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Effects of Merger Strategies on Competitiveness in the Banking Industry: A Survey of Selected Banks in Kenya

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Abstract:
The prevailing competitive market situation has presented the banking industry with a myriad of challenges over the last few years. As a result many banks are reviewing the strategy they should adopt to ensure future competitiveness. Banks are currently pursuing a mix of strategies in a bid to enhance their competitiveness in the industry.This research sought to establish the effect of merger strategies on competitiveness in the banking sector in Kenya. The study specifically focused on establishing the effect of revolution strategy on competitiveness in the banking sector in Kenya, to evaluate the effect of evolution strategy on competitiveness in the banking sector in Kenya and to explore the effect of realignment strategy on competitiveness in the banking sector in Kenya.
It used descriptive survey research design since the study entailed description of facts and characteristics of a given population or sample of the population. Selected banking institutions that have been formed through a merger constituted the target population. Krejcie and morgan table for determining sample size was used to get a sample of 64 respondents was taken from drawn from top level management, middle level management and lower level management.
The study found a mean of 95% respondents expressing that revolution strategy has the biggest effect on bank competitiveness. This was further supported by a positive correlation coefficient of 0.681. The findings clearly showed that revolution strategy has the greatest impact on bank competitiveness. The study concluded that Revolutionary strategies and Realignment strategies should be adopted by any bank that seeks to remain competitive in the industry.

Keywords: *Competitiveness, Evolution, Mergers, Realignment and Revolution*

1. Introduction

1.1. Background of the Study

Investments who keep a higher positive outlook for future demand from others, give higher price to the bought out companies. Mergers are the result of the efforts for the consolidation of these capital gains. When the leading company proceeds to merging movements, then its competitors will follow in the fear that they will stay behind. Thus the actions for the development of the wave are born. Corporate merger is when two or more companies are terminated in the purpose of forming a combination of companies that will create as a rule, a larger and more powerful financial unit (Leontaris, 2000). An initial merger wave can itself create a financial unbalance. Financial turbulences cause or offer the conditions for larger scale mergers. In some cases, the companies attempt to make mergers when changes are ahead (Davies and Lyons, 2002).

Weston et al. (2001) examines mergers as vertical, horizontal and conglomerates. If two or more firms have different types of business, the merger is vertical; if they have similar business, the merger is horizontal; and if the firms are engaged in unrelated types of business activities, the merger is a conglomerate merger. According to the efficiency theory, mergers are planned and executed to reduce costs by achieving scale economies (porter, 2004). This means that in addition to increase in market power, integration of two or more firms into a single entity may also enhance productive efficiency through a better allocation of resources leading to lower prices and hence greater allocative efficiency. Mergers can also result in greater innovative efforts and dynamic efficiency of the firm, whereas integration with multinational corporations in particular is likely to result in technology spillovers and managerial competencies. The technological innovations of the '80s in mass production and transportations as well as the innovations in informatics technology in the '90s boosted the merger wave. Changes in the tax system or demographic changes and state regulations in citizens' pensions are examples of changes in the corresponding factors that can offer companies the chance to develop new competitive advantages through mergers.

Soubeniotis, Mylonakis, Fotiadis, Chatizithomas&Mertizimekis (2006) observe that a buyout does not always lead to a merger of the bought out company. In practice, the implementation of a merger can take other forms; it can be direct or gradual, total or selective resulting in total or partial merging of units, stores, services, resale or closure of others. The operational merger procedure, total or partial does not necessarily coincide with the typical- legal procedure of its implementation. Thus, the various resulting consequences, especially the ones concerning employment and labor relations can appear before, during or even after the typical implementation of a merger, something that is very important for the regulation and protection of the corresponding labor rights. According to Lipton (2006), many of today's mergers involve a company with a favorable operating margin merging with a company with a lower operating margin. By improving the merged company's operations, the merger creates synergies that provide additional earnings for the shareholders of the merged firms.

Merged firms may reallocate or redeploy assets to more efficient uses. Additionally, intra-industry consolidating mergers provide opportunities to reduce costs by spreading administrative overhead and eliminating redundant personnel; this has been a major factor in bank mergers.Soubeniotis et. al., (2006) observe that usually, the combination of buyout with merger depends on the strategy and targets of the companies performing the buyout. It further depends on the business activity and certain basic features of the bought out (corresponding activity, complementarities of operations, compatibility of culture, administrative and labor practices and the existing cooperation schemes between the two companies), the general social and economic conjuncture in the country and internationally. According to Papadakis (2000), the driving force concerning the decision for buyout and merger, is the pursuit of scale economies, the pursuit of cooperation schemes, the increase of productivity and the reduction of the unit operation cost of the company.

The elements of competitiveness potential are: price and cost competitiveness, productivity and technology indicators. Productivity refers to the efficiency in the use of resources and factors of production. According to Johnson and Scholes (2002), innovation, technological advancement, effective management of organizational activities, brand, quality of products and services, and human capital are now widely regarded as vital sources of competitiveness for firms. Innovation includes product and production innovation, business and management innovation, and service innovation. These are achieved through in-house development as well as strategic alliances across organizational boundary.

Nonaka and Teece (2001), asserts that there is a general consensus in strategic thinking that the ability for an organization to develop and exploit knowledge faster than its competitors is a key component of its competitive advantage. The market share is also a useful indicator of competitiveness at the company level (Schornberg, 2007). Therefore any bank that intends to prosper must assess its innovation capabilities and take strategic action to improve its innovation skills (Solundo, 2008). Hence coming up with a comprehensive policy framework for mergers calls for evaluation of strategies and how they impact on competitiveness, an area that has remained largely unexplored. This research aims at evaluating merger strategies on competitiveness in the banking sector in Kenya

1.2. Statement of the Problem

The banking industry has become very competitive and a significant phenomenon has emerged where banks that swiftly react to situations and take decisions promptly to continually take over the environmental variables are separated from those that slowly react to situations and this has been said to have predominant impact on their competitiveness in the industry (Asikhia, 2010). Banks have adopted different strategies in an attempt to raise their competitiveness in the industry. It is not clear however, which of these strategies is the best in terms of helping the banks command a competitive lead in the industry, and this formed the basis of this study. It becomes pertinent that banks that desire to succeed must remain dynamic, make deft moves, respond to new customer demands faster and work with staff who have big hearts to make powerful decisions as situation demand, such banks must be able to take risk within the limits of corporate definitions, size and new market opportunities immediately and innovate continuously (Ogunbanjo, 2002). The banking sector is very vibrant in Kenya due to demands of a growing economy (ROK, 2012). The macroeconomic situation has also presented the banking industry with a myriad of challenges over the last few years. As a result most banks are reviewing the strategy they should adopt to ensure future competitiveness (Berger et al, 2004).

