

**FACTORS AFFECTING COMPETITION IN COMMERCIAL BANKING  
INDUSTRY IN KENYA. A CASE STUDY OF COOPERATIVE BANK OF  
KENYA HAILE SELASSIE BRANCH**

**NICKSON MUDIBO**

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**DECLARATION**

This research project is my original work and has not been presented for a degree in any other University.

**Signature.....**

**Date.....**

**Nickson Mudibo**

**BCOMK/5/00197/3/20**

This project has been submitted for examination with my approval as a University Supervisor.

**Signature .....**

**Date.....**

**Laura Nyaloti**

**The Management University of Africa**

## **DEDICATION**

For their unshakable affection and encouragement. This study project report is dedicated to my father, my older brothers and sisters, and my mother, and my father, Gilbert Mudibo.

## **ACKNOWLEDGEMENT**

I want to sincerely thank a number of individuals for their outstanding assistance with this project. I thank God that I have been given life and opportunities thus far. Secondly, I would like to thank Ms. Laura Nyaloti, my supervisor, for her guidance and recommendations during the research writing process. Lastly, I am interested in expressing my gratitude to my family and coworkers for their backing and encouragement, particularly for playing a significant role in the study process' accomplishment. I am also appreciative of Cooperative Bank for providing me with a study chance. Finally, but just as importantly, appreciation is extended to the instructors of Management University of Africa's School of Management and Leadership, who selflessly shared their expertise with the class.

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## **ABSTRACT**

This study aimed to determine the variables influencing competition in Kenya's commercial banking sector using a case study methodology. The study's specific objectives were to investigate whether excellent customer service has an effect on industry competition, how product innovation affects industry competitiveness, and which financial and environmental elements fuel industry rivalry in the GDP of Kenya banking sector. This study employed the method known as descriptive research because it is good at identifying characteristics, patterns, frequencies, and classifications. Because stratified random selection accurately matches the study's target population of 100 workers, it has been demonstrated to be the most successful sample technique. We used descriptive statistical approaches to look at frequencies and percentages. Using inferential statistical techniques, regression examination and correlation were both investigated. Version 24 of the SPSS (Statistical Package for Social Sciences) was used for the statistical analysis of data. Tables and figures were used to display the results. The findings showed that competitive banking industry environmental factors, customer service and promotion, product innovation, and financial concerns were all positively and significantly correlated. A strong positive association was found between the environmental parameters and the results. The results of the study also demonstrated a strong link between competitive banking industries and financial performance indicators. The paper states that for Kenyan banking activities to meet their objectives and maintain their competitiveness, banks must keep on offering services. To draw in and keep consumers, rates need to be reviewed and adjusted on a regular basis. Maintaining favorable liquidity ratios should be the first priority. The study found a positive correlation between commitment and productivity and employee happiness. According to the research, ensure that highly skilled employees provide outstanding customer service, as this encourages competitiveness. Lastly, the report suggested that we encourage innovation in the production and delivery of commodities. Innovative concepts give banks an edge over competitors. The study's findings show that favorable environmental factors and competitive commercial banking are positively correlated. The study's conclusions indicate that financial aspects of the commercial financial services sector, such as rates of interest and access to liquidity, promote fierce competition since gifted people are typically better suited to work in teams where objectives are clear and expectations are well-expressed. Environmental influences make commercial banks more competitive, which is good for the financial system.

## **ACRONYMS AND ABBREVIATIONS**

<b>AI</b>	:	Artificial intelligence
<b>CBK</b>	:	Central Bank of Kenya
<b>CEE</b>	:	Customer Experience Enhancement
<b>IMF</b>	:	International Monetary Fund
<b>KBA</b>	:	Kenya Bankers Association

## OPERATIONAL DEFINITION OF TERMS

- Customer Service:** The term customer service refers to the support, guidance, and motivation that a business offers to its clients before, during, and after they purchase or utilize the products or services it provides (Zendesk, 2024).
- Product Innovation:** Improvements to products are changes that improve a product's functionality, usability, feel, appearance, design, materials, and overall user experience. An improvement could be substantial (like a physical object) or ethereal (like software or services). Georgina Guthrie, (Nulab 2024).
- Financial Factors:** Elements must be considered while weighing the options in terms of financial measures. (IGI Global, 2020)
- Environmental Factors:** All the elements surrounding the organization that have an impact on how financial institutions and the financial market function. (Sonia Labatt, Rodney R. White, 2011)
- Regulatory Environment:** The collection of levies, guidelines, and laws or regulations that companies have to follow (Peter Shedd, Jere Morehead, Marisa Pagnattaro, 2016)
- Purchasing Power:** The capacity to pay for goods and services. (Irving Fisher, 2014)

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

The study's history, context (outlining the setting in which it will be carried out), the question the examiner is attempting to address, and its objectives are all covered in this chapter. This chapter also discusses the study's importance, its parameters and extent, and the research questions that will guide the data gathering.

### 1.1 Background of the study

Banking evolved into a more international industry starting with the Florentine commercial bankers of the Renaissance and continuing into the modern era. The banking industry went global due to two main factors. Technology came first. The expense of capturing, sending, and processing financial data has significantly dropped as a result of recent advancements in communications and technology. Extending and maintaining real-time control over overseas activities became more affordable as a result of this cost reduction. The financial markets' deregulation was the second significant force. The institutionalization of savings occurred in recent decades. In order to surpass their rivals, banks are always trying to increase their asset bases, market shares, earnings, and efficiency. Maudos (2017). The conversion of non-banking entities into banking institutions, mergers and acquisitions, bank entry and exit, adoption of new technologies, and business structures are some of the ways that banks might do this by accepting reforms that alter the banking system. In Kenya, monopolistic rivalry has dominated the banking industry, despite a rise in the number of banks that have opened in the 1990s. In 2018, Long and Ombongi (2017). Nevertheless, the rising tendency was recently reversed by the departure of certain institutions and the mergers and acquisitions of other banks. These events make us wonder if the market structure has changed as a result of changes implemented throughout time, if there are other new competitors circumstances and if the banking sector's general efficiency has increased. An international holding company J.P. Morgan Chase, one of the leading commercial banks globally, is highly competitive in the investment banking and financial services sectors. With its headquarters located in New York City, the bank was established in the United States in 1799 and operates in more than 100 countries, demonstrating its international reach. They also offer a wide range of other financial services, including

investment and commercial banking services as well as asset management. One of the greatest and most competitive commercial banks in the world is J.P. Morgan Chase, a global holding company for investment banking and financial services. With its headquarters located in New York City, the bank was established in the United States in 1799 and operates in more than 100 countries, demonstrating its global reach.

The African financial industry has also benefited from the increasing involvement and prominence of foreign banks across the continent, especially Pan African Banks like Eco Bank and Bank of Africa that have expanded outside of their home countries. Currently, Bank of Africa Group is present in roughly 14 African countries, while Eco Bank operates in 36 African countries, mostly in Western and Central Africa. The rise in foreign banks represented one of the primary consequences of the banking reforms and consolidations that swept the continent in the 1990s. They have supported industry demand for competition and made it possible for innovative and excellent corporate governance banking practices to spread across national banks. Research indicates that the existence of larger international banks is usually linked to more convenient financing options for small and medium-sized businesses. Conversely, when foreign banks control an excessive percentage of the banking industry in terms of branches and assets, unfair competition may result. Foreign banks possessing the ability to obtain hard and soft information about businesses and borrowers may engage in anticompetitive practices by “cherry-picking” borrowers, thereby depressing the amount of credit available to small domestic banks and potentially undermining the benefits of foreign bank entry.

Kenya's banking sector has experienced substantial changes since the country attained independence. A few of the reforms included the conversion of non-banking enterprises into banking organizations, bank mergers, and the reorganization and failure of banks with liquidity problems. The Kenyan government's efforts to create a thriving and globally competitive banking sector under the economic blueprint Vision 2030 were aided by the banking sector's growth. (Central Bank of Kenya, 2016). Banks worked tirelessly with an aim of growing their market shares, expanding on asset base, increasing in annual profits, minimizing costs, and outdoing its competitors (Oji-Okoro Izuchukwu et al. & J. Maudos,

2017). Because of this, competition in the banking sector is still vital to any given economy and can manifest itself in the products or services that banks offer to their customers. Possessing a competitive edge allowed a business to dominate its rivals and boost value for both its shareholders and itself. Many scholars have used to analyze the nature of competition in the banking industry ((PR))model (Tahir et al., Mulyaningsih et al., Oji-Okoro Izuchukwu et al., & M'kuma Ezekiel Kimani, 2016,2015). (2014, 2016)opted to bring out the Theoretical and methodical to bring out the competition aspect in the banking sector.

### **1.1.1 Financial factors**

Because of its specialized operations and strict laws, government participation, and oversight, the banking industry was unique among economic sectors. On the liability side, bank panics and systemic crises were a source of instability; on the asset side, banks' appetite for risk created an additional contributor. Since any interruption may lead to a soured interbank lending market and distorted credit availability, which would ultimately create recessions, the banking sector needed to remain stable. Due to several market failures that altered the nature of competition and its results, the classic competition paradigm—which promotes competition with regard to cost reduction and allocative efficiency—was not fully applicable to the banking sector. Two-sided competition, retail banking networks, asymmetric knowledge, and switching costs in loans and deposits were the primary causes of market failures. Following the 1970s, banks began to focus more on a variety of activities, such as asset management, underwriting equity and debt issuance, securitization, and insurance, rather than only accepting deposits and making loans. For banks, this resulted in a more competitive environment Vives, (2016).The banking industry had not seen much competition between the 1930s and the 1970s.The banking industry has experienced heightened competition from both domestic and foreign entities subsequent to the deregulation and liberalization initiatives of the 1970s. These sources mostly consist of based on market forces funding, nonbank financial service providers, and among the more recent arrivals referred to as fin-tech companies.

### **1.1.2 Environmental factors**

Globalization of banking has been held accountable for creating and disseminating risk prior to the financial crisis. However, more recently, it had been proposed that by encouraging local competition, direct global bank involvement in local retail activities through a brick-and-mortar business model could lower risk-taking (IMF, 2018). If verified, this would have been a significant step toward maintaining global financial stability because, although cross-border lending has decreased since the crisis, banks' physical globalization has continued. The empirical research, which is still small but expanding, has lately begun to examine how banks' geographic growth affects credit conditions and financial stability. It pays particular attention to identification and reverse causation difficulties. Evidence indicated that foreign banks' existence

### **1.1.3 Customer service**

Transactional customer care was the norm in banking, with the focus being on the customer's goal at the moment of contact. However, that was altered. During the following five years, artificial intelligence transformed bank customer service, according to Walls. An early example was Erica, a smartphone Chabot from Bank of America that assisted users with checking balances, making payments, and other everyday tasks via artificial intelligence, predictive analytics, and cognitive messaging. Erica's customers might communicate with her by text or phone. According to Bloomberg Intelligence, banking spending on AI products surpassed that of all other businesses in 2015 and remained that way through 2020.

