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## Branch Transformation Strategies and Competitive Advantage of Commercial Banks in Ongata Rongai Town Kaijado County, Kenya

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### **Abstract:**

Significant transformations in both developing and developed economies have happened in the banking sector over the last twenty years. These transformation initiatives in the banking industry are meant to optimize, modernize and reimagine the bank through the application of transformation strategies to create competitive advantage for commercial banks. The bank branch is considered as the main tool for accessing customers, increasing market share, attracting new customers, and gaining competitive advantage. Due to the high level of competition in the banking sector in Kenya, banks have been forced to introduce transformative strategies at the branch level. The aim of these transformative strategies is to create loyalty, customer and stakeholder satisfaction and increase market share for competitive advantage. Therefore, branch transformation strategy stresses the application of incremental, disruptive and fundamental changes aimed at reimagining, optimization and modernizing of the branch network through strategic customer centricity, strategic staffing, innovation and operational excellence in order to gain competitive advantages. This research study aimed to determine the effect of the branch transformative strategies on the competitive advantages of commercial banks in Ongata Rongai Town, Kenya. The specific objectives of this study included determining the relationship between customer-centric, innovation, strategic staffing, operational excellence strategies and competitive advantage. The study was anchored on the Resource-Based View Theory, Michael Porter's Generic Strategies Model, and Lean Six-Sigma Model. The study adopted the descriptive research design. The population consisted of all the seventeen commercial banks operating in Ongata Rongai Town, Kenya. The study used census. The respondents were fifty-one top managers working at the seventeen commercial banks in Ongata Rongai Town, Kenya. The study used primary qualitative data. The data was collected using questionnaires. The data collected was evaluated using ANOVA. The study established that customer-centric, innovation, and operational excellence strategies had a positive and statistically significant effect on the competitive advantage of the seventeen commercial banks operating in Ongata Rongai Town, Kenya. Strategic staffing was found to have a positive but statistically insignificant effect on competitive advantages. The study recommended that commercial banks enhance the use of customer-centric, innovation, and operational excellence strategies as this will lead to increased competitiveness. The study further recommends that commercial banks should review their strategic staffing framework to make it more effective.

**Keywords:** Transformative, customer centric, competitive advantage, innovative, operational excellence, performance

### **1. Introduction and Background**

Significant transformations in both developing and developed economies have happened in the banking sector especially in the last twenty years (Li, 2007). These transformation initiatives in the banking industry seeks optimize, modernize and reimagine the bank branch through the application transformation strategies to create competitive advantage for commercial banks. Commercial banks and other financial institution help in producing markets, services and products in the banking industry as well as facilitating and interlinking other industries and economies locally and globally. They operate in an environment driven by forces of competition, information technology, regulations, and increasing changing customer demands. Therefore, no commercial bank operating in this turbulent and competitive environment can succeed, survive, or even achieve its business goals, which are to earn revenue, without developing and implementing a unique transformational strategy necessary to retain and enhance competitiveness. Branch transformation strategy in the banking sector provides a road map that ensures delivery of banking products and services in a manner that satisfy, delights, and gives customer experience.

The various causes of transformation include management change, industry discontinuities, stakeholder expectations, new forms of relationship, performance decline and technology (Morgan & Page, 2008). The nature and scope of change determine how the company deals with the transformation effort. For instance, incremental transformation requires continuous building and improvement on an existing skill, routine and beliefs while disruptive transformation involves a new direction and decisive move. On the hand, a fundamental transformation demands a paradigm shift that

requires the whole organization to be altered all together (Ellermann, Kreutter & Messner, 2016). Significant transformation in innovation, customer centric, strategic staffing and operational excellence strategy is crucial for the branch to survive in this dynamic banking environment. Transforming to digital model offering omni-channel experience where a seamless integration of physical and digital customer journeys and experiences. Therefore, offering the consumer a solitary, constructive and unified experience becomes a vital transformational strategy for gaining competitive advantage.

## 2. Statement of the Problem

Over the last few decades, the banking sector in Kenya has experienced significant challenges (Otieno, 2018). These challenges include the collapse of three banks, increased government regulations, stiff competition from international banks, digital disruption, globalization, and the emergence of telecommunication firms as key players in the provision of financial services (Central Bank of Kenya, 2019). Additionally, the banking sector in Kenya is dominated by five large commercial banks, which have the largest assets, capital base and subsequently realize most of the profits and hold more than 50% of the market share. These challenges have made commercial banks to realize that they need to transform their operations in order to survive and to remain competitive. The banks have introduced transformative strategies. These strategies have been focused on the branches, as the bank branch is the main avenue for conducting business (Timor, 2016).

