ADOPTION OF BLUE OCEAN STRATEGY BY COMMERCIAL BANK OF AFRICA LIMITED, KENYA

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

Signature………………………. Date…………………..

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

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DEDICATION

I would like to dedicate this work to Mr. Johnes A. Omboto and Mrs. Emilly A. Omboto for raising me well and setting the bar high. My wife Mary Ratiro for persevering with me during the entire time that school and work denied us time together. Your love, support and encouragement has seen me through this journey. My siblings Dorothy, Chris and Dave, may God bless you.

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ACRONYMS AND ABBREVIATIONS

CBA: Commercial Bank of Africa

CBK: Central Bank of Kenya

CMA: Capital Markets Authority

GoK: Government of Kenya

IT: Information Technology

MSME: Middle and Small Micro Enterprise

ABSTRACT

A well formulated strategy enables an organisation to marshal and allocate its resources in a unique way on the basis of relative external competences and limitations so as to achieve competitive advantage (Pascale, Steenkamp & Millier, 2000). The management risk relevant to strategy execution is greater in the blue ocean than in Red Ocean, because its execution often requires significant change. The study focused on the adoption of blue ocean strategy by Commercial bank of Africa limited. It assessed the blue ocean strategies adopted by Commercial bank of Africa limited. The study adopted a case study design. The findings were obtained using an interview guide that was administered personally by the researcher. There were seven managers available at the time of the study. Demographic profiles established that the majority of managers were male. The study established that the managers perceived blue ocean strategy as a useful tool in the management of the banking operations and had positively impacted on the cost, operations and timely completion of set financial targets. The study also established that Commercial bank of Africa limited indeed had adopted blue ocean strategy. However, most managers at the bank did not even have a clue of what a blue ocean strategy means. The study found out that the services designed by the bank have an element of class and service excellence with an emphasis to personalized services. The study specifically identified some products that are practical examples of the blue ocean strategy implementation by the bank. The particular services added value, made competition irrelevant and created uncontested market space. The respondents mentioned the leverage on Information Technology; especially the new core banking software as the backbone of value addition. The study recommended that there is need to fully entrench the blue ocean concept by ensuring that managers are well trained on blue ocean strategy. It further recommended that the government should come up with stringent policies to curb unfair and unethical competition or market practices in the banking sector. The study was limited by the fact that it only focused on one bank and therefore its findings may not be applicable to the entire banking sector. While the managers at Commercial Bank of Africa perceive blue ocean strategy as being instrumental in streamlining operations in the banking sector; further research should be conducted to establish whether there is a correlation between blue ocean strategy adoption and performance of firms in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The development of the field of strategic management within the last two decades has been dramatic. While its roots have been in a more applied area, often referred to as business policy, the current field of strategic management is strongly theory based, with substantial empirical research, and is eclectic in nature. Early developments include Ansoff's (1965) corporate strategy. Perhaps, one of the more significant contributions to the development of strategic management came from industrial organization (IO) economics, specifically the work of Michael Porter (1985). The structure-conduct-performance framework and the notion of strategic groups, as well as providing a foundation for research on competitive dynamics, are flourishing currently (Golan, Karp & Perlofi, 2000).

In times of uncertainty, game theory (Flood, Dromgoole, Carroll & Gorman, 2000) should be applied as a strategic tool, for it offers perspectives on how players might act under various circumstances, as well as other kinds of valuable information for making decisions. Yet many managers are wary of game theory, suspecting that it's more theoretical than practical. When they do employ this discipline, it's often misused to provide a single, overly precise answer to complex problems. Game theory is a special branch of mathematics which has been developed to study decision making in complex circumstances (Ansoff & McDonell, 1990). It is a major method used in mathematical economics and business for modeling competing behaviors of interacting agents. People rarely make decisions in a vacuum. The right choice for us may depend upon the choices made by others. In turn, the profits and happiness of these other individuals depends on the actions that we will take. Real-world interactions are modeled as simplified abstractions (Flood et. al., 2000).

The firm is a node within a connection of players including rivals, suppliers, customers, institutions and other entities (Aosa, 1992). These nodes are linked by individuals within their firms. These connections provide legitimacy and resources to the firm and the greater number and diversity of connections suggest the strength of the firm (Galpin, 1998). When a firm has greater levels of connectivity, it suggests that the firm has a higher degree of network centrality (Galpin, 1998). However, these connections can also provide constraints on the firm and limit its freedom of action.

Increasingly, companies are utilizing the science of Game Theory to help them make high risk/high reward strategic decisions in highly competitive markets and situations. Modern Game Theory has been around for over 50 years old and has demonstrated an ability to generate the ideal strategic choice in a variety of different situations, companies and industries. Game Theory principles are leveraged through the use of strategy games. These games are well-defined mathematical scenarios that encompass a set of players (individuals or firms), a set of strategies available to those players, and a payoff specification for each combination of strategies (Welch & Welch, 2005).

Kenya's banking sector is a cut-throat business arena, with 44 players including multinationals all scrambling for a slice of the pie (CMA, 2012).Commercial Bank of

Africa (CBA), one of the key players in Kenya, is a financial institution that largely operates as a microfinance commercial bank, targeting the middle and lower segment of the market that includes middle and small micro enterprise (MSMEs).To survive and thrive, CBA must revolutionize the banking concept in Kenya and make banking accessible to a majority of the Kenyan population. It must adopt strategic alliances that offer simple requirements to cater for different types of customers who need various bank services thereby expanding its market reach while at the same time giving high value services to the clients at competitive charges.

