THE EFFECT OF GENERIC COMPETITIVE STRATEGIES ON
THE GROWTH OF SME SEGMENT AT BARCLAYS BANK
OF KENYA LIMITED

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Project Reported Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

FALL 2016
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed ___________________________ Date ___________________________

Abigail Ondiek (645925)

This project has been presented for examination with my approval as the appointed supervisor.

Signed ___________________________ Date ___________________________

Fred O. Newa

Signed ___________________________ Date ___________________________

Dean, Chandaria School of Business

Signed ___________________________ Date ___________________________

Deputy Vice Chancellor, Academic Affairs

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ABSTRACT

The purpose of this study was to determine the effect of generic competitive strategies on the growth of the SME Banking at Barclays Bank of Kenya. The study was guided by the following research questions: What is the effect of cost leadership on the growth of Small and Medium Enterprise Banking at Barclays Bank of Kenya? What is the effect of differentiation on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya? What is the effect of focus strategy on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya?

The study used a descriptive research design. The target population of the study consisted of branch managers, relationship managers and product managers. The list of the branches was obtained from Barclays Bank of Kenya website. The sampling technique for this study was stratified random sampling technique. Questionnaires were used to collect data from the selected respondents. Data collected was analyzed using descriptive and inferential statistics. Descriptive statistical analysis included methods for organizing and summarizing data such as tables and graphs are to organize data, and descriptive values such as the average score were used to summarize data. Inferential statistical analysis included making valid conclusions from the data. This was important to predict how a large group behaved based upon information taken from a part of the group.

The findings confirmed that the service delivery channels contribute immensely to achieving the low cost strategy through cost reduction. The branches are used to cross-sell products. Clients use the systems for self-service leading to the reduction of costs as there are no costs involved or extra resources required when using alternate channels. As such, banks have to invest in infrastructure and tightly control costs for all segments. The study shows that tight monitoring of existing costs is essential for achieving low cost strategy.

Pure differentiation strategy achieved within the organization may be expensive and may not be effective as the consumer has many choices. Differentiation through availing account opening requirements, offering differentiated products and services, reducing collateral requirements and offering non financial services may not be effective if not combined with Cost Leadership and Focus strategies.
The findings show that there is emphasis in the SME segment. Forty four percent of the correspondents strongly agree that the bank employs focus strategies with key areas including offering specific products for SME clients, a tailored market mix for the SME segment and giving the segment the attention it needs

The study concludes that cost leadership contributes the most to the growth of SME segment and greater advantage is achieved if organisations combine the generic strategies as opposed to achieving pure strategies. The study has drawn a conclusion that Cost leadership strategy achieved purely can lead to the growth of the SME segment. In addition, cost leadership strategies combined with differentiation strategies and focus strategies achieve growth within the SME segment

The study recommends that Commercial banks should careful carry out a cost benefit analysis and invest in technology that would encourage development of new products, innovation, make account opening easier as well as encourage SME clients to use the system.
ACKNOWLEDGEMENT

I would like to take this opportunity to thank my supervisor Fred Newa for his invaluable and insightful support and guidance that has enriched the results of this proposal.

Special regards goes to my family and colleagues for their help in collecting data for this study, they devoted their time to ensure that the necessary study instruments were distributed and collected within the limited time I had to carry out the study.

Above all, I am incredibly grateful to God who gave me strength, good health, and a sound mind throughout my study.
DEDICATION
This research project is dedicated to my friend, mentor and sister, Hannah Ahere.
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CHAPTER ONE

1.0 Introduction

1.1 Background of the Study

Small and Medium Enterprises have been recognised as a fundamental area of focus for both emerging and developed economies due to the role they play in economic growth, innovation as well as prosperity. SME has been considered globally as a market difficult to serve and risky due to the nature of the business and the uncertainty in the global environment (Elisabeth, Miia, & Tamym, 2014). In the recent years SME banking has become a strategic target for banks globally. SME banking has grown faster in emerging markets due to sector's contribution to GDP and employment. SMEs include a wide range of businesses, which are practically in all industries and are crucial contributors to job creation and economic growth in both developed and developing countries and it is imperative to create an environment for their growth (Kongolo, 2010)

The SME market has been seen as an expensive and risky segment to serve yet their greatest challenge is access to finance (International Finance Corporation, 2013). However, empirical evidence suggests that banks are finding effective solutions to challenges such as determining credit risk and lowering operating costs, and are profitably serving the SME sector. Banks now report that they recognize significant opportunities in the SME sector which is now considered a profitable segment. According to Samuel and Micah (2016), SMEs have adopted growth strategies in order to sustain their growth internally; hence the reason for expansion in this segment. As a result, Banks are developing business models to cater for these segments due to the potential profitability (African Development Bank Group, 2012). Competition within the SME segment has become very stiff since all banks are looking for ways to maintain or increase superior performance in these segments. Flexibility has become essential with banks taking advantage of technology to provide lasting solutions in this segment (Arisa, November 2015)

The small and enterprise banking is a key area that most banks have taken keen interest in as it is not flooded (Calice, Chando, & Sekioua, 2012). Kenyan banks have been actively involved in SME lending, with 17.4% which is considered higher compared to its
counterparts in the Sub Saharan Africa (Delloite, 2014). In the context of growth, SME represents a growing share of commercial banks’ lending portfolios with the aim of making profits. Despite the increasing interest in this sector, each bank interprets the SME segment differently; according to turnover or number of employees (FSD Kenya, 2015). In Kenya, most domestic owned banks have SME as a target client group and the major motivation for banks to invest in the SME segment is the fact that they can achieve super performance by virtue of investing in this segment due to the nature and needs of the SME segment (Lars, 2015). The banking industry in Kenya has acknowledged that the SME sector is an essential to enable strategic sustainability in their operations. Through the regulation of Central Bank in Kenya, banks have tailor made their products to cater for this segments. This has been dominated by the local banks. According to McKinsey (2012) report, the SME sector is considered among the most influential sectors with estimates of more than 40% contribution in emerging economies.

To sustain the growth of this segment, various banks have employed strategies including strategic alliances with Mobile Network Operators and Technological Firms, some banks have concentrated fully on this segment, some have employed product development and provided innovative products to cater for their market needs (Deloitte, 2010). The innovative solutions employed by various banks in Kenya have resulted to an intensive competitive environment. According to CBK annual report as at 2015, the key developments in the banking area including the Credit Reference Beureau that enhances information sharing, the introduction of KBRR, which aids with information disclosure to the consumer are all seen to contribute to the growth of the segment. This is an eye opener for banks to ensure that they strategically place themselves in the sector.

The concept of generic strategies revolves around key factors including differentiation, cost leadership and focus (Porter, 1980). Companies employ these strategies with the aim of improving their competitive advantage to ensure growth, which is usually measured in different ways. Across the banking industry, growth has usually been measured in terms of increase in profits and shareholders earnings. The key indicators being reduced staff costs, increased interest on lending and quality of assets held which determine future profits. Strategic management is practiced and interpreted differently with companies seeking to be market leaders. Some of the strategies introduced recently include agency banking to increase financial access especially for SME, technology innovation; online
banking to reduce transactional costs and increase efficiency. Further, the customer experience has been improved with the introduction of call centres, application of loans using mobile banking to improve the turnaround time.

Barclays Bank Of Kenya Limited is commercial Bank in Kenya; a provider of financial services. The Bank has operated in Consumer Banking and Corporate Banking. In 2014, the bank created the Business Banking Segment to cater for Small and Medium Enterprises which were previously served by Consumer and Corporate Banking. The Consumer banking segment includes private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages. The Corporate banking segment includes a business model, which centres on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporate, financial institutions and government clients with the Relationship Management Model. Barclays Bank provides a range of solutions; personal banking, credit cards, corporate, investment banking, and wealth and investment management to its customers across the country. The Company offers Personal Banking, Prestige Banking, Premier Banking, Corporate Banking, Treasury and Life Assurance. It has over 100 outlets and over 210 automated teller machines. (Barclays Bank of Kenya, 2016)

Barclays Bank has a strong brand and marked 100 years in being in the industry in Kenya. In the past five years has seen a decline in the profits compared to its peers and as such the need to review its growth strategies. Strategic Alliances with key firms including Safaricom Kenya, has seen the introduction of new products, diversification into new business areas such as Bank assurance. Barclays Bank of Kenya recently introduced SME banking in 2014 in a competitive environment (Barclays Bank of Kenya, 2014). This sector was previously served by Consumer and Corporate Banking. Due to the perception in the market and the turbulent environment, the strategy of the segment needs to be clear for Barclays to take charge. In 2015, Barclays began lending to SME, being the first foreign owned bank to venture into this area, taking advantage of the strong branch network and the newly introduced agency banking. According (Barclays Bank of Kenya, 2015), the SME sector contributed to the growth of the Loan book by 27%. Further, the Bank rolled out its SME banking in all the branches. With the emergence and growth of the SME banking, generic strategies can be used to facilitate the growth of the segment.
1.2 Statement of the Problem

Commercial Banks in Kenya have developed growth business strategies with the aim to ensure that they remain relevant and survive the competitive business environment which has recently experienced strict regulation from the Central Bank of Kenya. Studies have been done specifically on the different product offering including Mobile Banking, Internet Banking, Bancassurance, Agency Banking, all of which are offered by Commercial Banks with the aim of growing their customer base and improving their bottom line. According to Karina& Ngugi, (2013), technology innovations, albeit the huge cash outlay that needs to be employed has significantly affected the growth of banks especially on the profitability front. Findings on various studies indicate that technological innovations are key areas for product differentiation in this industry.

In addition to technology, studies have been done on the general strategies including growth strategies, turnaround strategies, expansion strategies employed by banks. The focus has been on Commercial Banks in Kenya and their financial performance. In addition to the various products, service provision across different segment has been addressed with banks providing customer services with the introduction of 24hr Contact Centre and providing personalized service by hiring Relationship Managers for Different Segments. Segmentation within the sector has become key with banks building their brand and focus on particular segments.