Several studies have been undertaken to investigate transformation strategy. For instance, Wangui (2013) assessed the transformative strategies of microfinance institutions. Wangui (2013) established that management information system, capital requirements, ownership and governance play an important role in MFI transformation to formal banking. The study by Wangui (2013) did not address the transformative strategies used by commercial banks; this study addressed the research gap. Ringim and Bello (2013) also conducted a study on transformation strategies of small and medium financial institutions in the United States; the study established that revised reward system, people's involvement, empowerment, training and education were significantly related to overall organizational performance in terms of turnover, profit margin, customer service delivery and operational cost reduction performance. Ringim and Bello (2013) addressed transformative strategies of financial institutions in a developed economy; this study addressed the transformative strategies in a developing nation.

Oljesten and Markus (2015) investigated the use of change and transformative strategies by five thousand manufacturing firms in the Czech Republic; they established that the strategies did not have any significant effect on performance. These findings contradict the findings of Ringim and Bello (2013) and Wangui (2013). These studies sought to determine if the findings of Oljesten and Markus (2015) or those of Ringim and Bello (2013) and Wangui (2013) held for commercial banks in Kenya.

## 3. Objectives of the Study

- To determine the effect of customer centric strategy on the competitive advantage of commercial banks in Ongata Rongai, Kajiado County, Kenya.
- To establish how innovation strategy affects competitive advantage of commercial banks in Ongata Rongai, Kajiado County, Kenya.
- To investigate the influence of strategic staffing strategy on competitive advantage of commercial banks in Ongata Rongai, Kajiado County, Kenya.
- To examine the extent to which operational excellence strategy affects competitive advantage of commercial banks in Ongata Rongai, Kajiado County, Kenya.

## 4. Significance of the Study

This study contributes to the empirical literature on the impact of branch transformation strategies on competitive advantage. Academicians, researchers, and scholars can use this study as basis for further research. The findings of the study will be useful to the banking industry, as it will greatly inform strategic decisions by providing valuable insights drawn from study findings. There are various stakeholders of the banks such as investors and customers who may be interested in this study may use this study findings and literature to gain knowledge on how to use branch-banking strategies of innovation, strategic staffing, customer centric strategy, and operational excellence on bank competitiveness.

## 5. Review of Literature

### 5.1. Theoretical Review

#### 5.1.1. Resource Based View Theory

Contrary to Porters five forces model, an 'outside in' framework, resource-based view takes an inside out approach. It focuses on internal resources and capabilities as sources of achieving sustainable competitive advantages. Resource based view theory enables organizations to capitalize on its strengths, weaknesses, opportunities and threats (SWOT) by examining a variety of different yet specific resources and capabilities available (Pearce & Robinson, 2007). It also helps to explain why different firms perform differently in the same market (Jena, 2008). Firm resources include processes, property rights, assets, capital, aptitudes, organizational characteristics, technological expertise, organizational

skills, information and knowledge controlled by that company and its employees (Barney et al., (2001). Therefore, competitive advantage is gained through strategic acquisition, management and utilization of strategic resources. Resources possess certain attributes that qualifies them in terms of strategic importance to facilitate effective utilization and enhance firm performance against competition (Bowman & Ambrosini, 2003). First, it should be unique and thus are not freely bought and sold in the market (Conner, 1991). Secondly, the resources ought to be intangible since they fulfill the basic VRIN attributes -valuable, rare, non-substitutable and imitable (Barney, 1991). In addition to attributes of resources that enable firms to have competitive advantage, Conner (1991) points out that the variance in performance between firms is due to possession of unique inputs and capabilities.

In the context of this study, banking institution possess unique bundle of resources that enable leadership, whether price reduction or uniqueness of products or service offered to the customers. Resource-based view provides a framework for investigating the role of human resources in competitive success. IT possesses intangibility attributes and thus supporting the applicability of RBV theory in assessing competitive advantages arising from applying innovation strategy. Customer centric, innovation and strategic staffing branch capabilities heavily utilize RBV theory. In conclusion, the RBV theory enriches this study by explaining the impact of strategic staffing and innovation to transform the bank branch and gain competitive advantages. Furthermore, RBV theory is considered significant because it supports the application of strategic staffing and innovation variables.