1.1.1 Concept of Strategy Implementation

Giles (1991) describes strategy as a plan that puts together organisation's major goals, processes and action sequences. A well formulated strategy enables an organisation to marshal and allocate its resources in a unique way on the basis of relative external competences and limitations (Pascale, Steenkamp & Millier, 2000). Due to scarcity of resources, the strategy that is chosen should be one that optimises these resources on the pursuit of organisational goals and objectives (Johnson & Scholes, 1999). Strategy implementation is defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives (Pascale et al, 2000). Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees (Welch & Welch, 2005).

An organizational control system is also required (Johnson & Scholes, 1999). This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance (Johnson & Scholes, 1999). Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups. Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc. Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known (Welch & Welch, 2005).

The business world is entering a new frontier composed of rapid, unpredictable change and substantial uncertainty that are transforming the nature of competition (Pascale et al, 2000). Success in today's business world requires new managerial mindsets that emphasize global markets, strategic flexibility, and the ability to tolerate and harness change (Johnson & Scholes, 1999). Furthermore, the time frames of all strategic actions are significantly being reduced (Lynch, 2009). This new business setting requires new forms of managerial thinking and organizational structures, global mindsets, considerable strategic and structural flexibility, and innovative methods for implementing strategies. A scientific reawakening will bring about the rise of new industries, change how businesses compete, and possibly transform how companies are managed (Pascale et al, 2000). Business leaders know that plans made in the past are unlikely to be implemented unchanged (Lynch, 2009). Business strategy has entered the aptly named market-driven era because of its central focus on the market as the basis for strategy design and implementation (Lynch, 2009). In order to cope with these dynamic changes for the strategic management field, more research is needed in this field (Okumus, 2001).

1.1.2 Concept of Blue Ocean Strategy

According to the blue ocean strategy, businesses should focus less on their competitors and more on alternatives; they also should focus less on their customers, and more on non-customers, or potential new customers (Kim & Mauborgne, 2005).The rapid pace of innovation and change in recent years has led scholars and executives to search for an approach to strategy that is more dynamic than Porter’s (1980) classic “five forces.” One of the most successful efforts to do so is the “Blue Ocean Strategy” also known as the value innovation solutions (Kim & Mauborgne, 2005).

Kim and Mauborgne (2005) states, value innovation is created in the region where a company’s actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is increased by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value gene. Kim and Mauborgne (2005) argue that the "five forces" analysis is a formula for remaining in "red oceans," where the sharks compete mercilessly for the action. The key to exceptional business success, they say, is to redefine the terms of competition and move into the "blue ocean," where you have the water to yourself (Okumus, 2001). The goal of these strategies is not to beat the competition, but to make the competition irrelevant (Kim & Mauborgne, 2005).

In strategy implementation, there are many reasons behind an increasing demand to create blue oceans (Kim & Mauborgne, 2005). The global environment has changed rapidly over the past two decades, as a result of the revolution in the Information Technology and Communication advances and the rise of the global knowledge based economies across the world (Beer & Eisenstat, 2000). New markets have emerged with different market players, demanding new market strategies and skills, to produce new products and services to compete in the same market space (Kim & Mauborgne, 2005). Current market strategies and occupational skills are quickly becoming outdated with the new technologies and new industries emerging in the market (Okumus, 2001). So for strategy implementation, it becomes essential for the companies to look at new dimensions in their strategic planning, which gives them effective strategic directions to their corporate goals. An effective, actionable strategic plan will give a company an edge over the others in the industry, where there are many competitors that have the same objectives; same resources, same skills, and competing for the same market share (Beer & Eisenstat, 2000). However, this red ocean environment will soon shrink the demand making the competition intensified and unlikely to create real growth in the long-run.

Therefore, there is a need to look at new strategies in a 'Blue Ocean' (Kim & Renee, 2005).

1.1.3 Kenya's Banking Industry

During the quarter ended September 30, 2012, the Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 5 representative offices of foreign banks, 111 foreign exchange bureaus and 2 credit reference bureaus (CBK, 2012). The Kenyan Banking Sector continued to register improved performance with the size of assets standing at Ksh. 2.3 trillion, loans & advances worth Ksh. 1.32 trillion, while the deposit base was Ksh. 1.72 trillion and profit before tax of Ksh. 80.8 billion as at 30th September 2012. During the same period, the number of bank customer deposit and loan accounts stood at 15,072,922 and 2,055,574 respectively (CBK, 2012). Kenya's financial industry is currently one of the fastest growing not only in the East African region but in the continent. This phenomenal growth has been supported by the expansion of banks into new market segments, prudent risk management and enhanced economic prospects underpinned by a stable macroeconomic environment.

Central bank is the lender of last resort and is the banker to all other banks in Kenya. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the county and the solvency of the Kenya shilling. Banks have also come together and formed a forum under the Kenya Bankers Association. The banking sector is an imperfectly competitive market with forty three players in Kenya. The industry performance is measured based on business practice, performance, products and services. The banking industry competition is defined on both sides of the equation as saving function, credit extension and lending function.

1.1.4 Commercial Bank of Africa, Kenya

Commercial Bank of Africa (CBA) is a financial services provider headquartered in Nairobi, Kenya. CBA is one of the forty-four licensed commercial banks in the country. As of December 2010, the bank was one of the largest commercial banks in Kenya with assets of approximately US$913 million (KES: 75.5 billion), with shareholders' equity of approximately US$100 million (KES: 8.3 billion). It is the largest privately owned commercial bank in Kenya, according to its website. The bank focuses on serving the banking needs of large corporations, diplomatic missions, NGOs and high net worth private clients (CBA, 2013).

