# INDUSTRY-RELATED FACTORS AS DETERMINANTS OF COMPETITIVE STRATEGY AT EQUITY HANK LIMITED

BY

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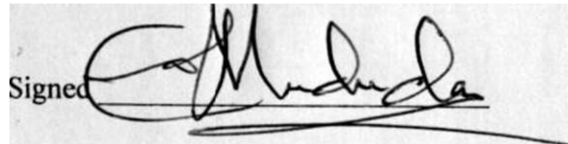
# DECLARATION

**This research Project is my original work and has not been submitted for a degree course in any other university.**

**Signed** •_____________**H ^ m I ^ * 0**

Godfrey Muigai Kinyua

**This research project has been submitted for examination with my approval as the university supervisor.**

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# DEDICATION

This research study is dedicated to my dear wife Ruth, our sons Eddy & Lee for their love, understanding and support during the many long hours when I had to juggle between work, family and study, my brothers and sisters for cheering me on and my dear parents for sowing in me the seed of hard work and giving me the critical foundation in education.

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# ABSTRACT

This study sought to establish how industry related factors have contributed to the development of competitive strategy at Equity Bank Limited. The study adopted a case study research design so as to provide for in-depth and comprehensive inquiry of the phenomenon. Primary data was collected using an interview guide which facilitated personal interviews with the target respondents. Eleven top level managers who are primarily concerned with strategy formulation at Equity Bank were targeted for data collection. However, only 9 respondents were able to participate in the study. The data collected was analyzed through content analyzes.

The results of the study are presented in form of narration. These results show that there is high competition for market share in the banking industries. This is best manifested by the moves being initiated by the leading commercial banks to expand their branch networks and the fight for the unbanked population. The results of the study strongly indicate that Equity Bank uses the Porter's five forces in the formulation of its competitive strategy.

The conclusion of the study is that for Equity Bank to achieve a superior market place position that captures the achievement of lower relative costs, which results in market place dominance and superior financial performance, the Porter's five competitive forces plays a major role in the formulation of its competitive strategy. Understanding the fundamental role of the competitive forces in determining a firm's performance has informed the development of the Bank's business model that has attracted both local and international recognition and is credited for taking banking services to the people through its accessible, affordable and flexible service provision.

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# ABBREVIATIONS

| | |
|---|---|
| **EBL** | **Equity Bank Limited** |
| **EBS** | **Equity Building Society** |
| **ESOP** | **Employee Share Ownership Plan** |
| **Ltd** | **Limited** |
| **R&D** | **Research and Development** |
| **SME** | **Small Medium Enterprise** |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The essence of strategy formulation is coping with competition. Yet it is easy to view competition too narrowly and too pessimistically. While one sometimes hears executives complaining to the contrary, intense competition in an industry is neither coincidence nor bad luck. Moreover, the fight for market share is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry (Pierce and Robinson, 1991).

According to Ansoff and McDonell (1990), organizations are environment dependent and environment serving. They take an assortment of inputs from the environment, transform the inputs to finished products and services, and deliver their outputs back to the environment. Therefore changes in the environment shape opportunities and challenges facing firms in an industry. According to Grant (2000), survival and success occurs when an organization creates a match between the strategy and the environment, and also between its internal capability and the strategy. If an organization's strategy is not matched to its environment, a strategy gap arises. Much of an organization's competitiveness is dependent on its ability to formulate strategies that match both its environment and internal capability. Porter (1980) argues that the essence of formulating competitive strategy is relating a company to its environment.

Organizations are in stiff competition with each other and more so when they are selling similar products and services, and to the same group of customers. It becomes even stifTer if the style of business is almost rigid, thereby giving the players a little chance to diversify and play differently. Company's competitiveness depends on the nature of the industry that the company is doing their businesses. Porter (1998) sees competition as the core to firm's success or failure and highlights the importance of having a competitive strategy to successfully position against the forces. According to Porter (1980), industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Thus, understanding the contribution of Porter's five competitive forces in the formulation of an appropriate competitive strategy is important to every organization. Machuki (2005) observes that organizations, whether for profit or non-profit, private or public have found it necessary in recent years to engage in strategic management process in order to achieve their corporate goals. He further contends that environments in which they operate have become not only increasingly uncertain but also more tightly interconnected.

### 1.1.1 Industry-Related Factors

In this study, industry related factors that contribute to the development of competitive strategy are examined on the basis of Porter's five forces model. Porter (1998) asserts that the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economic structures and goes well beyond the behaviour of current competitors. Porter (1980) contends that there are five forces that shape competition within an industry. He further notes that the collective strength of these forces

determines the ultimate profit potential in the industry, where profit potential is

measured in terms of long-run return on invested capital. The five forces include: threat of entrants, threat of substitute, bargaining power of suppliers, bargaining power of buyers and degree of rivalry in the industry.

Porter (1980) argues that new entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be bid down or incumbents' costs inflated as a result, reducing profitability. Porter further proposes six major sources of barriers to entry which include: economies of scale, product differentiation, capital requirement, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policy. Peng (2009) notes that new entrants arc motivated to enter an industry because of the lucrative above-average returns some incumbents earn. He further argues that incumbents' primary weapons are entry barriers, which refer to industry structures increasing the costs of entry.

Substitution reduces demand for a particular 'class' of products as customers switch to the alternatives-even to the extent that this class of products or services becomes obsolete. This depends on whether a substitute provides a higher perceived benefit or value (Johnson & Scholes, 2002). Substitute limit the potential returns of an industry by placing a ceiling on the prices firms in an industry can profitably charge. The more attractive the price-performance alternative offered by substitutes, the firmer the lid on industry profit (Porter, 1980). Thompson and Strickland (2003) proposes three factors that determine the substitute's strong competitive pressures for their competitors such as whether attractively priced substitutes are available, whether

buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes, and whether buyers can switch to substitutes easily.

Peng (2009) notes that suppliers arc organizations that provides inputs, such as materials, services, and manpower, to firms in the focal industry. The bargaining power of suppliers refers to their ability to raise prices and/or reduce the quality of goods and services. He further indicate that suppliers bargaining power will be more if: supplier industry is dominated by a few firms, suppliers provide unique (differentiated) product with few or no substitutes, focal firm is not an important customer, and suppliers are willing and able to enter the focal industry by forward integration. According to Bateman and Zeithaml (1990), an organization has a disadvantage if it is too dependent on powerful suppliers. A supplier is powerful if the buyer has few other sources of supply or if the supplier has many other buyers. It also is powerful if it has built up switching costs. Walker (2004) cortends that supplier power sets the baseline for the costs of firms in an industry in producing value for their customers. When these input costs are above the price a firm's customers require for a purchase, that firm goes out of business. A similar situation occurs when suppliers hold their costs constant as the firm's buyers demand lower prices.

Pearce & Robinson (1997) asserts that customers can force down prices, demand higher quality or more service, and play competitors off against each other-all at the expense of industry profits. According to Porter (1980), a buyer group is powerful if: it is concentrated or purchase large volumes relative to seller sales, buyer's purchases from the industry represent a significant fraction of buyer's costs or purchases, products purchased are standard or undifferentiated, switching costs are few, buyers

earn low profit, buyers are willing and able to integrate backward, buyer has full information, and the industry's product is unimportant to the quality of the buyers' product or services.