### **1.1.4 Product innovation**

Even for well-established organizations, the most recent developments in financial technology have presented previously unheard-of difficulties. This study examined the strategies that banks could employ to grow digitally and the ways in which these obstacles impact their capacity to compete. Numerous well-known technologies, including blockchain, mobile technology, cloud computing, big data analytics, robotic advisers, and artificially intelligent (AI), have been used by the banking industry. During the interval, payments, loans, asset management, and communication were among the financial

functions impacted. For instance, banks were shifting to cloud software in an effort to manage their infrastructure less on-site. Chatbots, which mimicked human speech and messaging apps through computational intelligence (AI), were being studied as a possible alternative for the hated call centers. Furthermore, platforms for robot advice were being developed to offer asset management services to customers, which were frequently

### **1.1.5 Commercial Banking Industry in Kenya**

Kenya's banking industry is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act, and the prudential recommendations that are issued by the CBK. In furtherance of ensuring the financial stability, liquidity, and efficient functioning of the banking industry, the CBK is responsible for formulating and implementing monetary policy. As of the period in question that ended on June 30, 2020, Kenya had 41 commercial banking organizations, 1 mortgage financing company, 14 microfinance banks, 9 foreign bank representative offices, 69 foreign exchange bureaus, 19 money remittance providers, and 3 credit reference bureaus, pursuant to the CBK. The representative group for the banks is the Kenya Bankers Association (KBA), which represents the interests of the banking sector.

In Kenya, there were not many articles or studies discussing the connection between stability and competition. Studies conducted in the nation and across Africa's subcontinent have focused disproportionately on the variables that impact banking stability, economic viability, and competitiveness as well as how efficiency and financial access are impacted by competition. Based on the available data, it seemed that industry competition wasn't particularly fierce. Ogola (2016), concluded that the level of competition among commercial banks in Kenya is low, characterized by 96.1 per cent persistence in profitability, which increased with adoption of technology and consolidation but slowed with increase in the capital requirements. On the contrary, Moyo et.al (2015) found that competition in the banking sector resulting from financial sector reforms had increased in Sub-Saharan Africa. Additionally, the study discovered that the HStatic was positive and significant during the post-reform era, suggesting that lead time—or the amount of time

before bank distress—increased as bank competition rose, so bolstering the competition stability paradigm.

### **1.1.6 Profile of Cooperative Bank of Kenya**

Although the Co-operative Bank of Kenya Limited was established in Kenya by the incorporation Act, it had been given permission to conduct banking operations by the Banking Act. In 1965, the Bank was first incorporated under the Co-operative Societies Act. This situation persisted until the Central Bank's June 27, 2008, Special Special General Meeting resolved to incorporate in accordance with the Companies Act's requirements and fulfill the conditions for listing on the Nairobi Securities Exchange (NSE). On December 22, 2008, the Bank went public and started trading publicly.

Cooperative Bank of Kenya Ltd. provided financial and banking services. Its three operating segments were Group Functions, however, Retail The banking industry, and Wholesale commerce Banking. The Retail Banking sector provided loans, deposits, and other services and balances to retail customers. In addition to other transactions and balances, the Wholesale Banking business offered loan deposits to corporate and institutional clients. Shared services, finance, and information and communications technology were among the support divisions covered in the group functions section.

### **1.2 Statement of the problem**

Banks constantly strived to outpace their competitors by expanding their market share, earnings, efficiencies, and asset bases (Ejike, 2018). However, stiff competition brought by rapid technological advancements and increased financial legislation has reduced the revenue sources for banks, hence their competitiveness (Sarji, KBA, CBK, & McKinsey Global Banking Annual Review, 2017,2021,201). Therefore, the industry required to use strategic innovation to adapt to the environment's dynamism Osano & Koine, (2016). Businesses that had embraced product innovation gave themselves a competitive advantage since they were greater in efficiency, tended to react swiftly to client demands, and were probably going to capture a bigger portion of the market. Sarji (2017), Ejike (2017), Osano & Koine (2015). Commercial banks have looked into product innovation as a way to increase their level of competitiveness, but up until now, the emphasis has been on quality

and pricing. However, it appears that these conventional approaches of become competitive don't provide much (2017). Given the industry's vitality, banks ought to take use of the potential presented by modern technology to offer convenient mobile and internet solutions. Camargo & Guerra (2016). Moreover, Financial indicators, however, mostly assess the firm in the short term (Mashovic, 2018, 2016) To reduce the shortcomings of financial measurement, the study utilized non-financial indicators to evaluate the competitiveness of commercial banks in Kenya. By examining the impact of product innovation on the competitiveness of Kenyan commercial banks, this study aimed to close these gaps. One cannot overstate the importance of commercial banks to any country's economy. They serve as the cornerstone and pivot of a nation's economy. The banking industry is seeing unprecedented levels of competition as a result of Kenya's financial liberalization and the ensuing financial innovation. Initially, the deregulation provided strong incentives for the growth of banking and non-banking institutions in terms of both size and quantity. Following the extraordinary rise in the number of banking and non-banking institutions offering financial services, rivalry between different banking institutions and banking and non-banking financial intermediaries intensified. Commercial banks have to contend not only with a diverse array of financial activities but also with ongoing economic downturns, political upheaval, high inflation, worsening financial circumstances for corporate debtors, and an increase of banking misconduct and theft. The financial environment has become riskier and more demanding for banks as a result of deregulation, competition, innovation, economic recession, political uncertainty, growing price rises, and frequent fiscal policy reversals. Following the emergence of the new financial environment, banks moved swiftly to address the profitability of traditional banking operations. Banks tended to take on excessive risk in an effort to survive and maintain a sufficient amount of profit in this fiercely competitive environment. Unfortunately, a lot of banks failed and were isolated as a result of the growing trend toward higher risk-taking. Therefore, the study's only goal was to ascertain whether or not some of these elements had a favorable or bad impact on the commercial banking sector.

### **1.3 Objectives**

#### **1.3.1 General objective**

Finding the factors impacting competition in Kenya's commercial banking industry would constitute the primary objective of the research effort.

#### **1.3.2 Specific objectives**

- i. To ascertain the financial elements influencing competition in Kenya's banking sector.
- ii. To ascertain the environmental elements influencing competitiveness in Kenya's banking sector.
- iii. To ascertain whether marketing and customer service have an impact on competition in Kenya's banking sector.
- iv. To determine whether product innovation influences competition in Kenya's banking sector

### **1.4 Research Questions**

- i. What are the financial factors that affect competition in the commercial banking industry in Kenya?
- ii. Which environmental factors affects competition in the banking industry in Kenya?
- iii. Does customer service affect competition in the banking industry in Kenya?
- iv. Does product innovation affects competition in the banking industry in Kenya?

### **1.5 Significance of the study**

Information about environmental, service to customers, financial, and marketing challenges was produced in the new millennium to help Kenya's commercial banks compete successfully.

Information on the primary competitive groupings was included since managers from banks and establishments, as well as economic decision-makers in banking, management, and finance departments would find it useful. It made it simpler for the general public to comprehend why rivalry within the industry existed.

Kenya's banking sector. and to have access to pertinent data about the competition in the financial sector. It provided information to investors both foreign and domestic investors relating to the competitiveness in the banking sector for them to be able to evaluate the performance of Commercial banks with the best services, so that investors could make decisions regarding to which commercial bank to invest in.

### **1.6 Scope**

The Cooperative Bank of Kenya Haile Selassie Branch was the primary focus of the study, which examined the variables influencing competition in Kenya's commercial banking sector. The research would take place in 2024 over the months of January through April. The target demographic consisted of 100 employees from each department in the branch. Considering their target's restricted size the population, a census-related study had been carried out.

### **1.7 Chapter summary**

The research backdrop, goal, aim, scope, and justification for why it was crucial to identify the variables influencing competitiveness in Kenya's commercial banking sector were all covered in detail in this chapter.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Prior to trying to ascertain how changes in the competitive environment of banks have impacted competition throughout commercial banks, one must ascertain the level of rivalry within the banking sector. The majority of competitive metrics are based on the neo-classical theory of markets.

#### **2.1 Theoretical Literature Review**

Prior to trying to ascertain how changes in the competitive environment of banks have impacted competition across commercial financial institutions, one must ascertain the level of rivalry within the banking sector. The majority of competition metrics are based on the Neo-Classical theory of markets.

##### **2.1.1 Neo-classical theory of markets**

The concept states that based on a firm's or buyer's ability to influence price, markets can be competitive, oligopolistic, monopolistic competition, monopsony, or monopoly Varian ((2014) Perfect competition and monopolies are the two extreme situations on the continuum. In an ideal market, the price for a specific quantity cannot be influenced by either the customer or the supply (company). In contrast, a monopoly gives the seller (company) total authority over the price for any given quantity. The degree of competition consequently determines a firm's capacity to control the cost, according to the neo-classical theory of financial markets. Gudmundsson, Ngoka and Odongo (2014). The Neo-Classical theory of markets gives birth to two methods for calculating a firm's power to affect price. The non-performance dynamics approach and the performance dynamic approach (also known as the Schumpeterian view or structure, conduct, and performance) includes the Lerner Index (LI) and the Panzer and Rose statistic (H statistic) Mills, Elzinga (2016) while the performance dynamics approach constitute the Muller's approach Mueller, (1977). The performance dynamics strategy is better appropriate for the current study than the non-performance dynamics technique. The idea of assessing competitiveness is intended for markets with unlimited entry and exit. Entry and leave are deemed sufficient in this specific

context to quickly bring competitiveness a maximum of par with industry standards. Mueller begins with a company that is making extraordinary profits, either above or below the competitive average, and focuses on the short term. Over time, resource flow into and out of an activity restores profitability to the level of competition. There is no incentive for a firm to enter or leave an activity once the competitive norm is reached. (1977). (Pakes, 2014) argues, Nonetheless, the process of competition is gradual rather than abrupt. The resources needed to sustain earnings long into the future come from gains made within a specific time period. Two methods for ascertaining whether a corporation has the capacity to affect price come from the Neo-Classical theory of markets. The non-performance dynamics approach and the method of performance dynamic approach (also known as the Schumpeterian view or structure, conduct, and performance). Because its present degree of profitability depends on past values, profitability is a data-generating process. The process progressively converges on a long-term value and has memory.

