COMPETITIVE STRATEGIES ADOPTED BY EQUITY BANK KENYA LIMITED TO COPE WITH TECHNOLOGICAL CHANGES

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DECLARATION

This research project is my original work and has not been presented for examination to any other university.

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ABBREVIATIONS AND ACRONYMS

FDI -	Foreign Direct Investment
ICT -	Information and Communication Technology
EBS -	Equity Building Society
PICTURE -	Professionalism, Integrity, Creativity & Innovation, Teamwork, Unity of Purpose, Respect &Dignity and Effective Corporate Governance
ATM -	Automated Teller Machine
POS -	Point Of Sale
MVNO -	Mobile Virtual Network Operator
RBV -	Resource Based View
PDA -	Personal Digital Assistant
E-Banking -	Electronic Banking
EMV-	Europay, Mastercard and Visa technology
PIN-	Personal Identification Number
SMS-	Short Message Services
SIM-	Subscriber Identification Module

ABSTRACT

Strategy is the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. Firms develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market. Technology has become a part of the current world the banking industry has embraced it to better meet the growing needs of the customers as well as remain competitive and relevant in the current world. Equity Bank Kenya limited is a commercial bank which is amongst the largest banks in Africa due to its customer base of more than 8 million customers. The study's objective was to determine the competitive strategies adopted by Equity Bank Kenya limited to cope with technological changes. In this context the research question was 'What competitive strategies has Equity Bank Limited adopted to cope with technological change?'. The study made use of an interview guide to collect primary data from the respondents who were: corporate strategists, marketing executives and other staff in departments involved in implementing the strategies. Data was analyzed through content analysis. The findings which emerged were that Equity Bank Kenya limited has adopted competitive strategies to cope with technological changes which include: Internet connectivity, advanced technological machinery, digital advertisement, introduction of new products and services and partnership with other organizations. It is evident that these strategies have improved the quality of services giving it competitive advantage over its competitors. The study faced challenges like some respondents not being available because of their busy schedules and the fear of disclosing sensitive information. The study recommends that due to all organizations should adopt technological changes. This should be adopted also by the public sector to ensure quality products and services. More research should be conducted on all industries and the partnerships taking place due to technological changes and the sustainability of that strategy.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking industry in Kenya has realized tremendous growth over the years. It has also moved from traditional banking and embraced technology to better meet the growing needs of the customers as well as the globalization challenges. This has led to strategic changes by the banks in order to remain competitive and relevant in the current world.

Banks are responding by adopting and reframing the available technology towards bank-related user interface. The rise of communication technology and electronic devices like the mobile phones is being used by commercial banks to expand their customer reach. Customers are now able to access vast information regarding current changes in the interest rates and other numerical data. Commercial banks are making it easy for customers to use the self-service platforms in accessing the information provided by the banks. Use of technology in the online banking sector has been a vital thing to the Kenyan economy (Ombati & Magutu, 2010).

Commercial banks in Kenya are shifting towards the adoption of closer relationships with their customers through satellite and virtual bank branches. Good customer relations are vital to the success of every business and banks are not to be exempted. Competitiveness in the banking sector can be approached through the establishment of good relationships with the customers. Banks are utilizing the loopholes that come with technology in the field of banking. Virtual bank platforms that exist on the mobile banking services have numerous shortcomings particularly, in the development of good customer relations. The online systems are programmed to offer a specified set of services with limited or no advisory services (Mwega, 2011).

The commercial banks are also responding to the technological needs and regulations put by the authorities. The government has made various provisions that require some service provider to deliver on cashless payment systems. For example, the payment of bills has transformed to the cashless system in the country. Most service providers have launched their online and mobile payment systems that enable their customers to make cashless payments. Use of mobile phones in payment for services is becoming a trending issue in the Kenyan economy. The network service providers are the beneficiaries of this move thereby limiting the banks influence in the public. The fast changes in the networking technology on the communication platforms are posing a threat to the survival and growth of the commercial banks. Banking services are being taken by the communication firms like Safaricom Limited through the use of technology. Banks are forced to respond to recover the lost customer base from the networking and communication firms (Cheruiyot, 2010).

The technological changes in the country have therefore triggered a series of changes in the banking sector thus inducing positive change in the economy. Additionally, customers can also access loan facilities easily through the online platforms and through mobile banking. The strategies are aimed at making the best use of the technology and countering competition from other financial institutions. Adoption of the technological platforms has helped maintain the banks' influence on the economy. Customers are also able to interact with the bankers on a virtual platform that provides information regarding ban king operations. Customers can now make withdrawals, deposits and transfer money without having to go to the banks. Banks are acting in response to the competitive environment and the challenges posed by the vast technology in the country (Ombati & Magutu, 2010).

1.1.1 Concept of Strategy

Strategy is related to the long-term profitability and survival of the firm. According to Ansoff and Sullivan (1993), strategic success relies on the optimization of the firm's profit potential in the form of new products, markets, technologies and competitive strategies. Strategy can also be viewed as a problem solving process. In an organisation when a challenge is noted, strategy first does a diagnosis, defining the nature of the challenge. Second it comes up with a guiding policy to deal with a challenge and lastly coherent actions to carry out the guiding policy (Rumelt, 2011).

Strategy is the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish (Thompson and Strickland,1999). The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. It is meant to provide guidance and direction for the activities of the organisation. Since strategic decisions influence the way organizations respond to their environment, it is very important for a firm to make strategic decisions and define strategy in terms of its function to the environment (Pearce and Robinson, 2011).

Strategy in an organization provides a consistent framework for planning and making operational decisions. This leads to proper allocation of resources to areas where they are required and this leads to better productivity. It also leads to clear goal setting where the goals are well defined and activities to achieve them are specified. This is not only necessary that resources are put to the best of their efficiency but also that resources are put in a way that ensures maximum contribution to organizational objectives. Overall it reduces role conflict and role ambiguity instead it provides satisfaction to the personnel of the organization (David, 2007).

