COMPETITIVE STRATEGIES ADOPTED BY BARCLAYS BANK OF KENYA IN COUNTERACTING INDUSTRY COMPETITION

BY

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A Management research project report submitted in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA), School of Business, University of Nairobi.

September 2009

DECLARATION

I declare that this research project is my own original work and has not been presented for an award of any degree in any University.

Signed..

Date...16/07/2010...

Wasike Gabriel Chekuki

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

Signed..

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DEDICATION

To Osulo Silas Odhiambo and Dotty for the support they gave during my entire time of study

ACKNOWLEDGEMENT

First acknowledgement goes to the almighty God, through whom all things hold together. Through him all things were made, without him nothing was made that has been made (John 1.3).

I wish to convey special gratitude to Mr. Eliud Mududa for his invaluable guidance in this report and initial insights and inspiration. I am truly grateful to all who assisted me during this study in one way or another. To all respondents in this study, your support cannot be ignored.

Special appreciation to Silas Osulo and Dotty for the great understanding and support during my struggle. To my family and friends, I say thank you for your understanding, support and encouragement that kept me on the go even when things appeared tough.

Thanks to Lilian Chemtingen for her various inputs and support during the course.

ABSTRACT

This study was designed to establish the competitive strategies adopted by Barclays Bank of Kenya in counteracting industry competition. Much of the evidence used has been derived from the responses given by the Bank managers who participated alongside with findings of other studies done in related areas. The study focused on the departmental / functional heads in the Bank but only eight responded.

This study was an exploratory one in the area of strategic management in Barclays Bank of Kenya and was thus carried out as a case study. Qualitative primary data was used in establishing the strategic measures used by Barclays Bank of Kenya in counteracting industry competition. This data was collected through the use of open ended interview guide which was administered through face to face interview with the departmental / functional heads from Finance, operations, Sales, business optimization, retail, human resources, Treasury and consumer credit operations.

Several deductions were drawn from the findings of the study. These included the bank's pro-active and reactive measures employed in counteracting the industry competition. As observed from the findings, some of these measures are: engaging of qualified and properly trained staff, offering a wide range of products, extension of service hours as already implemented in some retail outlets such as Barclays Queen's way house branch and Nakumatt west-gate Barclays Branch, adoption of new operation technology and also outsourcing of some non-core services.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Strategic planning is not a new management tool and its origins can be traced to the late 1950's and early 1960. In conditions of extreme competitive turbulence, the rediscovery of the strategic planning concept has not been unusual Porter (1998) describes competitive strategy as "the search for a favourable competitive position in an industry and the fundamental arena in which competition occurs" and he further explains that "Competitive Strategy aims to establish a profitable and sustainable position against the forces that determine industry competition" this involves identification of sources of competition in the turbulent environment then developing strategies that match organizational capabilities to the changes in the environment. According to Porter (1998) "Competitive strategy is about being different"

New strategies have to be looked at to meet the challenges brought about by both increased activity from existing competitors as well as new and stronger competition into the industry. Kotler (1997) observes that the turbulence in the environment can render yesterday's winning business solutions and principles obsolete. "The open systems" orientation in strategic management holds that an organization is always open to its environment. This implies that the internal functioning and operations of every firm affects, and are in turn affected by its external environment. Daft (1986) also observes that organizations need to have the right fit between their internal structures and their external environment in order for them to function efficiently and effectively. There is need to have a proactive approach towards change. Cole (1995) observes that some firms change in response to external forces (reactive change). The current day business environments still dictate that businesses formulate strategies both proactive and reactive relevant to their respective competitive environments.

1.1.1 Competitive Strategies

Competitive strategy consists of all those moves and approaches that a firm implements in its operations to counteract the changes in its environment. Thomson and Strickland (2002) emphasized that this is also important in withstanding competitive pressure and improving its market position. It also concerns what a firm does to gain sustainable competitive advantage. Porter (1980) outlined three approaches to competitive strategy as: striving to be the overall low cost producer, i.e. low cost leadership strategy, seeking to differentiate one's product offering from that of its rivals, i.e. differentiation strategy and, focus on a narrow portion of the market i.e. focus or niche strategy.

Competitive strategy enables a firm to define its business today and tomorrow and determine the industries or markets to compete. Grant (2000) suggested that the intensity of competition in an industry determines its profit potential and competitive attractiveness. Competitive strategy assists a firm in responding to the competitive forces in these industries or markets (from suppliers, rivals, new entrants, substitute products, customers)

How to succeed in today's rapidly changing competitive environment is a key question for both service and manufacturing industries. Business environment is rapidly changing, i.e. markets, customer demands, technologies, global boundaries, products and processes. In the midst of this seemingly overwhelming change, there is need for managers to make critical competitive decisions that will affect not only the present position of their firm, but also its future success. Many organizations including banks, as evidenced in the Barclays Bank of Kenya Annual Reports and Accounts (2008), are finding that old rules and strategies no longer apply in the current environment. To have effective competition in today's environment, new strategic responses are critical for the firm to remain profitable to its shareholders.

Porter (1980, 1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation or focus approach to industry competition. He further explains that the overall cost leadership implies that the strategic business units establishes a position that has a significant cost advantage over all its competitors in the industry. Differentiation implies that the business unit has to offer something unique, unmatched by its competitors, and is valued by its buyers beyond offering simply a lower price. Focus approach consists of concentrating on a particular buyer group, segment of the product line or geographic market. If a firm does not pursue one of these strategy types, it will be stuck in the middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980). Today Porter argues that the strategy is about selecting the set of activities in which an organization will excel to create a sustainable difference in the market place.

Day and Wesley (1988) focused on two categorical sources involved in creating a competitive strategy; superior skills and superior resources. Some authors have elaborated on the specific skills and resources that can contribute to a design of competitive strategies. Barney (1991) stated that not all firm resources hold the potential of sustainable competitive advantage. Instead they must possess four attributes: rareness, value, inability to be imitated, and inability to be substituted.

1.1.2 The Banking Industry in Kenya

A Bank is defined as an institution that accepts deposits and gives out loans. Banks accept deposits as a way of mobilizing liquidity and in turn use the deposits to enter into investments, which earn them profits. Banks have the abilities to gain competitive advantage among each other and their total asset base. Banking is a key section in any economy and it is a prime mover of economic life as supported by the definition of the scope and functions of a bank in the Banking Acts. The banking sector in Kenya operates in a relatively deregulated environment governed by the Companies Act, The Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya. The dominance of foreign owned banks still account for substantial part of the banking system.

