

**ENVIRONMENTAL ANALYSIS AS A COMPETITIVE STRATEGIC
IMPERATIVE BY BARCLAYS BANK OF KENYA**


**BY
GRACE M. KIRAGU**

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

NOVEMBER 2012

DECLARATION


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

Signed  _____

Date 8/11/2012

Grace M. Kiragu

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

Signed  _____

Date 8-11-12

Eliud O. Mududa

Department of Business Administration,

School of Business,

University of Nairobi

DEDICATION

This research study is dedicated to my husband Antony, our son Jason for their love, understanding and relentless support during the many long hours when i had to juggle between work, family and study, my loving brothers for always believing in me, my dear parents Kiragu and Wairimu for always cheering me on and sowing in me the seed of hard work and giving me the critical foundation in education.

ACKNOWLEDGEMENT

I am grateful to my supervisor, Mr. Mududa, for his availability, encouragement and guidance through each and every stage of this research study. I am equally indebted to Mr. Kagwe for his critical role of moderating the research project and Dr. Ogutu for his invaluable advice. I am grateful to the MBA library section-UON, for helping me to access all the relevant information and materials for the development of this study. I am equally grateful to the management of Barclays Bank for accepting to participate in this research study and granting me the much needed information and data through the various personal interviews with its top level management. I am also highly indebted to my classmate Jeff who tirelessly encouraged me to soldier on. Indeed, I cannot forget the contribution of Derby Communication who at short notices would facilitate for timely printing and binding of the document at the various stages of the study.

ABSTRACT

The banking sector in Kenya plays a pivotal role in the economy. The rapidly changing environment is especially pronounced in this sector. This state of affairs compelled the researcher to conduct this study on environmental analysis as a competitive strategic imperative by Barclays Bank of Kenya. The data was collected from senior staff of the Bank through personal interviews. These interviews were facilitated by an interview guide covering general information about Barclays Bank, strategic changes, challenges of strategic changes, responses to strategic challenges and respondent's suggestions. The findings of the study are presented in tables containing frequencies, means and percentages. The findings of the study indicate the Bank has succeeded in adoption of its strategies by aligning strategies to the structure, adequate resource allocation to projects, ensuring of supportive policies and staff commitment. However, the shortcomings were identified as poor time management, poor communication of strategy to staff, responsibilities not being well defined. Based on the findings it may be recommended that Barclays Bank should not only concentrate on targeting new customers but also emphasize on developing extensive distribution channels in order to gain a competitive edge in the market. The study should also be of importance to other commercial banks and financial institutions whose responsibilities include strategic responses and adoption. Barclays Bank management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
LIST OF FIGURES	vii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the study.....	1
1.1.1 Industry Competition.....	3
1.1.2 Environmental analysis as a competitive strategic imperative	4
1.1.3 Banking industry in Kenya	7
1.1.4 Barclays Bank of Kenya	8
1.2 Research Problem	10
1.3 Research Objectives	12
1.4 Value of the study	12
CHAPTER TWO: LITERATURE REVIEW	14
2.1 Introduction.....	14
2.2 Business Environment.....	14
2.3 The macro-environment	15
2.4 Organizations and the environment	17
2.5 Porters Five Forces.....	20
CHAPTER THREE: RESEARCH METHODOLOGY	22
3.1 Research Design.....	22
3.2 Data Collection	22
3.3 Data Analysis and Presentation	23
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS	24
4.1 Introduction.....	24
4.1 Response Rate.....	24
4.2 Specific Information.....	25

4.3 Strategic Responses Undertaken by Barclays bank	27
4.3.1 Research and Development	28
4.3.2 Human Resources Management.....	29
4.3.3 Information and Communication Technology	29
4.3.4 Refocusing	30
4.3.5 Marketing Development Strategy	31
4.3.7 Corporate Restructuring.	31
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ...	33
5.1 Introduction.....	33
5.2 Summary.....	33
5.3 Conclusions.....	34
5.4 Recommendations	34
5.5 Limitations of the Study	35
5.6 Suggestions for Further Studies.....	36
References	37
Appendices	39
Appendix I: Letter of Introduction	39
Appendix I I: Interview Guide	40

LIST OF FIGURES

Fig. 2.5: The Five-Forces Model of Competition.....	20
Fig. 4.1: Response Rate.....	25

CHAPTER ONE: INTRODUCTION

This chapter focuses on the background and problem statement of this study as well as the purpose and research objectives. It also sets the scope and expected value of the study.

1.1 Background of the study

All organisations operate in an environment which influence the way they operate. According to Ansoff and McDonnell (1990), organisations are environment dependent and environment serving. Organisations are in constant two way interaction with the environment. They receive inputs from the environment, transform and add value to them and return the outputs in the form of goods and services back to the environment, which is beyond the organisation control.

In this age and time, organisations have to understand the competitiveness in it's industry and identify the best strategy that would give it an edge over it's competitors. According to Porter (1985), for organisations to survive in the market, they should formulate strategies that adequately respond to competition. Such strategies should place them at a position of advantage in the industry and give them a competitive advantage in the market and give them a competitive edge (Porter, 1985).

For an organisation to continue to achieve their goal and overcome the operating industry turbulence; response strategies should always achieve strategic fit for the organisation, (Johnson, Scholes and Whittington, 2006).

Thompson (2007) stipulates that while the core competencies and competitive capabilities are a major assist in executing a strategy, they are equally an important avenue for securing a competitive edge over rivals in situations where it's relatively easy for rivals to copy smart strategies. Any time rivals can readily duplicate successful strategy features, making it difficult to out-strategize rivals and beat them in the market place with a superior strategy.

The chief way to achieve lasting competitive advantage is to out execute them. This can involve building core competencies and competitive capabilities that are very difficult or costly for rivals to emulate and that push the company closer to true operating excellence and promote very efficient strategy execution. Moreover core competencies and competitive capabilities present resource strengths that are often time consuming and expensive for rivals to match or trump. Any competitive edge they produce tend to be sustainable and pave way for above average company performance.

