

**STRATEGIES EMPLOYED BY BARCLAYS BANK OF KENYA  
TO ACHIEVE COMPETITIVE ADVANTAGE**

**BY**

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## DECLARATION

This management research project is my own original work and has not been submitted for any other degree in any other university.

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I wish to acknowledge the assistance accorded to me by respondents .They provided crucial data without which the pursuance of my research project would have been futile.

To my employer I say thank you for allowing me to proceed for study leave during the examination periods.

## **DEDICATION**

To my parents and heroes the late Cllr. David Mbewa Ndede and Mama Selina Awuor Mbewa –you toiled for me to go to school and that memory is forever engraved in my heart. Here is a small token to say thank you. My beloved wife Pauline and our sons David and Andy, this is the reason I stayed away late and deprived you the precious times you all deserved. Take pride and savour the moment.

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## **ABSTRACT**

Competitive advantage is an advantage over competitors gained by offering consumers greater value that justifies higher prices. It gives a company an edge over its rivals and an ability to generate greater margins for the firm and its shareholders. This can be achieved through employment of effective strategies implemented efficiently.

This study explored the challenges facing by Barclays Bank of Kenya and the strategies it employs to achieve competitive advantage. Being the leading bank in Kenya in terms of asset base, capitalisation and profitability, it was of interest to do an in-depth analysis of the bank's operations.

The study was conducted using a case study design to gain in-depth knowledge. Primary data was collected using semi-structured interview guides administered through one on one interviews. Secondary data was used to enrich understanding of the bank and the industry as a whole. Data was then analysed using content analysis technique and presented through tables and figures.

The empirical finding of this study is that Barclays Bank of Kenya employs differentiation strategy aimed at achieving competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers.

The study suggests further research on all top performing companies in East Africa to gain an understanding of their strategies for success. This will enrich the academic understanding of strategy as well as the practical application of strategy in organization success.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Business organisations exist to make profit by offering products and/or services that are of value to their customers. They operate in an open environment consisting of stakeholders that impact their ability to do business either positively or negatively. As Pearce and Robinson (1997) noted, an environment can be divided into two main subsets: internal and external environments. Hofer and Schendel (1978), point out that the internal environment comprises factors such as the organizations competitive capabilities and both tangible and intangible resources that affect the firm's abilities to meet its objectives. These include the organizations' culture, structure and resources. Johnson and Scholes (2005) observed that the business environment is organised in a series of layers comprising of the macro-environment, industry, competition and the organisation itself. Competition is a key influencer of how a business operates. Any organization strives to operate in a way that sets it apart from its competitors and defines itself in the eyes and minds of customers. Globalization, growth of information technology and technological advancements among other factors have made modern day customers become very discerning. Organizations therefore have to constantly innovate in order to keep up with the ever-changing customer tastes and preferences through product differentiation, service delivery, technological advancement or efficiency in operations.

Porter (1998) noted that it is prudent for any firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond. Tregoe and Zimmerman (1980) define strategy as the framework which guides those choices that determine the nature and direction of an organization. Ultimately, this boils down to selecting products (or services) to offer and the markets in which to offer them. Mwarey (2008) view strategy as a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. The differences between a firm and its competitors are the basis of its advantage.

Miles & Snow (1978) defined strategic management as a managerial function that helps corporations identify, analyze, and respond to social and political concerns that can significantly affect them. Much of the research on strategic management that focuses on business strategies, environment and organizational performance suggests business strategy can influence organizational performance.

### **1.1.1 Strategy and competitive advantage**

Mintzberg (1994) points out that people use strategy in several different ways either as perspective, position, plan, and pattern. It is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. Strategy and tactics together straddle the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Strategy is at once the course we chart, the journey we imagine and, at the same time, it is the course we steer, the trip we actually make. Even when we are embarking on a voyage of discovery, with no particular destination in mind, the voyage has a purpose, an outcome, an end to be kept in view. Mintzberg continues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called realized or emergent strategy.

Competitive advantage is an advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retains more customers than its competition (Andrews, 1980). There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

In order to realize sustainable competitive advantage, companies need to embark on strategic management. Strategic management is the conduct of drafting, implementing and evaluating cross-functional decision making that will enable an organization to achieve its long-term objectives (Hofer and Schendel, 1978). It is the process of specifying the [organization's mission](#), vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives and then allocating resources to implement the policies, and plans, projects and programs. Lamb (1984) added that strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment.

### **1.1.2 The Banking industry in Kenya**

The banking sector in Kenya comprises of the Central Bank of Kenya as the regulatory authority, commercial banks, Non- Bank financial institutions, Foreign Exchange Bureaus and deposit taking micro-finance institutions (MFIs) as the regulated entities (Bank Supervision Annual Report, 2009). As at 31<sup>st</sup> December 2009, the banking sector was composed of 46 institutions 44 of which were commercial banks and 2 mortgage finance companies. In addition, there was 1 licensed deposit taking MFI and 130 foreign exchange bureaus. Out of the 46 institutions, 33 are locally owned 13 foreign owned. The locally owned financial institutions comprise 3 banks with public shareholding, 28 privately owned commercial banks and 2 mortgage finance companies (MFCs). The foreign owned financial institutions comprise 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks.

Commercial banks and mortgage finance companies are licensed and regulated under the Banking Act, Cap 488 and Prudential guidelines issued thereafter. Deposit taking MFIs on the other hand are licensed and regulated under Microfinance Act and Regulations issued there under. Foreign exchange bureaus are licensed and regulated

under the Central Bank of Kenya Act, Cap 491 and Foreign Exchange Bureau guidelines there under.

The Kenyan banking industry is facing many challenges including cut-throat competition among each other and CBK strict regulations especially on minimum cash deposits, the *induplum* rule dictating maximum interest rates on amounts borrowed, as well as floor rates. Other challenges include serving more educated and discerning customers, technological innovations, globalisation, and encroachment into banking services by mobile phone providers in money transfer and utility bill payment services. Banks therefore have a huge task of employing effective strategies to remain in profitable operations.

### **1.1.3 Barclays Bank of Kenya**

Barclays PLC is a British financial services firm operating worldwide. It is a holding company that is listed on the London and New York stock exchanges, and was listed on the Tokyo Stock Exchange until 2008. It is also a constituent of the FTSE 100 Index. Barclays plc is ranked as the 25th largest company in the world by Forbes Global 2000 (2008 list). By market share, Barclays is the largest financial services provider globally with \$3.7 trillion of assets. It is the second largest bank in the United Kingdom and the world based on asset size.

