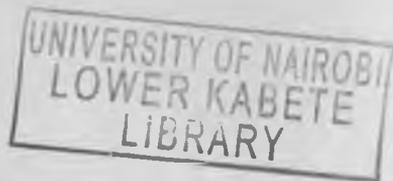


**ENVIRONMENTAL ANALYSIS AS A PERSPECTIVE OF STRATEGIC  
POSITIONING BY BARCLAYS BANK OF KENYA LIMITED**

**BY**

**WALTER NYANGECHI**



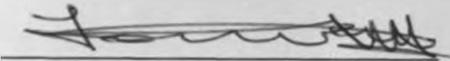
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR  
THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER  
OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**OCTOBER, 2011**

## DECLARATION

This research Project is my original work and has not been submitted for a degree course in this or any other university.

Signed:



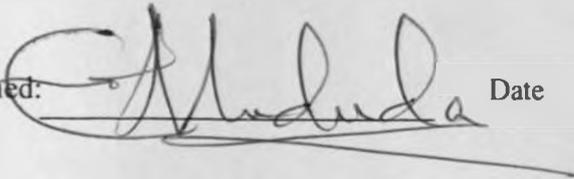
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## **DEDICATION**

To my family who prayed and supported me throughout the research period.

## **ACKNOWLEDGEMENTS**

First and foremost I would like to thank God for helping me throughout my Course. Without His care and protection this project would not have been possible.

I also acknowledge my supervisor Mr. Mududa E.O who guided me throughout the research period. I also thank my family for their support, prayers and understanding they accorded me as I was not able to be with them all the time.

Finally, I acknowledge the staff of Barclays Bank of Kenya for taking time out of their busy schedule to participate in the research project. Without their support, the course would have been impossible to complete.

## **ABBREVIATIONS/ACRONYMS**

**BBK-Barclays Bank of Kenya limited**

**IT-Information Technology**

**VOIP-Voice over internet Protocol**

**HFC-Head of Financial Control**

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## ABSTRACT

The study on environmental analysis as a perspective of strategic positioning focused on Barclays Bank which is the largest bank in Kenya in terms of profitability. Barclays has operated in Kenya for over 90 years. Constant changes in the environment make it highly unpredictable that no player in the market can accurately envision future trends. Senior bankers, including board members, want to re-assess the future of banking and strategy in the context of a fast changing environment. The aim of the study was to establish how environmental analysis is used as a determinant of strategic positioning.

The research was conducted through a case study. The data collection was done using an interview guide. The interviewees' included Head of Payments, Head of Information technology, Head of Merchant Acquiring, Head of Credit Card issuing, Head of Corporate, Head of Finance and Head of Marketing. Content analysis was adopted in the interpretation and presentation of the findings.

The findings of the study show that environmental analysis is key for a company to maintain its strategic position in the industry. The company has employed both cost leadership and differentiation strategies to maintain its competitive advantage in the industry. Competition has been stiff in terms of competitors going for the unbanked in the industry. As the number of banked customers increase the more they demand better services from the banks. The study also found out that BBK operates in a very competitive environment some of the challenges include information technology, more informed customers and deregulated environment.

The study concludes that the attainment of the bank's goals is largely dependent on the effectiveness of environmental analysis and how it positions itself in the industry. The study recommends that BBK management team should continue to diversify its product proposition to maintain its position in the industry lest it will be beaten by the competitors. The bank should also seek to improve strategies on technology as there are rapid changes in technology in the industry.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the study

The environment is what gives organizations their means of survival. However, the environment is also the source of threats for example hostile shifts in market demand, new regulatory requirements, revolutionary technologies or the entry of new competitors. Environmental changes can be fatal for organizations (Johnson & Scholes, 2008). Kingori Choto (2008) observed that competition is a business reality which no company or business can escape. Organizations have to constantly be alert to anticipate change and implement it to the end (Mintzberg, 1987).

Day (1984) argues that for organizations to remain truly competitive over time as the environment changes they have to learn to adapt and reorient themselves to the changing environment. Porter (2004) observed that it's prudent for any firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies.

Organizations need appropriate positioning in their environment for example in terms of the extent to which products or services meet clearly identified market needs. This might take the form of a small business trying to find a particular niche in a market or a multinational corporation seeking to buy up business that have already found successful market positioning (Johnson & Scholes, 2005).

Ansoff (1988) observes that firms must adapt new strategies to new environmental conditions. A changed competitive environment calls for new strategies that in turn call for reformed organizational capability. Different firms will respond differently to the changing environment. Some resort to changing their products offering, diversifying, divesting, mergers and takeovers while others will fall back to technology to ensure operational effectiveness. Porter (1998) observed that a firm will employ competitive strategies in order to maximize the value of its capabilities.

The Kenyan banking industry has been expanding branch networking amid the introduction of branchless banking system, which include the use of mobile banking and internet banking. New regulations have been introduced in the banking industry such as the the Finance Act 2008, which took effect on 1 January 2009 requiring banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. For Barclays Bank of Kenya to remain competitive it has to undertake environmental analysis in order to position itself within the industry.

### **1.1.1 Environmental analysis**

Environmental analysis is the study of the organizational environment to pinpoint environmental factors that can significantly influence organizational operations. Environmental analysis will help a firm to understand what is happening both inside and outside their organization and to increase the probability that the organizational strategies they develop will respond to the environment. In order to perform an environmental analysis, you must thoroughly understand how organizational environments are structured. For purposes of environmental analysis, you can divide the environment of your organization into three distinct levels: internal environment, operating environment, and general environment (Johnson & Scholes, 2005).

Business environment is a set of political, economic, social and technological (PEST) forces that are largely outside the control and influence of a business and that can potentially have both a positive and a negative impact on the business. Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering. Due to turbulent business environment the best scanning method available is continuous scanning because this allows the firm to act quickly, take advantage of opportunities before competitors do and respond to environmental threats before significant damage is done (Hamel and Prahalad, 1994).

Environmental scanning usually refers just to the macro environment, but it can also include industry, competitor analysis, marketing research (consumer analysis), new product development (product innovations) or the company's internal environment. Scanning these macro environmental variables for threats and opportunities requires that each issue be rated on two dimensions. It must be rated on its potential impact on the company, and also on its likeliness of occurrence. Multiplying the potential impact parameter by the likeliness of occurrence parameter gives a good indication of its importance to the firm (Dess, 2010).