For a firm to survive in the market, it should acknowledge the existence of competition in the industry. The firm must identify it's capabilities and competencies. Distinctive capabilities are the basis of a firm's competitive advantage. The opportunity for a company to achieve competitive advantage is determined by it's two kinds of capabilities that is-distinctive capabilities and reproducible capabilities and their unique combination you create to achieve synergy.

1.1.1 Industry Competition

An industry is a collection of firms that offer similar products or services, that is, products that consumers perceive to be substitutes for one another (Pearce and Robinson,1997;Kotler,1997;Lipsey,1987;Porter,1980).Individual industries may differ from each other according to the degree of competition among various buyers and sellers in each market (Lipsey,1987).

The state of competition in an industry depends on five basic forces. These are; threat of new entrants, bargaining power of buyers, threat of substitutes, bargaining power of suppliers and industry competitors. The collective strength of these forces determines the ultimate profit potential of an industry. It ranges from intense in industries like tyres, metal cans and steel, where no company earns spectacular returns on investments to mild in industries like oil-fuel services, soft drink and toiletries, where there's room for quite high returns. The competitive advantage of an organization may be eroded because the forces discussed above change or competitors manage to overcome adverse forces. This process of erosion may be speeded up by changes in the macro-environment such as new technologies, globalization or de-regularization. Hyper competition occurs where the frequency, boldness and aggressiveness of dynamic movements by competitors accelerate to create a condition of constant equilibrium and change.

The implications of how competition is understood and how organizations might respond are extremely important. Whereas competition in slower moving environments is primarily concerned with building and sustaining competitive advantages that are difficult to imitate, hyper competitive environments require

organizations to acknowledge that advantages will be temporary (Johnson, Scholes and Whittington, 2005).

Competition in an industry is rooted in it's underlying economics and competitive force that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry (Pearce and Robinson, 2006).

1.1.2 Environmental analysis as a competitive strategic imperative

External environment of a firm are the conditions and forces that define it's strategic options and it's competitive situation. External environment consists of three interactive segments which are remote, industry and operating environment.

The remote environment consists of factors that are beyond the firm's control which includes economic, social, political, technological and ecological (Pearce and Robinson, 2007). These factors provide an organization with opportunities, threats and constraints.

Operating environment consists of factors that give an organization success through positioning, composition of it's customers, it's reputation and where to attract it's best employees.

The environment where organization operates in is constantly changing with different factors influencing the organization .The general business environment is ever

becoming more volatile, unpredictable and very competitive (Whittington, 1989). All these changes in the external environment affecting the firm are in varying degrees.

Firms have however developed strategies to counter react the impact of the external environment forces. However; they are faced by even more challenges when responding to these forces. These include high cost of maintaining skilled labour, increased competition, government policies and legislation, inflation rates among others (Mwendwa, 2008).

External environment is a prime influencer of strategic change and managers must systematically analyse and diagnose it so as to have time to anticipate opportunities and plan to take optional responses to the opportunities. It also helps strategists to develop an early warning system to prevent threats or develop strategies which can turn a threat to the firm's advantage (Jauch and Glueck, 1988).

Organization environment consists of all the conditions and forces that affect it's strategy options and defines it's competitive situation (Pearce ad Robinson, 2005). The uncertainty of the environment in which an organization operates has in no doubt impact on the organization. This calls for the organization to respond to the environmental changes to remain stable and successful. To be able to build a competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985). For organizations to remain truly competitive over time as environment changes, Pearce and Robinson (2005) noted that companies need to cope with competition by redefining their marketing strategies. Aosa (1982) noted that industries have to respond to customers' demand by becoming more innovative in their ways of approaching a changed environment. They

adopt strategies such as credit facilities, post-paid card and other improved services for the customers.

For an organization to remain truly competitive over time as the environment changes, Schneider and Meyer (1991) argues that it has to learn, adapt and reorient itself to the changing environment. Schneider and Meyer (1991) argues that this process must be deliberate and coordinated, leading to gradual or radical system realignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness.

This process is referred to as integrated strategic change. Strategy helps an organization to cope with change by designing appropriate strategic responses (Pearce and Robinson, 2005).

Successful organizations must continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect it's operations (Ansoff and McDonell, 1990).

In every industry, successful organizations continuously reassess competitive factors which will bring future success. Whenever historical strategies do not match the future success factors, the firm develops new strategies or leaves the industry.

Since the early 1990's when the government outlined policies on liberalization, the Kenyan economic environment has undergone drastic changes and which has affected most sectors of the economy. These challenges include privatization and commercialization of the public sector, increased competition and liberalized

economy, accelerated implementation of reforms by the government as well as rapid technological advancement.

Faced with these challenges in the ever changing environment, organizations have to realign their activities and internal structures so as to reflect the new external realities. The choice of strategy must be right and be revised from time to time in order to ensure that the response is effective.

Strategic response is thus a reaction that an organization applies to its environment. When an organization is faced with unfamiliar change, it should revise its strategies to match the change.

1.1.3 Banking industry in Kenya

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya govern the banking industry in Kenya. The banking sector was liberalised in 1995 and exchange controls lifted, The Central Bank of Kenya which falls under the Minister for Finance's docket is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial sector. The Central bank of Kenya publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. Banks in Kenya have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the bank's interests and addresses issues affecting its members.

There are forty-six banks and non-bank financial institutions, fifteen microfinance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty five of the banks, most of which are small to medium sized are locally owned. The industry is dominated by a few large banks most of which are foreign owned. Six of the major banks are listed on the Nairobi Stock Exchange.

The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits and product offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region.

Automation of a large number of services has also improved growth and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in the sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (Central Bank of Kenya, 2009).

1.1.4 Barclays Bank of Kenya

Barclays Bank PLC is one of the world's largest global financial services provider (present in over 60 countries) primarily offering banking, investment banking and investment management services. With over 300 years of history and expertise in

banking, Barclays Bank PLC has six major divisions; UK banking, Barclaycard, Barclays Capital, Barclays Global Investors, Barclay's wealth Management, International Retail and commercial banking. Barclays Africa is the leading bank in Africa with business in 11 countries in Africa namely Botswana, Egypt, Ghana, Kenya, Mauritius, Seychelles, South Africa, Tanzania, Uganda, Zambia, Zimbabwe and the Indian Ocean.

