EXPANSION STRATEGIES USED BY STANDARD CHARTERED BANK TO ENHANCE COMPETITIVE ADVANTAGE IN EAST AFRICAN MARKET

BY

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DECLARATION

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

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

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DEDICATION

To my family and colleagues for their inspiration, moral support and enduring in my absence even as I worked to get this project completed.

ABSTRACT

The banking industry within East African Community has come under immense competition as more and more commercial banks set foot in the region. Both international and pan African banks have established themselves within the region making the banking industry very competitive. Standard Chartered Bank is one of the multinational banks operating within the region with its headquarters in Nairobi Kenya. In order to remain competitive, the Bank has initiated several strategies in order to efficiently serve the EAC market. The purpose of this study was to determine the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market. The study adopted Case study research design since the focus was on one organization. The researcher conducted interviews with middle level management team and hub managers at Standard Chartered Bank because of their involvement in competitive strategy formulation. Content analysis was used to analyze the data collected from the respondents since it was qualitative in nature. The study established that Standard Chartered Bank had embarked on an expansion strategy in the East African region through subsidiaries and branch networks and that the bank has used technology to facilitate the expansion programme. It was also established that the strategy had enhanced the competitiveness of the bank within the region through increased sales and profitability. The study recommends that the bank should continuously invest in technological improvement to maintain the competitive advantage and also seek other expansion strategies like forming strategic alliances with local banks.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The business environment has changed drastically following increased forces of globalization and internationalization of firms. As firms go international, they face different challenges that would require development of competitive strategies if they are to concur and remain competitive. Competition is one of the environmental influences to a business. It exerts pressure on firms to be proactive and to formulate successful strategies that facilitate proactive response to perceived and actual changes in the competitive environment. Porter (1980) ascertains that every firm competing in an industry has a competitive strategy, whether explicitly developed through a planning process or may have evolved implicitly through the various activities of the various functional departments. Strategic decisions are ones that are aimed at differentiating an organization from its competitors in a way that is sustainable in the future. In a given business environment an appropriate and competent strategic capability is a key basis for such an effective strategic response (Hambrick, 1982). The choice of a competitive strategy is critical for the survival and success of any company. Therefore, successful survival of any bank depends on production, packaging and delivery of products to those of competitors.

This study was be guided by the open systems and the resource based view theory. Open systems theory acknowledges that all organizations are environment dependent; they depend on the environment for their inputs and outputs. Every firm is therefore affected by the operating environment in the same magnitude as it affects that environment

(Swanson, 1999). According to Peteraf (1993), a firm should therefore have a competitive strategy which relates it to its environment and enables it to maintain a fit between itself and the environment. Changes in the industry, environment, together with increasing competition have caused firms to change their competitive strategies in order to maintain their survival in the market and achieve profitability. The resource based view theory on the other hand stipulates that in order to gain competitive advantage, organizations have to review their internal resources and evaluate how they can use them appropriately for competitive advantage (Grant, 1991).

According to Cihák and Podpiera (2005), the banking industry within East African Community has come under immense competition as more and more commercial banks set foot in the region. Both international and pan African banks have established themselves within the region making the banking industry very competitive. Standard Chartered Bank is one of the multinational banks operating within the region with its headquarters in Nairobi Kenya. In order to remain competitive, the Bank has initiated several strategies in order to efficiently serve the EAC market.

1.1.1 Concept of International Business

International Business (IB) refers to business activities which involve cross border transactions of goods, services, resources between two or more nations (Joshi, 2009). It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations. According to Ball and McCulloch (2004) international business is the business whose activities involve crossing national borders. This definition includes not only international trade and foreign manufacturing but also the growing service industry in such areas as transportation, tourism, banking, and mass communications. International Business is the study of economic activities that cover trade and investment across several countries. International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources includes capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance and construction among others.

It also refers to all transactions that take place between two or more regions, countries and nations beyond their political boundaries that are commercial in nature (Cihák and Podpiera, 2005). These transactions include private and governmental, sales, investments, logistics, and transportation transactions. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction among others (De Paula, 2002). International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier.

1.1.2 Expansion Strategies

Every enterprise seeks growth as its long-term goal to avoid being run out of business in today's relentless and ruthless competitive environment. Growth offers ample opportunities to everyone in the organization and is crucial for the survival of the enterprise. However, this is possible only when fundamental conditions of expansion have been met. Companies implement expansion strategies in order to enhance a competitive advantage through concentration, integration, diversification, cooperation, digitalization and internationalization among others (Hanson, Mataloni & Slaughter, 2001). Expansion strategies are designed to allow enterprises to maintain their competitive position in rapidly growing national and international markets. Hence to successfully compete, survive and flourish, an enterprise has to pursue an expansion strategy (Ayal & Zif, 1979).