### **1.1.2 Strategic Positioning**

The strategic position is concerned with the impact on strategy taking into account the external environment, internal resources and competences, and the expectations and influence of stakeholders. Together, a consideration of the environment, strategic capability, the expectations and the purposes within the cultural and political framework of the organization provides a basis for understanding the strategic position of an organization.

Strategic positioning is the positioning of an organization (unit) in the future, while taking into account the changing environment, plus the systematic realization of that positioning. The strategic positioning of an organization includes the devising of the desired future position of the organization on the basis of present and foreseeable developments, and the making of plans to realize that positioning. The strategic positioning method is derived from the business world. The method aims at ensuring the continuity of the organization. The strategy determines the contents and the character of the organization's activities (Hamel and Prahalad, 1996).

Terms, such as survival, legitimacy, market positioning, relationship with environment and choice for a certain work area, come up in this context. Subjects which have been developed reasonably well in literature on strategic management include: information collection techniques, analysis techniques and planning schemes. Hardly developed are methods for exploring the future. Various questions must be asked with strategic

positioning. These include how the future will look like, how the organization can roughly be positioned in the future, how things are done in the organization at present, how opportunities can be seized and how threats can be met (Barney, 1991).

Porter (1985) argues that strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company. He argues that an organization's profitability, as well as its strategy, is dependent on the structure of its industry and the organization's position within the industry. Wernerfelt (1984), Dierickx and Cool (1989) and Barney (1991) observed that each firm is heterogeneous, with firm specific resources, skills, and complex patterns that can become the primary sources of competitive advantage and profit.

It is important for everybody to map the non-volatile developments which are relevant to their own organization. A first exploration of the strategic positioning can be constituted by extrapolating the trends and by gearing them to the field in which their own organization operates. Model lists of such factors are available but the organization should come up with its own relevant criteria which belong to its sector. This will help describe the opportunities and threats of the organization. Future opportunities and threats are also mapped occasionally by making use of extrapolation (trend curves or mathematical models) or by consulting experts in a systemized way (Lamb, 1984).

One can make an analysis of the strategic position by confronting the data of the internal and external researches with each other. An often used method is the SWOT analysis where by the company will identify its strengths and weaknesses then it will evaluate the opportunities and threats. A second method is the Portfolio analysis, which is derived from stock exchange operators evaluating which securities to keep and which to sell. A specific portfolio is that of the Boston Consultants Group, which holds the investment or the growth of the branch of industry (Y-axis) against the profit or the market share (X-axis). Four fields then come into being: the stars, the milk cows, the wild cats and the dogs (Dess, 2010).

Porter (2001) observed that for a company to achieve strategic positioning it must have the right goal. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it. Second, a company's strategy must enable it to deliver a value proposition, or set of benefits, different from those that competitors offer. Third, strategy needs to be reflected in a distinctive value chain. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways. Fourth, robust strategies involve trade-offs. A company must abandon or forgo some product features, services, or activities in order to be unique at others. Such trade-offs, in the product and in the value chain, is what makes a company truly distinctive. Fifth, strategy defines how all the elements of what a company does fit together and finally strategy involves continuity of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities. Without continuity of direction, it is difficult for companies to develop unique skills and assets or build strong reputations with customers.

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

Barclays Bank of Kenya Limited, a subsidiary of Barclays Plc, is the leading bank in Kenya in terms of profitability, and market share in the areas of loans and deposits. It has operated in Kenya for more than 90 years, and has an extensive network of over 115 outlets with 236 ATMs countrywide (Barclays bank News Magazine, 2011).

Barclay's business units fall under Retail Banking, Commercial Banking, Treasury and Card Services with cross-functional relationships to support the segments of local business and small to mid-sized enterprises (SME). Each of these businesses are well positioned for growth and cater to the dynamic needs of diverse customer segments (Barclays bank News Magazine, 2011).

Financial strength coupled with extensive local and international resources have positioned Barclays as the number one provider of financial services in the market for the

past several years. Moreover, Barclay's year-over-year financial performance has built confidence in Barclay's leadership and management among Barclays Bank's 60,000 plus shareholders, as well as the banking industry (Barclays bank News Magazine, 2011).

The vision is making lives much easier for customers. Barclays makes it possible for customers to do the things they really want to do, whether its buying a house or starting a business. It plays a vital role in customers' lives and makes it easier for them in every aspect of their lives where money is central. That's about ease of action, ease of transaction and ease of mind. The mission is to be the go to bank in all the chosen markets and segments. Barclays bank of Kenya doesn't want to be just a good bank but the bank that customers actively choose.

Since being established in Kenya, Barclays has contributed to the development of the banking industry and the overall economy. Industry recognition received by Barclays Bank of Kenya includes, most respected financial institution in the East Africa region from PriceWaterhouse Coopers (2004 & 2007), best financial management in the services sector from Kenya Institute of Management (2005 & 2006). Other recent awards include: The best Bank in Kenya from the Euro money Award of Excellence (2009).

#### **1.1.4 Banking Industry in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests .The KBA serves a forum to address issues affecting members (PWC banking industry 2008).

During the period ended June 30th, 2011, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 2 credit reference bureaus, 3 representative offices and 124 foreign exchange bureaus. The Banking Sector recorded improved performance as indicated by the size of assets which stood at Ksh. 1.9 trillion, loans and advances of Ksh. 1.1 trillion, deposits of Ksh.1.4 trillion and profit before tax of Ksh. 40.8 billion as at 30th June 2011. Equally, the number of bank customer deposit accounts stood at 12.8 million with a branch network of 1,102, while the bank loan accounts were 2.1 million. The banking sector aggregate balance sheet grew by 26.7 percent from Ksh 1.5 trillion in June 2010 to Ksh 1.9 trillion in June 2011. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 55.0 percent, 22.0 percent and 6.0 percent of total assets respectively (Central Bank of Kenya Bank- Developments in the Kenyan banking sector for the period ended 30<sup>th</sup> June 2011).