Barclays has operated in Kenya for the last 95 years. Financial strength coupled with extensive local and international resources have positioned Barclays Bank of Kenya as a foremost provider of financial services. The bank has established an extensive network of over 115 outlets with 236 automated Teller machines (ATMs); the bank has a customer base of about 450,000 spread across the country. The bank's financial performance over the years has built confidence among 60.000 shareholders, (<http://barclays.com>)with a reputation as one of the leading blue chip companies on the Nairobi Stock Exchange. This means that the bank holds a big chunk of the Kenyan market share in providing financial services and is actually a market leader.

Regionally, Barclays Bank of Kenya has been considered as one of the most profitable subsidiary in the East and central Africa market among other branches in the region (Barclays Africa, Annual report, 2009).It is on this strength that the local chapter has been found to put in place adequate mechanisms to maintain it's competitive edge generated over the period of time.

1.2 Research Problem

Barclays bank of Kenya like any other organization operates in a very dynamic environment with a lot of challenges to it's operations. It has to employ strategies to match the challenges in the environment. The appropriate strategy is necessary in order to remain competitive and sustainable (Adoyo, 2005). Burnes (2000) argues that changes are an ever-present future of organizational life and it's pace and magnitude has increased significantly over the recent years.

Resource based theory postulates that competitive advantage of a firm is based on it's internal resources and competencies. A firm that wants to remain competitive must be able then to keep it's internal strategy in line with the ever changing external environment. It is in this view that the study aims at exploring the strategic response undertaken by Barclays Bank of Kenya to changes in the environment. Whereas several studies shave been conducted on strategic responses to external environment, none has been carried out exclusively on Barclays bank of Kenya.

Kiptugen (2003) found out that as a result of the economy's progressive decline and liberalization, legislative changes and technological advances ,Barclays Bank has responded by restructuring it's operations through closure of branches, disposal of non-core assets, development of new marketing strategies, acquisition of flexible information technology system to provide better quality customer service and culture change.

Mwarania (2003) established that as a result of the phasing out of the mandatory cessions which had hitherto guaranteed business ,Kenya Reinsurance Corporation

Limited responded by engaging in an aggressive local and international marketing program, organizational restructuring, investments in real estate and information technology.

Other studies that have been done on strategic responses of organizations to environmental changes include studies by Abdullahi (2000), Warucu (2001) and Kandie (2001). These studies established that organizations have to devise means of responding to the pressure exerted by the environment. Barclays Bank of Kenya becomes more critical for study because of its unending pressure from political, social, legal, economic, environmental and technological factors. The banking industry is dynamic and a lot of turbulence exists from the environment necessitating strategic responses. This is paramount for the bank to remain competitive.

While the above studies have shed light on how organizations respond to environmental developments, it is not possible to use one study's findings to explain phenomena of another study because either the organizations studied are uniquely different from each other as the environmental phenomena under study are.

Mwarania's (2003) study on Kenya Reinsurance Corporation focused on a reinsurance company whose business is markedly different from a bank hence the study's findings cannot apply to a banking organization. Abdullahi (2000) study was methodologically different having been a survey while the proposed study adopts a case study approach, which has implications on the utility of the research findings. Thus, no known study has been found to focus on environmental analysis as a

competitive strategic imperative by Barclays Bank of Kenya. Therefore, there existed a knowledge gap which this study sought to bridge.

No one company is able to escape the wind of change. Effective strategic management appears to be the only answer to organizations coping with changing environment. This study therefore focused on strategic responses of Barclays Bank of Kenya to environmental changes. In doing so, the study addressed the following questions: To what extent has Barclays Bank of Kenya used environmental analysis as a competitive strategic imperative? and How has Barclays Bank of Kenya responded to the changes in the environment?

1.3 Research Objectives

The objectives of the study were;

- (a) To establish the role of environmental analysis as a competitive strategic imperative by Barclays bank of Kenya.
- (b) To establish the challenges facing Barclays bank of Kenya with increased competition in the banking industry.
- (c) To establish the strategic responses of Barclays bank of Kenya towards challenges resulting from competition in the banking industry.

1.4 Value of the study

The findings from this study are useful to the top management of Barclays Bank as it shed light on challenges facing the bank. In addition it enhances their knowledge on strategic responses that can yield a competitive edge to the bank. This goes a long

way in enabling them to re-examine their competitive position in the industry and roots for avenue to respond adequately

The findings are also beneficial to policy makers in other organizations. The results of the study provide them with knowledge on the fundamental importance of responding to environmental changes in order to guarantee the survival and success of firms.

Finally, scholars equally have their share of benefits from the results of this study. Indeed, the findings of the study have contributed to the existing body of knowledge in the field of strategic management. Moreover, the findings and recommendations of this study provide a basis for future research in strategic management.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter verifies details discussed by other writers in the field of strategic management. It gives clarification on the competitive strategies in response to the environment as practised in the business world.

2.2 Business Environment

The business environment transformation process does not take place in a vacuum. According to Ward and Lewandoska (2008), the choice of an appropriate business strategy is moderated by the environment and that firms aspiring to meet the challenges of rapidly changing business environment require management decisions that are founded on well conceived strategies. The business environment can be divided into the micro environment and macro environment.

The micro environment involves individuals or organizations that a firm deals with on a regular basis such as suppliers, distributors, competitors, customers and employees. These groups are stakeholders of business and all have a direct interest in the activities of the firm as they are clearly affected by it's actions. Managers regularly interact with others in the micro environment and their decisions have a direct effect on them, for example a decision to expand may mean an increase in supplies, an increase in overtime, more labour and greater profits.