The bank was founded in 1962 in Dar es Salaam, Tanzania. Soon, branches were opened in Nairobi & Mombasa, Kenya and in Kampala, Uganda. When Tanzania nationalised private banks in 1967, the bank moved its headquarters to Nairobi. At the beginning, CBA was owned by a consortium of financial institutions known as Societe Financiere pour les pays D`Outre Mer (SFOM), based in Switzerland. Original members of the consortium included Banque National de Paris, Bank Bruxelles Lambert, Commerz Bank and Bank of America (CBA, 2013). In 1980, Bank of America acquired 84% shareholding, effectively buying out all the other SFOM partners. 16% shareholding in CBA remained in the hands of Kenyan investors. During the 1980s Bank of America divested from the bank, putting 100% shareholding in CBA in the hands of Kenyan nationals. Since the banking industry in Kenya has been facing stiff competition, CBA has been forced to fight off the competition; having ventured into a market where giants like KCB and Equity banks have designed strategies that have seen the two latter banks dominate the larger share of the low-income Kenyan population. However, the major objective of CBA is to capture the low income cadre of the populace (CBA, 2013).

1.2 Research Problem

Strategy implementation is an enigma in many firms. The problem is illustrated by the unsatisfying low success rate (only 10 to 30 percent) of intended strategies (Zou & Cavusgil, 2002). The primary objectives are somehow dissipated as the strategy moves into implementation and the initial momentum is lost before the expected benefits are realized. Successful implementation is a challenge that demands patience, stamina and energy from the involved managers. The key to success is an integrative view of the implementation process (Raps & Kauffman, 2005). It is essential for the companies to build execution into strategy from the very beginning, to build people's trust and commitment deep in the ranks and inspire their cooperation. The above principle allows firms to minimize management risk of distrust, non-cooperation and even sabotage. The management risk relevant to strategy execution is greater in the blue ocean than in Red Ocean, because its execution often requires significant change. Hence minimizing management risk is vital as companies execute blue ocean strategy (Aosa, 1992).

Commercial bank of Africa has undergone major transformation due to amongst other factors, changing patterns of customer behavior, government regulation, technological innovations, service quality movements, and pressures to improve productivity, relaxation of previous professional association restrictions on marketing, internationalization and globalization. The shifting characteristics, lifestyles, social, educational and economic profiles of the various clients demand the innovation of new products and rebranding of existing ones. This has caused a lot of dynamism in the banking sector spiraling unprecedented competition. For a bank like CBA to survive and thrive, it has been forced to differentiate its services mainly through unique strategy implementation. This has led to the development of products and services such as M-shwari which is the talk of the country; a product encompassing both creativity and strategic alliance. However, most of the previous innovations adopted by most banks are more of strategies in the “red ocean” than being in the “blue ocean”. So it would be necessary to analyze the blue ocean strategies adopted by CBA.

Previous studies have been done on strategy implementation in the banking sector (Okumus, 2001;Gakenia, 2008; Githui, 2006).Gakenia (2008) asserts that no bank product in Kenya can be categorized as a blue ocean while Githui (2006) confirms that indeed blue ocean as a strategy implementation in Kenyan banks is at the infancy stage. However, none of these studies clearly identify and assess the blue ocean strategy implemented by any bank in Kenya; a gap this study seeks to fill. So how has CBA adopted and utilized blue ocean strategy?

1.3 Research Objectives

The objective of this study was to determine how Commercial Bank of Africa has adopted the blue ocean strategy.

1.4 Value of Study

This study contributes to theory building on the concept of blue ocean strategy and also acts as a theoretical reference point for conventional banks and other governments. Students and academicians who wish to carry out further research in this area can review the study literature and establish gaps for further studies.

The study can help in building the existing policy frameworks for bank regulations, bank competition and bank performance. Strategy building policy and value addition policy in the banking sector can be advanced from the findings of this study. This study helps improve banking sector policy reforms, specifically paperless banking policy in Kenya.

The findings of this study can help the management of CBA to better their service delivery through emphasis on unique services that offer more value and less competition. The entire financial sector can gain from the findings of this study especially the blue ocean strategy application. The findings of the study can also be co-opted by managers of non financial sectors in enhancing strategy implementation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the relevant literature and theories that are reviewed to provide a basis for the study. The areas discussed include theoretical underpinnings of the study, blue ocean strategy and implementation of the blue ocean strategy.

2.2 Theoretical Underpinnings of the Study

Game theory can be defined as part of a large body of theory providing a formal language to describe conscious, goal-oriented, decision making processes involving one or more players (Fenton, 2000). The solution concepts derived from game-theory may be thought of as normative or descriptive views of multi-person decision-making (Fenton, 2000). Game theory may also be described as the analysis of rational behaviour in situations involving interdependence of outcomes (Lynch, 2009).

The essence of game theoretic models is two or more players who have a range of actions or similar freedom to a set of choices, and also have certain information. Each player has a set of preferences for the diverse possible outcomes, and the results of the interaction depend on all the players' decisions (Fenton, 2000). Put another way, game-theoretic models have six common features: conflicting parties, choices, information, desired outcomes, results of choices and outcomes dependent on choices of all participants (Pascale et. al., 2000). Similarly adoption of a strategy is a choice for every organization despite the fact that every entity or firm has choices to make in terms of strategy formulation and implementation (Zou & Cavusgil, 2002). Adoption of blue ocean strategy by one firm amidst many others; and its subsequent implementation is therefore expected to give it a competitive advantage. Game theory provides a set of tools and components that may be used to develop logically consistent models of rational human behaviour (Zou & Cavusgil, 2002). These models allow researchers to discount explanations of behaviour where people act against their own objectives, neglect opportunities, or ignore strategic behaviour of other parties (Zou & Cavusgil, 2002).

Most of game theory is not meant to be purely normative (describing the ideal choices people should make) as an equilibrium strategy is only ideal if other players believe that players will act in certain ways that would require the theory to be descriptive (describing the actual choice of others) (Fenton, 2000). Game theory is also not purely descriptive (Camerer, 1991). Lynch (2009) suggests that game theory is analytic: analysis of the formal implications of various levels of mutual rationality in strategic situations, i.e., what to do when certain assumptions are met. The latter however may not be the case. Mullins (2002) argues for a practical approach to game theory which she refers to as asymmetrically normative. Here game theory tells players what they should do (normatively) if other players behave in typical ways (descriptive).

