

Competitive Intelligence Practices and Their Effect on Profitability of Firms in the Kenyan Banking Industry

JOHN KARANJA NGUGI

LECTURER

JOMOKENYATTA UNIVERSITY OF SCIENCE AND AGRICULTURE
P.O BOX 62000- 002000 CITY SQUARE

PROF. R.W. GAKURE

LECTURER SCHOOL OF HUMAN RESOURCE DEVELOPMENT
JOMOKENYATTA UNIVERSITY OF SCIENCE AND AGRICULTURE
P.O BOX 62000- 002000 CITY SQUARE

HILDA MUGO

DIRECTOR OF OPERATION EQUITY BANK
KENYA

Abstract

The rapidly changing business climate created by advances in technologies, economic and social changes as well as fast-shortening product life cycles, which lead to hyper-competition, demands that firms embrace competitive intelligence as a strategy. This study sought to fill the existing knowledge gap by carrying out an investigation of competitive intelligence practices for greater profitability in the commercial banking industry in Kenya. The management staffs who directly deal with the day to day management of the banks were selected to collect primary data. The study concludes that adoption of competitive intelligence practices affect the profitability of the banking sector.

Key words: *Competition, intelligence, profit, strategy, alliance, product, market, technology*

Introduction

Firms in the present day operate within a rapidly changing business climate created by advances in technologies, economic and social changes as well as fast-shortening product life cycles, which lead to hyper-competition (McGonagle and Vella, 2004). Such complex and unstable environment necessitates a growing need for timely, first-rate business information and knowledge. Thus, companies must devote a greater proportion of their resources to knowledge and innovation. Hannula and Pirttimaki (2003) argue that a competitive edge is gained through the ability to anticipate information, turn it into knowledge, craft it into intelligence relevant to the business environment, and actually use the knowledge gained from it. Organizations, thus, need to analyse carefully the business environment, especially the pressures and challenges caused by it, in order to thrive in the global digital economy.

Background of the Study

Competitive intelligence (CI) is a process for supporting both strategic and tactical decisions, and in order to support CI, organizations need systems and processes to gather and analyze reliable, relevant, and timely information that is available in vast amounts about competitors and markets (McGonagle and Vella, 2004). Whatever strategic framework the firm chooses to embrace for the management of its business, no one element remains more fundamental to competitive strategy than competitive intelligence. Competitive intelligence is more concerned with doing the right thing, than doing the thing right. The goal of a competitor analysis is to develop a profile of the nature of strategy changes each competitor might make, each competitor's possible response to the range of likely strategic moves other firms could make, and each competitor's likely reaction to industry changes and

environmental shifts that might take place. Competitive intelligence should have a single-minded objective - to develop the strategies and tactics necessary to transfer market share profitably and consistently from specific competitors to the company.

Structure of the Banking Industry in Kenya

Commercial banks are the main players in the financial sector and particularly in the banking industry in Kenya. The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members (Central Bank of Kenya, 2010). There are forty-six banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned (www.centralbank.go.ke). The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Nine of the major banks are listed on the Nairobi Stock Exchange. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions.

Statement of the Problem

The design of competitive intelligence, as a process that monitors all elements of the external environment of an organization is still recent (Baars and Kemper, 2008). Owing to the fact that specific developments in the business environment need to be closely monitored, it is imperative that senior corporate intelligence professionals think in terms of integrating competitive intelligence work with marketing intelligence work. Competition in the industry continually work to drive down the rate of return on capital invested. Commercial banks have thus resulted in making use of various competitive intelligence aspects to ensure profitability. Studies on competitive intelligence are generally limited. Although there are an expanding number of studies concerning the use of strategic information systems (Baars and Kemper, 2008, Korany, 2007), environmental uncertainty, for CI activities, none have addressed its organizational impact in an empirical study. In the area of CI research, several empirical studies have explored the relationship between usage of CI practices and corporate performance. However, the conducted studies were independent of competitive intelligence practices and performance for greater profitability (Li et al., 2008).

In Kenya, only two studies have been done on competitive intelligence. Mutua (2010) did a research on competitive intelligence practices by Essar Telcom (YU) (K) Ltd. Muiva, (2001) conducted a survey on the use of competitive intelligence systems in the Kenyan Pharmaceutical Industry while Kipkorir, (2001) researched on competitive intelligence practices by FM radio stations operating in Kenya. These studies were however done on different institutions other than commercial banks in Kenya. This is despite the fact that the commercial banking sector in Kenya is facing many challenges posed by the competitive environment in the commercial banking industry in general. Despite the adoption of this competitive intelligence there is no study that has been done on the Kenyan banking industry to date. This study therefore sought to fill the existing knowledge gap by carrying out an investigation of competitive intelligence practices for greater profitability in the banking industry in Kenya.

Objectives of the Study

The specific objectives of this study were:

- i. To establish the product differentiation strategies adopted by commercial banks and their effect on profitability.
- ii. To investigate whether markets intelligence practices employed by commercial banks affect profitability.
- iii. To assess whether the technology intelligence practices affect profitability of commercial banks in Kenya.

- iv. To establish the strategic alliance intelligence practices adopted by commercial banks and their effect on profitability.

Rationale of the Study

The study is important managers in the commercial banking sector and to larger extent managers of other industries. It would help them understand the importance of competitive intelligence and how different firms can achieve competitive edge. The study also helps other managers know the methods used in gathering and applying competitive intelligence, which help them improve their management styles. The study acts as a source of reference material for future researchers on other related topics; it would also help other academicians who undertake the same topic in their studies. The study highlights other important relationships that require further research; this may be in the areas of relationships between intelligence and firm's performance for greater profitability.

Literature Review on Competitive Intelligence Practices

The Society of Competitive Intelligence Professionals (SCIP, 2008) are for the view that Competitive Intelligence is a systematic and ethical process for gathering, analyzing and managing external information that can affect the company's plans, decisions and operations. According to Bengtsson & Kock (2000) the three types of competitive relationships include competition-dominated, cooperation-dominated, and equal relationships. Owing to the fact that specific developments in the business environment need to be closely monitored, it is imperative that senior corporate intelligence professionals think in terms of integrating competitive intelligence work with marketing intelligence work.

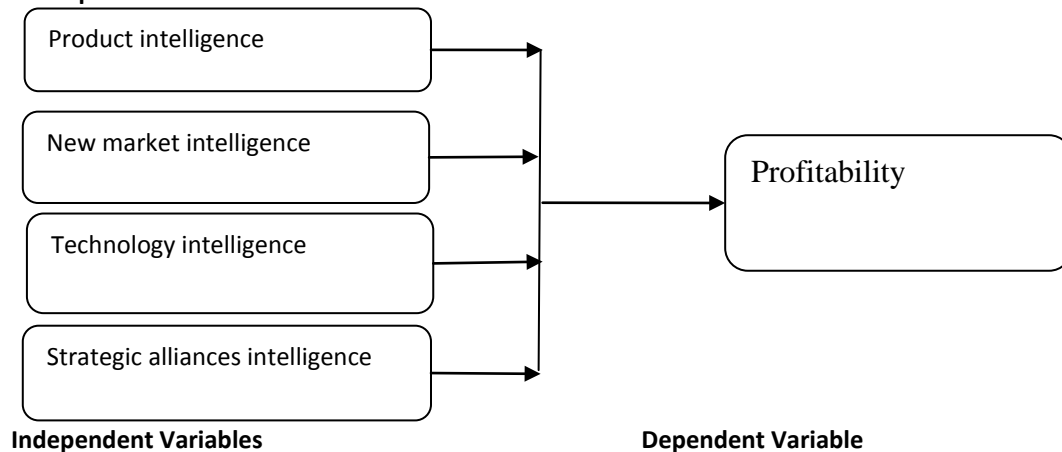
Product intelligence as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of product. Product intelligence practices mainly deal with functions within an organization (Prescott, 2001). From this it can be deduced that issues relating to new product development, launching a new product on the market, and using facilitative technology such as the Internet, need to be placed within a strategic marketing framework that encompasses the concept of relationship marketing. The relevance of a competitive intelligence industry specific approach has been highlighted by Marceau and Sawka (2001).

Market intelligence (MI) is industry-targeted intelligence that is developed on real-time (dynamic) aspects of competitive events taking place among the 4Ps of the marketing mix (pricing, place, promotion, and product) in the product or service marketplace in order to better understand the attractiveness of the market (Fleisher Craig 2003). More recent research has found that conglomerate firms have significantly lower profitability. It has also been shown that highly diversified firms have less market power in their respective markets than more focused firms. Banks lack of resources usually results in a compromise situation.

Technology intelligence exerts a significant influence on the ability to innovate and is viewed both as a major source of competitive advantage and of new product innovation. It is important to link technology intelligence to competitive intelligence in sustaining competitiveness. Organisations that can combine customer value innovation with technology intelligence have an increased chance of enjoying sustainable growth and profit.

According to Patton and McKenna (2005) strategic alliances are formed as a mechanism for reducing uncertainty for parties of the alliance. The benefits of strategic alliances can be divided into two general categories: those that come about through the reduction of external environmental uncertainty and those that exist through the reduction of internal organizational uncertainty. The most recent study on competitive intelligence was carried out by Mutua (2010) which was a research on competitive intelligence practices by Essar Telkom (YU) (K) Ltd.

Conceptual Framework



Source: Author, 2011

Research Methodology

Since there is limited study on the competitive intelligence practices and their effect on profitability, the researcher sought to investigate the competitive intelligence practices and their effect on profitability in the banking industry in Kenya. In this regard, this research problem was studied through the use of a case study with an aim to uncover the competitive intelligence practices and their effect on profitability in the banking industry in Kenya. The management staffs who directly deal with the day to day management of the banks were selected to collect primary data.

The researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire through Cranach’s Alpha which measures the internal consistency. The findings of the pilot study illustrates that all the scales were reliable (Cronbach alpha = 0.910) as their reliability values exceeded the prescribed threshold of 0.906 (Hair et al, 2010). Data collected was analyzed by descriptive analysis. Data was analyzed using descriptive statistics and the discussion was presented. The regression equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$): Whereby Y = banks profitability, X_1 = market intelligence, X_2 = product intelligence, X_3 = technology intelligence, X_4 = strategic alliance intelligence, $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Coefficients of determination and ϵ = error term.

Findings and Discussions

Market Intelligence

The study found that banks employ new market intelligence as a competitive intelligence practice. New market intelligence applied in the banks concentrated on the 4Ps (price, place promotion and product). Market intelligence (MI) is industry-targeted intelligence that is developed on real-time (dynamic) aspects of competitive events taking place among the 4Ps of the marketing mix (pricing, place, promotion, and product) in the product or service marketplace in order to better understand the attractiveness of the market, market and customer orientation, identification of new opportunities (Fleisher Craig 2003). There was most concentration on pricing and product as shown by a mean score of 4.6 in each case and there was more concentration on place as shown by a score of 4.5 and promotion shown by a mean score of 3.9. The banks used some form of market segmentation as part of new market intelligence. According to the findings in the literature review, market segmentation is critically important if the aim is to develop the profitability of a business to the full and market segmentation was very effective where 37.5% of the respondents felt that market segmentation was moderately effective in creating competitive intelligence for greater profitability.

Product Intelligence

The product intelligences employed by commercial banks and that affect their profitability include involving customers in product development through focused group discussions (FGDs), aligning products with customer needs (customized products), CRM and customer service, customer satisfaction survey, introduction of new products based on customer needs, re-launching and reviewing of existing products to make them more competitive, ASK exhibitions, excellent customer service, provision of products to suit target markets through differentiation and branding of products which achieves customer satisfaction, media advertisement in TV, radio and newspapers and population dynamics.

Technology Intelligence

The study found that technology intelligences used in banks include technological innovation, product integration with new technology, intelligent ATMs, intelligent monitoring systems, technology driven products, use of recent IT systems, robust IT system in all departments and high class communication systems between the departments. Others include videoconferencing, interconnection/integration with telecoms and auto branches. From the study, the competitive edges accrued from technology intelligence include engaging in custodial services (sales and purchase of shares) after investing on the trading IT platform known as custodial Know. Organisations that can combine customer value innovation (Hannula and Pirttimaki, 2003) with technology intelligence have an increased chance of enjoying sustainable growth and profit.

Strategic Alliance Intelligence

The strategic alliance intelligences for commercial banks include mergers and acquisitions of other banks for example Equity Bank Limited acquired Uganda microfinance Limited (UML) to penetrate the Ugandan market, cross-border listing and trading in Uganda stock exchange, change of business processes, engaging in strategic alliances with other banking (financial) institutions for example insurance business and mortgage industry, global intelligence alliance, use of research and innovation feedback, customer focused intelligence, ecosystems for example with churches, venturing into new markets through acquisitions, agency approach and also partnerships. 82.5% of the respondents felt that they benefits of strategic alliance are those that come about through the reduction of external environment uncertainty, and 77.5% of the respondents felt that they are those that exist through the reduction of internal organizational uncertainty. The study findings concur with the literature review. Patton and McKenna (2005) study found that strategic alliances are formed as a mechanism for reducing uncertainty for parties of the alliance. Strategic alliance with other organizations as shown by a mean score of 4.3 and acquisitions as shown by a mean score of 3.9 were employed to a great extent, while mergers and joint ventured were employed to a moderate extent as shown by mean scores of 2.8 and 3.3 respectively.

Regression Analysis

Table 4.1: Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.920	.846	.7810	.80139	0.04

Source: Author, 2011

The four independent variables that were studied, explain 84.6% of the profitability of the commercial banks in Kenya as represented by the R². This therefore means that other factors not studied in this research contribute 16.0% of the profitability of the commercial banks in Kenya. Coefficient of determination findings as explained by the P-value of 0.004 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables.

Multiple Regression Analysis

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.334	0.311		5.750	.0000
Market intelligence	0.244	0.164	0.193	2.650	.0027
Product intelligence	0.296	0.0481	0.0327	3.534	.0012
Technology intelligence	0.398	0.0714	0.2325	3.686	.0010
Strategic alliance intelligence	0.218	0.0501	0.0484	2.450	.0038

Source: Author, 2011

In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between profitability of commercial banks in Kenya and the four variables. As per the SPSS generated table, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$) becomes:

$$Y = 1.334 + 0.244 X_1 + 0.296X_2 + 0.3981X_3 + 0.218\beta_4X_4$$

Where Y = banks profitability, X_1 = market intelligence, X_2 = product intelligence, X_3 = technology intelligence and X_4 = strategic alliance intelligence. According to the regression equation established, taking all factors (market intelligence, product intelligence, technology intelligence and strategic alliance intelligence) constant at zero, the profitability of the banks as a result of competitive intelligence practices will be 1.334. Further, taking all other independent variables at zero, a unit increase in market intelligence practice will lead to a 0.244 increase in profitability. A unit increase in product intelligence will lead to a 0.296 increase in profitability; a unit increase in technology intelligence will lead to a 0.398 increase in profitability while a unit increase in strategic alliance practice will lead to a 0.218 increase in profitability. This infers that technology intelligence contributed more to the profitability of the bank followed by product intelligence.

At 5% level of significance and 95% level of confidence, technology intelligence had a 0.0010 level of significance, product intelligence had a 0.0012 level of significance, market intelligence showed a 0.0027 level of significant, while strategic alliance intelligence showed a 0.0038 level of significance. Hence technology intelligence is the most significant factor in contributing to the profitability of commercial banks in Kenya followed by product, market and strategic alliance intelligence respectively. The t critical at 5% level of significance at k = 4 degrees of freedom is 2.315. Since all t calculated values were above 2.315 then all the variables were significant in explaining the profitability of the commercial banks in Kenya.

Conclusions

From the analysis and discussion, the study concludes that technology, product, market and strategic alliance competitive intelligence practices affect the profitability of commercial banks in Kenya. On market intelligence, the study concludes that concentration on pricing and product, promotion, market segmentation and foreign market entry lead to profitability of commercial banks to the full and market segmentation.

On product intelligence, the study deduces that product development through focused group discussions (FGDs), aligning products with customer needs (customized products), CRM and customer service, customer satisfaction survey, introduction of new products based on customer needs, re-launching and reviewing of existing products make commercial banks more competitive and profitable.

The study concludes that technology intelligences such as technological innovation, product integration with new technology, intelligent ATMs, intelligent monitoring systems, technology driven products, use of recent IT systems, robust IT system in all departments and high class communication systems between the departments affect the profitability of the commercial banks.

On strategic alliance intelligences, the study concludes that strategic intelligence practices adopted by commercial banks include mergers and acquisitions of other banks for example Equity Bank Limited acquired Uganda microfinance Limited (UML) to penetrate the Ugandan market, cross-border listing and trading, change of business processes, engaging in strategic alliances with other banking (financial) institutions for example insurance business and mortgage industry, global intelligence alliance, customer focused intelligence, agency approach and partnerships which affect the profitability of the commercial banks. According to the regression analysis, adoption of technology intelligence practices in the bank contributes most to the profitability of commercial banks in Kenya followed by product, market and strategic alliance intelligence respectively.

Recommendations

From the findings and discussions of the study, market intelligence has enhanced the development of market share, decisions making. The study thus recommends that the commercial banks should adopt market intelligence to enhance efficiency enabling the banks to deal with their large client base, customer focused intelligence and competitive information which lead to increased of the banks profitability.

The study also recommends that for the banks to realize even more profits, they should involve in product intelligence practices such as aligning products with customer needs (customized products), CRM and customer service, customer satisfaction survey, introduction of new products based on customer needs, re-launching and reviewing of existing products.

The study found that technology intelligence leads to high levels of automation, cost reduction and efficiency enabling the bank to almost deal seamlessly with their large client base of over 4 million customers. The study therefore recommends that the banks should make use of technology intelligence among other intelligences to increase their competitiveness in terms of product innovation, customer satisfaction and market orientation. These intelligences ensure that internal strengths of the banks are utilized for the betterment of the firm which leads to profitability.

The study recommends that commercial banks should be more vigorous in establishing strategic alliance intelligences through mergers and acquisitions, penetrate foreign market through alliances, cross-border listing and trading, change of business processes, engaging in strategic alliances with other banking (financial) institutions, global intelligence alliance and agency approach and partnerships which affect the profitability of the commercial banks.

References

- Baars, H., Kemper, H.G. (2008), Management support with structured and unstructured data – an integrated business intelligence framework, *Information Systems Management*, Vol. 25 No.2, pp.132-48.
- Central Bank of Kenya, (2010). Annual Bank Report. Nairobi: Government Printers.
- Fleisher & Craig S. (2003), *Should the Field be Called 'Competitive Intelligence?'* Westport, CT: Praeger, 2003.
- Hair, J.F., Black, W.C., Babin, B.J., Anderson, R.E., Tatham, R.L. (2010), *Multivariate Data Analysis*, 7th ed., Prentice-Hall, Upper Saddle River, NJ,.
- Hannula, M., Pirttimaki, V. (2003), Business intelligence empirical study on the top 50 Finnish companies, *American Academy of Business*, Vol. 2 No.2, pp.593-9.
- Kipkorir, S. S. (2001) *Competitive Intelligence Practices by FM Radio Stations Operating in Kenya*. An Unpublished MBA Project, Nairobi; University of Nairobi. Kenya
- Korany, A.E. (2007), A knowledge management application in enterprises, *International Journal of Management and Enterprise Development*, Vol. 4 No.6, pp.693-702.
- Li, S.T., Shue, L.Y., Lee, S. (2008), Business intelligence approach to supporting strategy-making of ISP service management, *Expert Systems with Applications*, Vol. 35 No.3, pp.739-45.
- Marceau, S. and Sawka, K. (2001), *Developing a world-class CI program in telecoms*, Wiley, New York, NY. pp. 148-67.
- McGonagle, J.J. Jr, Vella, C.M. (2004), Competitive intelligence in action, *The Information Management Journal*, Vol. 38 No.2, pp.64-8.
- Muiva C. (2001) *A Survey of the Use of Competitive Intelligence Systems in the Kenyan Pharmaceutical Industry*. An Unpublished MBA Project, Nairobi; University of Nairobi. Kenya
- Mutua, M. (2010) *A Research on Competitive Intelligence Practices by Essar Telecom (YU) (K) Ltd*. An Unpublished MBA Project, Nairobi; University of Nairobi. Kenya.
- Patton, K.M., McKenna, T.M. (2005), Scanning for competitive intelligence, *Competitive Intelligence Magazine*, Vol. 8 No.2, pp.24-9.
- Prescott, J.E. (2001), Introduction, in Prescott, J.E. and Miller, S.H. (Eds), *Proven Strategies in Competitive Intelligence: Lessons from the Trenches*, Wiley, New York, NY. Vol. 6 No. 2, pp. 4-14.

Internet Sources:

<http://www.centralbank.go.ke/downloads/nps/psk> (accessed 25 May, 2011)

Society of Competitive Intelligence Professionals (SCIP) (2008), *Resources: Language of BI*, available at: www.scip.org/content.cfm?itemnumber=2226&navItemNumber=2227 (accessed 15 May, 2011).