The macro environment refers to factors outside the direct control of the business. These macro factors such as economy, government policy, technology and social

change can have a significant effect on a firm's success but the relationship is fairly one way, for example, change in the exchange rate can affect a firm's ability to trade abroad while an ageing population may increase the demand for healthcare resources. Whilst these macro-factors can fundamentally change the environment of an organization, one individual organization can rarely do much on its own to shape them, that is to say that, one firm is unlikely to be able to influence the government taxation or new legislation.

2.3 The macro-environment

Macro environment includes all relevant factors and influences outside the organizations boundaries. Numerous external factors influence a firm's choice of direction, action, structure and internal processes. Factors which constitute the external environment can be divided into three interrelated categories namely; factors in the remote environment, industry environment and operating environment (Pearce and Robinson, 1977). The remote environment comprises the political, economic, socio-cultural, technological, ecological and legal factors which are factors that originate from beyond the organization irrespective of its operating situation. While the external environment presents firms with both threats and opportunities, rarely does a firm exert any substantial reciprocal influence.

Political factors define the legal and regulatory parameters within which the firms must operate and are therefore a major consideration for managers in their formulation of the organization's strategies. According to Pearce and Robinson (1997), knowledge of government regulations gained through the scanning of remote environment can help a firm to avoid unnecessary confrontation with the government

and the law. Political constraints are placed on firms through fair trade decisions, antitrust laws, tax laws, minimum wage legislation, pollution and pricing policies, consumer protection laws and other actions aimed at protecting employees, consumers, the general public and the government.

Economic factors refer to the nature and direction of the economy in which the firm operates. Consumption patterns are largely determined by the income levels, firms must consider the general availability of credit and availability of income and the propensity of people to spend on certain products and services. Interest rates, inflationary trends and rates, growth of the gross domestic product and gross national product must also be taken into consideration (Pearce and Robinson, 2005).

Socio-cultural factors refer to the beliefs, values, attitudes, lifestyles and opinions of the people in the firm's external environment. Social factors develop from religious, cultural, ecological, demographic and ethnic conditioning and as the social attitudes change, so do demand for various types of goods and services.

Technological developments all over the world have had a great influence in the operations of almost all firms. A firm must at all time be aware of the technological changes that might affect it's industry so as to promote innovation and avoid obsolesce. Innovative technological adaptations can enable firms create new products and services, improve the existing products or name new and more effective manufacturing and marketing techniques (Pearce and Robinson 2005).

Ecology refers to the relationship between humans and other living things to the air, soil and water that support them (Pearce and Robinson, 1997). Threats to the ecology caused principally by human activities in an industrial society are referred to as pollution.

Legal factors include discrimination law, consumer law, antitrust law, employment law and health and safety law. These factors can affect how a company operates, its costs and the demand for its products and services.

2.4 Organizations and the environment

One of the primary functions of effective management is to organize and use the available resources in ways which minimize the impact of environmental threats and pressures on the organization (Lambert and Knemeyer, 2004). Organizations must adapt to their environment if they are to remain viable. Welch and Welch (2005) maintain that to maximize long-term effectiveness, organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance. For many organizations, crises are unique rare events. However, in many industries crises may be a regular feature of corporate life. Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but understanding situations where uncertainty can degenerate into a crisis.

Although the external of organizations has been conceptualized in various ways (Lane, 2003), several important dimensions have been underscored. Two major dimensions are of concern in this study; these are stability and complexity. The

concept of turbulence and its opposite, placidity, are key factors. Turbulence is a measure of change as it occurs in the factors or components of an organization's environment. At one end of a continuum of change, there is a static environment state (placidity or no change): at the other end there is turbulent or dynamic state where all factors are in constant flux (Linn, 2007). The amount of environmental turbulence is closely related to the degree of uncertainty facing an organization.

The rate of change, in addition to the absolute amount of turbulence, is a critical factor. Collins (2001) suggests that the rate of change can be defined by measuring the amount of alteration to major goals in a given period. Andrews (1987) proposes that the higher the rate of change in the environment, the higher the number of major organizational goals that must be altered and vice versa. In several studies (Welch and Welch, 2005) the terms discontinuity, dynamism and volatility have been used interchangeably to refer to the rate (or degree) of environmental change.

Complexity is the second critical dimension of the external environment, It refers to the number of factors in the environment that must be taken into consideration by the organization in a decision making situation (Ansoff, 1965). Scholes and Johnson (2008) defined complexity as the heterogeneity and range of activities relevant to organizational operations. Porter (2005) argues that a simple environment is one in which the external factors with which an organization must deal with are few in number and relatively homogenous. Ansoff and McDonell (1990) assert that a simple environment frees an organization from the necessities of sophisticated information systems, since there would only be limited number of information categories to be monitored that would be critical for organizational decision making. Complex

environments not only place greater demands on an information system, but also call for a higher quality to account for diverse constituencies in the environment (Pearce and Robinson, 2001).

Environmental complexity may be viewed as a function of both the number of environmental variables and constraints, important to the organization, and as a function of the diversity, and number of different components of the environment (for example technological, social, political and legal) containing important variables or constraints (Collins, 2001). McNeill (2001) contend that uncertainty and equivocality are two forces influencing information processing in organizations. During times of rapid technological change and development, within emerging industries, or during the launch of new products, organizations face high uncertainty and high equivocality. The concept of high velocity environments is used to designate those environments which are characterized by rapid and discontinuous changes in demand, competitors, technology, and/or regulation such that information is often inaccurate, unavailable or obsolete (D Aveni , 2004).

This concept implies that there are continuous dynamisms (Linn, 2007) or volatility (Delmar and Shane, 2003), but they are overlaid by sharp, discontinuous change. Dynamism is characterized by the rate of change and innovation in the industry as well as the uncertainty or unpredictability of the actions of customers and competitors (Lane, 2003).

Industries operating in high velocity environments for example micro computers, airlines and banking ,experience such an extreme rate of change that information is

often of questionable accuracy and is quickly obsolete (Drejer,2002) organizations are constantly scanning the environment for new ways to foster innovation and new products and service development (Szyliowicz *et al* ,2004).