Game theoretic reasoning is a decision rule or algorithm that selects an equilibrium strategy (Mintzberg & Quinn, 1991). Doubt has however been expressed over game-theoretic reasoning as an appropriate description of how people or firms decide which strategies to use. Criticisms include the use of rules that require (in the context of strategy implementation in firms) firms to believe that others are using the same rules (which participating firms would doubt) and firms to maintain the assumption that all other firms are rational, even after they make irrational choices (Welch & Welch, 2005). Note that equilibrium analysis is the determination of equilibrium points. Game theory reasoning posits that players (firms) discover equilibria by introspection, a process that may be unnatural and difficult in practical situations (Mintzberg & Quinn, 1991). Introspection includes mentally (or computationally) simulating outcomes of various choices, eliminating choices that do not yield the best outcomes, or adjusting them until a set of mutually best outcomes are achieved. If players have common knowledge of a game's pay-off and that all players are rational, then the introspection will result in convergence to equilibrium. Common knowledge is information that everyone knows. Although common knowledge is sufficient for justifying equilibrium, it is not a necessary condition (Camerer & Johnson, 1991).

There are several alternatives to the strict rational requirements of introspection. One such alternative are Justifiable strategies which are optimal choices for `some' belief on what the other players will do, where the belief may not necessarily come from introspection of the other players thinking. Another alternative are the rationalizable strategies that are where players believe others will use justifiable strategies (Camerer & Johnson, 1991). These simpler rules of justifiability and rationalizability are applicable to many business strategy situations where firms make choices in unique situations where pay-off and competitor behaviour are uncertain, with firms having little experience to learn from (Mullins, 2002). Three other approaches, communication, evolution and adaption, may produce equilibria in games as a substitute to game-theoretic reasoning (introspection). Communication is when firms announce their intentions. These pre-play announcements are typically nonbinding and have no penalty if not followed (Burgelman, 1983). Often referred to as cheap talk, examples include pre-announcements of new product releases or changes in pricing. Cheap talk may encourage equilibration by strengthening players' beliefs on what others will do. Pre-play communication may remove each firm’s doubts about the reasoning process that the rival is going through (Golan, Karp & Perlofi, 2000).

2.3 Concept of Strategy Implementation

Strategy implementation has received increasing attention in literature (Bourgeois & Brodwin 1984; Alexander 1991; Grundy 1998; Noble 1999; Beer & Eisenstat 2000). However, no coherent research paradigm seems to exist, main reason being the diversity of perspectives that have been taken in defining the concept (Noble 1999). Noble (1999) made a large review of research carried out in the dispersed field of strategy implementation. Noble (1999) himself combines the perspectives and, having a focus on the process of implementation, defines strategy implementation as communication, interpretation, adoption and enactment of strategic plans. Noble (1999) makes a distinction between structural and interpersonal process views on strategy implementation. The structural perspective focuses on formal organizational structure and control mechanisms, while the interpersonal process is about understanding issues like strategic consensus, autonomous strategic behaviors, diffusion perspectives, leadership and implementation styles, and communication and other interaction processes. Of the strategy implementation categories, the management, planning and control seem to be quite close to Noble's (1999) structural view and our communication category seem to fit to interpersonal process view. The daily actions category, that is, taking strategy into account in every day work by changing focus or working practices, seems not to fit easily into any of the Noble's categories (Fenton-O'Creevy, 2000).

Bourgeois & Brodwin (1984) categorize strategy implementation into five models, which they say to represent a trend toward increasing sophistication in thinking about implementation and also a rough chronological trend in the field. In commander model, general manager, after exhaustive period of strategic analysis, makes the strategic decision, presents it to top managers, tells them to implement it, and waits for the results. In this model, general manager has a great deal of power and access to complete information, and is insulated from personal biases and political influences. The model also splits the organisation into thinkers and doers (Fenton-O'Creevy, 2000).

In change model, after making strategic decisions, general manager plans a new organizational structure, personnel changes, new planning, information measurement and compensation systems, and cultural adaptation techniques to support the implementation of the strategy (Fenton-O'Creevy, 2000). Collaborative model of strategy implementation goes to involve the management team in strategic decision-making. General Manager employs group dynamics and brainstorming techniques to get managers with different viewpoints to provide their inputs to the strategy process (Fenton-O'Creevy, 2000).

Cultural model takes the participative elements to lower levels in the organisation as an answer to the strategic management objective of committing a whole organization to the set goals and strategies. The general manager guides organisation by communicating her vision and allowing each individual to participate in designing her work procedures in concert with the vision (Bourgeois & Brodwin, 1984).

In crescive model the strategy comes upward from the bottom of the organisation, rather than downward from the top (Bourgeois & Brodwin, 1984). The general manager's role is to define organization's purposes broadly enough to encourage innovation, and to select judiciously from among those projects or strategy alternatives that reach his attention (Beer & Einsestart, 2000).

2.4 Blue Ocean Strategy

Blue ocean strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant. Instead of dividing up existing and often shrinking demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition (Kim & Mauborgne, 2005).

In his five P's model Mintzberg (Mintzberg & Quinn, 1991) defines strategy as a plan, a ploy, a pattern, a position, and a perspective. Plan is defined as a consciously intended course of action, or a guideline to deal with a situation. Ploy means a specific "maneuver" intended to outwit an opponent or competitor. While plan and ploy refer to intended strategies, that is, looking forward, pattern is a stream of actions or consistency in behaviour over time, or, looking back.