Rivalry among existing competitors takes the familiar form of jockeying for position-using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. Intense rivalry is the result of a number of interacting structural factors as follows: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, diverse competitors, high strategic stakes, and high exit barriers (Porter, 1980). According to Thompson and Strickland (2003), rivalry between the existing competitors is the strongest force among the Porter's five forces that creates competition among the companies in an industry. Price competition, product introduction and advertising slugfests are some of the tactics companies can use to counter the rivalry among the existing competitors.

### 1.1.2 Competitive Strategy

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter,

1985). Thompson and Strickland (1989) argue that competitive strategy is composed of all the specific moves and approaches a firm has taken and is taking to compete successfully in a given industry. In plainer terms, a firms competitive strategy concerns how management is trying to knock the socks off rival companies and otherwise cope with the five competitive forces. It can be mostly offensive or mostly defensive, shifting from one to the other as seems appropriate.

Ansoff and McDoncll (1990) see competitive strategy as a distinct approach, which a firm uses or intends to use to succeed in the market. Porter (1998) argues that an effective competitive strategy takes offensive or defensive action in order to create a dcfendable position against the five competitive forces and thereby yield a superior return on investment. Broadly, this involves a number of possible approaches as follows: positioning, influencing the balance, exploiting change and diversification strategy.

Competitive advantage can be conceptualized as a superior "marketplace position" that captures the provision of superior customer value and/or the achievement of lower relative costs, which results in market share dominance and superior financial performance (Hunt and Morgan, 1995; Day and Wensley, 1988). Competitive advantage is about attractir.g and retaining customers. It is the result of a strategy capable of helping a firm to maintain and sustain a favorable market position. This position is the basis for the organization to achieve higher profits compared to those obtained by its competitors in the industry. According to Barley (1997), a firm has competitive advantage when it is implementing a value-creating strategy not implemented by numerous other firms in that market or industry and firms that are

earning normal economic profits arc usually in a state of competitive parity, and firms earning below-normal performance face a competitive disadvantage.

Thompson and Strickland (1989) argue that any business strategy, to be capable of sustained success, must be grounded in competitive advantage. Competitive advantage is gained when a company moves into a position where it has an edge in coping with competitive forces and in attracting buyers. Kotler (1997) noted that competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match. The fundamental basis of above-average performance in the long run is sustainable competitive advantage (Porter, 1998). Companies strive to build sustainable competitive advantages. Those that succeed, deliver high customer value and satisfaction which leads to a high repeat purchases and therefore high company profitability.

### 1.1.3 Equity Bank Limited

Equity Bank is registered under the Companies Act cap 486 and licenced under the Banking Act Cap 488 laws of Kenya. The Bank commenced business on registration on 10°' October 1984 as Equity Building Society (EBS). Its establishment was driven by the desire to create a financial service provider which would be able to identify with the needs of the majority of the Kenyan population who were low income earners. The initial focus of Equity Building Society was to offer mortgage services. However, in the early 1990's EBS changed its business focus to micro finance services providing a wide range of products and services. The growth in business volume and desire to reach more people necessitated the translation of EBS to a commercial bank in December 31, 2004, becoming Equity Bank Limited (EBL). Over

the years EBL has grown to become a dominant bank in Kenya for Low to medium income earners and small medium enterprises (SME).

Equity Bank Limited is a public company listed on the Nairobi Stock Exchange. Its main shareholders arc Britak Investment Company Limited, Africap (a consortium of international development investors, principally International Finance Corporation - a private arm of the World Bank and European Investment Bank) and Equity Bank employees through the Employee Share Ownership Plan (ESOP). The Bank is engaged in providing personal, business and corporate banking services and products. Its portfolio includes current accounts, online banking, cashback services, treasury solutions, as well as business and development loans, among others. It operates seven wholly owned subsidiary companies: Equity Bank Uganda Ltd, Equity Consulting Group Ltd, Equity Investment Services Ltd, Equity Nominees Ltd, Finserve Africa Ltd, Equity Bank Southern Sudan Ltd and Equity Insurance Agency Ltd. Currently, the bank has over 4.1 million accounts, accounting for over 52% of all bank accounts in Kenya. Equity Bank is the largest bank in the region in terms of customer base. The solidness of Equity Bank is underpinned by its shareholder's funds base of over Kshs 19 billion, making Equity Bank one of the most capitalized banks in the region.

Equity's vision is to champion the socioeconomic prosperity of the continent of Africa. To realize this vision, the Bank has focused on providing inclusive financial services to all consumers regardless of their race, gender, ethnic group, religious conviction or locality. Through its work, the Bank has transformed the lives of a large number of customers who had previously been excluded from the formal economic sector - given them hope, dignity and economic empowerment. The Bank's business

model has attracted both local and international recognition and is credited for taking banking services to the people through its accessible, affordable and flexible service provision

On 23rd April 2010, liquify Bank Group announced a 43 per cent per cent increase in profits before tax for its first quarter in the currcnt financial year, posting a Kshs 1.7 billion profit compared to Kshs 1.2 Billion for the same period in 2009. Equally the period under review saw the after tax profit grow by 36 percent from Kshs 918 million to reach Kshs 1.2 Billion. The total assets of the bank grew by 33 per cent to Kshs 111 billion, up from Kshs 83 billion in March 2009. This was mainly attributable to a 37 percent net increase on loans and advances to its customers. During the period under review, the bank disbursed a total of Kshs 68.6 Billion compared to Kshs 49.4 Billion for the same period last year. The group's impressive first quarter results were attributable to management of risks across the board, improving macroeconomic environment and improved management efficiencies.

## 1.2 Statement of the Research Problem

Although the literature on the fundamental role of industry attractiveness in determining a firm's profitability has grown in significance over the last decade, there is no evidence of prior research to determine the contribution of Porter's five forces to the development of competitive strategy in organizations, especially those operating in Kenya. Porter (1980) contends that all five competitive forces jointly determine the intensity of industry competition and profitability, and the strongest force or forces are governing and become crucial from the point of view of strategy formulation. Different forces take on prominence, of course, in shaping competition in each

industry- In the ocean-going tanker industry the key force is probably the buyers. In the steel industry the key forces arc foreign competitors and substitute materials.

In a study of strategic focus and competitive strategy by Cousins (2005), it was found that firms defining their competitive strategy as being cost-focused generally considered supply as playing merely a cost-reduction role, i.e. passive and supportive, whereas firms viewing their competitive strategy as being differentiated considered supply as strategic, i.e. as a distinctive capability. The variables were measured in terms of business development, market share, relationship development; cost focus, differentiation and collaboration. Ma (2000) makes three observations regarding competitive advantage and conceptually explores the various patterns of relationship between competitive strategy and firm performance, namely: competitive advantage docs not equate to superior performance; competitive advantage is a relational term; and that competitive advantage is context-specific. In addition, Ma (2000) further examines three patterns of relationship between competitive strategy and firm performance, namely: competitive strategy leading to superior performance; competitive strategy without superior performance; and superior performance without competitive strategy.

