STRATEGIC RESPONSES TO COMPETITION BY BARCLAYS BANK OF KENYA LIMITED IN THE CREDIT CARD ISSUING BUSINESS

VALERY F. AKINYI NANDI

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DECLARATION

This management research proposal is my original work and has never been presented for any degree in any other university.

Signed: _________________________ Date: ___________________________________

Valery F. Akinyi Nandi
D61/70716/2008

This management research proposal has been submitted with my approval as the university supervisor.

Signed: __________________________Date: ___________________________________

Supervisor: Mr. Jeremiah Kagwe
Lecturer, Department of Business Administration

DEDICATION

This work is dedicated to my parents for all the sacrifices they made in providing for my education and for their constant nudge, support and encouragement to complete this research project.

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First and foremost I am grateful to the almighty God for his unfailing love, provision, protection and guidance. I am indebted to my supervisor, who has supported me throughout my research project with his patience, knowledge and wisdom.

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LIST OF ABBREVIATIONS

BBK	Barclays Bank of Kenya Limited
CBK	Central Bank of Kenya
SWOT	Strengths, Weaknesses, Opportunities and Threats
KCB	Kenya Commercial Bank Limited
R&D	Research and Development
NCL	Not closed loop model

ABSTRACT

From the study it is clear that BBK is facing a dynamic competitive environment in the credit card issuing business. In view of this the focus of the study is to find out, if indeed BBK is responding strategically to competition and if so, our interest is on how it has done it. The main objectives of the study were to identify the nature of competition facing Barclays Bank of Kenya Limited in its credit card issuing business, Establish how BBK is responding to the competition therein and identify the challenges it is facing in responding to competition in the credit card issuing business.

The research design applied in the study was a case study research design and data was collected through a face to face interview of respondents in Barclaycard section of BBK, with the use of an interview guide. This data was later analyzed through content analysis and presented in form of narratives.

The results of the study indicated that BBK is facing competition in the credit card issuing business mainly from KCB, Equity Bank, CBA, Co-operative Bank and CFC-Stanbic Bank. The strategic responses unearthed from the study were market segmentation, elimination and reduction of some tariffs, co-branding, core banking platform systems change, streamlined customer service, insurance, customer redeemable reward points, marketing and promotions. There were also challenges faced in adopting strategic responses that included slow decision making due to bureaucracy and prohibitive costs of adopting new technology and developments.

In conclusion it is evident that the strategic responses adopted by BBK in the credit card issuing business are working but are yet to reach the optimum level. The bank needs to adopt strategic responses more aggressively, fasten the decision making process through

elimination of bureaucracy and willingly adopting new technology, regardless of the high capital intensive cost. In essence BBK will be able to get a stronger competitive edge and adopt timely strategic responses that will yield greater competitive results in its favour.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Organizations operate within an interlinked system that consists of the environment. The organization operates in a manner whereby it imports inputs from the environment, transforms the inputs through value addition and exports back to the environment its final output (Rice 1958). This system operates in a cyclic manner, whereby the factors in the environment provide feedback to the organization and the organization responds appropriately by use of the right strategy, to utilize opportunities and counter challenges presented in the environment.

The Kenyan banking industry environment has evolved in the past few decades. The number of industry operators has tremendously grown to 43 banks. The competition among these banks have also increased to unprecedented levels, with each player striving to outdo rivals in the industry, in a bid to fight over market share and maintain profitability. This stiff competition has resulted into proliferation of banking products to serve the various market needs. Banks in the market have realized that they operate in an open interlinked system that consists of an environment that is ever changing and requires participants to be sensitive to market needs.

Organizations must respond to opportunities and threats in the environment to remain competitive, by offering unique innovative products, while differentiating themselves from competition through various strategies. One of the products is the credit card which is a form of 'plastic money' that will be the main focus of the study. Muraleedharan (2009), defined the credit card as a plastic card having a magnetic stripe, issued by a bank or business authorizing the card holder to buy goods and services on credit. This card allows consumers to purchase products and services without cash and pay for them at a later date. It also offers security and convenience to the costumer when transacting as compared to physical cash transaction.

The credit card business is divided into two categories, namely, the credit card issuing business and the acquiring business. This respectively involves recruitment of customers to become cardholders and acquiring of merchants by the bank to process credit card transactions, on the merchant's behalf at a fee. The income from the credit card issuing business, comes from the card issuing business in form of interchange fees, annual fees, joining fees, interest earned on unpaid credit card balances and cash advance fees. Barclays Bank of Kenya Limited is a dominant player in this industry and it must be responding to the stiff inter industry competition in some way, for it to thrive in the turbulent credit card issuing business environment.