1.1.2 Competitive Strategies

Firms develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1986). Strategic management is thus important for the firms' survival. Porter (1998) defines competitive strategy as the distinctive approach which a firm uses to succeed in the market. Different authors have examined the concept of competitive strategies however major studies in this area have been done by Michael Porter. He defines competitive strategy as the art of relating a company to the economic environment within which it exists.

Porter (1998) states that the goals of a competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against the five forces which are rivalry, threat of substitutes, buyer power, supplier power and the threat of new entry. It is from this industry analysis that a firm determines its competitive strategy. Porter later simplified the scheme into three generic strategies namely 'cost leadership', 'differentiation' and 'focus'. Successful low cost leaders are exceptionally good at finding ways to drive costs out of their business (Porter, 1986). A low cost leader's basis for competitive advantage is lower overall costs than competitors. The need to manage cost is not new, yet a number of organizations struggle to successfully control their operating expenses overtime (Bertone, & Clark, 2009).

Differentiation involves identification of the needs of the customers in the market and designing products that can fit their needs. The differentiating organization will incur additional costs in creating their competitive advantage (Porter, 1996).The increase in revenue generated by sales should then be able to offset the costs. Innovation and continuous improvement is basic in differentiation to avoid copied ideas by competitors.

A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower price than rival competitors. This strategy has considerable attraction when a firm can lower costs significantly by limiting its customer base to a well defined buyer segment (Porter, 1996).

Gaining competitive advantage is key in the formulation of a strategy. According to Wickham (2006), competitive advantage can be categorized into five categories which are product advantage, knowledge advantage, cost advantage, relationship advantage and structural advantage. To gain product advantage, an organization has to be able to create a superior product valued higher than the competitor's products. According to Porter, (1998), an enterprise will gain cost advantage if its cumulative operating costs are lower than competitors'. The service advantage allows the enterprise to be able to offer products or services at a lower price than competitors, to control its cost and capacity utilization, to access unique sources of input cheaper than competitors, to gain economies of scale and to gain experience curve economies which support the enterprise to reduce cost over time (Kay,1993).

Under the knowledge advantage, there are three types of knowledge: product knowledge, market knowledge and technical knowledge (Wickham, 2006).The organization will gain sustainable competitive advantage if it has patents or other intellectual property which prevents competitors from replicating (Porter,1998). In order to establish trust, relationship is fundamental. It adds value by supporting the organization to secure its revenue and operations and to minimize transaction costs (Kay, 1993).An enterprise will be able to gain relationship advantage if it is able to develop reputations and special relationships with its stakeholders such as customers, suppliers, distributors, investors and employees (Lado et al., 1992).

On the other hand Johnson, Scholes and Wittington (2006) perceive competitive strategies from a business level perspective. They believe it’s the achievement of competitive advantage by a business unit in its particular market. They advocate for a hybrid strategy which provides a market-facing element to Porter’s (1980) model in the form of price as a new dimension and its combination with differentiation. The competitive strategies formed by firms are unique to its internal and external environment.

1.1.3 The Banking Industry in Kenya

In Kenya the banking industry is a major part of the country’s economy. It comprises of accredited commercial banks, micro finance institutions and the Central Bank of Kenya. The commercial banks and non banking financial institutions offer corporate and retail banking services but a small number mainly comprising of larger banks offer other services such as insurance services, custodial services and even investment services. The Central bank of Kenya is mandated with controlling both the commercial banks and micro finance institutions (Mugo, Wanjau and Ayodo,2012).

The banking industry has three broad roles in the economy which are the implementation of government policies by the way money supply management using instruments of monetary policies like Treasury bill action, open market operation. Second role is intermediation between savers and borrowers that entails mobilization of resources from entities with surplus funds channeling them to the deficit areas. Lastly they facilitate the flow and interaction of various economic acts (Kimutai and Jagongo 2013). In the 1990's there was financial liberalization which opened the banking industry in Kenya to stiff competition weakening the financial performance of some banks Today the banking industry has come up to adapt to the liberalization and also the competition and it has grown in its performance and profitability.

Vision 2030 incorporates the banking industry as a key pillar to play a major part in the achievement of sustainable growth by year 2030.This is through increased savings, Foreign Direct Investment (FDI), safeguarding our economy form external shocks as well as propelling Kenya to become a leading financial centre in its region. Vision 2030 also has a medium term plan in which some of the target areas include development of a payment system which is safe and reliable. This will ensure smooth transfer and settlement of funds between customers and banks and also between the banks themselves. Towards this end, the use of mobile phone networks, internet, payment cards, operational resilience and security will be pursued in order to increase trust, integrity and confidence in the ICT based payment systems (Ngumi, 2013).

Technological innovations, globalization, privatization and commercialization of public sector, environmental changes, increased customer demands, increased competition, price decontrols and liberalization of both domestic and foreign markets have all had a great effect on the Kenyan banking industry. This has led to banks adjusting their strategies in order to survive (Chiteli, 2013).

1.1.4 Commercial Banks in Kenya

Commercial banks in Kenya are under the Banking industry. A commercial bank is a financial institution that provides services such as deposit taking, lending of loans, investment services. They process credit and lending operations as well as accepting deposits and making advances. It allows for the issuance of money and facilitates payment processing including automatic payment and facilities all forms of electronic banking services internally and externally (Idiab, Haron and Ahmad, 2011).

Commercial banks in Kenya are regulated by three Acts: The Companies Act, the Central Bank of Kenya Act and the Banking Act. Banks address issues that affect the banking industry in Kenya through the Kenya Bankers Association forum. Kenya's capital market is considered narrow and thus the financial sector is largely bank-based. Having forty three commercial banks and one mortgage finance company as at 31 December 2013, the industry has had a great impact on the Kenyan economy.