The sector was dominated by local private institutions with 27 institutions accounting for 58.0 percent of the industry's total assets. The foreign owned financial institutions were 13 and accounted for 37.2 percent of the industry's. For the period ended 31st December 2010 there were 1,063 bank branches operating in the eight provinces of the country. The 67 new branches opened in 2010 across the various regions of the country will facilitate enhanced financial inclusion by the Kenyan populace. Largest percentage increases in branches were in Western, North Eastern and Rift Valley provinces as institutions sought new frontiers. (Central Bank of Kenya Bank Supervision Annual Report, 2010).

## **1.2 Research Problem**

The whole macroeconomic environment that the Kenyan banks exist and operate in is rapidly dynamic. Constant changes in the environment make it highly unpredictable that no player in the market can accurately envision future trends. Senior bankers, including board members, want to re-assess the future of banking and strategy in the context of a fast changing environment: the outcome of the global banking crisis, new Basel 3 regulations on capital and liquidity, or opportunities/threats given by information technology.

The main challenges facing the Banking sector today include new regulations. Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, it's hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Also the Global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Others include declining interest margins.

In his study Kombo (1997) established that the franchise and subsidiary motor vehicle companies have been affected a lot by the environment forces. Mohamed (2007) established that Nzoia Sugar company had adapted its strategy to fit the environment. Munyoki (2007) studied Strategic response to Competitive environment where he established that Safaricom Ltd had responded to the threats in the external environment. There was no study on environmental analysis as a perspective of strategic positioning in commercial banks hence need for the study.

While the above research outcome provides valuable insights on environmental analysis, they have not in Commercial banks in Kenya. Given the gaps poised by the above empirical studies, this study poses the research question: "Environmental analysis as a perspective of strategic positioning by Barclays Bank of Kenya." The study hypothesizes that commercial banks should demonstrate to improve performance of the bank after effective environmental analysis. This hypothesis is based on the argument that commercial banks' largest credit risk is loans, although that credit risk exists throughout the other activities of the bank both on and off the balance sheet. These other activities include inter-bank transactions, trade financing, foreign exchange transactions, futures, swaps, options and guarantees.

### **1.3 Research Objectives**

The objective of the study was to establish the manner in which environmental analysis determines strategic positioning as far as Barclays bank of Kenya is concerned

### **1.4 Value of the Study**

The findings of this study shall be of great significance to the management of the commercial banks in their environmental analysis and strategic positioning that enhance profitability through reduction of risks. Similarly, the findings will enable the Central Bank of Kenya to effectively play its regulatory role of safeguarding the safety and soundness of the industry through closer monitoring of the market.

Investors and the shareholders shall be in a position to evaluate their investments and the performance of the management of the commercial banks leading to sound investment decisions that maximizes their returns.

The findings of this study shall also be of great significance to the management and professional consultants in their endeavors to offer professional and quality advice to investors and or borrowers who turn out for their advice and thus ensuring that borrowers go for the most economical products that meets their financing needs and maximizes the returns.

Finally, the findings of this study will help other researchers and academicians in their quest to understand and manage the historical and dynamic in environmental analysis and strategic positioning. The study will also recommend areas of further research which can be undertaken by fellow researchers and academicians.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter deals with various concepts in regard to the environmental analysis and strategic positioning. In addition, the researcher will discuss various empirical studies done in the same field, theories of strategic positioning and summary conclusion of the literature review.

### **2.2 Concept of Strategy**

Chandler (1962) considered strategy as a means of establishing the purpose of an organization by specifying its long-term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives. Ansoff (1965) views strategy as the common thread in an organization business. Mintzberg (1985) stated that strategy defines the organization's purpose, goals, priorities, objectives and deals with the organizational competitive advantage. Strategy is a plan, ploy, pattern, position and perspective.

Johnson , Scholes and Whittington (2005) define strategy as the direction and scope of an organization over the long term, which achieves advantage in changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. Strategies exist at a number of different levels; corporate level strategy is concerned with an organization's overall purpose and scope, while business unit strategy is concerned with how to compete successfully in a market, and lastly the operational or functional strategy is concerned with how resources, processes and people can effectively deliver corporate and business level strategies.

Thompson and Strickland (1993) state that the task of strategizing is always an ongoing exercise, partly in response to an ever changing external environment, partly from manager's efforts to create new opportunities and partly from fresh ideas about how to make the strategy work better. They continue to state that, everything cannot be planned out in advance and even the best-laid-plans must be responsive to changing conditions

and unforeseen events. Strategy making thus proceed on two fronts, one proactively thought in advance, the other conceived in response to new developments, special opportunities and experience with the successes and failure of prior strategic moves, approaches and actions.

The purpose of strategy is to provide directional cues to the organization that enable it to achieve its objectives while responding to the opportunities and threats in the environment (Schended & Hofer, 1979). Johnson & Scholes (2002) concludes that strategy can be seen as the matching of the resources and activities of an organization to the environment in which it operates. This is sometimes known as the search of strategic fit.

### **2.3 The Organization and environment**

Pearce and Robinson (2008) define environment as all conditions and forces that affect firm's strategic options and define its competitive situation in the market Ansoff and McDonnell (1990) organizations are environment dependent and environment serving. They receive inputs from the environment, transform or add value to them, and return the outputs in form of goods and services back to the environment.

Organizations are open systems that must interact with the environment to survive. They both consume resources as inputs which are transformed into outputs for the final consumers (Porter 1998).Johnson, Scholes, and Whittington (2008) observed that factors in the external environment are very dynamic and interactive. According to Paine and Anderson (1997) the firm's environment consists of those inputs to an organization, which are under the control of other organization or interest groups or are influenced by the interaction of several group such as the economy.