1.1.1 The Organization and its External Environment.

The 21st century has seen unprecedented changes in the business environment. There has been rapid environmental change, globalization, liberalization of economies and stiff competition in provision of innovative and technologically advanced products and services. Firms scan the environment to look out for opportunities and threats, while at the same time assessing their strengths and weaknesses. This aids in decision making, in regards to the strategic response to be adopted. Organizations should analyze competitive forces in the industry. The analysis should aim at identifying competitors from their strategies, strengths, weaknesses and capability to enable the organization devise effective competitive strategies (Mugweru 2008). It is thus evident that the organization and the environment are interlinked and operate within a system that must be manipulated in order to achieve desired results. One of the critical environmental variables affecting the organization is competition. Strategic responses are tailor made to fit to the changing variables in the environment, with an ultimate goal of surviving and succeeding in a tough business environment.

1.1.2 Competition

Competition in the business context refers to rivalry among firms in pursuit of sales, profit and market share by offering the best price, quality and service (Business Dictionary n.d). Competition is one of the components of the external environment that is of great concern to any business organization. The magnitude of competition determines whether an organization will thrive in the industry it operates and the level of profits or losses it will consequently incur.

1.1.3 Strategic Responses

Kandula (2004) defined strategic response as any intervention or move seen or perceived to be of benefit or a source of gain for the enterprise. Similarly, Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives (Pearce and Robinson 1997). The implication is that organizations must adopt the right strategic response in a timely and organized manner for the desired outcomes to be realized by the organization.

There are three major groups of strategic response i.e. portfolio linked strategic responses, process linked strategic response and structure related strategic response (Prasad 2009). The portfolio linked strategic response refers to those that are based on changes in the mix or type of goods and services offered by a business organization .On the other hand, process linked strategic response refers to changes related to the internal business systems that transform inputs into products and services. Lastly, structural related strategic response refers to changes within the hierarchical business structures, reporting lines, job description and roles within an organization.

Similarly organizations respond to the environment through a proactive response, reactive response or a combination of both (Hans 2008). Similarly, Easley et al. (2006) did a study of some firms and realized that top managers of surviving firms pay more attention to the external environment, while those of failing firms become inward oriented and have a tendency to neglect the outer environment. It therefore underpins the importance of the external environment.

According to Williams et al. (2011), organizations respond to the competition and the environment through three categories of strategies, which are corporate level strategies, industry level strategies and firm level strategies. Corporate level strategies are those that determine the business portfolio the organization operates in and the grand strategies that revolve around growth, stability, reengineering and restructuring. The other level of strategy is the industry level strategy which focuses on how companies choose to compete in their industry. It mainly concerns positioning strategies such as cost leadership, differentiation and focus strategies. It also involves adaptive strategies such as defender, prospector, analyzer and reactor strategies. Lastly, the firm level strategies are more concerned with direct competition. They involve tactics on how to compete against another similar firm. The main type of strategic response is mainly market entry or exit.

1.1.4 The Banking Industry in Kenya

Banking is the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money so as to earn a profit.

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and prudential guidelines from CBK. The banking sector was liberalized in 1995 and it has grown in immense proportions over time. This has been seen in growth of industry's assets, profitability, deposits, products and services. Operators within the banking industry have also grown their operations in terms of branch network expansion, automation of services, and emphasis on development of products satisfying the complex customer needs (Pricewatershouse Coopers Limited 2011).

According to the CBK statistics, the banking sector comprised of 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions, 2 representatives of foreign banks and 126 foreign exchange bureaus. The CBK statistics on the banking sector in 2010 registered a good performance, indicated by assets of Kshs. 1.6 trillion, loans and advances of Kshs. 879 billion, deposits of Kshs. 1.3 trillion, profit before tax of Kshs. 53.2 billion and branch network of 1030 (CBK, Quarterly Performance Report, 2010)