1.3. General Objective

The study sought to establish the effect of merger strategies on competitiveness in the banking industry.

1.4. Specific Objectives

This study was guided by the following objectives:

- To establish the effect of revolutionary strategy on competitiveness in the banking sector in Kenya.
- To evaluate the effect of evolutionary strategy on competitiveness in the banking sector in Kenya.
- To explore the effect of realignment strategy on competitiveness in the banking sector in Kenya.

1.5. Research Questions

The study sought to answer the following questions:

- What is the effect of revolutionary strategy on competitiveness in the banking sector in Kenya?
- What is the effect of evolutionary strategy on competitiveness in the banking sector in Kenya?
- What is the effect of realignment strategy on competitiveness in the banking sector in Kenya?

1.6. Justification of the Study
The rationale of the study was to contribute knowledge and lay foundation for further research in area under study. It was also to shed light on the situation in the merger of banking institutions in Kenya. The significance of this study is to enable corporate institutions in Kenya to embrace the idea of mergers and to improve their strategic response to customer demands for better quality services and enhanced competitiveness. The findings of this study are expected to be useful to policy makers in decision making with regard to mergers in provision of quality service delivery.

1.7. Significance of the Study
This study could provide information on effectiveness of various strategies and may thus be beneficial to the banking institutions in Kenya by enhancing their knowledge on the right strategy to employ in a bid to remain competitive in the industry. The study could also provide vital information to firms wishing to merge. The contribution of the study would be of interest to scholars in this area of study as well as practicing managers particularly in the banking sector.

1.8 Scope of the Study
The study covered selected merged banking institutions in Kenya. The study took place from May to June 2014.The respondents of the study were the top level management, middle level management and lower level management. The areas of concern were; to establish the effect of merger strategies on competitiveness in the banking sector in Kenya.

1.9. Limitations of the Study
There was some element of selective memory where respondents were not able to remember some experiences or events that occurred at some point in the past. To overcome this limitation cognitive interview was employed using a series of questions to improve memory about the event of real interest. It was also noted that the respondents may not always be truthful in their answers to research study, which could lead to findings that could be misleading. To combat this limitation the study used randomized response strategies, which is characterized by use of a questioning design, which makes it impossible to identify the question on which the sample unit has given the answer. The idea was to ensure the cooperation of the sample units by an increase of their perception of protected privacy.

2. Literature Review

2.1. Introduction
This chapter contains literature review in general literature and specific literature on the subject of study. Literature review will help the researcher to expand the concept and the background of the problem and support clearly the problem area of interest. It will show how other researchers or scholars approached the topic, techniques used and conclusions made.

2.2. Theoretical Review
Theories such as efficiency theory, synergy theory and knowledge-based theory have been used to explain why mergers do occur. According to efficiency theory; mergers are planned and executed to reduced costs by achieving scale economics (porter, 2004). This means that in addition to increase in market power, integration of two or more firms into a single entity may also enhance productive efficiency through better allocation of resourses leading to lower prices and hence greater allocative efficiency. Mergers can also result in greater innovative efforts and dynamic efficiency of the firm, whereas integration with multinational corporations in particular is likely to result in technology spillovers and managerial competencies.

2.2.1. Synergy Theory
Synergies are business measures that increase the value of combined business entity more than the sum of its separate units (mulherin and boone, 2000). Operational and financial synergy appears in the form of revenue enhancement and cost reductions (Gaughan, 2007). Financial synergy is achieved when the cost of capital may be reduced through the combination of two companies. The other components of synergy are operational, financial and managerial (Hitt, 2001). Operational synergy is achieved when the cash flow from operations is improved whereas financial synergy is achieved by interest tax shields, the change in capital structure and financing. Managerial synergy is created when additional value is created through the decision maker's ability to integrate the two companies and create competitive advantage. Rappaport (2008) defines synergies into market power, operating synergy, financial synergy and tax shields. Market power is achieved through the enlarged size of the company. Operational synergy is achieved scale economies and financial synergy is created by means of reducing risk and lowering the cost of capital.

2.2.2. Knowledge-Based Theory
Drawing on knowledge-based theory alignment is viewed as a process that promotes knowledge sharing (kearns and lederer, 2003), and is essential in determining information technology profitability. Knowledge-based theory suggests that the ability of a firm to successfully deploy resources relies on the knowledge residing in the human capital of a firm and the development of interrelated knowledge across organizational units, with organizational routines as mechanisms of knowledge integration (grant. 1996). Knowledge includes both explicit knowledge which encompasses know-how, skills and practical knowledge. Achiev competitive advantage is therefore in part a function of the efficiency of knowledge integration spanning broad are

knowledge (Tallon et al, 2000). Carneli and Tishler (2004) discovered that human resources, managerial information technology skills have a strong positive link to some performance measures.

2.3. Empirical Review

Previous research has found that information information systems strategy is now considered equal with business strategy (Hirschheim and sabherwal, 2001). They argued that an excellent strategic alignment of business strategy will lead the information systems to a crucial point, which eventually boosts business performance. At the 11th annual critical issues of information systems management study, hosted by the computer science corporation in 1998, 72 percent of 574 information technology systems executives announced that aligning information and communication technology and corporate goals was their focus.

Irechukwu (2000) itemized some bank services that have been revolutionized through the use of information and communication technology as including account opening, customer account mandate and transaction processing and recording. Information and communication technology products in use in the banking industry include Automated teller machine, smart cards, telephone banking, electronic funds transfer, electronic data interchange, electronic home and office banking. According to Litan (1999) there were 352000 Automated teller machines in the united states by 2002. The internet gave customers access to their accounts. Banks also developed centralized call centers to handle customer service issues and to initiate transactions including deposits and loans.