A variety of reforms to the financial system were introduced in the early 1980's to mid 1990's. Monetary policy reforms during the 1990's have entailed liberalizing interest rates and replacing direct controls on lending with open market operations. The banking sector was liberalized in 1995 and exchange controls lifted. In Kenya today, there are forty three (43) banks and non-bank financial institutions, fifteen (15) micro-finance institutions and forty eight (48) foreign exchange bureaus. Among these banks, thirty three (33) are locally owned and they range from small to medium sized. The banking industry in Kenya is dominated by a few large banks most of which are foreign owned, though some are partially locally owned.

There are ten multinational banks in Kenya among them being Barclays bank whose ownership is foreign. These banks have played a bigger role in Kenya in terms of creating employment, infrastructure development and social responsibility. The financial performances of these Banks have been in a general increasing trend and these have mainly been attributed to proper management and also proper formulation and implementation of the strategy.

Banks have come together under the Kenya Bankers Association (KBA), a body that lobby's in the interests of the banks and also addresses arising issues affecting the members. A highly volatile macroeconomic environment occurred after liberalization of interest rates causing closure of some financial institutions in the 1990's. The banking industry in Kenya has faced various challenges including: stiff competition among the existing local banks as they offer customers loans at Varying rates, micro-finance institutions and savings and credit societies (SACCOs) are emerging as key players in the delivery of financial services, the mandatory compliance of banks to section 44 of the Banking Act by Central Bank of Kenya requires banks to seek approval from Central Bank whenever they want to make tariffs/prices adjustment has become a challenge to many multinational banks and increased insecurity instances in areas where banks operate in the country have also demanded that banks invest more in security facilities. The insecurity has raised their costs of operation.

The Commercial Banks and non – banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking. Certain commercial banks have on few occasions been put on statutory management by the Central Bank and some have resulted in closure. Some smaller banks started to merge as a strategy in a bid to survive as they are faced with increased cut – throat competition from the bigger players (Banking survey, 2002). The mergers were also caused by the increase in commercial banks minimum paid up capital and high costs of operation. According to the Barclays Bank of Kenya Annual Report & Accounts (2008), the Banking sector continued to experience significant local and regional growth amidst increased competition. The sectors' aggregate loans and advances book rose by 25.1 percent from Kshs. 477 billion to Kshs. 637 billion, while total deposits increased by 25.1 percent from Kshs. 720 billion to Kshs. 911 billion.

Meanwhile, the Ministry for Finance revised the capital requirement for banks and mortgage finance companies. Under the new guidelines these, financial institutions are required to raise their minimum core capital to Kshs. 1 billion before the end of 2010, up from Kshs. 250 million. The Central Bank of Kenya cut its benchmark lending rate to 8.5 percent from 9 percent and reduced the cash ratio requirements for local banks from 6 percent to 5 percent

It is expected that the banking sector will continue to grow especially in the retail-banking segment, as major consumer segments remain largely unbanked. There is need for an integrated approach to development within the sector; addressing social, economic and environmental factors simultaneously. A bank needs to establish a sustainable strategy which integrates this approach into its core business activity in the markets and communities where it operates.

1.1.3 Barclays Bank of Kenya

Barclays Bank has over 300 years in the banking service. It is among the top ten (10) largest banks in the world with its roots in the United Kingdom. Barclays Bank of Kenya Limited, a subsidiary of Barclays Plc, is the leading bank in Kenya in terms of profitability and market share and in the areas of loans and deposits. According to the Barclays Bank of Kenya Annual report and accounts (2008), the Bank has operated in Kenya for more than 90 years and has an extensive network of 117 outlets with 234 ATM's countrywide.

Barclays' business units fall under Retail Banking business and Commercial Banking business (local business and small to mid-sized enterprises (SME) and multinationals). Treasury and Card Services are other areas of business relationships that support the wider business each of which is well positioned for growth and to cater for the dynamic needs of diverse customer segments. Financial strength coupled with extensive local and International resources have positioned Barclays as the No. 1 provider of financial services in the market for the past several years. Moreover, Barclays' year-on-year financial performance has built confidence in its leadership, customers, management, employees, its over 60,000 shareholders and the entire banking industry

Barclays' vision is to be the best retail and Commercial bank for every customer, every market, every product and every time. Its mission is to remain the leading retail and Commercial Bank in Kenya, to be recognized as a trusted, innovative, customer –focused company that delivers products and services of superior quality to all customers, to be the best place where the best people want to work, to be associated by all stakeholders as a corporate partner that contributes towards the welfare of the communities in which it does business and deliver value to its shareholders through positive growth.

Since its establishment in Kenya, Barclays Bank has contributed to the development of the banking industry, financial services sector, as well as the economy overall. Industry recognition received by Barclays for leadership include most Respected Financial Institution in the Region from PricewaterhouseCoopers (2004 and 2007); and Best Financial Management in the services sector from Kenya Institute of Management (2005 & 2006). The various awards won by the bank in 2008 include the best bank in Kenya Award from Global finance, the company of the year, Human resource Management from Kenya Institute of Management; leading Custodian Award, custody services from the Capital Markets Awards and 2nd Runners up, Distinguished Tax payer 2008, large taxpayer category from the Kenya Revenue Authority.

Despite the turbulent environment, Barclays Bank of Kenya managed to grow its profits before tax to Kshs. 8,016 Million in the year 2008 as compared to the year 2007 in which its profits were Kshs. 7,079 million. This is attributed to proper execution of growth Strategies by business units and also introduction of innovative products to improve the quality of assets and strengthen their balance sheet and earnings. Barclays also continues to create value for its customers through strategic alliances such as its partnership with Kenya Power and Lighting Company (KPLC) in an "easy pay" utility service for KPLC customers and also revolutionized the industry by extending banking hours and launching of premier banking in 2008.

In keeping with its sustainability strategy of leaving a lasting positive impact in the communities in which it operates. Barclays invests substantial resources in different community projects across the country. A successful step Ahead walk event was held in 2008 to support schools catering for disadvantaged youth. Thousands of Kenyans participated in this walk helping to raise Kshs 15 million to build and equip eight science laboratories countrywide. In its partnership with UNICEF, a total of 4,000 street children across the country are expected to benefit from the Kshs. 107 million, which focuses on vocational training and counseling.