In speculating about the future, Drucker (1969) described an 'age of discontinuity' in which previously reliable heuristics about managerial practice and strategic action would no longer apply. Suave (2002) stated that the environment is a critical factor in any organizations success and survival. According to Hill and Jones (1999) organizations respond to turbulence in the environment by formulating new strategies. These provide

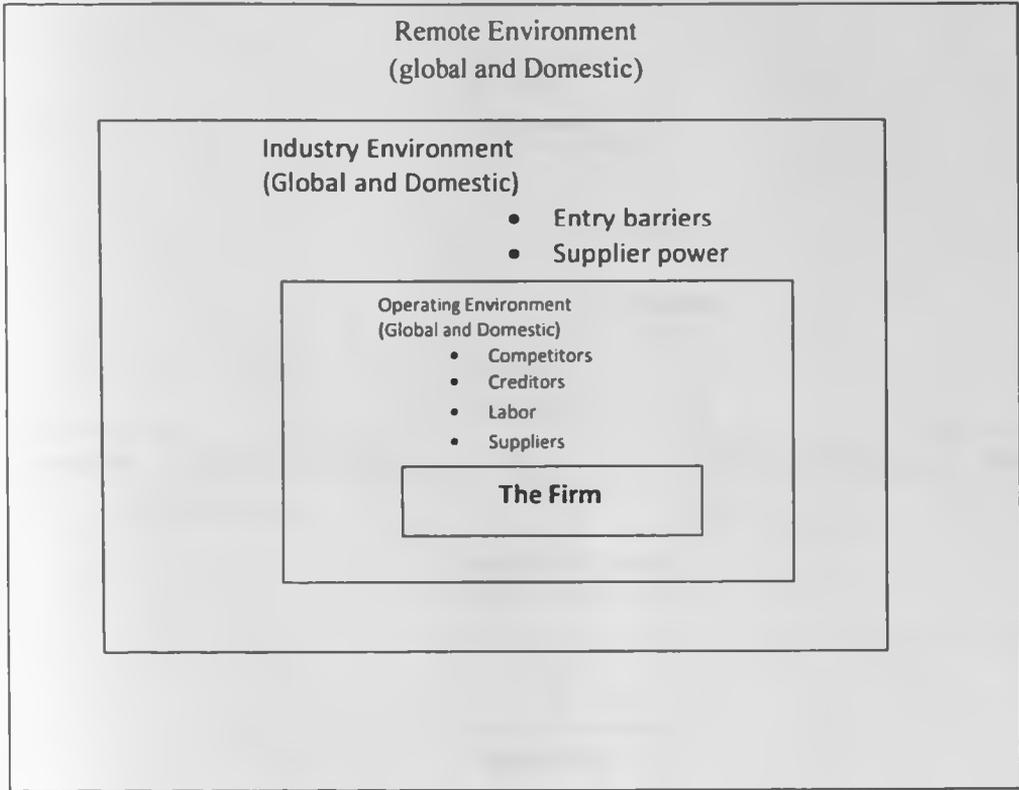
directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Porter (1980) formulated a developmental sequence of environmental change described by five stages: fragmented, emerging, mature, declining, and global. Movement between each stage occurs as structural features of an industry are realigned following an erosion of one or more of these features.

Hamel and Prahalad (1989) argued that an organization has a foundation for sustained competitive advantage when it possesses skills or resources that provide superior value to customers that are difficult to imitate. According to Ansoff and McDonnell (1990) the external environment is dynamic, it changes continuously posing new challenges in terms of new opportunities and threats. Hence in order to continue surviving a firm must constantly analyze its strategies and select the most appropriate to the environment at any particular time.

## **2.4 Environmental Analysis**

According to Pearce and Robinson (2005) a firm's external environment consist of three interrelated sets of factors that play a principal role in determining the opportunities, threats, and constraints the firm faces. The remote environment comprises factors originating beyond, and usually irrespective of, any single firm's operating situation-economic, social, political, technological, and ecological factors. Factors that more directly influence a firms prospects originate in the environment of its industry, including entry barriers, competitor rivalry, the availability of substitutes and the bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation-competitive position, customer profiles, suppliers, creditors and the labour markets. The figure 2.3.1 below illustrates the interrelationship between the firm and its remote, its industry and its operating environment.

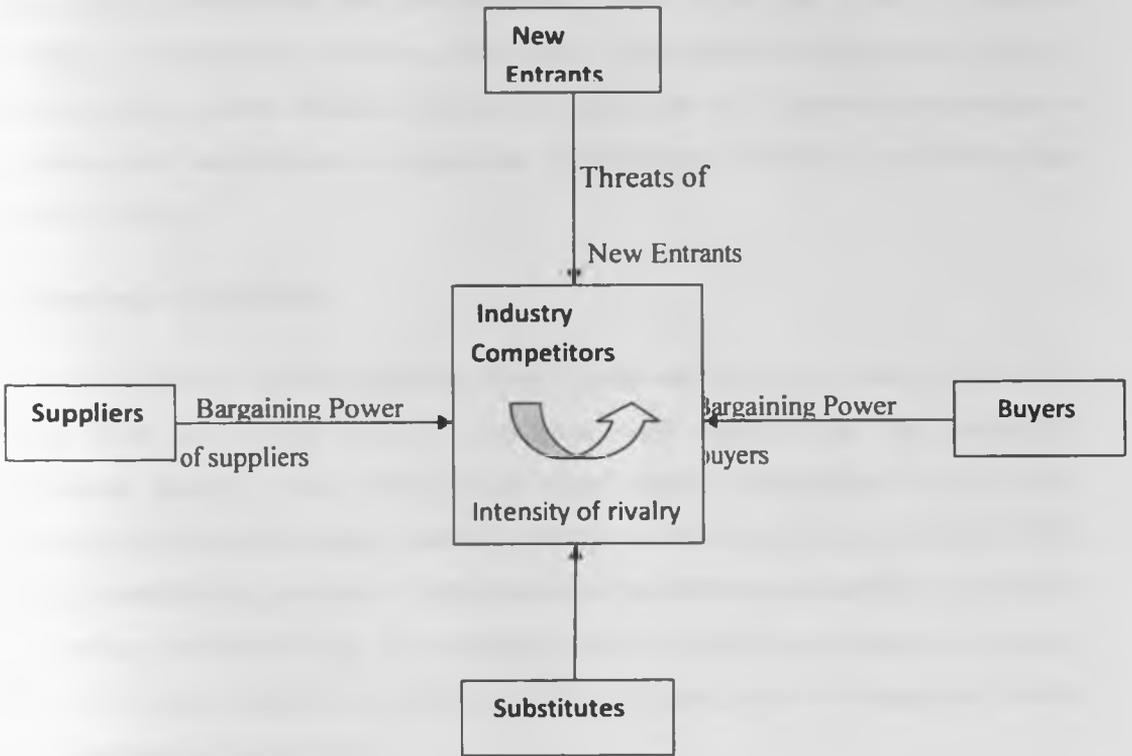
**Figure 2.3.1 –The interrelationship between the firm and its remote, industry and operating environment.**



**Source:Pearce J. and Robinson R. ( 2005) Strategic Management, 9<sup>th</sup> Edition,Tata McGraw-Hill, Page 78.**

Porter(1980) observed that in any industry there are five forces that define the level of competition: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors Figure 2.3.2 Below illustrates the five competitive forces that determine industry profitability.