Barclays Bank of Kenya has lost its market share significantly; gaining competitive advantage is paramount for the bank to emerge as the market leader. To sustain the business and to retain customers, Barclays Bank has in the past employed generic strategies in its operations; being the first bank to introduce the Automatic Teller Machine which resulted to reduction of costs and improved efficiency. It has achieved differentiation through a strong branch network which previously, it has served its consumer and corporate banking segments. Barclays Bank has a strong brand and was considered the most prestigious bank (Think Business, 2015). The bank, over the years has focused on Corporate Banking Segment; employing relationship managers and investing in online banking to address the needs of the corporate customers in this segment. Studies have been carried out to address the competitive strategies pursued by Barclays bank, but little has been done in relation to the newly formed Small and Medium Enterprises
The SME sector has been studied with emphasis around its contribution to the economies, the strategies that have been employed by SME businesses and financial access to this sector. This study aims to identify the effect of Porter’s generic competitive strategies on the growth of the SME banking at Barclays Bank of Kenya which was introduced in 2014.

1.3 Purpose of the Study

The purpose of this study was to determine the effect of generic competitive strategies on the growth of the SME Banking at Barclays Bank of Kenya.

1.4 Research Questions

1.4.1 What is the effect of cost leadership on the growth of Small and Medium Enterprise Banking at Barclays Bank of Kenya?

1.4.2 What is the effect of differentiation on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya?

1.4.3 What is the effect of focus strategy on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya?

1.5 Significance of the study

1.5.1 Barclays Bank of Kenya

The Bank will benefit from this research as it will be able to understand the SME customer better and employ strategies suitable in this segment to see the growth. The management will benefit from the new information provided that other banks have employed that have been successful

1.5.2 Small and Medium Enterprises

These businesses will benefit from the study as a result of banks employing the discussed strategies; further, areas around product development to suit the needs of these customers will be important for the benefit of the customers
1.5.3 Commercial Banks

This research study will educate different stakeholders in different commercial banks on the benefits which come from competitive strategies that will be important for growth in various segments and this will result in improved performance in this financial institutions. New entrants or newly formed commercial banks or financial institutions which offer deposit and loan/credit services will also benefit from this research study in that, they will be able to learn new ways of ensuring they monitor the business environment/market and learn how to divide their markets according to their services and products. They will learn how to grow their financial profitability, educate them on changes in the financial markets and risks involved as well as on how to retain their client’s despite the competition in the financial market. This will promote their performance and increase their growth in the business environment and also enable them to gain competitive advantage over their existing and new competitors in the financial businesses.

1.5.4 Customers

The customers within the banking industry will benefit from this study since it will lead to improved services and products in the SME segment. Further, this study may lead to commercial banks specializing in SME. This will address the challenges that customers in a particular segment may face as a result of poor products and services.

1.5.2 The government and regulatory bodies

The government will also benefit from this study because it will be able to learn new ways of improving on the financial sector and financial institutions. The central bank will be able to know how to set new guidelines or re-evaluate existing guidelines when it comes to commercial banks services, products and operations. The government will be able to know how to monitor the financial business environment in order to get the most useful information in order to improve on its service delivery within the country when it comes to financial services among various commercial banks.
1.5.6 Researchers

This study will give the scholars information on the effect of generic strategies on the SME segment and open discussions on new areas of study. The information will pave way for further discussions on SME banking which will be beneficial to the economy as well as the stakeholders at hand.

1.6 Scope of the Study

This study will focus on the SME segment at Barclays Bank of Kenya. The respondents of this study will be managers, assist managers and staff members at Barclays Bank of Kenya Limited within Nairobi Area. When it comes to commercial banks services in this institution, this research study has limited its contextual analysis on Small and Medium Enterprises Banking. The major challenge was limited time and the tight deadlines which I managed through hiring research assistants to tabulate the collected data.

1.7 Definition of Terms

1.7.1 Generic Strategies

The Generic Strategies illustrate how companies can achieve competitive advantage. These include low cost leadership strategies, differentiation and focus strategies. The generic strategies reflect the strategic choices made in relation to the competitive advantage and the scope (Porter, 1980).

1.7.2 Cost Leadership Strategy

Organizations targeting all segments in an industry based on offering the lowest price. If a firm can achieve and sustain overall cost leadership, then it will achieve above-average profits provided it can charge prices at near industry average (Porter, 1985).

1.7.3 Differentiation Strategy

Targeting most or all segments with other features other than price and offering unique products or services with higher quality; firms that employ this strategy in the industry seek to be unique along some dimensions that are widely valued by buyers (Porter, 1985).
1.7.4 Focus Strategy

Organizations pursuing focus strategy through two dimensions including cost focus and differentiation focus and focus or one or few segments. The generic strategy of focus is dependent on the choice of a narrow competitive scope within the industry. (Porter, 1985)

1.7.5 Growth

Growth is considered a positive change. A growth rate target for any individual bank dependson a combination of factors internal to the bank; sustainable growth rate, and external factors in the general economic environment and in the financial services industry. (Deloitte, 2015)

1.7.6 Small and Medium Enterprise

In Kenya, Micro and Small Medium Enterprises (MSME) are classified according to the number of employees. The maximum number of employees in MSME is 100. Micro Enterprises, up to 10 employees, Small; between 10-50 and Medium; 50-100 According to the Micro and Small Enterprise bill 2015, a micro enterprise is any firm, trade, service, industry or business activity, formal or informal that has an annual turnover that does not exceed Kes 500,000.00 and employing 1-9 people. The total assets and financial investment in for small enterprise does not exceed Kes 10 million for manufacturing and Kes 5 million for the service industry. Small Enterprise has an annual turnover of between 500,000.00 and 5 million and has employed 10-50 people. Capital Employed is between 10 million to 50 million for manufacturing and 5 million to 25 million for service and farming sector. (UNDP, 2015)

1.8 Chapter Summary

This is the first chapter in this research study and it covers the background of study, the statement of problem, analysis of the purpose of this study, objectives of the study, research questions, significance of study, the scope of study and the key definition of terms and it leads the researcher to the second chapter of the research study on the literature review which will look into the past studies that have been done in this research area and review the literature related to the purpose and problem of this research. Chapter
three will look into the research methodologies, which will explain and describe procedures used in conducting the study. Chapter four entails analysis of the data that has been collected. In Chapter five, the project discusses the data analysed in chapter four, concludes and gives recommendations for further analysis.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Competitive advantage strategies discussed in this chapter will focus on generic strategies. This is discussed further with relevance to the growth of the SME banking. The literature review discussions are based on theoretical and empirical studies. The chapter aims to discuss the research questions in chapter one with the objective of reviewing and understanding studies that has been done in regards to low cost leadership, differentiation, and focus.

2.2 The Effect of Low Cost Leadership on the growth of SME Banking

2.2.1 Growth of SME Banking

Globalization has necessitated SMEs to become innovative in order to take advantage of the opportunities and enable them to grow. SMEs operate in different geographies, industries, and social economic conditions which are unique (Gupta et al, 2013). The growth of SME is affected by a number of factors including finance, lack of managerial skills, lack of access to appropriate technology, regulatory issues, and access to international markets (Joshua & Peter, 2010). Accessibility to finance is a major factor that affects the growth and success of the SMEs and hence, financing in this segment is critical to ensure that SMEs continue to grow and contribute to the economic development of the nation (Hasnah, Saniza, Jayaraman, & Ishak, 2013).

Empirical study has shown that the capital adequacy, asset quality and management efficiency significantly affect the performance of commercial banks in Kenya. Commercial Banks’ contribution to the growth of SMEs directly impacts the growth of this portfolio and hence financial performance of banks. The services offered by commercial banks include transactional services, lending services, treasury services and trade finance services. Commercial banks perceive this segment as risky with a high loss default and are not attractive (Adekunle & Tella, 2008). Unavailability of funds to finance their working capital leads to failure in most SMEs who may not survive without funding especially due to the fact that most SMEs are entrepreneurs.
Competitive innovative skill is important for entrepreneurs who have deep understanding of the SME and this affect the growth of SME to a large extent (John, Maurice, & Joseph, 2013). The two key factors that influence SME owner managers’ intention to take commercial loan include opinion of their accountants and knowledge of finance (Ahmed, Iman, & Khadiga, 2014). Entrepreneurship skills is not sufficient for the growth of the segment. Joshua & Peter, (2010) recommends that for development of SMEs and to improve access to credit, SMEs should form cooperatives. Secondly through the government’s tax incentives, encourage training institutions and NGOs to provide training to entrepreneurs or simple record keeping.

2.2.2 Generic Strategies

Sustainable Competitive advantage is important for a firm to ensure that it is relevant in the industry and that it earns super profit in the industry. According to Michael Porter’s Generic Strategy Model, cost leadership strategy, differentiation strategy and focus strategy. Pursuing each of the strategies has implications that will determine the superior profits that a firm will earn. Adoption of generic strategies gives a firm competitive edge (George & M, 2015). It may not be possible for a manager to focus entirely on a set of single strategies that form generic strategies (Ovidiu, Anca, Razvan, & Catalina, 2010). Strategic choice of the generic strategies depends on the size of the firm and organisational capabilities. Small firms can thrive using the focus strategy while larger firms with greater access to resources in differentiation and cost leadership. Porter explains that the generic strategy implies different organisational capabilities; sustained commitment to one strategy is necessary to achieve success. The generic strategies include; Cost Leadership has two approaches which are achieving high asset utilization and achieving low direct and indirect costs. Differentiation has two variants which are shareholder value model and unlimited resource model. Focus involves segmentation strategy. A firm that engages in each of the generic strategies but fails to achieve any of them is said to be stuck in the middle.

In manufacturing firms, low cost leadership strategy has thrived as a result of achieving economies of scale. The market share of a company is purely dependant on each of these strategies; whether a firm is willing to employ cost leadership and differentiation strategies coupled with focus strategies which will affect its competitive advantage and this will reflect on its performance (Enida, Vasilika, & Amali, 2015). According to
Porter’s Model, once a firm carries out a SWOT analysis and understands where it is compares to its peers, makes a strategic choice to pursue the generic strategies to gain larger market share; using differentiation and low cost strategy only or additionally including focus strategy.