Blue Ocean strategy as a position looks outside an organization, seeking to locate the organization in its environment, whereas strategy as a perspective looks inside the organization and inside its members' heads, referring to a shared way of perceiving the world. In literature, strategy implementation has been defined in many ways. Traditionally the focus has been on organizational structure and systems (Galbraith 1980; Ansoff 1984; Higgins 1985; Pearce & Robinson, 2007; Johnson & Scholes 1999). Some authors (Bourgeois & Brodwin 1984; Noble 1999) have stressed the communicational and cultural aspects in strategy implementation. Strategy implementation has received increasing attention in literature (Bourgeois & Brodwin 1984; Alexander 1991; Grundy 1998; Noble 1999; Beer & Eisenstat 2000; Flood et al. 2000). However, no coherent research paradigm seems to exist, main reason being the diversity of perspectives that have been taken in defining the concept (Noble 1999).

Noble (1999) has made a large review of research carried out in the dispersed field of strategy implementation. Noble himself combines the perspectives and, having a focus on the process of implementation, defines strategy implementation as communication, interpretation, adoption and enactment of strategic plans. Noble makes a distinction between structural and interpersonal process views on strategy implementation. The structural perspective focuses on formal organizational structure and control mechanisms, while the interpersonal process is about understanding issues like strategic consensus, autonomous strategic behaviors, diffusion perspectives, leadership and implementation styles, and communication and other interaction processes (Githui, 2006).

Strategic groups can generally be ranked in a rough hierarchical order built on two dimensions: price and performance. Each jump in price tends to bring a corresponding jump in some dimensions of performance. Most companies focus on improving their competitive position within a strategic group. Mercedes, BMW, and Jaguar, for example, focus on outcompeting one another in the luxury car segment as economy car makers' focus on excelling over one another in their strategic group. Neither strategic group, however, pays much heed to what the other is doing because from a supply point of view they do not seem to be competing (Chan & Renee 2005). The key to creating a blue ocean across existing strategic groups is to break out of this narrow tunnel vision by understanding which factors determine customers' decisions to trade up or down from one group to another (Chan & Renee 2005).

2.5 Adoption of Blue Ocean Strategy

It is essential for the companies to build execution into strategy from the very beginning, to build people's trust and commitment deep in the ranks and inspire their cooperation (Kathuku, 2005). This principle allows firms to minimize management risk of distrust, non-cooperation and even sabotage. The management risk relevant to strategy execution is greater in the blue ocean than in Red Ocean, because its execution often requires significant change (Kim & Mauborgne, 2005). Hence minimizing management risk is vital as companies execute blue ocean strategy.

Therefore, it is essential for the companies to reach beyond the usual ‘carrot and stick’ management policies and reach for ‘fair process’ in the making and executing of blue ocean strategy (Kim & Mauborgne, 2005). ‘Fair process’ is managerial expression of procedural justice theory. It builds execution into strategy by creating people’s buy-in up front. When fair process is exercised into strategy-making process, people trust that a level playing environment exists and are inspired to cooperate willingly in executing the relevant strategic decisions (Kathuku, 2005).

The blue ocean strategy is best illustrated by the performance of Cirque du Soleil. Created in 1984 by a group of street performers, Cirque productions have been seen by almost 40 million people in 90 cities around the world. In less than 20 years, Cirque du Soleil has achieved revenue levels that took Ringling and Barnham and Bailey (the circus global champions of the circus industry) more than 100 years to attain. What makes this rapid growth all the more remarkable is that it was not achieved in an attractive industry, but rather, in an industry with declining revenue for potential growth. Cirque du Soleil’s success was not attained by taking customers from the already shrinking circus industry (which had historically catered to children) but instead, they were successful because they created a new marketplace in which to compete. Their offering appealed to a whole new group of customers – namely, adults and corporate clients that were prepared to pay a price several times as great as traditional circus for an unprecedented entertainment experience (Kim & Mauborgne, 2005).

Cirque du Soleil succeeded because it realized that to win in the future, companies must stop competing with each other. The only way to beat the competition is to stop trying to beat the competition on the current playing field. To understand what Cirque du Soleil has achieved, let's use an example of a market universe composed of two sorts of oceans: red oceans and blue oceans. Red oceans represent all of the industries in existence today. This is the known market space. Blue oceans donate all of the industries not in existence today. This is the unknown marketplace. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here, companies try to outperform their rivals to gain a greater share of existing demand. As the market space gets crowded, prospects for profit and growth are reducing (Kim & Mauborgne, 2005). Products become commodities and cutthroat competition turns the red ocean bloody. Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding existing industry boundaries, as Cirque du Soleil did. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set (Kim & Mauborgne, 2005).

It should be noted that most new business launches today are launches in the red ocean domain. For example, if you look at the record, and new business offerings, you continually see new businesses opening up such as hair stylists, massage services and food services. They're all opening up in the red ocean marketplace. This is just increasing the supply of services and has no impact on demand. Ultimately, of course, this is what makes all products really commoditized (Kim & Mauborgne, 2005).

On the other hand, if one was to launch a business with a blue ocean strategy and offering services that were not previously offered there is an opportunity to create to whole new demand cycle. Cirque du Soleil created a new market space in the entertainment sector, generating strong, profitable growth as a result (Kim & Mauborgne, 2005). They did it in a declining industry because they were able to build a whole new demand for a service that did not previously exist. What consistently separated winners from losers in creating blue oceans was their approach to strategy. The companies caught in the red ocean followed a conventional approach, racing to beat the competition by building a defensible position within the existing industry. The creators of blue oceans, surprisingly, didn't use the competition as their benchmark. Instead, they followed a different strategic logic that is called 'Value Innovation.' Value Innovation is the cornerstone of blue ocean strategy. We call it Value Innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space (Kim & Mauborgne, 2005).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. It further describes the research design, type and source of data, research instruments that were used to collect data. It also describes the target population and the data analysis method.