According to Li (1994), expansion strategy is an important strategic option, which enterprises follow to fulfill their long-term growth objectives. They pursue it to gain significant growth as opposed to incremental growth envisaged in stability strategy. Expansion strategy is adopted to accelerate the rate of growth of sales, profits and market share faster by entering new markets, acquiring new resources, developing new technologies and creating new managerial capabilities. Expansion strategy provides a blueprint for business enterprises to achieve their long term growth objectives. It allows them to maintain their competitive advantage even in the advanced stages of product and market evolution (De Paula, 2002). Growth offers economies of scale and scope to an organization, which reduce operating costs and improve earnings. Apart from these advantages the organization gains a greater control over the immediate environment because of its size. This influence is crucial for survival in mature markets where competitors aggressively defend their market shares (Hagiu, 2009).

1.1.3 Competitive Advantage

According to Porter (1985) competitive strategy is the search for a favorable competitive position in the industry and aims at establishing a profitable and sustainable position against forces that determines industry competition. An organization is said to have a competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2007). Porter (1987) argues that competitive advantage comes from the value that organizations create for their customers that exceed the cost of producing it. Organizations create value by performing a series of activities that he identified as a value chain.

According to Barney (1992) a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. Coyne (1986) contributed to the construct by proposing that in order to possess sustainable competitive advantage consumers must perceive some difference between a firm's product offering and the competitors' offering. This difference must be due to some resource capability that the firm possesses and competitors do not possess. Also, this difference must be some product/delivery attribute that is a positive key buying criterion for the market (Coyne 1986). The key is being able to predict the actions of others in the industry over time; by matching the firm's resources to the gaps and voids that exist in the industry, a competitive advantage can be created.

This advantage is sustained if competitors either cannot or will not take action to close the gap (Coyne 1986).

1.1.4 Multinational Corporation

Multinational companies play a very large role in international trade. Multinational corporations engage in very useful and productive activities in Third World countries, such as, creating employment opportunities contributing to Kenya's gross national product, and make available a wider range and better quality products. They also contribute the critical financial infrastructure and enormous resources for economic and social development. In order to minimize their operational costs and optimize performance, MNCs formulate appropriate strategies with the aim of gaining and sustaining competitive advantage. The MNCs enjoy even many benefits as regional blocks form because of expanded market.

According to Bennett, Graham and Bratton (1999), economic integration is the political and economic agreements among countries in which preference is given to member countries, and takes three forms; global, bilateral and regional economic integration. Global integration refers to a situation where countries from all over the world decide to cooperate through the WTO agreements. Bilateral agreement is where two or more countries decide to co operate more closely together usually in form of trade barrier reduction. These agreements can be between two individual countries or may involve one country dealing with a group of countries. Hill (2001) defines Regional economic integration as an agreement among countries in a geographic region to reduce and ultimately remove tariff and non tariff barriers to free flow of goods, services and factors of production between each other. This research focused mainly on the regional approach to economic integration and trade within a regional economic organization.

Bennett, Graham and Bratton (1999) identified five forms of regional integration: free trade area, customs union, common market, economic union, and political union or federation. Free trade area- encourages trade among its members by eliminating trade barriers among them, with each member left to establish its own trade policy with non-members. Customs union is an economic integration whereby countries remove all barriers to trade among themselves, but erect a common trade policy against non members, by having a CET. In a Common market, member states remove all barriers to trade and factors of production - people and cross border investments, while Economic union represent full integration of the economies of member countries, going beyond the demand of a common market by requiring member nations to harmonize their economic policies (tax, monetary and fiscal policies, and social welfare programs in order to blend their economies into a single entity and erect a common trade policy against non-members

The East African Community (EAC) is the regional intergovernmental organization of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its headquarters in Arusha, Tanzania (Kagwanja, 2007). The Treaty for Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three Partner States – Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007. The EAC was established with a vision to set up a prosperous, competitive, secure, stable and politically united East Africa; and provide platform to widen and deepen Economic, Political, Social and Culture integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments (Ravenhill, 1979).

According to Bachmann and Sidaway (2010), the regional integration process is at a high pitch at the moment as reflected by the encouraging progress of the East African Customs Union, the signing in November 2009 and ratification in July 2010 of the Common Market Protocol by all the Partner States. The consultations on the Monetary Union, which commenced in 2009, and fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a powerful and sustainable East African economic and political bloc. However, the East African region has had its fair share of disputes and disagreements (Bachmann & Sidaway, 2010).

The main bone of contention has been the long-held perception by Uganda and Tanzania that Kenya's economy - mainly the manufacturing sector - was more competitive than theirs despite the fact that it has been declining over the past few years under pressure from imports from the Middle East and inadequate infrastructure (International Monetary Fund, 2005). Kenya exports approximately three-fifths of its goods to Uganda and Tanzania and had been facing tariffs of between 10 and 20 per cent before the establishment of the East African Community. However, the EAC is expected to present a good investment platform for both domestic and foreign investors due to their economies of scale. Benefits should also accrue to Uganda and Tanzania, who have, of late, reaped immensely from food commodity supply fluctuations in Kenya (Kagwanja, 2007).