The choice of the strategy to follow is dependent on the resources and the strategic aggressiveness and direction it is willing to follow (Ansoff, 1990). The organisation, more often than not, looks into its strategic aggressiveness before choosing a strategy. Review of strategic capability enables a firm to identify its strengths and weaknesses; a SWOT analysis, more often is used to identify the internal capabilities. On the other hand, the company will be required to follow through and review the five forces to ensure that its place in the industry is well noted. From the internal and industry analysis, the firm will know how to strategically position to achieve growth, in the form of increased market share, increased profit, increased customer base or improved efficiencies. Porter’s Generic Strategies are applicable in both Service and product industries. These strategies are mainly tied to performance.

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<th>Lower Cost</th>
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<td>Broad Target</td>
<td>Cost Leadership</td>
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<tr>
<td>Narrow Target</td>
<td>Cost Focus</td>
<td>Differentiation Focus</td>
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Source: Porter M. (1985)

**Table 2.1: Generic Strategies**

Organisations have a strategic choice in determining whether to choose a broad market or a narrow target market. In order to attain competitive advantage, differentiation and cost leadership are the two generic strategies that an organisation will choose in a broad target market and suitable for large organisations. Focus strategy has two dimensions; differentiation focus and cost focus; suitable for small organisations. An organisation may not be able to apply all the three generic strategies because they require unique skills, resources, procedures, management style among others.
2.3 Low Cost Leadership

According to Porter, cost leadership emphasizes on producing a standardized product at a very low per-unit costs for many buyers who are price sensitive for the whole industry. In the global scenario, a company looking to achieve a low cost strategy will produce more products at low cost and charge average prices in the industry. Companies that chose cost leadership strategies increase their financial performance (Hashem, Hamid, & Samira, 2012). Low cost strategy is related to the low cost products that a company is willing to introduce in the market. Companies employ various techniques to enable them to become low cost producers; E-businesses, are considered not to benefit from the low cost strategies because technology is already low cost and as such they may have to explore other generic strategies such as focus and differentiation (Eonsoo, Nam, & J.L, 2004).

Low cost strategy is achieved in situations where a company invests in large scale production activities, using economies of scale and carefully monitoring overall operating costs (Henry, Ahlstrand, & Joseph, 1998). This requires large cash outlay and companies will have to explore the strategic options that they have. The downside of this is the fact that firms within an industry will be able to imitate or implement the same strategies as cost leadership strategies they are not unique to the organization. Commercial Banks have achieved low cost strategy through achieving economies of scale and improving efficiencies to reduce costs which has affected the profits (Susan, 2014). In Global context, the internet and technology has played a big role in achieving cost leadership strategy.

The sources of cost advantages for firms who successfully pursue cost leadership include; size differences and economies of scale, size differences and diseconomies of scale, experience differences and learning curve economies, differential low cost access to productive inputs, technological advantages independent of scale and policy choices (Barney & Hesterley, 2006). Organisations carry out capital budgeting to determine the projects that they can undertake through debt from banks and raising capital from the shareholders, organisations raise capital to finance projects that require huge cash outlay and invest in projects that increase efficiency and reduce costs.
2.3.1 Achieving Low Cost Leadership in SME Banking

According to the world economic Forum 2015, Internet industrialization will lead firms to invest in technology due to the many surprises that are coming ahead and this will affect most industries ranging from manufacturing to service across different industries and a key trend will involve development of technology enabled platform (Schwab, 2016). Technology has led to reduction of costs in an organization. Organisations aiming to achieve low cost leadership invest in technology that will reduce costs. According to Musara and Fatoki (2010), Technological innovations have resulted to improved efficiency and banking costs reduction; mainly through automated teller machines, credit cards, the internet and mobile banking.

Commercial Banks aiming to achieve low cost strategies invest in technology to deliver low cost delivery channels which play a big role in improving customer’s experience and create efficiencies that eventually lead to reduction of costs (Stephanie & Wafula, 2015). In Kenya, Commercial Banks have provided low cost delivery channels including Mobile Banking, Agency Banking, and Online Banking. Josiah & Nancy(2012), argue that e-banking contribute immensely in the reduction of costs and services as well as increase efficiency which affects the financial performance of commercial banks positively.

Services which require huge technology and frequent maintenance have been considered to influence SME’s participation in the financial segment through increased access to finance. Applications of Loans have now become easy with some players in the industry disbursing loans through these channels. Which has resulted to growth banks has seen growth in the form of increased loans. Further, banks have invested in large sums of money in systems and have advertised the low cost platforms to ensure that the SME segments are aware and know how to use these low cost delivery channels. Studies show that given the innovative nature of the SMEs, they are likely to uptake the low cost delivery channels better to save on costs and also due to the fact that they have limited labour. Banks have given incentives such as reduced costs to encourage customers using the low cost delivery channels.

Low cost leadership in the banking sector and especially in the SME segment performance is dependent on operation efficiency. Operation efficiency has been defined as the ability of an organisation to produce in an efficient manner. Given the nature of
SMEs, and the number they are in the economy, banks must be operationally efficient to capture this segment. Commercial banks use their branch network to serve retail customers as well as SME clients to ensure the delivery of SME services efficiently (African Development Bank Group, 2012). Service delivery and processing of customer services have been centralised or moved to the branches to ensure flexibility and efficiency.

Bank can also use segmentation to maximise service quality and cost effectiveness. To become a cost leader, research has shown that knowing your target market is essential in ensuring that you focus on the area that leads to this segment being. Cross-selling of non-lending products is perceived as a major strategy for increased profitability by majority of banks. Cross selling is a strategy that banks can use to increase sales in a cost effective manner. Banks have increased the number of products and services sold to an SME such as decentralising the sales activities to branches, deepening and strengthening customer relationships through non-financial services, evaluating the efficiency of the customer and product portfolios and focusing on the development of products for meeting the specific requirements of SMEs (Hande & Vedat, 2015) This is because the resource used can sell different products to the SME. Banks can easily achieve cost leadership by using cross sell to save.

SME is considered a volume driven business and as such, there must effective Management Information Systems and IT systems that enhance communications within the branches and management to gain competitive advantage as well as coming up with cost effective ways to service this segment.

2.3.2 Achieving Low Cost Strategy in SME banking through SME Service Delivery Channels

2.3.3.1 Branches

According to a report by FSD Kenya 2016, some commercial banks in Kenya had dedicated spaces for SME clients in their branches with additional Wi-Fi, and extended banking hours to cater for the SME client. Commercial Banks use the banking halls where the retail and corporate customers are served to serve the SME client. In addition, some banks use the ATM located strategically to provide services such as cash deposit which do not require a teller to complete the transaction.
2.3.3.2 Online Banking

Adoption of internet banking has enhanced performance in the banking industry due to increased efficiency, effectiveness, productivity and cost reduction (Kennedy & Jacky, 2013). In Kenya, Commercial Banks offer specialised services through the online banking platform for SME clients such as Trade Finance applications.

2.3.2.3 Mobile Banking

Commercial banks offer mobile banking services through USSD platform or mobile banking apps. Despite the fact that the services available through the Mobile Banking platform are not tailor-made for SME, SME clients can use it to make basic transactions through SME.

2.3.2.4 Agency Banking

The control policies and procedures, technological advancement and regulations put in place by agents and commercial banks have made agent banking operations viable (Chiteli, 2013). Banks have made huge savings on operational costs and infrastructure costs by using banking agents (Salome & Ambrose, 2015). Agency banking complements branch network and SMEs use this channel to make cash deposits and withdrawals. Agency banking is suitable for banks who wish to enhance their competitiveness and reduce cost (Dorine & Fred, 2013).

2.3 The Effect of Differentiation on the growth of SME Banking

2.3.1 Differentiation

Porter (1980) describes differentiation a strategy that involves production of unique products or services in the industry to customers who are not price sensitive. Various ways are available to achieve differentiation for example, design, brand image, technology, features, and customer service and dealer network. Globally, many organisations have employed different ways to achieve differentiation and may charge a premium for their goods and services since customers who are loyal to the brand may not be price sensitive (Tanwar, 2013). Differentiation strategies lead to high profitability when the premium charged on the price exceeds the costs of distinguishing products or services.
Differentiation strategy can be implemented alongside other generic strategies or alone for farms which are large and have resources.

Firms pursuing differentiation may focus directly on its products or services. According to Dirisu, Oluwole, & Ibidunni (2013), there is a positive relationship between firms that pursue product differentiation through product innovation, product design, higher quality product or unique product and the firm performance; further, the study confirms that product differentiation could be used as a tool to achieve competitive advantage and enhance organisation performance. Secondly, differentiation may be implemented through relationship between itself and customers (Heiko, Anders, & Lars, 2011) and finally through linkage with other firms in the same industry; this include: linkage within functions of a firm, linkage with other firms, product mix, distribution channels and service support (Prakash, 2014).

Porter (1980), argues that in order to implement differentiation strategy, a firm will require to have strong marketing abilities, product engineering, creative flair, strong capability in basic research, corporate reputation for quality or technological leadership, long traditional in the industry or unique combination of skills drawn from other businesses.

Anything that a firm can do to create buyer value represents a potential basis for differentiation. A firm can incorporate intangible and tangible features that increase the buyer’s satisfaction during use. Successful differentiation 1. Leads to customer loyalty and uniqueness that new entrants may not be able to copy, 2. Since the products are attractive to them, most buyers do not bargain for price and hence the organisation can make profits with the premium charged on the uniqueness 3. It also helps a firm to fend of threats of substitutes. Differentiation works best where there are numerous ways to differentiate products and services and buyers value the differences, the buyer needs and uses of the item are diverse and when there are few rival farms pursuing the same differentiation.

Differentiation does not require market segmentation (Peter & James, 1987). Advertising creates increases sales as well as increase awareness needed for differentiation. Marketing abilities require a strong research and development department that continuously assess the environment. Sales and Marketing has been used as a differentiation tool because
companies use this to educate, persuade and create awareness about their products. Sales differentiation has been identified as an important tool because organisations can use this not only to drive revenue but also sell value to customers which in the long run translates to differentiation; the firms uniqueness becomes evident (Salz, 2016).