According to Barclays Bank of Kenya's 2009 annual report, the company operates in 62 countries worldwide and 28 countries in Africa. Barclays Bank of Kenya (BBK), a fully owned subsidiary of Barclays plc, is one of the leading banks in Kenya having opened its doors in 1916. It is currently the largest business unit in the Barclays Africa family in terms of contribution to profit and size of operations. In Kenya, it boasts of a balance sheet worth US\$ 1 billion, which is equivalent to 10% of the country's GDP. Barclays Kenya was listed in the Nairobi Stock Exchange in 1986 and currently has 34,000 shareholders

Barclays Bank of Kenya has the largest range of card products offerings in the market and controls over 60 percent of the Kenyan credit card market (Barclays Bank of Kenya annual report, 2009). The bank's financial performance over the years has built

confidence among its 61,000 shareholders with a reputation as one of the leading blue chip companies in the Nairobi Stock Exchange. Barclays Bank of Kenya has 179 branches and 12 sales centers around the country. The financial service of this bank is of international standards. The bank is a leading institution in matters of retail market in Kenya. Almost 30% of the retail market share of Kenya is under the control of Barclays. Computer and web linkage in all the branches help in the smooth transactions within all the branches. At 231, Barclays Bank of Kenya boasts one of the highest numbers of ATMs in Kenya. The bank has been very instrumental in employment creation in the country with about 6,000 full time employees and a host of many others on part-time basis.

Barclays contributes to the development of the banking industry, financial services sector as well as the overall economy. It has been recognized by the industry as Best Bank in Kenya- Global Finance (2008 and 2009); Company of The Year Award for Human Resource management Practices –Kenya Institute of Management (2008); Best Retail Bank -2009 Banking Awards; Superbrands East Africa –Financial Services Category (2009); and company that best complies with the international Financial Reporting Standards-FiRe Awards (2009).

## **1.2 Statement of the problem**

The essence of understanding and practicing strategy and strategic management is to achieve competitive advantage. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage. This gives a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders

Banks the world over are channels through which individuals and organizations transact businesses, mobilize funds as well as save monies for immediate and future use. They are a key source of revenue generation and dissemination for the government and thus act to stabilize the economy. With the onset of liberalization and globalization of business operations, the banking industry in Kenya, just like the other sectors in the economy, has witnessed increased competition among operators. Porter (1998) acknowledged that competition is at the core of success or failure of

organizations. Technological advancement as well as more educated and discerning customers has also compounded the challenges that impact on banks. To adapt to the changed environment and attain competitive advantage, commercial banks have to come up with competitive strategy in search of favourable competitive positions in the industry.

Researches on various aspects of strategic management by Kenyan companies have been carried out in the past. Mutua (2008) studied response strategies of Family Bank to competition in the Kenyan banking industry and identified the challenges facing the bank and its responses to those challenges. Muturi (2000) studied strategic responses by firms facing changed competitive conditions with focus on East Africa Breweries Ltd. He found out that EABL practices a pro-active approach to competition where they constantly scan the environment through various techniques and pre-emptively develop “market-locking” strategies to maintain their market leadership in the beer industry. This was a useful finding on that industry. Gakumo (2006) studied the application of Porter’s generic strategies by commercial banks in Kenya. The study was a survey of all commercial banks and therefore failed to give in-depth analysis of the operations of particular banks. Another study focusing on the banking industry in Kenya was done by Gathoga (2001) who researched on the competitive strategies applied by commercial banks. Again, Gathoga used a survey design whose findings were quantitative in nature and therefore failed to bring out the unique strategies employed by specific banks. Barclays Bank of Kenya (BBK) remains the biggest bank in the country in terms of asset base, capitalisation and profitability. An in-depth study of its strategies and operations that have helped it maintain its market leadership position would therefore be very useful for both academic and commercial purposes. No study has been done to analyse the strategies used by Barclays Bank of Kenya to out-wit its competitors and maintain its profitable operations over the years. This is the gap that this study will seek to fill by posing the question ‘what strategies does Barclays Bank of Kenya employ to achieve competitive advantage?’

### **1.3 Objectives of the study**

The study has two objectives;

- i. To establish the challenges facing Barclays Bank of Kenya in their operating environment.
- ii. To identify the strategies adopted by Barclays Bank of Kenya to achieve competitive advantage.

### **1.4 Value of the study**

The study will add value to theory by forming a basis upon which further research on issues of strategic management in attaining competitive advantage shall be undertaken by academicians. It will therefore be of use to both students and lecturers as a point of reference.

The study will enhance policy formulation as a point of reference by policy makers in the field of strategic management. It will guide policy makers in private and public service to design policies that lead to achievement of strategic advantage.

It will also enrich the practical understanding of the use of competitive strategies to attain organization success. This will be useful to Barclay's managers, its competitors, the general public as well as other players in the banking industry and beyond.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The central theme of this study and which is high sounded in this chapter is the relevance of strategy in achieving competitive advantage. Strategy is defined according to scholars who have done extensive research in this field. Strategic management process and its components are primed opened in this chapter. Finally, the chapter highlights the concept of competitive advantage as a game changer in attaining organisation success and the various competitive strategies that can help attain competitive advantage.

### **2.2 Concept of strategy**

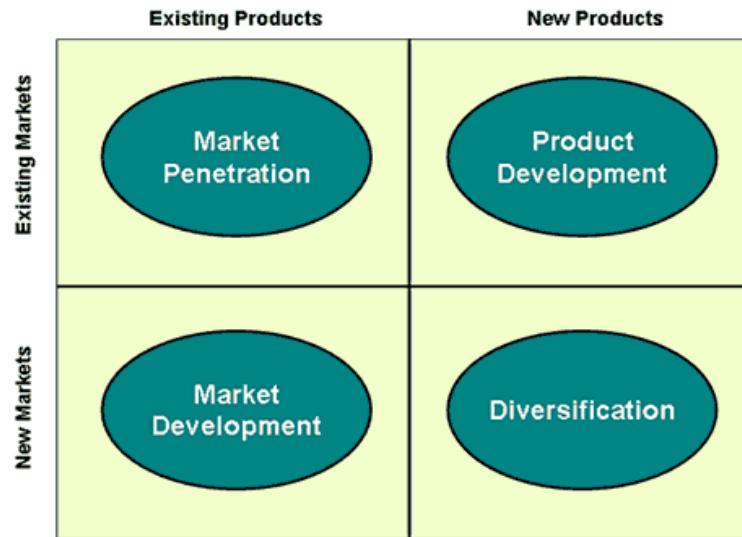
Chandler (1962) described [corporate strategy](#) as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals. He defined structure as the design of the organization through which strategy is administered. Changes in an organization's strategy led to new administrative problems which, in turn, required a new or refashioned structure for the successful implementation of the new strategy.