1.1.5 Banking Industry in East African Market

Financial sectors in the East African Community (EAC) are dominated by the banking industries, the development of which varies greatly between countries. In this sense, Kenya leads the way and is the only country whose local banks have achieved a significant presence throughout the region. In most other countries, local banks focus predominantly on domestic markets. Most of the banking sectors in the region, with the exception of Kenya, have significantly more foreign banks than local banks operating in local markets. The Kenyan banking sector comprises 43 commercial banks. The sector is relatively well developed and dynamic, while access to credit has been boosted over the past decade by the advent of mobile and agency banking.

The Ugandan banking sector performed relatively poorly in 2014 compared to 2013. The sector profit before tax was Ushs 560 billion compared to Ushs 728 billion in 2013. I.e. decline of 23%. Total sector assets grew to Ushs 17.419 trillion from Ushs 15.189 trillion. Capital adequacy levels remained strong, while liquidity and funding conditions improved. However, bank lending growth remained lower than the previous year, with banks reducing their risk-weighted assets and switching to investing in government securities. According to a New Vision survey, commercial bank lending rates in Uganda are the highest in East Africa, leading to lower than projected credit growth and to climbing NPL ratios. The average shilling commercial bank lending rate in Uganda hit

23% in July 2014. In turn, lending rates in Kenya usually average between 12% and 23%. Commercial banks have blamed the high lending rates on the high cost of deposit mobilization.

Tanzania's financial system remains stable thanks to several years of successful financial reforms. Market-friendly reforms in the 1990s reduced the government's share in the financial sector and opened financial services to private sector participation. The liberalised financial sector has become more competitive and the quality of financial services has improved with the entry of foreign banks. Although a number of banks are foreign-owned, the sector has not been significantly affected by the turmoil in global financial markets of the past five years. Mobile banking in Tanzania has also shown impressive growth. However, the strong growth in the mobile banking sector requires additional monitoring to ensure the sub-sector does not create excess risk in the general banking sector. At the end of April 2013, the volume of transactions had reached 71.6 million per month.

1.1.6 Standard Chartered Bank as a Multinational Corporation

According to Mostafiz (2014), Standard Chartered PLC is the parent company of a number of banks and financial service companies spread across the world. Its largest subsidiary is Standard Chartered Bank, which accounts for the overwhelming majority of its operations. Standard Chartered was formed in 1969 as a merger between the Standard Bank of British South Africa, which did business throughout Africa, and the Chartered Bank of India, Australia and China, which operated 6 branches throughout India, China, and South Eastern Asia. Standard Chartered Bank opened its branches in Kenya in January 1911, with 2 branches; one at Treasury Square in Mombasa and the other on

Kenyatta Avenue in Nairobi. Today, 101 years later, the Bank has an excellent franchise, with a network of 32 branches strategically located across the country, 84 Automated Teller Machines (ATMs) and 1,040 employees (Stanchart, 2015). The Bank has centralized its operations in the Kenyan Hub (Stanchart, 2015).

1.2 Research Problem

According to Thompson and Strickland (1997), firms need competitive strategies to enable them overcome the competitive challenges they experience in the environment where they operate. A competitive strategy therefore enables a firm to gain competitive advantage over its rivals and sustain its success in the market. Competitive strategies comprise both offensive and defensive action and in the face of competition, firms adopt various competitive strategies within the industry sectors. Competitive advantage is gained by crafting unique value adding strategies that competitors cannot imitate. The prolonged crafting of these value-adding strategies while ensuring that competitors are not able to imitate the same leads to sustainable competitive advantage. Firms that are able to achieve sustainable competitive advantage are said to be successful. Strategies for achieving sustainable competitive advantage are many and varied but not always clear for the organization. A firm's assessment of the industry and competitive environment directly affects how it should try and position itself in the industry and what its competitive strategy should be (Thompson and Strickland, 1997).

Several studies have reviewed the concept of competitive strategies adopted by firms. For instance, Kasyoka (2011) studied the use of strategic positioning to achieve sustainable competitive advantage at Safaricom limited. This study reviewed Safaricom from a loca perspective. The current study is different from this one in that it focuses on Standard

Chartered Bank at a regional level which widens its scope. Ngethe (2011) undertook a study on the factors determining sustainable competitive advantage for the Institute of Advanced Technology limited. Ngethe's study also reviewed an information technology firm which can use its expertise to easily access and compete on regional and global market. However, the study only considered the local market and hence its findings ay not be applied in the case of Standard Chartered Bank.

Musyoka (2011) studied competitive strategies adopted by Keno Kobil limited in developing sustainable competitive advantage. Musyoka looked at the study from the Kenyan perspective as opposed to a regional perspective. The current study concentrates on a regional perspective. Awori (2011) did a study on strategies adopted by equity bank to develop sustainable competitive advantage. Awori's study also reviewed the competitive strategies by Equity Bank from a Kenyan market perspective and not on international level. The current study sought to evaluate competitive strategies by Standard Chartered Bank on a regional level.