Mogeni (2008) conducted a study on responses to competition by Kisii Bottlers Ltd and found out that among other competitive strategies, the firm applies grand strategies of differentiation, focus and cost leadership. He recommended a further research into the nature of competition posed by Alvaro of East Africa Breweries Ltd on Kisii Bottler's market share. Muchiri (2008) carried out a study on the application of Porter's five forces model in assessing the attractiveness of the mailing industry in

Kenya and established that the attractiveness of the mailing industry in Kenya is shaped by the five basic competitive forces as per the Porter's framework. Kibe (2008) investigated strategy implementation at Equity Bank Limited and concluded that implementation of major strategies was done in four phases one of which was market and client focus. One of his recommendations was that further research focusing on other aspects of strategic management process at Equity Bank Limited be undertaken.

Formulation of competitive strategy is inextricably related to organizational performance, success and survival in any industry. Otiso (2008) notes that organizations operate in environments that pose a lot of challenges, for them to remain competitive, they must be sensitive. The sensitivity involves formulating and implementing new strategies. Porter (1998) is of the view that competitive strategy must grow out of sophisticated understanding of the rules of competition that determines an industry's attractiveness. On the basis of extensive literature review and in view of increasing competition in the banking industry, this study sought to establish how the Porter's five competitive forces have influenced the development of Equity Bank Limited competitive strategy.

## 1.3 Objective of the Study

The objective of this research was to determine how industry related factors have contributed to the development of Equity Bank's competitive strategy.

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## 1.4 Significance of the Study

The findings from this study will be useful to the top management of Equity Bank as they will acquire the knowledge base with respect to identifying the most dominant competitive force/forces affecting the Bank's competitive strategy. Therefore, the dominant force/forces identified will then be used in the development of the Bank's competitive strategies. Indeed, this will help the Bank to achieve a superior marketplace position and results in market share dominance and superior financial performance.

Policy makers in other banks and organizations will equally benefit from the findings of this research study. The results of the study will furnish them with critical knowledge on the role and contribution of Porter's five forces to a firm's competitive strategy. This knowledge if well harnessed would result in above average performance of a firm in an industry.

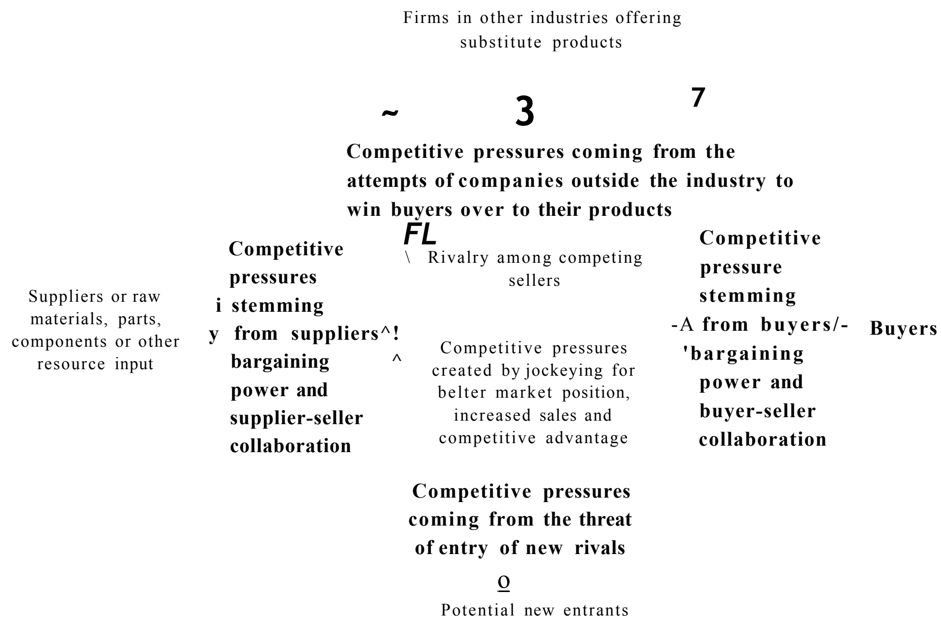
Lastly, scholars will also find the results of this study useful. On one hand, the findings of the study will add to the existing body of knowledge in the field of competitive strategy. Further, the study will also act as a springing board for future research in competitive strategy and other related areas.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Porters Five Forces

Iliomson, Strickland & Gamble (2007) pointed out that the character, mix, and subtleties of the competitive forces operating in a company's industry are never the same from one industry to another. Far and away the most powerful and widely used tool for systematically diagnosing the principal competitive pressure in a market and assessing the strength and importance of each is the Porter's five forces model of competition. This model is shown in figure 2.1 below.

**Fig. 2.1: The Five-Forces Model of Competition: A Key Analytical Tool**




Source: Adapted from Michael E. Porter, "How Competitive Forces Shape Strategy, Harvard Business Review 57, no.2 (March-April 1979), pp. 137-145.

Pearce and Robinson built upon Porter's theory and postulated that designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition which involves defining the industry boundaries and structure, competitive analysis and operating environment (Pearce & Robinson, 1997). Cole (1996) argued that Porter's five forces can be utilised by firms in their formulation of strategy, and especially in their assessment of their strengths and weaknesses. According to Porter (1998), the first fundamental determinant of industry attractiveness is profitability. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness.

Gregory, Lumpkin and Taylor (2005) noted that the five forces influence the creation of competitive advantage in different ways. Power of buyer and threat of substitution influence the priccs that firms can chargc, power of buyer can also determine cost and investment. The bargaining power of suppliers determines the cost of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry place a limit on prices and shapes the investment required to deter entrants.

### 2.1.1 Threat of New Entrants

Identifying new entrants is important because they can threaten the market share of existing competitors (Mitt. Ireland and l loskisson, 2009). Thompson and Strickland (1989) argued that new entrants to a market bring new production capacity, the desire to establish a secure place in the market, and sometimes substantial resources with which to compete. They further pointed out that the competitive threat of entry into a

particular market depends on two classes of factors: barriers to entry and the expected reaction of firms to new entry. A barrier to entry exists whenever it is hard for a newcomer to break into the market and if the economies of the business put a potential entrant at a price / cost disadvantage relative to competitors. Even if a potential entrant is willing to tackle the problems of entry barriers, it may be dissuaded by its expectations about how existing firms will react to new entry. Pearce (11) and Robinson (Jr) (1991) proposed six major sources of barriers to entry as follow: economies of scale, product differentiation, capital requirements, cost disadvantages independent of size, access to distribution channels, and government policy.

According to Porter (1980), some forms of competition, notably price competition, are highly unstable and quite likely to leave the entire industry worse ofT from the standpoint of profitability. Price cuts are quickly and easily matched by rivals, and once matched they lower revenues for all firms unless industry price elasticity of demand is high. Porter further added that advertising battles may well expand demand or enhance the level of product differentiation in the industry for the benefit of all firms.

Thomson, Strickland & Gamble (2007) were of the view that entry threats are stronger when the pool of entry candidates is large and some of the candidates have resources that make them formidable market contenders, entry barriers are low or can be readily hurdled by the likely entry candidates, when existing industry members are looking to expand their market reach by entering segments or geographic areas where they currently do not have a presence, newcomers can expect to earn attractive profits,

buyer demand is growing rapidly, and industry members are unable / or unwilling to strongly contest the entry of newcomers. They proposed the following typical "weapons" for battling rivals and attracting buyers: lower prices, more or different features, better product performance, higher quality, stronger brand image and appeal, wider selection of models and styles, bigger / better dealer network, low interest-rate financing, high levels of advertising, stronger product innovation capabilities, better customer service capabilities, and stronger capabilities to provide buyers with customer-made products.