Commercial banks dominate the financial sector in Kenya. A country where the financial sector is dominated by commercial, any failure in the sector has an immense implication on the economic growth of the country. Any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations (Ongore and Kusa, 2013).

1.1.5 Equity Bank Kenya Limited

Equity Bank was founded as Equity Building Society (EBS) in October 1984 in Kenya and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. It was transformed into microfinance and later as a commercial bank. By end of 2013, Equity Bank was amongst the largest banks in Africa due to its customer base of more than 8 million customers. The Company's Vision is 'To be the champion of socio-economic prosperity of the people of Africa'. Its solid core values guide the bank by being upheld in all the activities they undertake. These values abbreviate P.I.C.T.U.R.E. which stands for Professionalism, Integrity, Creativity and Innovation, Teamwork, Unity of Purpose, Respect and Dignity for customers and lastly Effective Corporate Governance (Equity Bank of Kenya, 2015).

In the year 2010, Equity Bank established the Equity Group Foundation to support the concept of philanthropy and corporate social responsibility. Its model of low margin, high volume business and its visionary leadership has continued to earn Equity Bank local, regional and global accolades and recognition. Equity Bank is the holder of 2007 Global Vision Award in Microfinance 'For initiating a concept of the future that will shape the Global Economy. In June 2009 Equity Bank was named the Emerging Markets Most Sustainable Bank of the year in Africa and Middle East. Equity has won many awards over the years like 2013 where it received seven awards; three on Best bank in terms of customer base and on asset base exceeding Kes 150 billion with strong regional reach and strong brand pull one on affordability and inclusivity. The bank was also awarded top tax payer by Kenya Revenue Authority and the rest two awards were on leadership recognizing the Bank's Chairman and its Managing

Director on visionary leadership and the other on increasing financial results year by year, embracing innovation and model corporate respectively (Equity Bank of Kenya, 2015).

Equity has expanded within its region having its headquarters located in Nairobi, Kenya, with subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity Bank offers financial services through its wide network of branches supported by alternate delivery channels which include: Visa Branded Automated Teller Machines (ATMs), Point of Sale (POS) where customers shop, pay and withdraw cash in leading retail outlets, Internet and mobile banking channels and Agency outlets. By 2013, Equity bank had 135 branches in Kenya, 38 branches in Uganda, 4 branches in South Sudan and 2 branches in Tanzania (Equity Bank of Kenya, 2015).

1.1.6 Technology and Banking in Kenya

Commercial banks in Kenya have partnered with technology communication firms to take their banking services close to their customers. The banking service has transformed into a self-service event that is making it easy and convenient for customers. Technological changes in Kenya have forced the banks to invest more in taking an online banking approach in service delivery. Electronic banking is being used to counter competition posed by the technology communication forms. Electronic banking has also facilitated other support services like the payment of bills. The commercial banks have partnered with the communication platforms like to promote the purchase of goods and payment of bills. For example, Equity Bank has partnered with *Safaricom* to facilitate bill payment of various services. Business people can also make online sales that are facilitated by the banking system (Temesgen, 2013). Service delivery has improved thereby boosting the banks' growth and efficiency.

Technological change has mainly, taken place in the communication industry due to the internet and entry of information platforms in the country. Leading communication firms like Safaricom, Orange, and Airtel have dominated the money transfer services in Kenya. The firms utilize their high number of customers to tap the vast money transactions undertaken by their customers. Business people find it easier to deposit money through their phones rather than going to the banks.

The technological activities taken by the communication firms are denying the banks a chance to take part in the money transactions economy. In response to the threat, the commercial banks have adopted means to counter the strain caused by the communication firms. For example, Equity Bank has launched the paper-thin SIM card to facilitate better online banking services to its customers. The paper-thin card will enable the bank to offer communication and banking services. The commercial bank also seeks to launch and equip its Mobile Virtual Network Operator (MVNO) across the country (Kingoo, 2011).

The strategy aims at utilizing the growing technology to cope with the challenges in the money markets. It will also facilitate the bank's influence on banking services thereby adding its competitive advantage. Such a move targets to reduce the influence of the communication firms like Safaricom Limited that continue to deny the banks a share in the money markets. The strategy adopts the available technology and will go a long way in boosting Equity's image to the public. It reduces the threat and monopoly held by the communication firms in the country (Kingoo, 2011).

The introduction of YuCash and Orange Money has also been a technological approach taken by network operators in the country. Commercial banks have responded by facilitating the intermediary services that accompany the online bill payment operations. For example, Equity Bank has introduced the BebaPay service that facilitates cashless fare payment. The bank has been able to tap a vital source of revenue earned through the rates associated with the service. It has also created an influence in the transport industry that covers a significant part of the Kenyan economy. Use of cashless payment services has enabled the banks integrate with the public thereby magnifying the influence of the commercial institutions to the public. Commercial banks continue to respond to the change in the technological aspect of the country through adoption of counter strategies (Nyangosi, & Arora, 2011).

1.2 The Research Problem

The motivation was to study the strategies used by Equity Bank Limited to adapt to the technological changes arose from the fact that the current banking industry in Kenya is highly dynamic and competitive. The constant change taking place leads to changes in customer demands. Hence commercial banks now have to ensure that they meet the needs of the external environment in order to remain competitive against their rivals.

Companies as autonomous entities strive for competitive advantage from either external or from internal capabilities. The objective of a company's strategy is to achieve competitive advantage and the strategy itself is a source of competitive advantage. Hence strategy is about ensuring the survival and prosperity of a firm by implementing strategies to fulfill stakeholder expectations in an uncertain future. The firms that engage in strategic planning and have appropriately designed and applied competitive strategies tend to have higher performance than those that do not (Jonsson & Devonish, 2009).A study by Maingi, Wanjiru, Kitheka, Ngunjiri and Mulwa, (2013), focused on establishing the extent of financial innovation in Kenya and how this enhances competitiveness. The study noted that the Kenyan financial sector has made some remarkable strides towards financial innovations.