Ansoff (1998) felt that in developing strategy, it was essential to systematically anticipate future environmental challenges to an organization, and draw up appropriate strategic plans for responding to these challenges. To establish a link between past and future corporate activities Ansoff identified four key strategy components which are product-market scope, a clear idea of what business or products a company was responsible for; growth vector that offers a way of exploring how growth may be attempted; competitive advantage, those advantages an organization possesses that will enable it to compete effectively and synergy (2+2=5), how the whole is greater than the mere sum of the parts, and it requires an examination of how opportunities fit the core capabilities of the organization.

Ansoff developed a "product-mission matrix" or the "2 x 2 growth vector component matrix". The Ansoff Matrix remains a popular tool for organizations that wish to understand the risk component of various growth strategies, including product versus

market development, and diversification. Ansoff's product/market matrix is shown in figure 1.

**Figure 1: Ansoff's Product / Market Matrix**



Source: Ansoff, I. H, (1988), *The New Corporate Strategy, Revised Edition*, Wiley, NY, USA

The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets in order to maintain or increase the market share of current products, secure dominance of growth markets, restructure a mature market by driving out competitors and increase usage by existing customers. Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. There are many possible ways of approaching this strategy, including new geographical markets, new product dimensions or packaging, new distribution channels and different pricing policies to attract different customers or create new market segments. Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing

markets. Diversification is the name given to the growth strategy where a business markets new products in new markets.

Johnson & Scholes (2002) define strategy as the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment to meet the needs of markets and to fulfill stakeholder expectations. Hofer and Schendel (1979), refer to strategy as the basic characteristic of the path an organization achieves with its environment. Aosa (1992) argues that strategy is creating a fit between the external characteristics and internal conditions of an organization to a strategic problem, which is a mismatch between the internal characteristics of an organization and its external environment.

Pearce and Robinson in 1997 explained that strategies exist at several levels in any organization ranging from the overall business (or group of businesses) through to individuals working in it .Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations and is often stated explicitly in a mission statement. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. In describing corporate strategy, Andrews (1980) states:

"Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities" (p.76)

Business unit strategy is concerned more with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities (Pearce and Robinson, 1997).

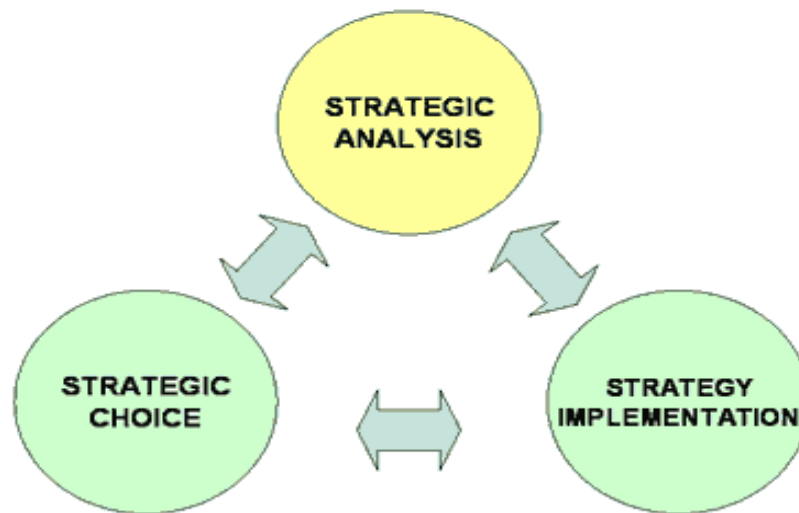
Operational strategy is concerned with how each part of the business is organized to deliver the corporate and business-unit level strategic direction. Operational strategy therefore focuses on issues of resources, processes, and people.

### 2.3 Strategic management process

In its broadest sense, strategic management is about taking "strategic decisions", that is, decisions that answer the questions about where the business is trying to get to in the long-term, which markets to compete in, how the business can perform better than the competition, what resources are required to compete, what environmental factors affect the businesses' ability to compete and what the values and expectations of those who have power in and around the business (Gakumo, 2006).

In practice, a thorough strategic management process has three main components, shown in figure 2.

**Figure 2: Components of strategic management process**



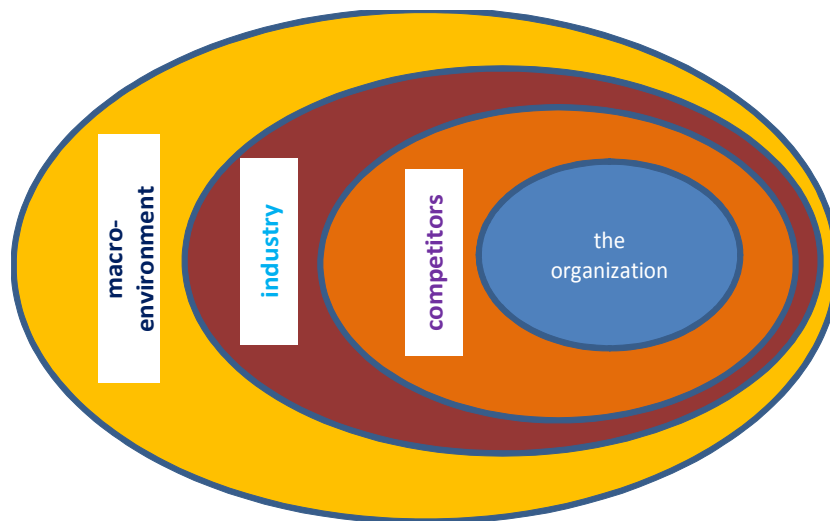
Source: Hofer, C.W and Schendel, D. (1978), *Strategy Formulation: Analytical Concepts*. West Publishing Company.

Strategic analysis is all about the strength of a business' position and understanding the important external factors that may influence that position (Hofer and Schendel,

1978). The process of strategic analysis can be assisted by a number of tools. PESTEL framework is a technique for understanding the environment in which a business operates. It can be used to identify how future trends in the political, economic, social, technological, environmental and legal environments might impinge on organizations. Scenario planning is a tool that builds various plausible views of possible futures for a business. Five forces framework identifies the forces which affect the level of competition in an industry while market segmentation seeks to identify similarities and differences between groups of customers or users. Directional policy matrix is a technique which summarizes the competitive strength of a business' operations in specific markets. Competitor analysis seeks to summarize a business' overall competitive position. Critical success factor analysis is used to identify those areas in which a business must outperform the competition in order to succeed whereas SWOT analysis is a useful summary technique that summarizes the key issues arising from an assessment of a business internal position and external environmental influences.