Johnson and Scholes (1999) indicate that barriers to entry differ by industry and by product / market, so it is impossible to generalise about which are more important than others. Kotler (2003) argues that the most attractive segment is one in which entry barriers arc high and exit barriers are low. Few firms can enter the industry, and poor-performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and the returns are stable and low. The worst case is when entry barriers are low and exit barriers are high: here firms enter during good times but find it hard to leave during bad times. The result is chronic overcapacity and depressed earnings for all.

### 2.1.2 Intensity of Rivalry among Existing Competitors

Competitive rivalry is the ongoing set of competitive actions and competitive responses that occur among firms as they maneuver for advantageous market position. Especially in highly competitive industries, firms constantly jockey for advantage as

they launch strategic actions and respond or react to rivals' moves (Hitt, Ireland and Hoskisson, 2009). Intense rivalry' can result in price competitions, advertising battles, new products and increased customer services or warranties. Rivalry can be initiated by an increase in a firm's market share relative to others due to the firm's aggression in its attempt to tap opportunities or improve its product positioning.

The strongest of the competitive forces is nearly always the market maneuvering and jockeying for buyer patronage that goes on among rival sellers of a product or a service. In efTcct a market is a battlefield where there's no end to jockeying for buyer patronage (Thomson, Strickland & Gamble, 2007). Kotlcr (2003) points out that a segment with numerous, strong, or aggressive competitors is unattractive. The segment is even more unattractive if it is unstable or declining, if plant capacity additions arc done in large increments, if fixed costs are high, if exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions, and will make it expensive to compete.

Porter (1980) indicates that rivalry among existing competitors takes the familiar form of jockeying for positions- using tactics like price competition, advertising battles, product introduction, and increased customer service or warranties. Intense rivalry is the result of a number of interacting structural factors as follows: numerous or equally balanced competitors, slow industry growth, high fixed or storage costs, lack of differentiation or switching costs, capacity augmented in large increments, diverse

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competitors, high strategic stakes, and high exit barriers. He further argued that in most industries, competitive moves by one firm have noticeable effects on its

competitors and thus may incite retaliation or efforts to counter the move; that is, firms are mutually dependent.

### 2.1.3 Bargaining Power of Buyers

Buyers can influence the pricing decisions that are made by a firm/industry. They can increase the demand for higher quality commodities thereby playing competitors against each other. The more the purchased products arc standardized the stronger the bargaining power of buyers because of the wide choice of similar products that each consumer has to choose from. It is also important to note that buyers are normally less price sensitive when the quality of the products that they sell is dependent on the quality of the products that they buy.

The relationship between buyers and sellers can have the effect of constraining the strategic freedom of an organization and in influencing the margins of that organization (Johnson & Scholes, 2002). They argued some conditions that are likely to enhance buyers' power, these include: concentration of buyer, particularly if the volume purchases of the buyer are high; the supplying industry comprises a large number of small operators; there are alternative sources of supply, perhaps because the product required is undifferentiated between suppliers or , as for the public sector operations, when the deregulation of markets spawn new competitors; the component or material cost is a high percentage of total cost, since buyers will be likely to 'shop around' to get the best price and therefore 'squeeze' suppliers; the cost of switching a supplier is low or involves little risk-for example, if there are no long-term contracts or supplier approval requirements; and there is a threat of backward integration by the

buyer (e.g. by acquiring a supplier) if satisfactory prices or quality from suppliers cannot be obtained.

Kotler (2003) proposes that for sellers to protect themselves, they might select buyers who have the least power to negotiate or switch suppliers. He further argues that a better defense consists of developing superior offers that strong buyers cannot refuse. Porter (1980) suggested that a company can improve its strategic posture by finding buyers who possess the least power to influence it adversely-in other words, buyer selection. Rarely do buyer groups a company sells to enjoy power. Even if a company sells to a single industry, segments usually exist within that industry which exercise less power (and that are therefore less price sensitive) than others.

### 2.1.4 Bargaining Power of Suppliers

According to Kotler (1991), suppliers are business firms and individuals who provide resources needed by the company and its competitors to produce goods and services. Developments in the "suppliers" environment can have a substantial effect on the company's marketing operations. He further pointed out that a segment is unattractive if the company's suppliers-raw materials and equipment suppliers, public utilities, banks, trade unions, and the like-are able to raise prices or reduce quality or quantity of ordered goods and services. Suppliers tend to be powerful when they are concentrated or organized, when there are few substitutes, when the supplied product is important input, when the switching costs are high, and when the suppliers can integrate forward.

If an industry's products have high price elasticity, then the bargaining power of suppliers of its resources may increase because they can threaten an industry with an increase in price or a decrease in the quality of the raw materials being supplied. This is normally the case when the suppliers are well organized or when the companies in an industry arc not major buyers of those resources that are necessary to them.

I lilt, Ireland and Hoskisson (2009) pointed out that if a firm is unable to recover cost increases by its suppliers through its own pricing structures, its profitability is reduced by suppliers' actions. Analoui and Karami, (2003) argued that firms can reduce the bargaining power of suppliers by vertical integration, or long term supply arrangements. Kotler (1991) noted that many companies prefer to buy from multiple sources to avoid depending on a single supplier who might raise prices or limit supply.

### 2.1.5 Threat of Substitutes

Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces. Product substitute present a strong threat to a firm when customers face few, if any, switching costs and when the substitute product's price is lower or its quality and performance capabilities are equal to or greater than those of competing product (Mitt, Ireland and Hoskisson, 2009). Substitutes can satisfy the same need as another product and hence pose a threat to the existing producers and providers of the services (Analoui and Karami, 2003).

Porter argued that a substitute product could perform the same function as the firm's product. These substitutes can reduce the returns of the rival firm. The competitive position of a firm's product vis a vis its substitutes depend on an industry's collective action. For example, increased advertising done by one member firm may not be enough to bolster the firm's competitive position against a substitute that is produced by a new entrant, but heavily sustained advertising done by all members of an industry may well improve the firm's position.

The existence of substitutes enables buyers to make a comparison of products in terms of prices and quality, and generally benefit from the presence of substitutes in the market. Therefore, existing substitutes limit the firms' market power. In other words, if the customers are not happy with a particular product or service, they can switch to alternatives and consequently the sellers lose their captured customers (Analoui and Karami, 2003). Differentiating a product along dimensions that customers value (such as price, quality, service after the sale, and location) reduces a substitute's attractiveness (Hitt, Ireland and Hoskisson, 2009)

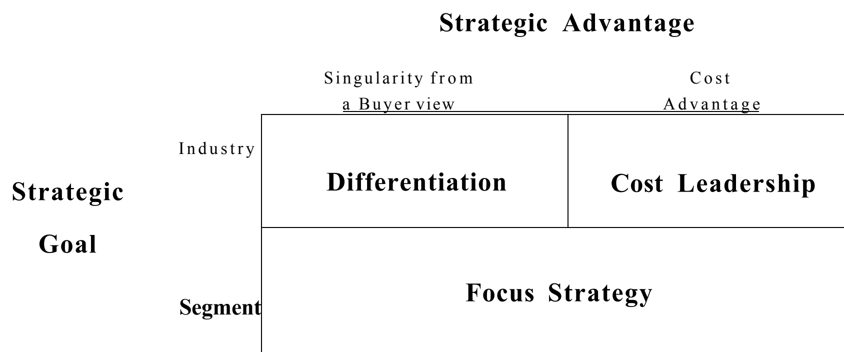
## 2.2 Generic Competitive Strategies

Michael Porter is one of the most cited authors in strategy-oriented, leading academic journals in the field. Porter's theory of generic competitive strategies is unquestionably among the most substantial and influential contributions that have been made to the study of strategic behaviour in organizations. Kotler (1991) noted that a company rarely is alone in selling to a given customer market. The company vies with a host of competitors. These competitors have to be identified, monitored, and outmaneuvered to capture and maintain customer loyalty.