**Figure 2.3.2- Five competitive forces that determine industry profitability.**



**Source: Porter M. (1985) Competitive Advantage, 1<sup>st</sup> Edition, Macmillian, page 5.**

According to Porter (1980) the collective strength of these five competitive forces determines the ability of firms in an industry to earn profit. Buyer power influences the prices that firms can charge. The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences prices, as well as the cost of competing in areas such as advertising and product development. The threat of entry places a limit on prices, and shapes the investment required to deter entrants.

Porter(1980) indicated that once the forces affecting competition are identified, the firm should identify its strengths and weaknesses relative to the industry. This will determine the strategy the firm will take that is either an offensive or defensive action to create a defensible position. Positioning the firm so that its capabilities provide the best defense against the competitive forces, influencing the balance of the forces through a strategic

move thus improving the firm's position or anticipating shifts in the factors underlying the forces and responding to them.

Mutugi (2006) established that environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. If ignored the changes in the environment can ultimately compromise an institutions operations, profitability and long term viability.

## **2.5 Strategic Capability**

Pearce and Robinson (2008) states that three ingredients are critical to the success of a strategy. First the strategy must be consistent with conditions in the competitive environment. Secondly, the strategy must place realistic requirements on the firms resources and finally the strategy must be carefully executed. According to Ansoff (1979) strategic capability is a measure of effectiveness of an environment serving organisation in supporting a particular thrust. It is determined by; the general management competence profile and capacity, logistic competence profile and capacity and the range and quality of the organisations technology.

Strategic capability is concerned with the adequacy and suitability of resources and competences required for an organisation to survive and prosper. Comparative advantage is achieved by organisations that are able to develop strategic capabilities more appreciated by customers and in ways that competitors find difficult to imitate. It comprises tangible and intangible resources and competencies (Johnson, Scholes, and Whittington, 2008).

Ansoff and McDonnell(1990) observed that the responsiveness of the firms organisational capability must be matched to the environment turbulence. He advanced the strategic success hypothesis which states that the firm's performance potential is optimum when the aggressiveness of the firm's capability matches the aggressiveness of its strategy and components of the firm's capability must support each other. If they don't match then there is a strategy capability gap. This is illustrated by the diagram below.

**Figure 2.4.1-The relationship between the environmental turbulence, strategic aggressiveness of capability**

|                                     |                   |                               |                       |                           |                             |
|-------------------------------------|-------------------|-------------------------------|-----------------------|---------------------------|-----------------------------|
| <b>Environmental turbulence</b>     | <b>Repetitive</b> | <b>Expanding</b>              | <b>Changing</b>       | <b>Discontinuous</b>      | <b>Unforeseen</b>           |
|                                     | Repetitive        | Slow Incremental              | Fast Incremental      | Discontinuous Predictable | Discontinuous Unpredictable |
| <b>Responsiveness Of capability</b> | <b>Custodial</b>  | <b>Production</b>             | <b>Marketing</b>      | <b>Strategic</b>          | <b>Flexible</b>             |
|                                     | Precedent-driven  | Efficiency-driven             | Market-driven         | Environmental-driven      | Seeks to create the environ |
|                                     | Surpresses change | Adapt to change               | Seeks familiar change | Seeks new change          | Seeks novel change          |
|                                     | Seeks Stability   | Seeks operating efficiency    |                       |                           | Seeks creativity            |
|                                     |                   | Seeks strategic effectiveness |                       |                           |                             |
|                                     | Closed system     | Open closed                   |                       |                           |                             |
|                                     | Level 1           | Level 2                       | Level 3               | Level 4                   | Level 5                     |

Source:Ansoff I. and McDonnell E. 1990)

There are various tools which managers can use to analyse the strategic capability of the organisation; The resource based view provides a key, fundamental framework for analysing firm success based on the firm’s internal resources and competences. The firm must first identify and evaluate its resources to find those that provide the basis for future competitive advantage. Possessing valuable resources will not generate commensurate profits unless resources are applied in an effective product market strategy (Pearce and Robinson 2008).

Porter (1985) observed that under the value chain approach the organisation will achieve competitive advantage by delivering value to customers. The value chain describes the activities within and around an organisation which together create a product or service. He categorised activities into primary and support. The primary activities are directly

concerned with the creation or delivery of a product or service they include inbound logistics, operations, outbound logistics, marketing and sales and services. The support activities help to improve the effectiveness or efficiency of primary activities.

A SWOT analysis summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development. Pearce and Robinson(2005) observed that SWOT analysis is based on the assumption that an effective strategy derives from a sound fit between a firm's internal

Johnson and Scholes (2005) divide strategic planning process to three phases which are interlinked. They include strategic analysis, strategic choice and strategy implementation. In strategic analysis phase, the strategist is trying to understand the position of the organization in its environment, whereas strategic choice is the generation of strategic options, the evaluation of these options and the selection of a specific strategy. Finally, strategy implementation deals with planning and allocating resources, as well as managing strategic change. The examination of the environment is the first step in strategic analysis and involves the identification of the organization's current strategic position. One needs to know the environment in which one operates before making any decisions about the organization, so as to be able to match one's capabilities with the environment in which the organization operates.

Barney (1991) states that 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 the other firms are unable to duplicate the benefits of this strategy. Grant (2004) suggested that the intensity of competition in an industry determines its profit potential and competitive attractiveness.

Ansoff and McDonnell (1990) came up with strategic success hypothesis which states that a firm's performance potential is optimum when aggressiveness of the firm's strategic behavior matches the turbulence of its environment and responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability must be supportive of one another.