## **2.2 Empirical Literature Review**

### **2.2.1 Financial factors**

While credit is not necessary for the normal circular flow, Joseph Schumpeter (1912) noted that the provision of credit is the primary financial factor that drives entrepreneurship and innovation: "It is certain that there is such a gap to bridge in the carrying out of new combinations." It is the lender's responsibility to bridge it, and he does so by giving the entrepreneur access to whatever ad hoc purchasing power developed. According to Torstein Veblen, the middlemen, who he called "the lieutenants of finance," carry out a "standardized bureaucratic routine" in the process of appraising enterprises, while "the syndicated bankers have taken over the captaincy." (Veblen, 1919, p. 81). However, others, most notably Robert Lucas, argue that economists "badly over-stress" the significance of financial considerations in economic performance (Lucas, 1988, p. 6) Study by Westhead, Howorth (2003) suggests that all companies came to focus on some areas of working capital management where they can expect to improve marginal returns. Higher marginal returns are projected for capital management organizations that are small and growing. Since it offers both liquidity and profitability, efficient working capital management is crucial to the survival and growth of small and expanding businesses. They continue by suggesting

that small enterprises should use formal working capital management practices in order to enhance business performance and decrease the profitability of business closure. The study of (Grabowsky, 2016) and others have showed a significant relationship between various success measures and the employment of formal working capital policies and procedures. Study by Peel and Wilson (1996) stressed the efficient management of working capital, and good credit management practice as being pivotal to the health and performance of the small firm sector. Study by (Akhavain et al , 1997) on capital, shows higher capital level implies that banks are easily able to meet their regulatory capitals so that they can have additional funds for lending and thereby increase their profits level. But according to (Havrylchuk et al, 2014) finds a positive relationship between capital and profits of banks.

Bank consolidation; Is the process by which larger banks buy out or merge with smaller ones. Bank consolidation may have an inverted U effect on competition, which means that it may boost it initially while subsequently diminishing it. This is due to the fact that consolidation can decrease the number of market participants while simultaneously generating economies of scale and scope, lowering expenses, and boosting the combined banks' efficiency.

Technology: This is the process of providing clients with financial services through the use of digital and mobile platforms, including online banking, mobile money, and agency banking. In the near term, technology can increase competition among commercial banks by allowing them to access a larger customer base, offer a wider range of goods, and reduce transaction costs. But over time, technology can also lead to increased market concentration and hurdles to entry since certain banks might be better equipped than others to invest in and implement new technologies.

The availability and cost of money for commercial banks to lend to their clients is referred to as the source of funds. The source of money may have an effect on the interest rates, fees, and other expenses banks charge their customers, which may have an effect on the level of competition in the banking sector. For example, the gradual increase in the core capital requirement for commercial banks from KES250 million in 2008 to KES1 billion in 2012 resulted in a decrease in the number of banks that could meet the regulatory

threshold and an increase in the cost of financial assets for the banks that remained. This decrease in competition in The country's banking sector was caused by 3.3 percentage points of increases.

### **2.2.2 Environmental factors**

Study by Tejada, Scandura & Pillai (2006) shows that transformational leaders are extensive and are considered by many as the “most comprehensive theory of the dimensionality of the transformational and transactional leadership”. However, Bass distinguished between transformational and transactional leadership with greater clarity. The results show that leaders will display a range of transactional and transformational leadership tendencies. Research by (Farkes & Wetlaufer , 1998); Heifetz & Laurie (1998); Yukl (2002)suggest an aspect of multifaceted approach to leadership that executive through their leadership behavior have considerable influence on organizational outcome. According to Greenberg and Baron (2003)definition of motivation could be divided into three main parts. The first section examines arousal, which is concerned with the motivation or energy that propels a person's actions. Deci and Ryan's (2015 ),study demonstrated the detrimental effects of monetary rewards on intrinsic motivation and performance. Additionally, a study was carried out to investigate the impact of performance-based rewards on the intrinsic drive of employees. Study by (Woods , 2016) Any organization's ability to manage time effectively is essential to its success, and it has a direct impact on both the productivity of its workforce and its financial results. The secret to becoming successful and fulfilled in life is to manage your time well and to reduce stress. Finding balance in your life and managing your time well are two important aspects of this. A study by (Uwake , 2017)asserted that good time management can improve job performance, personal life and mental health. He went on to say that an individual who works hard and efficiently at work has more time for their personal lives. Organizational resources: These include the staff, capital, assets, and technology that banks need to innovate, provide first-rate services, and increase their market share. The level of formalization, specialization, coordination, and centralization of a bank's internal arrangements is referred to as its organizational structure. A flexible and adaptable

structure helps banks better respond to shifting customer needs and unpredictabilities in the environment.

Government policies: These are the laws and guidelines that control the banking sector. Examples include consumer protection laws, capital adequacy laws, liquidity management laws, credit risk management laws, and interest rate management laws.<sup>134</sup> The relationship between environmental conditions and bank performance can be moderated by government actions, which can either strengthen or weaken it.

### **2.2.3 customer service and promotion**

Promotion is the direct way an organization attempts to reach its public and is performed through the five elements of promotion mix including advertising, sales promotion, personal selling, public relations, and direct marketing zinkota & Ronkainen (2018). Demand for improved financial services marketing management is rising in tandem with the financial sector's increasing significance. The American banking sector invested \$60,000 per employee on information technology throughout the 1980s, introducing a wide range of new technology hardware, software, and telecommunications equipment in the 1980s and early 1990s (Keltner, 2014). Automated teller machines (ATMs) and modern back office processing technology have significantly reduced the costs related to handling and processing individual transactions. The financial sector is getting better at the same time that African economies are becoming more independent. Governments have granted numerous privately held banks licenses, and many rules have been improved and limits removed. Banks utilize microfinance as a strategy to reach the great majority of Africans who are impoverished. (Kimeu, 2008). In spite of this abrupt push to attract new customers, banks in Africa have been performing fairly well. In 2007, banks in Ghana and Zambia realized an overall return on assets of 3.0% and 2.50%, respectively, while American banks only managed 1.40 percent (Kimeu, 2008). The Companies' Act (CAP 486), the Banking Act (Chapter 488), The banking industry in Kenya is governed by the Central Bank of Kenya Act as well as other prudential rules that the bank has published (CBK, 2010). As of September 30, 2010, the conclusion of the quarter, Kenya's banking sector consisted of 43 commercial banks, 1 mortgage financing company, 2 deposit-taking

microfinance institutions, 2 foreign bank representative offices, and 126 foreign exchange bureaus. The level of assets, which was Ksh. 1.6 trillion as of September 30, 2010, loans and advances at Ksh. 879 billion, deposits at Ksh. 1.3 trillion, and profit before tax at Ksh. 53.2 billion, show that the Kenyan banking system performed better than anticipated. Similarly, there were 1,030 bank client deposit accounts and Ksh.11.14 million. branches worldwide (CBK, , 2010). To keep ahead of the competition in this fiercely competitive industry, banks employ a range of promotional strategies. Co-operative Bank uses direct marketing, telemarketing, and regular press releases in print and digital media to sell its products (Co-operative bank). 2009 saw a 413.10 increase in the Co-operative Bank Media Publicity Index from 364.80 in 2008. (MPI) increased by 13.24%, while the Advertising Value Equivalent (AVE) gained 55.34% altogether. Presently, Co-operative Bank Ltd. invests Ksh. 300 million in marketing strategies, Additionally, many people cannot make a distinction between different banks' services, and they are often not aware of the wide range of different financial services available (Meidan,, 2017). The Co-operative Bank has spent money on promotional tactics, but despite this, there is little concrete proof that the techniques have increased performance. Additionally, To pinpoint the precise effect of marketing strategies on the bank's performance, there is not enough data available.

Customer service has a major effect on cooperative banks' ability to compete. Customer happiness, customer loyalty, customer retention, and customer relationship management are just a few of the results that several studies have linked to good customer service. Different results are significant markers of an edge over the competition.

#### **2.2.4 product innovation**

Product innovation is the process of bringing new services and goods to market that are more useful and perform better than their earlier incarnations. Nuryakin, (2018).Su and (Tang , 2016)defined product innovation as "the presence of originality or a degree of invention". Product innovation, according to the Oslo Manual (Organization for Economic Cooperation and Development/OECD, , 2015), is the introduction of a good or service that is new or significantly better in terms of its characteristics or planned functions. According to research, businesses that have a competitive edge in their products—whether through

innovation, quality, packaging, or design—perform better than their rivals when it comes to the real-world effectiveness of their products. (2019 2016). In a similar vein, (Nuryakin , 2018) argues that productivity increases along with product innovation.

(Biemans et al. , 2016) affirm that product innovation is one of the most important instruments for designing strategies to break into new markets, break into the existing profit-enhancing market, and provide enterprises with a competitive edge. Businesses respond to customers' ever-evolving wants and demands by innovating new products Gast (, 2018). New technologies (Filho & Moorii, , 2017) or improved material components Nataya (2018) can be used to innovate products by significantly altering their characteristics and use. In the banking sector, the aim of product innovation is to boost client happiness by introducing fresh, superior services with additional features and advantages. Masud & Kong (2019). Current examples of electronic product advances in the banking sector include internet banking and mobile banking Chong et al (2016)

### **2.3 Research Gaps**

Citations have been made to a number of literature bodies that discuss theory, research, and practices. Many elements influencing the success of commercial banks are well understood. The ensuing shortcomings have been examined and will be tackled by this investigation or other studies.

First, and supported by several scholars, most models fail to take into account the unique social, political, and economic environments of emerging countries in addition to firm-specific features. currently in existence regarding the factors influencing competition in developed economies are developed economy-specific and do not fully translate to developing countries. Early work models geographic preferences and site-specific information, laying the groundwork for contemporary economic understanding in the subject of multinational banking. Since much CEE research has been insufficient and of low quality, it is difficult to integrate many contextual factors into theoretical reasoning.