Porter (1980) argues that every firm competing in an industry has a competitive strategy, whether explicit and that the essence of formulating competitive strategy is relating a company to its environment. Walker (2003) contends that the central means of protecting a superior position are the prevention of imitation and the creation of higher customer switching costs. The factors that reduce imitation and increase switching costs arc called isolating mechanisms. I le further proposes that to defend its market position, the firm aligns these mechanisms with its value and cost drivers, and with its resources and capabilities that produce these drivers. Without these mechanisms, competitive forces would quickly eat up the firm's profit.

Porter (1998) argues that given the pivotal role of competitive advantage in superior performance, the centrepiece of a firm's strategic plan should be its generic strategies. Porter (1980) proposes three the following three generic strategies: Overall cost leadership, differentiation, and focus. These generic strategies are approaches to outperforming competitors in the industry; in some industries structure will mean that all firms can earn high returns, whereas in others, success with one of the generic strategies may be necessary just to obtain acceptable returns in an absolute sense. Figure 2.2 shows the three Porter's generic strategies

**Fig. 2.2: Porter's Generic Strategies**




Source: Porter (1980), p.75.

### 2.2.1 Differentiation Strategy

Porter (1998) contends that in a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that arc widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors. Porter (1980) contends that differentiation provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins which avoids the need for a low-cost position. The resulting customer loyalty and the need for competitor to overcome uniqueness provide entry barriers. Porter further pointed out that differentiation yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are thereby less price sensitive.

However, it must be noted at this stage that while differentiation basically creates a difference in service or product, not all the surrounding difference may be worthwhile (Kotler, 2000). Kotler (2003) argues that under differentiation strategy a business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. Thus the firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality. According to Morris and Willey (1996), firms adopting a generic strategy of differentiation seek to be unique within their industries along some line which is widely valued by buyers. They further noted that, a company which adopts a differentiation strategy is

rewarded for its uniqueness by being able to charge a high price for its goods or services.

Porter (1980) proposes the following approaches to differentiation: design or brand image, technology, feature, customer service, dealer network, or other dimensions. Ideally, the firm differentiates itself along several dimensions. Finally, the firm that has differentiated itself to achieve customer loyalty should be better positioned vis-a-vis substitutes than its competitors. It should be stressed that the differentiation strategy does not allow the firm to ignore costs, but rather they are not the primary target. Porter further argues that if achieved, differentiation is a viable strategy for earning above- average returns in an industry because it creates a defensible position for coping with the five competitive forces, albeit in a different way than cost leadership.

### 2.2.2 Focus Strategy

According to Porter (1980), the focus strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. Porter (1998) argue that by optimising its strategy for the target segment, the focuser seeks to achieve a competitive advantage in its target segment even though it does not possess a competitive advantage overall. Kotler (2003) contends the firm gets to know these segments intimately and pursues either cost leadership or differentiation within the target segment.

The essence of focus is the exploitation of a narrow target's differences from the balance of the industry. If a focuser's target segment is not different from other segments, then the focus strategy will not succeed. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. The focuser can achieve competitive advantage by dedicating itself to segments exclusively (Porter, 1998).

The firm achieving focus may potentially earn above-average returns for its industry. Its focus means that the firm either has a low cost position with its strategic target, high differentiation, or both. These positions provide defences against each competitive force. Focus may also be used to select targets least vulnerable to substitutes or where competitors are weakest (Porter 1980).

### 2.2.3 Overall Cost Leadership

Kotler (2003) contends that under cost leadership, the business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and win a large market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution. They need less skill in marketing. The problem with this strategy is that other firms will usually compete with still lower costs and hurt the firm that rested its whole future on cost.

Generally, larger firms with greater access to resources are more likely to take advantage of cost-based strategies whereas smaller firms are often forced to compete with highly differentiated products and services in a niche market. Porter (1998) noted that the sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials etc. Porter (1980) indicates that cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reduction from experience, light cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R & D, service, sales force, advertising, and so on. Low cost relative to competitors becomes the theme running through the entire strategy, though quality, service, and other areas cannot be ignored.

Having a low-cost position yields the firm above-average returns in its industry despite the presence of strong competitive forces. Its cost advantage gives the firm a defense against rivalry from competitors, because its lower costs mean that it can still earns returns after its competitors have competed away their profits through rivalry. A low-cost position defends the firm against powerful buyers because buyers can exert power only to drive down prices to the level of the next most efficient competitor. Low cost provides a defense against powerful suppliers by providing more flexibility to cope with input cost increases. The factors that lead to a low-cost position usually also provide substantial entry barriers in terms of scale economies or cost advantages. Finally, a low-cost position usually places the firm in a favourable position vis-a-vis substitutes relative to its competitors in the industry (Porter, 1980).

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The research study adopted a case study design. This method gave an in-depth and comprehensive inquiry to determine how industry related factors had contributed to the development of Equity Bank's competitive strategy. The case study design provides very focused and valuable insights to phenomena that may be vaguely known or understood.

Kothari (2004) defined a case study as a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit is a person, a family, an institution, a cultural group or the entire community. A case study design deals with the processes that take place and their interrelationship. This research design was successfully used by Mong'are (2008) and Wanjagua (2008) in their studies.

## 3.2 Data Collection

Data was collected from top level managers of Equity Bank Ltd. To achieve the objectives of this study, eleven respondents were targeted. These included the following, General Manager - Human Resources, General Manager - Risk, General Manager - Finance, General Manager-Marketing, Internal Audit Manager, General Manager - Operations, General Manager - Marketing and Agribusiness, General Manager - Credit, General Manager - Shared Services, Head of Security and Administration, Head of Communications. These respondents were considered to be

resourceful enough in providing the required data since their responsibilities include formulation of competitive strategies at Equity Bank Ltd.

A primary source of data was used in obtaining information for the study. Primary data was obtained through an interview guide with open-ended questions (see appendix 2). The interview guide was used to facilitate personal interviews with the target respondents with a view to obtaining in-depth and comprehensive data regarding the variables of the research study.

### 3.3 Data Analysis and Presentation

Before analysis, the data collectcd was checked for completeness and consistency. Content analysis was used to analyze the responses obtained from the interviews. Kothari (2004) argues that content analysis is a central activity whenever one is concerned with the study of the nature of the verbal materials. The results were presented in narration form in line with the methodology of presenting qualitative responses.