Odwesso (2011) carried out a study on building sustainable competitive advantage in the mobile telephone industry in Kenya. The study by Odwesso only concentrated in Kenya. Wekesa (2013) examined competitive strategies adopted by Multichoice Kenya Limited. Wekesa reviewed competitive strategies by Multichoice Kenya Limited on the Kenyan market. These studies did review competitive strategies on an organization operating within only one nation. The current study however seeks to review the competitive strategies adopted by Standard chartered bank across East African Community. To achieve this, the study sought to answer one research question: what competitive strategies have been adopted by Standard Chartered Bank to serve the East African Community market?

According to Business Daily (2014), Standard Chartered Bank in 2014 overtook Barclays Bank Kenya to become the third most profitable bank in Kenya. The top three were Kenya Commercial Bank and Equity, all indigenous banks. The fact that Standard Chartered Bank is leading all the other multinational banks in profitability in the region is the main reason as to why it was chosen as the case study so as to find out the expansionist strategies they are applying that the other multinational banks are not using. This study sought to achieve this objective by answering one research question: what expansion strategies have been adopted by Standard Chartered Bank to enhance competitive advantage in East African Market?

1.3 Research Objective

To determine the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market.

1.4 Value of the Study

The findings of this study would be valuable to a number of stakeholders including Governments of EAC member countries, managers at Standard Chartered Bank and future scholars. For the Governments within the EAC member countries, the findings of this study would be important in that it would inform formulation of policies and guidelines governing the banking sector in their countries for improved financial sector efficiency.

The findings of this study would also be valuable to the managers at Standard Chartered Bank in that it would identify and document the competitive strategies adopted by the Bank and how effective these strategies are. Through the findings of this study, managers at Standard Chartered bank would evaluate the appropriateness of such strategies and how they affect their competitiveness.

The findings of this study would also be valuable to future researchers and scholars. It would extent the existing literature on expansion strategies adopted by organizations on international markets. This study would also serve as a source of reference for future scholars and academicians on the subject of competitive advantage among organizations. The study would also suggest areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter comprises of the critical literature and the variables used in the study. It begins by looking at the theoretical perspective of regional integration and competitive strategies adopted by firms.

2.2 Theoretical Perspective

The study is founded on two theories including the open systems and the resource based view theory. These theories are discussed below:

2.2.1 Open Systems Theory

According to Levasseur (2004), Open Systems Theory refers simply to the concept that organizations are strongly influenced by their environment. The environment consists of other organizations that exert various forces of an economic, political, or social nature. The environment also provides key resources that sustain the organization and lead to change and survival. Open systems theory was developed after World War II in reaction to earlier theories of organizations, such as the human relations perspective of Elton Mayo and the administrative theories of Henri Fayol, which treated the organization largely as a self-contained entity (Clegg & Dunkerley, 1980).

Systems theory provides managers with metaphors, terminology and explanations about how organizations function. It has dominated as a framework for managerial behavior and organizational analysis (Kast & Rosenzweig, 1972). The rational systems perspective focuses on structure as a significant tool for the efficient achievement of organizational goals. It emphasizes the role of management in deciding such structures and determining the specific goals that are to be achieved. Hence, the focus is on formal structures, the specificity of goals, and the formalization of rules and roles. Open systems reflects the belief that all organizations are unique in part because of the unique environment in which they operate and that they should be structured to accommodate unique problems and opportunities (Daft & Weick, 1984).

Environmental influences that affect open systems can be described as either specific or general. The specific environment refers to the network of suppliers, distributors, government agencies, and competitors with which a business enterprise interacts. The general environment encompasses four influences that emanate from the geographic area in which the organization operates. The open-systems theory assumes that all large organizations are comprised of multiple subsystems, each of which receives inputs from other subsystems and turns them into outputs for use by other subsystems (Daft & Weick, 1984). The subsystems are not necessarily represented by departments in an organization, but might instead resemble patterns of activity. This theory is suitable for this study because as organizations expand regionally, they are affected by the regional environment. In order to respond to the challenges of regional markets, organizations have to understand how they would be affected by the specific markets in terms of government regulations, competitor response and customers' interpretation of the firms operations in the regional market (Anderson & Bateman, 2000).

2.2.2 Resource Based View Theory

Resource Based view (RBV) is an approach to achieving competitive advantage that emerged in 1980s and 1990s, after the major works published by Wernerfelt (1984), "The

Resource-Based View of the Firm", Prahalad and Hamel "The Core Competence of The Corporation", Barney, "Firm resources and sustained competitive advantage" and others. The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.