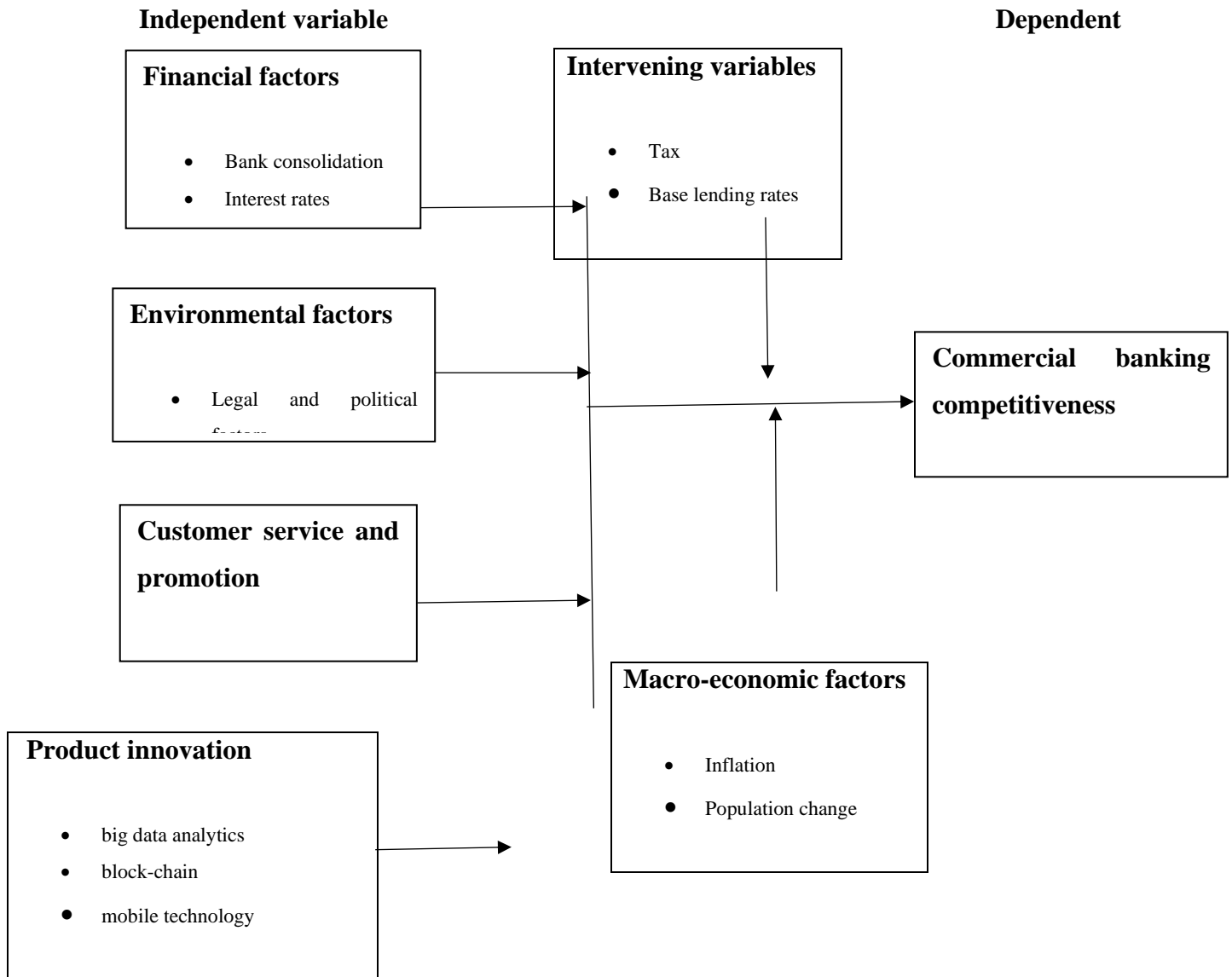
The second shortcoming is the lack of demarcation between the manufacturing and service sectors in research, as well as the inconsistent coverage of industrial sectors within

emerging nations. A grave flaw that is becoming more widely acknowledged in internationalization. According to research, there are significant distinctions between the manufacturing and service sectors with regard to how they affect key business practices and tactics.

<b>Writer</b>	<b>Study's primary focus</b>	<b>Summary of the findings</b>	<b>Knowledge gaps</b>	<b>Focus of the current study</b>
<b>John Roberts, Ujwal Kayande</b>	Sectoral differences in emerging markets	There is a lack of specialized research on the manufacturing and service sectors.	uneven reporting on the industrial sectors in developing countries	To give a precise definition and explanation of Kenya's service industry, particularly banking
<b>Richard Hoyer-Ellefsen</b>	Features of developing economies	Asymmetric information is present in emerging markets, which impacts competition.	Strategies might not take into consideration the distinctive qualities of emerging markets.	To look into how the Cooperative Bank of Kenya responds to the particular difficulties faced by the Kenyan market

## 2.4 Conceptual Framework

The study was guided by the following conceptual framework, whose variables are shown.



**Figure 1: conceptual framework**

As depicted in Figure 1, the Co-operative Bank's performance—the dependent variable—was impacted by financial factors, market conditions, leadership in customer service and promotions, and environmental factors. Service differentiation is an independent variable.

## 2.5 Operationalization of Variables

Variable	Factors	Question	Measurement
Financial factors	✓ Bank consolidation ✓ Technology	Section b	Education Some education
Environmental factors	✓ Government policy ✓ Organizational Resources	Section c	Some education No education
Customer service and promotion	✓ Customer satisfaction ✓ Customer loyalty	Section d	Some Education Some education
Perfectly competitive market	✓ Capital requirements ✓ Rules ✓ Licenses	Section e	Some education Some education Some education

**Table 1 showing Operationalization of the Variables**

## 2.6 Chapter Summary

This chapter highlighted the variables influencing competitiveness in Kenya's commercial banking sector while concentrating on the research opinions of numerous writers and providing a broad overview of the subject. Financial, environmental, customer service and advertising, and product innovation were some of the factors that were examined. The relationships between the variables as independent, moderating, intervening, and dependent factors were covered by the theoretical structure.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.0 Introduction**

The research methods and study setup are covered in this chapter. The research population, sample size and methodology, data collection instruments, equipment that is trustworthy and valid, along with data analysis techniques were all covered.

#### **3.1 Research Design**

In order to ensure that the study's numerous components were assembled consistently and logically and that the research question would be properly addressed, research design was developed as the overarching strategy or plan. The research design was the strategy for gathering, evaluating, and comprehending data.. The investigation's data was gathered using the descriptive research design. In order to give readers a clear picture and help them understand how the data was distributed, descriptive research design was defined as a methodological process that involved gathering data, describing a particular phenomenon, and then organizing, depicting, describing, and analyzing the data collected for the study using graphs and charts (Nelson, , 2014). This method was suitable for the study since it gave the researcher a thorough comprehension of the data collected in addition to an empirical evaluation, numerical data, and statistical analysis. Furthermore, considering that the purpose of the study was to identify the traits, frequencies, classifications, and patterns associated with variables influencing employee performance, the descriptive survey approach was appropriate. As stated by (Mugenda , 2010), a descriptive research design was a methodical empirical investigation in which the researcher did not directly control the independent variables since their manifestations had already taken place or because they were unmanageable in the first place. Concomitant variables were used to draw conclusions regarding the relationships between the variables. The current research strategy was used since the study aimed to ascertain whether specific links existed among the research variables in addition to being limited to the gathering and description of data.

### 3.2 Target Population

Cooper and schindlers (2014) The population is the set of items from which the sample will be taken. One hundred employees representing all levels of management from a variety of departments, including administrative, finance, and human resources, comprised the target demographic for the investigation. The population under investigation was the Helèse branch of the Cooperative Bank.

**Table 2 showing Target Population**

Categories	Population	Percentage
Top level Management	30	43
Board of Directors	25	37
Board of directors(subsidiaries)	45	20
<b>TOTAL</b>	<b>100</b>	<b>100</b>

### 3.3 Sample and sampling technique

(Cooper & Schindler, , 2014)write that population refered to the gathering of all elements about which the research wishes to make inferences. (2015)explain that the population was the full set of cases or items from which an appropriate sample was taken to study. A population element, however, was the individual item on which measurement was taken, according to Cooper and Schindler (2014). The 100 administrative staff members and employees of the Co-operative Bank made up the target population for this study, or the instances that included the needed information. states that the sampling frame was a collection of components that were closely related to the population and from which the sample would be taken. Determine the necessary number of subjects from the sampling frame, respondents, elements and firms are selected in order to make a sample, so it is important that the sampling frame is unbiased, current and accurate Saunders et al.

(2015). This study surveyed various departments that marked The Bank's effective competition with their counterparts.

A sampling technique explained how cases were to be selected from the population, for observation. (Saunders et al. , 2019) Observe that there were two types of sampling strategies used: probability sampling and non-probability sampling. Because probability sampling uses random selection to ensure that every instance in the population has an equal chance of being selected, it was frequently used. Two examples of this type of sampling are cluster sampling designs and random sampling. Probability sampling minimized sample bias when compared to non-probability sampling techniques like practicality and deliberate design. A sample consisted of a number of cases that the investigator had carefully selected to represent a subset of the target population and examine in order to obtain demographic data. Cooper & Schindler, (2014). The larger the population size, the smaller the percentage of the population required to get a representative sample, however (2014) advise that the greater the desired precision of the estimate, the larger the sample should be. This study considered all competitive factors that could shape financial landscape in Banking sector by selecting a large sample of population in Operative bank headquarters Heille Selassie avenue.

### **3.4 Instruments**

Primary data served as the study's main source of data. To gather primary data, a closed-ended questionnaire will be employed. The survey would consist of five separate sections. The first segment would address questions regarding basic responder information, while the second piece would focus on issues driving competitiveness in the commercial banking market. The last section discussed how the bank's competitive edge allowed it to function in a more cutthroat banking industry. The fourth component answered questions on how product innovation influences competitiveness in Kenyan commercial banking and provided the bank with the best services to assist it enter a more competitive market, while the previous section focused on the dependent variable, staff performance.

### **3.5 Pilot Study**

Pilot testing, according to (Saunders, Thornhill, and Lewis , 2018)refined the questionnaire so that respondents had no difficulty answering the question. The pilot test size for high precision pilot studies should be 1% to 10% of the sample size Lancaster, Dodd & Williamson, (2017). In a pilot test for this investigation, questionnaires that were given Up to 10% of the study's sample size was utilized, however it was excluded from the analysis.

#### **3.5.1 Validity**

The study's questionnaire was examined by the head of the study to make sure it contained all of the measurement-related items. A pre-test of the completed survey was given to some members of the research sample in order to ensure content validity. The results were modified to ensure clarity, thoroughness, relevance, significance, and essential depth. Previous attempts have been made to guarantee that the research instrument evaluates the components that it was intended to examine and to nearly eliminate systematic or not randomly generated error.