Dick (2003) did a research and found that depositors value geographic reach (branches in many states and municipalities) and local branch intensity (many branches of an institution in a given area) when selecting a depository institution. Fung (2001), in his market survey suggests that a customer place a premium on convenience when choosing a bank. 39 percent of bank customers surveyed in 2001 indicates they selected their bank primarily because of its location. Electronic payment technologies and fund transfer are replacing paper based payments (cash and cheques). Gerdes and Walton (2002) found 3 percent per year decline in the number of cheques paid in the United States during the late 1990s, while payment made with credit cards and debit cards were increasing by 7.3 percent and 35.6 percent per year respectively. These figures imply that cheques market share of the total payments declined from 80.8 percent to 64.6 percent. Similarly Humphrey (2002) estimated that cheques market share of total payment fell from 87.8 percent to 72.3 percent during the 1990s, although he found overall cheques use was still rising modestly.

2.4. Knowledge Gap

Fidelis (2006) investigated the strategies adopted by commercial banks to achieve a competitive advantage. He found that banks use a mix of strategies in a bid to enhance their competitiveness in the industry. However, it's not clear which of the strategies has the greatest effect on competitiveness in the industry, and this will be the focus of this study. The study therefore aims at establishing the effect of merger strategies on competitiveness in the banking sector in Kenya.

2.5. Conceptual Framework

It is hypothesized that some strategy can impact more on competitiveness of a bank in the industry. Fidelis (2006) investigated strategies adopted by commercial banks to achieve a competitive advantage. He found that banks tend to use a mix of strategies. The study will be guided by a conceptual framework in which revolution, evolution and realignment strategies will be the independent variables while bank competitiveness will be the dependent variable. Woherem (2000) says that only banks that overhaul the whole of their payment and delivery systems and apply information and communication technology to operations are likely to survive and prosper in the new millennium. According to khandelwal (2001), for enterprise to achieve their corporate objectives, the information system supporting the business process has to give the right management information at the right time. To do this, IT in an enterprise must align with the organizational objectives, therefore an increase in performance can be achieved and competitive advantage will be attained. Dick (2003) did a research and found that depositors value the geographic reach (branches in many states and municipalities) and local branch intensity when selecting depository institution. The above can be conceptualized in the diagram below.

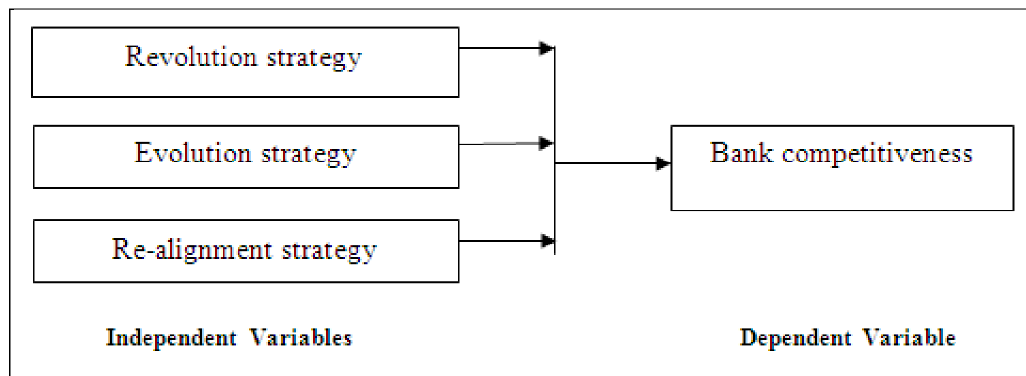

Figure 1: Conceptual Framework

2.6. Revolution Strategy

Managers cannot ignore information systems because they play a critical role in contemporary organizations (Laudon and Laudon, 2003). According to Harold and Jeff (2000), financial service providers should modify their traditional operating practices to remain viable. This information and communication technology has emerged as catalyst in the various industries of the world to aid the process and procedure required to ensure the realization of various organizational goals.The application of information and communication technology concepts, techniques, policies and implementation strategies to banking services has become a subject of fundamental importance and concern to all banks and indeed a prerequisite for local and global competitiveness (Laudon and Laundon 2003) information and communication technology directly affects how managers decide, how they plan and what products and services are offered in the banking industry. It has continued to change banks and their corporate relationship are organized worldwide and the variety of innovative devices available to enhance the speed and quality of service delivery.

According to Adeoti (2005), information and communication technology is the automation of processes, control and information production using computers, telecommunication, software and other gadgets that ensure smooth and efficient running of activities. Its devises especially the internet and modern computer email facilities have strengthened every modernization, like the telephone and fax. Other information and communication technology devices include data recognition equipment, factory automation hardware and services, telecommuting and teleconferences using real time and online system (Adeoti, 2005).

Irechukwu (2000) itemized some bank services that have been revolutionized through the use of information and communication technology as including account opening, customer account mandate and transaction processing and recording. He asserts that information and communication technology has provided self-service facilities (Automated customer service machines) from where prospective customer can complete their account opening documents direct online. It assist customers to validate their account numbers and receive instruction on when and how to receive their cheque books, credit and debit cards. Information and communication Technology products in use in the banking industry include automated teller machine, smart cards, telephone banking, electronic funds transfer, electronic data interchange, electronic home and office banking (Irechukwu, 2000).Woherem (2000) says that only banks that overhaul the whole of their payment and delivery systems and apply information and communication technology to their operations are likely to survive and prosper in the new millennium. He advices banks to re-examine their service and delivery systems in order to properly position them within the frame work of the dictates of the dynamism of information and communication technology.

Ovia (2001) Concluded that banking in Nigeria has increasingly depended on the deployment of information technology and that the information technology budget for banking is by far larger than that of any other industry in Nigeria. He contended that on-line systems have facilitated internet banking in Nigeria as evidenced in some of them launching websites. He also found that banks now offer customers the flexibility of operating an account in any branch irrespective of which branch the account is domiciled.Brucher, Scherngell et al (2003) opined that information and communication technology adoption will improve three critical domains which are efficiency, quality and transparency in any organization.