According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. In RBV model, resources are given the major role in helping companies to achieve higher organizational performance (Peteraf, 1993). There are two types of resources: tangible and intangible. Tangible assets are physical things like land, buildings, machinery, equipment and capital that can easily be bought in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. Intangible assets are everything else that has no physical presence but can still be owned by the company. They include things like brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market (Barney, 2001). Intangible resources usually stay within a company and are the main source of sustainable competitive advantage. This theory applies to this study in that Standard Chartered Bank as an organization has these assets which it can exploit to gain competitive advantage. The global presence, reputation and brand can be used by the Bank to acquire competitive advantage (Peteraf, 1993).

2.3 Expansion Strategies and Competitiveness in International Business

Expansion strategies of banks add value to the firm. However, if diseconomies prevail, both would be destroyed. In an information and distribution intensive industry with high fixed costs such as financial services, there should be an ample potential for scale and scope economies. Economies of scale exist when the average cost decreases in scale over a relevant range as output expands. If this occurs, then larger institutions may be more efficient (Berger et al., 2000). Some lines of business benefit from economies of scale while others may be hampered by it.

Indeed, some recent studies of bank cost scale efficiency, using data from the 1990s, suggest that there may be substantial scale economies even at large bank size, possibly due to technological progress, Berger et al (2000). These studies tend to show that the threshold level is increasing compared with previous studies. In this connection, some other recent studies related to the European experience (Goddard et al., 2001) show that, in various European countries, banks can obtain cost savings by increasing the scale of production as well as by reducing managerial inefficiencies. Scale diseconomies may arise due to co-ordination and administrative costs from offering broad range of products. Economies of scale exist when the average cost falls as more products are produced jointly rather than separately, that is, they occur when expenses may be lowered if a bank can offer several products at a lower cost than it could separately.

Focusing on cross-border consolidation, Berger et al. (2000) state that a related revenue efficiency effect that is particularly relevant for cross-border consolidation concerns the benefits from serving customers that operate in multiple nations, which often require or benefit from the services of financial institutions that operate in the same set of nations. That is, multinational on financial firms may want to do business with multinational financial institutions. Presumably, the cross-border consolidation of financial institutions in recent years derives at least in part from the cross-border consolidation of non-financial industries (and vice versa as well).

A bank can, in principle, reduce its risk by expanding their activities into product lines whose returns are imperfectly correlated with those for the bank's existing products and services. Benefits from earnings diversification may increase bank value in several ways, since diversification may lower bank risk and reduce the possibility of failure (Thompson, 1993). First, reduced risk directly translates into reduced probability of incurring distress costs. The literature refers to these efficiency gains as improvements in the risk/expected return trade-off. On the other hand, an increased geographical spread of risks associated with cross-border consolidation may improve an institution's risk/expected return trade-off.

The possible benefits of scale and/or scope economies, the revenue enhancements, and the added stability all favour the observed movement toward universal banks. However, as we have seen, the results are neither unequivocal nor asserted, since they depend on several factors. On the other hand, there will always be some room for specialized banks exploring some specific niche of the financial market, such as the design and sale of derivatives, international issues of securities and some sort of investment funds (Stanton, 1994).

The competitiveness of a firm depends on a core structure in which the organizations that carry out traditional functions, such as manufacturers and intermediate wholesalers and retailers, are integrated, and on the selection of outsourcing partners that share values and that are oriented to long-term close cooperation. Relational competitiveness facilitates long-term cooperation, joint planning of operations strategies, shared information and knowledge and continuous improvement to consolidate the market position that would enable firms to reduce transaction costs (Dyer and Singh, 1998).

Corbett and Van Wassenhove (1993) state that a firm's competitiveness has price, place and product dimensions. Oral and Ozkan (1986) also suggested that competitiveness is a function of the firm's mastery of the industry, its cost superiority and potential within the relevant economic environment. This implies a need for both an internal and external consideration of competitiveness. Porter defines competitive advantage as the ability of a company or industry to make products that provide more value to the customer than competing products. This leads to both greater sales and higher profits (Porter, 1985).

Investigations of competitive performance can be grouped in two categories. Researchers in the first category emphasize economic indicators and use statistics which reflect economic growth. They provide a number of economic indicators and rank the countries accordingly. Researchers in the second category investigate the effects of each individual factor on competitive performance, based on the determinants introduced by Porter and Kramer (2002). For a firm to achieve a sustainable competitive advantage, it must be competitive.

Porter (1980) noted that competition in an industry continually works to drive down the rate of return on invested capital toward the competitive floor rate of return, or the return that would be earned by the economists "perfectly competitive" industry. Blunck (2006) identified the measures of competitiveness at the industry level to include "overall profitability of the nation's firms in the industry, the nation's trade balance in the industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level.

Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialised expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics: it provides access to a wide variety of markets; it increases perceived customer benefits and; it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology and modalities that was used in the collection of data pertinent in answering the research questions. It also covers the research design, determination and sources of data, methods of data collection and methods of analyzing the data.

3.2 Research Design

The research used a case study approach to give an in-depth understanding of the competitive strategies adopted by Standard Chartered Bank to serve the East African Community market. A case study is an empirical inquiry that investigates a phenomenon within its real-life context.