1.2 Statement of the problem

The Banking Industry plays a significant role in economic development in Kenya as is in many other economies. Banks offer safe custody for valuables, personal and business loans, mortgage facilities etc. In the last 20 years, the industry has had new players joining in and creating intense competition. The latest being among them, the Gulf Bank and Family Bank. Each Bank faces competition from other Banks as the aim of each is to garner a sizeable market share. This calls for strong product and service offering. Barclays Bank of Kenya with its roots in the UK gives it an international outlook and hence perceived superior quality service. This puts other Banks at some competitive disadvantage since Barclays' network is widespread in many countries and continents. There has been mounting pressure on Barclays Bank of Kenya from other players in the market exemplified by KCB, Equity, Co-operative Bank and also Standard Chartered Banks.

In order to compete effectively in this environment, it has become necessary to have an aggressive search and development of strategies that provide competitive advantage as competitors step up both offensive and defensive strategies to protect their competitive advantages. The Stiff competition among the banks and entry of other players into the industry necessitate the design of competitive strategies to guarantee their performance. Superior performance is achieved through proper implementation of successful strategies. This also leads to sustainable competitive advantage. The ability of a Bank to command a competitive advantage depends on the sustainability of the competitive advantages that it holds.

Among studies done on competitive strategies, include, Murage (2001), who analyzed the competitive strategies in the petroleum industry. He found out that most service stations have their products differentiated as a method of obtaining competitive advantage over other service stations. Companies dealing with petroleum products establish branded service stations and are only supplied by the firm's tankers.

Gathoga (2001) focused on competitive strategies by Commercial Banks in Kenya. In his study, Commercial Banks in Kenya use various means in order to remain competitive in the market. He concluded that expansion of Branch network into remote areas of the country by banks is a strategy.

Omondi (2006) carried out a study on competitive strategies adopted by airlines in Kenya. He found out that, airlines sought to add value to their products through differentiated customer service. This included providing free accommodation and allowances to passengers who missed their connections. Guaranteed security and recognition of customers by offering special discounts and gifts are some of the strategies adopted by the airlines. Other studies that have been done in Kenya regarding strategic measures or responses adopted by firms include: Goro (2003), Commercial Banks; Kathuku (2004), Co-operative Bank, Kiptugen (2003), Kenya Commercial Bank (KCB); Adoyo (2005), Post Bank. Most of the above studies focused on competitive environment as a result of liberalization of Kenya's economy. Kiptugen (2003) established that KCB responded to its turbulent environment through restructuring, marketing, embracing information technology and culture change.

Studies on competitive strategies adopted by different banks such as Kenya Commercial Bank (Kiptugen, 2003), Co-operative Bank (Kathuku, 2004) and Post Bank (Adoyo,2005) reveal that different competitive strategies which are unique in each context are adopted to counteract industry competition. With the existing turbulence in the banking industry, no studies have been done on competitive strategies adopted by most Banks in Kenya in counteracting competition. There was therefore need to do a study on Kenyan commercial banks to specifically understand the nature of competition amongst them, what strategic measures are adopted by each Bank to counteract industry competition, and what factors influence the choice of these strategies. It was therefore important to do a study on Barclays Bank of Kenya to find out the competitive strategies adopted by the Bank in counteracting industry competition and also to find the challenges posed by the competition to the Bank

1.3 Objectives of the Study

The objectives of this study were:

i. To determine the challenges posed by industry competition to Barclays Bank of Kenya

ii. To determine the competitive strategies adopted by Barclays Bank of Kenya in Counteracting industry competition

1.4 Importance of the study

This was an investigative study and hence it will be of particular importance to Barclays Bank (especially to the shareholders who are not directly involved in management). The study is also important to the management since it highlights the competitive strategies which have had impact to the market and hence proper formulation and implementation of strategies in future. The study is also a source of secondary data to the students. The lecturers too will benefit by extract their teaching notes from this study.

The study is also important to existing and future investors in the Banking industry in comparing their competitive strategies. The findings will also educate Banking customers on how to compare products and services from various Banks in the market.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

Ansoff (1965) defines strategy as the product market scope of a company. This refers to the decision of an organization or a firm on what to produce in which market. In a stable environment a firm can operate without changing its product market focus. This is however different in a dynamic market environment. In a turbulent environment, there is need to incorporate the conditions of the environment in the strategy for the firm to remain profitable. The products of a firm must watch the needs/demand of its market otherwise the company's future is put at risk.

According to Chandler (1962) the term strategy refers to long-term goals and objectives of an organization. Pearce and Robinson (1997), states that a strategy can be seen as building defense against competitive forces, or as finding positions in the industry where competitive forces are weakest. Porter (1980), states a strategy as a competition and the means by which an organization tries to gain a competitive advantage.

Aosa (1992) states that strategy is creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. The strategic problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of organization's core capabilities that are correlated to the external environment. The correlations between internal capabilities of an organization and the external environment enable it to exploit the opportunities in this environment and also minimize the impact of threats from the external environment.

Mintzberg and Quinn (1998) gives five definitions of strategy to gain a better understanding. The five definitions are categorized as a plan, ploy, position, Pattern and perspective. In his definitions, a strategy as a plan specifies a conscious intended course of action. It is designed in advance of actions it governs. A strategy as a pattern emerges from a stream of actions that is developed in absence of intensions and without pre-conception. A strategy as a ploy refers to specific maneuvers to outwit a competitor. This is aimed at outsmarting and shedding off competitor threat. A strategy as a position means locating the business in the environment This refers to how a business develops and sustains its competitive advantage. Strategy as a perspective gives an organization an identity. This is the perception in the environment in which it stands.

2.2 Strategic Management

Strategic Management can be defined as a set of decisions and actions resulting in the formulation and implementation of plans strategies designed to achieve the objectives of an organization (Pearce and Robinson, 1999). This involves proper implementation and management of the strategies to achieve the desired output. In this respect therefore, the formulation and implementation of a strategy in an organization is a core management function, which demands the involvement of all stakeholders. How well an organizations management team performs the strategy - making and strategy - implementing functions is always a very big factor in determining whether the organization performs up to potential (Thomson, 1996).

The term strategy formulation refers to the entire management function of establishing organization direction, setting objectives, and devising a managerial game plan for the organization to pursue. The strategy formulation function has a strong entrepreneurial character, in the sense that manager's wind up having to choose among alternative business directions and to pursue approaches and moves that entail venturesome ness and risk taking. It is therefore critical that an organization continuously pushes out in new directions and install new or higher performance measures for it to remain profitable. There is need to keep organization's strategy fresh, to maintain the organization's capacity for dealing with changing conditions, and to steer the organization into doing the right things at the right time.