Agboola et al (2002) discussed the dimension in which automation in the banking industry manifest in Nigeria. They conc bankers automated clearing service, automated payment system and automated delivery channels. Ovia (2005) opined that the revolution in information and communication technology has made the banking sector change from the traditional mode of operations to presumably better ways with technological innovation that improves efficiency. Osabuohien (2008) established that while the gender of bank officials does not affect efficiency in information and communication technology use, factors such as age, education, qualification computer literacy and type of information and communication technology gadgets were significant in influencing banks intensify of information and communication technology usage. Also information and communication usage was found to impact positively the speed of banking service delivery as well as productivity and profitability.

2.7. Realignment Strategy

Currently technology is fundamentally re- aligning business relationships between banks and their customers. Previous research has found that the information systems strategy is now considered equal with business strategy (Hirschheim and Sabherwal, 2001). They argue that an excellent strategic alignment of business strategy will lead the information system to a crucial point, which eventually boosts business performance.

Henderson and Venkatraman (2007) assert that the investment value of information systems cannot be fully realized owing to the lack of strategy alignment between business strategy and information system strategy in the company. Hence an increase in performance and competitive advantage will be difficult to accomplish. At the 11th Annual critical issues of information systems management study, hosted by the computer science corporation in 1998, 72 percent of 574 information technology systems executives announced that aligning information and communication technology and corporate goals was their focus. Kefi and Kalika (2005) categorized the strategic alignment perspective into: business execution, competitive potential, information technology potential and service level.

Lederer and Mandelow(2002) says that alignment is coordination achieved when the company information technology system strategy is derived from organization strategy comprising content linkage which refers to the consistency of business plan and information technology / system plan, timing linkage which refers to weather the information technology/ system plan is developed after, along with or before the business plan is made, and personnel linkage which refers to different involvement degree in planning business information technology/ system area. Luftman et al (1993) defines strategic alignment as the extend to which information system. Strategy support and is supported by business strategy. Khandelwal (2001) says that for enterprise to achieve their cooperate objectives the information system supporting the business process has to give right management information at the right time. To do this information technology in an enterprise must align with the organizational objectives. Therefore an increase in performance can be achieved and competitive advantage will be attained, lending the banking sector to survive and thrive despite fierce competitive. (Premkunra and king, 2006)

2.8. Evolution Strategy

The traditional image of banking features a stately office on a main street where the branch manager understands the local market and has strong customer relationship. But technology and regulatory changes has challenged this brick-and-mortar business model. Automated teller machines proliferated. According to Litan (2003), there were 352,000 machines in the United States by 2002. The internet gave customers access to their accounts. Banks also developed centralized call centers to handle customer service issues and to initiate transaction including deposits and loans. In concert with these changes many institutions shifted activities once carried out by branch bank personnel such as small business loans approval and management to regional or national offices (Orlow, Radecki and Wenninger, 1996). All these developments appeared to reduce the role of traditional bank branch in the delivery of retail banking services.

There has been a sharp rise in the number of bank branches. A large branch network offers the convenience of many point of contact with the institutions. Dick (2003) did a research and found that depositors value the geographic reach (branches in many states and municipalities). And local branch intensity (many branches of an institutions in a given area) when selecting depository institutions. Fung (2001), in his market survey suggest that a customer place a premium on convenience when choosing a bank. 39% of bank customers surveyed in 2001 indicates that they selected their bank primarily because of its location. These findings suggest that many customers value the scope and scale of large branch network. In choosing to continue to expand their branch network, these organizations seem to have made the judgment that retail banking activities remain an effective channel for generating revenue despite the associated cost and the development of alternative distribution channels such as call centers, automated teller machines and online banking.

Berger, Leusner and Mingo (1997) suggested that large branch networks are not effective at minimizing costs but are effective at generating revenue. The influence of technology has also been affirmed by what bill gates wrote in the New York Times (1997) where he says that the internet won't come at the expenses of the banking industry. The future is bright for the institution that evolves. Technology will get banks closer to customers, deliver a wide range of services at a lower cost and streamline internal systems, so that all customer data is integrated and can be used to spot trends that can lead to new products.

Rybczynski (1997) argues that financial services evolve through time passing through three phases. The first stage is the bank oriented phase in which most external funding is acquired through loans funded by deposits of customers. The second stage is the market oriented phase in which institutional or household investors begin to purchase bonds and non bank, monitory institutions start offering services similar to those that are offered by the banks. Subsequently in the third stage, the traditional functions of banking are extended to trading, under writing, advisory and asset management services. In this phase, co-operate bonds, commercial papers, mortgages and other forms of credit start replacing loans.

Possibly the largest impact of technology in banking system has been on the payment system, where electronic payı technologies and fund transfer are replacing paper based payment (cash and cheques) and better record keeping. Gerdes and Walton (2002) found 3 percent per year decline in the number of cheques paid in the United States during the late 1990s, while payment made with credit cards and debit cards were increasing by 7.3 percent and 35.6 percent per year respectively. These figures imply that cheques market share of the total payment declined from 80.8 percent to 64.6 percent. Similarly Humphrey (2002) estimated that cheques market share of total payment fell from 87.8 percent to 72.3 percent during the 1990s, although he found overall cheques use was still rising modestly. The technology driven switch from paper based payment to electronic based payment is reflected in sleep increase in automated clearing house (ACH) transactions such as monthly mortgage payment and direct pay roll deposits (Berger 2003).

Therefore any bank that intends to prosper must assess its innovation capabilities and takes strategic actions to improve its innovation skills (Solundo 2008). Hence coming up with comprehensive policy framework for mergers call for evaluation of strategies and how they impact on competitiveness, an area that has remain largely unexplored. This research aims at establishing the effect of merger strategies on competitiveness in the banking sector in Kenya.

2.9. Competitiveness in the Banking Sector

The global macroeconomic situation has presented the financial services industry with a myriad of challenges over the last few years. As a result most banks are reviewing the strategy they should adopt to ensure future competitiveness (Berger et al, 2004). According to the efficiency theory, mergers are planned and executed to reduce costs by achieving scale economies (porter, 2004). This means that in addition to increase in market power, integration of two or more firms into a single entity may also enhance productive efficiency through a better allocation of resources leading to lower prices and hence greater allocative efficiency. Mergers can also result in greater innovative efforts and dynamic efficiency of the firm, whereas integration with multinational corporations in particular is likely to result in technology spillovers and managerial competencies. The technological innovations of the '80s in mass production and transportations as well as the innovations in informatics technology in the '90s boosted the merger wave. Changes in the tax system or demographic changes and state regulations in citizens' pensions are examples of changes in the corresponding factors that can offer companies the chance to develop new competitive advantages through mergers.

