on the growth of commercial banks in Kenya.

3. RESEARCH METHODOLOGY

Target Population:

The study target population focused on the regional managers, business growth and development mangers and marketing managers of all the 36 banks in Mombasa County. Top managers were chosen because they were policy makers and provided leadership. Since the study is descriptive in nature, (Bryman & Bell, 2015) recommend thirty percent of the population. However, (Kothari & Gang, 2014) recommends that a sample size be as large as possible in order to reproduce salient characteristics of the accessible population to an acceptable level as well as to avoid sampling errors. Mombasa was selected as a case study because of proximity to the researcher, time availability for research and budgetary constraints.

Table 1: Target Population

Category	Population	Sample Size
Regional managers	36	26
Business growth & dev. managers	52	39
Marketing managers	52	39
Total	**140**	**104**

4. DATA ANALYSIS, RESULTS AND DISCUSSIONS

Response Rate:

The study targeted 104 managers from the 36 commercial banks in Mombasa County, Kenya. From the study, 79 out of the 104 sample respondents filled-in and returned the questionnaires making a response rate of 75.96% as per Table below.

Table 2: Response Rate

	Frequency	Percentage
Respondents	79	75.96
Non-Respondents	25	24.04
Total	104	100

According to Kothari and Gang, (2014) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

Data Validity:

Factor analysis was used to check validity of the constructs. Kaiser-Mayor-Oklin measures of sampling adequacy (KMO) & Bartlett's Test of Sphericity is a measure of sampling adequacy that is recommended to check the case to variable ratio for the analysis being conducted. In most academic and business studies, KMO & Bartlett's test play an important role for accepting the sample adequacy. While the KMO ranges from 0 to 1, the world-over accepted index is over 0.5. Also, the Bartlett's Test of Sphericity relates to the significance of the study and thereby shows the validity and suitability of the responses collected to the problem being addressed through the study. For Factor Analysis to be recommended suitable, the Bartlett's Test of Sphericity must be less than 0.05.

The study applied the KMO measures of sampling adequacy and Bartlett's test of sphericity to test whether the relationship among the variables has been significant or not as shown in below in table: Factor 1 was based on three items that represented Business innovation; Factor 2 was based on three items that represented Product differentiation, Factor 3 was based on three items that represented Market diversification, Factor 4 with three items that represented skills management, Factor 5 with three items represented customer base performance. The Kaiser-Mayor-Oklin measures of sampling adequacy shows the value of test statistic as 0.824, which is greater than 0.5 hence an acceptable index. While Bartlett's test of sphericity shows the value of test statistic as 0.000 which is less than 0.05 acceptable indexes. This result indicates a highly significant relationship among variables.

Table 3: Factor Analysis-KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.824
Bartlett's Test of Sphericity	Approx. Chi-Square	205.911
	Df	10
	Sig.	.000

Data Reliability Analysis:

Prior to the actual study, the researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument. The results on reliability of the research instruments are presented in Table below

Table 4: Reliability Coefficients

Scale	Cronbach's Alpha	Number of Items
Business Innovation	0.794	3
Skills Management	0.799	3

The overall Cronbach's alpha for the four categories which is 0.852. The findings of the pilot study showed that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda & Mugenda, 2008).

Background Information:

The background information was gathered based on working experience.

Working Experience in Current Position:

The study sought to establish the working experience of respondents. The study results revealed that respondents with working experience of less than 2 year was 13.9%, between 2-5 years 22.8%, 6-10 years 40.5%, 11-15 years were 13.9% and above 15 years 8.9 % as below. This shows that the majority of respondents have a working experience of over 5 years and presumed to have the requisite professional knowhow that could enable them provide relevant information.