**Figure 2.4.1** The relationship between the environmental turbulence, strategic aggressiveness of capability

|                                       |                   |                               |                       |                           |                                 |
|---------------------------------------|-------------------|-------------------------------|-----------------------|---------------------------|---------------------------------|
| <b>Environmental turbulence</b>       | <b>Repetitive</b> | <b>Expanding</b>              | <b>Changing</b>       | <b>Discontinuous</b>      | <b>Unforeseen</b>               |
|                                       | Repetitive        | Slow Incremental              | Fast Incremental      | Discontinuous Predictable | Discontinuous Unpredictable     |
| <b>Responsiveness (Of capability)</b> | <b>Custodial</b>  | <b>Production</b>             | <b>Marketing</b>      | <b>Strategic</b>          | <b>Flexible</b>                 |
|                                       | Precedent-driven  | Efficiency-driven             | Market-driven         | Environmental-driven      | Seeks to create the environment |
|                                       | Suppresses change | Adapt to change               | Seeks familiar change | Seeks new change          | Seeks novel change              |
|                                       | Seeks Stability   | Seeks operating efficiency    |                       | Seeks creativity          |                                 |
|                                       |                   | Seeks strategic effectiveness |                       |                           |                                 |
|                                       | Closed system     | Open closed                   |                       |                           |                                 |
|                                       | Level 1           | Level 2                       | Level 3               | Level 4                   | Level 5                         |

Source: Ansoff I. and McDonnell E. 1990)

There are various tools which managers can use to analyse the strategic capability of the organisation. The resource based view provides a key, fundamental framework for analysing firm success based on the firm's internal resources and competences. The firm must first identify and evaluate its resources to find those that provide the basis for future competitive advantage. Possessing valuable resources will not generate commensurate profits unless resources are applied in an effective product market strategy (Pearce and Robinson 2008).

Porter (1985) observed that under the value chain approach the organisation will achieve competitive advantage by delivering value to customers. The value chain describes the activities within and around an organisation which together create a product or service. He categorised activities into primary and support. The primary activities are directly

**Figure 2.4.1-The relationship between the environmental turbulence, strategic aggressiveness of capability**

|                                     |                   |                                |                       |                           |                                 |
|-------------------------------------|-------------------|--------------------------------|-----------------------|---------------------------|---------------------------------|
| <b>Environmental turbulence</b>     | <b>Repetitive</b> | <b>Expanding</b>               | <b>Changing</b>       | <b>Discontinuous</b>      | <b>Unforeseen</b>               |
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| <b>Responsiveness Of capability</b> | <b>Custodial</b>  | <b>Production</b>              | <b>Marketing</b>      | <b>Strategic</b>          | <b>Flexible</b>                 |
|                                     | Precedent-driven  | Efficiency-driven              | Market-driven         | Environmental-driven      | Seeks to create the environment |
|                                     | Surpresses change | Adapt to change                | Seeks familiar change | Seeks new change          | Seeks novel change              |
|                                     | Seeks Stability   | Seeks operating efficiency     |                       | Seeks creativity          |                                 |
|                                     |                   | ←Seeks strategic effectiveness |                       |                           | →                               |
|                                     | Closed system     |                                |                       |                           | Open closed                     |
|                                     | Level 1           | Level 2                        | Level 3               | Level 4                   | Level 5                         |

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Johnson et al (2005) observed that expectations and purposes are critical for strategic positioning. The most fundamental expectations are concerned with whom the organization should be there to serve and how the direction should and purposes of an organization be determined. The purposes are influenced by the ethical stance taken by the organization about its relationship with the wider society.

Porter (1985) states that positioning determines whether a firm's profitability is above or below the industry average. A firm will enjoy above average returns if in the long run has sustainable competitive advantage. This can be achieved through the generic strategies of cost leadership, differentiation and focus. The cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments, while the focus strategies aim at cost advantage or differentiation in a narrow segment. David (1997) came up with the strategic position and evaluation matrix. He argued that a firm can pursue aggressive, conservative, defensive or competitive strategies.

Rumelt (1980) states that competitive advantages can normally be found in superior resources, superior skills or superior position. Positional advantage is how the arrangement of these resources and skills are used to out manoeuvre the competition. Positional advantage can be gained by forward planning, greater skill and resources. McDonald and Leppard (1993) observed that to be successful, a company needs to get both its strategy and tactics working in harmony to provide the optimum return bounded by efficiency.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter covers in details the different methods that the researcher used to carry out the research and acquire data. The research design, data collection and data analysis method.

### **3.2 Research Design**

According to Kerlinger (1986) research design is the plan and structure of investigation so conceived so as to obtain answers to research questions. The plan is the overall program of the research and includes an outline of what the investigator will do from writing of the hypothesis and their operational implications for the final analysis of data. The research was conducted through a case study. This method was suitable for the study because it aimed at giving in-depth understanding of how environmental analysis determines the strategic position for Barclays Bank of Kenya. Sekaran (2006) states that a case study involves in-depth, contextual analysis of matters.

### **3.3 Data Collection**

Primary data was collected from seven heads of department in Barclays Bank selected from payments, Merchant services, Credit card, Information Technology, Marketing, Finance and Fraud. The questions were open and unstructured to allow greater depth in responses. Questions were orally administered in a face to face personal interview. This method of data collection has been previously used in studies done by ( kamau ,2008, Njogu 2007 and Munyoki, 2007).

### **3.4 Data Analysis**

The data collected was qualitative in nature. Content analysis was used to analyze the data. According to Zikmund (2003) content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages.

Content analysis studies the message itself. Its objective is to obtain a description of the manifest content of the message.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the analysis and findings from the data collected from interviewees using the interview guide. The study intended to achieve how Barclays bank of Kenya has used environmental analysis to determine strategic positioning within the industry. The interviews were done from seven departmental heads; Payments, Information technology, Merchant Acquiring, Credit Card issuing, Corporate, Finance and Marketing. The data collected was analyzed using content analysis.

### **4.2 The external environment and its challenges**

All the Interviewees noted that Barclays Bank Kenya is operating in a very competitive industry. Some of the challenges include improving profitability. There is a direct impact on profitability on the bank due to competition hence it has been forced to narrow its margins to attract customers. The challenge for the bank is how to manage with reducing margins while at the same time working to improve productivity which remains low in relation to global standards.

The Head of Information technology noted that technology is critical in delivering value add services to the customers. To remain competitive BBK had to invest on a new core banking system. Through this system better products and services are provided in large volume at competitive price and with sound risk management model. Customers are demanding customized products which has led to BBK operating till mid night and on Sundays at specific branches.

All the interviewees noted that a deregulated environment brings in new risks and opportunities. In this context, BBK has upgrading their credit assessment and risk management skills and retraining staff, developing a cadre of specialists staff for example in IT support. The other challenge is on customer focus. The mission of the bank is Lives made much easier for customers. This has been driven forward by introduction of innovative products like loan on phone and hallo money and a 24 hour customer support.