Kim, Nam and Stimpert, (2004), introduced the aspect of speed in attaining competitive advantage. They note that the pace and intensity of change in the global business environment have become much more pronounced during the past two decades. This is evident in the banking industry in Kenya where the technological change has come over a period of time and the banks which speedily adopt strategies in line with the change will end up being more competitive and gain sustainable competitive advantage over their rivals in the industry. Consequently, this study will seek to answer one question; what competitive strategies has Equity Bank Limited adopted to cope with technological change?

1.3 Research Objective

The objective of the study was to identify competitive strategies used by Equity Bank Limited to adapt to Technological changes.

1.4 Value of the study

The management of the commercial banks and other financial institutions will gain a better understanding of the impact of the competitive strategies adopted due to technological changes. They will also understand the challenges that come with technological change and the benefits as well. By establishing the strategies adopted, they will know which are beneficial or better the performance or profitability of the institutions. It will also be important to the banking institutions since it will show the shortcomings and achievements in their efforts to remain competitive in the global market considering the changing environment.

The regulatory bodies responsible for the licensing, regulation and supervision of commercial banks including policy formulation, monitoring and evaluation like the Central Bank, will make informed decisions on the basis of the findings, when executing their mandates with respect to new products which are introduced to the market.

The study will significantly contribute to the growing body of research on the contribution of strategies adoption due to technological change by commercial banks in Kenya. The findings may also be used as a source of reference for other researchers and academicians. The research may also stimulate academicians to further research in this area and as such form a basis of good background for further researches.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical underpinnings of the study and specifically the Resource-Based theory and Porter's Five Competitive Forces Model. In addition the chapter provides the previous studies that have been conducted on effect of technological strategies on organizational competitiveness.

2.2 Theoretical Underpinnings

The study was guided by the Resource-Based theory and Porter's Five Competitive Forces Model.

2.2.1 Resource-Based Theory

The Resource-based theory focuses on what is within the firm. Barney's (1991) definition of resources is firm resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness .Ferreira and Azevedo (2010), support the idea that the resources in question can be both tangible and intangible in nature. Tangible resources in this way include capital, access to capital and also location among others, while intangible resources consist of knowledge, skills and reputation, entrepreneurial orientation, among others.

Resource-Based theory emphasizes that the firm's resources are fundamental to its achievement of sustainable competitive advantage. A firm must strive to achieve sustained competitive advantage by continually adapting to changes in external trends and events and internal capabilities, competencies, and resources and by effectively formulating, implementing, and evaluating strategies that capitalize upon those factors (Mintzberg, 1994).

This model assumes that firms within an industry may have heterogeneous resources due to the fact that not all resources are mobile across the industry. This heterogeneity or uniqueness is considered a necessary condition to contribute to competitive advantage (Barney, 1991 and Peteraf & Barney, 2003).However there shouldn't be any illusion whatsoever that this premise necessarily implies a static approach to the resource- based view. Helfat & Peteraf (2003), state that competitive advantage and disadvantage comes over a period of time and may also shift over time. Therefore in order to explain competitive advantage, the Resource-Based View must incorporate the evolution over time of the resources and capabilities that form the basis of the competitive advantage. This creates the capability lifecycle which helps to make resource based theory dynamic by providing a framework for understanding the evolution of capabilities over time.

According to Barney (1991), a firm resource must, in addition, be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage. Ferreira and Azevedo, (2010) argued that the Resource-Based View (RBV) of the firm has become one of the most widely used theoretical frameworks in the management literature. They note that the theory aspires to explain the internal sources of a firm's sustained competitive advantage .According to Penrose (1959), the firm's growth both internally and then externally through merger, acquisition and diversification, is due to the manner in which its resources are employed. She argued that a firm consists of a collection of productive resources and these resources may only contribute to a firm's competitive position to the extent that they are exploited, in such a manner that their potentially valuable services are made available to the firm. Rubin (1973), recognized that resources were not of much use themselves but firms must process raw resources to make them useful.

While a firm's performance is driven by its products, it is indirectly and ultimately driven by the resources that go into their production. Thus firms may earn above normal returns by identifying and acquiring resources that are critical to the development of demanded products (Wernerfelt, 1984). Therefore the main reason for firms to grow and have success can be found inside of the firms. Firms with resources and superior capabilities will build up a basis for gaining and sustaining competitive advantage.

2.2.2 Porter's Five Competitive Forces Model

There are many factors which affect organizations in the corporate world. They pose a challenge to an organization's survival, relevance and future existence. Due to these factors, organizations have to come up with effective strategies to match the internal strengths and weakness to the external opportunities and threats. Through strategy the organization is also able to deliver value to the people who depend on the firm, its stakeholders such as customers, shareholders and others like government who indirectly or directly influence the organization to achieve competitive advantage.

The Porter’s five forces analysis is a framework for industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. It draws upon industrial organization economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching pure competition (Porter, 1980). The forces are divided into two, macro environment and micro environment. There are three forces out of the five which refer to competition from external sources, macro environment. The threat of substitute products or services, the threat of established rivals, and the threat of new entrants. The remaining two are internal threats, Porter referred to these forces as the micro environment. They consist of the bargaining power of suppliers and the bargaining power of customers(Porter,1980).

A change in any of the forces normally requires a business unit to re-assess the market place given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability (Porter, 1980).Rivalry in the industry refers to the number of competitors already in the industry and the extent to which they compete against each other. Threat of new entrants, if an industry growth is high it tends to attract new entrants. This is where you find new companies being formed in the industry. Bargaining power of suppliers, if the suppliers have a high bargaining power the industry is unattractive and vice versa.

The bargaining power of buyers, buyers are said to be powerful if they have a force that can negotiate with the companies to act in a particular manner. Firms increase bargaining power over their customers and suppliers by increasing their customers switching costs and decreasing their own costs for switching suppliers. The buyer power is high if the buyer has many alternatives. Threat of substitutes, the more the substitutes the more an industry is unattractive to operate in for an organization. The customers are able to get alternatives to the product offered. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average.