Case study research provides a systematic way of looking at events, collecting data, analyzing information, and reporting the results. As a result the researcher is able to gain a sharpened understanding of why the instance happened as it did, and what might become important to look at more extensively in future research (Yin, 2002). Other studies such as (Kasyoka, 2011; Ngethe, 2011; and Musyoka, 2011) successfully adopted this research design.

3.3 Data Collection

The study used both primary and secondary data. Primary data was collected using an interview guide while secondary data was collected from audited financial reports and other publications at Standard Chartered Bank. The secondary data covered a period of five years starting 2010 to 2014 for three countries including Uganda, Tanzania and Kenya. Data on financial performance including overall profitability and revenue turnover was considered.

The researcher interviewed middle level management team and hub managers at Standard Chartered Bank because of their involvement in competitive strategy formulation issues from an operational point of view in the Bank. The exact manager positions to be interviewed included: Head East African Operations, Head Information and Technology Officer East Africa, Operations Manager East African, Customer Experience Manager East Africa, Finance and Administrations Officer East Africa, and Training and talent development East Africa. The respondents were 6 managers as listed above. The interview guide enabled the researcher to collect in-depth qualitative data. This was used in order to gain a better understanding and a more insightful interpretation of the results from the study.

To ensure data validity and reliability, the researcher pre-tested the instruments on two middle level managers to establish the difficulties in responding if any so as to correct the instrument where necessary. This helped ascertain whether the instrument collect information which it was supposed to collect.

3.4 Data Analysis

Content analysis was used to analyze the data collected from the respondents since it was qualitative in nature. Kothari (2004) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2004) also explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness.

Data collected was organized into various thematic areas so as to build a profile about the competitive strategies adopted by the Bank in the East African Community. A report was then be generated to show the competitive strategies adopted by Standard Chartered Bank to serve the East African Community market.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents an analysis of the data, results and discussion based on the research objectives and the research methodology. The objective of the study was to determine the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market.

4.2 General Information

The study targeted a total of 6 interviewee's who were middle level management team and hub managers at Standard Chartered Bank because of their involvement in competitive strategy formulation issues from an operational point of view in the Bank. Out of the target 6 interviewees, 5 availed themselves for an interview with the researcher thus giving a response rate of 83%. This response rate was excellent, representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

The study collected some background information about the interviewees so as to determine their suitability in providing the information sought by the study. The interviewees were requested to indicate the position they held in the organization**.** From the responses, there was an operations manager East African, customer experience manager East Africa, finance and administrations officer East Africa and training and talent development East Africa. These findings show that the interviewees were distributed across the different functions within the hub hence were more representative of the organization.

The interviewees were further required to indicate the period they had served in the bank and also in the Hub so as to determine how well they understood the operations of the bank in terms of expansion strategies used to enhance competitive advantage. From the responses, the study established that the interviewees had worked with the bank and also within the hub for a long period ranging from 4 to 25 years. These findings show that they had worked in the organization long enough to understand the expansion strategies used by Standard Chartered Bank to enhance competitive advantage. Therefore the information provided was highly reliable.

The study sought to find out whether the respondents had a chance to work in the banking sector outside Kenya. From the responses 2 out of the 5 interviewees indicated that they had worked outside Kenya, the customer experience manager East Africa had previously held the position of the country head of priority banking in Standard Chartered Bank Tanzania. The training and talent development manager East Africa had worked as the human resource partner in operations at Barclays Bank Uganda. These findings show that the respondents had vast experience in banking across the East African region. This enabled them to develop appropriate strategies that would promote the business across the boarders in East African.

In order to establish the competitiveness of the operating environment for the Bank, the interviewees were asked to describe the competitive environment in the financial market in East African market. From their response it was established that the banking industry in East Africa is very competitive. The interviewees indicated that the competition continue to increase as more and more banks both from the east African region and outside the region continue to set up new branches and compete for deposit base, customer retention and the products and services. The interviewees further indicated that players in the banking sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

The banking industry in Kenya is one of the most dynamic and important industries to the economy. The industry has recently experienced phenomenal growth and is one of 2 the fastest growing industries in Africa. The growth has mainly been supported by the expansion of banks into new market segments and especially in East Africa, prudent risk management and enhanced economic prospects

4.3 Expansion Strategies and Competitive Advantage

The study sought to establish the expansion strategies adopted by Standard Chartered Bank within the East Africa Market. From the responses, it was established that Standard Chartered Bank Kenya Limited had been undergoing an expansion program in order to support its strong growth. The growth is especially in lending and expansion of operations in other neighboring and regional countries with particular interest in Rwanda and Ethiopia.