Commercial Banks have invested heavily in research development and innovation to achieve differentiation. The ever changing trends and turbulence levels that are discontinuous and unpredictable require firms to be creative and flexible (Ansoff, 1990). Information has become a key factor for commercial banks to monitor trends and make strategic choices that are in tandem with the changes happening in the industry. Differentiation may not be achieved overnight and an organisation may have to continuously monitor the industry and manage industry dynamics including cyclicality, technology, substitutes among others.

Product engineering and creativity is imperative for differentiation: Differentiation strategy may also come as a result of producing high quality services or products compared to competitors. This may require a high cost of production, but quality may be measured by customers at different levels. Companies whose products and services are considered as quality may get away with charging customers high prices since the costs of production to achieve the quality may be high; the unique products may invite competition (Miller, 1989).

Corporate reputation is an invaluable asset for organisations and how a company is perceived. Better reputation and competitive advantage are consequences of increased customer satisfaction after engaging in CSR (Saeidi, 2014). Use of improved communication, through social media, has a positive impact on the firm’s reputation among non-customers (Corne, Peter, & Beukeboom, 2015).

2.3.2 Differentiation and the growth of SME Banking

Banker, Raj, & Arindin (2014), concludes that firms that pursue differentiation strategies achieve superior profits than those that pursue cost leadership strategies. SME segment is heterogeneous and they may not be able to distinguish the services and products offered by different banks (Martin, Christine, & Geoffrey, 2006). The type of products or services offered to the Small and medium enterprise by the bank depends on the definition; where there are micro SME and larger SME that may require more sophisticated products. The
size of the SME determines whether the bank provides mostly retail products or near corporate products (Augusto, Maria, & Sergio, 2010). The approach that most banks have used is to attract SMEs using lending products to increase revenue and attract the segment. Most SMEs require lending to move their business to the next level and convenience and flexibility beats the cost of lending. As such, differentiation through different products other than the lending products is an element that banks will have to revisit to retain this segment. Transactional, treasury and deposit products are examples of products that can attract this segment. Banks pursuing differentiation strategy may win a huge market share by providing unique products that may cause a lot of influence in the segment.

Commercial Banks are perceived differently in Kenya; According to Think Business 2015 survey, Barclays Bank was perceived as the most prestigious bank. Perceptions affect the organisation's reputation and influences buying decisions (Sven & Lutz, 2011). SMEs want a bank that identify with their needs and are welcoming. On the other hand, Banks such as Chase Bank; with a reputation of ‘relationship bank’ for SMEs is considered more approachable and as a result, most SMEs have ended up banking with them. Corporate reputation, which affects brand loyalty, is hard for new entrants to overcome. Differentiation strategies that are least subject to quick imitation are the most appealing type and these include technological superiority, quality, more customer support services and more value for money. These strategies are most likely to produce a longer lasting competitive edge.

2.3.2 Achieving Differentiation in SME banking through differentiated products and services

2.3.2.1 Account Opening Requirements

Account opening requirements affects the SME customer decision to bank with a particular bank or not. Depending on the SME definition by different commercial banks, the account opening process is tedious and in some cases, the account opening requirements are not available. Commercial banks differentiated themselves by making the account opening process simple and easy to understand while at the same time posting the SME toolkit on their websites with Basic SME queries. In Kenya, Commercial Banks such as Kenya Commercial Bank have differentiated themselves SME toolkit in their
website that gives all the information the SME client requires to know and the requirements to open accounts.

2.3.2.2 Financial Products and Services

FSD Kenya reports that most banks do not offer specific SME products instead provide corporate banking and retail banks. The products offered, according to the report fall fewer than three categories including SME term loans, SME current accounts and SME trade finance facilities.

2.3.2.3 Collateral Requirements

Firm characteristics such as size, thus, micro enterprises are likely to apply for loans as compared to medium enterprises, initial capital, requirement of collateral and the loan interest affect financing of the SME (Khalid & Wahab, 2014). Collateral is a cushion for banks against default risk and banks who offer unsecured loans to this segment are likely to attract more clients.

2.3.2.4 Non-Financial Services

Non-financial services include business club membership, advisory services and providing information on the suitable services that may be beneficial to the SME customer. Commercial banks such as DTB have a SME toolkit which can be accessed from their website by SME customers.

2.4 The Effect of Focus Strategy on the growth of SME Banking

2.4.1 Focus Strategy

According to Porter, focus strategy refers to products and services which are directed to specific buyers who are smaller in the industry. Focus strategy aims at serving a particular target or segment. The two variants of focus strategy are cost focus and differentiation focus; pure strategies may allow a more focused organisational effort towards reducing costs achieving perceived uniqueness among customers (White, 1986). Cost focus seeks a cost advantage to its target segment and a differentiation focus seeks differentiation in its target segment. Market definition, if too narrow leads to opportunities being missed by an
organisation and if wide, leads to mass marketing and segmentation has to be developed (Weinstein, 2006).

Focus strategy begins by choosing a market niche where buyers have distinctive preferences requirement. The target market can be defined by geographic uniqueness, by specialized requirements in using the product or by special product attributes. A low cost focus strategy depends on a buyer being in the segment whose needs are cheaper to satisfy compared to the rest of the market. Differentiation focus depends on there being a buyer segment that demands unique product attributes. Differentiation focus may be successful in the long run if used by smaller firms and cost focus is not viable by itself if used for mid-size and larger business units (Wright, 1987).

The basis for cost advantage is dependent on the lower cost in serving the niche or an ability to offer niche buyers something customized to their requirements and tastes. The product offered in this segment is customised to fit the specialised needs of the target market. Organisations pursuing the focus strategy concentrate on a few target markets. The organisation tailors their market mix to the target segment with the aim of meeting the needs of the target market; effectiveness on meeting the needs of this segment is at the centre of the firm’s strategy. The focus strategy may be used in segments where there is little or nil competition and where customers are less vulnerable to substitutes. Firms that aim to achieve focus strategy may either use cost focus or differentiation focus on this strategy. Offering low prices or differentiated products/services should depend on the organisational resources or organisational capabilities.

Sustaining the focus strategy is based on dedication to serve the niche better than other competitors. Focus works best first, when is costly for multisegment competitors to meet the needs of the niche, secondly, when no other rival is attempting to specialize in the same target segment, thirdly, when a firm doesn’t have sufficient resources to reach out to the wider market and finally when the industry has many segments forcing the organisation to make a strategic choice on which segment to pick.

Product innovation and or brand marketing are the drivers of gaining competitive advantage rather than efficiency. Focus strategy cannot be enough without either differentiation or cost leadership. Focus strategy is suitable for small organisations who would wish to concentrate on a particular segment. Focus involves building cost,
differentiation targeted to a narrow market niche. The target segments are specific group of buyers, product lines, or geographic areas (Eonsoo, Nam, & J.L, 2004) The focus strategy allows a firm to learn its target customers and tailoring the market mix better meets the needs of the customers (Tanwar, 2013) Build up organizational knowledge of ways to satisfy its target market better than larger rivals.

2.4.2 Focus Strategy and the growth of SME Banking

The target segments must either have buyers with unusual needs or else the production and the delivery segments that best serve the market segments must differ from that of other industry segments (Regis & Laurent, 2013) Commercial banks’ first step in understanding SME opportunity is to develop a clear view of the market size, segmentation, growth trajectory, defining characteristics, needs and preferences. (International Finance Coporation, 2010) Commercial banks have tailor-made their products to recognise and meet the needs of the unique characteristics of their SME markets.

Banks following focus strategy understand the market needs and services required of their customers. Most SMEs do not have collaterals which affect the banks they go to despite the banks requiring to cushion themselves against default risk (Regis & Laurent, 2013). Commercial Banks in Kenya such as Equity offer SME loans at a higher premium but do not ask for collateral in return. Banks pursuing focus strategy invest in Agribusiness to finance and promote the segment. Putting funds aside for this segment to promote their business promotes the growth of businesses of these segments Value add through efficient delivery of farm inputs and introducing them to retailers such as supermarkets, restaurants. Barclays Bank has in the past used focus strategy in other segments through organising China trips for the SME to give them a chance to interact and meet suppliers and build relationships.

Lending products for SME require collateral to reduce loan loss in the event of default and to secure risky loans granted to borrowers (Regis & Laurent, 2013) Lending products contribute to a larger percentage of the banking products compared to the transactional products. High interest rates are charged to SME segment because they value convenience and are not price sensitive. Banks employing focus strategy improves accessibility for loans in this segment as well as flexibility. According to (Memba et al,
Venture capitals have taken interest and focused on SME investment which has led to economic impact in terms of sales growth, profit, asset and improvement in management of finance.

Specific requirements by SME include good reputation, products suited for SME needs, wide network of branches and ATMs and staff that understand the business needs (International Finance Corporation, 2010). Focus strategy works on organisations which have given their target customers what they need. Commercial banks gathering data which reveals the SME awareness have the advantage to come up with products that are suited for this segment. In Kenya, competitions among different players have resulted in organisations investing heavily on Technology to reduce costs as well as improve customer experience. Mobile Banking is a key driver to encourage the SME customer to carry out transactional services as well as request for loans. Convenience on the customer’s side and increased loyalty on the banks side have driven this segment.

The quality of banking services has a major impact on the satisfaction of SMEs and banks should pay more attention to the quality of e-banking websites (Viktorija, 2014). The information provided in the web-sites should be easy to understand and interpret by the SMEs. SME segment is sensitive to the information given by the stuff members of a commercial bank and thus staff will require up skill from time to time. Commercial banks organize workshops for their staff

**2.4.3 Achieving Focus Strategy through ValueAdded approach to SME Banking Segment**

**2.4.3.1 SME Relationship Management**

The ability to develop and manage strong relationships with SME customers has become increasingly important in the competitive banking environment (Madill et al, 2002). Most Commercial Banks in Kenya offer dedicated relationship managers who may double up as Corporate and Retail Banking Relationship Managers. FSD Kenya reports that most branches commercial banks in Kenya did not have dedicated SME managers or staff and SME customers may experience poor service due to absence of an opening enquiring greeting, the RMs are focused on selling rather than listening to the needs of the SME client, the Relationship Managers used banking terminologies and jargon that could not
be understood by SME clients, lack of knowledge on SME products and lack of consistent service.