### 3.5 Validity and Reliability of Data

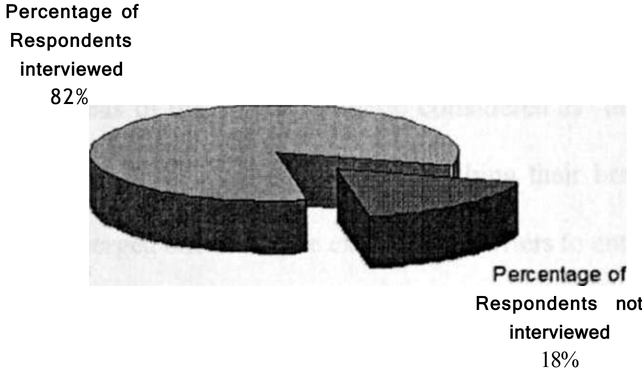
The data collecting instruments was designed so as to collect data that addresses the problem of the study and achieve the research objective. Pilot testing was done to ensure validity was achieved. Also, randomization was used to ascertain consistency of responses in order to achieve reliability of data.

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

## 4.1 Introduction

Data collection targeted eleven respondents comprising top level managers who are involved in formulation of strategy in Equity Bank. However, only nine respondents were available for the personal interviews. This represents a response rate of 82 percent as shown in figure 4.1 below.

**Figure 4.1: Response rate**




The ways in which industry related factors have contributed to the development of Equity Bank's competitive strategy as identified by the respondents were qualitatively analyzed for in-depth understanding and interpretation.

## 4.2 Threat of Entry

The respondents were asked to state whether there exist threat of entry into the market of Equity Bank. Their responses to this question are as shown in table 4.2 below.

**Table 4.2: Threat of entry into the market of Equity Bank**

| | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Yes | 9 | 100 | 100 |
| No | 0 | 0 | 100 |
| Total | 9 | 100 | |

The results showed that there is high threat of entry into the market of Equity Bank. It was noted that in the recent past, major commercial banks that had closed down branches in the rural areas of the country hitherto considered as 'un bankable' have either moved back or are in the process of re-establishing their branch networks in those regions. It also emerged out that there exist some barriers to entry which make it hard for new banks to break into the market. A formidable barrier to entry was attributed to government policies such as capital requirement and Central Bank regulations. Equity Bank has also managed to build entry barriers through; high level of customer loyalty, economies of scale resulting in low cost products and services, product innovation and differentiation focusing on developing products from customers' perspective.

In order to respond to threat of entry in its market, Equity Bank has embraced the following strategies, continuous monitoring of the potential entrants and analyzing their competencies and resources through market surveys, partnering with financial institutions to boost its finances, offering low priced products such as opening

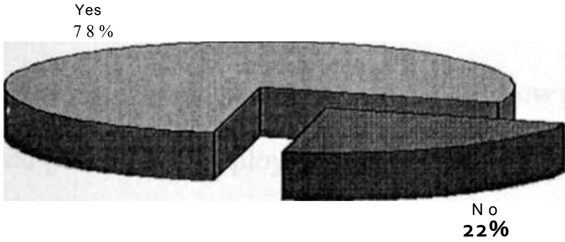
accounts at zero balance, partnering with communities to identify their needs and coming up with matching products such as Uvuvi loans for fishermen, pursuing economies of scale in their service provision which involve extensive use of automated teller machines to dispense cash to M-Pesa users, and being a major service provider to small scale, medium scale and corporate enterprises.

The study further found out that entry and exit barriers influences the attractiveness of the banking industry. The level of entry and exit barriers either encourages or deters potential entry or exit in the industry. In the banking industry, entry and exit barriers are high and therefore the profit potential is high.

## 4.3 Rivalry among Existing Competitors

The respondents were asked to slate whether there exist high rivalry among existing Competitors. The results are as shown in figure 4.3 below.

**Figure 4.3: High rivalry among existing Competitors**




The results confirmed that there is a high degree of rivalry amongst the existing competitors. However, Equity Bank has an edge over rival banks due to its high customer base and wide automated teller machine/branch network. The Bank is also a

market leader in the low end market characterized by middle and low income earners from which it generates significant part of its profits. The recently discovered attractiveness of the 'bottom of the pit' market poses an enormous threat to Equity Bank because all major competitors in the banking industry are aggressively fighting to increase their market share.

The study further showed that in order to respond to moves by rival banks, Equity Bank uses several strategies which include taking the lead by introducing new products/concepts in the market before its competitors. Indeed, it was the first bank to develop the innovative mobile banking product that allows M-Pesa users to withdraw cash from automated teller machines. This was done in partnership with Safaricom Limited. The Bank also developed a business model targeting the un-bankable populace in the rural areas. Recently, the Equity Bank launched the highly competitive M-kesho product which enables its customers to deposit as well as withdraw money from their accounts using M-Pcsa.

The study identified the following as some of the structural factors that enhances rivalry in the banking industry; information technology infrastructure, product development, research and development allocations, free flow of information amongst the customers and poaching of employees amongst the banks themselves. It was also noted that even though there is very high degree of rivalry, there exist a positive interrelationship amongst the banks in the banking industry. More so moves made by one bank often trigger counter moves from other banks, for example majority of the banks have now partnered with mobile phone companies to introduce mobile banking product with almost similar features and attributes.

### 4.4 Bargaining Power of Buyers

The respondents were asked to state whether there were buyer groups in the Bank's market. The results are as shown in table 4.4 below.

**Table 4.4: Existence of buyer groups in the Bank's market**

| | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Yes | 9 | 100 | 100 |
| No | 0 | 0 | 100 |
| Total | 9 | 100 | |

The respondents unanimously agreed that there exist buyer groups in Equity Bank's market. The study also found that Equity Bank segments its market on the basis of economic activities and level of income. Based on economic activities, the Bank has developed various products to suit the needs of each region in the country. Some of these products arc Kilimo Biashara, Mifugo Biashara, Uvuvi Biashara, and Warehouse receipting. Equity Bank has also signed strategic partnerships with milk processing companies, tea factories, coffee factories and horticultural companies. These partnerships are aimed at deepening farmers' acccss to financial services, and commercializing agriculture.

Further, the results indicated that the buyers of Equity Bank have high bargaining powers, for instance they are involved in product development. The products that are developed with the involvement of different buyers' groups arc tailor made to meet the unique needs of these groups. The buyers' needs are manifested in the features and attributes of such products. On the other hand, buyers in the banking industry are spoilt for choice as a result of high level of competition amongst the banks. The study also indicated that customers of Equity Bank are moderately organized and

concentrated in the rural areas as well as in the urban centres. It was noted that majority of the Bank's customers are medium and small scale business persons. This was seen to have largely been the result of the strategy adopted by Equity Bank at inception to bank the un-bankable.

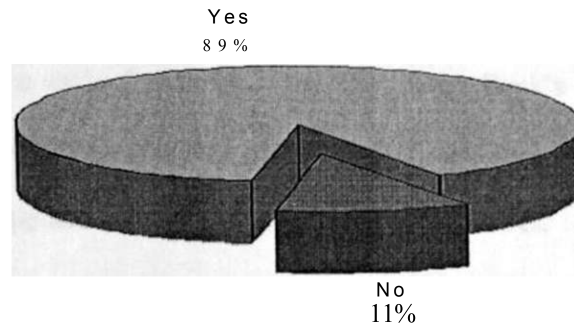
It was noted that buyer's switching cost vary from product to product, for instance, there is low switching cost for buyers in accounts opening, accounts operations and top up of loans. However there is high switching cost in loans transfers/selling. This has been initiated to 'lock the customers in' by acting as a deterrent to against potential moves of customers to rival banks with competitive products.