Competition is quite stiff in this industry due to the large number of players. In addition to that, the new technological developments such as MPESA are proving to be a threat to the original players within the banking industry. This is due to the fact that it is shrinking the potential market share of the unbanked population, which banks are targeting. Christiansen (2011) cited that residents in Africa have limited access to formal banking services, due to high prohibitive banking charges and distant limited geographical banking branch networks. In Kenya only 10% of the 40 million residents had a bank account and in contrast mobile phone ownership had reached 77% in 2009. MPESA, Kenya's leading mobile payment company has nearly 30% of the Kenyan population as its registered users, who use this platform to deposit, transfer and withdraw money through 20,000 approved agents country wide. This coverage is quite high as compared to formal bank branch network coverage that is less than 1500 in Kenya. MPESA has managed to bank the unbanked population of Kenya. It has nearly 12 million customers making over 6.2 billion US dollars worth of transfers and payments per year, with fees and charges that are much lower than those offered in formal banking (Christiansen 2011).

1.1.5 The Credit Card Business in Kenya

Unlike a secured loan, which is advanced by a bank or a financial institution, a credit card is offered against without any security. So, the bank or financial institution take necessary steps to ensure that only those meeting certain parameters are qualified to get a credit card. There are a wide variety of credit cards with many different features and advantages. For instance, Gold and Platinum cards are for customers with a high income. They have higher credit limit and also perks (Credit Card business, n.d).

The credit card business consists of three main parties i.e. the card issuer, merchant acquirer and payment network that work together in form of a closed loop model or NCL model. In a closed loop model, the acquirer, issuer and payment network are owned by the same company, while an NCL model, the three parties are owned by separate companies (Nerd Wallet 2011). The card issuer refers to the company that issues and markets credit cards to customers, the merchant acquirer is one who recruits and signs up merchants. Lastly the payment network is the company that routes payments between acquirer, issuer and other payment networks such as Visa and Master card. Income is generated through inter change fees, interest and penalty charges. According to Budgeting @ suite 101 (n.d) a consumer paying by credit card uses the card company's money by effectively borrowing it to make their purchase. Each card comes with a credit limit that states how much can be spent on the account and once the limit is reached they cannot continue spending until some repayment is made. On a monthly basis the card company will send the cardholder a statement that indicates the card transactions, fees and minimum required payment. The income arising from credit card issuing business is three fold. The card issuer gets income from interest charged on unpaid credit card balances, annual fees on card accounts, penalty fees such as late payment fee and over limit fee. In addition they earn income from interchange fees that is a commission charged by the payment network and shared between the issuer and payment network, but charged to the merchant through the acquirer. While the payment network earn annual licensing fees charged to the other two parties and a share of the interchange fees.

The credit card business in Kenya is a young industry that is in its earlier developmental stage. This is attributed to the skepticism by the mass market in Kenya on use of credit cards. The Kenyan population still looks at the credit card as a foreign concept that is strange and has no relevance in their everyday life. The view is that it is a risky option of payment. The main players who are either acquiring banks or issuing banks in the Kenyan industry are BBK, KCB, I&M Bank, Equity Bank, CBA Bank and Standard Chartered Bank.

Majority of credit card users are expatriates or Kenyans who have lived abroad, where the credit card is an everyday necessity. Thus the campaign by banks is to demystify the credit card and promote a wider understanding and use among Kenyans. Christiansen (2011) in his article concluded that the future of the credit card market will be free of physical cards, and the adoption of the recent innovations and developments that involves mobile payments , contactless cards, multifunction cards and fraud protection will be the way forward for the industry.

1.1.6 Barclays Bank of Kenya Limited and its Credit Card Business

Barclays Bank of Kenya Limited is a subsidiary of Barclays Plc that operates in Kenya. The bank's business unit's fall under Retail, Corporate, Treasury and Card Services with cross functional relationships to support the segments of local business and small to mid-sized enterprises (SME). The bank has operated in Kenya for 95 years, and currently has an extensive network of 117 branches and over 230 ATM's countrywide. The network is supported by internet and mobile banking channels, plus a customer service centre that operates 24 hours a day. Barclays PLC financial strength and its local and international resources have positioned it as the top provider of financial services in the Kenyan market. Its consistent financial performance has built confidence amongst its stakeholders and reinforced its position as force to reckon with in the Kenyan banking industry. The bank aims to remain the leading retail and corporate bank in Kenya and be recognized as a trusted, innovative, customer-focused company that delivers products and services of superior quality to all customers. Its other goals are to deliver value to its shareholders, be the best employer and contribute to the welfare of the communities in which it operates (Barclays, n.d).