#### **3.5.2 Reliability test**

Instrument reliability was defined by Best and Kahn (2014)as the level of consistency exhibited by the tools or process. To ascertain the reliability, the researcher employed the test-retest methodology. The primary goal of the test-retest procedures process was to confirm that the questions on the instruments made sense, that the information that was sought was relevant, that the language used was appropriate, and that the responses provided corroborated the content validity of the instrument.

### **3.6 Data collection procedure**

Research processes are the systematic procedures that must be followed in order to begin a project. The rules and regulations facilitated the process of collecting and recording the study's data.The steps a researcher would take to gather the various types of data that would be determined to be required for the study are known as methods of research. The figures from the Central Bank of Kenya and the website of the Co-operative bank provided supplementary information.

### 3.7 Data Analysis and Presentation

The system for inputting, computer programming, and using data to guide actions is known as data analysis. Data analysis is the process of methodically arranging and synthesizing research data and using that data to test research hypotheses (Sedgwick, , 2015)

After compiling data from multiple secondary sources, the researcher modified the information to suit the purpose of the inquiry. The data analysis in this study encompassed the use of inferential and descriptive statistical techniques to assist the researcher in determining the relationship between the various independent variables (Factors affecting competition in Kenya's banking and finance industry) and the financial results of the commercial banks in the country. Furthermore, the mean, standard deviation, and inferential method were used as descriptive statistics.

Additionally, data was assessed and shown in tables and charts for convenience of access. To extract more conclusions from the gathered data, the linear regression model was used in the context of inferential statistics. Determining the variables that influence a study problem was made easier with the use of regression analysis. The person conducting the study was able securely ascertain the elements that were most significant, the ones that were likely to be missed, and the interactions between these factors thanks to the econometric technique. The impact of the independent variable on the study's dependent variable was evaluated using both descriptive and inferential statistics, including percentages, frequencies, averages, and deviations from mean, as well as the methods of correlation and regression analysis. With the use of these parameters, this is the next hypothetical

**regression model structure:**

$$\text{Competitiveness} = \beta_0 + \beta_1(\text{Financial Factors}) + \beta_2(\text{Environmental Factors}) + \beta_3(\text{Customer Service}) + \beta_4(\text{Product Innovation}) + \epsilon$$

The dependent variable that reflects the bank's competitive standing in the market was called **{Competitiveness}**. It is the intercept, ( $\beta_0$ ). For every category of independent

variable, the coefficients are ( $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ ). The error term was (epsilon).

All of the previously determined specific factors would fall under each category of independent variable. For instance, "Financial Factors" would cover elements like asset quality, bank size. The particular coefficients and significance thresholds for each factor would be provided by the actual data collection and analysis.

### **3.8 Ethical Considerations**

The defined rules and guidelines that researchers must follow when doing their research are included in the field of research ethics. A dedication to professional standards and ethical principles forms the cornerstone of every research study and provided direction for the entire investigation process. Maintaining ethical norms in research was crucial because they supported the investigation's overarching goals of searching. Safeguarding confidentiality, maintaining anonymity, and getting participants' voluntary agreement were all examples of ethical considerations Mugenda & Mugenda, ; Tripathy, (2014)

#### **3.8.1 Informed consent**

According to (Silverman 2012), informed consent was the conscious choice to approve or participate in a certain activity after being fully aware of all relevant information, including any potential risks and accessible options. To adhere to the ethical and moral standards that regulate the research projects, great care was taken to obtain the required permission from the appropriate authorities in order to carry out the analysis. An official letter of introduction was also obtained from the institution as an extra precaution, acting as a concrete illustration of the goal and objective of the study.

#### **3.8.2 Voluntary participation**

When it came to voluntary involvement, people were given thorough research information, enough time to decide whether or not to participate, and the chance to ask questions or seek clarification about the study Miller et al (2014).

### **3.8.3 Confidentiality**

The act of protecting participant information against unauthorized access is known as confidentiality (Long , 2012). It is the researcher's duty to tell participants about who would have access to the data they provided in focus groups or interviews and about how the data would be used in the study. Permission to gather data was granted by Management University of Africa and the cooperative bank, and anonymity for participants was ensured by the person conducting the study. A letter of introduction was included with the questionnaires to ensure respondents that the data they submitted would only be utilized for academic research.

### **3.8.4 privacy**

Before the exercise started, participants received a detailed explanation of the purpose of the data collection.

### **3.8.5 Anonymity**

Anonymity also referred to the process of hiding a person's identity, which is a methodological move intended to reduce potential risks associated with qualitative research, like the possibility that participants will be identified in academic publications Richard & Schwartz, (2015). To ensure anonymity, each survey respondent was given a unique cryptographic destination and was not required to complete the poll using their own names, which strengthened their anonymous status. Their anonymity was protected by the implementation of this precautionary measure.

## **3.9 Chapter summary**

The present section describes the procedures and strategy of the study. The investigator is going to use to gather and examine the data. The chapter demonstrates that, given the subject of the investigation and the goals the study seeks to accomplish, a descriptive study design would be the most suitable one for the project. The study stated that it will be a survey of Kenya's whole financial transaction business after determining its target market. The data analysis and findings review will be the main topics of the upcoming chapter.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.0 Introduction**

This chapter offers the results from a range of techniques and observations, and it makes use of graphical representations to illustrate the relationships between the variables that are being studied.

Evaluation: For qualitative research, a response rate of 75% is regarded as robust, indicating that the results are representative and have attracted a considerable amount of interest from the intended audience. The high degree of participation also suggests that the study subjects are pertinent and of interest to the banking industry right now.

The study's response rate highlights the significance of the subject matter and demonstrates the professionals' engaged involvement in the conversation about banking competitiveness. It also confirmed the study's applicability and possible influence on the financial sector.

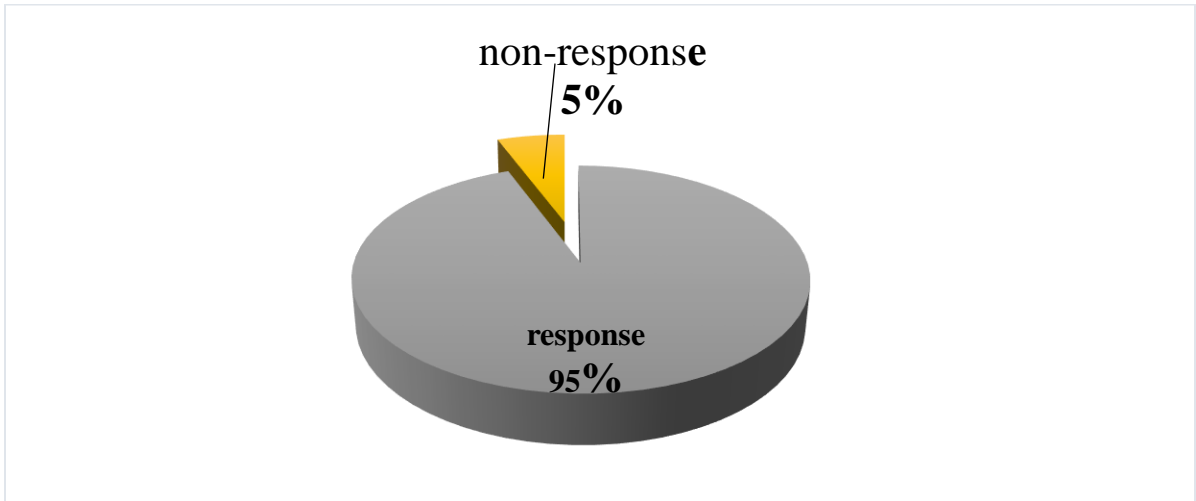
#### **4.1 Response Rate**

One important indicator of the analysis's authenticity and involvement was the response rate. It displayed the proportion of participants who made remarks out of all those who were approached.

Methodology: A sample of 100 banking professionals and experts was contacted in order to evaluate the results of the competitive pressures in Kenya's commercial banking sector. To achieve the study's objective of 100 responses, employee representatives were given 100 questionnaire. Table 4 demonstrates that a 95% response rate was obtained from 85 appropriately filled out and returned questionnaire. According to Mugenda & Mugenda (2018) 50% is considered adequate, 60% and above is considered acceptable, and 70% or higher is considered really good. Additionally, according to Kothari (2014), a response rate of 70% or higher was deemed exceptional, a rate of 60–70% was deemed adequate, and a rate of 50% was deemed typical.

**Table 2 Response rate**

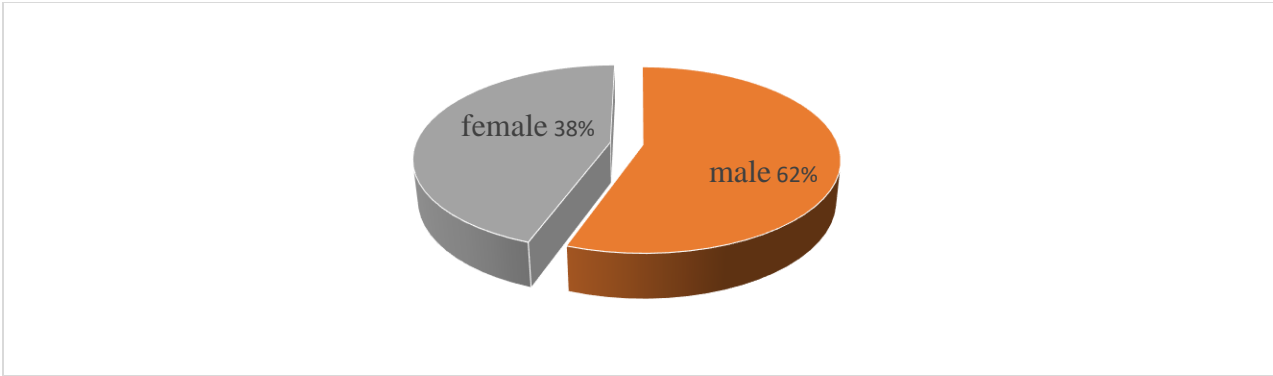
<b>Category</b>	<b>Population</b>	<b>Percentage</b>
<b>Response</b>	95	<b>95</b>
<b>Non-response</b>	5	5
<b>Total</b>	<b>100</b>	<b>100</b>



**Figure 2 Response rate.**

#### **4.1.2 Gender of the respondents**

Figure 3's statistics indicates that 62% of respondent were men and 38% of respondents were women. To make sure that the views of the two genders were dispersed evenly, the gender distribution data was utilised. The gender distribution data shows that there are still fewer women in leadership roles than their male counterparts Carli, L. L., and A. H. Eagly (2007) Their book "Through the Labyrinth: The Truth About How Women Become Leaders" explores the several obstacles that women must overcome in order to assume leadership positions and offers in-depth analysis of the differences between genders in leadership.