2.5 Porters Five Forces

Thomson, Strickland & Gamble (2007) pointed out that the character, mix, and subtleties of the competitive forces operating in a company’s industry are never the same from one industry to another. Far and away the most powerful and widely used tool for systematically diagnosing the principal competitive pressure in a market and assessing the strength and importance of each is the Porter’s five forces model of competition. This model is shown in figure 2.5 below.

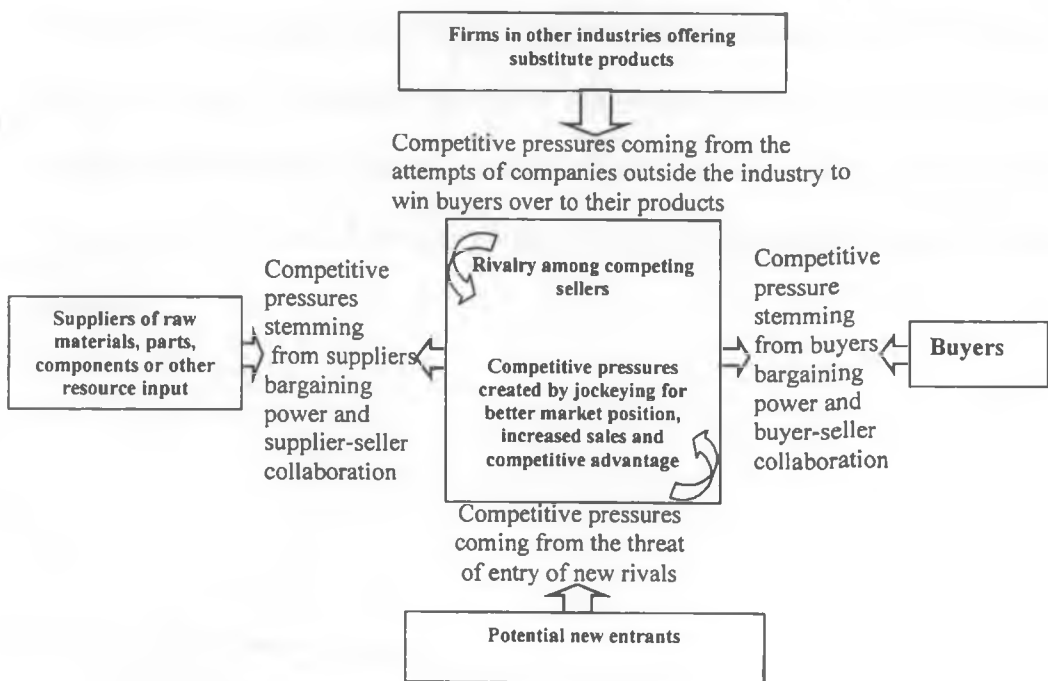


Fig.2.5: The Five-Forces Model of Competition

Source: Porter (1979)

Pearce and Robinson built upon Porter’s theory and postulated that designing viable strategies for a firm requires a thorough understanding of the firm’s industry and

competition which involves defining the industry boundaries and structure, competitive analysis and operating environment (Pearce & Robinson, 1997). Cole (1996) argued that Porter's five forces can be utilised by firms in their formulation of strategy, and especially in their assessment of their strengths and weaknesses. According to Porter (1998), the first fundamental determinant of industry attractiveness is profitability. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness.

Gregory, Lumpkin and Taylor (2005) noted that the five forces influence the creation of competitive advantage in different ways. Power of buyer and threat of substitution influence the prices that firms can charge, power of buyer can also determine cost and investment. The bargaining power of suppliers determines the cost of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry place a limit on prices and shapes the investment required to deter entrants.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter contains the details about the research design, data analysis and presentation. The chapter also includes the method applied in collection of data and identifies the target respondents.

3.1 Research Design

The researcher adopted a case study design. This method gives an in-depth and comprehensive inquiry to determine how environmental analysis has contributed to the development of Barclays Bank's competitive strategy. The case study design provides very focused and valuable insights to phenomena that may be vaguely known or understood.

Kothari (2004) defined a case study as a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit is a person, a family, an institution, a cultural group or the entire community. A case study design deals with the processes that take place and their interrelationship. This research design was successfully used by Mong'are (2008) and Wanjagua (2008) in their studies.

3.2 Data Collection

Data was collected from top level managers and senior staff of Barclays Bank Ltd. To achieve the objectives of this study, ten respondents were targeted. They included Senior Manager-Risk, Products Manager, Marketing Manager, Senior Manager-Human Resources, Internal Audit Manager, Operations Manager, Credit Manager, Sourcing and shared services Manager, Security Manager and Corporate

Communications Manager. These respondents were quite resourceful in providing the required data since their key responsibility is basically the formulation and control of implementation of competitive strategies at Barclays Bank Ltd.

Both primary and secondary sources of data were used to obtain information for the study. Primary data was obtained through an interview guide with open-ended questions. The interview guide was used to facilitate face-to-face interviews with the target respondents which generated in-depth and comprehensive data regarding the variables of the research study.

3.3 Data Analysis and Presentation

Before analysis, the data collected was checked for completeness and consistency. Content analysis and descriptive analysis were used to analyze the responses obtained from the interviews. Kothari (2004) argues that content analysis is a central activity whenever one is concerned with the study of the nature of verbal materials. The results were presented in form of figures and narration. This method of presentation is appropriate for presenting qualitative data.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The method of data collection was done through interview guide which was developed in line with the objective of the study. The research objective was to determine Strategic responses adopted by Barclays Bank to changes in the environment.

Primary data was collected from Barclays Bank's top management team who included the senior heads of department who are members of corporate strategy development team. To achieve the objective of the study the interview guide was broken down into two sections, general information and specific information. General information sought to find out the banks general information while specific information sought to find data on the challenges facing Barclays Bank and the adopted responses undertaken by Barclays Bank.

4.1 Response Rate

Data collection targeted ten respondents comprising top level managers who are involved in formulation of strategy in Barclays Bank. However, only eight respondents were available for the face to face interviews as shown below. This represents a response rate of 80 percent. The research data collected were qualitatively analyzed for in-depth understanding and interpretation.