Also employing different channels to market banks products for example adverts on ATMS.

To react to changes in the environment the bank has introduced a call centre which will serve customers throughout Kenya everyday of the week, twenty four hours a day. The move is designed to give BBK customers services around the clock. As one of Kenya's largest and most successful banks, BBK clearly wants to differentiate itself from the competition by always being available to them. The Hello Money service will greatly improve BBK customers' banking convenience and efficiency by enabling the following services directly from the mobile phone: checking of bank account balances, transferring funds from one account to another, pay for utilities like water and electricity bills, ordering of checkbooks and statements, secure changing of PIN.

#### **4.3 The challenges of competition**

The interviewees were asked if competition was the most significant factor in the survival of BBK. It was clear that competition is a major factor in the survival of the company. Most players in the industry were coming up with very innovative products to woo customers for example paperless banking, reduced turn around time in account opening hence the company has to keep analyzing the environment and come up with good products with superior value. It was noted that for BBK to remain competitive it has to differentiate its products and services from the competitors.

All the interviewees noted that there was competition in terms of attracting and retaining the best staff. Some of the strategies employed include staff signing performance contracts and those who exceed or meets objectives are rewarded in terms of bonuses and salary increments. It was noted that there exist companies in the industry that pay better especially in the management level hence pouching talented and trained staff.

Competition has been stiff in terms of competitors going for the unbanked in the industry. As the number of banked customers increase the more they demand better services from the banks. BBK has branches all over the country contributing to its wide outreach and competitive advantage.

BBK has shown how socially responsible it is whereby Epuka Njaa initiative managed to raise around 45 million to hunger stricken North Eastern. All the interviewees also stated that to respond to competition BBK has introduced free ATM withdrawals to its customers. This is one of the key drivers to attract customers who are cost sensitive. New product channels such as advertising on the ATMs have been launched.

### **4.3 Competitive advantage**

The interviewees were asked to describe the environment and how BBK has managed to position itself in the industry. The interviewees noted that the environment in which they operate is very competitive and hence need to continuously evaluate and come up with strategies to maintain a competitive advantage.

Finance department ensures that all functions have been allocated yearly provisions to ensure smooth running of the business. They manage overdrawn accounts to ensure sufficient efforts are made for recovery. They allocate finances and monitors spending. IT ensures that day to day service support where by 24 hour help desk is in hand to help the business. IT also supports functions in any new projects whereby they ensure the information technology infrastructure supports the project.

Merchant acquiring department has implemented Pos Chip and PIN which has led to reduction on transaction time on keying in a PIN than the signature process · Costs associated with card fraud are reduced, including a decline in chargeback volumes and the cost of administration of same · A key cost-saving benefit is the elimination of the paper trail, as retailers will no longer be required to store receipts for Chip and PIN transactions. The use of Chip & PIN shifts the onus of identifying the cardholder away from the retail staff (who will no longer have to check signatures) and onto the PIN-based method· The sophistication of Chip cards means they can support add-on services e.g. retailer loyalty schemes.

Through the marketing department BBK has repositioned itself in the market through aggressive advertisement. The bank offers various products. The Junior Eagle Account allows young savers to enjoy many activities such as holiday camps, talent shows, golf

and tennis clinics and go-karting. The savers will get a free bankers cheque for school fees, a bonus interest if no withdrawals are made in a quarter, a free standing orders as well as free deposits and withdrawals into the account the move by Barclays signals the growing prominence of junior savings accounts which will position itself within the industry. Other adverts which have made a significant market impact include the dancing ATM to show BBK does not charge any ATM fees and the mortgage interest rate advertisement which shows how low the interest rates for BBK are.

Through credit card BBK has repositioned itself by offering credit card products which have significant benefits to cardholders these includes interest free purchases whereby a customer can choose to make purchases on their Barclaycard and pay in full when they receive their statement without being charged interest. Contact centre available on 24 hours basis for any query the customer may have. The customer has International access to cash at wherever they are hence no need to queue at the branch and any amount can be paid at the branch.

The Head of financial Control noted that as part of positioning itself in the industry the bank sold its custody business to standard chartered bank whereby the value raised from its sale, as against the additional investment, makes the transaction attractive stating that it would impact long-established core banking business in Africa. It was also noted that the custody business was attractive and profitable which they had built over a number of years. Its sale realizes value and gives an opportunity to focus on increasing its presence in key market segments. As part of its cost leadership strategy the bank retrenched more than 200 managers to be able to position itself in the industry. This is a great savings on costs. The funds will be directed for growth.

#### **4.4 Positioning Strategies**

BBK has adopted both differentiation and a cost leadership strategy. The Head of marketing department noted that in a crowded market, it is very important to position your product appropriately. Think about the advertising messages your audience is bombarded with every day. In order to stand out, your product has to have a clear

position in your audience's mind. BBK has achieved differentiation strategy by providing banking services up to midnight for branches located at Malls and Airport. The cost leadership strategy has been achieved by offering free ATM withdrawals for its customers and offering low mortgage interest rate in the market at 11.99%.

#### **4.4.1 Differentiation Strategy**

Differentiation strategy is where the firm attempts to be diverse from its competitors by adding something to its service that will provide a unique value to its customers.

Differentiation has been achieved through perceived superior service, which surpasses their nearest rivals and a high brand image and recognition. Barclays Bank PLC is the main sponsor of the English premier league which has a huge following in Kenya. BBK has taken advantage of this to come up with products that are associated with the premier league for example the Barclays Premier Card. They can therefore adopt a premium pricing based on products and services being offered.

BBK has established Premier branches for its premier members. The target market for these products are those who lead busy life and have complex financial needs. They demand services and products that reflect their status in life. Each customer is assigned a Premier Relationship Manager who provides the customer with knowledgeable guidance on their banking needs and ensures the customer's day-to-day banking is hassle-free. Embedded into the Premier membership is a wide-range of insurance covers for its customers.