Barclays Bank of Kenya Limited has contributed tremendously to the development of the banking industry, financial services sector, as well as the economy overall. The bank has received several awards and recognition in the industry such as, Best Bank in Kenya – Global Finance (2008, 2009 & 2010); Company of the Year Award for Human Resource Management Practices - Kenya Institute of Management (2008); Best Retail Bank – 2009 Banking Awards; and Company that best complies with the International Financial Reporting Standards - FiRe Awards (2009) (Barclays, n.d).

BBK is the pioneer of the credit card business in the Kenyan credit card industry, it has the largest range of card products offering in the market and holds the largest market share. It currently offers seven credit card products and is the oldest and largest issuer of credit cards in the country. The seven credit card products are; Barclaycard Visa Classic, Barclaycard Visa Gold, Barclays Premier League, Barclaycard Visa Prestige, Company Visa, Nakumatt Visa Classic and Nakumatt Visa Gold. The card services section is known as Barclaycard and is divided into two sections. i.e. The issuing business and the acquiring business. The issuing business deals with issuing and marketing of credit cards, while the acquiring business deals with signing up and servicing of merchant outlets.

BBK has been facing stiff competition due to an increase in players in a market where it had a monopoly. The challenge the bank is facing is also affecting all other industry players. Some of this challenges are the threat posed by MPESA exploiting the credit card industry potential market share, high levels of card fraud in the market, high customer attrition rates due to the populations skepticism and lack of customer knowledge on the credit card product, high prohibitive cost in adoption of new technology or innovations and the ripple effect of economic recession that has reduced spending power of credit card holders (Christiansen 2011).

1.2 Research Problem

Miller & Frieser (1983) observed that much is known about the relationship between strategy, structure and environment and that the variables are interdependent. This therefore indicates that a rise in environmental dynamics such as competition should be related to the specific strategic response adopted.

Barclays Bank of Kenya Limited has had to cope with environmental turbulence in order to remain competitive in the credit card business. This phenomenon is a major challenge among banks. Strategic responses have to be devised in offering products and services to adjust to the fast and dynamic competitive environment. Porter (1990) produced a diverse theoretical knowledge base specifying the need to analyze response from the generic models of strategic management. Other studies have been done on strategic responses to competition in the business environment, such as Njau (2000), who studied strategic responses by firms facing changed competitive conditions at the East African Breweries Limited. This study concluded that the strategic responses included manipulation of marketing mix elements, cost controls and setting up of foreign business channels.

Similarly, Kiptugen (2003) did a study on Kenya Commercial Bank Limited and the study concluded that KCB addressed changing competitive situation through restructuring, marketing, technology and culture change. Other studies have also been done in Kenya that confirms the changes in the competitive business environment and the need for firms to adopt various responses so as to be competitive in the banking industry. Situma (2006) studied the turnaround strategy adopted at KCB. Musa (2004) studied responses of commercial banks operating in Kenya to a changing competitive environment with a case study of NBK.

Although studies have shown various strategic responses to the business environment, it cannot be assumed to explain BBK strategic response in the credit card industry. A research gap on strategic responses to competition in the credit card business in Kenya is evident from the lack of local studies on the subject. The study will therefore focus on identifying the competition the bank is facing and how it is responding to competition. The study aims to find out if indeed Barclays bank of Kenya is strategically responding to competition in the credit card issuing business and the challenges it is facing in this endeavor.

1.3 Research Objective

The objectives of this study are;

i) To identify the nature of competition facing BBK in its credit card issuing business.

ii) To establish how BBK is responding to the competition in its credit card issuing business.

iii) To identify the challenges facing BBK in responding to competition in its credit card issuing business.

1.4 Significance of the study

The findings of the study will be beneficial to the following groups in decision-making;

Regulators - The CBK is the regulator charged with monitoring and ensuring stability in the economy, with a view of upholding fair practice to all stakeholders within the banking industry. The study will assist them to gain insight on the aspects in credit card industry that need to be regulated.

Investors - The study will make the investors recognize the overall level of development of the credit card industry in the Kenyan economy. In addition, it will provide useful knowledge on the current environmental factors affecting the industry, which is critical in decision making, in regards to investing in the Kenyan credit card industry.

Barclays Bank of Kenya Limited - to assess the overall success and shortcomings in hindsight of its strategies and gain further insight on how best to adopt future strategies through the knowledge unearthed in the study and thus enhance its market leadership.