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3. Research Methodology

3.1. Introduction

This chapter presents the methodology used in the study. It describes the research design, the target population, sample size and sampling procedures, research instruments, pretesting of the research instrument, reliability and validity of the rese[illegible] instruments, data collection procedures and data analysis techniques.

3.2. Research Design

This study used descriptive survey and exploratory research design. Descriptive survey designs are used when the objective is systematic or description of facts and characteristics of a given population or sample of the population or area of interest factually and accurately (Kothari, 2004). It gathers data at a particular point in time with the intention of describing the nature of the existing conditions, identifying the standards against which existing conditions can be compared and determining the relationship that exists between specific events (Orodho, 2005). In this study, the researcher obtained and described the views of the respondents with regard to different strategies and their effect on competitiveness. Survey research design was used because the population under study is too large to observe directly and this enabled the researcher to use questionnaires as a method of data collection. The survey research is therefore useful because of the economy of taking a sample of the population to generalize results for the whole population.

3.3. Target Population

According to the ROK (2012), there are 44 commercial banks in Kenya. All the banking institutions that have been formed through a merger constituted the target population. The respondents comprised of top level management, middle level management and lower level management

3.4. Sampling Frame, Sample Size and Sampling Techniques

Sampling is a process of selecting g a number of individuals from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho, 2005). The sampling frame is a list or other device used to define a researcher's population of interest. It defines a set of elements from which a researcher can select a sample of the target population. This study purposively selected the following categories from accessible population: top level management, middle level management and lower level management. These categories of employees play a crucial role in strategy implementation.
Sampling technique is the method used in drawing samples from a population. Stratified random sampling was used to pick the respondents. Krejcie and Morgan table for determining sample size for a given population was used to get a sample size of 64.

Description	Population	Sample size
Top level management	20	17
Middle level management	25	19
Lower level management	30	28
Total	75	64

Table 1: Sample Size Distribution

3.5. Research Instruments

The main research instrument for this study was a questionnaire. Data was collected by use of questionnaires which consisted of closed and open ended questions that were consistent with the research objectives and questions. Interview schedules were also used by the researcher to overcome the limitations of the questionnaire. The questionnaire enabled the researcher to cover a wide area and minimize biases.A questionnaire is a research instrument that gathers data over a large sample (Kombo& Tromp, 2006). The questionnaires that were used in this research consisted of structured and semi-structured questions. Structured questions are easier to analyze, easier to administer because each item is followed by alternative answers. They are also economical to use in terms of time and money. However, the responses are limited and respondents were compelled to answer questions according to the researcher's choice. Unstructured or open-ended questions on the other hand refer to those questions that gave the respondent complete freedom of response.
Respondents' responses gave insight into their feelings, background, hidden motivation, interest and decisions (Mugenda and Mugenda, 2003). However, there was a tendency to provide information that did not answer the stipulated research questions or objectives. There was also difficulty in categorizing responses and hence difficulty in analyzing quantitatively. The questionnaires were administered to members of top level management, middle level management and lower level management. The interview schedule was administered to the top level managers of the banking institutions.

3.5.1. Piloting of the Research Instruments

As Orodho (2005) points out, piloting refers to the pre-testing of research instruments to a selected sample which is identical to the actual sample to be used in the study. Orodho (2005) further adds that piloting helps to detect deficiencies in the research instruments such as insufficient space and ambiguous questions, and helps to reveal if anticipated analytical techniques are appropriate. Questionnaires were piloted on two banking institutions using two respondents from each management level. The two banking institutions however, did not participate in the actual study. Stratified random sampling was used to select the respondents from the participating banking institutions who responded to the questionnaire.

3.5.2. Validity of the Research Instrument

According to Mugenda and Mugenda (2003) validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Test and retest was used to ascertain the validity of the data collected. The researcher gave out questionnaires to a group of respondents not included in the study to fill and comment as required. After a period of one week, more questionnaires were given to the respondents. The responses were then compared and those questions whose responses had great variances were restructured.

3.5.3. Reliability of the Research Instrument

Reliability refers to the degree to which the scores obtained with an instrument are consistent measures (Frankfort-Nachmias, 2005). Test and retest was used to determine the reliability of the questionnaires. A reliability coefficient between the two separate administrations of the questionnaire was expected to give a coefficient of at least 0.8, which is high enough to confirm the reliability of the questionnaires. The Spearman prophesies formula was used to calculate the reliability of the instruments.

$$\text{Reliability on total test} = \frac{2\,(\text{Reliability for 1/2the test})}{2+\text{Reliability for ½ the test}}$$

3.6. Data Collection Procedures

This refers to the collection or gathering of information to serve or prove some facts (Kombo and Tromp, 2006). It involved the real process of going to the field to get the required information from the selected population. The researcher got an introduction letter from the Dean School of School of Human Resource Development to enable him get a research permit from the Ministry of Higher Education, Science and Technology (M.O.H.E.S.T.) before proceeding to the field. This was done through a letter stating the research area, purpose of the research and the exact dates when the research was expected to take place. On the actual dates of the study, the researcher visited individual banks to conduct the research. The questionnaires were issued to selected respondents and some questionnaires were collected on the same day while others were collected later. This allowed more time to enable proper completion of the questionnaires.

3.7. Data Analysis Techniques

Data analysis deals with the process of data coding, data entry and analysis in order to make interpretation possible. Data analysis deals with the statistics to be used to analyze data, that is, the organization, interpretation and presentation of collected data (Oson and Onen, 2005). Data in this study was collected by use of both closed-ended and open-ended questionnaire items. Quantitative data was analyzed using descriptive statistics. Qualitative data was read and categorized into distinct themes as shown by the responses of the respondents. This data was then analyzed using descriptive and inferential statistics.