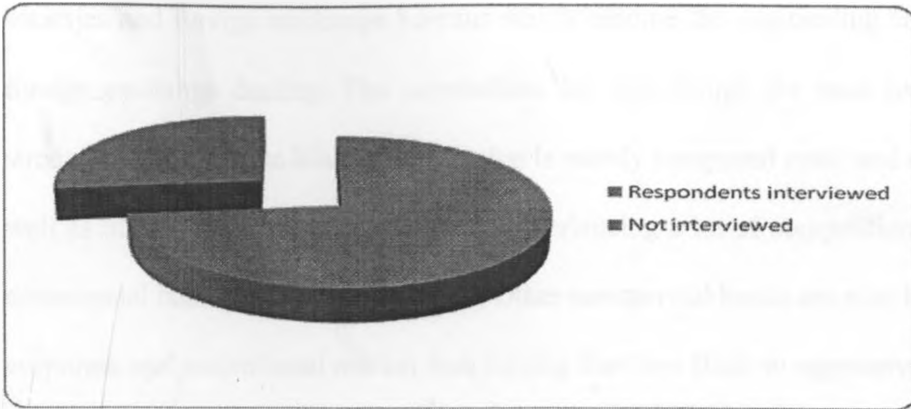


Fig. 4.1: Response Rate

Source: Author (2012)

4.2 Specific Information

The respondents were asked some of the challenges facing Barclays Bank and how the challenges have impacted on the bank, the study sought to find out how changes in the regulation framework, competition, rapid development in Information Communication and Technology and an increase in demand for investment options has affected business performance in Barclays Bank. Further the findings indicated that the increase in number of co-operative societies with front office banking and micro finance institution that provide alternative sources of funds for loans also pose challenge to Barclays Bank

The respondents agreed that Barclays Bank faced a number of challenges as a result of changing external and internal environment and some of the main challenges they highlighted included the following:

The respondents were asked whether increased competitive environment was a major challenge that Barclays Bank faced. Competition was not only coming from other licensed commercial banks but also from micro finance institutions, co-operative

societies and foreign exchange bureaus which become the outstanding competitor in foreign exchange dealing. The respondents felt that though the bank had created a strong niche of its own kind of market that is mainly composed retail and corporate as well as institutional market, it has been experiencing a lot of competition from other commercial banks for the same market. Other commercial banks are now targeting the corporate and institutional market thus forcing Barclays Bank to aggressively compete to retain its market share and also attract another target market.

The research sought to find out how competition from other non- bank financial institution which offers similar services affect the bank, These institutions include the Micro-finance Institution and the telecommunication industry which is also taking up some services that were previously offered by financial institution only, for instance money transfer through M-Pesa, a service offered by Safaricom a mobile telephone company. The data showed that this poses a threat to the banks, as the services are readily available and more convenient to the non bank population.

The study sought to find out how advancement in modern Information and Communication Technology (ICT) affected the banks performance. The respondents were asked some of the changes that had taken place over the last 2-5 years during the revolution in banking. The respondents agreed that Barclays Bank has had to re-evaluate its ICT system every now and then to accommodate the new developments. This implies that technological changes have had impact on Barclays Bank's operating environment and the bank had to respond to these changes in order to remain competitive in the very dynamic environment. The study also sought respondents view if implementation of the new state of art banking system T24 in

2008 had given the bank an opportunity to concentrate on getting the full benefits from the system

The respondents were asked whether changing customer preferences and increased levels of awareness had influenced business performance. The bank has been faced by a challenge of meeting its customer's changing expectations and at the same time maintaining or meeting its targeted financial objectives. The study sought to know how the products and services offered Barclays Bank are preferred to other commercial bank offering similar products and every bank competes on customer service cost of these products and services. This implies both existing and potential customers are very particular when choosing a preferred bank. Barclays Bank have been faced with a huge task of pleasing, retaining and attracting customers with varied preferences and taste to keep up with competition and the same time meet its shareholders expectation of profitability.

4.3 Strategic Responses Undertaken by Barclays bank

The study sought to find answers on which responses Barclays Bank has been using in a bid to attract customers and maintain loyalty in the highly competitive industry, majority of the respondents felt that the bank had come up with different marketing and management strategies such as taking up competitive advantage through focus, differentiation and cost leadership so as to maintain their market share and remain competitive in the industry.

4.3.1 Research and Development

The study found that the strategic responses undertaken by Barclays Bank included new product development which involved replacing the existing products with new ones through innovation and product improvement. The data obtained indicated some of the new products that had been launched by Barclays Bank included internet and mobile banking and the ultimate account. The respondents agreed that improving products has helped the organization to concentrate on particular segment of the market which is relatively strong thus acquiring new clientele and retaining existing ones as the product introduced are tailored to a wider spectrum of customers.

The study sought to establish the aim of Research and Development which was found to come up with new and innovative products and services that meet customer expectations and attract new customers to the bank. In the last three years, Barclays Bank has created a change team composed of various personnel from different departments. This is team's key role is coordination of various new projects to be implemented by the bank. Through Research and Development Barclays Bank has been able to come up with new products (ultimate account) to replace its traditional savings and current account. Data obtained from the interview found that Barclays Bank has come up with an innovative way of seeking ideas and suggestions from the existing staff. The bank's management decided that in order to come with excellent and very best ideas to improve on overall efficiency and effectiveness, there was a great need to encourage best brains of its staff to contribute some credible ideas gained from their experience both at work and from the social set ups.

4.3.2 Human Resources Management

The study sought to find out whether there had been changes in the human resource policy, data obtained showed that Barclays Bank has been hiring qualified and highly skilled and experienced personnel to ensure that this remains strength in the organization. Further the findings indicated how Barclays Bank is helping its employees grow by enhancing training and development, talent proposition, promoting health and well being of employees and rewarding excellent performance by giving incentives to employees who met the set targets thus increasing motivation.