### 5.1.2. Porter's Model of Generic Competitive Strategies

Generic competitive strategies, model comprises of three generic strategies- differentiation, cost leadership and focus, are applied to outperform competitors in the industry and a firm can efficaciously pursue more than one approach as its principal goal. Moreover, its generic attribute enhances the adoptability of these strategies in any industry. They are designed to gain competitive advantage because they demand taking offensive or defensive actions to build a secure position in an industry, to manage effectively the five competitive forces such as threat of new entrants and substitutes, bargaining power of supplies and buyers and thereby generating a superior return on investment for the firm (Porter, 1980).

In cost leadership strategy, a firm target at becoming a low-cost producer in its industry by charging the lowest price or rates for its products or services. Cost leadership strategy brings superior return on investments and defends the firm against threat of substitutes and new entrants, and bargaining power of supplies and buyers (Porter, 1980). Cost leadership strategy is a valuable strategy used by commercial banks to only defend itself against rival banks and other financial institution. Fathali, (2016) postulates that sources of cost advantage may "include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors". Companies that are effective in realizing cost leadership, according to Porter, (1998) as quoted by Fathali, (2016), can procure superior technology due to their predispositions to access sufficient capital required hence cutting on costs below those of other rivals.

By utilizing differentiation strategy, a firm can uniquely position itself in an industry or positions its products in locations that are greatly esteemed by its clients. It also means creating products or services that are unique. A firm can differentiate itself through innovation, technology, brand image, product features, customer service, good research, and products or service of superior quality (Porter, 1980). In the banking sector, differentiation may involve choosing one or more qualities of products and services that the banking industry recognize as valuable, and then outstandingly repositions itself to fulfill those customer needs (Hamel, 2002).

Focus strategy involves concentrating on serving a niche market. It does not achieve differentiation or low cost from the viewpoint of the market in totality, but it does achieve either a differentiation or low cost or both differentiation and low-cost positions in relation to its narrow market target. Thus, focusing to a particular market is advantageous as compared to competitors broader and wider market view because it enables a firm to efficiently and effectively serve its narrow strategic target (Porter, 1980). In the banking industry, a bank utilizing a focus strategy concentrates on a specific market segments and modifying its strategy to suit and serving them exceptionally and exclusively (Indiatsy, 2014). They serve customers in these target markets exceptionally and they build strong brand customer loyalty, hence making these particular market segments less attractive to competitors (Fathali, 2016).

### 5.2. Empirical Review

Customers are the most significant resources for financial services (Bii & Wanyoike, 2014). This so because customers are the primary source business to a commercial bank and thus determines the profitability, survival, growth or collapse of a commercial bank. Fader, 2012) notes that there is a "shift from product centrality to customer centrality". Therefore, fulfilling consumers' needs and expectations is crucial in the process of gaining competitive advantage (Klimontowicz, 2014). The primary goal of customer centric strategy is to build long-term relationship, diagnose customer needs and fulfill them through delivery of valuable and customized products and services. It also means delivering organizations products and services in a way that meets current and future needs of the customer in order to increase the financial value of the firm in the long-term (Fader, 2012).

Innovation involves producing things that nobody else can, doing things better than everyone else, or introducing superior, cheaper, and faster services (Aziz & Samad, 2016). Without innovation organizations is at a competitive disadvantage position and is bound to decline, lose customers and may collapse. The use of innovation strategy to create and improve products and services is transformational and crucial for creating competitive advantages. Change and innovation are closely related, actually, they are considered partners (Poole & Van de Ven, 2004). It is denotable that change is a consequence of innovation while technology offers the opportunity for firms to innovate. Innovation is

beneficial to the organizations and the customers. Similarly, far-reaching change within an organization is a consequence of innovation (Manzoni, 2015).

The sources of sustained competitive advantage lie not only in human capital, firm's assets, but also in modern HR practices used to attract, utilize, and retain the human capital. This indicates that having a highly effective branch staff with unique set of capabilities and skills would most definitely lead to excellent customer experience, satisfaction and loyalty, which then gives branch banking a competitive edge. Therefore, transfer of knowledge, skills and abilities through training and development affects the levels of productivity and helps in gaining competitive advantage.

Poloski and Vidovic (2007) conducted a study on HRM as a significant factor for achieving competitiveness through people in Croatia. The study concluded that HRM in Croatia cannot be considered solid ground for achieving competitiveness through people. The research was conducted in enterprises with more than 200 employees. Gitau, (2014) conducted a study on the role of strategic human resources management in developing competitive advantage in the telecommunication industry in Kenya. He concluded human resource management plays a vital role in developing competitive advantage in telecommunication industry through various practices such as socialization, compensation, training and development, targets, thrusts, planning and staffing.