4. Results and Discussion

4.1. Introduction

The tough competitive situation has presented the banking industry with a myriad of challenges over the last few years. As a result most banks are reviewing the strategy they should adopt to ensure future competitiveness (Berger et al, 2004). The study was carried in commercial banks in Kenya that had formed mergers with a sample size of 64 respondents comprising of top level management, middle level management and lower level management. A questionnaire with both open and closed ended questions was the main instrument of data collection whereby the same questionnaire was issued to the sampled respondents to determine the effect of merger strategies on competitiveness in the banking industry in Kenya. Interview schedules were also organized for top level managers only of the banking institutions using the same questionnaire. The data was analyzed qualitatively and quantitatively using descriptive (mean) and inferential statistics i.e. correlation to describe the association and direction among the variables under study and presented in form of tables. Data was analyzed under the following sub headings: Presentation of response rate, quantitative and qualitative analysis.

4.2. Presentation of Response Rate

The target population was 75 respondents and the study sampled 64 respondents using stratified random sampling. The sample constituted of 17 top level management, 19 middle level management and 28 Lower level management. All the questionnaires were returned fully filled representing 100% response rate.

4.3. Quantitative Data Analysis

Quantitative data was collected on major variables and their influence on bank competitiveness. The following data was generated.

4.3.1. Revolutionary Strategy

The respondents were asked to answer the questionnaire to the extent of their agreement on the effect of revolutionary strategy on competitiveness in the banking sector on. This study focused on four measures of competitiveness; namely cost reduction, quality of products and services, market share, effective management of organizational activities. The following data was obtained as tabulated in table 2.

Statement	Disagree	(%)	Neutral	(%)	Agree	(%)
Use of Internet Banking to Reduce Costs	5	(7.8)	0	(0)	59	(92)
Use of ATM to improve quality Of products and services	2	(3.1)	1	(1.2)	61	(95)
Use of smart cards and telephone Banking services to increase market share	4	(6.3)	0	(0)	60	(94)
Networking of all branches for Effective management of Organizational activities	0	(0)	1	(1.2)	63	(98)
Use of ATMS to improve market share	1	(1.6)	0	(0)	63	(98)
Use of automated customer service technology for completion of accounts Opening documents to improve of services service quality	2	(3)	0	(0)	62	(97)

Table 2: Revolutionary Strategy on Competitiveness

The increasing competition in the banking sector is forcing players in the banking sector back to the drawing board to review the effectiveness of the strategies they apply to remain competitive in the sector.From table 2, respondents were of the opinion that application of IT to revolutionize provision of retail banking services increases competitiveness. This was evident as all the aspects which were studied, over 90% of the respondents were of the view that the actions taken by the bank have realized the intended results. This strategy gave a mean score of 95% achievement of competitiveness for the bank. This can be attributed to the fact that banks are rapidly adopting information and communication technology enabling them to come up with innovative products such as electronic banking via internet and mobile banking for competitiveness. This clearly shows that for any bank that wants to survive, they must make a complete paradigm shift towards revolutionizing their services through the use of ICT. The same was noted by Berger (2003) who in a comprehensive research revealed that banks that are using ICT related products such as online banking, electronic payments, information exchanges, security investment can deliver high quality products and services, save costs and more effectively manage their operations. The respondents who disagreed represented utmost 8% of the sampled respondents and this can be attributed to the risks involved when using internet based technology. It is worthy to note that no respondent disagreed on the aspect that networking of all branches results to effective management of organizational activities. This can be attributed to the fact that, the key purpose for adoption of information, communication and technology is to facilitate effective management.

This was evident as it was the only aspect of revolutionary strategy where 63 respondents agreed that networking of all branches results in effectiveness in the delivery of services against 0 respondents who disagreed. It can therefore be said that only banks that revolutionize the whole of their payment and delivery systems and apply information and communication technology to their operations are most likely to survive and prosper in the increasingly competitive banking industry.

4.3.2. Evolutionary Strategy

Leung, Poullet and Shavers (1993), state that forces driving merger booms are constantly evolving, have intensified and will hit with a vengeance. Leung et al., add that for mergers only the boldest players will seize this brief window of opportunity and become the new leaders. They observe that especially for Banks, merger activity is surging as they need capital, and they must turn to outside investors to find it.

Statement	Disagree	(%)	Neutral	(%)	Agree	(%)
Use of email and text alerts to Communicate information to Customers to reduce cost	30	(46.9)	8	(12.5)	26	(40.6)
Introduction of centralized call Centre to handle customer issues to improve quality of services and products	42	(65.6)	0	(0)	22	(34)
Extension of traditional functions of banking to underwriting, asset Management and mortgage Services to raise market share	13	(20)	16	(25)	35	(55)
updating skills for effective Management of company affairs	8	(12.5)	19	(30)	37	(58)
Extension of traditional work of banking to offer advisory Services, investment advice Services to raise market share	15	(23)	9	(14)	40	(62)
large branch network and local Branch concentration to improve Quality of services	24	(38)	12	(19)	28	(44)

Table 3: Evolutionary Strategy on Competitiveness

From table 3, respondents generally agreed that evolutionary strategy leads to competitiveness though there were strong cases of disagreement is some of the aspects that were studied. 86% of the respondents were in agreement that updating of critical knowledge and skills for staff to meet emerging challenges resulted in effective management of organizational activities. it was also noted that only 79% of the respondents were of the view that extension of traditional functions of banking to offer advisory services and asset management services resulted in increase in market share. An equal number of respondents also indicated that large branch network and local branch concentration led to improvement in quality of services. Gallo et al (1996) examined a combination of US banks to establish whether extension of traditional functions of banking to services like offering investment advisory services and asset management services has any impact on market share improvement and cost and risk reduction. His conclusion was that this move is associated with increased risk and did not have much impact on market share. However, stiroh and Rumble (2006) in a similar research found that extension into non-traditional functions of banking only helps to risk in the believe that it's not wise to put all eggs in one basket. From the scores in all the measures of competitiveness, this strategy had a mean score of 45%, indicating that it's the least effective strategy.

4.3.3. Realignment Strategy

Currently technology is fundamentally re- aligning business relationships between banks and their customers. Previous research has found that the information systems strategy is now considered equal with business strategy (Hirschheim and Sabherwal, 2001). They argue that an excellent strategic alignment of business strategy will lead the information system to a crucial point, which eventually boosts business competitiveness.