2.4.3.2 Customer centric Approach

Customer service is a valuable intangible resource that is harder to imitate and provides employees with a better understanding of customer’s value proposition (Heiko, Anders, & Lars, 2011). In Kenya, Banks have adopted 24hr contact can ters and developed a sales team that is equipped with a positive sales culture and who sell the value proposition to the SME segment. The clients visiting the banking hall or An example is chase bank, whose value proposition is As such, proactively offering financial advice to the segment with the aim of adding value to this segment is likely to result to uniqueness of the offering in this segment. Some banks have offered Relationship Managers or Enterprise Bankers to offer services and personalised service

2.4.3.3 Turnaround Time

Depending on the type of service, whether financial or non-financial and the type of collateral require; contrary to the TAT promised, commercial banks in Kenya take a longer time to process the credit applications. According to Hasnah et al, (2013) collateral is the main hindrance to provision of financing to SMEs. According to a research carried out by FSD Kenya, branches that delegated the credit decision at the Braches reported a quicker Tat.

2.6 Chapter Summary

This chapter focus on the theoretical and empirical research done in relation to the research questions in chapter one. This chapter discusses in depth the past studies done in cost leadership strategy and growth of SMEs, differentiation strategies and growth of SMEs and finally, focus strategies and growth of SMEs. The next chapter will give emphasis to research methodology. The sub topics covered will include research design, population and sampling design, data collection methods, research procedures and data collection methods.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology to be used in the study including the design, the population of the study, sample size, sample frame, data collection methods, research procedures and data analysis and presentation of the research findings.

3.2 Research Design

According to (Cooper & Shindler, 2014), research design is important to obtain the answers to the research questions in a specific time period. It is also a roadmap for getting sources and types of information. This is the blue print for fulfilling the research objectives and answering research questions. This study was to determine the effect of the generic strategies on the growth of SMEs in commercial banks in Kenya hence the research design will be descriptive. Descriptive research involves collecting data in order to test hypotheses or to answer questions regarding the participants of the study. Descriptive research is suitable for this study mainly due to the fact that data will be collected and numerical results will be reported for the variables. The independent variables are cost leadership, differentiation and focus strategies while dependent variables are the growth of SME in commercial Banks in Kenya. This will be a formal study with a structure to answer the research questions.

3.3 Population and Sampling Designs

3.3.1 Population

A population is the larger pool from which sampling elements are drawn, and to which all the findings are generalised. (Martin, Kevin, & Desmond, 2006)The target population is based on Bank officials’ interaction with the SME client, involvement in decision making and development of products. The target population from Barclays Bank of Kenya were Portfolio Managers, SME product managers and Branch Managers. A total of 70 employees were interviewed. According to Barclays Bank of Kenya’s website, there are 121 branches countrywide. The study will focus on the Nairobi Region which has 41
branches excluding the head office branches. Nairobi Region is divided into four clusters from which the population will be drawn.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Sampling frame is a specific list of sampling elements in the target population and include many types such as telephone directories, tax records and so on (Neuman, 2009). According to the 2015 annual report, Barclays Bank has 121 branches countrywide. Due to the timeframe and resources available, the population was restricted to Nairobi Branches. This list of Barclays Bank Branches in Nairobi will be obtained from Barclays Bank of Kenya’s website. The study focused on Nairobi region which is divided into four clusters, Nairobi North Cluster, Nairobi South Cluster, Nairobi West Cluster and Nairobi East Cluster. The total number of branches in Nairobi Region is 41, each distributed into the four clusters.

3.3.2.2 Sampling Technique

The sampling technique will be stratified sampling because the population is not homogeneous. Stratified sampling is a procedure in which a variable is controlled in sampling in such a way that its distribution in the sample matches its distribution in the target population (Herzog, 1996). The basis of the strata will be based on classification of the branches into regions within Nairobi. This will be divided into sub groups including the Nairobi North Cluster, Nairobi West Cluster, Nairobi East Cluster and Nairobi South Cluster. The population once divided into the four subgroups, will be split according to title and their interaction with the SME customer. The managers including SME relationship managers, branch managers and SME product managers will be placed in strata based on the region. Simple random sample will then be selected from each group.

3.3.2.3 Sample Size

According to Field (2005), a sample is a smaller collection of units from a population used to determine the truths about that population used to determine truths about that population. The sample size should be representative of the population. The main reason for using Branches within Nairobi was due to lack of sufficient resources and the workload involved. The study used the total population of branch managers, product
managers and SME relationship managers in Nairobi Region. This therefore nullified the requirements to use a sample size. The table below shows the total population of 70 and the branch distribution according to region.

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Branches</th>
<th>Population</th>
<th>Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi North</td>
<td>8</td>
<td>Branch Managers-8</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SME Managers-4</td>
<td></td>
</tr>
<tr>
<td>Nairobi South</td>
<td>10</td>
<td>Branch Managers-10</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SME Managers-8</td>
<td></td>
</tr>
<tr>
<td>Nairobi West</td>
<td>14</td>
<td>Branch Managers-14</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SME Managers-6</td>
<td></td>
</tr>
<tr>
<td>Nairobi East</td>
<td>9</td>
<td>Branch Managers-9</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SME Managers-6</td>
<td></td>
</tr>
<tr>
<td>Head Office</td>
<td></td>
<td>Product Managers-5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Population</strong></td>
<td></td>
<td></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>

Table 3.1: Target Population

3.4 Data Collection Methods

This study used quantitative research which primarily involves collection and analysis of numerical data. The quantitative data collection methods rely on both random sampling
and structured data collection instruments. Quantitative data collection methods include questionnaires, interviews, experiments and observation. The study used primary and secondary data while attempting to answer the research questions. The secondary data will be past annual reports and financial statements from Barclays Bank of Kenya. The primary data will be collected from the subjects using a questionnaire which will be sent through email. A questionnaire is a data collection instruments that aids the researcher to gather information to answer the research questions. For purpose of this study, a ranking method will be used in form of the Likert measurement scale. The Likert measurement scale used will have five criteria used including strongly agree, agree, not sure, disagree and strongly disagree. The questionnaire will have six major sections. The first four sections will address introduction, the research questions in relation to low cost leadership, differentiation strategy and focus strategy. The last two sections will address the growth of SME segment and the general view section. The structure of the questionnaire will be introduction, to explain the objectives and divided into parts to address the research questions which include; What is the effect of cost leadership on the growth of Small and Medium Enterprise Banking at Barclays Bank of Kenya? What is the effect of differentiation on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya? What is the effect of focus strategy on the growth of the Small and Medium Enterprise Banking at Barclays Bank of Kenya?

3.5 Research Procedures

The instrument was developed by the researcher. Permission was sought from the relevant banks. Validity will be tested by submitting the questionnaire to the supervisor of this project to confirm whether the questions will capture the objectives of the research. A pre-test will be carried out to test the reliability of the questionnaire using a minimum number of five respondents. The questionnaire will take 15 to 20 minutes to complete the sections. The pre-test will be used to determine the questions can be understood and that they are easy to answer. The researcher will distribute the questionnaire on email and send reminders to the respondents.

3.6 Data Analysis Methods

Data analysis will be done using descriptive statistics including mean, standard deviation, frequency distribution, percentage distribution. The inferential techniques including
correlation were used. Freund (2001) underscores that the main objective of any statistical investigation is to determine relationships that make it feasible to predict one or more variables in terms of other variables. The obtained data was analysed using Microsoft Excel and the Statistical Package for Social Sciences (SPSS) and then presented in graphs, tables, pie charts and figures to enable effective and efficient interpretation.

3.7 Chapter Summary

This chapter focuses on the research methodology that will be used to collect data, the sampling frame, target population, sampling size and the data analysis techniques used. Chapter four will discuss the results and findings of the data collected. The next chapter shows how the data collected from the field study was analysed, presented and interpreted by the researcher in this study.
CHAPTER FOUR

4.0 Data Analysis, Presentation and Interpretation

4.1 Introduction

This chapter deals mainly with analysis, presentation and interpretation of the findings of this study. The chapter therefore presents the overall breakdown of data collected and how it responded to the research objectives and questions that were meant to analyse and provide answers on the issue of the effects of generic strategies on the growth of SME Banking in Kenya.

4.2 General Information

4.2.1 Response Rate

A total of 70 questionnaires were distributed and 65 questionnaires were returned. The questionnaires were reviewed for completeness and accuracy. They registered 93% participation and this was considered adequate for the analysis. The questionnaires were distributed by email and feedback received as per the analysis shown in the figure below:

![Response Rate](image)

**Figure 4.1: Response Rate**

4.2.2 Respondents Gender Distribution

The figure below shows the number and the percentage of each of the respondents under this study. Male respondents were slightly more than the female. The male respondents were more at 56% as compared to their female counterparts who were 37% of all the respondents in this study. 7% of the respondents did not return the questionnaires.
4.2.3 Experience of the Respondents

Respondents who participated in this had varied years of experience in their different positions and professionals in this bank. Most respondents fell in the 15 years at 38%.

<table>
<thead>
<tr>
<th>Experience in Years</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>13</td>
<td>18.6</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>10 years</td>
<td>21</td>
<td>30.0</td>
<td>32.3</td>
<td>52.3</td>
</tr>
<tr>
<td>15 years</td>
<td>27</td>
<td>38.6</td>
<td>41.5</td>
<td>93.8</td>
</tr>
<tr>
<td>30 years and above</td>
<td>4</td>
<td>5.7</td>
<td>6.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>92.9</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.1: Experience of Respondents

4.2.4 Age of the Respondents

The respondents who took part in this study were aged from 20 and above with the graph below showing the age percentage distribution of the respondent. Majority of the respondents were aged between 31 years and 40 years. The respondents aged 51 and above who participated in the study were less than 5%.
Figure 4. 3: Age of Respondents

4.2.5 Competitive Advantage of the Institution

There are many commercial banks and other financial institutions operating in Kenya today and each of these institutions have different market share, dominance and competitiveness the table below shows how the respondents rated their institution according to its competitiveness in the financial sector in Kenya. There were 45 respondents who formed 64.3% of the population and rated the institution to be competitive between 10% to 25%. Fourteen respondents rated the institution as below 10% competitive. No respondent rated the institution competitiveness to be above 50%.

