

**STRATEGIC RESPONSES BY EQUITY BANK LIMITED TO
CHANGES IN THE EXTERNAL ENVIROMENT**

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SUPERVISOR'S DECLARATION

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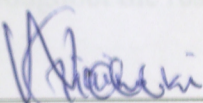
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DEDICATION

DECLARATION

STUDENT'S DECLARATION

I declare that this research project is my original work and has not been presented to any other university for the award of a degree.

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This research project has been submitted with my permission as the University Supervisor.

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Providing consistent guidance, constructive feedback and helpful advice during the successive stages of this work.

I am also deeply indebted to the all Equity Bank Limited Employees particularly Michael among others who graciously gave their time in providing data that led to successful completion of the project.

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ABSTRACT

Equity Bank Limited is one of the banks in Kenya and thus faces challenges both from within and outside the banking sector. The objective of this study was to establish the strategic responses adapted by Equity bank to changes in the external environment with emphasis on competition and regulatory environments. Operating in a dynamic environment and as a niche Bank, Equity Bank had to review its strategies in response to these changes to enable it remain relevant in the industry and retain its market share. This was a case study since the unit of analysis was one organization and data was collected using self-administered interview guide with open-ended questions. The respondents of this study were the senior management staff working at Equity Bank Limited. A content analysis was used to analyze the respondents' views.

The study identifies various changes in the Banks' operating environment including the increased and stringent regulatory requirements, shift towards Information Technology products and services, increased competition from in the banking sector, innovation of new products and banking models with more emphasis on mass markets leading to aggressive competitor behavior. The information in the market is easily available making the customers more enlightened and demanding on their requirements.

The Study identifies the responses by Equity bank to include expanding the branch network for a wider reach, increasing the capital base to enhance the lending capacity, acquiring a robust core banking system, change of leadership and recruiting of more professionals to steer the bank, ensure corporate governance and enhance customer confidence, involvement in research and development to identify and meet the customer needs, rebranding and undertaking aggressive marketing campaign to increase visibility in the market. The study recommends that more proactive responses should be adopted including comprehensive research and development be done continuously in all institutions, opportunities for strategic alliances, mergers and acquisitions to provide a competitive edge, adoption of the agency banking model and embracing the Equity Reference Bureau enabling free sharing of information on fraudulent customers by creating a shared database across the sector in Kenya.

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Organization pay different roles in the societies in which they operate. The key concept of organization is however not guaranteed but the respective organization must work for it. (Ansoff and McDonnell, 1990). They operate in an environment in which they obtain their inputs and discharge their outputs (Porter (1985). Organizations environment consist of all the conditions and forces that affect its strategy options and defines its competitive situation (Pearce and Robinson, 2005). The turbulence in the environment no doubt, impacts on the organization. This implies that the organization has to respond to the environmental changes to remain stable and successful. In changing environments, the success of any organization is determined by its responsiveness to environment. To be able to build a competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985).

The environment consists of factors that form the contexts within which organizations exist (Hungs and Wheelen (1999). Environmental conditions affect and influence strategies adopted by an organization for survival and success. For organizations to remain truly competitive over time as the environment changes, Ross et al. (1996) argues that it has to learn, adapt and reorient itself to the changing environment. Ross et al. (1996) argues that this process must be deliberate and coordinated, leading to gradual or radical system realignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness. This process is referred to as integrated-strategic change. Strategy helps an organization to cope with change by designing appropriate strategic responses (Pearce and Robinson, (2005). Successful organizations continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect its operations (Ansoff and McDonnell, 1990). In every industry, successful organizations continuously reassess competitive factors which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Organizations play different roles in the societies in which they operate. The key concern of every organization is continued existence over time. The continuous existence of any organization is however not guaranteed but the respective organization must work for it. All organizations are environment dependent Ansoff and McDonnell (1990). They operate in an environment in which they obtain their inputs and discharge their outputs Porter (1985). Organizations environment consist of all the conditions and forces that affect its strategy options and defines its competitive situation (Pearce and Robinson, 2005). The turbulence in the environment no doubt, impacts on the organization. This implies that the organization has to respond to the environmental changes to remain stable and successful. In changing environments, the success of any organization is determined by its responsiveness to environment. To be able to build a competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985).

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leaves the industry. Ansoff and McDonnell (1990) observed that strategy diagnosis helps determine the firms' strategic responses which will ensure success.

1.1.1 Strategic Response to Environmental Changes

According to Pearce and Robinson, (2005) strategic response is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives. It is thus a reaction to what is happening in the environment of the organization. Porter, (1980) points out that knowledge of the underlying source of competitive pressure provides groundwork for strategic agenda in action. When organizations are faced with unfamiliar changes, they should revise their strategies to match the environmental changes.

Strategic responses refer to the machinery of the resources and activities that an organization undertakes in reaction to the environmental changes in which it operates (Johnson and Scholes, 2002). According to Ansoff (1990) and Pearce and Robinson (2005), it is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness and secondly, by use of real time response through issue management and thirdly, systematic management of resistance to strategic implementation (Lowes, Pass and Saunderson, 1994).

The Kenyan economic environment has been undergoing drastic changes, which has affected most sectors, more so in the early 1990s when the government's policies on liberalization outlined the reform measures to be carried out in the major sectors of the economy in order to accelerate growth and development. These challenges include privatization and commercialization of the public sector, increased competition and liberalization of the economy and accelerated implementation of reforms by the government as well as rapid technological advancement. Faced with the changing environment, organizations have to re-organize their activities and configure their organizational structure to cope with the new external realities. This will more so rely on

the strategic responses that firms adopt. Failure to do this may jeopardize future success of these organizations (Aosa, 1998).

1.1.2 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. 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. 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).

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well functioning banking sector provides a system by which a country's most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade.

Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates. Loans are based on the Equity policy of the bank that is tightly coupled with the central bank interest rate policy. These in effect determine the level of financial risk in a particular bank (CBK, 2010).

1.1.3 Equity Bank of Kenya

Equity Bank started its operations in 1984 as Equity Building Society (EBS). Its establishment was motivated by the desire to create a financial service provider which would meet the needs of the majority of the Kenyan population. The need to come up with the institution was out of the realization that most Kenyans lacked access to financial services or simply could not afford them. The initial focus was to offer mortgage services but in the mid 1990's EBS changed its business focus to micro finance services, (<http://www.equitybank.co.ke>).

Equity Bank experienced difficult financial times in the early 1990s and in 1993 almost faced liquidation by Central Bank of Kenya (CBK). However, due to the Bank's (then EBS) laudable record of creating affordable and easy access of financial services by ordinary Kenyans, CBK opted to apply rational judgment to allow EBS re-invent itself. Equity Building Society therefore grabbed the opportunity extended by CBK, and eventually made a mission drift from mortgages provision to microfinance in 1994. For over 16 years, Equity Bank survived the difficulties of a manual system until June 2000 when it launched a computerized management information system. This change contributed to an increase in productivity and an expansion of the portfolio. To support the expansive growth the bank has invested heavily in its ICT platform in order to leverage on this strong platform to host other delivery channels and deliver efficient services to its customers (Mwangi,2011).

Equity Bank converted from a building society to a fully fledged commercial bank on December 31, 2004. Since then, the Bank has grown at a high rate and expanded its business volume. In August 2006, Equity Bank Limited listed on the Nairobi Stock Exchange (NSE). With more than 5 million accounts, Equity is home to over 48% of all bank accounts in Kenya, making it the largest bank in the region in terms of customer base. The solidness of Equity bank is underpinned by its massive shareholder fund base of over Kshs.17 billion complemented by an additional Kshs.7 billion of subordinated tier two capital, (Thiga, 2002).

The bank is Equityed for taking banking services to the people through its accessible, affordable and flexible service provision. In 2007 and 2008 consecutively, Equity was named the Best Bank in Kenya by Euromoney Awards for Excellence. Equity is also the holder of the 2007 Global Vision Award in Microfinance.

Equity bank offers financial services through its over 100 licensed and still growing countrywide branch network supported by Alternate Business Channels; which include 700 Visa branded ATM's 2500 Points of Sale (POS). It also offers Cash back services in all leading Super markets as well as internet and mobile banking. The Bank runs on a Global Robust State of the Art Information Technology Platform supported by Infosys, HP, IBM, Oracle and Microsoft, (World Bank Policy Research Working Paper 3363, July 2010).

Recently the bank has embarked on regional expansion and has started its operations both in Sudan and Uganda. Equity bank committed itself towards human resource development by engaging in staff training, Recruiting professionals and sourcing experienced staff from the industry. There is no doubt today that the bank is a leader in the Retail banking sector in the country and its giving competitors a run for their money, (<http://www.equitybank.co.ke>).

1.2 Research problem

According to Ansoff, (1984), an organization environment within which firms has been operating has experienced several changes. Changes in the economic environment include; competition, technological advancements, inflation, population increase and high costs of living. Burnes (2000) argues that changes are an ever present future of organizational life and its pace and magnitude has increased significantly over recent years. To achieve sustainable advantage when such changes occur, an organization must find a new position by making trade-offs and establish a new system of complementary activities.

According to McGrath *et. al.*, (1995) showed that firms in dynamic environments seek to continuously renew their competitive advantage through competence-generating strategic processes of comprehension and deftness. Thomas (1996) documented that the ability to take action and adopt swiftly is a primary determinant of superior performance in many industries. In a related vein, scholars who study competition on the Internet have suggested that pervasive interconnectivity and network externalities, conditions that characterize the Internet, also require that firms adopt inherently dynamic strategies, including product versioning, rapid product development, direct relationships with users, and frequent "partnering" (Shapiro and Varian, 1999).

Locally, studies have been carried out in the area of strategic response by organizations due to change in the environment. Kombo (1997) found that the motor vehicle franchise holders responded to changes in environment by improving technology, investing in new equipment so as to make competitive products, adding new features to their products and enhancing customer service. Njau (2002) revealed that East African Breweries Limited had made various changes in its principal brewing and bottling technologies by investing in new equipment so as to make competitive products. It also changed the basic products by adding new features. The University of Nairobi responded to environmental changes by introducing new programs based on the needs of stakeholders, ensuring staff had performance skills and review exercises (Mutua, 2004). Tourist hotels responded to changes in the environment by using restrictive, selective shrinking marketing and cost management (Mugambi, 2003). Mwarania (2003) found that Kenya Reinsurance Corporation developed focused staff training programs, retrenched staff and invested in real estate to generate rental income in order to spread out their financial investments between short and long term ones in response to environmental changes. These studies sought to determine response strategies for firms facing environmental changes in other institutions in Kenya. There has been no study that has focused on Equity Bank Limited. It is in this light that the study seeks to fill the existing gap in this area of study by answering the questions what are the strategic responses adopted by Equity bank in response to changes in the external environment?

1.3 Objectives of the Study

The study seeks to fulfill the following objectives:

- i. To determine the strategic responses by Equity bank Limited in response to the changes in the external environment.
- ii. To determine the external environmental changes affecting the operations of Equity bank Limited.

1.4 Value of the Study

Banking industry, which is directly affected by the dynamic business environment and competition in Kenya? The management of commercial banks will gain insight into issues relating to strategic responses due to external forces facing the commercial banks. The government will find the study useful as it may get insight on how it formulates policies that will govern the creation of a competitive, sustainable financial management industry in the country.

The policymakers will also benefit from the study in that they will be able to evaluate the ability of commercial bank to adapt to changes in the operating environment and gaps if any; and provide a framework upon which more efficient response strategies can be built. The researchers and academicians on the field of strategic management and environment in the commercial banks will be able to use this study as a source of reference in forming their future research topics and studies. They will be able to identify the changes that have taken place in the commercial banks in Kenya over the last one decade, explore whether or not banks has acted in accordance with the environmental dependence concept; and contribute to the strategic management studies through literature review and also identify where further research could be done on the subject matter.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter presents a critical review of the literature. The review is done by discussing organization environment, strategy and the environment, strategic responses to Environmental changes adopted by the organizations. This enables achieving of the study objectives.

2.1 External Environment

Ansoff and McDonnell (1990) state that successful environment serving organizations are open systems and the open property is made necessary by two factors: firstly, continued organization survival depends on its ability to secure rewards from its environment which replenish the resources consumed in the conversion process. Secondly, continued maintenance by the organization of its social legitimacy. They further argue that a major escalation of environmental turbulence means a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new consumer's attitudes and new dimensions of social control and above all unprecedented questioning of firm's role in society. The prospect for the 1990's was for the continued escalation of turbulence.

In developing countries, Government systems regulated economic aspects of firms' behaviour which hampered competition. This practice encouraged the existence of unprofitable and inefficient firms and blocked new entrants. The restrictive trade practice resulted in benefits accruing to protected firms due to manipulation from the systems rather than from innovation and adoption of new technologies (World Bank report, 1994). Environment has been characterized as complex, dynamic, multi-facet and having far reaching impact (Kazmi, 2002). As a result of these characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. A fundamental change is occurring in the world economy whereby the world economies are witnessing the forces of globalization and liberalization of trade. The phenomenon of globalization, according to Hammond and Grosse (2003)

refers to the fact that “people around the world are becoming more and more knowledgeable about each other,” this is expected to increasingly affect the insurance sector.

In today’s global environment, change rather than stability is the order of the day. Increased trade liberalization reduces country-based trade barriers, thus increasing the opportunity for cross-border entry (Ellis and Williams, 1995). If new entrants have adopted new technologies and/or developed more efficient business operations systems, the competitive intensity will increase pressure of existing industry to internationalize by weakening their competitive position. Virtually, most industries across the globe are currently experiencing increased pressures for globalization, reinsurance industry included. Environmental forces of change are the forces which are increasing pressure for globalization of the reinsurance industry and have led to trade liberalization and opening of the insurance market.

Some of the changes include the accelerated implementation of economic reforms, the globalization and liberalization of the economy, discontinuation of price controls, privatization and commercialization of the public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of the organization’s in jeopardy (Aosa, 1998)

2.2 Organization environmental Interface

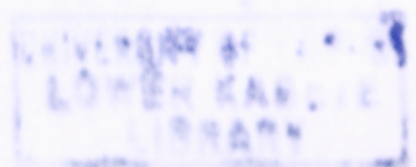
The emergence of environmental influences and their effect on firm strategy has gained tremendous traction in the management literature in recent years (Pearce and Robinson, 2005, Johnson and Scholes, 2001). Fueled by societal concerns over global warming, globalization, poverty, ecosystem destruction, and social degradation, environmental pressures have gained substantial attention in strategic management classrooms, corporate boardrooms and academic journals (Pearce and Robinson, 2005; Kazmi, 2002). While these concerns are global in nature, they manifest themselves differently based on firm context. Environmental concerns are now quite prevalent in developed countries while disease and poverty have remained prominent in developing nations. All in all, most business environments represent substantial environmental forces that impact the

development and implementation of strategy. Yet the nature of firm strategic response to these influences is presently understudied. Moreover, the process by which firms incorporate environmental forces and strategies into market strategies has not yet been examined.

The alignment between strategy and environment lies at the center of strategic management. Correct alignment helps commercial banks maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals. According to Porter (1997), globalization, modern technology and knowledge transfer have contributed to the enormous expansion of industry over the years. This has in turn increased competitive pressures and contributed to the turbulent and dynamic environment. Strategic response requires banks to change their strategy to match the environment and also to redesign their internal capability to match this strategy. If a bank's strategy is not matched to its environment, then a strategy gap arises. If its internal capabilities are not matched to its strategy, then a capability gap arises.

Porter (1985) affirms that it is important that organizations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant. Strategic responses differ from operational responses in several ways. While operational responses are short-term and focusing more on efficiency of operations, strategic responses are long-term in nature, embracing the entire financial institutions and more concerned with the organization's effectiveness (Migunde, 2000). Strategic responses also involve large amounts of resources, and decisions relating to them are made at corporate and business level.

Strategy, being the game plan that creates a match between bank capabilities and the environment, is an action that a bank takes in order to achieve a set of goals aimed at responding to changes in the environment (Pearce and Robinson 2000). Strategy guides firms to superior performance by establishing competitive advantage (Porter, 1979). Firms therefore employ strategies in a dynamic environment in order to adapt to new realities such as increased competition, unstable markets and unpredictable and turbulent environment. Commercial banks in dynamic financial market respond to environmental



changes and competitive forces in different ways. Some improve current financial service and products, diversify and divest, while others employ techniques that ensure operational effectiveness (Migunde, 2000). Strategy is thus triggered by the rapid discontinuous changes occurring in the firms environment. These discontinuous changes may be caused by saturation in traditional markets, technological changes in or outside the firm or actions of a competitor. Johnson and Scholes (2002) points out the characteristics of strategy to include concern with the long term environment, trying to achieve advantage over competition, scope of organizations activities and strategic fit which involves matching resources and activities of an organization to the environment.

Porter (1991) explained that firms create and sustain competitive advantage because of the capacity to continuously improve through innovation and upgrade their competitive advantage over time by shifting advantages through the value chain by applying higher levels of skills and technology. In recent years organizations have sought to create greater organizational flexibility in responding to environmental turbulence by moving away from hierarchical structures to more modular forms (Balogun and Johnson, 2004). Responsibility, resources and power in financial institutions has been the subject of decentralization and delayering. More often, in highly dynamic environments, traditional approaches to strategy development often do not lead to intended results, and organizations must move towards a more dynamic concept as the underlying conditions change before formulated strategies can be fully implemented (Fuerer and Chaharbaghi, 1994). According to Johnson and Scholes (2003), dealing with the environment is difficult because of three main factors; the diversity of the different influences that affect a business, the speed of change where the pace of technological change and the speed of financial services mean more and faster changes than ever before and complexity of changes making it impossible to identify all factors in play.

2.3 Strategic Responses to Environmental Changes

Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Grant, 2002). Strategic responses require organizations to change their strategy to match the environment and also to redesign their internal

capability to match this strategy. If an organization's strategy is not matched to its environment, then a strategy gap arises. If its internal capabilities are not matched to its strategy, then a capability gap arises. Porter (1985) affirms that it is important that organizations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant.

Banks differ from most organizations in that their trading position is directly influenced by the profile of their balance sheets. This is due to regulations set by the international banking regulatory body (Trethowan and Scullion, 1997). The importance of capital to bank regulators is that it is seen as the primary insurance policy to cover risks in the industry. Banks actively manage their balance sheets to maintain capital adequacy and liquidity ratios that meet the regulatory requirements, borrowing short-term capital when necessary from the inter-bank market, and assessing the impact on the balance sheet of marketing and pricing policies. Indeed, Llewellyn (1992) argues that capital adequacy will be the key element in the formation of strategy in retail banking.

2.3.1 Proactive Strategy

All organizations lend themselves to the external environment, which is highly dynamic and continually posing challenges as well as opportunities. Firms therefore need to develop capabilities to manage threats and exploit emerging opportunities. Pearce and Robison (2000) point out that this calls for a proactive approach to business and the formulation of strategies that constantly match capabilities to the environment. The environment in an industry has great influence on the growth, survival and profitability of firms. According to Ohmae (1992), to survive and prosper in an industry, a firm must meet two criteria; first, it must supply what customers want and second, it must survive the competition. Porter (1979) is of the view that it is very necessary for firms to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies and respond to competitive forces.

Firms are environment dependent in that they obtain inputs such as capital, raw materials and human resources from it and discharge their outputs in form of products and services into the environment. External factors influence a firm's choice of direction and action.

The external environment comprises all conditions that effect a firm's strategic options but are typically beyond its control (Pearce and Robison, 2000). Changes in environmental conditions shape a firm's opportunities and challenges. A new environment necessitates the formulation of new strategy best suited to cope with change. According to Ansoff (1988) turbulent environments are characterized by unfamiliar rapid and unpredictable events

2.3.2 Relationship Strategy

A retail bank may adopt a relationship strategy based on attracting the low profit cash transmission business of customers in the "carriage trade" segment, and then deepen the relationship by superior service, to cross-sell more profitable products (Trethowan and Scullion, 1997). The same bank may use another division to service the "bargain basement customers", through a non-branch telephone banking system, which has a product based focus. Obviously those banks that operate on low costs and have good Equity policies can offer lower prices, and will dictate prices in the industry.

Huge relational databases are being built that capture data on customers from their day-to-day transactions through the bank's Information Technology (IT) systems. This provides bank marketers with information to improve techniques to identify customer segments and predict customer needs. Segmentation, in the past, was a crude affair used to blanket the market with fairly unsophisticated marketing techniques such as the ubiquitous mail shot (Trethowan and Scullion, 1997). The objectives of segmentation today are to profile the lifestyle of those in the customer base (in addition to their demographics) in order to tailor products and delivery to meet the needs of the selected segments.

Changing lifestyles and increased affluence have led to higher service expectations by the customer. This has made distribution the key marketing variable (Trethowan and Scullion, 1997). The traditional delivery channel is the branch network. The mass marketing era saw the establishment of branches on every main thoroughfare; however, as this investment took place, it was not fully recognized that these new non-business

customers did not have the same discretionary time to visit the branches as the business community on which banks had traditionally focused.

This new mass market was engaged in earning their incomes in the 10.00 a.m. until 3.30 p.m. slot that the banks chose to do their business. Prior to the introduction of computers, banks needed time to perform manual account administration, at which times the public were seen as an "inconvenience". This is now changing, with 9.00 a.m. until 5.00 p.m. opening, and late evening and Saturday opening returning (Trethowan and Scullion, 1997).

2.3.3 Direct Marketing

The introduction of widespread networks of cash machines and the willingness of retailers to give cash on the growing numbers of debit cards is reducing the need for personal customers to come into a branch (Trethowan and Scullion, 1997). The delivery of products to the personal sector is an important area of strategic thinking, as there is a perception of non-availability of branch service, and this is coupled with the increasing number of non-branch outlets for obtaining cash. Pottruck (1992) states that product innovation no longer offers banks a source of sustainable competitive advantage, as sophistication in IT means that products can be quickly copied.

Marketing strategy is thus increasingly focused on delivery. The survey by Trethowan and Scullion (1997) shows that 84 per cent of respondents believe that the numbers of banks offering an alternative to the traditional branch network will increase, and 84 per cent also believe that direct marketing and branch networks will also increase. Direct marketing offers the advantages of convenience, total sales orientation and low maintenance costs (Trethowan and Scullion, 1997). Branch networks are the primary delivery channels for bank services, and also act as a barrier to entry in the industry (Trethowan and Scullion, 1997). Many branches were designed in the past to reflect the solidity of the parent bank, not the needs of the mass market personal customer. However, their architectural features have attracted preservation orders making them difficult to renovate for today's needs.

2.3.4 Quality of Sales and Service

Banks at present use a mix of advertising and sponsorships at national, regional, and local levels (Trethowan and Scullion, 1997). Many banks' promotion strategies are now turning to building a cultural identity of sales and service excellence that will be recognizable to their customers and the marketplace in general. Whitley (1991) suggests four points to achieve good third party reputations through the quality of their sales and service.

First, service quality must be intertwined. This requires commitment to the concept from the whole organization. The burden should not fall solely on front-line staff in each "moment of truth" for quality, to achieve the required standards of service. The production and support process must be tracked back through the organization and the contribution of all involved should meet these standards. Secondly, there should be consistency in product and delivery standards. This requires careful design of both factors to minimize the variability of the human resource. Thirdly, control of standards must be achieved by adopting techniques that will turn service into tangible measurements. Lastly, quality will continue to improve, and therefore what was good today may not be good enough in a year's time. For this reason, chosen quality levels must be kept under review.

Banks today need to work hard to repair their image; it is a paradox that when the consumer is seeking higher standards of quality, much of the focus of bank strategy is on managing to survive with depleted capital following past strategic mistakes (Trethowan and Scullion, 1997). It is evident that various strategic areas already discussed cannot be viewed discretely; capital adequacy is influencing marketing strategy, which in turn is influencing human resource and IT strategies. These in turn are closely linked to how banks operate and organize themselves.

At present, banks are highly bureaucratized organizations that are set up to excel in administrative procedures rather than as retailers (Trethowan and Scullion, 1997). This is achieved by using the divisionalized form supported by machine bureaucracies that have served the banks well and will continue to predominate. This provides tight controls of

standards and performance, both in the internal operation of banks, and in facilitating fairness and standards to the customer. This is especially so as a major part of their operation entails performing a number of routine tasks many times and across a large number of remote locations.

Banks will continue to fine-tune their organizations to facilitate change, to be more market-oriented and to save costs. This will be achieved by implementing wider, flatter organizations with improved internal communication (Trethowan and Scullion, 1997):

2.3.5 Human Resource Strategies

The importance of human resource strategy is crucial to banks, as the performance and cost of those employed in the industry is fundamental to its future success. The survey by Trethowan and Scullion (1997) shows 84 per cent agreement with this statement. This is another area where banks are attempting to raise quality and at the same time cutting costs.

Human resource strategies must support the strategic direction of the organization. Cost is a major differentiator in financial services and all major participants must pay attention to staff costs, which is their major cost driver, to remain competitive. Players in the industry will continue to match each other around the market price, so other forms of differentiation are needed, with service quality being increasingly important in achieving competitive advantage. The strategic challenge is thus to reduce costs while simultaneously improving quality (Trethowan and Scullion, 1997).

In the past, banks needed large numbers of clerical staff to process the paper that snowballed because of the business generated by the mass marketing campaigns. Technology is increasingly providing solutions to the administration of the banks' business (Trethowan and Scullion, 1997). The obvious place for capital-hungry banks to save costs is in reducing their biggest cost area - staff. The reduction in overall numbers is being contrasted by the rising proportion of part-time staff and contractors. The process will be achieved by voluntary and compulsory redundancy schemes and by early retirement.

Contracting out services is fairly limited at present, confined to areas such as IT development, cash transportation and cheque printing (Trethowan and Scullion, 1997). Thus all banks individually engage in non-core activities which lead to dis-economies of scale in premises, capital and manpower, and raise the general level of costs in the industry. A greater emphasis on contractors will only happen when suppliers emerge who will provide the same services at a lower cost than the banks currently incur for the service. As well as being part of the value chain, contractors will also be part of the quality chain, and must therefore be as reliable as the systems that the banks currently pay dearly for to control themselves.

2.3.6 Adoption of Information Technology

Money has frequently been described as “information in motion” and banks are among the biggest users of information technology. Over the past two decades IT has allowed banks to expand their activities to the mass market. However the survey results by Trethowan and Scullion (1997) show that 85 per cent of retail bankers are not fully satisfied with their IT systems. The first generation of automation has now passed, and in retrospect three main failings have been identified (Trethowan and Scullion, 1997).

The first failure is that they were initially designed with a product focus. This has led to systems in banking resembling patchwork quilts, constantly in a state of repair and modification. Problems associated with systems that no longer match the needs of the business include line staff being unable to cope with the administrative burden, caused by the work generated to achieve operating plans’ as well as customers of one division not being identified as common customers of the group as the types of products banks offer expand. This resulted in poor performance in cross-selling, which is the very area that banks are staking out as their main marketing strategy.

The second failure is that of user involvement in the design and implementation of the systems (Trethowan and Scullion, 1997). The first generation of system analysts consulted with users and then disappeared until implementation date when it was too late for users to comment on the systems that they would have to use every day. Finally, banks set up their initial IT accounting systems at account level, to reflect the way they

had administered their old manual systems (Trethowan and Scullion, 1997). It was easy to detect the extent of a customer's overall relationship by examining physical ledger pages. However, automating this arrangement gave banks real headaches in retrieving customers' files from all around their systems. Paradoxically, just as banks' systems are addressing this issue, the banks' voluntary code of practice is placing constraints on how they use information on their personal customers.

Although capital is scarce in the industry, banks continue to invest huge sums in IT, as it is acknowledged that lack of investment in this area damages a bank's ability to compete effectively (Trethowan and Scullion, 1997). Banks are making the transition to customer-based information being held on relational databases in their efforts to become more market-oriented and to resolve the difficulties of holding details of customers at account level. The details of individual accounts are clustered around the customer's static details records, such as name and age (Trethowan and Scullion, 1997).

2.3.7 Non-Interest Income Strategy

The main strategy employed to reduce dependence on capital is the growing emphasis on "off-balance sheet" or non-interest income, for example, commissions for services that previously were performed free of charge. In the survey by Trethowan and Scullion (1997), 74 per cent of the respondents agreed that this source of income would continue to grow in importance. Non-interest income has the added attraction to banks of incurring little risk of bad debt. This strategy is achieved in two main ways:

Increased emphasis on charging for services consumed through fees and commissions (Trethowan and Scullion, 1997). Banking is one of the few professional services where the consumer has come to expect cheap or even free service, as costs were traditionally absorbed by the banks when they were building market share in their mass marketing phase in more profitable times. Supplementing their non-interest income by expanding their operations to complementary non-core activities that are sources of commission income, such as life assurance brokering and manufacturing (Trethowan and Scullion, 1997). The most radical capital strategies involve selling off subsidiaries, which is chiefly

used when conditions prevent access to institutional capital, or, in extreme cases, merger with another institution (Trethowan and Scullion, 1997).

2.3.8 Market Segments

The influence of depleted capital has already been highlighted as dictating strategy in banking. The other key factor that influences progress in the industry is the market strategy adopted by the banks (Trethowan and Scullion, 1997). Capital is in short supply in banking, and with over-capacity in the financial services industry, banks are making classic strategic decisions as to which market segments they wish to service and in what ways (Trethowan and Scullion, 1997). Banks had previously attempted to be “all things to all men” as they embarked on mass marketing campaigns; now increasing efforts are being expended in determining which customer segments provide the most profit potential.

Banks are increasingly anxious to measure the profitability of their products, and with this knowledge, they are able to aggregate a customer’s product portfolio to determine the profitability of each customer. Similarly, by consolidating the profitability of similar customers, segment profitability can be determined, and this indicates which segments are attractive for bank marketing.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology used to conduct the study. It covers the research design, data collection instruments and the method of data analysis.

3.1 Research Design

The problem posed in this research is best studied using a case study method. It involved studying one organization where one or several respondents are interviewed and enable collection of in-depth information that helps in understanding situations or phenomenon to avoid generalization. It therefore allowed for an in-depth explanation of strategic responses to external environmental changes by Equity Bank Limited. According Terry and Franklin (1997) a case study is a description of a situation involving problems to be solved. It is also an in-depth investigation of an individual, group, institution or phenomenon (Mugenda and Mugenda2003).

3.2Data collection

The researcher used an interview guide as primary data collection instrument. The interview guide was designed to give a brief introduction of the environmental changes targeted. The interview guide consisted of open-ended questions aimed at obtaining information on how Equity Bank responds to environmental challenges. The interview guide was administered through personal interviews with the directors, managers and departmental heads of Equity Bank. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and quantity of data compared to other methods because supplementary information can be collected in the course of the interview.

3.3 Data Analysis

Content analysis was used to analyze data collected. This is a systematic detailed qualitative description of the objectives of the study. It involves observation and detailed description of objects, items or things that comprise the study (Mugenda and Mugenda,

1996). This method made it possible to analyze and logically group the large quantity of data and compile the rest of the study. Nachmias and Nachmias (1996) defines content analysis as a technique for making references by systematically and objectively identifying specific characteristics of information and using the same approach to relate to trends. The researcher used the data with an aim of presenting the research findings in respect to the adopted strategic responses adopted by Equity Bank of Kenya to changes in the external environment.

4.2 General Information

The analysis on the background information about the interviewees on the bases of their departments, length of time in the organization, respondents' designation

4.2.1 Department of the Respondents:

The respondents were asked to indicate the department they were working in. From the findings, most of the respondents indicated that they were working in finance, accounting, Operation, marketing and Equity departments. Other indicated that they were working in the customer relation and procurement departments. This implies that the respondents were from all the departments in Equity bank and therefore the information on the effects of corporate restructuring on employee's motivation was collected from all the departments.

4.2.2 Respondents' designation

The study sought the respondents' designation in the bank. From the findings, most of the respondents indicated that they were senior bank managers in operation, accounting, logistics, sale and marketing, Equity, finance, and procurement. This implied that information on strategic responses by Equity bank to change in the external environment.

4.2.3 Respondent's length of time in the organization

The respondents were requested to indicate their working experience in years. From the findings, most of the respondents indicated that they had been working in the bank for a period of between 4-5 years; other indicated that they had been working in the bank for a period between 7-10 years, 2-3 years while still other indicated that they had been

CHAPTER FOUR

DATA ANALYSIS AND INTERPRENTATIONS

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data findings were on the strategic responses to the Environment change with the data being collected from senior management in Equity bank.

4.2 General information

The analysis on the background information about the interviewees on the bases of their departments, length of time in the organization, respondents' designation

4.2.1 Department of the Respondents

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4.2.3 Respondent's length of time in the organization

The respondents were requested to indicate their working experience in years. From the findings, most of the respondents indicated that they had been working in the bank for a period of between 4-6 years; other indicated that they had been working in the bank for a period between 7-10 years, 2-3 years while still other indicated that they had been

working for over 10 years in Equity Bank Limited. This implied that respondents had worked in the bank for a period of more than 2 years therefore they had experience on strategies responses adopted by the Equity Bank of Kenya in response to change in the external environment.

4.3 Strategic responses to the Environment change

The respondents of the study were required to indicate the various strategic responses On changes that have taken place in the last ten years in the business environment which have affected Equity Bank Limited, the study found that these changes included opening of more commercial banks such as opening of Jamii Bora bank which was offering more related service to Equity banks,

Other changes that had affected Equity Bank Limited in its operating environment, the interviewees indicated that technological, legal and economic factors affected the Banks operations through Pressure from the regulator to lower interest rates, market pressures on the foreign exchange rates, evolvment of technology driven products and the stringent legal framework through various amendments in the Banking act. To expand on its customer base the branch network was identified as the bank has limited outlets constraining it on mass marketing.

The interviewees indicated that Equity Bank was not able to interface with other core systems to facilitate prolific alternate financial services. They also indicated that stiff competition was also a factor in banking industry in Kenya.

The interviewee indicated that regulatory requirements in the banking sector affected the operations of Equity Bank in Kenya, where the capital requirements of 1 billion by 2012 to enable the bank have better stock gives it the ability to lend more to single, corporate or individual borrower. They also indicated that the compliance costs are very high and increasing against decreasing margins. The interviewees also indicated that the mobile banking was driving banks out of business because of stringent requirements by the CBK for financial institutions. Regulatory requirements were also noted to have the effect on the banks performance as there were limitations on banks venturing in some areas of business as well as limiting lending to some economic sectors however well they could

be performing. The regulatory requirements has also led to higher costs of operations e.g. the introduction of the cheque truncation will require investment in IT infrastructure for compliance, introduction of the Anti Money Laundering Act requires more training to staff to ensure compliance.

4.3.1 Strategic Responses Adopted Towards Increasing Competition

The respondents of the study were required to indicate the various strategic responses adopted by Bank towards increased competition and regulatory requirements in the banking sector in Kenya. The interviewees indicated that the bank recruits the best talent in the banking industry and ensures that there is good corporate governance. They also said that the bank involves in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya. The interviewees also indicated that the bank engaged commitment to train and develop staff on both strategic and operational objectivity. The Bank has also adopted an aggressive marketing campaign to increase its visibility in the market.

4.3.2 Strategic Responses Adopted to the Changes in External Environment

On the strategic responses that the bank has adopted to the challenges posed by the external environment, the interviewees indicated that the bank has considered acquiring a robust IT system to enable provision of technology driven products and more efficient services, the bank has rebranded to increase visibility aggressive marketing through media advertising and promotions are underway, and improved customer service by introduction of service level agreements. The Bank has also undertaken into deepening relationships with the existing customers to retain them and also get more business from them. The interviewees also indicated Bank had also responded by hiring more professionals to ensure compliance and corporate governance where as the shareholders have continuously increased the share capital to enhance the banks business capacity.

The interviewees also indicated that through adoption of IT, the bank improve its innovativeness and develop new financial products and improve financial delivery. The interviewees also indicated that banks IT had allowed banks to expand their activities to the mass market.

4.3.3 Corporate Strategies in Increased Competition and Regulatory Requirements

The study requested the interviewees to indicate how the bank make use of the corporate strategies such as market penetration, product development, market development and diversification as strategies in responding to increased competition and regulatory requirements in the banking sector in Kenya. The interviewees indicated that the bank uses market penetration strategies through promotions by use of radio programs to ask questions and loading participants' accounts with money. The bank also does product development market research and the research department has been established, through diversification, the bank is moving from secured lending to unsecured lending bank.

4.3.4 Effects of Strategic Responses

The study required the interviewees to indicate which responses have led to fruitful results. The interviewees indicated that recruiting the best talent has changed the strategic banking model, refurbishment and restructuring has increased customer confidence and the change in leadership has shown the banks commitment in terms of leadership and management to the customers.

4.3.5 Proactive and Reactive Strategies Used by Equity Bank

On whether the interviewees consider the various response strategies adopted by Equity Bank Limited to be proactive or reactive to the changes in the bank's external environment, the interviewees indicated that the strategies were proactive since the bank had been conservative and was now confident in serving a large market. They also indicated that the bank had a better vision and improved regulatory environment and commitment of the bank to develop and partner with other banks caused by departure from conservative to proactive nature.

4.3.6 Use of Strategic Alignment as a Strategic Response

The interviewees were required to indicate how the bank made use of strategic alignment as a strategic response to increased competition and regulatory requirement in the banking sector in Kenya. The interviewees indicated that there were annual strategic retreats to review the five year strategic plan. The plan is reviewed to make it relevant in

the market. They also indicated that training and development of senior team in charge of strategy and leadership has been made a policy directive.

4.4 Adoption of Competitive Responses

The study required the respondents to briefly outline the adoption of competitive strategic responses in the increased competition and regulatory requirement in the banking sector. The interviewees indicated that the bank's shareholders were committed to increase its capital, the bank was also committed to hire and retaining top notch skilled staff, the bank was also committed to 100% compliance to regulatory requirements and the bank has given customers services and centeredness at a high priority

4.5 Working of the Revenue Generation Strategies

On how revenue generation strategies work for the bank in responding to the competition and regulatory requirements in the banking sector, the respondents indicated that the bank uses diversification to untapped market slice through unsecured lending.

4.6 Strategic Management practices

The study further sought to investigate the strategic management strategies that were adopted by the bank in the changing internal environment in the banking sector in Kenya. The study found that pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya.

Whether Equity bank limited currently possess the necessary capability to adopt aggressive strategies to match the external environmental challenges

4.7 Summary of the Findings

On the factors that affected Equity Bank in its operating environment, technological, legal and economic factors affected the Banks operations through Pressure from the regulator to lower interest rates, market pressures on the foreign exchange rates,

evolution of technology driven products and the stringent legal framework through various amendments in the Banking act. A robust core banking software was of essence as there have been rapid technological developments to enable provision of IT based solutions. They also indicated that products and services where innovation and new product development was hindered by lack of research and development.

From the findings, buyers power which involved customers moving from different banks to established banks where they access supermarket model of having all products under one roof, pricing forces due to many players in the market has resulted to lowering of prices hence margins indicating that benefits could only accrue from mass. It was also found that capital requirements of 1 billion by 2012 would enable the bank have capacity to lend more to single, corporate or individual borrower. Compliance costs were found to be higher and increasing against decreasing margins. It was also indicated that the mobile telecommunications are driving banks out of business because of stringent requirements by the CBK for financial institutions.

The study found that the bank recruits the best talent in the banking industry and ensures that there was good corporate governance. It was also found that the bank was involved in product development such as agents' products, Mkesho and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya. .

On the strategic responses that the bank has adapted to the changes in external environment, the interviewees indicated that the bank has considered acquiring a robust IT system; the bank had developed new and was marketing aggressively through media campaigns. On how the bank make use of the corporate strategies such as market penetration, product development, market development and diversification as strategies in responding to increased competition and regulatory requirements in the banking sector in Kenya, the study found that the bank used market penetration strategies through use of promotions through radio programs and loading participants' accounts with money. The bank also does product development market research and the research department had

been established developing product such as agent banking and Mkesho, through diversification, the bank was moving from secured lending to unsecured lending bank.

The study found that recruiting the best talents had changed the strategic banking model, refurbishment and restructuring had increased customer confidence and the change in leadership has shown the bank commitment in terms of leadership and management to the customers and the strategies were proactive since the bank had been conservative and was now confident in serving a large market.

On how the bank made use of strategic alignment as a strategic response to increased competition and regulatory requirement in the banking sector in Kenya, the interviewees indicated that there were annual strategic retreats to review the five year strategic plan. The plan is reviewed to make it relevant in the market. They also indicated that training and development of senior team in charge of strategy and leadership had been made a policy directive. The bank was also committed to hire and retaining top notch skilled staff, the bank was also committed to 100% compliance to regulatory requirements and the bank has given customers services and centeredness at a high priority.

The study found that the bank uses diversification to untapped market slice through unsecured lending. The study found that pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the bank in the increased competition and regulatory requirement in the banking sector in Kenya. Challenges such as market size served by the bank, conservative nature of the Board, increased competition, and loss of well trained staff of the bank among others are some of the challenges that hinder success in the strategic responses adopted by this bank in increased competition and regulatory requirements in the banking sector in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study to establish the strategic responses adapted by Equity bank to changing environment in the banking sector in Kenya .with respect to changes due to competition, technology, legal and regulatory issues, economic changes and social cultural changes.

5.2 Summary of the Findings

The study found that technological, legal and economic factors affected the Banks operations through pressure from the regulator to lower interest rates, market pressures on the foreign exchange rates, evolvement of technology driven products and the stringent legal framework through various amendments in the Banking act. Products and services where innovation and new product development was hindered by lack of research and development. This was consistent with Hambrick (1983) and Venkatraman and Prescott (1990) who posited that the correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals. The factors of technology, legal and economy have in turn increased competitive pressures and contributed to the turbulent and dynamic environment. According to Johnson and Scholes (2003), dealing with the environment was difficult because of three main factors; the diversity of the different influences that affect a business, the speed of change where the pace of technological change and the speed of global communications mean more and faster changes than ever before and complexity of changes making it impossible to identify all factors in play.

From the findings, buyers power which involved customers moving from different banks to established banks where they access supermarket model of having all products under one roof, pricing forces due to many players in the market has resulted to lowering of prices hence margins indicating that benefits could only accrue from mass. Further, the

mobile telecommunications are driving banks out of business because of stringent requirements by the CBK for financial institutions. The same views were given by Kazmi (2002) who argued that as a result of the buyer characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. Kimani (2000) states that a good opportunity is the one in which the industry is highly attractive and companies have the mix of business strengths to be successful.

It was also found that the bank was involved in product development and research team has been set to counter increased competition and regulatory requirements in the banking sector in Kenya and that the Equity bank engaged in developing new products such as mobile banking and agent banking and committed train and develop staff on both strategic and operational objectivity. To assert the findings of the study, Bowman (1998) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success was dependent on productivity, customer satisfaction and competitor strength.

With regard to strategic responses that the Equity bank had adopted to the changes posed by the external environment, corporate strategies such as market penetration, product development, market development and diversification the study found that the bank has considered acquiring a robust IT system, the bank has rebranded and was marketing aggressively through media campaigns. Kimani (2000) states that a good opportunity is the one in which the industry is highly attractive and companies have the mix of business strengths to be successful. Hofer (1980) noted that, reduction strategies should be deliberately and carefully considered, since they have potentially far-reaching and potentially damaging effects on the organization as it involves sale of a business unit, product line, and or service line therefore should be adopted by firms in response to environmental uncertainty as a strategy of last resort. From a functional standpoint, cost reduction strategies require efficient scale production capabilities, vigorous pursuit of

cost reductions through learning effects, and cost minimization in areas like research and development, service, sales, and advertising Oloo (2009). Njau (2000) noted that firms should undertake substantial adjustments in various strategic response variables in order to ward off competition including manipulation of the marketing mix, cost efficiency, control measures and setting up of foreign market distribution centres.

Consistent with Kiptugen's (2003) study who noted that strategic responses adopted by Equity banks included restructuring, marketing, information technology and cultural change and that the five main environmental changes that impacted on the bank as economic decline, liberalization, legislative changes, increasing levels of education and technological advances, the study found that the bank uses diversification to untapped market slice through unsecured lending and pumping of capital, robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the strategic management strategies were adopted by the Equity Bank in the increased competition and regulatory requirement in the banking sector in Kenya.

Challenges such as market size served by the Equity Bank conservative nature of the Board, increased competition, loss of well trained staff in the bank among others were some of the challenges that hindered success in the strategic responses adopted by Equity Bank in increased competition and regulatory requirements in the banking sector. Kiptugen (2003) also emphasized that economic decline led to increase in the number and volume of the non performing loans (NPLs) consequently lower income, liberalization led to increased competition from new entrants like the Jamii Bora Bank and Microfinance Deposit taking institutions, legislative changes led to reduced margins, increased levels of education resulted to a more informed and demanding clientele while technological advancement meant new banking concepts for the Equity Bank.

5.3 Conclusions

The study concluded that because the Equity Bank had limited outlets, it was constrained ever-changing technology advancement IT systems where the Equity Bank was not able to interface with other core systems to facilitate prolific alternate services were the factors that affected Equity Bank in its operating environment. The study also concludes

that stiff competition, economic changes and stringent regulatory requirements from the Central Bank of Kenya on financial institutions changes were also factor in banking industry in Kenya. Customers also have access to various alternatives for their needs and would choose the most convenient with the least price. The stiff competition has led to lowering of prices and consequently the profit margins implying that for better results mass market may be the alternative. Increase in capital requirements is also noted to enhance the bank's lending capacity where as invasion of the mobile telecommunication firms have put banks at a disadvantage due to the.

The study recommends that comprehensive research and development should be done in These included Equity Bank adopted visionary leadership as the main strategic response to changing in the external changes of successful business, good corporate culture and institutionalizing of competitive strategies. Institutionalizing of competitive strategies, allocation of adequate resources, visionary leadership and good corporate culture, amongst others are necessary ingredients for successful business strategies in response to environmental challenges. To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide.

The study established that recruiting the best talent had changed the strategic banking model, refurbishment and restructuring has increased customer confidence with the change in leadership in response to changing environmental environment. Annual strategic retreats to review the five year strategic plan to make it relevant in the market and training and development of senior team in charge of strategy and leadership as a policy directive has also been put in place. Shareholders commitment to increase capital, commitment to hire and retaining top notch skilled staff , full compliance to regulatory requirements and the bank giving superior customers service are additional strategies adopted by the Bank..

The researcher also encounter problems in allowing information from the respondents as The study concludes that the banks should uses diversification to untapped market slice through unsecured lending, pump of capital, adopt robust IT systems, hunting for high talent and review of the company's vision, mission and critical success factors as the

strategic management strategies were adopted by the bank due to increased competition and regulatory requirement in the banking sector in Kenya. Challenges such as market size served by the bank, increased competition, loss of well trained staff of the bank among others were some of the challenges that hinder success in the strategic responses adopted by Equity Bank in increased competition and regulatory requirements in the banking sector in Kenya.

5.4 Recommendations

The study recommends that comprehensive research and development should be done in all institutions, strategic allowance and partnerships, mergers and acquisitions to provide competitive edge and free sharing of information on fraudulent customers and creating an internal shared database. It is also suggested that banks should implement a system to enable blacklisting of default transactions.

5.5 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. This included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all the departments in the bank which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the bank. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encounter problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the

information they had as the research instruments did not bear their names. Lack of sufficient funds limited the researcher from accessing all the banking sector institutions in Kenya to collect data for study. The researcher however limited himself to the Equity Bank due to inadequacy of funds.

5.6 Implication on policy and practice

The findings from the research may impact on the policies and practice of the bank as it has given insight on the various responses and their impact on the bank's operations. Policy makers would recognize the need for increasing the branch network for the bank to have a wider coverage. This would mean opening new branches or adopting the agency banking model as proposed by the Central Bank of Kenya. There would be need to allocate more expense budget on advertising and business, staff training and capital expenditure on a robust core banking software.

The research findings would also impact on the regulators – the Central Bank of Kenya as they would have to strike a balance between the regulatory requirements and the compliance costs incurred by the banks. They would need to provide a conducive business environment but also carry out their regulatory mandate to prevent banks from taking excessive exposure in the name of business. The regulators may also realize the need of setting minimum standards on the core banking system to enable compatibility of various banks systems' and also provide a common platform for common bank operations. Regulators would also be encouraged to pursue their objectives to have banks corroborate on various platforms like the Credit Reference Bureaus to share information on defaulters. The regulators would also continue pursuing the agenda on agency banking which would reduce the Banks costs of doing business by having minimal set up costs for outlets.

5.7 Area for Further Research.

The study had explored the strategic responses adapted by Equity bank to changing environment in the banking sector in Kenya with emphasis on economic, political, social cultural, technology advancement and competition and regulatory environments and established that strategic alignment to environment, competitive pressure and compliance

to regulatory environments are the main aspects of strategic responses to changing environment in the banking sector in Kenya with a bias on Equity Bank. The banking industry in Kenya however is comprised of various other commercial banks which differ in their way of management and have different settings. This indicate that the need for another study which would ensure generalization of the study findings for all the commercial banks in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the impact of the strategic responses adapted by commercial banks to changing environment in the banking sector in Kenya.

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APPENDIX 1: Letter of Introduction
AUGUST 2011

Dear Respondent,

RE: REQUEST FOR RESEARCH DATA

I am an mba student at university of Nairobi pursuing a course leading to a Masters in Business administration award (MBA). In a partial fulfillment of the requirements of the stated course, I am conducting a Management Research Project on "STRATEGIC RESPONSES BY EQUITY BANK LIMITED TO CHANGES IN THE EXTERNAL ENVIROMENT".

Equity bank is the organization I am researching on based on its resounding success in the banking industry, rapid growth and rising profit margins.

This is to kindly request you to take time an answer the questions herein. The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be accorded confidentiality.

Your assistance and cooperation will be highly appreciated.

Yours truly

Gichuki Eva Wairuri

Student

University of Nairobi

Dr. Gakuru Wahome

Supervisor

University of Nairobi

APPENDIX 2: Interview GUIDE

SECTION A: Respondents Profile

Appendix II: Interview Guide

Kindly answer the following questions by filling the spaces provided.

Part A: General information

1. Name of department.
2. What is your designation in the department?
3. What is your length of time in the organization?

PART B: SPECIFIC INFORMATION

4. Please describe the changes in the business environment affecting Equity Bank Limited.
5. Have there been any changes in regulation policies that have affected your operations? Briefly outline.
6. What are the political changes that affect the operations of the bank?
7. Kindly indicate whether there has been any change in technology has influence strategic response at Equity bank?
8. Explain whether strategic responses adopted by Equity bank are competitively adequate to respond to environmental change, kindly explain?
9. To respond the above technological changes, what strategies have been adopted at Equity bank to achieve its objectives?
10. Has there been any improvement in performance owing to this technology adoption? Briefly outline
11. How does a social cultural change influence operation at Equity Bank? Briefly explain
12. What are the strategic responses that Equity Bank adopted in response to challenges posed by the external environment?

13. What areas does Equity bank Limited need to improve to provide financial service competitively despite environmental changes in the Kenyan banking industry?

14. Does Equity bank Limited currently possess the necessary capability to adopt aggressive strategies to match the external environmental challenges? Give reasons,

THANK YOU!!