#### **4.4.2 Cost Leadership Strategy**

The BBK positioning in the cost leadership quadrant is achieved not only economies of scale in research, development and promotion, but also through learning, knowledge and experience in operational processes. In pursuit of cost reductions in various departments, the study found out that each department undertakes budgeting at the beginning of each year which are sent to the Head of Financial Control for analysis. HFC then makes amendment for adoption by the function. The process looks at staff costs, telephone costs,

stationery costs, internet, and transport whereby each centre is allocated certain amount to spend in a month.

From the study it was established that various functions have been running campaigns on cost savings whereby staff come up with cost saving initiatives. Some of the cost saving initiatives which have been developed include introduction of a BBK van which picks staff at specific times for those who work late. This has reduced taxi expenses significantly. The other initiative is going green whereby staff are reminded before printing any electronic record to think about the environment. By the end of every quarter nominations are done for the best initiative whereby staffs are awarded.

The company's information technology (IT) department has played a critical role in cost minimization. The introduction of VOIP whereby various branches are able to call via extension hence no expense incurred. Through teleconference, meetings are held without physical movement of staff from one function to other hence saving on time and transport cost. Through internet, departments are able to exchange files with processing centres others which are outside the country ensuring efficient and effective execution of work.

Through the support of IT the company was able to implement a new system which had significant advantages. For example it allows online transactions, it enables one view of customer details, very fast and efficient hence less staff needed to serve customers.

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

### **5.1 Introduction**

This chapter discusses the findings of the research and draws conclusions from the study. The chapter also indicates the limitation of the study and offers suggestions for further study.

### **5.2 Summary**

BBK operates in a very competitive environment. For a firm to succeed according to Ansoff and McDonnell (1990) it must keep abreast and respond to environmental changes in order to survive otherwise it will experience a strategic misfit. The success or failure of organizations is also concerned with how well they understand customer needs and are able to meet those needs. According to Hill and Jones (2001) organizations will create superior values and attain competitive advantage through superior efficiency, quality, innovation and responsiveness. The bank has created value to its customer by diversifying its products and services to meet different needs of consumers.

The study found out that through the environmental analysis BBK faces a lot of challenges from external environment this includes competition, technological changes , new regulatory requirements by CBK for example in terms of new capital requirement. Fraud has been a challenge to the bank through card skimming at its ATMs, over the counter fraud and in other aspects collusion. This has been addressed by introducing a 24 hour fraud monitoring team to monitor all fraud alerts. There is also a thorough screening of all new entrants to the bank.

BBK has adopted differentiation and cost leadership strategies. In terms of differentiation, the firm attempts to be diverse from its competitors by offering products and services that provide a unique value to its customers. This has been achieved through a strong brand of belonging to Barclays PLC global and strong marketing capabilities which has lead to perceived superior products and services. Cost leadership is achieved

through a large branch network within the industry and also through knowledge and experience in its core processes.

The study found out that that the company has responded to the threats in the external environment in various ways. It has introduced a new banking system which supports online banking. Due to increase in fraud in issuing credit cards the bank has introduced a new chip and pin card to be used in merchant establishment for credit card transactions. The company has also introduced value adding products in the market for example a 24 hour contact centre, hallo money and loan on phone products. The firm has also introduced a standardized bottom up approach in risk management through use of detailed risk and control assessment document.

### **5.3 Conclusion**

From the study, for the company to position itself within the industry has to match between its strategic responsiveness and aggressiveness to environmental turbulence. Hence the company has to use available resources to cope with environmental changes. The environment in which the banks operate is dynamic and competitive. Environmental analysis serves as a tool which the company uses effectively to position itself within the industry.

Customers are becoming more informed as information on banking services becomes easily available. Hence the bank has introduced products which attracts and maintains customers for example the free ATM withdrawal for all BBK customers. The bank is also retaining the best employees by offering competitive salaries, subsidized loans both unsecured and secured. The bank continuously improves its human resources strategies to ensure to keep the top cream of staff in the industry.

### **5.4 Recommendations**

The study found out that there are several environmental factors that are facing the firm and for the company to position itself in the industry it has come up with strategies to address the challenges it faces in the industry. Some of the challenges it faces include globalization, competition, information technology, fraud , risk management and CBK

regulations. The bank should seek to improve strategies on technology as there is rapid changes in technology in the industry.

Competitors are working very hard to be market leaders as they challenge the dominance of BBK especially on the corporate clients. Thus, the Management team should continue to diversify its product proposition to maintain its position in the industry lest they will be beaten by the competitors.

### **5.5 Limitations of the study**

This being a case study and the data collection method was through interview some of the interviewees were too busy with office work and not willing to be interviewed. The time they spared was short and they were not willing to divulge more information as they feared the competitors may get hold of it.

### **5.6 Suggestions for Further Research**

Further study can be done on forces driving competition in the banking industry in Kenya this will lead to a clear understanding on nature of competitive strategies adopted by players in the industry.

Further study can also be done to find out contribution of global marketing strategy to strategic positioning for BBK. Also other research which can be done is to find out the challenges faced by BBK in maintaining its market leadership position in the industry.

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## APPENDIX I: INTERVIEW GUIDE

### RE: MBA RESEARCH PROJECT

I am a postgraduate student pursuing a master degree in Business Administration at the University of Nairobi undertaking a research on “**Environmental analysis as a Perspective of Strategic positioning by Barclays Bank of Kenya**” as a requirement for the award of the degree of Master of Business Administration (MBA).

The data you will provide will be treated with utmost confidentiality and will be used solely for academic purposes.

Thank you.

Yours faithfully,

Walter Nyangechi.

### SECTION A: Respondents' profile

1. Department.....
  2. How long have you been working in the organization? .....
- |                    |     |
|--------------------|-----|
| Less 1year         | [ ] |
| 1-5 years          | [ ] |
| 5-10 years         | [ ] |
| More than 10 years | [ ] |

### SECTION B: Environmental analysis and Strategic Positioning

3. How has Barclays Bank of Kenya (BBK) reacted to changes in the environment?

4. Is competition the most significant factor that poses a threat to the survival of BBK?
5. What are the changes in the external environment that affect the operations of BBK?
6. What strategies has BBK used to position itself within the industry?
7. What are some of the challenges/opportunities BBK faces
8. Given the advances in technological innovations, how has BBK exploited such advances to boost its competitive position?
9. What do you consider to be core and/or distinctive competencies that have given BBK a competitive edge over other players in the industry?
10. Do you consider BBK's diverse product portfolio as a contributor to the company's competitiveness? Explain in what way