A company could achieve competitive advantage by either altering the competitive forces like establishing barriers which will deter new entrants from coming into an industry. This could be by cultivating unique resources which are not easy to duplicate or even possessing capital intensive resources. Another way is for a company to try to develop market at those points where the forces are weak. Porter (2001) re-emphasized the importance of analyzing the five competitive forces in developing strategies for competitive advantage. Analyzing the forces illuminates an industry's fundamental attractiveness, exposes the underlying drivers of average industry profitability and provides insight into how profitability will evolve in the future even with the rapid technological change.

2.3 Technological Strategies Adopted by Commercial Banks

The Banking sector in Kenya is a vital part of the economy that has provided a platform for money exchange. Technology has caused tremendous changes in the banking system. Technology has allowed the country transform into a digital economy particularly, on the banking industry. Growth in technology has had both positive and negative impacts in the banking sector in Kenya. Positively, technology has enabled the banks become efficient, speedy, transparent, and profitable. However, technology growth poses a threat to the commercial banks and their customers due to high competition.

Financial platforms in the communication technology in Safaricom Limited and other service providers are threatening the survival of Kenyan bank system. For example, the communication platforms like Safaricom Limited have laid out their money transfer services that counter the services offered by the commercial banks. The use of 'Mpesa' and other money transfer services in the country continue to hamper the growth of the commercial banks in the country. Also, the banks face a challenge of taking an immediate response to the threat due to their complex operations. The financial institutions are forced to come up with strategies that will counter or reduce the threat posed by the virtual banks (Kingoo, 2011).

Technological changes in Kenya have also taken the business to the online platforms particularly, in the purchase of items. Buyers are using the online banking system to make payment for goods and services thereby reducing the influence of the commercial banks on the business sector. In response to the technological change, the Kenyan commercial banks are taking the lead in laying out their online platforms for business people (Abishua, 2010). The banks are collaborating with online sellers in facilitating the money exchange during the purchase of the goods.

In Kenya, the adoption of Electronic banking or otherwise known as E-banking has been triggered by the threat posed by the technology communication firms like Safaricom Limited and Airtel Limited. E-Banking is the automated provision of banking services in the interactive and electronic communication channels. E-Banking has been a crucial strategy that the commercial banks are using to cope with the fast change in the technological changes in the Kenya. The communication firms have launched money exchange services where a customer can use their mobile phones to send and receive money. It has also facilitated the payment of bills and purchase of goods on the mobile phones (Gikandi & Bloor, 2010).

2.4 Empirical Studies and Research Gaps

Several studies have been done on strategies adopted by the banking industry to cope with technological change. Porter (1980) views strategy as a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out those goals. The essence of formulating a competitive strategy is relating a company to its environment. According to Porter and Millar (2002), a firm develops its business strategies in order to obtain competitive advantage over competitors. This relates to the research in that adoption of the strategies by the commercial banks is to ensure that it gains competitive advantage over its competitors due to the technological changes taking place.

According to Muguchia (2012), the technological changes are associated with communication and advertising on the online platform. Commercial banks are strategizing on adopting social media to create awareness of their products to the public. The shift to the social media is enabling commercial banks venture into wider markets in the country. Also, the shift to the digital advertisement has been a vital strategy towards embracing the technological changes in the country.

Use of ATM is a common approach taken by financial institutions in Kenya as a way of maintaining 24-hour cash withdrawal services. The banks are also making use of the advanced digital communication platforms like mobile phones. The mobile devices support subsidiary banking services in the Personal Digital Assistant (PDA) platforms. For example, Equity Bank enables its customers to access their accounts through the mobile phones as an E-banking service. The bank also launched the ‘Easy-247’ service that enables the customers to withdraw and transfer money through their mobile phones (Ng'etich, & Wanjau, 2011). The study generalized the financial institutions not narrowing down to one specific bank like Equity Bank of Kenya, Limited.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, target population, methods of data collection and analysis.

3.2 Research Design

Kothari, (2004) refers to research design as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research with economy procedure. The study adopted a case study design. It set out to collect data on the competitive strategies adopted by Equity Bank Limited due to technological changes.

3.3 Data Collection

Data collection involves contacting respondents in order to collect the required information about the study (Cooper and Schindler, 2003). The study involved interview method to collect primary data. The interview guide was used to collect data on the competitive strategies adopted by the bank in response to technological changes. It was conducted on corporate strategists, marketing executives and other staff in departments involved in implementing the strategies.

3.4 Data Analysis

Data analysis consists of examining, categorizing, tabulating or otherwise recombining the evidence to address the initial propositions of a study (Yin, 1994). The interview responses were analysed using content analysis. It is the technique for making inferences by systematically and objectively identifying specific characteristics of message and using the same to relate the trends. The analysed data was be presented in simple and objectives inferences in relation to the main objectives set.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis on the competitive strategies adopted by Equity Bank Kenya limited to cope with technological changes .It further provides the interpretations of the results on how the competitive strategies have enabled Equity Bank Kenya remain competitive in its industry even with the technological changes.

4.2 Technological changes which have impacted the Equity Bank Kenya

There are general technological changes which have taken place in Kenya and have impacted the banking industry as a whole which translates to impact on Equity Bank Kenya.

4.2.1 Internet

Internet is an information infrastructure which has been brought about by technological change. It enables multiple networks to interconnect globally, thus enabling transfer of data from one point of the globe to another. The introduction of internet has made the world a small village where distance is no longer a hindrance to communication. Internet thus has been adopted by the banking industry in linking their banking systems and enabling faster communication. Transfer of data from one banking branch to another, holding meetings through telephones, tele-conferencing, despite the distance between the bank's branches has also been brought about by the internet.