## 6. Research Methodology

This study utilized descriptive survey design. The study was also a cross-sectional study where information from the sample was obtained only once and the relationships between them are determined. Cross-sectional survey design was useful where the populations are small and within reach (Saunders et al., 2009). Survey design helps in producing comparable information across the population to be surveyed (Njoroge, 2012). It is also economic (Saunders et al., 2009). Since the research population was cutting across all banks, the use of survey design led to better understanding of the impact of branch transformation strategies on competitive advantage as applied by commercial banks in Kajiado County, Ongata Rongai town.

The study targeted all the 17 commercial banks Ongata Rongai Town in Kajiado County, Kenya. List of commercial banks in Ongata Rongai town is indicated in Appendix III. The respondents of this study were top branch employees-branch manager, operation manager and credit manager- who are key decision makers at the branch level and they have sufficient information on the impact of branch transformation strategies on competitive advantage of their banks. The study targeted branch managers, operations managers and credit managers working in the commercial banks within Ongata Rongai Town.

The researcher collected primary data from a census of the target population of 51 top managers from the 17 commercial banks in Ongata Rongai town. This study used a semi-structured questionnaire (Appendix II) to collect primary data from the respondents. A 5-scale rating was used to measure respondent's answers on the effect of branch transformation strategies on competitive advantage of commercial banks in Ongata Rongai town, Kajiado County.

The researcher obtained a letter of introduction from Kenyatta University, Graduate School and received approval to conduct the study from the National Commission for Science, Technology and Innovation (NACOSTI). The researcher trained two research assistants to help in data collection. The researcher also serialized and recorded all the questionnaires before distributing them to the respondents to identify unreturned questionnaires. The researcher utilized the drop-and-pick method in distributing the research questionnaires to all the 51 branch managers from all seventeen commercial banks in Ongata Rongai town. This method is appropriate owing to the fact that the respondents are heavily involved with bank duties and commitments. Similarly, the justification for the use of drop-and-pick method is that it leads to higher response rates and reduces non-coverage error (Allred and Ross-Davis, 2011; Trentelman, 2011).

Statistical Package for Social Sciences (SPSS) software was used for data analysis. Descriptive analysis techniques such as mean, frequency, percentages and standard deviation were used. The study also used inferential statistics in order to determine the impact of branch transformation strategies on competitive advantage of commercial banks. The multiple regression model adopted is given in equation 1

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots 1$$

Where,  $Y$  = Competitive advantage of commercial banks,  $X_1$  = customer centric strategy,  $X_2$  = strategic staffing strategy,  $X_3$  = innovation strategy,  $X_4$  = operational excellence strategy,  $\beta_0$  = is the regression intercept,  $\beta_1 - \beta_4$  = Regression Coefficients,  $\varepsilon$  = the error term.

## 7. Research Findings

The results of the regression estimation are summarized in Table 1.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	5.648	2.636	2.143	.037
	Customer-Centric	.563	.371	.381	.009
	Innovative Strategies	.402	.385	.152	.003
	Staffing Strategies	.039	.273	.019	.888
	Operational Excellence	.141	.235	.086	.039

Table1: Coefficients

a. Dependent Variable: Overall Competitive Advantage

Source: Field Data (2019)

The findings summarized in Table 1 require that equation be written as follows:

$$Y = 5.648 + 0.563X_1 + 0.402 X_2 + 0.141X_4 \dots\dots\dots 2$$

The findings summarized in Table 1 indicates that customer-centric strategies have a positive and statistically significant effect on the competitive advantage of the seventeen commercial banks in Ongata Rongai Town as implied by  $\beta = 0.563$  and significance value of 0.009. The findings imply that a unit increase in the use of customer-centric strategies will result in a 0.563 unit increase in the competitive advantage of the commercial banks. These findings confirm the findings of Thou et al. (2011), and Den Hemal and Rademaker (2016), who established that customer-centric strategies increase the competitive advantage of firms.