Academicians and Scholars - The academicians will find the study useful as it will highlight areas for further research while also contributing to new knowledge in a field that has not had local in-depth research. The academicians being charged with dissemination of knowledge to various stakeholders will hence find this study useful.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Various researchers and scholars have written immensely on firms' response to competition in the environment and to a limited extent on the credit card issuing business. In this chapter i will be reviewing some of these works and how they relate to my study. I also intend to bring to the forefront the significant phenomenon that scholars have regarded as critical in responding to competition in a business environment and the challenges faced by organizations in responding to competition.

2.2 Environment and the Organization

The environment in this context refers to all variables within the industry that the business organization operates in. These variables encompass all goods and services in the industry, the economic environment, political environment, social-cultural environment, global environment and technological environment.

The organization as an entity exists within a system that is cyclic in nature i.e. the organization obtains inputs from the environment through its suppliers.It subsequently, transforms the inputs through value addition to provide outputs (goods and services) to be utilized (outputs) in the environment. When this cycle is complete, it begins with the environment providing feedback to the organization on its outputs, after which the organization initiates a strategic response on how to go about processing the inputs and providing the outputs. According to Ranga-Rajan (1994) the level up to which an organization is able to attain its corporate objectives is contingent upon its capability to clearly understand the opportunities that come to it and the road blocks that are imposed by the environment. Organizations which do not comply with the requirements of the environment are bound to be extinct.

The business environment in the 21st century has seen a lot of changes. The business environment is changing at a rate that has never been experienced before. Similarly, Prasad (2009) stated that enterprises cannot be sealed from the environment in which it exists and organizations achieve their objectives by interacting with the external world at different levels.

2.3 Competition

Competition is defined as rivalry in which every seller tries to get what other sellers are seeking at the same time: sales, profit, and market share by offering the best practicable combination of price, quality and service (Business Dictionary n.d). According to Witiger (2011) there are four types of competition that include pure competition, monopolistic competition, oligopoly and monopoly. William et al. (2011) described the four types of competition. They defined pure competition as a situation where there are many buyers and sellers who do not have the power to affect the market price of a product that is similar in nature. This competition is characterized with ease of entry and exit into the market and prices determined by forces of demand and supply. They also defined monopolistic competition as a market situation where they are many buyers and relatively large number of sellers who differentiate their products from other sellers. Similarly, they defined oligopoly as a market situation where there are few sellers, who are usually quite large and operate in a market where sizeable investments are required for entry, subsequently creating a barrier. Lastly, they defined monopoly as a market situation where by there is only one seller and there are artificial or natural barriers to entry in the market.

In conclusion, a firm must be able to recognize the type of competition it is facing in order to appropriately devise strategic responses to counter it. This is because the different types of competition in most circumstances do require different strategic tailored responses.

2.4 Strategic responses

When organizations operate in a business environment they must plan how to tackle the various variables the environment presents in order to thrive. This action is what is referred to us strategic response. According to Prasad (2009), Strategic responses are divided into three categories i.e. Portfolio linked, processed linked and structure related.

Portfolio linked strategic response is where by the organization looks at the current business it is operating in and tries to change its products, markets and business portfolios to respond to cues in the environment. This can be a complete overhaul of the business or a revaluation of the current mix of the firm's products, markets and business portfolios. On the other hand a processed linked response is one where by the processes (procedure of transforming inputs into outputs) within operations in the firm are changed to align the organization to fit appropriately with the opportunities and threats in the environment.
Structural related response refers to those that concern restructuring and re-engineering within the firm.

2.4.1Types of strategic responses

Strategic responses come in varied forms. Some of the strategic responses are strategic alliances and collaborations, demergers, divestiture, diversification, research and technological development.

2.4.2 Strategic Alliances and Collaborations

Strategic alliance is an arrangement between two companies who have decided to share resources in a specific project. Strategic alliances are short or long term, voluntary collaborations between organizations involving exchange, sharing or co-development of products, technologies and services to pursue a common set of goals or to meet a critical business need (Gulati 1998). Strategic alliance can benefit a firm by easing entry of a firm in a new market or product or services. The other benefits that can accrue from strategic alliances are utilization of each other's firms strengths in business, enhancement of brand equity and increased market share or profitability.