4.2.2 Information Communication Systems

Introduction of Information communication systems has also impacted the bank. This is because of the adoption within organisations. Having internal mail systems, management information systems which have all management data like performance summaries, financial performance. Systems to do analytics in banks like tally data and figures, generating reports, give feedback. Some examples could be knowledge work systems to support professional workers and employees, decision support systems which analyse data and are used in decision making, office automation systems, transaction processing systems for banking operational systems to keep track of transactions and other elementary activities. The Information communication systems are also used to link the banks.

4.2.3 Social Media

Social media is a result of technology where online communication channels are in collection dedicated to interaction, social networking, sharing ideas, opinions and forums. It is also used to pass information. In the banking industry majority of the stakeholders participate in the social media thus causing it to impact the bank largely. The customers, shareholders, distributors, suppliers and even creditors tend to be involved in social media. Some examples of social media platforms are Facebook, Google, Twitter, Instagram, LinkedIn among others.

4.2.4 Advanced Technological Machinery

With technology has come a lot of innovation and invention of machinery which is meant to increase productivity and reduce time taken for production. In the banking industry, there have been several machinery introduced due to technological changes. They adopted use of computers as opposed to writing manually or using a typewriter, there is also use of specialised scanners like cheque scanners for validating and recording cheques, money counting machines, and even automated teller machines (ATM). To enhance security we have seen security cameras being invented and installed in banks. This introduction of advanced technological machinery has had a huge impact causing changes in the banking sector.

4.3 Competitive strategies adopted by Equity Bank Kenya

The banking industry in Kenya is highly competitive and very dynamic. With the technological changes having taken place in the banking industry, Equity Bank Kenya has adopted competitive strategies which incorporate the technological changes in order to still remain relevant and competitive in the market.

4.3.1 Internet connectivity

Equity Bank Kenya has adopted internet connectivity in its operations. The whole bank is connected through the internet enabling data transfer from one point to another, data storage, analysis and presentation of the data. It has internal email system where each employee has an email address to ease the flow of information. It also has systems which are used in daily operations like the human resource system, one can use it to administer any human resource related issues like booking for leave, applying for a new position, checking job descriptions, remuneration, other rewards offered by the employer. This in return saves on time and meets the needs of employees thus they can be able to perform their duties in a satisfactory way.

At the lending or credit department you find that there are systems which have client details, their banking history and their credit worthiness. This is used by the analysts in making decisions on how to give credit facilities to clients. Other systems enabled by the internet include procurement systems, suppliers, distributors and other stakeholders management systems. Internet has also made communication at Equity Bank faster and easier. They are able to hold meeting from various parts of the world through telephones without meeting physically. They can also pass communication to a large number of people like employees or clients though calls, e-mails in a very short period of time. The internet has provided Equity Bank a way of communicating without incurring high costs, faster and more efficiently. This has also made communication more efficient and thus with better services they are able to meet the needs of their clients and remain competitive.

4.3.2 Advanced technological machinery

Over the years, machinery has evolved technologically. Decades ago every banking transaction was done manually. This involved a lot of writing, document handling and filing. It took a lot of space and time making things slow. A lot of man power was used in maintaining the documents, data entry and filing. In case of fire or any other form of destruction the files had no way to be saved and thus it was very risky to keep these documents. As machinery has been introduced, Equity Bank has adopted the latest technological machinery in their day to day operations.

Each branch has several computers for use by their staff in data entry, processing data, storing data, communication and other processes. This makes processes fast and efficient. They have scanners for scanning documents either to be sent elsewhere or to be stored. They have cheque readers to validate cheques, photo copiers, and money counting machines. They have gone ahead to even acquire air conditioning machines which regulate air temperatures in the banking halls ensuring customers are comfortable.

In terms of securing the bank, Equity Bank has adopted high technology security cameras which are well situated in the banking halls and their offices to ensure that the security measures are upheld. The cameras are connected in a way that a security officer can be able to monitor activities even when not situated at that specific branch. This in turn gives the clients confidence with the bank that their money and other transactions are safe. Another security facility is the access of the banking offices especially where only the staff members or authorised personnel are meant to access. The doors have an inbuilt facility which allows only specific authorised personnel to open them. This authorisation can be reviewed from time to time to ensure maximum security. The bank vaults are also technologically advanced because of the security of the money and other contents in them. They have systems which control and monitor them to ensure they are functioning properly.

Equity Bank Kenya has also invested a lot in automated teller machines (ATMS). It has 135 branches in Kenya and every branch has either one or more automated teller machines. This makes it convenient for customers to withdraw money or check their balances without having to queue in the banking hall to see a teller. This has improved the service and made it very fast. This has given Equity a competitive advantage over other banks which have fewer automated teller machines. This is because many people prefer accessing the ATM’s near their work places or homes to avoid the hustle of going to the banking halls within the banking hours.

4.3.3 Introduction of new products and services

Equity Bank Kenya limited has used the introduction of new products as a strategy to cope with the technological changes. These new products are not only technologically advanced but they have also enabled the bank to remain competitive amongst its rivals. One of its products is the Equity Auto-branch Visa Card. With technology came the ATMs which led to the introduction of debit cards but overtime the previous Magnetic strip cards had to be out faced due to security reasons. This has led them to introduce the debit card which has the Europay, MasterCard and Visa (EMV) technology. These cards also have the chip and PIN (Personal Identification Number) technology. It authenticates credit and debit card transactions and also ensures security and that the card has global interoperability of chip-based payment cards. This has opened up the opportunity for online payments and also swiping the debit and credit cards at pay points like supermarkets, petrol stations and others.

Online banking is also another product which has been introduced due to technology. Equity Bank Kenya limited has very efficient online banking which enables their clients to check their account balances, view and print account statements, transfer funds, managing standing orders, make online payments among other services. Their online banking service is available for 24hours in a day making it convenient for customers who are in different time zones. It also favours the corporate clients who are able to make bulk salary payments and transfers quickly and effectively. The bank has also launched a mobile banking service known as ‘Eazzy 24/7’. This service allows the customers to access their bank accounts through their mobile phones as long as they are serviced by the registered communication service providers in Kenya. This has brought about convenience and efficiency to the clients.