The effect of innovative strategies on competitive advantage were found to be positive and statistically significant as implied by  $\beta = 0.402$  and p-value 0.003. The findings suggest that a unit increase in the use of competitive strategies will result in a 0.402 unit increase in the competitive advantage of the commercial banks surveyed. Aziz and Samal (2016) found that innovative strategies contributed to 0.735 unit increase in the competitive advantage of firms in Malaysia, which suggest that the consumers in Malaysia are more receptive to innovative strategies than Kenyan consumers. The findings of the study contradict the findings of Kiss (2011) who established that innovations have no effect on the competitive advantage.

The results summarized in Table 1 showed that staffing strategies had a positive but statistically insignificant effect on the competitive advantage of the banks,  $\beta = 0.039$ , p-value= 0.888. The findings suggest that a unit increase in staffing strategies would result in a 0.039 increase in competitive advantages however; the increase would not be statistically significant. These findings contradict the findings of Poloski and Vichovic (2007), Gitau (2014), and Gitonga, Kiliko, and Obeere (2016) that human resources and staffing strategies significantly affect competitive strategies.

The findings summarized in Table 1 showed that operational excellence has a positive and statistically significant effect on competitive advantage,  $\beta = 0.141$  and p-value 0.039. The findings suggest that a unit increase in the use of operational excellence strategies will result in a 0.141 unit increase in competitive advantage. These findings confirm the findings of Choon (2008), Nzioka (2013), and Butenko (2015).

## 8. Conclusions

Based on the findings the study concludes that customer-centric strategies used by commercial banks are geared at fulfilling the expectations of the customers, building relationships with the customers and delivering value. The needs and expectations of the customer drive the transformative and change strategies implemented by the banks. The overall effect of these strategies is increased market share, customer satisfaction, and customer loyalty. The study concludes that the survival of the commercial banks is dependent on the strategies that are focused on providing positive customer experience in order to ensure repeat business, enhance loyalty and stimulate the growth in profits.

Based on the findings, the study concludes that innovative strategies have a transformational effect on the operations of branch services. These transformations include product and operations geared at making the process and products/services of commercial banks more accessible to the consumers. The study further concludes that innovation gives the banks a chance to improve its products and services. The innovative strategies are based on the unmet needs of the customers. The banks focus on the unmet needs of specific segments of their customer base. The products and services are formulated to be attractive to the particular segment while being profitable to the bank.

Based on the findings, the study concluded that staffing strategies are not significantly implemented as part of branch transformative strategies. The researcher concludes that the most important consideration of the banks with regards to the staff is the attainment of performance targets. The staffing strategies of the firm should include the recruitment, development and retention of the employees. However, the findings suggest that the only element that is used by the commercial banks is the recruitment of employees to fill identified staffing needs. The banks recruit the staff but do not seem to have development strategies or strategies for retention. Further, the placement of staff is not aligned to their individual education and job skills.

Based on the findings, the study concludes that operational excellence strategies are key to sustained delivery of high-quality products and services and cost reduction. The study also concludes that operational excellence strategies play a significant role in the transformation of the branches. The focus of the operational excellence strategy used by the banks focuses on streamlining the processes and work procedures in order to enhance operations and to reduce costs. The operational excellence strategy is successful as the banks have taken a holistic approach covering reduction in waste,

optimization of staff and other resources, automating to reduce errors, driving continuous improvements, having improvement benchmarks, and using employee appraisals.

## 9. Recommendations

Customer-centric strategies have a positive and statistically significant impact on the acquisition and retention of customers. Commercial banks in Kenya therefore, should place emphasis on the dimensions of customer-centric strategies that fulfill the expectations of customers, build relationships with customers, and deliver value to customers. The study recommends that commercial banks introduce innovative strategies that bring about changes in the products/ services and processes. This will ensure that they remain competitive and achieve competitive advantages. The study further recommends that commercial banks assess the need for operating the current branches as the services offered by the branches can be received through internet and banking services.

The study recommends that the commercial banks review their staffing strategies. Extant literature has established that competitive recruiting, implementation of retention policies, staff training, and profit-sharing results in increased employee satisfaction. This ultimately improves the employees' commitment to the firm which increases the firms' competitive advantage. The study recommends that the commercial banks should continue using operational excellence strategies. These strategies result in sustained delivery of high quality and cost-effective services. These strategies result in the transformation of business.

## 10. Suggestions for Future Studies

This research study investigated the relationship between branch transformative strategies and competitive advantage. The study was limited to customer centric strategies, innovative strategies, staffing strategies, and operational excellence. Future studies should take into consideration the moderating effects of variables such as firm age and location. Additionally, the study was only conducted in Ongata Rongai Town; future studies should include other geographical locations.

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