Statement	Disagree	(%)	Neutral	(%)	Agree	(%)
Use of new technology to Lower costs	4	(6.3)	7	(10.9)	53	(82.8)
Alignment of IT with the firm Objectives to increase quality of Products and services	4	(6.3)	0	(0)	60	(93.7)
Redesigning user friendly web Sites in line with customer Expectations to attract customers To increase market share	18	(28)	5	(7.8)	41	(64)
Information system giving right Management information at the Right time for effective management Of company activities	5	(7.8)	6	(9.4)	53	(82.8)
Redesigning products in line With customer expectations to Increase market share	4	(6.3)	4	(6.3)	56	(87.5)
Development of business skill for IT managers to suit generation of Required information to enhance Quality of products and services	9	(14)	0	(0)	55	(86)

Table 4: Realignment Strategy on Competitiveness

4.3.4. Summary of Response Rates

The table below represents a summary of responses for respondents who expressed their level of agreement on the effectiveness of the three strategies on bank competitiveness and their mean scores based on selected measures of competitiveness in the banking industry.

Strategy	**Competitiveness**						
	Cost reduction	**Quality of products and services**	**Market share increase**	**Effective management of company activities**	**Increase in market share**	**Quality of products and services**	**MEAN SCORE**
Revolution	92%	95%	94%	98%	98%	97%	95%
Evolution	40%	34%	59%	76%	79%	42%	45%
Realignment	83%	94%	64%	83%	88%	86%	83%

Table 5: Summary of Competitiveness Response

From table 5, it is evident that over 80% of the respondents are in agreement that realignment path taken by the banks has yielded the intended outcome except one scenario where 64% expressed the view that redesigning of user friendly web site in line with customer expectations to attract customers led to an increase in market share. This could be attributed to the fact that not everyone visits bank web sites to access critical information and services due to lack of technical knowhow. A staggering 93% of the respondents were of the opinion that alignment of IT with the firm objectives increased quality of products and services. 87% of those who responded to the questionnaire items said that redesigning of products in line with customer expectations resulted in an increase in market share. Realignment strategy had a mean score of 83% in terms of its effectiveness in putting the bank at a competitive edge.

The findings are close to what laderer (2000) found in a study aimed at establishing the effect of realignment of information systems plan with business plan on bank competitiveness. 73% of the interviewed firm executives agreed that realignme information system with business plan enhances bank competitiveness. This was further supported by a positive correlati 0.57. results from both information system and other senior executives were consistent with the prediction that when the

information system plan reflects the mission and goals of the firm, support business strategies, recognize external forces, the organizational competitiveness increases significantly.
These findings also concur to Dedrick, Gurbaxani, and Kraemer, (2003) who argued that Information technology (IT) is not simply a tool for automating existing processes, but is more importantly an enabler of organizational changes that can lead to additional productivity gains. The integration of ICTs business concepts and local knowledge is considered imperative for socioeconomic development. At the level of the business firm, it is well accepted that the most significant benefits accruing from IT are often consequences of the technology supporting organizational change (Avgerou 2001).
On cost reduction, 53 respondents representing 82.8% agreed that IT reduces costs while 4 respondents representing 6.3% disagreed. This was in agreement to Evans and Wuster, (2000) who established that IT leads to low-cost advantage, greater access to new markets and improved customer relationships. Although transactional cost reduction, operational efficiency and richness, and reach are all marketing-related factors, there are other more specific instances where e-commerce could improve the marketing function.
Also to note is the fact that no respondent disagreed on application of IT to know expectations of customers to improve quality of products and services whereas 53 respondents agreed.
Hence, from the findings, it's arguable that any bank that wants to survive the emerging competitive wave must realign to ensure that all the organization's structures, processes and systems support the organization mission, values, strategy and goals

4.4. Correlation Coefficient
It is a measure of association between two numerical variables. Being a ratio, it is given as;

$$\mathbf{r} = \frac{N(\sum XY) - (\sum X)(\sum Y)}{\sqrt{\left(N(\sum X^2) - (\sum X)^2\right)\left(N(\sum Y)^2 - (\sum Y)^2\right)}}$$

Where;
- r is the correlation coefficient
- N is the number of elements
- X is the independent variables
- Y is the dependent variables

		Realignment Strategy on Competitiveness	**Evolutionary Strategy on Competitiveness**	**Revolutionary Strategy on competitiveness**
Realignment Strategy on Competitiveness	Pearson Correlation	1	.683	.212
	Sig. (2-tailed)		.091	.648
	N	7	7	7
Evolutionary Strategy on Competitiveness	Pearson Correlation	.683	1	.304
	Sig. (2-tailed)	.091		.508
	N	7	7	7
Revolutionary Strategy on competitiveness	Pearson Correlation	.212	.304	1
	Sig. (2-tailed)	.648	.508	
	N	7	7	7

Table 6: Correlations among the Variables

Correlation coefficient was used to assess the relationship between strategies and their effect on bank competitiveness. All the three strategies were positively correlated with bank competitiveness. It can be seen that there was a significant correlation between two strategy variables, namely revolution and realignment strategies, and bank competitiveness. There was however, a weak correlation between evolution strategy and bank competitiveness. The positive correlation coefficients for the three strategy variables and bank competitiveness clearly indicated that the use of the three strategies have an impact on bank competitiveness but at varying levels as seen in table 6. Correlation coefficients for revolution, realignment and evolution strategies were 0.683, 0.508 and 0.212 respectively. A comparison of the three correlation coefficients for the three strategy variables revealed that revolution strategy had the biggest strength to put banks at a competitive edge. This shows that banks that adopt this strategy will stand the test of competition in the industry. This further supports the argument that IT revolution in the provision of retail banking products and services can place banks ahead of their competitors in the industry. However, this is not a reason to conclude that realignment strategy should be done away with since it also contributes significantly to bank competitiveness.

4.5. Qualitative Data Analysis
The prime reason for this qualitative analysis in a study that is considered quantitative innature was to provide more information on the underlying issues pertaining to competitiveness in a banking industry in respect to strategies adopted by these banks in order to understand and interpret thequantitative results.The study benefited from a rich qualitative data through keyinformant interviews for top level management. The nature of the interviews and discussions was open ended,exploratory and focused on the practical issues of competitiveness. This section relied on inductive reasoning process and basicexplanatory statistics to interpret

and structure the meanings that could be derived from thedata collected. Much of the qualitativeanalysis was focused on the effect of merger strategies on competitiveness in the banking industry in order to retain the existing customers and at the same time attract potential clients.

4.5.1. Revolutionary Strategy

When data from the field was subjected to a statistical tool, there was a significant positive correlation between revolution strategy and realignment strategy and bank competitiveness. The correlation coefficient for Revolutionary strategy was found to be 0.681 while that of realignment strategy was 0.508. This is in agreement with Woherem (2000), who argued that only banks that revolutionalized the whole of their payment and delivery systems and apply ICT to their operations are likely to survive and prosper in the new millennium. However, evolutionary strategy should be integrated with other strategies for greater returns and enhanced competitiveness.

4.5.2. Evolutionary Strategy

Like any evolution, banks evolve because some forces are in motion that creates incentives or pressures for change. The evolutionary process work to push the banks towards its potential structure, which is rarely known completely as an industry evolves. It is important to note that instrumental in much industry evolution are the investment decisions by both existing firms in the industry and new entrants. In response to pressures or incentives created by the evolutionary process, firms invest to take advantage of possibilities for new approaches (Porter, 1998).

Because innovation, technological developments and resources of the firms' banks are important to evolution, evolution is only hard to forecast with certainty but also an industry can potentially evolve in a variety of ways at a variety of different spe Industry growth is a key variable in determining the intensity of rivalry in the industry, and sets pace of expansion required to maintain share, thereby influencing the new rivalries.

4.5.3. Realignment Strategy

There was a significant correlation between realignment strategy and bank competitiveness. A positive correlation coefficient of 0.508 indicated that though revolution strategy comes out as the most effective practitioners should as well embrace this strategy. These findings concurred with Ovia (2005) who argued that realignment of ICT has made banking to change from traditional mode of operations to presumably better ways with innovation thus, improving efficiency. Hirschheim and Sabherwal, (2001) also argue that an excellent strategic alignment of business strategy will lead the information system to a crucial point, which eventually boosts business performance.

4.5.4. Enhancing Competitiveness of Mergers

Fifty eight (58) Respondents suggested the following strategic moves in enhancing competitiveness representing 90.6% where by six (6) respondents were undecided representing 9.4%: Low Cost providerwhich involves striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals, Broad differentiationwhich involves seeking to differentiate the Company's product offering from rivals through application of information and communication technology in ways that will appeal to broad spectrum of buyers and finally, Focused low Cost and focused differentiationwhere a company concentrates on small volume custom products, for which it has cost advantage and leaves the large volume standardized market to the cost leader. The focus is on building market share in one segment and if successful, may begin to serve more and more market segments, chipping away the differentiators' competitive advantage

These findings concurred to Oyuke (2009), who argued that many mergers are driven by Competitive strategies to achieve the following strategic objectives: To create a more cost efficient operation out of combined companies where many mergers are undertaken with the objective of transforming two or more otherwise high cost companies to one lean competitor with average or below average costs, To expand a Company's geographic coverage through merger with rivals with operations in d locations, Gain quick access to new technologies or other resources and competitive capabilities and finally, to invent a new industry and lead the convergence of Industries whose boundaries are being blurred by changing technologies and new market opportunities.

5. Summary, Conclussion and Recommendations

5.1. Introduction

This Chapter represents a summary of the research findings, discussions, conclusions and recommendations of the study and suggestions for further research.

5.2. Summary of the Findings

The study aimed at establishing the effect of merger strategies on competitiveness in the banking sector in Kenya. The findings clearly show that revolution strategy is the best bet for any bank that intends to stay ahead of rivals in the industry. Therefore a complete revolution through the use of IT in the provision of banking products and services will play a critical role in enhancing the survival of any bank in the increasingly competitive industry. It provides a strong support for the effect of revolution strategy on competitiveness in the banking sector. The findings are especially relevant to researchers and practitioners in the banking sector since they support the argument on why banks should pursue revolution strategy to improve their competitiveness in the industry.

5.3. Conclusion

Revolution will change everything in the banking sector. It's a powerful enabler of improved service delivery, cost reduction, market coverage and effective management of organizational activities. Revolution strategy will most probably enable banks to distinguish themselves in the banking sector in Kenya. Laudon and Laundon (2003) asserts that the application of information and communication technology concepts, techniques, policies and implementation strategies to banking services has become a subject of fundamental importance and concern to all banks and indeed a prerequisite for local and global competitiveness. Information and communication technology directly affects how managers decide, how they plan and what products and services are offered in the banking industry. It has continued to change banks and the way their corporate relationship are organized worldwide and the variety of innovative devices available to enhance the speed and quality of service delivery. This is strongly supported by these survey findings that found an average 95% expressing the view that revolution strategy has the greatest effect on bank competitiveness. The study also revealed a 0.681 positive correlation coefficient between revolution strategy and bank competitiveness.

The study found out that some of the benefits Banks expect to reap in the future include lower costs, stronger better comp capabilities, better and advanced products & services, bigger market share , greater financial resources with which to in areas such as Research and Development, additional capacity or even expansion into new areas. These study findings are therefore relevant especially to researchers in this area of study and and practitioners in the banking sector since they offer the best strategic option for banks to enhance their competitive capability in the industry.

5.4. Recommendations

The study recommends that banks should focus more on revolution strategy since it has the greatest effect on competitiveness with regard to cost saving, quality of products and services, market share as well as effective management of organizational activities. Since the study found a significant positive correlation between realignment strategy and bank competitiveness, it recommends that the two strategies be adopted for greater competitiveness. The study further recommends that banks should not look at evolution strategy as unnecessary. Those who pursue this strategy should combine it with more effective strategies for their survival.

5.5. Suggestion for Further Studies

The study concentrated on mergers in the banking sector. It would be interesting to carry out a survey of banks in the banking sector that have not merged to get an industry wide picture. Further research can also be done using firms from other sectors to determine whether the same strategies have similar effect. Since this study only focused on four measures of competitiveness, further research is needed using other measures of competitiveness in the banking sector. Further studies should investigate why evolution strategy is least recognized as a way of enhancing bank competitiveness.

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