Other products introduced include Equity Agency banking. The agents are contracted by the bank to conduct certain services on their behalf of the bank. Through technology they are able to connect to one’s banking account to conduct withdrawals and deposits. This makes the banking services available even in remote areas. It reduces on costs and ensures accessibility. The bank also offers security services to clients like SMS (Short Message Services) and e-mail alerts on transactions in one’s account. This is automated and it acts as an informant to the client to ensure that they are aware that certain transactions are taking place at the given time. The call centre service has been enabled by technology where the clients can reach the bank for queries over the phone for 24 hours in a day. This is convenient and very efficient and leads to faster solving of issues presented.

4.3.4 Digital Advertisement

Digital advertisement is where a promotional message is delivered through social media websites, email or online advertisements on search engines and affiliate programs. Majority of people in Kenya are on the social media platform having accounts on facebook, twitter amongst others. Equity Bank Kenya limited has also adapted to this by having its own facebook page and twitter where they are able to advertise their new products to the clients and even create awareness of the services they offer. They are also able to answer customer queries and offer solutions where needed. This has given the bank an opportunity to be a part of the daily activities of their clients thus expanding their market base and clientele.

4.3.5 Partnership with other industries

Technology has brought about partnerships between Equity Bank Kenya and the communication industry in order to make it possible to introduce certain services. Leading communication firms like Safaricom, Orange, Yu and Airtel have dominated to the money transfer services in Kenya. The firms utilize their high number of customers to tap the vast money transactions undertaken by their customers. Thus Equity Bank Kenya limited has partnered with each of these companies to enable all clients who have bank accounts with them can have access to transact money through their mobile network services.

Another partnership is with Airtel where the bank launched the thin SIM which will offer voice, data and mobile money transfer services. The clients can now purchase the SIM (Subscriber Identification Module) cards and use them for their transactions. The paper-thin card will enable the bank to offer communication and banking services. The commercial bank also seeks to launch and equip its Mobile Virtual Network Operator (MVNO) across the country. This is a strategy which is putting the bank at a higher competitive level against its rivals.

Other partnerships include the partnership with MasterCard to issue millions of debit and prepaid cards with chip-enabled technology in order to ensure high client information security on the cards and make online payments more efficient. It has also partnered with Pay pal Limited to make it easier for clients to make payments across the globe and also withdraw. It is also able to auto-convert those funds into a different currency as requested. Another partnership is with American Express Credit Card Company where the two will partner to issue credit cards to Equity Bank Kenya limited clients. They include the green and gold credit cards. They will enable purchase of good and payment of services in a cashless system.

4.4 Discussion of the Findings

The study revealed that the bank has adopted many technological changes like the internet which has enabled technologically advanced machinery and systems to be adopted. It has also led to the introduction of competitive products which have been able to better serve the clients. These products tend to be leaning towards offering a unique service or to enhance efficiency in order to attract a large client base. This has also proved to be in line with other industries in the country like the communication industry which we have seen to partner with the bank in order to provide better products and services. This is because the communication industry has also changed with the technological changes evident.

According to the study we also find that Equity Bank Kenya limited adopting strategies to enable them to remain competitive is in line with what Porter, (1986) states that firms develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market. The findings are comparable with the other studies noted on the literature review which have shown that a firm must strive to achieve sustained competitive advantage by continually adapting to changes in external trends and events and internal capabilities, competencies, and resources and by effectively formulating, implementing, and evaluating strategies that capitalize upon those factors (Mintzberg, 1994).

The findings are in line with a study carried out by Ombati & Ogutu (2010) where they found out that the rise of communication technology and electronic devices like the mobile phones is being used by commercial banks to expand their customer reach. They found that customers are now able to access vast information regarding current changes in the interest rates and other numerical data. Commercial banks are making it easy for customers to use the self-service platforms in accessing the information provided by the banks. Use of technology in the online banking sector has been a vital thing to the Kenyan economy.

With the introduction of every new product by Equity Bank Kenya Limited, technology has proved to be very dynamic and for it to remain relevant it has to adapt fast. Just similar to what Kim, Nam and Stimpert, (2004) introduced, the aspect of speed in attaining competitive advantage is important. They noted that the pace and intensity of change in the global business environment have become much more pronounced during the past two decades. For Equity Bank Limited Kenya we see change taking place at the same speed as technology changes. They are moving with time and not being left behind by their competitors. This in return is giving them a competitive edge in the industry.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings on the competitive strategies employed by Equity Bank Kenya limited in order to cope with the technological changes taking place. It also provides the conclusions made based on the findings; the recommendations arrived at after considering the research findings and the suggestions on areas where further research may be necessary.

5.2 Summary of Findings

The study established that Equity Bank was founded in Kenya and is one of the largest banks in Africa with a customer base of more than 8 million customers. With a vision to be the champion of socio-economic prosperity of the people of Africa, the bank has expanded within its region having its headquarters located in Nairobi, Kenya, with subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. It offers financial services through its wide network of branches supported by alternate delivery channels which include: Visa Branded Automated Teller Machines (ATMs), Point of Sale (POS) where customers shop, pay and withdraw cash in leading retail outlets, Internet and mobile banking channels and Agency outlets. The bank also established the Equity Group Foundation to support the concept of philanthropy and corporate social responsibility.

The study also established that Equity Bank Kenya limited has adopted several competitive strategies in order to cope with the technological changes taking place.

The internet connectivity of the bank is a major step to it adopting technology. Through the internet the bank is able to have connection of all its branches and establish systems which will make bank operations easier more efficient and accurate. This in return will reduce bulk and erroneous operations in the bank. Internet connectivity leads to enhanced communication both to employees within the organization and to other stakeholders like the clients, distributors, shareholders, creditor and others.