**Figure 3**  
**Figure 3 Gender of respondents**

**4.1.3 Age of the respondents**

Table 3 shows the age distribution of respondents: 20% were 51 years of age or more, 30% were between 41 and 50, 28% were between 31 and 40, and 22% were between 20 and 30 years old. This may be a sign of problems because most persons within the ages of 40 to 50 are at the peak phase of their executing professions and have a history of work following graduation.

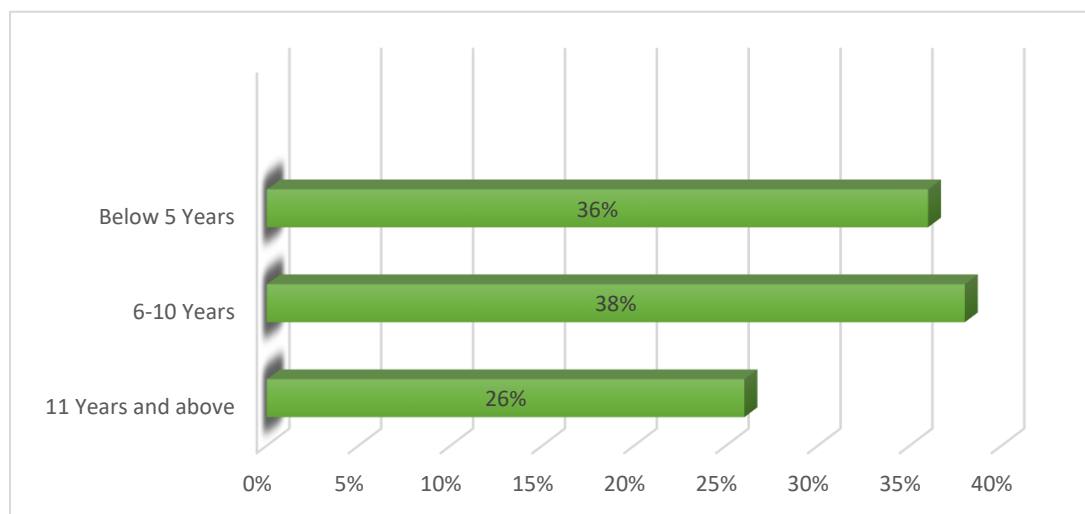
(experience. Feldman, D. C., and T. W. H. Ng (2016) Employees in their 40s and 50s frequently have extensive job experience and are at the top of their performance careers, according to their study on the association between age and job performance.

**Table 3 showing the Age of the respondents**

Age	Respondents	Percentage
<b>20-30 Years</b>	18	22
<b>31-40 Years</b>	24	28
<b>41-50 Years</b>	26	30
<b>50 Years and above</b>	17	20
<b>Total</b>	<b>85</b>	<b>100</b>

#### 4.1.4 Experience level of the respondents

Concerning the length of time they had worked at the hospital, 26 percent of respondents reported 11 years or more, 38 percent, 6 to 10 years, whereas 36 percent, 5 years or less (Figure 4). This showed that the respondents' level of business familiarity was sufficient. These commercial banks are now required to make use of numerous competitive strategies to preserve their existing levels of financial success due to the rising rivalry in the banking sector. Karasulu (2018)



**Figure 4 displays the respondents' level of experience**

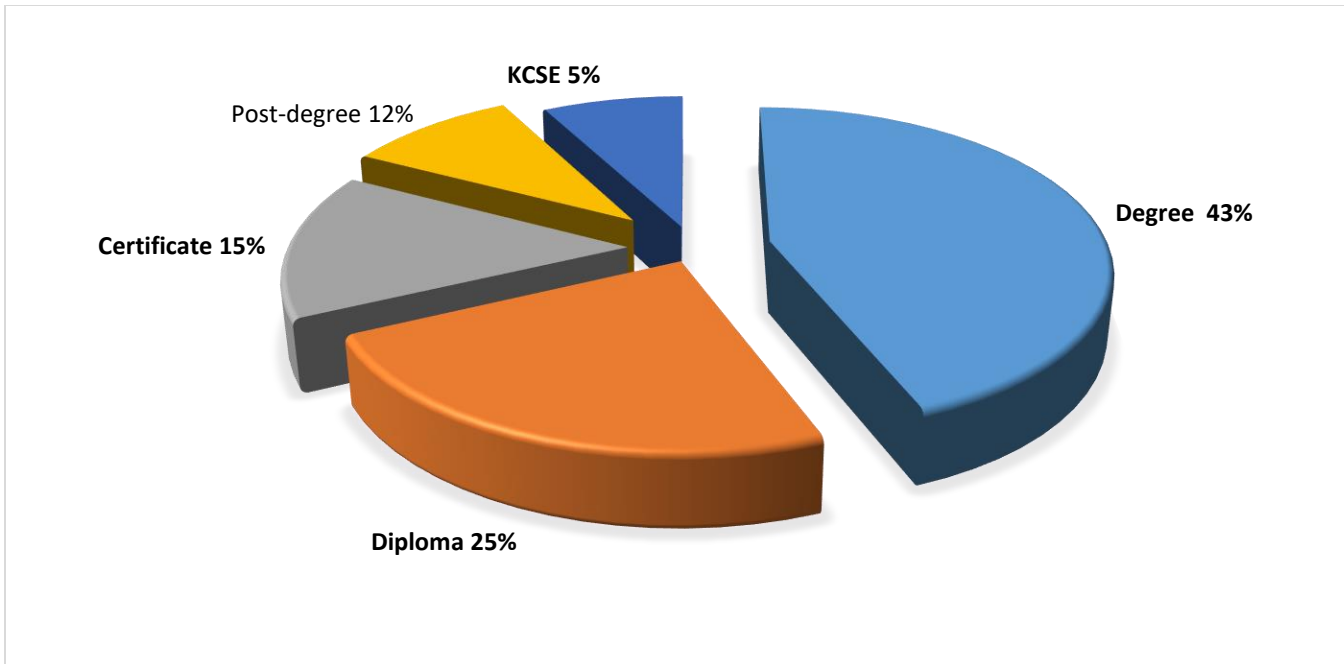
#### 4.1.5 Educational Level of Respondents

According to the poll results shown in Figure 5, 15% of respondents had a certificate qualification, 5% had a KCSE, 15% had a certificate, 25% had a diploma, 43% had a bachelor's degree, and 12% had a postgraduate degree. This suggested that each respondent understood the survey accurately and finished it. It also implied that the respondents could independently and objectively finish the survey responses and had an overall comprehension of organizational performance and culture in their individual firms. The

research on the connection between performance and organizational culture is reviewed by Barends, E., & Rousseau, D. (2022), who emphasize the significance of comprehending organisational culture for optimizing performance.

**Table 4 showing academic qualification**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
<b>KCSE</b>	10	5
<b>Certificate</b>	13	15
<b>Diploma</b>	27	25
<b>Degree</b>	35	43
<b>Post degree</b>	15	12
<b>TOTAL</b>	<b>100</b>	<b>100</b>



**Figure 5 academic qualification**

**4.1.6 Descriptive analysis**

**4.1.6.1 Financial factors**

**Table 5 showing Descriptive analysis of financial factors**

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Your ratio of capital adequacy	5%	5%	20%	35%	35%
Good ratios of liquidity	7%	2%	18%	40%	33%

loans that were performing	0%	8%	15%	37%	40%
A healthy competitive environment in banking was a result of regulatory capital requirements.	5%	3%	14%	48%	30%
Favorable interest rates grow the clientele, which creates a healthy, competitive banking environment.	0%	8%	35%	27%	30%
Bank consolidation increases the amount of customers it serves.	0%	10%	10%	50%	30%

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The information in **Table 4** shows that 35% of respondents strongly agreed that ratio of capital adequacy was important in competitive banking. The significance of capital adequacy in preserving a stable and competitive banking environment is emphasized by Hughes and Loretta. Given the economic volatility and distinctive regulatory problems of emerging economies, it is imperative to have proper capital ratios in the Kenyan setting. Strategies for managing liquidity must be customized to the unique circumstances of developing nations. Forty percent of the respondents said that they believed that having a Good ratios of liquidity. One important measure of a bank's health and competitiveness was its loan performance. According to Hoyer-Ellefsen, asymmetric information may have an effect on loan performance in developing markets like Kenya and call for the use of strong credit risk management techniques. Regarding the way bank loans are doing, 40% of those surveyed fully agreed. The findings showed that 48% of respondents firmly believed that A healthy competitive environment in banking is a result of regulatory capital requirements The purpose of regulatory capital requirements was to maintain the banking

industry's competitiveness and stability. The study conducted by Hughes and Loretta made clear the necessity of developing regulatory frameworks that are tailored to the unique difficulties faced by emerging markets. According to the survey's findings, 35% of participants partially concurred.

that the Favorable interest rates grow the clientele, which creates a healthy, competitive banking environment. The survey's results show that half of the participants thought that Bank consolidation increased the amount of customers it served A favorable interest rate might increase competition and draw in new clients. (Hughes and Loretta 2020, )draw attention to the fact that for interest rate plans to be successful, emerging country economies must be taken into account.

#### 4.1.6.2 Environmental factors

**Table 7**

**Table 6 showing Descriptive analysis of Environmental factors**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Uncertain</b>	<b>Agree</b>	<b>Strongly Agree</b>
The competitive commercial banking business is seeing an upward transition due to legal and political issues.	2%	5%	18%	35%	40%
In the banking industry, the impacts of competition are regulated by the regulatory environment.	10%	10%	15%	39%	26%

A positive work atmosphere affects your dedication.	0%	12%	18%	32%	38%
The workplace affects achieving financial goals.	6%	10%	18%	36%	30%
A competitive and diverse work environment in banking increases your drive to work for commercial banks.	3%	10%	10%	44%	33%

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According to Table 5, forty percent of respondents strongly agreed that the competitive commercial banking industry is changing upward due to legal and political causes. A resounding 39% of participants concurred that the banking industry's consequences of competition are regulated by the regulatory framework. Additionally, the results showed that 38% of participants were adamant that employees' dedication is influenced by a supportive work environment. According to the responses, a company's production depended heavily on its ability to pay overtime. Furthermore, according to 44% of individuals, the workplace had an impact on achieving banking goals. Finally, a third of the workforce said that working for commercial banks is more motivating in a diverse, competitive banking environment. The study by Hughes and Loretta's findings emphasizes the significance of political and legal settings for banking competition. Kenya's banking sector needs to be stable politically and adapt to new laws in order to stay competitive. The respondents' views on the importance of political and legal issues are consistent with the idea that regulations can promote development and competition. The competitiveness of the banking sector was largely determined by the regulatory environment. According to (Hughes and Loretta 2020, )regulatory frameworks must be adjusted to the unique circumstances of developing nations. According to the respondents, efficient regulation in Kenya can support a healthy competitive environment and assist reduce risks.