The term strategy implementation can mean acting on what has to be done internally to put the chosen strategy into place and to actually achieve the targeted results. This is an administrative task that involves figuring out workable approaches to executing the strategy and then, during the course of day to day operations, getting people to accomplish their jobs in a strategy – supportive and results – achieving fashion. Simply put, the strategy – implementing function consists of seeing what it will take to make the strategy work and then getting it done in a manner that produces the targeted performance on schedule.

According to Thomson (1996), the Managerial job of forming a strategy and presiding over its implementation involves five distinguishable tasks: - First is developing a concept of the business and forming a vision of where the organization needs to be headed. This involves infusing the organization with a sense of purpose and direction and giving it a mission. The second involves translating the mission into specific long-range and short-range performance objectives. Thirdly, crafting a strategy that fits the organization's situation and that should produce the targeted performance. Fourth task involves implementing and executing the chosen strategy efficiently and effectively and the fifth task is evaluating performance, reviewing the situation and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

2.3 Industry Competition

One of the environmental influences to a business arises from competition. Increased competition threatens the attractiveness of an industry by reducing the profitability of players, firms respond to this by being proactive in their strategy formulation and implementation. Firms that do not respond effectively to increased competition have themselves to blame as they go down. Competition denotes the existence of firms that try to sell identical products or services to the same group of customers. A firm's competitors may change over time in terms of their characteristics, strategies and strategic focus due to environmental factors that affect the structure of the industry. Industry and competitive analysis seek to analyze the industry's competitive process to discover the main sources of competitive pressure and how strong each of the forces is.

Porter (1980) explains his strategic options in light of analyzing the market opportunities, which form the background to competitive behaviour. Industry analysis is oriented towards an assessment of industry attractiveness and as such, competitive strategy must grow out of a sophisticated understanding of the rules of competition that determines an industry's attractiveness. Competitive strategy therefore aims to establish a profitable and sustainable position against the forces, which determines competition. According to Porter (1985), the key to a successful competitive strategy is to establish a position, which is less vulnerable to attack from competitors and to erosion from buyers, suppliers and substitute goods. Porter (1980) argues that businesses must respond to five basic competitive forces that drive industry competition.

According to him, collective strength of these forces determines the ultimate profit potential of the industry and thus its attractiveness.

The five forces are: - Threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitutes and rivalry within competitors. A proper analysis of the five forces will help a firm choose one of Porter's generic strategies that will effectively enable the firm to compete profitably in an industry. Porter (1998) discusses government as a force in industry competition. He explains that government at all levels must be recognized as potentially influencing many if not all aspects of industry structure both directly and indirectly. In many industries, government is a buyer or a supplier and can influence industry competition by the policies it adopts. Government can also affect the position of an industry with substitutes through regulations, subsidies, or other means. Thus, no structural analysis is complete without diagnosis of how present and future government policy, at all levels, will affect structural conditions.

Porters Model exposes what competition is like in a given market in terms of strength of each force, the nature of competitive pressure comprising each force, the nature of competitive pressure comprising each force and the overall structure of the competition. The stronger the collective impact of the forces, the lower the combined profitability of participating firms (Porter, 1996). A firm's competitive strategy is effective if it provides good defenses against the five competitive forces, alters competitive pressure that exists in favour of the company and helps create sustainable competitive advantage.

2.4 Challenges of Industry competition

A strategic group is formed by firms that pursue a similar range of competitive strategies in response to the particular industry conditions facing them. This results from strong economic forces acting easily in an industry that constrain firms from easily switching from one competitive position to another or seem often in firms that face similar economic conditions and constraints. This includes selling in the same price and quality range, covering the same geographic areas, having comparable product line, breadth and emphasizing on the same types of distribution channels. They also offer buyers similar services and use identical technological approaches.

Organizations may face challenges in the implementation of a competitive strategy. These challenges may hinder the effective utilization of strategies identified and employed. The challenges could be problems or threats brought about by the environment in which the organization operates. Change in economic conditions can be good for one firm and bad for another. This is brought about by the stages of a business cycle of a company, which can be, depression, recession, recovery stage or prosperity stage. With these stages therefore, strategists must determine what economic factors are most important to their business and attempt to predict changes, which are favourable in the different conditions.

Newsman et al (1989) identified many challenges that may hamper a firm's ability to group new offers. They included financial requirements, technological advancement, regulatory issues imposed by the government and also structural and economic barriers inherent in the industry. Other challenges that affect companies include climatic and ecological concerns brought about by unforeseen weather changes and mainly influence firms whose products are seasonal, social factors that focus on values and attitudes of people, customers & employees. This can affect strategy. Changes in technology also affect operations and products and also can offer opportunities for improving goal achievements.

2.5 Competitive Strategies in different industries

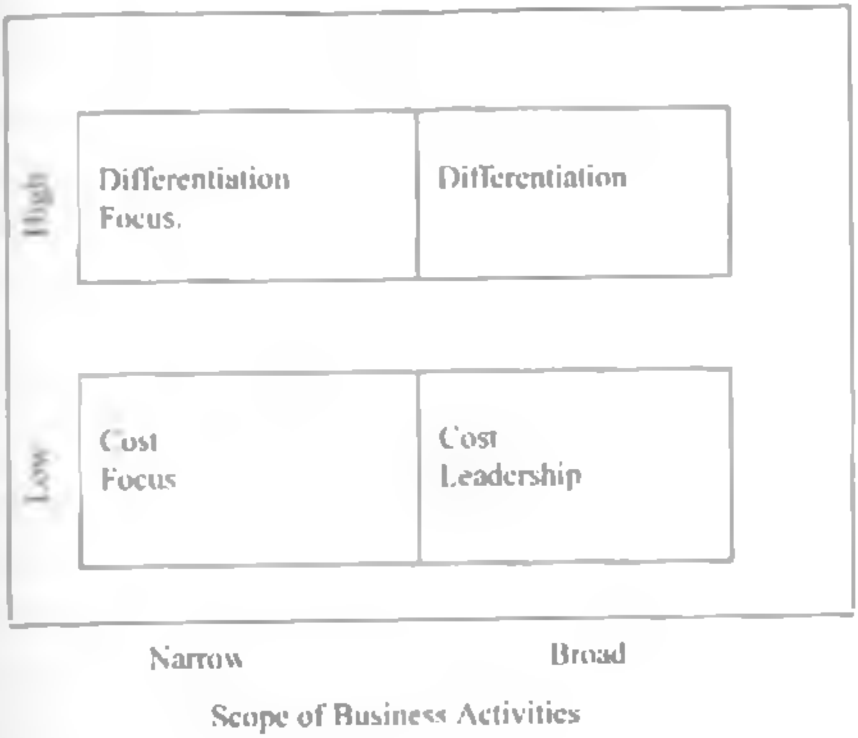
The business environment is so dynamic/ turbulent that organizations are finding it increasingly difficult to get a rate of return above the competitive level. Competitive strategies provide a framework for the firm to respond to the various changes within the firm's operating environment. The views under competitive strategies include; generic strategies and the resource based view as a competitive strategy. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant and Macmillan, 1998). Ansoff and McDonnell (1990) define competitive strategy as the distinctive approach, which a firm uses or intents to use to succeed in the market In examining the concept of competitive strategies, different authors have done it differently, however major studies in this area have been done by Michael Porter. He defines competitive strategy as the art of relating a company to the economic environment within which it exists.