The study found that for the bank to remain relevant in its industry and have competitive advantage, it has to have speed in adopting these changes .We find that Equity Bank Kenya embraces this with the adoption of new advanced technological machinery. It abandons the manual way of doing things and takes up machinery such as computers, photocopiers, scanners, cheque readers, high security vaults, money counting machines among others in order to be more efficient. It ensures that it has machinery which will ease the operations in the bank as well as making them more secure and accurate.

Speed is also evident in the introduction of new products and services. The study shows that with technological changes the industry is evolving thus introducing new products to the clients. Equity Bank Kenya limited is not left behind in this. It quickly introduces products like EMV debit cards, online banking, mobile banking, agency banking which are relevant to the technological era. It has also utilized the opportunity presented by social media to have an open platform where it can advertise its products, interact with clients on a personal basis by answering their queries and sorting out any issues presented. This in return has seen it answer many queries and make the clients more comfortable and confident in banking with them.

The other competitive strategy the bank has adopted is the partnership with other organizations especially in the communication industry. This has enabled them introduce new products not only for the banks clients but also to the other partnering organization's clients thus enabling it to remain competitive and also enlarge the customer base. The study shows that the partnerships as part of coping with technological changes has brought a positive impact not only to the customer base but also to all the relevant stakeholders involved.

5.3 Conclusion

Equity Bank Kenya limited being a commercial bank offers financial services to its customers both in the country and within the region. The competitive strategies it has adopted to cope with technological changes include: Internet connectivity, advanced technological machinery, digital advertisement, introduction of new products and services and partnership with other organizations.

The competitive strategies have enhanced sustainable competitive advantage in areas like service quality. The services offered now are faster and efficient. Since the systems are digital there is less bulk on paper work making processes move faster and become easier. In fact the clients no longer have to visit their branches for the services but can transact in the comfort of their homes or offices through mobile and online banking. The strategies have also improved the services by opening a platform for them to interact with their customers. This can be through social media, customer service or call centers which are efficient and fast. The competitive strategies have also enabled introduction of new products for the bank. These products have continued to add value to the organization and the partnering organizations involved.

5.4 Recommendations of the study

From the information obtained through review of literature and the findings of this study, some recommendations are proposed. First, is that technology is here with us and it is dynamic. Everyday new ideas bring up inventions and innovation. Thus adopting competitive strategies for the banking industry is essential. This will help the banks to remain relevant to the society and also have a competitive edge more so on the global scale. They should adopt speed in order to keep up with the technological changes taking place.

Second, the adoption of competitive strategies to cope with technological changes should not be limited to the private sector but I would recommend also the Government of Kenya to adopt it too. Even if majority of the government institutions tend to be monopolized such that they don’t have many competitors, the adoption of technological changes like advanced machinery and digitalization will go a long way in creating quality products and services and efficiency in the processes that they daily undertake. This will lead to better services and client satisfaction in what is offered.

5.5 Limitations of the study

The study faced some challenges. These challenges had to be countered by the researcher in order to get the information required. The main challenge was availability of some respondents. Being executive managers of the bank, finding time to interview them was not easy considering their busy schedules. In order to counter this challenge, several cancellations and rescheduling of interview meetings had to be done.

Information relating to strategy decisions is always treated with sensitivity. The respondents also tend to fear that the information given might be leaked to the competitors. This caused difficulties in convincing the respondents of the importance of giving sincere answers to the interview questions asked. In this case the researcher had to inform the respondents that the purpose for the research study being carried out was for academic purpose only and not for investigation.

5.6 Suggestions for further research

In addition to the findings of this study, further studies could explore several other areas. This study sought to determine the competitive strategies adopted by Equity Bank Kenya limited to cope with technological changes. Considering the contextual differences of various organizations resulting to their purpose and vision, there needs to be a study on the competitive strategies adopted by these organizations.

Another area of study could be on the partnerships being established between the banks and other organizations in different industries to cope with technological changes. We have seen especially the communication industry partnering with the banking industry. The study should establish if this is a sustainable strategy or it is affected by the dynamics of technology thus creating more threats.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

PART A: GENERAL INFORMATION

1. Name of department..
2. What is your designation in the department?...
3. What is your total work experience in the department?......................................
4. Which other departments have you worked at in the Company?.........................
5. What is your length of time in the Company?...
6. What is your gender?..

PART B: STRATEGIC RESPONSES BY EQUITY BANK KENYA LIMITED

1. What technological changes have impacted the bank?
2. What effect did these technological changes have on your organization?
3. What effect did these technological changes have on your customer base?
4. Did the same technological changes affect all other banks in the industry?
5. What strategies did you adopt to counter this?
6. How long did it take you to adopt these strategies?
7. What were the challenges in implementing the strategies?
8. How long have will it take for the full implementation of the strategies?
9. How is your department directly linked with the implementation?
10. How effective do you find your approaches in dealing with challenges?
11. What was the response of your competitors to the same technological changes?
12. Does your vision, mission and values blend with the strategies and if so how?
13. Have you done any restructuring since you adopted the new strategies?
14. Did you have to come up with training programmes for your staff concerning the new strategies?
15. How are you dealing with the competitors outside your industry like the communication companies who are posing threats to your bank by introducing mobile banking?
16. What partnerships if any do you have with any communication company to provide more services on mobile banking?
17. With the constant changes in technology, what long term plans do you have to ensure you are ahead of your competitors?
18. Do you intend to introduce any new products any time soon in line with your strategies?

19. In the future does the organisation intend to be proactive or reactive to technological changes?
20. What more do you think can be done to ensure that the previous challenges you have faced do not occur again?

THANK YOU

APPENDIX II: INTRODUCTION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 23/9/15

TO WHOM IT MAY CONCERN

The bearer of this letter ALICE MUNGARI KUNGU

Registration No. D61/70564/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
23 SEP 2015
P.O. Box 30197 - 00100, NAIROBI

for. PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS