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Drivers for Organizational Transformation A Case of Commercial Banks in Kenya

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Abstract
Purpose: The study sought to establish the factors that influence organizational transformation in commercial banks in Kenya. The study was guided by the following specific objectives: To assess the extent to which changing customer preferences affect organizational transformation in the commercial banks in Kenya; To examine the extent to which competition affects organizational transformation in the commercial banks in Kenya; and To evaluate the extent to which technology affects organizational transformation in the commercial banks in Kenya **Methods:** A case study was used to undertake the current research. The population of interest in this study was all the commercial banks in Kenya, whose number stood at 44 as at 30th June 2011. A census was considered for the study owing to the fact the all the commercial banks have their offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were the heads of corporate planning or the equivalent. The survey method was used to collect data. The questionnaires were pilot tested on six randomly selected respondents before they were administered so as to ensure that the questionnaires were understood in their correct perspective, in order to meet the research objectives. The procedure that was used in collecting data was through distribution of the questionnaires by dropping and picking them from the respondents at their most convenient time that was agreeable to both parties. The data was analyzed by employing descriptive statistics such as percentages. For purposes of presentation, frequency tables, percentages, standard deviations and mean scores were used. **Findings:** The study findings show that the factors that influence organizational transformations are customer preferences, competition and technological changes.
Keywords: Organizational Transformation; Commercial Banks; Technological Changes; Competition; Changing customer preferences

ABBREVIATIONS AND ACCRONNYMS

ATM	Automated Teller Machine
CBK	Central Bank of Kenya
IS	Information Systems
IT	Information Technology
SPSS	Statistical Package for Social Sciences
US	United States

1.0 INTRODUCTION
1.1 Background
The Financial services industry has undergone significant change in the last two decades, and the forces of dynamic changes are even more aggressively challenging today's financial institutions (Strieter *et al*., 2004). First, rapidly changing electronic technology has reshaped how consumers interact with their financial institutions (Kimball *et al*., 2004). Second, deregulation has made competition border-less, allowing not only intrastate branching, which has encouraged consolidation, but also entry of foreign financial institutions into the US market (Krishnan *et al*., 2003; Orlow *et al*., 2004). Most recently, financial liberalization intensifies competition not only within banking institutions (i.e. commercial banks, savings and loans, and credit unions) but also with other non-banking financial firms, such as securities and insurance. Competition is escalating, both from traditional players and new entrants, owing to deregulation. Changing consumer behavior and needs, globalization, deregulation, disintermediation and the emergence of new financial service models are all dynamics in the financial services industry. Information technology is also having its impact (Chorafas, 1987; Scarborough & Lannon, 1988; Chen, 1999; Park, 1999).

The focus of this study will be to establish the influence of the factors influencing organizational transformations that were identified by Orlow, *et al.,* 2004), namely: competition; technological changes; and changes in customer preferences on adoption of organizational transformation. Understanding the factors that influence the transformation in the organizations could help the implementers of organization transformation develop rational strategies to effectively respond. This research project will look at the factors that stimulate organizational transformation in commercial banks in Kenya.

1.1.1 Changes in Customer Preferences

Changes in customer behavior have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients (Meidan, 2005). The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction. Since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings (Orlow & Radecki, 2004). However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers.

Banks in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu & Whinston, 2004). According to Howells and Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that banks can create the appropriate marketing strategy. Retail Banking constitutes the sector that has had the largest increase in the last years. The great fall of interest rates along with the offering of new, more flexible and attractive products has led to an increase in demand relating to retail banking products (Eaglesham, 2005). Thus, most of today's banking institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

1.1.2 Competition

Globalized competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers (Petruzzellis, D'Uggento & Romanazzi, 2006). Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences (Morgan & Wyman, 2004). Nowadays great attention is paid to all the bank-customer touch-points, aiming to optimize the interaction, towards affecting specific customer behavior variables (satisfaction and loyalty).

In the past customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival (McDonald & Keasay, 2003). Indeed, the relationship between the customers and the banks seems to be built around two different types of factors: social bonds, namely relational components that result in direct relationships, and structural bonds, namely structural components which provide knowledge about the parties involved.

The services market is becoming ever more competitive, as price competition intensifies and the shifting of loyalty becomes an acceptable practice. Many industries have already experienced a rearrangement of marketing budgets in order to devote more resources to defensive marketing, namely customer retention (Patterson & Spreng, 2003). Several initiatives have been undertaken to improve retention, including value chain analysis, customer satisfaction and loyalty programmes (Gummerson, 2004).

1.1.3 Technological changes

Since the 1980s, commercial banking has continuously innovated through technology-enhanced products and services, such as multi-function ATM, tele-banking, electronic transfers, and electronic cash cards. Over the past decade, the Internet has clearly played a critical role in providing online services and giving rise to a completely new channel. In the Internet age, the extension of commercial banking to the cyberspace is an inevitable development (Liao & Cheung, 2003). Both researchers and practitioners in the financial sector have highlighted the need for banks to broaden their branch-based delivery channels by embracing technological changes in their approach to retail banking.

The use of information technology in retail banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the Internet. While it offers new opportunities to banks, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu & Whinston, 2004; Liao & Cheung, 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland and Westwood, 2004).

However, to successfully cope with the challenge of the Information Technology innovation in retail banking, the incumbent banks must understand the nature of the change and capability barriers that it presents

(Southard & Siau, 2004). Without this understanding, attempts to migrate to e-banking may be doomed to failure. Banks that are equipped with a good grasp of the e-banking phenomenon will be more able to make informed decisions on how to transform them into e-banks and to exploit the e-banking to survive in the new economy (Southard & Siau, 2004). Given the e-banking is a financial innovation, Liao & Cheung (2003), the change may render the organizational capabilities of the traditional banks obsolete. From the resource-based view, Grant (2003), Mahoney & Pandian (2005), in such a context, the banks must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the banks redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

1.1.4 Commercial Banks in Kenya

There were 44 commercial Banks in Kenya as at 31st December, 2011 (Central Bank of Kenya (CBK), 2011). These commercial banks offer both corporate and retail banking services. Licensing of financial institutions in Kenya is done by the minister of finance, through the central bank of Kenya. The companies Act, the Banking Act, the Central Bank of Kenya, govern the banking industry. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banks interest and also addresses issues affecting its members. Ideally financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. (Banking Act Cap 488, pp 6, 10-12). More specifically, increased competition, technological developments, changes in customer preferences and the growth of the various institutions have significantly altered the environment in which banks operate (Orlow & Wenninger, 2004). At the same time, many banking activities are now performed by non-banking institutions. In reality, banking institutions in developed countries have started to lose their market shares, while technology has minimized transaction costs and the number of competitors is continuously increasing (Avery *et al.,* 2003). Legislative liberalization has strengthened competition not only among banking institutions but also among other non-banking organizations (Krishnan *et al.,* 2003).

1.2 Statement of the Problem

Today, commercial banks are competing not just on a national arena, but increasingly at international and global level. With 44 commercial banks operating in Kenya, the market for banking services seem oversupplied and margins for the companies are being depressed in a highly competitive market place[1]. Profitability will be determined by the extent to which organizations develop appropriate strategies to 'combat' the growing competitive forces. Among the alternative ways that commercial banks have adopted in pursuit of their broad goals and objectives is the adoption of strategies that would best address the changing customer preferences. The banks are trying to woo individual customers and also meet their expectation with an aim of retaining them through quality service and fair charges.

Studies undertaken in Kenya focusing on the banking sector include the following: Ngesa (1989), a comparative study of the perceptions of bank customers and bank management of the importance of retail commercial banking attributes; Bii (1992), the extent to which commercial banks in Kenya use the promotion mix elements to market their services; Nzyoka (1994), market segmentation in Kenya; A case of Commercial banks; Ndegwa (1996), analysis of customer service offered by Kenya commercial banks; Ochieng (1998), analysis of factors considered important in the successful implementation of information systems: A case study of commercial banks in Kenya; Ouma (1999), factors considered important in successful usage of an advertising program: A case study of the commercial banks in Kenya; Thuo (1999), an investigation of the state of relationship marketing strategy in the Kenyan banking sector; Nyambati (2001), Information Technology planning practices in Kenyan banks; Onduso (2001), a survey of ethical issues in Information Technology among commercial banks in Kenya; Gathogu (2001), Competitive strategies employed by commercial banks; Kandie (2002), an investigation of customer's perception and expectation of quality service: the case of selected banks in Kenya; Kimani (2003), product strategy in the marketing of financial services: a survey of the commercial banking sector in Kenya; Kiptugen (2003), strategic responses to a changing competitive environment: the case of Kenya Commercial Bank; Mbote (2003), influence of IT on marketing: the case of commercial banks in Kenya; Onyango (2004), adoption and usage of ATMs installed by banks in Kenya; Adoyo (2005), responses to changes in the external environment: case study of Postbank; Otieno (2006), an investigation into Internet banking technology adoption among Kenyan commercial banks; and Mutugi (2006), strategic responses of Barclays Bank to changes in retail banking in Kenya.

All the above studies did not pay attention to the linkages between dependent and independent variables of this study. The study therefore seeks to establish the following:- (i) the influence of changing customer preferences on organizational transformations in the banking sector; (ii) the influence of competition on organizational transformations in the banking sector; and (iii) the influence of technological changes on

[1] CBK, June 2011

organizational transformations in the banking sector.

1.3 Purpose of the study

This study sought to examine factors that influence organizational transformation in commercial banks in Kenya.

1.4 Specific Objectives

The study was guided by the following specific objectives:

(i) To assess the extent to which changing customer preferences affect organizational transformation in the commercial banks in Kenya

(ii) To examine the extent to which competition affects organizational transformation in the commercial banks in Kenya

(iii) To evaluate the extent to which technology affects organizational transformation in the commercial banks in Kenya

1.5 Conceptual Framework

The conceptual framework below presents the factors influencing organizational transformation, identified by Orlow, *et al.,* (2004), namely, competition; technological changes; and changes in customer preferences. Figure 1.1 shows the conceptual framework.

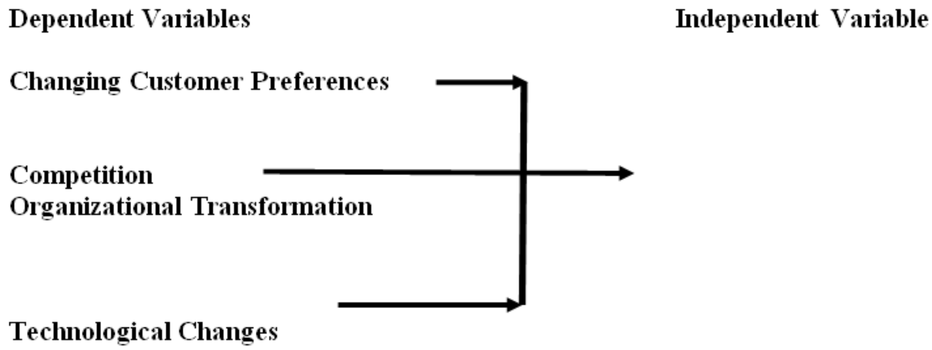

Figure 1.1: Conceptual Framework

Changing customer preferences: Changing customer preferences influence the following organizational transformations:- product diversification; market differentiation; personal selling; offering products and services online; and establishment of customer care desks/centers.

Competition: Competition in the banking industry influences the following organizational transformations:- product diversification, personal selling of organizations products and services, increased branch networks, establishment of customers care desks/centers and reduction of premiums costs and related charges.

Technological Changes: Technological changes influence the following organizational transformations:- product diversification, personal selling of organizations products and services, offering products and services online, increased branch networks and reduction of premiums costs and related charges.

2.0 LITERATURE REVIEW

2.1 The Influence of Changing Customer Preferences on Organizational Transformation

According to Bonoma (2005), customer needs are one of several powerful forces for change in the demand for, and delivery of, financial services. Bonoma further argued that the key developments causing customer needs to change include: changing demographics; changing work patterns; increasing financial assets and liabilities of households; increasing awareness of value; and willingness to adopt technology. Peppers and Rogers (2003) argued that changes to consumer lifestyles, improved living standards and the trend towards a diversification of product requirements means that customer demand for products that conform to individual tastes is increasing day by day. One-on-one marketing has emerged as a result and this trend has encouraged the commercial banks to turn its attention to the development of a plethora of "individualized services". Among these developments is the use of e-business implementation by the banking industry to integrate, filter, organize and analyze data collected from policy sales, appraisals, and claim settlements (Ford, 2004). This further assists personnel to obtain these data on demand for use in satisfying customer requirements and providing individualized services.

Organizations operating in the banking industry are faced with working in an environment that is rapidly changing and increasing in its complexity (Bonoma, 2005). New market entrants, changing customer preferences and market erosion across product lines demand creative approaches to product development, and a willingness to keep up with the rapid changes in technology. Meidan (2005) argued that changes in customer behavior have also imposed changes in decisions related to offered services, as these services need to be of high quality in order to satisfy today's demanding clients. The price must be proportional to the perceived value, while distribution means should be used in order to achieve a high level of satisfaction.

Orlow and Radecki, (2004) asserted that since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings. However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers. A study by Clarkson *et al*. (2004), suggests that the characteristics and financial service requirements of consumers vary with age, and that these differences could be used in developing marketing strategies for such services. Marla Royne Stafford (2005) stated that demographics continue to be one of the most popular and well-accepted bases for segmenting markets and customers. Even if others types of segmentation variables are used a marketer must know and understand demographics to assess the size, reach and efficiency of the market. The general conclusion of this study is that there is a significant relationship between demographics characteristics and the service quality perception.

Harrison (2005) concludes that the traditional segmentation variables of age, stage in the family life cycle and social class have provided little insight into the financial services customer behavior. In order to take full advantage of the factors which could affect take-up and usage of financial services, Harrison develops a multi-dimensional model. The analysis has suggested four customer segments for financial services on the basis of customers' own perceived knowledge, confidence and interest in financial maturity, defined by the type and complexity of financial services currently in use. Each of the four segments is distinct in terms of the financial objectives exhibited, motivations for financial services usages and attitudes and behavior towards financial services.

Machauer & Morgner (2005) prefer segmentation by expected benefits and attitudes could enhance an organization's ability to address the conflict between individual service and cost-saving standardization. Lee & Marlowe (2003) investigate how consumers choose a financial institution for their checking accounts. It was found that, although most customers' value convenience as one of the most important decision-making criteria, their definitions of convenience varies across consumers. Another important finding of the study is that the participants facing new financial needs start their search process from the institution where they have their checking accounts.

Devlin (2004) investigates the relative importance of choice criteria according to consumers and also analyses differences in the importance of choice criteria with respect to a number of demographic and related factors. The study shows that choosing a home loan institution on the basis of professional advice is the most frequently cited choice criterion, closely followed by interest rates. Differences in the importance of choice criteria with respect to gender, class, household income, educational attainment, ethnicity and financial maturity are apparent. Organizations, in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu & Whinston, 2004). According to Howells & Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy. Most of today's financial institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

According to Orlow & Radecki (2004), clients communicate with other clients, study brochures and receive information from television and the Internet. Therefore, clients are more influenced than in the past by organizations' pricing policies and seek low costs for the provision of services. Today's clients turn easily towards the services of another organization than in the past, especially when they only find little and insignificant differences among the various products and services. According to Kaufman & Mote (2004), financial institutions, for example, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of the clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products (Anderson and Narus, 2003).

2.2 Influence of Competition on Organizational Transformation

Customer satisfaction-retention link has received more attention among marketing and management practitioners and academics. Customer satisfaction has long been regarded as a "proxy" for firm success since it is inextricably linked to customer loyalty and retention. Several authors (Bloemer & Lemmink, 2003; Bloemer &

Kasper, 2003; Sharma & and Patterson, 2004) highlighted, however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Fournier & Mick, 2003).

Satisfaction has a significant impact on customer loyalty (Sharma & Patterson, 2004) and, as a direct antecedent, leads to commitment in business relationships (Burnham et al., 2003), thus greatly influencing customer repurchase intention (Morgan and Hunt, 2004). Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment. However, customer commitment cannot be dependent only on satisfaction (Burnham *et al*., 2003). Relational switching costs, which consist in personal relationship loss and brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds (Burnham *et al*., 2003), have a moderating effect on the satisfaction – commitment link (Sharma and Patterson, 2004). Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with suppliers who do not care for the satisfaction created in the relationship. On the other hand, customer satisfaction is usually the key element in securing repeat patronage; this outcome may be dependent on switching barriers in the context of service provision (Jones *et al*., 2003).

Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other. Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship. Moreover, a switch in suppliers involves set-up costs and termination costs; the former include the cost of finding another supplier who can provide the same or better performance than the current supplier or the opportunity cost of foregoing exchange with the incumbent, while the latter include the relationship specific idiosyncratic investments made by the customer that have no value outside the relationship (Dwyer *et al.,* 2004). The extreme competition and saturation in the financial services markets and the growing demand of products and services through new media, such as the Internet and mobile phone have forced organizations to quickly respond to the new changes and challenges with new and different business models (Methlie and Nysveen, 2003; Jun and Cai, 2001; Bradley & Stewart, 2003).

In the financial services industry, a long term relationship with customers (Grönroos, 2003; Berry, 2004) is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the banks. The extended portfolio does not only offer benefits to customers, but also to organizations. The organizations have now the opportunity to capitalize on the beneficial characteristics of the various products and channels, for example while electronic channels help to reduce the costs of interaction with the customer by substituting labor intensive operations with automated sales processes, the interactivity of a face to face consultation provides various cross-sell opportunities (Clemons *et al*., 2003). The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new “product” (Eastlick & Liu, 2004), that is its adoption depends on the value the “product” can provide to a customer. Such a value is identified by: the “product” service quality (Montoya-Weiss *et al*., 2003), the convenience it offered (Black *et al.,* 2004; Devlin & Yeung, 2003), the risk involved in conducting transactions through the “product” (Black *et al*., 2004; Grewal, Levy, & Marshall, 2004; Reardon and McCorkle, 2004), and the costs of conducting business through it (Devlin, 2004; Fader, Hardie & Lee, 2003). Moreover, the organizational attributes such as perceived convenience, service quality and price (Bhatnagar & Ratchford, 2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 2003). Hence, the importance of an organizational attribute for the choice decision might vary for different situations and customers.

Therefore, consistently with the literature, it is possible to distinguish two loyalty dimensions: A past loyalty (Zins, 2003) which associates more to the consumer’s behavioral loyalty (Snehota & Söderlund, 2004; Chaudhuri & Holbrook, 2003) and represents the relative importance of a specific organization’s service in the previous customer’s transactions decisions; and A cognitive loyalty, defined as the behavioral intention of using the organization’s service in future (Methlie & Nysveen, 2003; Van Rail *et al.,* 2004). The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Organizations should assure a high quality in the services offered to be able to survive in the highly competitive markets and to achieve a sustainable advantage in the long term (Mefford, 2003; Jun & Cai, 2004).
In conclusion, the customer involvement in the production has evolved from servuction (Eiglier & Langeard, 2003) to prosumption (Sigala, 2005), which has two dimensions, namely the willingness to be involved and the competences to take part in designing and projecting the service output. Its obvious consequence is customer satisfaction (Cermak & Prince, 2004), and it takes place together, or interacting, with other customers (Kelley, Skinner & Donnelly, 2003). Moreover, customer inputs and their co-production performance considerably affect

productivity, added value and efficiency of the provider; thus highlighting the profitability of customer loyalty.

2.3 Influence of Technology on organizational transformation

In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction (Gilbert *et al.,* 2004; Glynn, 2004). Organizations that do not learn and adapt to changing technology can face painful competition, but integrating technology can require substantial re-thinking of the exact nature of customer relationships (Zineldin, 2003). For high-level financial services, it is frequently difficult to separate technology from the relationship between firms and their customers. Some technology implementations may reduce interaction across the employee – customer interfaces (Quinn, 2005). However, customer satisfaction in many services depends strongly on the service encounter (Jones and Suh, 2005). For technology to enhance competitiveness, it must deliver real value to customers in the service interaction, and customers must like it. Thus, the impact of technology on customer satisfaction in the service interaction is a critical area of research.

The use of information technology in service offering creates unprecedented opportunities for organizations in the ways they organize their product development, delivery, and marketing via the Internet. While it offers new opportunities to organizations, it also poses many challenges such as the innovation of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the entrance of new competitors, and the emergence of new business models (Saatcioglu *et al,.* 2004, Liao & Cheung 2003). Now, the speed and scale of the challenge are rapidly increasing with the pervasiveness of the Internet and the extension of information economy (Holland & Westwood 2004).

However, to successfully cope with the challenge of the Information Technology innovation in organizations, the nature of the change and capability barriers that it presents must be understood by the organizations (Southard & Siau, 2004). Without this understanding, attempts to transform organizations may be doomed to failure. Organizations that are equipped with a good grasp of the e-business phenomenon will be more able to make informed decisions on how to transform them into e-companies and to exploit the e-business to survive in the new economy (Southard and Siau 2004). From the resource-based view (Grant 2003, Mahoney & Pandian 2005), in such a context, the organizations must constantly reconfigure, renew, or gain organizational capabilities and resources to meet the demands of the dynamic environment. Developing core capabilities can help the organizations redeploy their resources and renew their competences to sustain competitive advantages and to achieve congruence with the shifting business environment.

According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want. Zwass (2003) argues that in order to comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully. Abernathy and Clark's (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities of the adopting firm. Accordingly, the innovation encompasses a set of aspects: IT, customer, finance, marketing, and strategy.

A firm's ability to embrace and exploit an innovation is a function of the extent to which the innovation renders the firm's existing capabilities obsolete (Afuah 2003). The foregoing discussions show that e-business is a disruptive innovation that will render the incumbent organizations' established capabilities obsolete. In facing the change, the incumbent insurers need to undergo business transformation in order to exploit e-business. To do this, organizations have to change their conventional mindsets and reconfigure their capabilities around the needs of e-business. It requires careful coordination with the development of core capabilities in order to successfully respond to the technological and business changes (Wheeler 2004, Daniel and Wilson 2003).

2.4 Conclusions

The review of literature reveals that the recent surge of interest in organizational transformation raises a number of questions for the future structure and performance of the commercial banks. Perhaps the most significant is whether the widespread focus on technological innovations and the related investment in infrastructure - principally, branches - is justified and sustainable. The factors influencing organizational transformation were also addressed in this chapter, the most outstanding factors being increased competition, advanced technological changes and the changing customer needs and preferences.

The contribution of organizational transformation towards sustainable competitive advantage has also been examined in this chapter, it has emerged that it leads to cost leadership position and differentiation opportunities, it also helps the organization evaluate market focus. The challenge that lies ahead for banks is fourfold. First, they need to satisfy customer needs that are complex and difficult to manage. Second, they need to face up to increased competition from within the sector and from new entrants coming into the financial services market. Third, they need to address the demands placed upon on the supply chain. Finally, they must continually invent new products and services in light of the changes described above. Central to these challenges are delivery strategies of banking services. It is possible that banks are only offering and publicizing their services in a limited way because of uncertainty. They are uncertain that a fully robust service can be provided and technological problems can be overcome. It is possible that in the future when the shortcomings highlighted in this paper have been addressed a fully robust and customer friendly service is available that banks will advertise the benefits of their services more actively.

3.0 METHODOLOGY

3.1 Research design

Research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the project, which include the samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions (Brown et *al,* 2003).

A case study was used to undertake the current research. Case studies involve collecting empirical data, generally from one or a small number of cases. It usually provides rich detail about those cases, of a predominantly qualitative nature (Yin, 2004). Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

3.2 Population of the Study

The population of interest in this study was all the commercial banks in Kenya. According to the Central Bank of Kenya report as at 30th June 2011, there were 44 commercial banks in Kenya (see appendix I). A census was considered for the study owing to the fact the all the commercial banks have their offices strategically located within the Nairobi Central Business District and its environs. The study respondents from each of the banks were the heads of corporate planning or the equivalent.

3.3 Data Collection

The survey method was used to collect data. The semi-structured questionnaire consisted of two sections, Section I and section II. Section I covered items pertaining to profile of the respondents while section II covered items pertaining to the area of study. The questionnaires were pilot tested on six randomly selected respondents before they were administered so as to ensure that the questionnaires were understood in their correct perspective, in order to meet the research objectives. The procedure that was used in collecting data was through distribution of the questionnaires by dropping and picking them from the respondents at their most convenient time that was agreeable to both parties.

A letter of introduction, stating the purpose of the study, was attached to each questionnaire. In addition, the researcher made telephone calls to the respective respondents to make a follow up on the questionnaires that had been delivered to the respondents. Once completed, the researcher personally collected the questionnaires. This gave the researcher the opportunity to clarify certain issues arising from the various responses.

3.4 Data analysis and presentation

The data was analyzed by employing descriptive statistics such as percentages. Descriptive statistics are used to describe the basic features of the data in a study. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data. Descriptive statistics help us to simply large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary. The findings pertaining to the three objectives of the study were presented in form of percentages. Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis. For purposes of presentation, frequency tables, percentages, standard deviations and mean scores were used.

4.0 FINDINGS AND DISCUSSION

4.1 Introduction

The current study sought to establish the factors that influence organizational transformation in commercial banks in Kenya. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 44 questionnaires that were sent out, 32 were returned completed (73%response rate). The researcher made concerted efforts to contact each of the prospective respondents that had received the study questionnaire. The demographic data of the respondents was analyzed using content analysis while descriptive statistics were used to analyze data pertaining to the three objectives of the study. The data was presented using percentages, frequencies, mean scores and standard deviations. The information is presented and discussed as per the objectives and research objectives of the study.

4.2 Factors that influence organizational transformation

4.2.1 Effect of changing customer preferences on organizational transformation in commercial banks in Kenya

In order to meet the first objective of the study, "to determine the effect of changing customer preferences on organizational transformation in the commercial banks in Kenya", the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in table 4.6. ***Where:*** Not at all = (1); A Little Extent = (2); Moderate Extent = (3); Great extent = (4); Very great extent = (5).

Table 4.6: Extent to which changing customer preferences have influenced organizational transformations

Practices as a result of changing customer preferences	Response						
	1	2	3	4	5	Mean Score	Standard deviation
Product Diversification	2	4	6	12	10	2.07	4.14
Market differentiation	3	2	5	13	9	2.28	4.56
Offering products and services online	1	2	12	10	7	2.41	4.82
Establishment of customer care desks/centers	2	3	4	12	11	2.36	4.72
Personal selling of organizations products and services	1	1	7	14	9	2.77	5.54
N-32							

4.2.2 Effect of competition on organizational transformation in the commercial banks in Kenya

In order to meet the second objective of the study, "to determine the effect of competition on organizational transformation in the commercial banks in Kenya", the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in table 4.7. ***Where:*** Not at all = (1); A Little Extent = (2); Moderate Extent = (3); Great extent = (4); Very great extent = (5).

Table 4.7: Extent to which changing competition has influenced organizational transformations

Practices as a result of competition	Response						
	1	2	3	4	5	Mean Score	Standard deviation
Product Diversification	2	3	7	9	11	1.92	3.84
Personal selling of organizations products and services	2	4	5	12	9	2.01	4.03
Increased branch networks	3	3	6	14	6	2.25	4.50
Establishment of customer care desks/centers	3	1	8	10	10	2.07	4.15
Reduction of premium costs and charges	2	2	12	9	7	2.19	4.39
N-32							

4.2.3 Effect of technology on organizational transformation in the commercial banks in Kenya

In order to meet the third objective of the study, "to determine the effect of technology on organizational transformation in the commercial banks in Kenya" the respondents were asked to indicate the extent to which their respective organizations had adopted a listing of possible practices by ticking as appropriate along a five point scale. The responses are summarized and presented in table 4.8 below. ***Where:*** Not at all = (1); A Little Extent = (2); Moderate Extent = (3); Great extent = (4); Very great extent = (5).

Table 4.8: Extent to which changing changes in technology has influenced organizational transformations

Practices as a result of changes in technology	Response						
	1	2	3	4	5	Mean Score	Standard deviation
Product Diversification	3	2	7	12	8	2.01	4.03
Personal selling of organizations products and services	3	4	6	9	10	1.52	3.04
Increased branch networks	5	6	9	7	5	.83	1.67
Offering products and services online	1	1	7	14	9	2.77	5.54
Reduction of premium costs and related charges	1	4	12	9	6	2.13	4.27
N-32							

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The study findings show that the factors that influence organizational transformations are customer preferences, competition and technological changes, which confirms the findings by Orlow *et al.* (2004). The findings indicate that changing customer preferences had greatly influenced transformations in the banking industry like product diversification, market differentiation, personal selling, offering products and services online, and establishment of customer care desks/centers, which corroborate the literature review findings. According to Bonoma (2005), customer needs are one of several powerful forces for change in the demand for, and delivery of financial services. Bonoma further argued that the key developments causing customer needs to change include; changing demographics, changing work patterns, increasing financial assets and liabilities of households, increasing awareness of value, and willingness to adopt technology.

According to Peppers & Rogers (2003), changes to consumer lifestyles, improved living standards and the trend towards a diversification of product requirements means that customer demand for products that conform to individual tastes is increasing day by day. One-on-one marketing has emerged as a result and this trend has encouraged the banking industry to turn its attention to the development of a plethora of "individualized services". Organizations, in order to face the challenges of the external environment successfully focus on market-driven products, in their effort to satisfy their clients' needs (Saatcioglu & Whinston, 2004). According to Howells & Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy.

According to Kaufman & Mote (2004), financial institutions, for example, in order to distinguish in the field of service delivery, have adopted a strategy that not only covers and meets all requirements and needs of the clients, but also provides innovation to those products that attract clients and persuade them for the rightness of their choice. This is also achieved by creating and promoting the particular characteristics and comparative advantages of the various products (Anderson & Narus, 2003).

The findings indicate that competition in the banking industry had greatly influenced the adoption of transformations like product diversification, personal selling of organizations products and services, increased branch networks, establishment of customers care desks/centers and reduction of premiums costs and related charges. The findings from primary data corroborate findings from the desk study. Petruzzellis *et al* (2006) noted that Globalized competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. Petruzzellis *et al* further assert that the higher the (perceived) service quality, the more satisfied and loyal the customers. According to Howells & Hine (2003), as competition grows constantly, it is very important to examine the factors that have a positive impact on consumer purchasing decisions, so that organizations can create the appropriate marketing strategy. Most of today's financial institutions pay great attention to service delivery by promoting and advertising more and more competitive products within an environment that is based on offering the best services and suitable products for the client's benefit.

According to McDonald & Keasay (2003), in the past customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival. Orlow and Radecki, (2004) asserted that since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings.

The findings indicate that technological changes had resulted to the organizations adopting transformations like product diversification, personal selling of organizations products and services, offering products and services online, increased branch networks and reduction of premiums costs and related charges. According to Zineldin (2003), organizations that do not learn and adapt to changing technology can face painful competition, but integrating technology can require substantial re-thinking of the exact nature of customer relationships. In the increasingly competitive marketplace, information technology (IT) is now frequently being employed as a distribution channel and medium of interaction (Gilbert *et al*., 2004; Glynn, 2004). According to Afuah (2003), an innovation is the use of new technological and business-related knowledge to offer new products or services that customers want. Zwass (2003) argues that in order to comprehend the scope and impact of an innovation, it is necessary to organize them systematically and to understand them fully. Abernathy and Clark's (2004) innovation model classifies innovations based on the impact on the existing technological and business capabilities of the adopting firm. Accordingly, the innovation encompasses a set of aspects: IT, customer, finance, marketing, and strategy.

5.3 Recommendations

5.3.1 Recommendation for policy and practice

Changes in customer preferences affect decisions related to the development of products and services and the markets to serve by commercial banks. In view of the findings of the study, the following recommendations are made:

In response to changing customer preferences, the commercial banks should adopt market differentiation strategies, in which specific needs of the various market segments should be identified and addressed accordingly. The companies should, through product diversification, develop products that address the specific needs of the market segments identified. The companies should not only involve the customers in the product development process to ensure that their needs are addressed adequately, but also invest in research and development activities. In response to changing customer preferences, it is recommended that commercial banks adopt personal selling practices. Personal selling will only be effective if adequate investment is made through availability of the necessary resources in terms of personnel, equipment and facilities. The offering of products online is highly advised as it supplements the efforts of the sales force and it enhances the ability to reach many customers in a short time and is cost effective. In order to provide more accurate information to the customers and enhance customer care and relations, it is advisable that the commercial banks establish customer care desks.

Competition poses a challenge to the organization to change enhance their service delivery in order to remain competitive. In view of the findings of the study, the following recommendations are made:

When faced with competition, it is highly recommended that the Commercial banks scan the environment to identify the strengths and weaknesses of the competitors. Adoption of personal selling becomes handy in that a face to face interaction is an effective source of market information.

In order to supplement the efforts of the sales force, it is also recommended that customer care desks be established, from where customer complaints and other needs can be adequately addressed. In addition, expansion of branch network would lead to services being taken closer to the customers and an expanded geographical area of coverage. The Commercial banks, in response to competition in the industry, should strive to develop their products and services cost-effectively so as price them competitively. There is also need to undertake market surveys and establish the prevailing market prices for similar products and services.

In order to spread risks as a result of industry competition, it is advisable that the Commercial banks adopt product diversification.

Technology not only acts as the channel of interaction and communication among the Commercial banks, but also changes the way an organization works and practices.

When faced with technological changes, it is highly advisable that Commercial banks take advantage and invest in such technologies as developing websites, from which products and services can be offered online, leading to reduced operational costs. Technology too enhances the effectiveness of the sales force when used as a communication tool.

Since technological changes lead to reduced costs of products and services development, it is advisable that the Commercial banks adapt the new technologies in products and service development, which enhances product diversification. As a result of reduced product and service development costs, the Commercial banks will be able to reduce premium costs and related charges and remain competitive. Owing to changes in technology, it is recommended that the Commercial banks expand their branch network and interlink them so that the customers can be served from any branch in the same way they would have been served in the head office.

5.3.2 Recommended areas of Further Studies

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: Whereas the current study focused on the factors that influence organizational transformation in the commercial banks in Kenya, Future studies should seek to establish whether the same factors influence transformations in the other sectors of the economy. Further studies should also focus on what factors to consider for effective implementation of the transformation process.

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APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA

1.	African Banking Corporation
2.	Akiba Bank
3.	Bank of Baroda
4.	Bank of India, Nairobi
5.	Barclays Bank of Kenya, Nairobi
6.	CFC Bank, Nairobi (listed on NSE)
7.	Charterhouse Bank Ltd, Nairobi
8.	Chase Bank Ltd, Nairobi
9.	Citibank, Nairobi (foreign owned)
10.	City Finance Bank, Nairobi
11.	Commercial Bank of Africa
12.	Consolidated Bank of Kenya Ltd, Nairobi
13.	Co-operative Bank of Kenya, Nairobi
14.	Delphis Bank, Nairobi
15.	Development Bank of Kenya, Nairobi
16.	Diamond Trust Bank, Nairobi
17.	Dubai Bank Kenya Ltd, Nairobi
18.	Equatorial Commercial Bank Ltd, Nairobi
19.	Equity Bank
20.	Family Bank
21.	Fidelity Commercial Bank Ltd, Nairobi
22.	Fina Bank Ltd, Nairobi
23.	Giro Commercial Bank Ltd, Nairobi
24.	Guardian Bank, Nairobi
25.	Habib Bank A.G. Zurich, Nairobi
26.	Habib Bank Ltd, Nairobi (foreign owned)
27.	Housing Finance Co. Ltd, Nairobi
28.	Imperial Bank, Nairobi
29.	Industrial Development Bank, Nairobi
30.	Investment & Mortgages Bank Ltd, Nairobi
31.	Kenya Commercial Bank Ltd, Nairobi
32.	K-Rep Bank Ltd, Nairobi
33.	Middle East Bank, Nairobi
34.	National Bank of Kenya, Nairobi
35.	National Industrial Credit Bank Ltd, Nairobi
36.	Oriental Commercial Bank Ltd, Nairobi
37.	Paramount Universal Bank Ltd, Nairobi
38.	Prime Bank Ltd, Nairobi
39.	Prime Capital and Credit Ltd, Nairobi
40.	Southern Credit Banking Corp. Ltd, Nairobi
41.	Stanbic Bank Kenya Ltd, Nairobi
42.	Standard Chartered Bank, Nairobi
43.	Trans-National Bank Ltd, Nairobi
44.	Victoria Commercial Bank Ltd, Nairobi

Source: CBK, 2011

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