3.2 Research Design

The study adopted a case study. As form of qualitative descriptive research, the case study looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group (Mugenda & Mugenda, 2003).Case study is most suitable in this situation since the focus of the study is the new concept of blue ocean strategy.

3.3 Data Collection

Both primary and secondary data collection instruments were adopted in this study in order to get the wide view of the issues concerning this study. Primary data collection involved an interview guide tailored to the CEO and seven senior managers at CBA. Interviews are slow, expensive, and take people away from their regular jobs, but also allow for in-depth questioning and follow-up questions. As argued by Fenton (2000), the interviewer can not only record the statements the interviewee speaks but he can observe the body language or non-verbal communication such as face-pulling, fidgeting, shrugging, hand gestures, sarcastic expressions that add further meaning to spoken words and other reactions to the questions too. Secondary data was obtained by collecting information from a diverse source of documents or electronically stored information.

3.4 Data Analysis

The data recorded during the interview was reconstructed or transcribed from audiotapes. The process of data analysis involved data clean up. The data was also be checked for any errors and omissions. Analysis of the secondary data was done qualitatively. The responses from the interview were reported by descriptive narrative arising from content analysis.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1. Introduction

This chapter presents data findings from the field work. Seven out of eight respondents were interviewed. The demographic statistics collected sought to unearth background information of individual managers. The profiles checked were gender and tenure. The study sought to find out the gender of the respondents because gender may have an effect on perception. There were more male managers than female ones at CBA. The study also sought to find out how long the respondent had worked in their position, this being a relatively big bank. In CBA, managers had stayed at the bank for less than four years while only a few had stayed for more than 4 years. It is expected that the length of time in at CBA may affect the manager's view or understanding of the bank's strategy.

4.2 Adoption of Blue Ocean Strategy at CBA

From the findings, the major competition facing the bank comes from banking giants like equity and KCB who have a wider customer base cutting through the customer pyramid. From their strategic plan, CBA lays an emphasis on tapping the unbanked low income sectors of the Kenyan market. This is a strategy shared by almost all the banks in Kenya in an effort to increase their banking volume. However, CBA has a unique approach to it. The respondents assert that response strategy is not there style of countering competition. The uniqueness in their approach is fostered by the total reliance on IT platforms to reach the low income sectors. This is turn brings on board an element of product differentiation.

The respondents were quick to clarify that their products or services are differentiated from those of other banks and therefore offer unique features.

When asked about strategy formulation, CBA managers agreed that they indeed design products and services that compete in the existing market space. Their products range from asset products to liability products as shown in the table below. However, the respondents were quick to clarify that their products or services offer unique features that suit different client needs and specifications. An important factor noted during the interview is the application of the stakeholder rule by CBA business development department when designing products and services. The fundamental point here is that the customers ideas, expectations and feedbacks are highly valued when doing product design and perfection rights from the word go.

CBA managers; from the business development department; insist that their services do not compete in existing market space but offer a unique use of technological platform that adds value by reducing their costs and enhancing speedy transactions. They are quick to mention that they design products that do not face immediate competition but offer top notch banking solutions that are not easy to imitate or manipulate by the competitors. A critical part of their product development is the element of cost reduction and value addition which is in line with the bank's strategic plan and the concept of Blue Ocean strategy. A detailed analysis of the application of product strategy is presented in the table below.

Table 4.1 Product Strategy at CBA

Product type	Product narration
Liability products	Fixed deposits, Regular current accounts, Savings accounts, Jivunie account, Pebble account, Wekeza account, Kilele accounts
Asset products	Enc facilities, overdraft facilities, Term loans/Asset financing, Pay day advance, Unsecured loan, Agriculture bases asset products, Forex incomes, Local and foreign bankers drafts, Masters cards
Non funded income	M-Shwari, Gift cards, Telegraphic transfers, Money Transfer services solutions, Alternate banking services, Share Brokerage services, Access to a dedicated and experienced Relationship Manager

Source: CBA, 2013

According to most respondents, value addition is achieved through technological anchorage. The respondents further confirm that technology breaks the value-cost trade off by offering a platform for efficiency and reduced expenditure; which keeps CBA above the other commercial banks. The respondents mention reliance on IT platforms like ‘Flex’ and ‘TEMOS’ which gives CBA a cutting edge product portfolio hence a competitive advantage. Their products offer easy access, faster deposits and withdrawals, quick money transfers and flexible options. A key element of blue ocean strategy is value addition.

When asked about creating uncontested market space, most respondents quickly ask for clarification; with some insisting that there is no way a market space can be uncontested. However, the respondents confirm that some of their products neither face challenges nor exhibit counter products from other banks; a clear indication of uncontested market space. Blue ocean strategy makes competition irrelevant by creating uncontested market space.

When asked about cost target to profit analysis, most of the respondents, were quick to dismiss the question citing confidentiality reasons. However, a few of them, especially the head of finance and strategy, confirmed that indeed some of the services had indeed helped them reduce their costs especially through use of less pare work, shorter queues and faster online transactions. The overall effect is an impressing cost reduction at the expense of faster and frequent transactions which translates to good margins for the bank in the long term. In Blue Ocean, cost reduction is also seen as an element of value addition. One of the products mentioned by most respondents to be offering cost reduction is M-shwari. When asked about problems encountered in their strategy implementation, the respondents mentioned speed of implementation as very slow thus delaying the strategy timing plan. Others mentioned client perceptions and unfair market practices as the major hiccups in strategy implementation. The risk and compliance manager asserts that, “bad debt collection is the only main problem for some of our loan products, but we are working on it, together with other agencies, so that it doesn't affect our client loyalty."Other problems mentioned by the respondents and their proposed solutions are as shown in the table below:

Table 4.2 Marketing Strategy Challenges at CBA

Challenges	Required actions
Finding new income streams	Improving service consistency
Obtaining higher level of products per customer	Build customer loyalty through acquiring information on what customers want
Diminishing customer loyalty	Making the information actionable
Developing highly skilled customer service professionals capable of serving a specific customer segment	Develop workforce skills aligned with customer needs
Differentiating products and services in a "commoditized" marketplace	Differentiating your brand through superior and consistent service; greater flexibility and responsiveness to market changes
Losing market share to new, more agile competitors	Faster time-to-market with new products tailored to your customers

Source: CBA, 2013

When asked what CBA does to exploit existing demand and create new demand, the business development manager was categorical on reliance on new services that are anchored on IT platforms; giving an example of provision of a free software to clients for account accessibility and real time money transfers. The same example was given by the human resource manager and the marketing manager when addressing a question on strategic choice of differentiation adopted by CBA. The money transfer products, for example, offers an IT platform that allows the client to utilize the basic account operations as well the payment and transfer options just from their desktops. The respondents further assert that most of their products are developed from the already existing ones and therefore utilize the existing clients as it creates the new market. A crucial characteristic of blue ocean strategy is creation of new demand while exploiting the existing ones.

It is important to mention that most respondents referred to M-shwari in the course of the interview. They assert that the service is easily affordable because a client can even take a loan as low as one hundred shillings. The respondents further insist that M-Shwari provides a basis for paperless banking, account opening, savings and loan accessibility just from the client's cell phone. M-shwari; coined from a Swahili word that means smoothen or make something better or good, is a revolutionary product that was set to change the lives of millions of Kenyans. M-Shwari is a strategic collaboration offered by the bank. The product is mobile centric and is operated entirely from the mobile phone. It is accessible to millions through the handset and not CBA branches. There are no forms or additional documents required for a client to sign up to M-Shwari.

4.3 Discussion of Findings

The way in which managers understand a strategy will largely determine the strategies that they adopt. Instead of dividing up existing and often shrinking demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition (Kim & Mauborgne, 2005). Strategic mission of a blue ocean is to create uncontested market space. For a strategy to be Blue Ocean, managers must not only design it positively but also implement it skillfully. They must ensure that it not only adds value but also utilizes the existing market space.

The study established that response strategy is not CBA's style of countering competition. The uniqueness in their approach in fighting competition is fostered by the total reliance on IT platforms to reach the low income sectors. This is turn brings on board an element of product differentiation. This contradicts the findings of Gakenia (2008) who asserts that bank product in Kenya can be categorized as a more in the response strategy than the blue ocean strategy.

The study established that value addition in CBA is achieved through technological anchorage. The respondents confirmed that technology breaks the value-cost trade off by offering a platform for efficiency and reduced expenditure; which keeps CBA above the other commercial banks. The study also established that blue ocean strategy has saved on costs and increased efficiency at CBA. It had also facilitated timely service provision thereby enhancing value addition through efficiency.

The study also established that the managers are not aware that their current strategies fall in the blue ocean. Instead they achieve blue ocean strategy by engaging in product differentiation. This is in line with the findings of Githui (2006) who confirms that indeed blue ocean as a strategy implementation in Kenyan banks is at the infancy stage. Important factor noted during the interview is the application of the stakeholder rule when designing products and services. The customer's ideas, expectations and feedbacks are highly valued when doing product design and perfection rights from the word go.

The study established that some CBA products neither face challenges nor exhibit counter products from other banks; a clear indication of uncontested market space. When strategic goals are set at the beginning of the year, the knowledge that differentiation will be key; usually exerts pressure on the managers to adopt products, not readily used by many banks. Thus blue ocean strategy emerges. They design products that do not face immediate competition but offer top notch banking solutions that are not easy to imitate or manipulate by the competitors. Kim and Mauborgne (2005) asserts that blue ocean strategy makes competition irrelevant by being uncontested just as evident in CBA.

The study established that indeed some of the CBA products had indeed helped them reduce their costs especially through use of less paper work, shorter queues and faster online transactions. The overall effect is an impressing cost reduction at the expense of faster and frequent transactions which is key element of a blue ocean strategy. A good example of a product at CBA that has achieved cost benefit and value addition is 'Mshwari'. This is in line with the game theoretical model since the blue ocean strategy implementation at CBA has enabled the bank gain competitive advantage by completely being ahead of its competitors.

Managers interviewed indicated that the main problem with strategy formulation is unfair market practices. However, one respondent identified bad debt collection as a challenging item. The study established that speed of implementation; client perceptions and unfair market practices are some of the major hiccups in blue ocean strategy implementation.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data, conclusions from the findings highlighted and recommendations made. The conclusions and recommendations were drawn with the aim of achieving the research objective.

5.2 Summary of Findings

The goal of setting strategy is to shift the focus from operations to results in the firm. The study established that uniqueness in CBA's approach in fighting competition is fostered by the total reliance on IT platforms that offer product differentiation to reach the low income sectors. The products that are created then offer high value by enabling faster, paperless and quicker transactions while creating new brand and features that attract minimal competition but exploit existing clientele while curving new market space. This is essentially how blue ocean strategy is created. A conspicuous product mentioned by CBA managers is the Mshwari service that serves and loans millions of people from their mobile handsets; a platform not provided by any bank in Kenya apart from CBA. The study also established that the managers are not aware that their current strategies fall in the blue ocean but achieve blue ocean strategy by engaging in product differentiation. Value addition in CBA is achieved through technological anchorage which breaks the value-cost trade off by offering a platform for efficiency and reduced expenditure. The study also established that some CBA products neither face challenges nor exhibit counter products from other banks; a clear indication of uncontested market space; and had indeed helped them reduce their costs especially through use of less paper work, shorter queues and faster online transactions.