According to the respondents Barclays Bank has been hiring very qualified and highly skilled people to ensure that its investment in human resource remains one of its biggest strengths. Majority of the respondents were of the view that Barclays Bank was the best choice of employer for those who wanted to build a career in banking and Barclays Bank has remained the employer of choice in banking industry because of not only creating a very conducive working environment and opportunities for training and development but also by offering a very competitive enumeration and other employment benefits. Respondents were of the view that Barclays Bank does not only attract very qualified personnel but also ensure there is talent management by identifying and developing talents which are ultimately retained within the company.

4.3.3 Information and Communication Technology

The study set to establish the changes that Information Communication and Technology (ICT) development had brought in Barclays Bank. The data revealed that the bank had adopted modern information and technology system to increase its efficiency and effectiveness in its operations. The findings show that through good

Information Communication and Technology (ICT) the bank has been able to achieve one branch network banking through interconnectivity and decentralization of its core banking system. This has made the banks customers receive excellent and best service at any branch of Barclays Bank regardless of where the customer opened his/her account.

Further the data obtained indicated that in the year 2010 the bank spent a huge sum of money in acquisition of new and modern banking system Flexcube which is internet based and is more efficient compared to the older system of FOS the bank had used for almost a decade. Respondents were of the idea that the bank is still in the process of improving its Information Technology systems in various areas with an aim offering the best service to the customer and at the same roll out some Information Technology based products and services that will ensure the bank creates a very competitive edge in the industry.

4.3.4 Refocusing

The study set to establish whether refocusing as a strategy has been employed by the bank. Data showed that this has been done where opportunities for differentiation, segmentation and competitive advantage have been identified thus concentrating effort on specific customers and specific products, relating the two closely and coming up with appropriate service packages such as advantage banking. Further the study found that cross selling has been adopted where a customer using one service in the bank is introduced to other products.

4.3.5 Marketing Development Strategy

The study sought to find out whether the current marketing strategy responds to the banks needs; the respondents indicated that Barclays Bank has a very unique marketing strategy for its products .The bank has been marketing itself through very latent methods rather than in the traditional electronic media advertisement. Respondents argued that this was the best method to reach its customers who are very sensitive to general publicity. One of the key strategic goals in Barclays Bank is to radically expand the distribution channels and enhance the banks sales capacity. Marketing development has been used to expand the market geographically and target new market segment, under this Barclays Bank has opened has opened up branches especially in rural areas to ensure that their services are accessible to all hence reaching to customers easily.

4.3.7 Corporate Restructuring.

The study sought to find out whether there was a change in the corporate image of the bank. It was observed that for the last three years Barclays Bank has restructured its operations with an aim of creating a competitive edge in the industry by giving more attention to the retail banking. The research wanted to establish the corporate changes that aimed at increasing its market share and profitability as per the changing banking environment in Kenya. The results showed the personal banking department has been extended and there are some other structural changes in the department. The changes include changing chain of bureaucracy and changing of perception of the branches which has been mainly regarded as service delivery outlets to become Retail outlets. The findings showed that the aim was to make the outlets avenues of direct sales of the banks products and services.

The targets for these retail outlets have been increased to not only offer customer front office services but also attract more personal bankers with medium levels of income alongside small business enterprises.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions, and recommendations from the findings. The study focused on environmental analysis as a competitive strategic imperative by Barclays Bank of Kenya. From the findings, it was observed that environmental analysis is a key strategic imperative adapted by Barclays Bank.

5.2 Summary.

Environmental analysis has entailed improvement in human resource management, establishment of research and development department to create and review product and services in order to achieve customer expectation and also attract new customers. The bank also adopted a marketing system to reach its clients alongside the use of modern information and technology system and taking very calculated and less risky ventures for financial investments. As a result of increased competition in the banking industry, Barclays Bank is also reaching to middle income individuals and Small and Medium Enterprises (SME) to increase its volume of business and ultimate profitability.

In process of creating these strategic responses, Barclays Bank encountered a number of challenges. Some of the challenges encountered included a lot of financial expenditures like in the case of acquisition of new and modern Information system. There was a challenge of bureaucracy where the management could not implement some strategies that required swift responses because all stakeholders were to be involved and consensus was to be reached. Resistance from some staff was

encountered especially when the decision to reach middle income groups was reached. There were some staffs that were of the opinion that the bank was losing its sense of direction especially in regard to its target market. Also some customers who wanted to maintain their esteem as members of 'high net worth' class was reluctant to accept the banks new strategy to go for Middle income market.

5.3 Conclusions

The objectives of this study were to: to identify the role of environmental analysis as a competitive strategic imperative by Barclays Bank, establish the challenges facing Barclays Bank with increased competition in the banking industry and establish the strategic responses of Barclays Bank towards challenges resulting from competition in the banking industry.. The three objectives of the study sought to meet were achieved, it is evident from the study Barclays Bank has experienced various challenges in the environment and it has taken varying strategic responses to counter the challenges experienced. Further the study indicated that there is still need for more strategic actions by Barclays Bank to enable the bank to fully match the environment in which it operates. These include executing services with speed and certainty and developing and motivating its employees through training. Barclays Bank has the necessary capability to adopt the strategies that will facilitate effective response by the bank to increased competition and the challenges in both the internal and external environment.

5.4 Recommendations

Based on the findings it may be recommended that Barclays Bank should not only concentrate on targeting new customers but also emphasize on developing extensive

distribution channels in order to gain a competitive edge in the market. Commercial banks management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

Recent advances in the Information, Communication and Technology sector that offer greater convenience and flexibility to the consumers for example Internet Banking need special attention. These advances promise a multi-faceted advantage in satisfying customer demand for convenience and innovation whilst simultaneously satisfying managements need for increased distribution channels and cost reduction. In such a scenario banks stand to achieve higher sales while costs would reduce, Profits would soar.

5.5 Limitations of the Study

The study focused mainly on the Kenyan banking Industry and although the industry may be similar internationally there are specific factors such as the industry life cycle, economy dynamism and the competitor environment which may not be universally applicable in all countries. The Kenyan banking industry is also growing and changing drastically, therefore the findings of this research may have some variation.

