The Management University of Africa

Sponsored by the Kenya Institute of Management

POSTGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

MASTER OF BUSINESS ADMINSTRATION

BFO 503: FINANCIAL INSTITUTIONS STRATEGIC MANAGEMENT

DATE: ***2ND DECEMBER 2020***

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TW0** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

RETAIL MARKETING STRATEGIES ADOPTED BY COMMERCIAL BANKS

The environment in which financial services organizations operate is constantly changing with different factors exerting influence in the organization. It is vital that organizations constantly scan their environment and are aware of what is happening; only then can strategies be developed that fit both the internal capability of the organization and its environment. Johnson and Scholes, (1999) proposes that uncertainty increases when environmental conditions are more complex and dynamic. The Le Pest & Co. mnemonic categorizes factors influencing the business environment under the headings legal, ethical, political, economic, social, technological and competitive environment. Factors within each of these dimensions can affect the business strategy and performance, and ultimate management policies directly or indirectly Today's customers are becoming more and more knowledgeable, their taste, preferences and quality expectations continue to change and this puts pressure on organizations which seek to meet these changing customer needs. Peck et. al (1990) observes that time-based competition has enabled knowledgeable customers to buy products and services from anywhere in the world. This means that it no longer matters to some customers where they are getting their products and services as long as it meets their expectations, they will get it from anywhere in the world. This is why some Kenyans operate bank accounts with foreign banks located in other continents of the world; the reason is that they perceive those banks as being able to serve their interest well. Cowley and Domb (1997) say that at any level of the organization, it is important that the needs and satisfaction level of external customers be dealt with first because they "pay the bills" and therefore should be given top priority

According to Wagacha and Ngugi (1999), the first bank to start in Kenya was the National Bank of India now called the Kenya Commercial Bank in 1896, followed by the standard bank in 1910. The banking sector has been changing steadily since 1960's in a

number of areas such as asset base, target customers, marketing strategies, competitive strategies, information technology and their role in the economy. Up to the 1980's, regulation in the financial services was mainly of restriction on both the range of products that a bank could offer and the nature and volume of contracts in the geographical area in which the services could be offered. The banking sector was liberalized in 1995. This liberalization of has brought about most of the changes, which has impacted on the banking business both positively and negatively. One major positive change is the lifting of foreign exchange control. The most biting change is the increased intensity of competition. As a result, organizations are made to change their ways of doing business so often and almost constantly in some environments. According to the Central Bank of Kenya, there were 42 commercial Banks in Kenya as at 1st July 2006.

Banks operate in an increasingly competitive environment. Customers' needs are becoming more sophisticated and diversified. Banks which intend to attract, satisfy and retain retail clients must come up with game plans that meet this objective. Rose and Watkins (1997) observe that the key elements of changes within the financial services sector are diversification, customers and technology. The purchase of a service such as a bank service is also a retail transaction. Personal banking (Retail banking) refers to those banking services offered to individuals, whether small or high net worth individuals. This means that banks have two different kinds of clients, corporate clients and retail clients.

In order to address the environmental challenges such as competition, legal and technological, banks have adopted different ways. Banks are evaluating their retail banking services with an aim of coming up with more focused strategies that help them meet their unit and companywide objectives. Most of the banks are working towards coherent strategies on how to differentiate and add value to retail customers. One of the most crucial strategic issues is marketing, for banks to grow their business, it is extremely important that they adequately address marketing issues. Banks are thus

pursuing different marketing strategies to not only win and grow their businesses but to also stay a head of the competition, towards this end; the most commonly pursued marketing strategies are; segmentation, product, distribution, pricing, relationship marketing and promotion strategies. Another adoption is the growing attempt by banks to commit to their strategy with consistent leadership and higher degree of focus. Other banks have adopted other approaches such as service delivery options which include the use of telephone and internet, Lovelock (1996).

The development of banking in Kenya started in the 1890s and has been experiencing changes since then. The liberalization of the banking sector in Kenya in 1995 has brought about a lot of changes. One of the major changes is the stiff competition that has forced many banks to pursue strategies that enable them to compete favorably in the increasingly turbulent business environment. As observed by McNealy (1994), customer service is the key strategic weapon in the new millennium for any strategic organization. Today banks are competing not just on a national arena, but increasingly at international and global level. With 42 banks operating in Kenya, the financial services markets seems oversupplied and margins for many banks are being depressed in a highly competitive market place. Profitability will be determined by the extent to which organizations develop appropriate strategies to 'combat' the growing competitive forces. Among the strategies banks pursue towards meeting their broad goals and objectives are the adoption of retail banking strategy. In this strategy, banks are trying to woe individual customers and also meet their expectation with an aim of retaining them through quality service and fair bank charges

Required

a) Examine any three key elements of change within the financial services sector in Kenya **(6 Marks)**
b) On the basis of the above case study, examine any six factors that influence the banking business environment **(12 Marks)**

a) Discuss six marketing strategies pursued by banks to not only win and grow their businesses but to also stay a head of the competition . **(12 Marks)**

QUESTION TWO

a) Discuss any five strategic reasons for overseas banking **(10 Marks)**
b) Discuss five ways in which the banking sector contributes to economic development in your country. **(5 Marks)**

QUESTION THREE

a) A number of banks have collapsed in Kenya in the recent past despite a regulatory framework being in place. Discuss any five drawbacks of banking sector regulation **(10 Marks)**
b) Using a commercial bank of your own choice, discuss any five factors affecting the performance of the institution. **(5 Marks)**

QUESTION FOUR

An annual general meeting held on 17th April overwhelmingly approved the merger with Commercial Bank of Africa Limited (CBA). The approval allowed NIC and CBA to merge their operations and amalgamate the shareholding through which the shareholders of CBA will become 53 percent shareholders of NIC.

Required

i) Discuss any five economies of scale that will be realized from this amalgamations/merger **(10 Marks)**
ii) Examine any five problems that may arise out of this arrangement **(5 Marks)**