Johnson and Scholes (2005) opine that the business environment is organised in a series of layers summarised in figure 3.

**Figure 3: Layers of the business environment.**



Source: Johnson G., & Scholes K (2005). *Exploring corporate strategy*, 7<sup>th</sup> Edition. FT Prentice Hall

The most general layer is the macro-environment consisting of the broad environmental factors that impact to a greater or lesser extent on all organizations. Within the broad general environment is the industry or sector. This is a group of organizations producing the same products or services. Competitors are the different organisations offering similar products/ services to that of an organisation. They may be direct or indirect.

Once a clear analysis is done, the next stage is strategic choice and implementation. Strategic choice involves understanding the nature of stakeholder expectation, identifying strategic options and then evaluating and selecting strategic options. Strategy implementation is the hardest part in the whole process of strategy. It involves translating strategy into organisational action.

## **2.4 Competitive advantage**

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices (Ohaga, 2004). It gives a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

Chandler (1962) observed that there are two main types of competitive advantages that is comparative advantage and differential advantage. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability to sell its goods or services at a lower price than its competition or to generate a larger margin on sales. A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers.

A [competitive advantage](#) can be attained if the current strategy is value-creating, and not currently being implemented by present or possible future competitors. Although a competitive advantage has the ability to become sustained, this is not necessarily the case. A competing firm can enter the market with a resource that has the ability to

invalidate the prior firm's competitive advantage which results in reduced [rents](#) (Barney, 1991).

Each organization is a collection of unique resources and [capabilities](#) that provides the basis for its [strategy](#) and the primary source of its returns. In the 21st-century's hyper-competitive landscape, a firm is a collection of evolving capabilities that is managed dynamically in pursuit of above-average returns (Britton and McGonegal, 2007). Thus, differences in firm's performances across time are driven primarily by their unique resources and capabilities rather than by an industry's structural characteristics. Resources are inputs into a firm's production process, such as capital, equipment, the skills of individual employees, patents, finance, and talented managers. Resources are either tangible or intangible in nature. With increasing effectiveness, the set of resources available to the firm tends to become larger. Individual resources may not yield to a competitive advantage. It is through the synergistic combination and integration of sets of resources that competitive advantages are formed. A capability is the capacity for a set of resources to integratively perform a stretch task or an activity. Through continued use, capabilities become stronger and more difficult for competitors to understand and imitate. As a source of competitive advantage, a capability should be neither so simple that it is highly imitable, nor so complex that it defies internal steering and control.

One technique that can help a business to review its internal capabilities to attain competitive advantage is the resource-based view (RBV). It is a [business management](#) tool used to determine the strategic resources available to a [company](#). The fundamental principle of the RBV is that the basis for a [competitive advantage](#) of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Lamb, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

The key points of the resource based view are to identify the firm's potential key resources and evaluate whether these resources fulfill the VRIN criteria, that is, *valuable*, a resource must enable a firm to employ a value-creating strategy by either outperforming its competitors or reduce its own weaknesses. *Rare*, to be of value, a resource must be by definition rare. *In-imitable*, if a valuable resource is controlled by only one firm it could be a source of a competitive advantage. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly. *Non-substitutable*, even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability. If competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents.

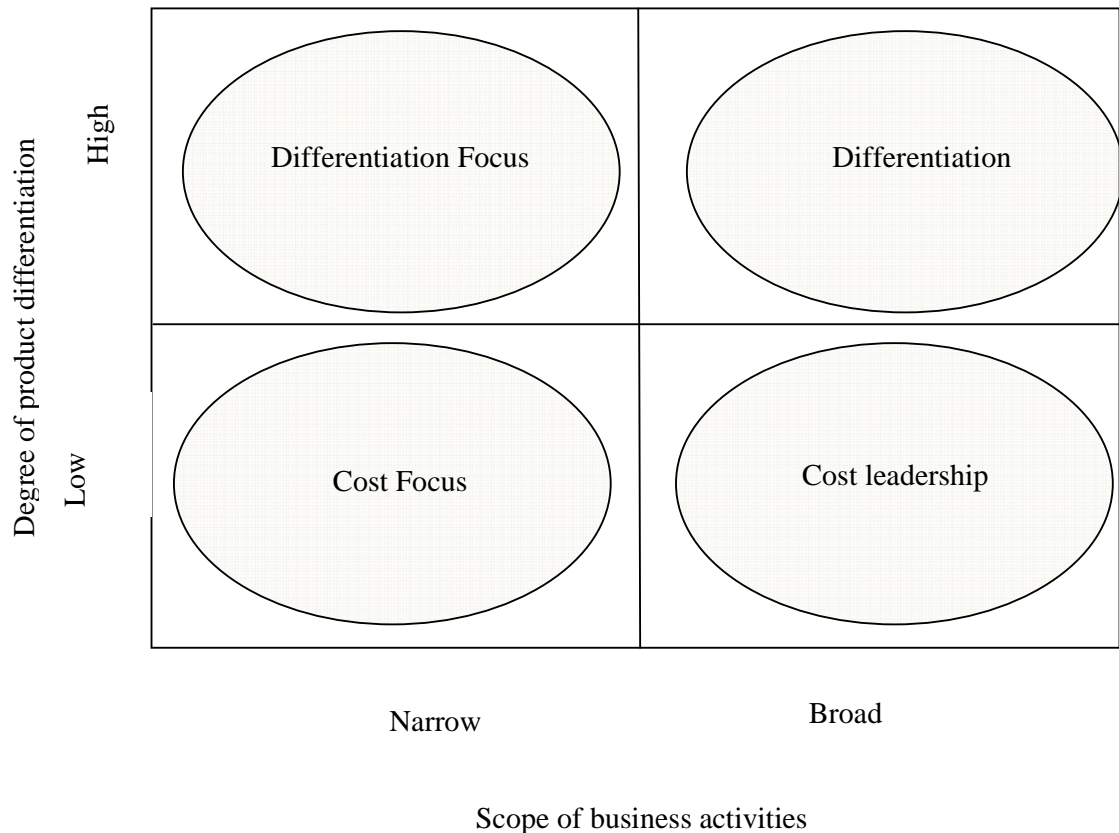
Sustainability in the context of a [sustainable competitive advantage](#) is independent with regards to the time-frame. Rather, a competitive advantage is sustainable when the efforts by competitors to render the competitive advantage redundant have ceased (Drucker, 1952). When the imitative actions have come to an end without disrupting the firm's competitive advantage, the firm's strategy can be called sustainable.