2.5.1 Generic Strategies

Porter (1998) states that the goals of a competitive strategy for a business unit in an industry is to find a position the industry where the company can best defend itself against the five forces mentioned earlier. The five forces constitute the industry structure and it is from this industry analysis that a firm determines its competitive strategy.

Porter unveiled four generic competitive strategies that can be viable in the long terms business environment. They are cost-leadership strategy, differentiation strategy, cost focus strategy and differentiation focus strategy. Pierce and Robinson (1997), states knowledge of this underlying source of competitive pressure provides the groundwork for strategic agenda of action. The highlight of the critical strengths and weaknesses of the company animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield benefits. The differentiation and cost leadership strategies seek competitive advantage in broad ran market or industry segments while in contrast, the differentiation focus and cost focus strategies adopted in a narrow market or industry as presented in figure 1.

Figure 1. Porter's cost and differentiation Model



SOURCE: Porter M.E (1998)

Figure 1 illustrates the four generic competitive strategies as unveiled by Porter.

2.5.1.1 Cost – Leadership Strategy

A firm producing at the lowest cost in the industry enjoys the best profits. Producing at lower cost is a strategy that can be used by various firms so as to have a significant cost advantage over the competition in the market. This in effect leads to growth in the market share. This strategy is mostly associated with large businesses offering standard products that are clearly different from competitors who may target a broader group of customers.

2.5.1.2 Differentiation Strategy

Targeting smaller market segments to provide special customer needs is a strategy widely used in the corporate scene. Banks have taken up this strategy to create various products for different customers. They include different types of accounts such as personal and business accounts, different types of loans including personal and business loans. It involves identification of the needs of the customers in the market and designing products that can fit their needs.

2.5.1.3 Cost Focus Strategy

Lower cost advantages to a section of the market segments with basic services offered to higher priced market leaders is a strategy acceptable in the corporate world. It results to similar products to much higher priced products that can also be acceptable to sufficient customers in the market. Successful application of this strategy leads to profitability in the firm.

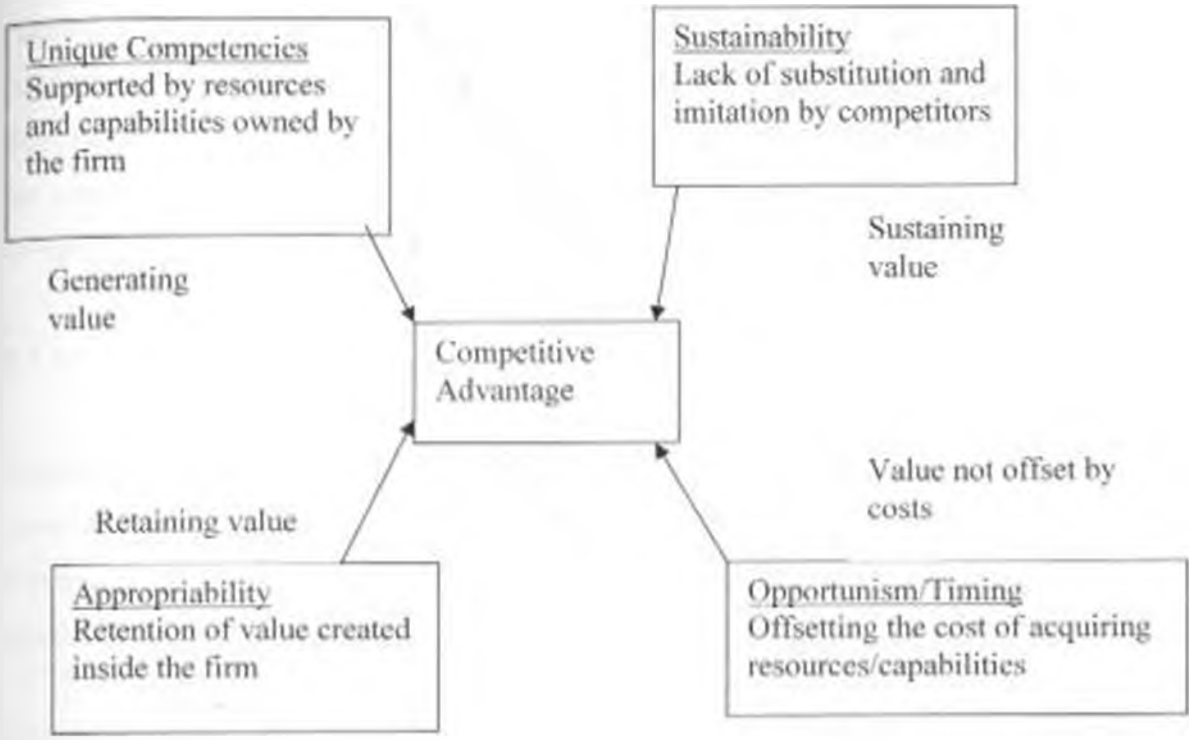
2.5.1.4 Differentiation Focus

A business aims to differentiate within one or a number of target market segments. The special customer needs of the segment means that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. This demands that the customer's different needs and wants be recognized.

2.5.2 The Resource Based view

This model states that competitive advantage is created when resources and capabilities that are owned exclusively by the firm are applied to developing unique competencies (Hax and Majluf, 1991). Moreover, the resulting advantage can be sustained due to lack of substitution and imitation capabilities by the firm's competitors. Furthermore the benefits derived from these advantages are retained inside the firm, not being appropriated by external parties. Finally, the timing of the acquisition of the necessary resources and capabilities is so opportune that their cost will not offset the resulting benefits. If all these conditions are met, the competitive advantage that is created will generate an incremental economic value of the firm, as shown in figure 2.

Figure2. The Resource-Based view –Elements of competitive Advantage



SOURCE: Hax and Majluf (1991)

Figure 2 illustrates the resource based view as a competitive strategy employed by some industries in a competitive environment.