2.4.3 Diversification

Berghe et al. (1998) defined diversification in the broadest sense as the entering into new business by an existing business entity. Similarly, Igor (1965) considered diversification as a growth strategy by which a company tries to serve new markets with new products. Bamford et al. (2009) mentioned that Diversification falls into two categories; namely related diversification and unrelated diversification. Related diversification is when a corporation enters a new business in the industry within which it operates. This can be either vertically along the various levels of the value chain or horizontally along the value chain. On the other hand unrelated diversification occurs when a corporation enters a new business in a different industry from that which it operates. There are various benefits that arise from diversification such as cost efficiencies, sufficient supply chain management in related diversifications, spreading of risk, economies of scale and growth of the firm.

2.4.4 Divestiture and Demergers

Divestiture is the partial or full disposal of an investment or asset through sale, exchange, closure or bankruptcy. According to Reed et al. (2007) there are three types of divestiture; sell offs, spin-offs and split-ups. They described a sell-off as a sale of one or more company units to another company, while spin-offs as a series of transactions through which a company divests one or more units or small portions of its business with some common theme and turning them into independent company and selling its shares to the public. Similarly they defined a split-up as the breakup of the entire company into two or more separate companies. Divestiture is normally used as a route of cutting down probable future losses and it is also used if the selling company will be paid a value much higher than its current value. i.e. a valuable sale. Similarly, a demerger is a corporate strategy to sell off subsidiaries or divisions of a company. Chandra (1990) a demerger results in the transfer by a company of one or more of its undertakings to another company. This is usually a good strategy when the products in the company are in the last stage of product life cycle and there is no probability of the company being able to thrive in future. In essence it is merely a disposal of the company that has no good future prospects, by the standards of the owners and a cut back on further future loss.

2.4.5 Research and Technological Development

Research and development is the process of developing and testing new products, technology and ideas that eventually may be put on the market. It is also defined as a systematic activity of combining both basic and applied research aimed at discovering solutions to problems or creating new goods and knowledge (Business Dictionary n.d) .In essence it is the systematic investigation or experimentation involving innovation or technical risk the outcome of which is new knowledge, with or without a specific practical application or new or improved products or services, processes, materials and devices.

The benefits that accrue from research and development are various. For instance, the products and services developed can help boost sales, increase profitability, open new markets. R&D can enhance the brand reputation as an innovative business and through this enhanced reputation the business is able to attract best employees, find new business partnerships and attract external funding or financing. Benefits of R&D in the business process of a firm can result in reduction of costs and time to produce products and get them to the market.

2.5 Challenges Organizations Face in Responding to Environmental Challenges.

The main business environment challenge is stiff competition arising from globalization, liberalization, technological developments and market changes. This phenomenon has produced a level playing field for industry players from all over the world. Other environmental challenges relate to the political environment and policy decisions in the country that influence business operations and socio-cultural environment that influence the type of products and services offered in a particular market.

Organizations face challenges in responding to environmental challenges mentioned above. These are classified internal to the organization, but affects its competitiveness. This comes in various forms such as, level of bureaucracy or speed of decision making, size of the company and its malleability to change forces, socio-cultural aspects of the organization and the number of structure levels in the organization. Organizations have had to adjust to the ever turbulent environment by changing these internal factors to suit the environment in place. Colin (2004) stated that directors and senior managers were aware of multiplicity of changes in the business environment had far reaching consequences for their companies, and that many of the changes represent a discontinuity from the past. Concluding that an incremental adjustment to changed environment is no longer enough and a quick transformation is required in order to thrive in business.

In summary, the organization must eliminate negativities of bureaucracy, increase speed of decision making, adopt flatter organization structures, create autonomy within the organization and adopt appropriate strategic responses that will counter challenges within the environment.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was followed in the study. The research was guided by the objectives laid out in chapter one. This chapter covers research design, data collection and data analysis method.

3.2 Research Design

The research design applied in this research is a case study research design. A case study is an empirical inquiry, in which focus is on a contemporary phenomenon within a real life context and boundaries between the phenomenon and its context are not clearly evident. This type of study is the best method that gives an in-depth account of strategic responses of BBK in the credit card issuing business. It is best suited to answer questions such as how, why and what was investigated.

3.3 Data collection

Primary data was collected through a face to face interview with the aid of a structured interview guide. The respondents were distributed in stratospheres made up of departments within the Barclaycard operations section of Barclays Bank of Kenya. In addition two respondents were picked from each department representing the stratosphere for the study and the total number of respondents was ten. The interview guide contains structured questions designed in a manner to guide the study capture as much information as possible. Details of the respondents have been kept in strict confidentiality to get non biased and true data. On the other hand secondary data has been collected from the official BBK website.