#### 4.1.6.3 Customer service and promotion

**Table 8**

**Table 7 showing Descriptive analysis of customer service and promotion**

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Having satisfied customers was a key tactic for gaining a competitive edge.	4%	10%	20%	36%	30%
Increased client loyalty helps the banking sector's customer trust.	0%	10%	15%	45%	30%
To obtain a competitive advantage, one needed to comprehend the client experience, which encompassed all touchpoints in the customer journey, from traditional in-person branch encountered to online and mobile banking.	3%	10%	14%	42%	31%
It was impossible to exaggerate the significance of training and development for overall banking competitiveness.	3%	6%	12%	38%	41%
Having a diverse workplace increased your drive to succeed in the cutthroat world of commercial banking.	6%	3%	16%	39%	36%

**Table 8** According to statistics, 36% of employees believed that obtaining a competitive edge might be achieved by having happy customers. Furthermore, they said that (45%)

thought that higher customer loyalty aided in boosting consumer confidence in the banking industry. An awareness of the customer experience—which encompasses all touchpoints in the customer journey, from traditional in-person branch experiences to online and mobile banking—was deemed necessary by 42% of the workforce to obtain a competitive edge. Moreover, 41% of employees strongly concurred that the importance of training and development for overall banking competitiveness could not be overstated. Similarly, 39% of the participants said that having a diverse workplace increased the drive to succeed in the cutthroat world of commercial banking. The study looked into the characteristics of competition in Kenya's banking industry, with a focus on marketing and customer support. (Hughes and Loretta 2020, )drawled attention to the necessity of developing-economy-specific theories. In emerging markets, Roberts and Kayande emphasize the significance of sector-specific research. (Hoyer-Ellefsen 2017)emphasized how asymmetric information affected competition in emerging markets. According to the research, competitive advantage depended on a variety of factors, including training, workplace diversity, customer happiness, client loyalty, and an understanding of the customer experience. These findings aligned with the African Review of Economics and Finance's overarching goal of developing strategies and ideas that would be useful to Kenya's banking sector. This study aimed to explore the unique challenges and opportunities that Kenya's banking industry faces.

#### 4.1.6.4 Product innovation

**Table 9**

**Table 8 showing Descriptive Analysis Product innovation**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Uncertain</b>	<b>Agree</b>	<b>Strongly Agree</b>
Digital platforms were necessary to stay relevant. To match customer expectations, banks needed to make	5%	5%	20%	25%	45%

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investments in digital experiences that were easy to use.					
Although service and customization had historically been the main priorities of commercial banking, lending and deposit products still had space for innovation. Banks may set themselves apart by providing fresh, creative solutions.	7%	2%	18%	30%	43%
Pricing and cost effectiveness must be balanced for profitability. Banks should maintain competitive pricing while optimizing costs.	0%	8%	15%	37%	40%
The future of commercial banking was being shaped in large part by cutting edge technologies, such as artificial intelligence. Banks want to investigate AI technologies to improve productivity and client satisfaction.	5%	3%	14%	48%	30%
Data security was improved by block chain's decentralized structure. Because transactions are clear and unchangeable, there is less chance of fraud.	0%	8%	35%	27%	30%

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**Table 9** presents data indicating that 45 percent of participants strongly agreed that Digital platforms are now necessary to stay relevant. According to the data, digital platforms played a crucial role; in fact, 45% of respondents said that digital platforms were essential

for remaining relevant. This was consistent with Hughes and Loretta's focus on modifying financial procedures for developing nations such as Kenya. Furthermore, 43% of participants perceive opportunities for innovation in lending and deposit offerings, corroborating the necessity for banks to set themselves apart through inventive approaches. According to 40% of respondents, pricing and cost-effectiveness must be balanced for profitability, which reinforces the significance of customized financial strategies. According to 48% of respondents, the transformative power of technologies like artificial intelligence highlights the necessity for technical innovation. Finally, 30% of respondents believed that block chain improves data security, highlighting the significance of cutting-edge technologies in preserving competitive advantage.

#### 4.1.7 Regression analysis

The relationship between independent factors and the dependent variable, commercial banking competitiveness, was examined using regression modeling.

$$\text{Competitiveness} = \beta_0 + \beta_1(\text{Financial Factors}) + \beta_2(\text{Environmental Factors}) + \beta_3(\text{Customer Service}) + \beta_4(\text{Product Innovation}) + \epsilon$$

The dependent variable that reflected the bank's competitive standing in the market was called {Competitiveness}. It is the intercept, ( $\beta_0$ ). For every category of independent variable, the coefficients were ( $\beta_1, \beta_2, \beta_3, \beta_4$ ).

**Table 9 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8662	0.7503	0.6902	0.7325

R-Squared is one metric that's frequently employed to assess model fit. The R-square was less than the residual variability ratio by a factor of one. The revised R2 calculates the potential contribution of each independent variable, either separately or in combination, to the explanation of the variation in the variable that is the dependent variable. For banks,

this indicates that the total effect of forecaster factors accounts for 69.02% of the fluctuations in the competitive environment.

**Table 10 shows the regression coefficients for the dependent variable banking competitive environment, and the independent variables.**

	Unnormalized Coefficients		Standardized Coefficients		
	B	Stand. Error	Beta	T	Sig.
<b>(Constant)</b>	1.053	0.297		2.548	1.124
<b>Financial factors Z1</b>	0.780	0.075	0.880	11.799	0.002
<b>Environmental factors Z2</b>	0.835	0.079	0.735	10.593	0.000
<b>Customer service and promotion Z3</b>	0.259	0.300	0.224	2.955	0.000
<b>Product innovation Z4</b>	0.630	0.226	0.576	0.103	0.000

$$Y = 1.053 + 0.780Z1 + 0.835Z2 + 0.259Z3 + 0.630Z4 + s$$

Z1= 0.780 showed that the competitiveness of commercial banking increased by 0.780 units for every unit change in financial variables.

Z2= 0.885 showed that for every unit change in environmental characteristics, commercial banking's competitiveness rose by 0.885 units.

Z3= 0.259 indicated that the competitiveness of commercial banking grew by 0.259 units for every unit change in customer service and promotion features.

For every unit change in the product innovation parameters, the competitiveness of commercial banking increased by 0.630 units, according to  $Z_4 = 0.630$ .

The degree to which the independent factors influenced the dependent variable's value was shown by the size of their coefficients. The findings demonstrated that the competitive environment in commercial banking was significantly impacted by the possibilities for financial components (coefficient 0.780), product innovation (coefficient 0.630), and environmental variables (coefficient 0.835). Customer service and promotion come last (0.259). The positive correlation coefficients show that an increase in the variables that are autonomous is exactly proportionate to an increase in the factors that are dependent.

#### **4.2 Limitations of the study**

A portion of the target respondents hesitated to answer some survey questions based on their characteristics because they were afraid the management would use their answers against them. Senior management was the only group of persons qualified to handle certain study-related difficulties. The people taking part were assured by the researcher that all of the data and information they submitted would have been managed with the utmost confidentiality prior to the start of the study. Prior to initiating the inquiry, the investigator was granted authorization from the Co-operative Bank Haile Selassie branch administration. The person conducting the study also attached a copy of the letter from the Management University of Africa endorsing the research endeavor to the questionnaire.

#### **4.3 Chapter summary**

The data from primary and secondary data sources that had been evaluated were included in this chapter. The graphs have been used to tabulate, examine, and understand data. The moderating elements affecting Kenya's commercial banking sector's competitiveness were also evaluated by the study. Information regarding the Haile Selassie branch of the Cooperative Bank was given by both male and female employees. Tables and graphs were used to show the findings of the data analysis utilizing the descriptive methodology.

## CHAPTER FIVE

### SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

#### 5.0 Introduction

In addition to drawing certain conclusions, this chapter aimed to concentrate on the information from chapter 4. Furthermore, recommendations will be made in light of the realizations to help Kenyan commercial banks maintain a stable and competitive banking environment.

#### 5.1 Summary of Findings

The researcher sent questionnaires to one hundred respondents via send an email according to the participant's response rate. The research may move on after a 95% response rate was reached. Men made up sixty-two percent of the responders, while women made up thirty-two percent. The diverse viewpoints of the respondents implied that opinions could not be linked to a particular gender and that people of all genders held them. Twenty to thirty (22%), thirty to forty (28%), forty to fifty (30%), and fifty years and over (20%) were the age ranges of the responders. The survey's findings also showed that graduate degrees were held by the majority of participants (43%), followed by diplomas (25%), certificates (15%), and doctorates (12%). This suggested that the respondents' educational backgrounds were adequate for them to understand and respond to the study's questions regarding the elements influencing the level of competition in the commercial banking sector. The study's findings supported the body of recent research and were in line with the investigation's objectives. Because of the wide demographic representation and the high response rate of 95%, the data was considered credible and trustworthy. The opinions expressed by male respondents (62%) and female respondents (32%), respectively, did not exhibit any gender bias. Roberts and Kayande contend that a variety of perspectives are essential to understanding market dynamics in emerging markets. The respondents' ages ranged from 20 to over 50, and they were evenly represented in each age category. As per Hughes and Loretta, comprehending the diverse client groups is vital for formulating strategies that hold significance in the cutthroat commercial bank market. Graduate degrees made up the largest group of responders (43%); diploma holders (25%) followed by certificates (15%), doctorates (12%), and KCSE holders (5%). Understanding and

addressing market challenges in developing economies is necessary. (Hoyer-Ellefsen 2015)emphasized the significance of having a staff with a high level of education. These results were in line with the precise goals of the study, which included figuring out the environmental and financial variables influencing competitiveness and evaluating the effects of product innovation, customer service, and advertising on Kenya's banking sector.