The study required the interviewees to indicate the expansion strategies the bank had adopted within the East Africa Market. From the response, it was established that SCB ltd bank had operations in the Republic of Tanzania and Uganda. Standard Chartered bank had used subsidiaries and a network of branches as a mode expansion into these markets. The interviewees also indicated that the bank had established a hub supporting the Bank's technology operations in Uganda, Tanzania, Zambia and Botswana and South Africa on a real time basis to grow its business through quality services supported by technology. They further indicated that the bank had employed strategies like in-depth knowledge of the bank's customers through customer relationship marketing, staff training by creating a confident and capable work force, taking banking to the client through technology, providing flexible and customized financial solutions, being effective, efficient, consistent and stable. The bank was also seeking to expand its operations to Rwanda and Ethiopia though the use of subsidiaries.

The study further sought to establish the ways that expansion strategies adopted had affected the competitiveness of the Bank in the East African market. Their responses indicated that the bank has gained a lot of benefits from serving customers that operate within the East Africa region, the number of these customers has continue to increase especially after the governments within the region started the processes of harmonizing trade within the region. Such customers often require or benefit from the services of financial institutions that operate in the same set of nations. The interviewees further stated that, being a multinational bank the Bank has been able to attract customer from other parts of the world who are trading in the region due to the brand name that Standard Chartered had created across the globe. The creation of a technological hub in Nairobi that serves the East African region and the rest of Africa on a real time has enhances the turnaround times and customer service and this has placed Standard Chartered Bank as a leader in quality and timely services.

On the effectiveness of the expansion strategies and their improvement, the interviewees noted that there was need to form strategic alliances with local banks that already had access to the market to make it easy for Standard Chartered Bank gain access faster at a minimal cost. The interviewees also expressed the need for increased digital and social selling within the region. The interviewees indicated that there were still great opportunities for the bank to market and conduct product research on tablets and smartphones. The mobile cross selling to current customers was seen as an effective way of expanding into the East African market. This was driven by the fact that many customers would research financial products on their smartphones and tablets.

Regarding the competitiveness of the expansion strategies on the East African, the study established that the strategies had enhanced the domestic competitiveness of the bank and has seen the profitability of the bank increase over the years, there had been an increase in sales and profits. The interviewees indicated that by expanding in the region they had been able to maintain cost competitiveness in the domestic market. The interviewees further stated that the bank has been able to reduce dependence on existing markets that was majorly in Kenya and hence stabilize seasonal market fluctuations that come along with macroeconomic factors that affected the different countries within the east African Region.

4.4 Discussion

The study objective was to determine the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market. The research findings revealed that the bank employs various expansion strategies so as to remain competitive by having a competitive edge over its competitors.

The study showed that SCB Ltd bank had expanded its operations into neighboring East African Countries for instance Republic of Tanzania and Uganda. The bank also uses subsidiaries and branch network as a mode of expansion. The findings further revealed that the bank had employed appropriate strategies like in-depth knowledge of the bank's customers through customer relationship marketing, staff training that was aimed at creating a confident and capable work force, taking banking to clients through technology, providing flexible and customized financial solutions, being effective, efficient, consistent and stable. All these strategies were aimed at giving the bank a competitive edge against its rivals in the banking industry. These strategies will bring economies of scale to a business since efficiency is realized and risks are reduced significantly. Expansion strategies are designed to allow enterprises to maintain their competitive position in rapidly growing national and international markets. Hence to successfully compete, survive and flourish, enterprises have to pursue an expansion strategy (Ayal & Zif, 1979).

The study findings showed that the bank had gained a lot of benefits from serving customers that operated within the East Africa region. The number of these customers had continued to increase especially after the governments within the region started the processes of harmonizing trade within the region. It was further noted that the Bank had been able to attract more customers from other parts of the world due to the brand name that Standard Chartered had created across the globe. These improvements therefore showed that expansion strategies adopted by the bank had positively affected the bank`s competitiveness. Thompson and Strickland (2007) noted that an organization is said to have a competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. The competitive advantage comes from the value that organizations create for their customers that exceed the cost of producing it Porter (1987).

The study established that the competitive strategies adopted by the bank had enhanced the domestic competitiveness of the bank and had even increased the profitability over the years. In particular, there had been an increase in sales and profits. Research findings also showed that by expanding in the region the bank had been able to maintain cost competitiveness in the domestic market. A reduction in the dependence on existing markets that was majorly in Kenya was realized and hence stability of seasonal market fluctuations. The research findings concur with Li (1994), that competitive strategies are an important strategic option that enables enterprises follow to fulfill their long-term growth objectives. These strategies are pursued in order to gain significant growth as opposed to incremental growth.

Competitive strategies are adopted to accelerate the rate of growth of sales, profits and market share much faster by entering into new markets, acquiring new resources, developing new technologies and creating new managerial capabilities. They therefore provide a blueprint for business enterprises to achieve their long term growth objectives. It allows them to maintain their competitive advantage even in the advanced stages of product and market evolution (De Paula, 2002). Growth in turn offers economies of scale and scope to an organization, which reduce operating costs and improve earnings (Hagiu, 2009).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study sought to determine the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market. This chapter presents summary of findings, conclusion, recommendations and suggestions for further research.