3.4 Data Analysis

The data collected from interviews held with the respondents and secondary sources of data have been analyzed through content analysis. This has been presented in form of narratives.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis and interpretation as per the study objectives. The objectives of the study were the identification of the nature of competition facing BBK in its credit card issuing business, establishing the strategic responses adopted and challenges BBK has faced in implementing the strategic responses.

This data is presented through use of narratives that has been concluded through content analysis of respondents' feedback with the aid of the interview guide.

4.2 Respondents

The respondents were staff within Barclaycard section of Barclays Bank of Kenya Limited. There were ten respondents in total, with two respondents picked from each department for a face to face interview. The interviews were conducted with the aid of the interview guide. The two respondents picked from each department were made up of the line manager and the team leader.

4.3 Nature of Competition facing BBK in the Credit Card issuing Business

The information gathered from all the respondents indicates that BBK is facing competition and its main competitors in this business are KCB,CBA Equity Bank, Cooperative Bank and CFC Bank. Another form of competition identified by the respondents is a substitute product known as 'MPESA' which is a product that is a mobile phone based payment system, which is swiftly replacing use of credit cards as an alternative form of payment for goods and services.

The respondents confirmed that there are several areas in the credit card issuing business that the bank is facing competition. The first area is the rate of adoption of new technology in the credit card business. The rate of adoption is not swift and this therefore is an encumbrance that gives its main competitors a competitive edge. Secondly, there are too many stringent lending requirements in place that enables one qualify to be issued a credit card in BBK. Thirdly, the turnaround time taken in delivering customer service, query resolutions and complaint handling is long. Lastly, the tariffs on the credit card products at BBK are generally high.

The type of competition confirmed from the views of the respondents and from their description, is that BBK is facing competition that is oligopolistic in nature i.e. competition characterized of a market with few sellers that are large and operate in a market where sizeable investments are required.

4.4 Strategic Responses adopted by BBK to Competition in the Credit Card Issuing Business

BBK has taken several measures to respond to competition in the credit card issuing business. One of the strategic responses provided by the respondents is adoption of new technologically advanced operating system, which is the core banking platform for its credit card issuing business known as prime three. This system gives the bank faster and greater processing abilities of card transactions as compared to competitors who are using older versions of the technology.

The bank has also increased the market segmentations by providing more credit card products that are tailor made to fit specific segments of the market. There are currently seven credit card products that are to suite seven segments of the market. The credit card products the bank is providing are; Barclaycard Visa Classic, Barclaycard Visa Gold, Barclays Premier League card, Barclaycard Visa Prestige, Company Visa, Nakumatt Visa Classic and Nakumatt Visa Gold.

Another strategic response discovered in the study was the reduction and elimination of some tariffs of the credit card products as compared to other competing banks. This was mainly used to entice customers to opt for Barclaycard products rather than credit card products offered by other banks. In addition the bank used this as leverage to maintain its current credit card customer base and bring to reality the 'Treat Customers Fairly principle and policy', by embedding it in its service culture.

Co-branding which is a form of strategic alliance or collaboration was also mentioned by the respondents as one of the strategic responses. The Co-branding was between Nakumatt chain of supermarkets and Barclays Bank of Kenya Limited. Barclaycard developed two credit card products each containing the two brand names. i.e. Nakumatt Visa Classic and Nakumatt visa Gold. The co-branding enabled Barclays bank sell their credit card products to Nakumatt customers, thus increase the credit card customer base and leveraging on its own brand equity and that of Nakumatt chain of supermarkets.

Another strategic response mentioned by the respondents, was streamlining of the customer service experience by having a contact centre that operates 24 hours to handle customer queries and complaints. In addition it has developed a robust back office system, with improved processes and procedures that incorporate a root cause analysis of complaints and queries, with a view of eliminating occurrence of future complaints of similar nature.

The other strategic response mentioned by the interviewees is incorporation of insurance on its credit card products known as the credit card shield. This is where by a small premium of 1% of outstanding credit card balance is paid to the insurer to cover for unforeseen circumstances, that will cause a customer to be unable to pay credit card dues, such as a card holder being declared bankrupt, death of the card holder and permanent disability of cardholder that may render him or her unable to earn a living.

Introduction of reward point systems was also mentioned by the interviewees as one of the strategic response of the bank in the credit card issuing business. This is where by the customer earns points on the credit card usage and is later rewarded. This way the bank is able to curb customer attrition and keep competitors at bay.