2.5.2.1 Unique Competencies

Resources and capabilities are the sources of unique competencies of the firm (Hax et al, 1991). Resources could be both tangible (such as financial resources and physical assets) and intangible (Such as reputation, customer orientation, product innovation, technology superiority). Resources are converted into capabilities when the firm develops necessary organizational routines to use them effectively.

2.5.2.2 Sustainability

According to Johnson G. and Scholes, K (2001), a competitive advantage can be sustained if conditions of uniqueness associated with a business unit strategy are preserved. This means that there should be no threats of either substitution or imitation. From a resource based point of view, the resources of a firm must have the following attributes to hold the potential for sustainable competitive advantage: they must be valuable, scarce, and difficult to imitate or substitute.

2.5.2.3 Appropriability

A strategy that is both unique and sustainable would generate a significant economic value. The issue of appropriability addresses the question of who will capture the resulting economic rent. Sometimes, the shareholders or owners of the business do not appropriate the totality of the value created because of the gap that might exist between ownership and control.

2.5.2.4 Opportunism and Timing

One other condition that is necessary to obtain competitive advantage occurs prior to establishing a superior resource position. It is necessary that the cost incurred in acquiring the resources are lower than the value created by them. In this case therefore, a competitive advantage is created.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

The research was conducted through a case study. The research was aimed at establishing the competitive strategies adopted by Barclays Bank of Kenya in counteracting competition. This was to enable the researcher to get adequate information from the organization under study. Yin (1988) asserts that case studies contribute uniquely to our knowledge concerning the individual, an organization, social and political phenomena. Successful case studies done on competitive strategies employed by various firms in the market include Kiptugen (2003) and Adoyo (2006).

3.2 Data collection

The study was carried out at Barclays Plaza (Barclays Headquarters), where most of the departmental heads offices are located. This is where the policies and strategies for the whole Bank are formulated before being implemented at operation centres and retail outlets. It was important to get detailed information from these managers to establish how Barclays has managed to counteract industry competition. The study relied mainly on primary data, which was collected through the use of open-ended interview guide (Refer to the attached interview guide).The research tool was administered through a face-to-face interview with the departmental heads from Finance, Central operations, Sales, Business optimization, Retail, Human resources, Treasury and Consumer Credit operations. Change and Data capture managers were unavailable to be interviewed.

3.3 Data analysis

The research was qualitative in nature and hence the data collected was evaluated to determine its usefulness, consistency, credibility and adequacy. In addition to descriptive analysis, the data collected was analyzed and presented qualitatively using content analysis. In this method, there was objective identification of specific messages and these were related to trends and hence inferences were drawn.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

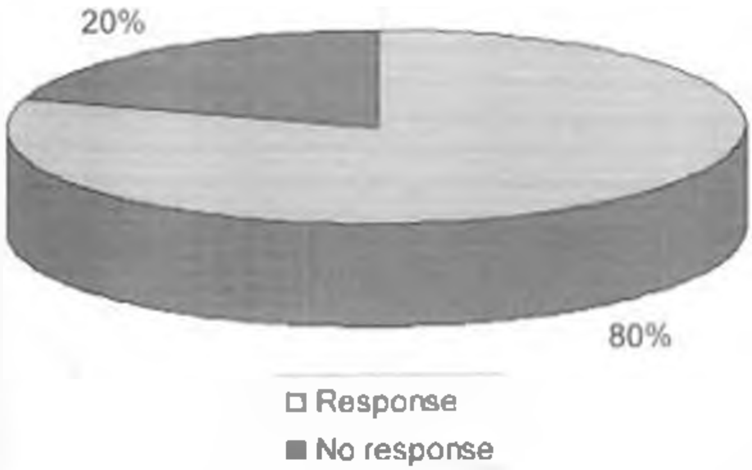
4.1 Introduction

This Chapter contains data analysis and the research findings. The data was collected from eight respondents out of the ten targeted departmental/functional heads. This represented 80% of the sampled population. The objectives of this study were to determine the challenges posed by the industry competition to Barclays Bank of Kenya and the strategies adopted by Barclays Bank of Kenya in counteracting industry competition.

4.2 Respondents Profiles

Out of the ten targeted departmental/functional heads, eight were interviewed and data collected while the remaining two (from change and data capture departments) were not interviewed because they were out of the country during the time of study. The total number of interviewed managers represented 80% of the targeted sample and this is data enough to draw conclusions from. Six (6) of the interviewed managers had worked for the Bank for more than 8 years while two (2) were five years old in the Bank. From the interview conducted, the eight managers appeared knowledgeable about the Bank and hence the data obtained from them could be relied upon in drawing inferences. Figure 4.1 illustrates in percentage form the number of managers who responded against those whose response was not obtained.

Figure 4.1: Nature of response

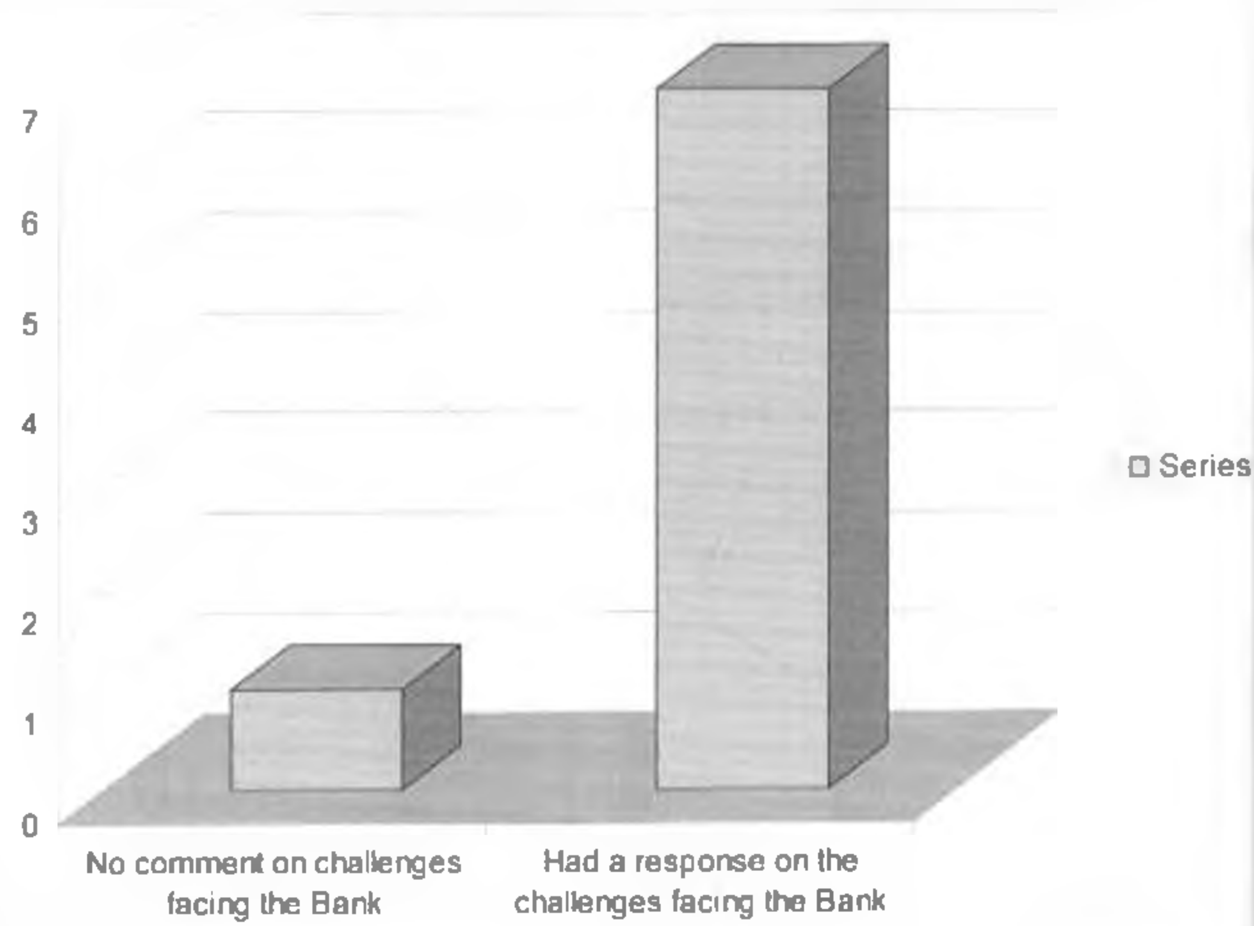


Source: Researcher

4.3 Challenges posed by the Industry competition to Barclays Bank of Kenya

Data obtained from the eight interviewed functional heads indicated that Barclays Bank of Kenya has a vision and a mission. Its vision is to be the best retail and Commercial bank for every customer, every market and every time. Its mission is; To remain the leading retail and commercial bank in Kenya, to be recognized as a trusted, innovative, customer-focused company that delivers products and services of superior quality to all customers, to be the best place where the best people want to work, to be associated by all stakeholders as a corporate partner that contributes towards the welfare of the communities in which it does business and to deliver value to its shareholders through positive growth. Seven out of the eight interviewed managers as shown in figure 4.2 were in agreement that some of the challenges posed by industry competition to the Bank included: High costs incurred in adopting rapidly changing technology, imitation of its products by competitors, High costs incurred in maintaining superior customer service, varying interest rates offered by competitors, cheap products offered by competitors, new entrants in the Banking industry, unpredictable government policies and the harsh political environment.

Figure 4.2: Response on challenges facing Barclays Bank of Kenya



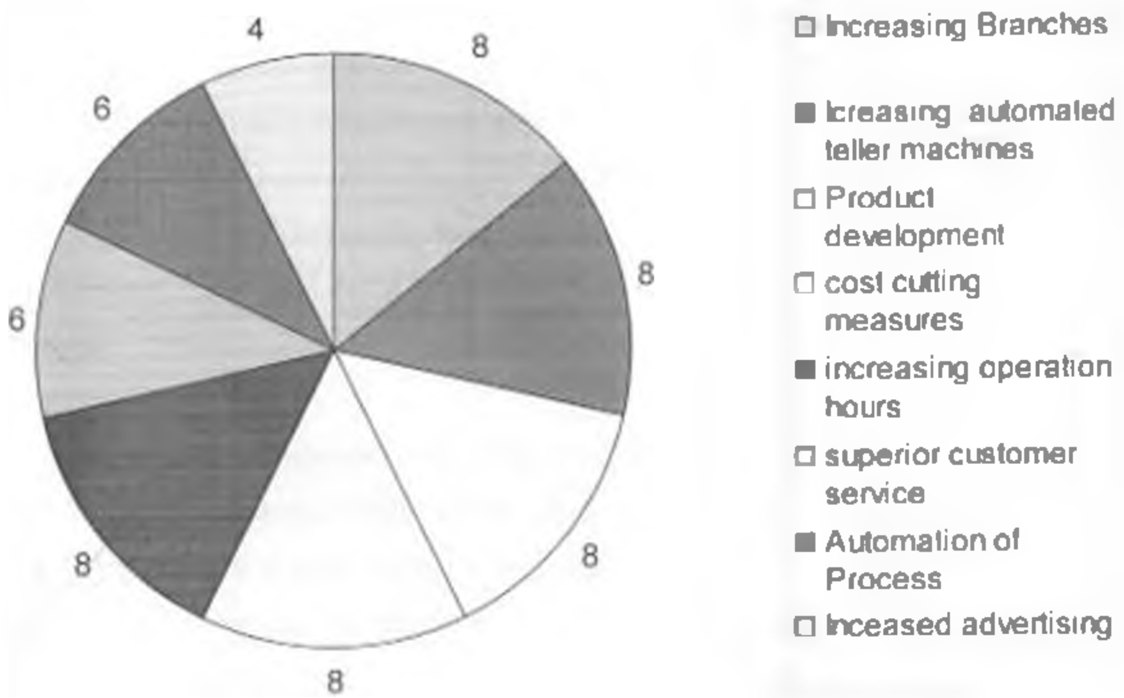
Source: Researcher

4.4 Strategies Adopted by Barclays Bank of Kenya in Counteracting Industry Competition.

From the research data obtained, all the interviewed managers were in agreement that the following strategies had been employed in counteracting competition: Increasing the number of retail outlets to remote areas, increasing the number of Automated Teller Machines (ATMs), introduction of cost cutting measures, increasing hours of operations in some branches, and also developing of products which are favoured by the market such as prestige and premier Banking. This represented 100%. The result indicated that indeed the above mentioned strategies had been effective in their application. Six out of the eight interviewed managers agreed that proper training of staff on customer service and general automation of processes ware key in increasing efficiency and effectiveness. In addition, it was agreed that this was a strategy aimed at counteracting industry competition. This represented 75% of the interviewed managers. This result implied that the majority had a view that these strategies had positive results in their implementation.

Four out of eight Managers agreed that increased advertising was also a strategy employed by the Bank in counteracting industry competition. They advocated for all employees being put in proper roles where their out put is maximized to improve the quality of service offered by the Bank. This represented 50% of the interviewed managers. This implied that to some extend extensive advertising was important to the Barclays bank in counteracting industry competition. See the illustration in figure 4.3.

Figure 4.3: Response on strategies adopted by Barclays Bank of Kenya in counteracting industry competition.



Source: Researcher.

Figure 4.3 illustrates the effectiveness of the various strategies implemented by the bank in counteracting industry competition as viewed by the eight interviewed managers.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, conclusions and recommendations of the study. The study sought to determine the challenges faced by Barclays Bank of Kenya in counteracting industry competition. From the study, the researcher found out that the Bank had a formal documented vision and mission which was subject to review after every five years. In addition, the vision and mission were subject to alteration depending on the environmental changes. The environmental changes included competitor's actions, cultural changes, economic changes and changes in Bank policies.

5.2 Summary

In order to counteract industry competition, Barclays Bank of Kenya adopted some strategies which included engaging highly skilled staff, increasing service hours, adoption of new technology, offering a wide range of products, increasing retail outlets/branches, offering superior customer service, increasing the number of Automated tellers machines (ATMs) and also extensive advertising to some extend played a role in counteracting industry competition. Cost cutting which was done through outsourcing of some non-core services, reduction on staff expenses and cutting down on transport costs was also a strategy employed in counteracting competition.

The challenges posed by industry competition to Barclays Bank Kenya in its process of strategy implementation included high expenses incurred due to rapid changes in technology, imitation of its products by competitors, high costs incurred in the process of sustaining superior customer service, varying interest rates from competitors that destabilize the Bank's customers loyalty, cheap products offered by competitors, new entrants in the Banking industry and also unpredictable government policies. Harsh political environment is also highlighted as being among the challenges faced by the Bank in addition to changing customer needs.

5.3 Conclusions

The study concludes that, despite the challenges faced by Barclays Bank of Kenya in its strategy implementation process the Bank has been successful in the implementation of the strategies outlined in 5.1 above. This is evidenced by the fact that the Bank's profits have been on an increasing trend since the year 2005. The Bank has also managed to work around its challenges to remain profitable to its share holders.

5.4 Recommendations

From the findings and conclusions, it is recommended that for Barclays Bank of Kenya to remain competitive in the industry, it should be proactive in strategy formulation and implementation, since most of the industry players are on their toes imitating almost all of its strategies. It is further recommended that the Bank does a frequent study on the customer needs and aligns its products to the customers needs. Advertisements should be properly designed to have an impact on the target population. Speedy adaptation to new technology is also a recommended for the Bank to remain a leader in the market.

5.5 Areas for further Research

This study was an in depth study on competitive strategies adopted by Barclays Bank of Kenya in counteracting Industry competition. Similar research could be carried out in future on other commercial banks, Microfinance institutions and also other different companies in different industries. This information will be valuable to the public.

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APPENDICES 1: LETTER OF INTRODUCTION

Wasike Gabriel Chekuki,
University of Nairobi,
P.O Box 30197-00100,
Nairobi.
September 2009

Head of department,
Xxxxxx department,
Barclays Bank of Kenya,
P.O Box 30120-00100,
Nairobi.

Dear Sir/Madam,

RE: MBA RESEARCH PROJECT

I am an MBA student at the institution mentioned above and I am currently required to carryout an academic research in part fulfillment of my study program
I wish to gather information regarding Competitive Strategies adopted by Barclays Bank of Kenya in counteracting industry competition. This is in line with my area of study; strategic management.

I have attached a separate questionnaire designed to guide responses on the subject matter of the study; Competitive Strategies adopted by Barclays Bank of Kenya in counteracting competition.

This study is designed for academic purposes and will be retained. The information obtained will be treated with the levels of confidentiality it deserves.
I will similarly avail to you the final report should you require one.

Your co-operation will be highly appreciated.

Yours sincerely,

Gabriel Wasike	Mr. Mududa
MBA STUDENT	SUPERVISOR

APPENDICES 2: INTERVIEW GUIDE

Please answer the following questions: -

PART A

1. Name of Department of the respondent: -

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2. Period served in the department by the respondent: -

PART B

3. What are the factors considered important in ensuring that your Bank remain at the top?

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4. What are the products offered by your Bank?

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5. Which of the above products are similar to the products offered by your competitors? (Other Banks and Non-Bank financial institutions)

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6. Which products mentioned in (5) do you consider a threat to your Bank's products?

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7. Outline the products and services considered to be unique in your Bank.

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8. Which financial institutions does your Bank consider to be a threat? (Explain)

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9. Which financial institutions does your Bank consider not to be a threat? (Explain)

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10. Following the changes in the market i.e. entry of new players in the industry changes in technology, shifts in customers loyalty etc, has your Bank been affected? (Explain)

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PART C

Following the turbulence (dynamism) in the operating environment:

10. Has there been a change in the following company objectives?

(a) Corporate Mission. (Explain why)

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(b) Structure (Explain why)

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(c) Range of Products and services. (Explain the change and why the change)

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(d) Market segments served. (Explain the change and why the change)

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(e) Staffing (Explain)

11. Outline any other change(s) made in your Bank as a result of the turbulence in the environment.

12. Has your Bank ever responded in the following ways as a result of competition?

(a) Adoption of new technology. (If yes, explain how successful the response has been)

(b) Cost cutting. (If yes, explain how successful the response has been)

(c) Retrenchment. (If yes, explain how successful this response has been)

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(d) Automation of process. (If yes, explain how successful this response has been)

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(e) New product development. (If yes, explain how successful the response has been)

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(f) Increased Advertising. (If yes, explain how successful the response has been)

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(g) Superior customer service. (Explain) If Yes)

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(h) Training. (If yes, (Explain)

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13. What are some of the challenges posed by the industry competition to your Bank?

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13. Has your Bank experienced any change in customer needs? Outline these needs.

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14. Is your Bank in a merger with any other Financial Institution in the Country? (If yes, which institution and why did it have to merge?)

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15. Has your Bank been involved in opening up of new branches in the recent past? (if yes. why?)

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16. Does your Bank practice relationship marketing? (If yes, explain if it has been a success)

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17 Kindly indicate any other strategies employed by your Bank in counteracting industry competition.

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18. What are the other strategies that your Bank is likely to use in Counteracting Industry Competition?

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