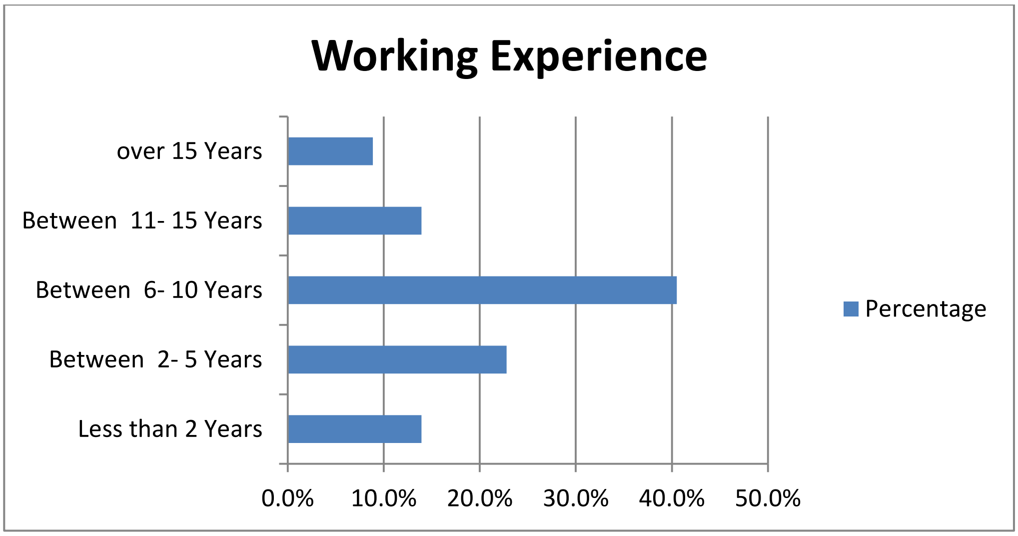


Figure 1: Working Experience

Analysis of Objectives:

This study aimed at establishing the business strategies adopted and their effect on customer base performance of commercial bank in Kenya. All the respondents agreed that their bank had adopted the strategies. The study therefore sought to establish what inspired the bank to adopt the business strategies. In the research analysis the researcher used a tool rating scale of 1 to 5; where 5 was the highest and 1 the lowest. Opinions given by the respondents were rated as follows, 5= Strongly Agree, 4= Agree, 3= Moderate Extent, 2= Disagree and 1= Strongly Disagree. The analyses for mean, standard deviation were based on this rating scale.

Table 5: Business strategies adoption Descriptive Statistics

Reason to Adopt Business Strategies	Mean	Std. dev.	Skewness
To expand your customer base	4.101	0.503	1.688
To serve your clients more efficiently	3.823	0.763	1.642
Your customers expect you to do it	3.772	0.664	1.632
To create more job opportunities	4.038	0.649	1.679
To remain competitive in the Industry	3.861	0.711	1.649
To move your services closer to your customers	4.342	0.815	1.722
To make extra income	3.962	0.704	1.666

The study sought to establish what inspired the bank to adopt the business strategies. The study results as indicated in the table above revealed that all the variables were positively skewed posing a positive effect of adopting the business strategies. The inspiration to adopt the strategies in the banking industry has yielded consistency and stability in customer base performance positively as shown in table below.

Business innovation:

The first objective of the study was evaluating the effect of business innovation strategy on the customer base performance of the banks. In order to calculate the central measure of tendency, mean was calculated and as seen in Table below.

Table 6: Business innovation Descriptive statistics

	Business Innovation Strategy	Mean	Std. dev.	Skewness
1	Technological Innovation	4.267	0.674	1.712
2	Process Innovation	4.063	0.790	1.683
3	Descriptive Innovation	3.974	0.862	1.669

Respondents were required to respond to the set questions related to business innovation and give their opinions. The respondents agreed that technological and process innovation had a much effect on the customer base performance with a mean of 4.267 and 4.063 and a standard deviation of 0.674 and 0.790 respectively. The factors also yielded a positive skewness showing that they positively impact the customer base performance in the commercial banks. This is in agreement with (wambui & Datche, 2015) business innovation helps reach more customers hence impacting positively on the customer base performance.

Skills Management:

Table 7: Skill management Descriptive Statistics

	Skill Management	Mean	Std. dev.	Skewness
1	Technical Skills	4.278	0.451	1.713
2	Conceptual Skills	4.241	0.804	1.709
3	Interpersonal Skills	4.165	0.629	1.698

The forth objective of the study was to establish the effects of skills management on customer base performance of the commercial banks. Respondents were required to respond to set questions related to skills management and give their opinions. The statement that technical skills, conceptual skills and interpersonal skills are factors that affect customer base performance were agreed upon by the respondents with the mean for each being 4.278, 4.241, and 4.165 respectively. This is consistent with Shukla, 2015 were skill management is shown as key.

Correlation Analysis:

To establish the relationship between the independent variables and the dependent variable the study conducted correlation analysis which involved coefficient of correlation and coefficient of determination.

Coefficient of Correlation:

Pearson Bivariate correlation coefficient was used to compute the correlation between the dependent variable (customer base performance) and the independent variables (business innovation, product differentiation, market diversification and skills management). According to Sekaran, (2015), this relationship is assumed to be linear and the correlation coefficient ranges from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was calculated to determine the strength of the relationship between dependent and independent variables (Kothari & Gang, 2014).

Correlation Analysis:

Coefficient of Determination (R^2)

Table 8: Coefficient of Determination (R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721[a]	.519	.505	1.12168
a. Predictors: (Constant), **B**usiness innovation, Skills management				

The model explains 51.9% of the variance (Adjusted R Square = 0.505) on Customer base performance. Clearly, there are factors other than the four proposed in this model which can be used to predict customer base mobilization. However, this is still a good model as Gaur and Gaur (2009) pointed out that as much as lower value R square 0.10-0.20 is acceptable in social science research.

This means that 51.9% of the relationship is explained by the identified factors namely business innovation and skills management.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Business Innovation:

The first objective of the study was to evaluate the effect of business innovation strategies on the performance of customer base of the commercial banks in Mombasa. The study findings indicated that business innovation is a key driver in determining customer base performance in bank. This was evidenced by the responses from the respondents who agreed that the banks had incorporated technology in their processes. The respondents also agreed that technological innovations and process innovation had increased the banks efficiency by bring the service closer to the customer and by keeping the banks competitive. In addition the respondents agreed that their equipment meet international standards. Regression and correlation results indicated that there was a positive and significant relationship between business innovation and customer base performance in commercial banks in Kenya.

5.2 Skill management:

The forth objective determine the effect of Skills management on the performance of customer base of commercial banks in Mombasa. The study findings indicated that skills management has a positive correlation on customer base performance in commercial banks. The respondents agreed that the banks exercised skills management strategies in its operation. Regression and correlation results indicated that there was a positive and significant relationship between skills management as a strategy to customer base performance in commercial banks in Kenya.

5.3 Conclusions:

To address the issue on the specific business strategies adopted which promotes firm customer base performance, the study concluded that in order to achieve growth, commercial bank need to come up with sound market expansion strategies which comprises of redesigning of its existing products that suit specific markets and consequently this will result to firms leading in terms of customer base and market expansion. Banks should also develop strategies that aim to increase the market share in a bid to achieve competitive advantage. Market Diversification should be clearly communicated throughout the organization and should be championed by top management.

5.4 Recommendations

Based on the results, findings and conclusions the following recommendations have been proposed.

1. The study found business innovation to be statistically significant in explaining customer base and therefore in order to survive and prosper in a rapidly changing environment, the firms should strive to minimize costs and maximize profits. The banks should implement appropriate innovative measures in its processes. There should be top management participation and an enabling environment for the same.
2. Skills management has been confirmed as key component to customer base growth hence the industry should acquire and match the right skilled people with right positions to ensure maximization of return.

Suggestion for Further Studies

It's recommended that a study be carried out on other factors of strategic management practices. The research should also be done in other industry or sector and the results compared so as to ascertain whether there is consistency on business strategies practices.

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