### **5.1.1 Financial Aspects' Impact on Commercial Banking Competitiveness**

This study was specifically designed to evaluate how financial considerations affect commercial banking that is competitive. The results showed a strong correlation between competitive advantage in banking and attractive interest rates, which fosters a positive, competitive banking environment. and monetary elements (0.780 correlation coefficient). Financial factors have an impact on competition in commercial banking, based on the logistic regression analysis's findings (P value 0.002). 35 percent firmly felt that financial variables affect the capital adequacy ratio, while forty percent of respondents said they thought having high liquidity ratios was vital. Forty percent of respondents strongly agreed that loans that perform well in a banking setting promote employee retention, while 48 percent of respondents were certain that regulatory capital requirements are what create a vigorous competitive climate in banking. Financial indicators like interest rates and liquidity ratios are crucial for promoting competition in the banking sector. (Kasasbeh, E. A., Harada, Y., & Noor, I. M. (2017)

### **5.1.2 Environmental influences on competitive commercial banking.**

The results demonstrated a statistically significant relationship between competitive commercial financial services and environmental features. (P value of 0.000, correlation coefficient of 0.835).

Forty percent of respondents strongly agreed that the competitive commercial banking sector is trending upward due to political and regulatory considerations. A resounding 39% of participants concurred that the banking industry's exposure to competition is controlled by the regulatory environment. Moreover, the results showed that 38% of participants were certain that employees' dedication was impacted by a supportive work environment. The

feedback indicates that in order for a firm to function properly, overtime pay is required. Furthermore, 44% of the participants said that reaching banking goals is impacted by the job. Lastly, a third of employees believed that a competitive, A varied banking ecosystem makes working for commercial financial institutions more appealing to employees. (Delai, I., and L. S. Inácio (2021). This comprehensive analysis of sustainable banking looks at how legislative frameworks limit the impact of competition in the banking industry and how crucial a positive work environment is to retaining employees.

### **5.1.3 The Effect of Customer service and promotion on competitive commercial banking.**

Customer service, promotion, and competitive commercial banking were found to be related by multiple regression analysis (correlation coefficient 0.259 and P value 0.000). Of the employees, 14% strongly agreed that continuing education and training are essential to preserving the competitiveness of banks as a whole. In a similar vein, 39% of participants claimed that working in a diverse environment strengthens one's resolve to succeed in the competitive field of commercial banking. By 2023, (Kulkarni, A. M., and Tilak, P. R.) The study delves into the crucial correlation between customer happiness and service quality in the banking industry, underscoring the necessity of ongoing service enhancement to sustain competitiveness.

### **5.1.4 Product innovation on competitive commercial banking.**

The findings showed a statistically significant relationship (P value of 0.000 and correlation coefficient of 0.630) between environmental parameters and competitive commercial banking. However, 48% of respondents were certain that artificial intelligence and other cutting edge technology will have a major influence on how commercial banking develops in the future, even though banks may differentiate themselves by offering unique and creative solutions. Banks are looking at artificial intelligence (AI) technologies in an effort to increase customer satisfaction and productivity. The survey findings show that 30% of participants somewhat agreed that block chain's decentralized structure improves data

security. Fraud is less likely because transactions are transparent and final. (Accenture (2024).This study emphasizes how cutting-edge technology, such as blockchain and artificial intelligence, will influence commercial banking in the future and boost consumer happiness and efficiency.

## 5.2 Recommendations

Senior executives assign resources and set the strategic direction. They are in charge of the entire implementation procedure.

- i. **Interest Rates:** To be competitive, banks needed to keep providing enticing interest rates. In order to draw in and kept consumers, rates should be reviewed and adjusted on a regular basis. It is important to prioritize the maintenance of favorable liquidity ratios. Sufficient liquidity guarantees seamless operations and fosters trust among clients. **Capital Adequacy:** Keep a careful eye on regulatory requirements to strengthen capital adequacy. Strong financial positions boost one's ability to compete. **HR** makes ensuring that there is a good work atmosphere and that employees are happy. Staff members receive continuous professional development from training departments.
- ii. **Legal and Political Considerations:** Keep abreast of developments in the law and politics. Modify tactics to comply with changing legal requirements. **Workplace:** Encourage a positive and encouraging workplace. Commitment and productivity are positively impacted by employee happiness. **Diversity:** Promote a diverse workplace environment. Different viewpoints inspire motivation and creativity.
- iii. **Employee Training and Development:** Make an Investment in This Area. Excellent customer service is provided by well-trained employees, which boosts competitiveness. **Promotional Strategies:** Create successful marketing initiatives. Emphasize special offers and use targeted marketing to draw clients.
- iv. **Creativity:** Promote originality in the development and delivery of products. Providing innovative ideas helps banks stand out from rivals. **Customer-Centric**

Approach: Recognize the wants and needs of your customers. Customize goods to relieve particular problems. To innovate, they work together with technical teams and customer insights. Recall that cross-functional cooperation and dedication from all organizational levels are necessary for a successful implementation.

**Policy Implications:**

Legislators ought to think about harmonizing regulations (such as capital adequacy ratios and liquidity requirements) with the suggested practices.

Provide incentives to banks so they will embrace diversity and customer-centric strategies.

Encourage cooperation between industry stakeholders and regulatory agencies to guarantee efficient policy implementation.

**Training and education.**

Employee Training: Banks ought to fund employee training initiatives that emphasize compliance, product innovation, and customer service. Performance Metrics: Create key performance indicators (KPIs) for customer happiness, capital sufficiency, and liquidity.

Change Management: Use change management techniques to help new methods get adopted.

**5.3 Conclusion**

The study's findings show that favorable environmental factors and competitive commercial banking are positively correlated. Workers who take part in training and development initiatives have the competencies required to achieve organizational goals. According to the study, intense competition in the commercial banking industry is fostered by financial variables such as interest rates and liquidity. This is because highly skilled individuals tend to perform better in teams when expectations are clear and readily met by all. The report also concludes that the environment helps the commercial banks remain competitive and strengthens the financial sector as a whole.

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**APPENDIX I**  
**INTRODUCTION LETTER**

This letter is a request for your involvement in a research study titled "**Determining the Factors Affecting Competition in Kenya's Commercial Banking Industry.**" is a requirement for my Management University of Africa degree in Management and Leadership in Human Resources. The study's overarching goal is to identify the variables that influence competitiveness in Kenya's commercial banking sector, with a particular emphasis on the Heile Selassie Branch of the Co-operative Bank. Your involvement in this research is essential to gain insightful knowledge on how training initiatives affect employee productivity. This knowledge will improve organizational performance and banking industry HRD tactics.

The purpose of the questionnaire that is attached to this letter is to learn more about your opinions and experiences with the training programs offered by the Co-operative Bank's Heile Selassie Branch. Your responses will be treated with the utmost confidentiality, and the data collected will only be applied to future studies. You will not be charged if you decide to stop taking part in this study at any point. Your involvement and opinions are greatly appreciated, as they will contribute to the success of this study endeavor. I appreciate your consideration of this request. Please do not hesitate to contact if you need more information or if you have any questions.

Sincerely,

**NICKSON MUDIBO**

**BCOMK /5/00197/3/20**

**+254713065933**

**APPENDIX II**  
**RESEARCH STUDY QUESTIONNAIRE**

Greetings, Participant

thank you for agreeing to participate in this study.. Your insightful comments will help us better evaluate how training initiatives affect employees' productivity in the banking industry. Your sincere answers are really valued.

**Section One. Demographic Information**

**Gender:**

a) Male {}

b) Female {}

**Age:**

a) 18-25 years {}

b) 26-35 years {}

c) 36-45 years {}

d) 46-55 years {}

e) 56 or older years {}

**Department/Position:**

- a) Top Management {}
- b) Middle Level Management {}
- c) Other Staff Members {}

**Years of Experience in Banking Sector**

- a) 1-3 years {}
- b) 4-6 years {}
- c) 7-9 years {}
- d) 9 and above years {}

**Section Two Study Objectives**

**Objective 1: To determine the financial factors that affect competition in the banking industry in Kenya.**

The following assertions are rated from 1 to 5, where 1 is extreme dissatisfaction 5 is disagreement, impartiality, approval, and substantial agreement.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Evaluate the effect of interest rates on Kenya's banking industry's competitive environment					
To what extent does the availability of capital influence the level of rivalry between banks?					

Evaluate the strategies should Kenyan banks prioritize to stay competitive.					
Competitive banking has led to has led to stability in Kenya's financial system					

**Objective 2: To determine the environmental factors that affect competition in the banking industry in Kenya.**

The following assertions are rated from 1 to 5, where 1 is extreme dissatisfaction 5 is disagreement, impartiality, approval, and substantial agreement.

Statement	1	2	3	4	5
Environmental regulations, have the biggest impact on the competitiveness of the banking industry					
Identify any recent regulatory changes that have affected competition in the banking industry.					
Does Kenya's present economic situation affect bank competition.					
The Banking materials and resources are easily accessible to me.					

**Objective 3: To find out if customer service and promotion affects competition in the banking industry in Kenya.**

The following assertions are rated from 1 to 5, where 1 is extreme dissatisfaction 5 is disagreement, impartiality, approval, and substantial agreement.

Statement	1	2	3	4	5
How important do you think customer service quality is when selecting a bank?					
Which marketing initiatives do you think draw clients to banks the best?					
The duration of research sessions is appropriate for covering relevant topics.					

**Objective 4: To find out if product innovation affects competition in the banking industry in Kenya**

Using a rating system ranging 1 to 5, representing strong disagreement, disagreement, neutrality, agreement, and substantial agreement, the subsequent propositions

Statement	1	2	3	4	5
Which cutting-edge financial products have you recently observed entering the Kenyan market?					
How frequently do you change banks in an effort to find better deals and offerings.					
What part does technology play in the banking industry's invention of products?					

## INTRODUCTION LETTER



Date: 18<sup>th</sup> June 2024

TO WHOM IT MAY CONCERN

NICKSON MUDIBO- BCOMK/5/00197/3/20

This letter serves to introduce the above named who is a **Bachelor of Commerce (BCOM)** student and is interested in carrying out research on Factors Affecting Competition in Commercial Banking Industry in Kenya. A Case Study of Cooperative Bank of Kenya Haile Sellassie Branch.

Any assistance accorded to him in pursuit of this study will be greatly appreciated.

Yours Sincerely,



Dr. Juster Nyaga

Dean, School of Management and Leadership



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