The study also revealed that buyers of Equity Bank pose a threat to its survival and success. Some of the threats emanating from the buyers include dormant accounts, non-payment of loans, selling of loans to other banks and fraud cases involving cheques. In responding to these threats, the Bank has instituted some measures which include imposing high early loan repayment fee making it expensive to transfer/sell loans to other banks, implementation of a 'know your customer' policy in all the Bank's practices, and operating at very low cost of accounts maintenance.

## 4.5 Bargaining Power of Suppliers

The respondents were asked to state whether the Bank's suppliers pose any threat. Their responses are shown in figure 4.5 below.

**Figure 4.5 Existence of suppliers' threat**




The results show that 89% of the respondents agreed that suppliers pose threat to the Bank while 11% felt that suppliers do not pose any threat. These threats include signing of similar agreements with other service providers in the banking industry among others. In order to deal with the threats posed by suppliers, Equity Bank has opted to incorporate some of the suppliers' members in to its management committees and work on long term agreements with most of the suppliers.

The findings of the study showed that the suppliers' inputs to the bank are of long term nature, for instance the agreement between Equity Bank and Safaricom Limited. This agreement heralded the launch of the mobile money transfer service that enabled M-Pesa customers to access their money from the Bank's automated teller machines throughout the country. This innovative product targeted over 8.5 million Safaricom M-Pesa subscribers.



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It was also noted that the Banks suppliers have high bargaining power because they are highly organized, elastic and concentrated. High bargaining power of suppliers is also causcd by high price elasticity in the banking industry. The powerful suppliers can threaten the Bank with an increase in price or a decrease in the quality of the input being supplied. The study further indicated that Equity Bank's relationship with its suppliers is of long term and low cost nature. Sometimes the Bank enters into agreement with suppliers to buy/ sell a proportion of the shares.

## 4.6 Threat of Substitutes

The respondents were asked to stale whether there exists attractive price-performance alternatives in the market. The results are as shown in table 4.6 below.

**Table 4.6: Existence of attractive price-performance alternatives**

| | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Yes | 9 | 100 | 100 |
| No | 0 | 0 | 100 |
| Total | 9 | 100 | |

The study showed that indeed there are attractive price-performance alternatives in the market. This is driven by high competition, free flow of information and customer's high appetite for low priced products and services. It was noted that the Bank responds to the threat posed by such alternatives through such measures as product/service differentiation, moving to rural areas/market places with poor/no banking services, increasing customer base to achieve economies of scale, partnering with government to disburse funds, sponsoring best boy and girl child in each district at university level to give back to the community, equipping schools with computers

and building schools as part of corporate social responsibility, and being innovative and a leader in products introduction.

The study also found out that there is an increasing availability of substitute's products and services in the banking industry. These alternative products and services are mostly developed by mobile phone companies, insurance industry and forex bureaus. Technological advances have made it possible for competitors to develop products and services of superior quality at lower cost. Further, the study showed that Equity Bank's products and services are tailor made and low cost but easily imitated by competitors.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

The research study sought to determine how industry related factors have contributed to the development of Equity Bank's competitive strategy. This chapter mainly summarises the findings, draws conclusions, highlights the limitations and makes appropriate recommendations of the study based on the research objectives.

## 5.2 Summary of Findings

It has been noted that there is high threat of entry into the market of Equity Bank. Banks in the industry have made clear their intentions to increase market share through such moves as opening up new branches, lowering the lending rates, intensive use of sales force, cutting down accounts maintenance fee and buying off loans from other banks, among others. Major commercial banks that had closed down branches in the rural areas of the country hitherto considered as 'un bankable' have cither moved back or are in the process of re-establishing their presence in those areas. This agrees with Thomson, Strickland & Gamble (2007) views about the threat of entry, that is, entry threats are stronger when the pool of entry candidates is large and some of the candidates have resources that make them formidable market contenders.

Equity Bank responds to threat of entry by using such strategies as continuous monitoring of the potential entrants and analysing their competencies through market surveys, partnering with financial institutions to boost its finances, offering low priced products such as opening accounts at zero balance, partnering with communities to identify their needs and coming up with matching products.

The degree of rivalry amongst the existing competitors in the banking industry is high. Competitors are aggressively fighting to increase their market shares and in the process are threatening the profitability of Equity Bank. However, to counter this rivalry, Equity Bank uses its high customer base and wide automated teller machine/branch. This enables the Bank to maintain leadership in the low end market of the banking industry and also enhances its financial performance. Indeed, this confirms the argument by Porter (1980) that in most industries, competitive moves by one firm have noticeable effects on its competitors and thus may incite retaliation or efforts to counter the move. Indeed, firms arc mutually dependent. Moves made by one bank often trigger counter moves from other banks, for instance majority of the banks have now partnered with mobile phone companies to introduce mobile banking product with almost similar features and attributes.

Further, the buyers of Equity Bank have high bargaining powers. This is because the buyers' groups are moderately organized and concentrated. Moreover, buyers are involved in product development. The products that are developed with the involvement of different buyers' groups are tailor made to satisfy the unique needs of those groups. The needs of the buyers arc manifested in the features and attributes of such products. On the other hand, buyers in the banking industry arc spoilt for choice due to the high level of competition amongst the banks. Majority of Equity Bank's customers are medium and small scale business persons. This was seen to have resulted largely from the strategy adopted by Equity Bank at inception 'to bank the un-bankable'.

**Buyer**'s switching cost vary from product to product, for instance, there is low switching cost for buyers in accounts opening, accounts operations and top up of loans. However, there is high switching cost in loans transfers/selling. This has been initiated to 'lock the customers in' by acting as a deterrent to customers' potential moves to rival banks with competitive products. It was apparent that buyers pose threats to the Bank's performance. Some of the threats identified include dormant accounts, non payment of loans, transfer of loans to other banks and fraud cases involving cheques.

Banks suppliers have high bargaining power because they are highly organized, elastic and concentrated. Equity Bank reduces suppliers' bargaining power by entering into long-term relationship with its suppliers. The Bank also ensures that the agreement with suppliers provides for low cost financing. Sometimes the Bank enters into agreement with suppliers to buy/ sell a proportion of the shares. Suppliers pose threats to the Bank's performance. For instance, a supplier may enter similar agreements with other players in the banking industry. In order to deal with the threats posed by suppliers, Equity Bank has opted to incorporate some of the suppliers' members in to its management committees and work on long term agreements with most of the suppliers. The study indicated that suppliers switching cost are high. It was also noted that there exist high price elasticity in the banking industry. This result in high bargaining power of suppliers bccause they can threaten the Bank with an increase in price or a decrease in the quality of the input being supplied

There are attractive price-performance alternatives in the market which arc driven by high competition, free flow of information and customer's high appetite for low

priced products and services. The existence of substitutes enables buyers to make a comparison of products in terms of prices and quality, and generally benefit them. Availability of substitute's products and services is responsible for the rapid increase in competition in the banking industry. These alternative products and services limit market power firms in the banking industry.