The study established that speed of implementation; client perceptions and unfair market practices are some of the major hiccups in blue ocean strategy implementation. There is need to provide adequate information with regard to blue ocean strategy since most of the managers were not aware that they have actually adopted blue ocean.

5.3 Conclusion

The study established that most of the CBA managers are not aware that their strategy is actually Blue Ocean. Instead they land at blue ocean strategy by simply engaging in product differentiation which is accelerated by need to thrive and beat competition in the stiff Kenyan banking industry. That desire to excel and gain competitive advantage leads CBA to design unique products that create uncontested market space thus blue ocean is born. The study further established that unfair market practices posed the main threat to blue ocean strategy implementation at CBA.

This study had sought to establish the blue ocean strategy adopted by CBA. The study established that indeed blue ocean strategy has been adapted to some extent by CBA; and had indeed achieved the core characteristics: uncontested market space, no competition, high value and cost reduction. Uncontested market space is attained through product differentiation which is anchored on IT platforms that result in unique products that face nil competition and add value by enhancing faster transactions, paperless banking and easy online accessibility. One of the specific examples of blue ocean products at CBA is Mshwari service; powered on a high tech IT platform and able to offer loan service as well as cash transfers and deposits just from the mobile handsets. The study thus concluded that indeed blue ocean strategy has been adopted by CBA.

5.4 Recommendations for Policy and Practice

CBA is a major bank whose goal of gaining competitive advantage in the banking sector is worth noting. There is increased pressure to perform especially with the focus on top notch cutting edge products that offer value addition rather than benchmarking. The managers have adopted blue ocean strategy through product differentiation anchored on IT platforms. However, they are not aware that blue ocean is an effective strategic management tool. There is need to fully entrench the concept by ensuring that managers are well trained on blue ocean strategy.

Managers interviewed indicated that the main problem with strategy formulation is unfair market practices. The government should come up with stringent policies to curb unfair and unethical competition or market practices in the banking sector; including product identity protection laws.

5.5 Limitations of the Study

The study did not gauge extensively the effect of blue ocean strategy on performance, a study that may involve gathering information from all stakeholder groups, the customers, employees, suppliers and the broader community.

The managers interviewed were not very willing to share with the researcher the contents of their strategy plan citing privacy, confidentiality and other ethical reasons. Moreover, the managers were very busy and could not get enough time to answer all the questions exhaustively. Infact, the CEO could not be interviewed. The researcher was thus limited on the content for analysis.

This study used a cross-sectional design, focusing at only one point in time and therefore its findings may vary over time. The study focused on the management perception or views at CBA which is a commercial bank in Kenya. The study did not consider other banks. The results may not be applicable to other financial institutions or the entire banking sector. Perceptions and views also change with time and future studies will gauge how management perception has changed.

5.6 Suggestion for Further Research

While the respondents of this study perceive the blue ocean strategy as being instrumental in streamlining operations in the banking sector; further research should be conducted to establish whether there is a correlation of blue ocean strategy adoption and performance of firms in Kenya.

Since the managers were not willing to show the researcher their strategic plan, future studies should be done with that hitch in mind.

Since the study was only focused at one point in time, a more intensive longitudinal study should be done. There is bound to be different perceptions on blue ocean strategy implementation in different firms. It is therefore important to carry out research with regards to the wider banking sector.

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APPENDICES

Appendix I: Letter from the University

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

KISUMU CAMPUS

Telegrams: "Varsity" Nairobi
Fax: 4181650
Kisumu, Kenya
Telex: 22095Varsity
Mobile: 0720348080
Email: ajaleha@uonbi.ac.ke

P.O Box 19134-40123
Kisumu, Kenya

Date: 30th September, 2013.

TO WHOM IT MAY CONCERN

The bearer of this letter Mr. Paul Ratiro Omboto

REGISTRATION NO: D61/63477/2010

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is expected to carry out a study on **"Adoption of Blue Ocean strategy by Commercial Bank of Africa Limited Kenya"**

He has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

MR. JALEHA ALEX
COORDINATOR, SOB, KISUMU CAMPUS
Cc File Copy

CO-ORDINATOR
30 SEP 2013
SCHOOL OF BUSINESS
KISUMU CAMPUS
UNIVERSITY OF NAIROBI

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Appendix II: Interview Guide

CBA STAFF INTERVIEW GUIDE

Interview No: ……………………….. Date:………………………………

Dear Informant,

This interview is meant to collect information relating to "*Blue Ocean adoption at CBA*". As one of the key informants, you have been requested to assist in giving the requested information towards realizing the study goals. The information gathered will only be used for academic purpose and shall be kept confidential.

1. How do you handle to competition from other banks at the CBA?
2. As part of your strategy formulation, do you design products/services that compete in existing market space?
3. Do you consider value addition when formulating and implementing your strategies? How do you make or break the value-cost trade off?
4. In the banking industry, banks compete in existing market space, have you ever thought of creating uncontested market space within your industry?
5. Which of your products/services do you consider as existing in uncontested market space in Kenya? Why do you think so? Could you please tell me more about how you beat your competition or make them irrelevant? Is there exceptional buyer utility in this product/service?
6. Is your price (service fee) easily affordable to the mass of users?
7. Can you attain your cost target to profit at your strategic price? Kindly elaborate on how CBA does that?

8. What are the adoption hurdles in actualizing your business idea? Are you addressing them up front?
9. What does CBA do to exploit the existing demand and instead create and capture new demand of its banking services? Most banks align the whole system of banks activities with its strategic choice of differentiation or low cost, how does CBA align its activities in pursuit of differentiation and low cost?

THANKS FOR YOUR TIME