## **2.5 Competitive strategies**

Porter (1998) pioneered thinking in the field of strategy when he proposed that there were four different 'generic' strategies by which organizations could achieve competitive advantage. These were overall cost leadership, differentiation, differentiation focus and cost focus. The strategies relate to the extent to which the scope of a business activity are narrow versus broad and the extent to which a business seeks to differentiate its products. The four strategies are summarised in figure 4.



**Figure 4: Summary of Porter's generic strategies**



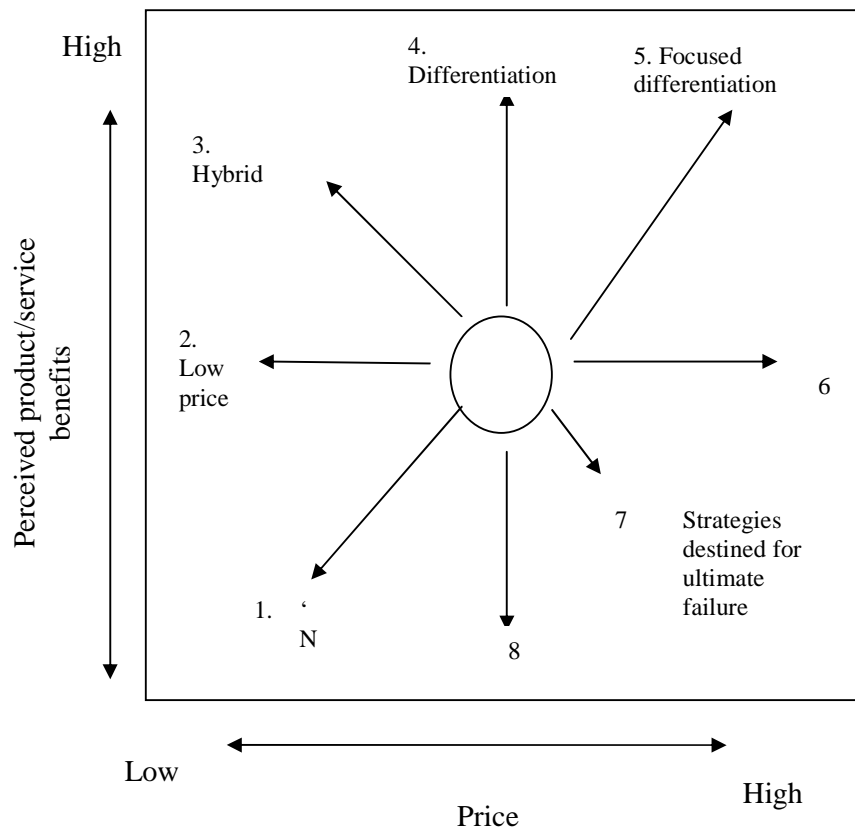
Source: Porter, M. E. (1998), *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press.

The differentiation and cost leadership strategies seek competitive advantage in a broad range of markets or industry segment. By contrast, the differentiation focuses and cost focus strategies are adopted in narrow market or industry.

Johnson and Scholes (2005) modified Porter's strategies into three generic approaches that is, overall cost leadership, differentiation, and focus. They called them market-facing generic strategies derived from Bowman and D'Aveni (1995) based on the principle that organizations achieve competitive advantage by providing their customers with what they want or need, better or more effectively than competitors. Customers will choose which offering to accept on their perception of value-for-money. This consists of the combination of price and customer perceived product/service benefits of each offering. Since the positions on the strategy clock (figure 5)

represent different positions in the market where customers (or potential customers) have different requirements in terms of value for money they also represent a set of generic strategies for achieving competitive advantage.

**Figure 5: The Strategy Clock; Competitive Strategy Options**



Source: Johnson G., & Scholes K (2005). *Exploring corporate strategy*, 7<sup>th</sup> Edition. FT Prentice Hall

Since these strategies are market-facing, it is important to understand the critical success factors for each position on the clock. Customers at positions 1 and 2 are primarily concerned with price but only if the product/service benefits meet their threshold requirements. They emphasize functionality over service or aesthetic issues like design or packaging. In contrast, customers at position 5 require a customized product or service and are prepared to pay a premium price for that privilege.

Differentiation strategy involves selecting one or more criteria used by buyers in a market and the positioning the business uniquely to meet those criteria. It seeks to provide products or services that offer benefits different from those of competitors and that are widely valued by buyers (Sharp and Dawes, 2001). Johnson and Scholes (2005) contributed that differentiation strategies aim to achieve competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers.

With cost leadership strategy, the objective is to become the lowest-cost producer in the industry. Johnson and Scholes (2005) call it the no frills strategy which combines a low price, low perceived product/service benefits and a focus on price-sensitive market segment. These segments can exist for a number of reasons. Where customers do not discern or value differences in the offerings of different suppliers so price becomes the key competitive issue, where there may be price-sensitive customers who can't afford or choose not to buy better quality goods or services, where buyers have a higher power and/or low switching costs so building customer loyalty is difficult for example with petrol retailers, where there are a small number of providers with similar market shares so the cost structure is similar and new products/service features are quickly imitated or where the major providers are competing on a non-price basis the low-price segments may be an opportunity for small players to avoid the major competitors.

In differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. Morris and Morris (1990) found that this strategy seeks to provide high perceived product benefits justifying a substantial price premium, usually heavily branded. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants and that existing competitors are not meeting those needs and wants. Johnson and Scholes (2005) gave an example of alcoholic drink segment where premium beers, single malt whiskies, wines from particular chateaux, all compete to convince customers that their product is sufficiently differentiated from their competitors to justify significantly higher prices.

The last strategy is a hybrid strategy which seeks to simultaneously achieve differentiation and a price lower than that of competitors. The success of the strategy depends on the ability to deliver enhanced benefits to customers together with low prices whilst achieving sufficient margins for reinvestment to maintain and develop the bases for differentiation. Miller, (1992) argued that if differentiation can be achieved there should be no need to have a lower price since it should be possible to obtain prices at least equal to competition, if not higher. However, Johnson and Scholes (2007) countered that the hybrid system can be advantageous if much greater volumes can be achieved than competitors then margins may still be better because of a low cost base or if an organization is clear about the activities on which differentiation can be built (potential core competencies) it may be able to reduce costs on other activities or as an entry strategy in a market with established competitors. Organisations search for a 'loose brick' in a competitor's portfolio of businesses then enter that market with a superior product and if necessary at a lower price.

Scholars in the field of strategy have put forth various models that can be applied by companies to achieve competitive advantage. They however agree on one thing, that there is no one cure-it-all strategy that applies to all companies. Various companies use various competitive strategy models to attain competitive advantage depending on various circumstances such as the environment in which they operate and nature of product or service.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

A research methodology defines what the activity of research is, how to proceed, how to measure progress, and what constitutes success (Creswell, 1998). It analyses the principles of methods, rules, and postulates employed by a discipline. This chapter analyses the design, data collection techniques as well as data analysis methods that are used in this study.

### **3.2 Research Design**

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to purpose with the economy in procedure (Mutua, 2008). The research was conducted using a case study design which is a detailed investigation of individuals, groups, institutions or other social units (Polit and Hungler, 1983).

This design is appropriate as it involves an in-depth understanding of issues under review that is the challenges being faced by Barclays Bank of Kenya as well as the response strategies to achieve competitive advantage. The design has been successfully used by Muturi (2003), Mutua (2008) and Mwarey (2008).

### **3.3 Data collection**

Data refers to factual information used as a basis for reasoning, discussion or calculation (Cooper, 2008). There are two types of data: primary and secondary data (Mugenda and Mugenda, 2003). Primary data are data collected and used for the specific purpose for which they were intended. Secondary data are data that have been previously collected. Both of these sources were used for the study.

Primary data was collected using semi-structured interview guides. The interview sessions were open-ended and provided an in depth understanding of the matter under review and were tape recorded to aid analysis. Secondary data published by Barclays

Bank as well as banking industry reports were used to enrich understanding of the bank and the industry as a whole.

The persons interviewed are senior managers in charge of such key functions as marketing, operations, human resources, finance and administration, as well as product development. These are the persons responsible for strategy design as well as overseeing implementation.

### **3.4 Data analysis**

Data analysis means the categorizing, ordering, manipulating and summarising data to obtain answers to research questions (Miller, 1992). Its purpose is to obtain meaning from collected data.

Data collected was qualitative in nature and the analysis technique was content analysis. Qualitative data was presented through narratives and tabulated for ease of comparison and interpretation of the findings.

## **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter covers data analysis, interpretation of findings and discussion of the research findings. Content analysis technique was used to decipher meaning from the data and presented in the form of tables and figures to ease understanding.

### **4.2 Challenges faced by Barclays Bank of Kenya**

The government, through banking industry regulator Central Bank of Kenya, adopted a monetary policy in 2003 that sought to support economic recovery while ensuring macroeconomic stability with particular focus on inflation, stable interest rates and the exchange rate. As a result, the measures created conditions for increased competition among commercial banks for a limited supply of Government securities. With low interest rates accruing from government securities banks have been forced to move back to their core business of lending money to customers. The lending has mainly been in the form of [personal loans](#) and credit cards. In the face of increasing competition, there is need for efficient development of products that can quickly satisfy a more demanding customer base and build long-term customer trust. Meeting these challenges requires new business and marketing strategies that boost revenues, improve operational efficiency, cut costs, and enhance the overall management of business. Up to 10 years ago, Barclays Bank was not focusing a lot on individual depositors with minimum account operating balance set at Kshs. 10,000. This has since changed with products introduced covering all customer segments at very competitive rates.

Satisfying customers' needs and expectations is very challenging to banks since customers have become more demanding and their loyalties are diffused if they think a bank is not serving them well. To them there are multiple choices; the wallet share is reduced per bank with demand on flexibility and customization. Given the relatively low switching costs, customer retention calls for customized service and hassle free, flawless service delivery will influence their choice. Customers want to have a sense of belonging that will keep them from seeking alternatives. Finding out

what customers expect is essential to providing service quality, and marketing research the key to understanding customer expectations and perceptions of service. Barclays Bank of Kenya has had to invest in consumer research to provide the basis for the development of new service concepts to meet targeted consumer needs.

Direct competition among banks in Kenya has become fierce due to the impact of globalization and regional integration. The launch of East Africa Community as an integrated market of over 150 million people has increased the attractiveness of the region. As a result, there has been an influx of banks from other regions in Africa expanding into the region such as Eco Bank, UBA Bank and Bank of Africa from West Africa. These banks are very strong in Africa due to their wide networks and are experienced in Africa operation. They are positioned as pan-African business operators and eat into the segment of customers who operate across many countries. This poses direct competition to Barclays Bank of Kenya which is also positioned as a multi-national bank.

Competition to banks has not been limited to the players within the industry only. Banks have had to contend with the emergence of savings and credit co-operatives (SACCOs) that have also ventured into offering banking services to their members. The SACCOs offer cash deposit and withdrawal as well as loans at competitive rates to their members that lock out commercial banks. Besides, mobile money deposit and transfer services have been launched by virtually all mobile phone operators in Kenya. Safaricom has Mpesa, Zain has Zap, Essar communications has Yu Cash. Market statistics show that cumulative value of M-pesa's person-to person transfers since its launch to September 2009 stood at Sh253 billion (CBK, 2009) as summarised in table 1.



**Table 1: Mobile phone money transfer data**

<b>MOBILE PHONE MONEY TRANSFER DATA</b>	<b>JUN 30,2007</b>	<b>JUN 30,2008</b>	<b>JUN 30,2009</b>
Total value of transactions (Shs Billion)	1.49	61.07	318.44
Number of transactions (Million)	0.48	21.77	125.12
Registered customers (Million)	0.18	3.04	7.39
Number of agents	527	3,011	10,735

Source: Central Bank of Kenya, (2009). *Bank Supervision Annual Report*. Nairobi.

More than 75 organisations including manufacturers of retail goods are already hooked up to mobile money services allowing their customers to pay using mobile money transfer platform offered by mobile phone service providers. This offers direct competition to commercial banks and Barclays Bank has been no exception.

Technology plays a big role in banking service provision and provides a huge challenge. Banks must have a platform that allows customer to transact faster and conveniently. The technology they use must also be compatible with other external partners to allow for cross-functional operations. This requires huge capital outlay that must be planned for and most times, taken away from other development budgets or borrowed at a cost. Barclays Bank of Kenya changed their core banking system mid 2010 from Prime to Flexxcube at a cost of Kshs. 1 billion. The money was raised internally through stringent cost cutting and revenue reallocation over a three year period that left many priority areas severely affected. Cost cutting also meant a freeze on employment and promotions, management bonus reduction and other staff development projects kept on hold which affected staff morale and led to a considerable amount of staff turnover.

Stringent industry regulations provide a challenge to banks. Commercial banks are licensed and regulated by the Central Bank of Kenya under the Banking Act, Cap 488 and Prudential guidelines issued thereafter. The regulations govern minimum cash deposits by banks, the *induplum* rule dictating maximum interest rates on amounts borrowed, as well as floor rates. These provide a challenge in that banks have minimum flexibility of operations. Besides the Kenyan regulations, Barclays Bank of Kenya being a wholly by Barclays Bank PLC, has to comply with United Kingdom's

Financial Services Authority requirements. These two bodies have strict control requirements that limit the bank's operations.

Strict internal controls are a further challenge facing Barclays Bank of Kenya. Being a subsidiary of an international company, a lot of decisions have to be referred back to the head office outside Kenya. This slows down decision making and response time to changes. As such, local banks respond faster to changes in the environment than Barclays Bank of Kenya.

High staff turnover is a challenge too. Given the high number of commercial banks operating in the country, there is a lot of staff movement within the industry caused by both monetary motivations and industry espionage. This puts a strain on continuity, succession planning, staff costs and training programmes.

### **4.3 Strategies employed by Barclays Bank of Kenya**

The Corporate strategies of Barclays Bank of Kenya are guided by its Vision to be the best retail and commercial bank for every customer, every market, every product, every time (Barclays Annual Report, 2009). It guides the board planning as well as Country Management Committee regular deliberations to steer the overall company strategies. This covers such critical areas as customer segment profiling, systems and services, distribution channels, product portfolio, human resource policies, regulatory frameworks, overall internal control mechanisms as well as shareholder wealth protection.

The strategies employed by Barclays Bank of Kenya were looked at from the models of strategy espoused by scholars in the field of strategic management. The study was also alive to the challenges faced by the bank and its resource capabilities in line with the resource based view. From the interview with respondents who are senior staff members in crucial areas of the bank, a pattern emerged similar in thought and practice with Porter's (1998) generic strategies as well Johnson and Scholes (2005) modified strategies of overall cost leadership, differentiation and focus.

Differentiation strategies aim to achieve competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers. This is the strategy practiced by Barclays Bank of Kenya. The bank has products divided into corporate and consumer banking segments. Corporate banking offers financial solutions to Small and Medium businesses, large businesses and large corporates. Consumer banking on the other hand deals with individual customers. The bank is stronger on consumer banking segment compared to corporate banking in terms of revenue generated as summarised in table 2.

**Table 2: Loans and advances to customers**

	Segment	Amount (Kshs)	%age
Overdrafts	corporate	7,705,000,000.00	7.92
Advances under financial lease	corporate	4,017,000,000.00	4.13
Loans to customers	consumer	80,011,000,000.00	82.26
Bills discounted	dual	5,511,000,000.00	5.67
Bills negotiated	dual	4,000,000.00	0.00
La Riba	Consumer	21,000,000.00	0.02
Gross loans and advances to customers		<b>97,269,000,000.00</b>	

Source: Barclays Bank of Kenya Limited, (2009). *Annual Report And Accounts*, Nairobi.

The Barclays consumer banking business serves customers under four major segments with entry criteria based on net monthly income that is, premier, premier life, standard, local business and Islamic banking as summarised in figure 6

**Figure 6: Barclays product positioning**



Premier banking serves the very top end of the market with minimum entry criteria of Kshs.300,000 net income monthly. Customers have dedicated premier centres to serve their banking needs with personalised relationship managers. Premier Life is the second tier serving customers slightly below the Premier segment. The standard accounts are bouquet and bouquet-plus accounts that are tailored for the average customer looking for basic banking needs without any additional services. The Islamic banking product, *La Riba*, caters for the special needs of the Muslim community in line with their faith. Launched in 2005, it was the first product of its kind in the country and underlined Barclays bank's mission of providing innovative services to their customers that meet their needs

The bank's products are niched for the middle to upper class segment of the market. The charges are slightly above the average market prices to augment the bank's image as a premier service provider. Even though the products are mass marketed and widely distributed through 119 branches countrywide spread even in low income areas, they appeal to above-average customers who delight in excellent service and prestige. This compares to other mass market banks such as Equity and Family banks that appeal to the lower segments of the market with products tailored for the small business people.

#### **4.4 Discussion of findings**

Competitive advantage is the ultimate desire of any business venture worth its salt. The thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations of business managers should be in pursuit of this end (Chandler, 1962). Strategy is at once the course we chart, the journey we imagine and, at the same time, it is the course we steer, the trip we actually make. Even when we are embarking on a voyage of discovery, with no particular destination in mind, the voyage has a purpose, an outcome, an end to be kept in view. For businesses organizations, the purpose of this voyage is profit maximizations and protection of shareholders welfare while safeguarding public good by operating in ethical and generally accepted standards.

A key plank in attaining competitive advantage is an appreciation of an organization's external environment and internal capacities. This study appreciated this crucial fact and set an objective to establish the challenges faced by Barclays Bank of Kenya. The focus was in the banking industry in particular and the Kenyan economy in general line with the contributions by Johnson and Scholes (2005). Mutua (2008) studied response strategies of Family Bank to competition in the Kenyan banking industry. He identified the challenges facing the bank and its responses to those challenges. He found that the challenges facing Family Bank are competition, regulation, customer demands, technological advancement, globalisation, resource limitation, and weak brand recognition. These are largely consistent with the external environmental challenges faced by Barclays Bank of Kenya. It confirms that banks operating in Kenya face the same external challenges.

For an organisation to achieve competitive advantage it has to provide its customers with what they want or need better or more effectively than competitors. Customers will choose which offering to accept on their perception of value-for-money. Differentiation strategies lead to achievement of competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers (Johnson and Scholes, 2005). Barclays Bank of Kenya has perfected this strategy by offering premier products and services at a

margin above going market rate. This has been the bank's strategy consistently over the years earning it a superior brand position in the minds of its customers and the public at large. This preferred position, even though it locks out the huge numbers in the mass market, attracts clientele with higher per-capita income. These clients are therefore able to cross-buy most of the bank's value-adding products leading to increased profits per customer. In studying strategic responses by firms facing changed competitive conditions with focus on East Africa Breweries Ltd, Muturi (2000) found that EABL practices a pro-active approach to competition by developing "customer-locking" strategies to maintain their market leadership in the beer industry. EABL achieves this by constantly and innovatively changing their products to appeal to their target customers. Customers are willing to pay a premium for the value added and this provides switching costs. EABL has been able to retain its customers amid fierce competition from local and international brands of beer and spirits. Therefore, Muturi's findings corroborate the effectiveness of differentiation strategy in attaining competitive advantage.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter of the study highlights the findings, conclusions, recommendations, and suggestions for further study. It gives a final overview of the project and helps the reader appreciate the contents of the study.

### **5.2 Summary of the findings**

Barclays Bank of Kenya is a well run blue chip company that follows laid down procedures in its operations. It is guided by a vision and mission that outlays its long term, medium and annual plans. Its successful operations have earned accolades over the past decade or so are as a result of successful strategies.

#### **5.2.1 Summary of the challenges facing Barclays Bank of Kenya**

The challenges facing Barclays Bank of Kenya can be categorised as internal and external. Internal challenges are those inherent within the organization and are within its control. External challenges are those outside the control of the organization.

The major internal challenge facing Barclays Bank of Kenya is Bureaucracy. Being a subsidiary of a multinational bank, the local bank has to seek approvals from overseas offices for most of the key decisions. This slows down decision making and reduces response time to challenges in the environment.

External challenges include stiff direct competition from other banks, competition from other products offering banking services, globalisation which has lead to foreign banks setting up branches in Kenya. Others include changing customer needs and demands, strict regulatory and compliance requirements and technological changes.

### **5.2.2 Summary of strategies employed by Barclays Bank of Kenya**

Barclays Bank of Kenya follows Porter's differentiation strategy. It aims to achieve competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price to reflect the extra value added features provided to the customers.

Evidence of Barclays Bank of Kenya's adoption of differentiation strategy is provided by its products, pricing and distribution policy. Its products are rich in value addition and priced above average market prices. Besides, it opens branches and outlets at fairly urban centres with potential for high-end clientele.

## **5.3 Conclusion**

The objectives of this study were to examine the challenges facing Barclays Bank of Kenya and strategies it employs to achieve competitive advantage. The researcher was interested in finding out the factors influencing the operations of the bank as well as existence or absence of deliberate strategies leading to the bank's successful operations over the years. It tested the various strategy models espoused by scholars in the field of strategy and strategic management to peruse the exact model applied by the bank.

The bank faces the normal external environment challenges affecting all banks in Kenya like regulatory framework, competition, changing customer needs, technological advancement, globalization and standardization of products. Internal challenges exist like bureaucracy and strict internal controls restricting response rate to changes in the environment. However, with its big profit margins, strong brand name and international affiliations and recognition, the bank is able to attract high end clientele and operate efficiently and effectively.

Interviews with senior managers of the bank in key departments revealed a common thread running throughout the organization. Consistently, the bank is positioned as a premier service provider serving the middle to upper customer segment. Its products and customer service are geared towards reinforcing this brand position in the eyes of



the general public. The findings of this study show a clear practice of differentiation strategy by Barclays Bank of Kenya.

#### **5.4 Limitations of the study**

The study was limited in the number of respondents interviewed on one-on-one basis. Eight senior managers were lined up for one on one interviewing but only five could make it. The rest provided written submissions because they were unavailable due to leave or busy schedule.

Although their views were largely consistent with the others, their physical presence for the interviews and lines of thought would have added value to the study.

#### **5.5 Recommendations for further research**

The study focused only on Barclays Bank of Kenya and not all banks operating in Kenya. Its findings were therefore limited. It is possible that other top banks apply certain effective and efficient strategies that would add to the body of knowledge in the field of strategic management.

Research should also be done on all top-performing companies in East Africa in order to come up with widely used strategies across industries. This will greatly improve the understanding of strategies being practiced by the best companies in the region.

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## **APPENDIX I**

### **Introduction letter**

Dear Respondent,

I am a student pursuing a Master of Business Administration [MBA], Strategic Management degree course at the University of Nairobi, School of Business. My study intends to examine the strategies employed by Barclays Bank of Kenya to achieve competitive advantage.

The interview attached asks questions about the challenges faced by Barclays Bank of Kenya and strategies employed to achieve competitive advantage. The interview shall be semi structured and conducted face to face and this guide is aimed at helping you prepare adequately. It will last about one hour and I will rely on your experience and in-depth understanding of your area of operations to enrich the study.

I wish to assure you that all information with respect to this research will be treated with the strictest confidence it deserves and will only be used for academic purposes, and in no circumstance will your name be mentioned in the report without your prior permission. If you would like, we can send you the report of the findings on request.

Kindly assist in providing the required information. Thank you very much.

Thomas Mbewa  
[MBA Student]  
P.O Box 18594 -00100  
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Tel. 0722 408725

Prof. Evans Aosa  
Supervisor

## APPENDIX II

### Interview guide

#### Section A: Introduction

Set up the interview environment and explain the following to the interviewee;

- The purpose of the interview
- Why the stakeholder has been chosen
- The expected duration of the interview
- His/her consent to the interview and the bank's approval through the corporate affairs department.
- The conversation shall be tape recorded to preserve data and to aid in analysis.

If interviewee understands the purpose of the interview, is comfortable enough and gives consent, commence the session.

#### Section B: Specific information

1. Kindly state the department you work in, its objective and the specific job you do.
2. Please explain Barclays Bank's vision and mission statements and how it guides your department's operations.
3. Who is/was involved in the preparation of the mission and vision statements, and their upgrade?
4. Could you discuss the key external factors that shape the direction and actions of the Bank's mission and vision?
5. Are there certain internal factors that determine how the Bank reacts to the critical factors identified earlier? What are they and how are they overcome if they become too limiting?
6. In your understanding, what are the things that BBK does better than its competitors in providing services to customers?
  - a. Prompt on customer service, resource allocation, cost management, HR policies, CSR programs, internal control mechanisms, systems and services.

- b. Ensure full coverage of the marketing principles viz price, product, distribution, promotion, etc.
- 7. What strategies does BBK employ to sustain the mentioned activities across functions and departments? Do you consider them effective?
  - a. Prompt on all competitive strategy models
  - b. Prompt on linkage between external environmental factors and how they are overcome using internal resources.
- 8. How are the overall company strategies implemented within departments? In your experience, what are some of the challenges faced during implementation and how are they overcome?

Thanks a lot for your time and valuable responses