Equity Bank responds to the threat posed by such alternatives through such measures as product/service differentiation, moving to rural areas/market places with poor/no banking services, increasing customer base to achieve economies of scale, partnering with government to disburse funds, sponsoring best boy and girl child in each district at university level to give back to the community, equipping schools with computers and building schools as part of corporate social responsibility, and being innovative and a leader in products introduction.

## 5,3 Conclusions

Based on the findings of the study, taking the lead in the market has given Equity Bank an edge over its competitions. For instance, the launch of M-kesho has triggered reactions from other banks with Family Bank and KCB swiftly responding with Pesa Pap and Bankika respectively. The five competitive forces have been jointly determining the intensity of competition and profitability in the banking industry and are therefore very crucial in the formulation of Equity Bank limited competitive strategy. The study has shown that organizations are environment dependent and environment serving and that survival and success occurs when an organization creates a match between the strategy and the environment, and also between its internal capability and the strategy. Porter (1980) argues that the essence of formulating competitive strategy is relating a company to its environment.

The findings of the study have shown that the development of the Bank's competitive strategy is no doubt influenced by the Porter's five forces. More so this has enabled Equity Bank to reach out to a large number of customers who had previously been excluded from the formal economic sector - giving them hope, dignity and economic empowerment. The Bank delivers high customer value and satisfaction which leads to a high repeat purchases and therefore enhances its profitability. With over 4.1 million accounts, which account for over 52% of all bank accounts in Kenya, Equity Bank uses economies of scale to lower prices and out perform its customers.

Indeed , for Equity Bank to achieve a superior market place position that captures the achievement of lower relative costs, which results in market place dominance and superior financial performance, the Porter's five competitive forces plays a major role in the formulation of its competitive strategy. Understanding the fundamental role of the competitive forces in determining a firm's performance has informed the development of the Bank's business model that has attracted both local and international recognition and is credited for taking banking services to the people through its accessible, affordable and flexible service provision.

## 5.4 Limitations of the Study

The greatest limitation to this research study was time. This was due to the nature of the topic, level of the target respondents and inherent demands of the research design adopted. The top managers at Equity Bank are largely busy and therefore it was not easy to secure an appointment for personal interviews.

Further, the respondents were unwilling to responds to some of the questions. This was seen to be perhaps due to the sensitivity of the nature of information required or for ethical reasons. The ever increasing competition in the banking industry can also easily be blamed for the reluctance of the interviewees to provide certain information.

## 5.5 Recommendations

In view of the research findings, it is recommended that industry related factors be used by firms when developing competitive strategy. Proper implementation of such competitive strategies would help a firm to achieve above average return on investment. It is clear that, if a firm uses the competitive forces to develop strategies it would be able to relate well to its environment and thereby curb emergency of strategy gaps as well as guarantee its survival and success.

It is recommended that Equity Bank's management should put in place appropriate policies regarding training and development and, monitoring and evaluation. Such policies would ensure that the core businesses are aligned to Porter's five competitive forces. Further, this would provide Equity Bank with the basis for the realisation of sustainable competitive advantage.

The research study confined itself to Equity Bank. It is recommended that similar research be carried out in other banks operating in Kenya. Likewise, this research should be conducted in other organizations outside the banking industry.

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# UNIVERSITY OF NAIROBI

## SCHOOL OF BUSINESS

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P.O. l)ox JO 197
Nairobi. Kenya

DATE 18/08/2010

## TO WHOM IT MAY CONCERN

The bearer of this letter......h . 9 . . 7 / . . . . f ^ . . . V /_

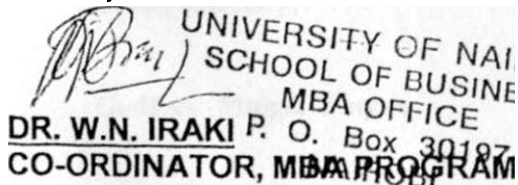
Registration No: 61/71235/2008

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.




DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

# Appendices

## Appendix I: Letter of Introduction

**Godfrey Muigai Kinyua,**

**University of Nairobi,**

**School of Business,**

**P.O BOX 30197- 00100,**

**Nairobi.**

**July 2010**

**Dear Sir/Madam,**

**RE: DATA COLLECTION**

**I** am **a postgraduate** student at the University of Nairobi, School of Business, **undertaking** a management research project on **'Industry related factors as determinants of competitive strategy at Equity Bank limited'.**

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the interview questions. The information you provide will be used exclusively for academic purposes and will be treated with utmost confidence.

A copy of the final report will be available to you upon request. Your assistance will be highly appreciated.

**Yours sincerely,**

**Godfrey Muigai Kinyua**

## Appendix II: Interview Guide

## Interview Guide

### Section I: Questions Regarding Threat of Entry

a) What is your view about the threat of entry into the market of Equity Bank?

b) Are there barriers to entry? Yes O No CH

c) If yes, name some of these barriers **and** also state how you rate them?

d) In your opinion, how would Equity Bank respond to threat of entry?

e) Are there exit barriers in the industry?

f) If yes, name some of these barriers and also state how you rate them?

g) What is your opinion about the role of entry and exit barriers to the Bank's performance?

### Section II: Questions Regarding Degree of Rivalry among Existing Competitors

a) What is your view about the degree of rivalry in the banking industry?

b) Please, elaborate on your response to (a) above?

c) In your view, how does Equity Bank respond to moves by rival banks in the industry?

d) What are some of the structural factors that enhance rivalry in the banking industry?

e) In your opinion, how is the relationship between firms in the banking industry in terms of competitive actions?

**Section III: Questions Regarding Bargaining Power of Buyers**

a) How does Equity Bank segment its market?

b) How would you rate the buyers of Equity Bank?

c) Are there buyer groups in the Banks market? Yes • No I I

d) If yes, how do buyer groups affect the performance of the Bank?

e) In your view, how are the customers of Equity Bank in terms of organization and concentration?

f) What is the relationship between Equity Bank and its buyers?

g) How would you rate the buyers switching cost?

h) Do the Bank's buyers pose any threat? Yes D No D

i) If yes, how does Equity Bank deal with such threats?

**Section IV: Questions Regarding Bargaining Power of Suppliers**

a) In your view, what is the nature of the input supplied to the Bank?

b) How would you rate the Suppliers of Equity Bank?

c) What in your view could be the effect of suppliers to the performance of the Bank?

d) In your view, how are the suppliers of Equity Bank in terms of organization and concentration?

e) How would you describe the nature of supply in terms of elasticity?

f) What is the relationship between Equity Bank and its suppliers?

g) How would you rate the suppliers switching cost?

h) Do the Bank's suppliers pose any threat? Yes (_) No •

i) If yes, how does Equity Bank deal with such threats?

**Section V: Questions Regarding Threat of Substitutes**

a) What is your view about the products and services of Equity Bank as compared to those of other banks?

b) Are there attractive price-performance alternatives in the market?

Y e s n No •

c) If yes, how does Equity Bank respond the threat posed by such alternatives?

d) In your view, how would you like the following to be perceived by Equity Bank's customers?

i) Customer service

ii) Quality of products and services

iii) Dealer network

iv) Prices of products and services

e) What is your view about the switching costs of the Bank's products and services?

**THANK YOU FOR TAKING YOUR TIME TO PARTICIPATE IN THE INTERVIEW**