<table>
<thead>
<tr>
<th>Competitive Advantage of the Institution</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10%</td>
<td>14</td>
<td>20.0</td>
<td>21.5</td>
<td>21.5</td>
</tr>
<tr>
<td>10%-25%</td>
<td>45</td>
<td>64.3</td>
<td>69.2</td>
<td>90.8</td>
</tr>
<tr>
<td>25%-50%</td>
<td>6</td>
<td>8.6</td>
<td>9.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td><strong>92.9</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 4. 2: Competitive Advantage
4.2.6 Analysis of SME product contribution towards SME Banking Revenue

SME services have contributed largely towards the growth and sustainability of the institution revenues and this analysis was done according to these results from the questionnaire of this study. Transactional products have the largest contribution at 30% contributions with trade finance, asset finance, treasury services and lending products following at 20%.

This analysis is shown in the table below:

<table>
<thead>
<tr>
<th>Product</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Services</td>
<td>65</td>
<td>1.4769</td>
<td>.84977</td>
</tr>
<tr>
<td>Treasury Services</td>
<td>65</td>
<td>1.2769</td>
<td>.45096</td>
</tr>
<tr>
<td>Lending Products</td>
<td>65</td>
<td>1.4308</td>
<td>.49904</td>
</tr>
<tr>
<td>Asset Finance</td>
<td>65</td>
<td>1.2308</td>
<td>.42460</td>
</tr>
<tr>
<td>Trade Finance</td>
<td>65</td>
<td>1.2462</td>
<td>.43412</td>
</tr>
</tbody>
</table>

Table 4. 3: Revenue Contribution

4.3 Correlation

Pearson’s correlation shown below explains the relationship between the independent variables, cost leadership strategy, differentiation strategy, focus strategy and the dependent variable, growth of the SME segment. From the table below, there is a positive relationship between cost leadership, differentiation strategy and focus strategy. The correlation between growth of SME segment is at 0.247. Differentiation strategy is negatively correlated to focus strategy but positively related to both cost leadership and growth of SME segment. Focus strategy shows a negative correlation with the differentiation strategy as per the table below. Finally, the growth of SME segment is positively correlated with all the independent variables.
Correlations

<table>
<thead>
<tr>
<th></th>
<th>Cost Leadership Strategy</th>
<th>Differentiation Strategy</th>
<th>Focus Strategy</th>
<th>Growth of SME segment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Leadership Strategy</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.083</td>
<td>.202</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.820</td>
<td>.602</td>
<td>.689</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>11</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Differentiation Strategy</strong></td>
<td>Pearson Correlation</td>
<td>.083</td>
<td>1</td>
<td>-.252</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.820</td>
<td>.513</td>
<td>.922</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>10</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Focus Strategy</strong></td>
<td>Pearson Correlation</td>
<td>.202</td>
<td>-.252</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.602</td>
<td>.513</td>
<td>.898</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td><strong>Growth of SME segment</strong></td>
<td>Pearson Correlation</td>
<td>.247</td>
<td>.061</td>
<td>.080</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.689</td>
<td>.922</td>
<td>.898</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 4.4: Correlations

4.4 Cost Leadership Analysis

The figures and table below shows the frequencies and percentages of cost leadership analysis of this institution as given by the respondents who participated in this research study according to the questionnaires that was used. The chart below shows that most correspondents strongly agree and agree with the cost leadership strategies that the institution has employed. The respondents strongly agree that operational efficiency has led to the reduction of cost in SME Banking segment compared to technological innovations.
Figure 4.4: Frequency of Cost Leadership Strategy

The table below shows that generally, respondents strongly agree and agree with the cost leadership strategies. Agency Banking, Operational Efficiency and the Branch Network were the top three which the correspondents strongly agreed to.

<table>
<thead>
<tr>
<th>Cost Leadership Strategy</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME products are priced lower than other products</td>
<td>65</td>
<td>2.8308</td>
<td>1.52653</td>
</tr>
<tr>
<td>The bank has achieved low cost strategy in other segments</td>
<td>65</td>
<td>2.8000</td>
<td>1.34861</td>
</tr>
<tr>
<td>There tight control of overhead costs</td>
<td>65</td>
<td>2.7846</td>
<td>1.32868</td>
</tr>
<tr>
<td>Agency banking has reduced overall banking infrastructure costs</td>
<td>65</td>
<td>2.4615</td>
<td>1.21291</td>
</tr>
<tr>
<td>Technological innovations have resulted to banking costs reduction</td>
<td>65</td>
<td>2.2615</td>
<td>1.43915</td>
</tr>
<tr>
<td>Online Banking has increased performance through cost reduction</td>
<td>65</td>
<td>2.1538</td>
<td>1.18889</td>
</tr>
<tr>
<td>There is vigorous pursuit of cost reduction</td>
<td>65</td>
<td>2.0923</td>
<td>1.08575</td>
</tr>
<tr>
<td>SME clients use mobile banking</td>
<td>65</td>
<td>2.0615</td>
<td>.96626</td>
</tr>
<tr>
<td>The bank uses the branch network to serve SME clients efficiently</td>
<td>65</td>
<td>1.9692</td>
<td>1.01503</td>
</tr>
<tr>
<td>Operational efficiency has led to reduction of costs in the SME segment</td>
<td>65</td>
<td>1.9077</td>
<td>1.12809</td>
</tr>
<tr>
<td>Agency banking has reduced operational costs</td>
<td>65</td>
<td>1.9077</td>
<td>.96377</td>
</tr>
</tbody>
</table>

Table 4.5: Mean and Standard Deviation of Cost Leadership Strategy
The table below shows that cost leadership strategy is positively correlated at (R) 0.286. The model summary explains the overall significance of the multiple regression equation. The coefficient of determination (R square) equals 0.082, that is 8.2% of the variation in Growth of SME segment can be explained by changes in Cost Leadership Strategy.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.286a</td>
<td>.082</td>
<td>-.020</td>
<td>.5274641</td>
<td>.082</td>
<td>.803</td>
</tr>
</tbody>
</table>

| a. Predictors: (Constant), Cost Leadership Strategy |

<table>
<thead>
<tr>
<th>Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

| a. Dependent Variable: Cost Leadership Strategy |

**Figure 4.5: Regression Model - Cost Leadership Strategy**

The established linear regression equation becomes:

**Growth of SME Segment= 1.127+ 0.196 Cost Leadership Strategy**

**4.5 Differentiation Analysis**

In determining how differentiation strategies have contributed to SME banking growth, according to the research question on the effects of differentiation on the growth of SME banking in Barclays Bank in Kenya, the table below shows the distribution in mean of the responses which reflect the frequency of data that was collected for this research study.
Figure 4.6: Frequency of Differentiation Strategy

Most correspondents strongly agree and agree with the differentiation strategies employed by the bank; most respondents felt that the bank is marketing the SME products, that they offer non-financial services as well as offering unique products to the SME customers. The mean distribution of all the research questions have confirmed this as outlined in the table below.
Table 4. 6: Standard Deviation and Mean of Differentiation Strategy

The table below shows that cost leadership strategy is positively correlated at (R) 0.418. The model summary explains the overall significance of the multiple regression equation. The coefficient of determination (R square) equals 0.083, that is 8.3% of the variation in Growth of SME segment can be explained by changes in Differentiation Strategy. The mean distribution of all the research questions have confirmed this as outlined in the table above. The analysis shows that with effective differentiation strategies such as coming up with unique services and products, banks can be able to grow the SME banking.
The established linear regression equation becomes:

\[
\text{Growth of SME Segment} = 2.992 - 0.680 \times \text{Differentiation Strategy}
\]

**Figure 4.7: Differentiation Strategies Regression Model**

The researcher also analyzed the effect of focus strategies to the growth of SME banking according to the research question on the effect of focus strategy on the growth of SME banking in Barclays Bank of Kenya. The table below shows the frequency of the responses.
The mean distribution of this issue as calculated by the researcher, it is clear that focus strategy play a very important role when it comes to the growth of SME Banking.

<table>
<thead>
<tr>
<th>Focus Strategies</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank is customer centric towards SME clients</td>
<td>2.8000</td>
<td>1.60273</td>
</tr>
<tr>
<td>Would you say that credit making decisions are made at the branch level</td>
<td>2.7692</td>
<td>1.54888</td>
</tr>
<tr>
<td>There are dedicated Relationship Managers for SME segment</td>
<td>2.5077</td>
<td>1.33607</td>
</tr>
<tr>
<td>There is a quick turnaround time in account opening for SME clients</td>
<td>2.4923</td>
<td>1.40449</td>
</tr>
<tr>
<td>The turnaround time offered for SME clients is quicker compared to Corporate Banking Segment</td>
<td>2.4769</td>
<td>1.60183</td>
</tr>
<tr>
<td>The bank has given this segment the attention it needs</td>
<td>1.7231</td>
<td>1.08264</td>
</tr>
<tr>
<td>The bank is dedicated to serve the SME clients better than competitors</td>
<td>1.6769</td>
<td>.96998</td>
</tr>
<tr>
<td>The bank has tailored it’s market mix to the SME segment</td>
<td>1.6615</td>
<td>1.13574</td>
</tr>
<tr>
<td>The bank offers specific products for SME clients</td>
<td>1.5077</td>
<td>.93747</td>
</tr>
</tbody>
</table>

**Table 4.7: Focus Strategy Mean and Standard Deviation**

The table below shows that cost leadership strategy is positively correlated at (R) 0.189. The model summary explains the overall significance of the multiple regression equation. The coefficient of determination (R square) equals 0.036, which is 3.6% of the variation in Growth of SME segment can be explained by changes in Focus strategy.
### Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
<td>F Change</td>
</tr>
<tr>
<td>1</td>
<td>.189</td>
<td>.036</td>
<td>-.071</td>
<td>.5405078</td>
<td>.036</td>
<td>.335</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Focus Strategy

### Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.855</td>
<td>.711</td>
</tr>
<tr>
<td></td>
<td>Focus Strategy</td>
<td>-.193</td>
<td>.333</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth of SME segment

**Figure 4.9: Regression Analysis of Focus Strategy**

The established multiple linear regression equation becomes:

**Growth of SME Segment =1.855-0.193 Focus Strategy**

### 4.7 Regression Analysis

The researcher also analysed the issue of SME market segment growth and how it has contributed to the growth of SME banking and the results as given by the respondents of this study are shown as follows in the table below. The model summary explains the overall significance of the multiple regression equation. The coefficient of determination (R square) equals 0.120, that is, 1.2% percent of the variation in the growth of SME can be explained by changes in Cost Leadership, Differentiation and Focus Strategy.
### Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td>1</td>
<td>.347&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.120</td>
<td>-2.518</td>
<td>.6957415</td>
<td>.120</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Focus Strategy, Cost Leadership Strategy, Differentiation Strategy

### Coefficients<sup>a</sup>

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.612</td>
<td>4.899</td>
<td>.125</td>
<td>.921</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>.372</td>
<td>1.477</td>
<td>.291</td>
<td>.252</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>.104</td>
<td>.616</td>
<td>.176</td>
<td>.168</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Growth of SME segment

Figure 4.10: Regression Analysis for Generic Strategies

The established multiple linear regression equation becomes:

**Growth of SME Segment = 0.612 + 0.452 Cost Leadership Strategy + 0.372 Differentiation Strategy + 0.14 Focus Strategy**

### 4.8 Chapter Summary

The data and information that was collected by the researcher has been fully analysed and presented using tables, figures and graphs. Various explanations have been given on the data that was collected and the findings have also been fully analysed and explained. This helps the readers to fully understand the findings and the analysis of the results of the study. Descriptive statistics has been used in the study analysis while correlations have been used to indicate the relationship between variables. This gives readers a better understanding of the kinds of discussions, conclusions and recommendations to expect in the next chapter of this study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes the study and it offers readers with the summary of the study findings, the study discussions, conclusions and the recommendations which the researcher develops form the findings of this study. The recommendations offered are both for improvement of SME banking in its growth and for further studies on this issue of the generic strategies affecting the growth of SME banking and other closely related areas.

5.2 Summary

The purpose of the study was to investigate the effects of generic strategies on the growth of SME banking in Kenya with a key focus on the Barclays Bank of Kenya. The study was guided by the following research questions: what is the effect of cost leadership on the growth of SME banking at Barclays Bank of Kenya, what is the effect of differentiation on the growth of the SME banking at Barclays Bank of Kenya and what is the effect of focus strategy on the growth of the SME banking at Barclays Bank of Kenya.

This was done by analysing the relationship that exists between various variables on the growth of SME banking. This institution was selected because it was able to give a good representation of other commercial banks and financial institutions offering SME banking services and products.

This study started by closely examining the various key concepts of the generic strategies and at a global perspective and their influence on the SME banking. This gave the research a better understanding and overview of the issue at a global level and this helped the researcher in fully getting the key pointers of enhancing and achieving more accurate and reliable data and information for this study on this research topic.

Thereafter the study looked at the literature available to support this issue of the effect of generic strategies on the growth of SME banking analysing various theories and studies available on the same issue globally. Several strategies were identified, analysed and
evaluated and the research questions were realized and the objectives of the study were also realized and fully achieved in this study by the researcher after data collection, interpretation and analysis stages of this study. The study then analysed the results using descriptive and inferential statistics methods of analysis. This has led to the final chapter in this research study, where several discussions, recommendations and conclusions are made as well as the final further study recommendation to other scholars and researchers.

The study findings suggest that cost leadership strategies need to be adopted when it comes to the banking sector because the study findings show that this can facilitate competitiveness creation and promote overall growth of the SME banking. Differentiation strategies also need to be developed and ensure that the banks are offering unique services and products of high value proposition and this can promote the SME banking growth in the banking sector. These strategies have the ability to facilitate improvement in performance of these banks and also increase their sales in the banking markets.

The study also found out that focus strategies can be able to transform and grow the SME banking because they enable the bank to come up with effective strategies and all the resources and energies of the banks are directed towards a specific market or segment of the banking market and this can facilitate the realization of the bank goals and objectives. This can also improve on the growth of the SME segments and this will in turn be reflected in the SME banking growth.

5.3 Discussion

5.2.1 Cost Leadership on the Growth of SME Banking

Cost leadership is the ability of an institution to be able to come with the best prices which are admirable by the various stakeholders in the business environment. This study has been able to establish that cost leadership strategies in Barclays bank and this has been able to grow the SME banking in this bank. This has been reflected in many financial institutions as the study establish when analysing other research work which has been done on this area of study by other researchers globally. The data analysis shows that Cost leadership is a factor that has a close relationship with SME banking growth and is highly important when it comes to the transformation of the SME banking sectors in commercial banks and financial institutions. This means that, for banks to be able to fully achieve and maintained their performance and growth, they should be able to analyse and
evaluate fully the cost strategies that they adapt and implement in their operations. This will greatly improve, create, maintain and sustain the overall profitability of these banks.

The positive correlation states that cost leadership strategies contribute to the growth of SME and technological innovations are a key factor in achieving this. This agrees with (Musara & Fatoki, 2010), that technology is essential in improving efficiency as well as reducing costs. Mobile Banking, Agency Banking and Online Banking are contributors to improved customer experience and improved efficiencies. Twenty seven percent of the respondents strongly agree with the cost leadership strategies employed by the bank. Branch Network, Agency Banking and Operational efficiencies are at the top. In chapter two, one of the main strategies that past studies have confirmed to be effective in cost leadership strategy is through operational efficiency. The research findings confirm that operational efficiency is important to reduce the costs and hence profitably manage this segment.

The findings confirm that the service delivery channels contribute immensely to achieving the low cost strategy through cost reduction. The branches are used to cross-sell products. Clients use the systems for self-service leading to the reduction of costs as there are no costs involved or extra resources required when using alternate channels. As such, banks have to invest in infrastructure and tightly control costs for all segments. The study shows that tight monitoring of existing costs is essential for achieving low cost strategy.

The fact that the banking industry is a service industry and may not achieve low cost strategy in the same manner as manufacturing industries leaves the option of relying on technology to achieve low cost. Proper infrastructure, close monitoring of systems, continuous upgrade of the existing systems that enhance communication within the branches is important. In addition to technology, a wide branch network gives the advantage of cross selling SME products at a lower cost. Agency banking has been considered to complement the branches.
5.2.2 Differentiation on the Growth of SME Banking

When it comes to differentiation contribution towards SME banking growth, the various strategies of differentiation have really contributed to the transformation and growth of the SME banking. Differentiation ensures that institutions are able to come up with unique products and services and ensure that these services have high value and quality standards. This was evident to be true in Barclays Bank due to its unique and valuable services and products for SME clients. This has facilitated growth and development of the bank.

The linear regression \( \text{Growth of SME Segment} = 2.992 - 0.680 \text{ Differentiation Strategy} \) demonstrates that differentiation strategy is not as effective as pursuing the combined strategies. Differentiation focuses on design, brand image etc. These features lease to high profitability only when premium is charged (Jeff, 2009). Twenty seven percent of the respondents strongly agreed with marketing SME products, offering non-financial services such as advisory and club membership and offering unique products to SME customers. This is in line with our empirical studies that a firm will require strong marketing abilities and product engineering to implement differentiation strategy. Correspondents agreed that the bank’s brand attracts SME clients as with other empirical studies which emphasize on corporate reputation and the importance it plays on differentiation.

Pearson’s correlation shows a positive relationship between differentiation strategy and cost leadership strategy. Banks pursuing a combination of differentiation and cost leadership are likely to achieve grow within the SME segment. Empirical studies show that there is conflict decision between costs versus differentiation. This study shows otherwise mainly due to modern technologies that have made it possible for firms to achieve both differentiation and cost leadership strategies. On the other hand, differentiation strategy is negatively correlated with focus strategy, which is also in line with empirical strategies that differentiation does not require market segmentation (Peter & James, 1987). Differentiation strategy is positively correlated to the growth of SME segment within the banking segment.

The multiple linear correlation explains that the growth of SME segment can be achieved by the combination of differentiation alongside cost leadership and focus strategies.
Banks pursuing differentiation strategies in other segments can implement combination strategies or mixed strategies to achieve the growth of the SME segments together with other segments. Mixed strategies are advantageous for organizations especially due to the turbulent environment and the advancement of technology that has made organizations to be innovative as well as reduce costs. Pure differentiation strategy achieved within the organization may be expensive and may not be effective as the consumer has many choices. Differentiation through availing account opening requirements, offering differentiated products and services, reducing collateral requirements and offering non-financial services may not be effective if not combined with Cost Leadership and Focus strategies.

5.2.3 Focus Strategy on the Growth of SME Banking

Focus strategies involve the process in which the organization is able to establish a specific target market for its products and services. The findings of this study have established that Barclays bank largely come up with products and services which are meant for specific classes of clients in the market and this enables the bank to serve each class of clients effectively. From the outcome of the data analysed focus strategies has influenced greatly the growth of SME banking in Barclays Bank. This is because the bank has been able to focus on specific target markets and its products and services are for a specific group of clients in the society and this has enabled the bank to be able to come up with the most valuable products and services for their clients especially when it comes to SME banking.

The findings show that there is emphasis in the SME segment. Forty four percent of the correspondents strongly agree that the bank employs focus strategies with key areas including offering specific products for SME clients, a tailored market mix for the SME segment and giving the segment the attention it needs. This is in line with our empirical studies that shows that the bank needs to learn its target segment, tailor make their products, and provide a market mix (Tanwar, 2013)

Pearson’s correlation shows that focus strategy is positively correlated to cost leadership strategy and negatively correlated to differentiation strategy. Focus strategy is highly dependent on segmentation. The products and services served in this segment must differ from those served in other industry segments. From the outcome of the standardized beta
which is 0.168 shows that growth of SME segments has been enhancing the overall growth of the SME banking. The linear regression $Y=1.855-0.193X$ demonstrates that focus strategy may not be effective if applied on its own. This is true because cost focus and differentiation focus are part of differentiation strategies and focus strategies. Empirical studies show that pure strategies allow a more focused organizational effort towards achieving perceived uniqueness (White, 1986). From the linear regression, Growth of SME Segment =0.612+ 0.452 Cost Leadership Strategy +0.372 Differentiation Strategy + 0.14 Focus Strategy, mixed strategies are more effective compared to pure strategies.

5.3 Conclusions

5.3.1 Cost Leadership on the Growth of SME Banking

The study has drawn a conclusion that Cost leadership strategy achieved purely can lead to the growth of the SME segment. In addition, cost leadership strategies combined with differentiation strategies and focus strategies achieve growth within the SME segment. Cost leadership contributes the highest among the three strategies in the growth of SME segment. The study has established that Cost Leadership can be achieved with investments in the right technology tools which will lead to a ripple effect in achieving differentiation and focus strategies. The study also concludes that alternative channels such as mobile banking, agency banking and internet banking contribute immensely to achieving cost leadership strategy.

5.3.2 Differentiation on the Growth of SME Banking

Commercial banks pursuing differentiation strategies on their own may not achieve much growth. However, the study concludes that differentiation strategy combined with focus and cost leadership strategies achieve growth within the segment. This is because technology advancements such as mobile banking and agency banking have led to commercial banks coming up with more innovative and unique products such as lending, transactional banking products among others.

5.3.3 Focus Strategy on the Growth of SME Banking

Focus strategies is ideal for smaller institutions. This study concludes that focus strategy contributes the least to the growth of the SME segment. It is therefore concluded that this
strategy would be effective for banks looking to employ specialised individuals, such as relationship managers for SME segment, or provide a product mix mainly for the SME segment. The study concludes that focus strategy will require the organisation to do segmentation to ensure the right customer is targeted. Further, focus strategy in this study, is concluded to lead to the growth of SME segment if combined with Cost Leadership and Differentiation strategies.

5.4 Recommendations

5.4.1 Recommendations for Improvement

5.4.1.1 Cost Leadership on the growth of SME Banking

Cost leadership contributes the most to the growth of the SME segment due to its ripple effect on both differentiation and focus strategies. Commercial banks should careful carry out a cost benefit analysis and invest in technology that would encourage development of new products, innovation, make account opening easier as well as encourage SME clients to use the system. This will lead to reduced costs, unique products that are suited for various client needs and more focused approach would be adopted by the bank. Due to the dynamic nature of technology, the organisation will be required to take caution and do a market research to ensure the resources are invested in the right technology.

5.4.1.2 Differentiation on the growth of SME Banking

Differentiation works well for the SME segment. However, given the fact that this segment is price sensitive, the organisation may not be in a position to charge a margin to recover the investment on the uniqueness of the product. In the process of introducing new products to this segment, an organisation should not be aggressive as the uptake of the product may be poor. Differentiation in regards to improved service as well as cross selling is highly recommended as this does not require huge capital outlay as the organisation will be able to use the sales team or staff at the branches to achieve this. An organisation that invests wisely in technology will easily achieve differentiation through new products
5.4.1.3 Focus strategy on the growth of SME Banking

Focus strategy requires SME segmentation and more emphasis in this segment through provision of specialised services and products. This study recommends that Commercial banks and financial institutions pursuing focus strategy to combine this with differentiation and cost leadership strategy to achieve a greater advantage.

5.4.2 Recommendations for Further Study

The researcher suggests that further study needs to be carried out on additional strategies that can be employed in an organisation to achieve competitive advantage as well as growth in all segments within the banking industry. The study also recommends a further research on the cost leadership strategy given the fact that it contributes heavily to the growth of the SME segment. The effects of technology on cost control within the organisation also need to be further researched.
REFERENCES


UNDP. (2015). *Micro, Small and Medium-Size Enterprises (MSMEs) as Suppliers to the extractive industry*. UNDP.


Dear Sir/Madam,

RE: REQUEST FOR COMPLETION OF THE QUESTIONNAIRE

I am a student at United States International University, Africa. I am conducting a research study to look at ‘The Effects of Generic Strategies on the growth of SME Banking’ part of my MBA project and need the views of experienced SME Managers, Branch Managers and SME Product Managers.

For this purpose I require your help for getting responses for the attached questionnaire. Please note that all information provided will be treated with confidentiality and for purposes of this research only.

Should you require any clarity, please feel free to contact the undersigned,

Thanks a lot for your co-operation.

Yours faithfully,

Abigael Ondiek

Student ID 645925
THE EFFECT OF GENERIC STRATEGIES ON THE GROWTH OF SME BANKING: A CASE STUDY OF BARCLAYS BANK OF KENYA LIMITED

Dear Respondents,

Your contribution responses and support to this study will be highly appreciated and the information given will be treated with confidentiality.

Section A: GENERAL INFORMATION

1) Title ........................................................................................................

2) Branch Name .........................................................................................

3) Gender  Male  Female

4) Age of the respondent

20-24  25-30  31-40  41-50  and above

5) Years of experience

5 years  10 years  years  years and above

6) What level of competitive advantage does Barclays Bank enjoy in the SME segment?

a) Below 10%  b) 10% to 25%  c) 25% to 50%  d) 50% to 75%  e) 75% to 100%

7) What is the size of SME in your Branch?

Below 10%  20%  30%  40%  50%  Above 50%

8) What is the contribution of the following services to SME’s revenue?

<table>
<thead>
<tr>
<th>Service</th>
<th>Revenue Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Below 10% 20 30 40  Above 50%</td>
</tr>
<tr>
<td>a) Transactional Services</td>
<td></td>
</tr>
<tr>
<td>b) Treasury Services</td>
<td></td>
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<tr>
<td>c) Lending Products</td>
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<tr>
<td>d) Asset Finance</td>
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<tr>
<td>e) Trade Finance</td>
<td></td>
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</tbody>
</table>
**Section B: Low Cost Leadership**

Respond to the items by following the criteria given to you. Tick on one of the box under each item to rate your bank. 1) Strongly agree 2) agree 3) not sure 4) disagree 5) strongly disagree

<table>
<thead>
<tr>
<th>Low cost leadership</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) SME products are priced lower than other products</td>
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<tr>
<td>b) Operational efficiency has led to reduction of costs in the SME segment</td>
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<tr>
<td>c) Technological innovations have resulted to banking costs reduction</td>
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<td>d) SME clients use mobile banking</td>
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<tr>
<td>e) The bank uses the branch network to serve SME clients efficiently</td>
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<tr>
<td>f) Online Banking has increased performance through cost reduction</td>
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<tr>
<td>g) Agency banking has reduced operational costs</td>
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<tr>
<td>h) Agency banking has reduced overall banking infrastructure costs</td>
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<tr>
<td>i) The bank has achieved low cost strategy in other segments</td>
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<tr>
<td>j) There tight control of overhead costs</td>
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<tr>
<td>k) There is vigorous pursuit of cost reduction</td>
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</tbody>
</table>

**Part C: Differentiation**

Respond to the items by following the criteria given to you. Tick on one of the box under each item to rate your bank. 1) Strongly agree 2) agree 3) not sure 4) disagree 5) strongly disagree

<table>
<thead>
<tr>
<th>Strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The bank offers unique products for SME customers</td>
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<tr>
<td>b) The bank’s brand attracts SME clients</td>
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<tr>
<td>c) The bank markets SME products</td>
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<tr>
<td>d) SME clients are offered non-financial services</td>
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<tr>
<td>e) The bank offers non-financial services such as advisory and club membership</td>
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<tr>
<td>f) The Bank has a value proposition for SME client</td>
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</tbody>
</table>
g) Account opening requirements are easily accessible at the branch

h) Account opening requirements are easily accessible on the bank’s website

i) The bank requires collateral for provision of loan

j) The bank has achieved differentiation strategies for other segments

**Part D: Focus Strategy**

Respond to the items by following the criteria given to you. Tick on one of the box under each item to rate your bank. 1) Strongly agree 2) agree 3) not sure 4) disagree 5) strongly disagree

<table>
<thead>
<tr>
<th>Strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) The bank offers specific products for SME clients</td>
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<tr>
<td>b) The bank is dedicated to serve the SME clients better than competitors</td>
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<tr>
<td>c) The bank has tailored it’s market mix to the SME segment</td>
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<tr>
<td>d) There are dedicated Relationship Managers for SME segment</td>
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<tr>
<td>e) The bank is customer centric towards SME clients</td>
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<tr>
<td>f) There is a quick turnaround time in account opening for SME clients</td>
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<tr>
<td>g) The turnaround time offered for SME clients is quicker compared to Corporate Banking Segment</td>
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<tr>
<td>h) The bank has given this segment the attention it needs</td>
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<tr>
<td>i) Would you say that credit making decisions are made at the branch level</td>
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</tbody>
</table>

**Part E: Growth of SME segment**

Respond to the items by following the criteria given to you. Tick on one of the box under each item to rate your bank. 1) Strongly agree 2) agree 3) not sure 4) disagree 5) strongly disagree

<table>
<thead>
<tr>
<th>Strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) SME segment adds value to the bank’s overall growth</td>
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<tr>
<td>b) The products offered in the SME segment are competitive compared to other banks’ offering</td>
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<tr>
<td>c) SME segment is competitive when it comes to lending</td>
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</tr>
</tbody>
</table>
d) The SME customers use transactional services

e) SME customers default on their loans

**Part F: General View**

a) What recommendations can you suggest to the management of this bank on the effect of generic strategies on the growth of commercial banks in Kenya?

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Thank you for your time and participation in filling the questionnaire.