Lastly from observation the other strategic response BBK has adopted is marketing of its credit card products through marketing promotions and advertisements. In addition to that, it partners with some merchants to give discounts on transactions that are done on the Barclays credit cards.

4.5 Challenges facing BBK in Responding to Competition in its Credit Card Issuing Business

All the respondents confirmed that the bank is facing challenges in responding to competition in the credit card issuing business. The first challenge mentioned is the high level of bureaucracy within the bank that slows down the decision making process. There is limited autonomy and some decisions have to be taken at Barclay's group level that take long and subsequently rendering some strategic response stale, due to the essence of timing as a critical factor.

The other challenge mentioned by the respondents, that face BBK in responding to competition in the credit card issuing business, is the high prohibitive costs of adopting and implementing new technology and developments.

The study also confirmed that the bank has tried to reduce the level of bureaucracy. However this reduction has been done to a limited extent, in a manner that does not effectively speed up decision making.

4.6 Discussion

Some of the content discussed in the literature review has turned out to be findings of this case study, of BBK in the credit card issuing business. For instance, from the literature review the competition within the environment led to adoption of strategic responses as is the findings of our case study, such as strategic alliances, collaborations, diversification, research and technological developments. Secondly, the literature review identifies challenges of organizations responding to environmental challenges as partly being internal to the organization and in forms such as bureaucracy and speed of decision making as is per the case study findings.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary and recommendations that were deduced from the study findings.

5.2 Summary

The objectives of the study were identification of the nature of competition facing BBK in its credit card issuing business, establishing the strategic responses adopted and challenges BBK has faced in implementing the strategic responses. From the findings we can conclude that BBK is facing competition that is oligopolistic in nature. This has led it to adopt various strategic responses. These strategic responses adopted include; New technologically advanced operating systems, market segmentation, elimination of some tariffs, co-branding, streamlined customer service, insurance cover on outstanding credit card balances, reward points on card usage, marketing and promotions. However, it is also clear that BBK is facing challenges in implementing these strategic responses due to bureaucracy which has resulted in slow decision making. In conclusion it is evident that the strategic responses adopted are working, although there are challenges that are a hindrance in adoption of the strategic responses such as the speed of decision making due to bureaucracy and the high cost of implementing new technology and developments in the credit card issuing business.

5.3 Recommendations

The research study did find that there were strategic responses by BBK to competition in the credit card issuing business. However, the strategic responses were not entirely adequate in dealing with the growing competition. In view of this, BBK needs to be more aggressive with its strategic responses, by actively marketing its products through a wide variety of effective media. It also needs to swiftly enact strategic responses before they become irrelevant due to timing factor. Secondly, BBK needs to embrace new technology and developments in the credit card business faster than its competitors and with agility that will give it a competitive edge.

5.4 Suggestions for Further Research

The research study limited itself to the credit card issuing business that is a section of the credit card business. The other section of the credit card business that would be a good suggestion for further research is the acquiring business in the Kenyan market. This way the body of knowledge on this phenomenon is developed.

5.5 Limitation of the Study

The Limitation of the study is that findings cannot be generalized to be the current status quo, expected of other banks operating in the credit card issuing business in Kenya. This is due to the varying internal environment within each bank that influence the type of strategic response adopted.

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Appendix1: Interview Guide

Credit Card Issuing Business

Section A: Nature of competition facing BBK

1. Is Barclays Bank of Kenya Limited facing competition in the credit card issuing business?
2. Which banks do you think are Barclays Bank of Kenya Limited main competitors in the credit card issuing business?
3. In which areas of the credit card issuing business is Barclays Bank of Kenya Limited facing competition?
4. Describe the nature of competition Barclays Bank of Kenya Limited is facing in the credit card issuing business?

Section B: Strategic responses in BBK

1. Is Barclays Bank of Kenya Limited strategically responding to competition in the credit card issuing business?
2. What has Barclays Bank of Kenya Limited done to respond to competition in the credit card issuing business?

Section C: Challenges in adopting strategic responses in BBK

3. Is Barclays Bank of Kenya Limited facing challenges in responding to competition in the credit card issuing business?
4. What are the challenges Barclays Bank of Kenya Limited facing in responding to competition in the credit card issuing business?
5. What has Barclays Bank of Kenya Limited done in response to the challenges it is facing in responding to the competition in the credit card issuing business?