5.2 Summary of Findings

The study established that SCB had adopted expansion strategies with the East African region both in the countries that the bank had been operating and also seeks to expand to other countries within the region. The interviewees stated that Standard Chartered bank had used subsidiaries and a network of branches as a mode expansion into these markets. The interviewees also indicated that the bank had established a hub supporting the Bank's technology operations in a real time. They further indicated that the bank had employed strategies like in-depth knowledge of the bank's customers through customer relationship marketing.

The study also established that the bank has gained a lot of benefits from serving customers that operate businesses within the East Africa region, the number of these customers has continue to increase especially after the governments within the region started the processes of harmonizing trade within the region. The interviewees further stated that, being a multinational bank the Bank has been able to attract customer from other parts of the world who are trading in the region due to the brand name that Standard Chartered had created across the globe

The study also established that there was need to be need to form strategic alliances with local banks who already have access to the market to make it easy for Standard Chartered Bank gain access faster at a minimal cost. The interviewees also expressed the need for increased digital and social selling within the region.

On the effect of the expansion strategies on competitiveness of the bank, it was established that the strategy has seen the profitability of the bank increase over the years, there had been an increase in sales and profits. The interviewees indicated that by expanding in the region they had been able to maintain cost competitiveness in the domestic market. The interviewees further stated that the bank has been able to reduce dependence on existing markets.

5.3 Conclusion

The study made the following conclusions.

Standard chartered had adopted expansion strategies in the East African region both in the countries that it operated and also sought to expand to other countries within the region with a special focus on Rwanda and Ethiopia. The strategies that the bank has adopted were the use of branch network and also the use of subsidiary. The expansion program was highly supported by technology that gave the bank a competitive advantage over its competitors.

The banks competitiveness in the region has continued to grow as evidenced by the growth in the profitability of the bank over the years through increased sales. The bank has also been able to maintain cost competitiveness through the use of technology that centers the operations at Nairobi. The bank has been able to diversify to other markets in the region and hence reduced the risk of dependency on existing markets which was predominantly Kenya and hence averted the risk that came along with changes in macroeconomic factors within the different countries.

5.4 Limitations of the Study

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market. Due to limited finances the study could not be carried out on the other branches of the bank. The study, however, minimized these by conducting the interview at the banks headquarter since it is where strategic decisions are made.

5.5 Recommendations

Findings from this study indicate that the use of technology as a strategy to support expansion has played a key role in maintaining and increasing the competitiveness of Standard Chartered bank. The study therefore recommends that for the bank to uphold high level of efficiency and effectiveness in operations, it needs to continuously invest in technological innovations. The operating environment has become very competitive as other banks too seek to strengthen their systems. As such, whatever may appear as competitive advantage for the Bank may not hold for long unless the bank continuously invests in research and innovation. In order to remain competitive on the market, it is important that the Bank maintains its innovativeness and upgrading its information system. This would ensure that as other commercial banks upgrade their systems, the bank still had a competitive advantage over them.

The study also found out that the bank had not explored the option of forming strategic alliances with local banks. The study therefore recommends that for the countries that the bank is seeking to enter i.e. Rwanda and Ethiopia, the bank should consider the option of strategic alliances with local banks in those countries for ease of access and also to minimize cost of entering the new markets. The study also recommends the need for increased digital and social selling within the region.

5.6 Suggestions for Further Studies

This study concentrated on the expansion strategies used by Standard Chartered Bank to enhance competitive advantage in the East African Community Market. This study therefore recommends that a similar study be done on other financial institutions for the purposes of benchmarking. This would help in the establishment of how strategies adopted by various bank enhance competitiveness in the region.

Further, this study recommends that future studies be conducted the effect of technology on banks expansion. As noted above, technology was a major factor in the expansion strategies used by Standard Chartered Bank.

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APPENDIX I

EXPANSION STRATEGIES BY STANDARD CHARTERED BANK TO ENHANCE COMPETITIVE ADVANTAGE IN EAST AFRICAN MARKET

Interview Guide

SECTION A: GENERAL INFORMATION

1. What is your position in the hub?
2. How many years have you worked with the Bank?
3. For how many years have you been working at the hub?
4. Have you had a chance to work in the banking sector outside Kenya? Please explain.
5. How is the competitive environment in the financial market in East African market?

SECTION B: EXPANSION STRATEGIES AND COMPETITIVE ADVANTAGE

6. What expansion strategies has your Bank adopted within the East Africa Market?
7. In what ways have the expansion strategies adopted affected the competitiveness of your Bank in the East African market? Kindly explain.
8. How effective have these expansion strategies been? Kindly explain.
9. Do you think the use of these expansion strategies has given your organization a competitive edge over other banks?
10. In what ways can the effectiveness of the expansion strategies be improved? Kindly explain.

11. How competitive have been the expansion strategies on the East African Market? Kindly explain.