During the study a number of limitations were encountered. This include having very little to with the respondents to inquire very deeply into a number of issues because most of the respondents had allocated a few minutes of time due to their very tight time budgets. The study was undertaken as a case study of Barclays Bank and may therefore not relate to the strategic responses undertaken by all banks in the country to

challenges in the environment as most of the packages offered by banks are different and custom tailored to competitively meet with clients preferences as well as boost profitability and market share.

5.6 Suggestions for Further Studies

This study was in case study of only one commercial bank Barclays Bank. For further research the banking industry can be studied as a whole where the strategic responses to challenges in the environment of all banks are sought and compared. This would show the general responses adopted by the banks in the industry or it would help in knowing whether responses adopted by one bank are a specific response. Further the study can be conducted in different industries which are facing similar challenges such as the telecommunication industry in Kenya.

References

- Ansoff, I. & McDonell, E. (1990). *Implanting Strategy Management* (2nd ed.).UK: Prentice Hall.
- Cole G. A. (1996). *Management theory and practice* (5th ed.). London: DP Publications.
- Grant, R. N. (2000). *Contemporary Strategic Analysis, Concepts, Techniques, Applications* (3rd ed.). Massachusetts: Blackwell Publishers.
- Gregory D. , Lumpkin G. T. & Taylor M. L. (2005). *Strategic management* (2nd ed.). New York : McGraw-Hill Irwin.
- Hunt, S.D., Morgan, R.M. (1995). The comparative advantage theory of competition, *Journal of Marketing*, Vol. 59, April pp.1–15.
- Johnson G. & Scholes K. (2002). *Exploring Corporate Strategy* (6th ed.). New Delhi: Prentice Hall.
- Johnson G. & Scholes K. (1999). *Exploring Corporate Strategy* (5th ed.). New Delhi: Prentice Hall.
- Kibe, C. N. (2008). *Strategy Implementation at Equity Bank Limited*. Unpublished MBA Thesis, UON.
- Kothari, C. R. (2004). *Research method* (2nd ed.). New Delhi: New age international (p) Ltd.
- Kotler, P. (2003). *Marketing management* (11th ed.). New Delhi: Prentice Hall.
- Kotler, P. (1991). *Marketing management: Analysis, planning, implementation, and control* (7th ed.). New Delhi: Prentice Hall.
- Pearce (11) J. A. and Robinson (Jr.) R. B. (1991). *Strategic Management; Formulation, Implementation and Control* (4th ed.). USA: Richard D. Irwin.
- Peng, M. W. (2009). *Global Strategic Management* (2nd ed.). Canada: Cengage Learning.
- Porter M. E (1985). *Competitive advantage*. New York: Free Press.
- Porter M. E.(1998). *Competitive strategy*. New York: Free Press.

- Machuki, N. V. (2005). *Challenges to strategy implementation at CMC Motors Group Limited*. Unpublished MBA Thesis, UON.
- Mogeni K. (2008). *Responses to competition by Kisii Bottlers Ltd*. Unpublished MBA Thesis, UON.
- Mong'are, K. P. (2008). *Strategic change management practices at municipal council of Kiambu*. Unpublished MBA Thesis, UON.
- Morris, H. & Willey, B. (1996). *The corporate environment: A guide for human resource managers*. Great Britain: Pitman Publishing.
- Muchiri, C. A. (2008). *The application of Porter's five forces model in assessing the attractiveness of the mailing industry in Kenya*. Unpublished MBA Thesis, UON.
- Thompson (Jr.) A. A. and Strickland (111) A. J. (1989). *Strategy formulation and implementation: Task of the General Manager* (4th ed.). USA: Richard D. Irwin.
- Thompson (Jr.) A. A. , Strickland (111) A. J. & Gamble J. E (2007). *Crafting and executing strategy: The quest for competitive advantage: Concepts and cases* (15th ed.). New York: Richard D. Irwin.
- Wanjagua, T. (2008). *Organization responses to external environmental changes: A case study of Kenya Pipeline Company (KPC)*. Unpublished MBA Thesis, UON.

Appendices

Appendix I: Letter of Introduction

**Grace Kiragu,
University of Nairobi,
School of Business,
P.O BOX 30197- 00100,
Nairobi.**

August 2012

Dear Sir/Madam,

RE: DATA COLLECTION

I am a postgraduate student at the University of Nairobi, School of Business, undertaking a management research project on '**Environmental Analysis as a Competitive Strategic Imperative by Barclays Bank of Kenya**'.

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the interview questions. The information you provide will be used exclusively for academic purposes and will be treated with utmost confidence.

A copy of the final report will be available to you upon request. Your assistance will be highly appreciated.

Yours sincerely

Grace Kiragu

Appendix I I: Interview Guide

The information collected from this interview will be purely for academic purpose and will be treated with the highness degree of confidentiality.

SECTION A:

QUESTIONS:

1. Kindly highlight some of the changes that have taken place in the Kenyan banking industry over the last 2-5 years.
2. Which of the changes have had an effect on Barclays Bank?
3. What are some specific challenges Barclays Bank has faced as a result of these changes
4. How does Barclays Bank anticipate and prepare for environmental changes?
5. How does competition in the industry impact on the Barclays Bank choice of strategy?
6. How does the customer needs influence policy and strategy?
7. Has there been any change in Barclays Bank's human resource management strategy or policy in the last five years?
 - a) What was the objective of the changes?
 - b) To what extent have the objectives been met?
 - c) What is the status of the current human resource management response?
8. Has there been any change in Barclays Bank marketing style in the last 5 years?
 - a) What was the objective of the changes?
 - b) To what extent have the objectives been met?
 - c) What is the status of the current marketing response?

9. Has Barclays Bank undertaken R &D changes in the last 5 years?
 - a) What was the objective of the changes?
 - b) To what extent have the objectives been met?
 - c) What is the status of the current R & D response?
10. Have there been any changes in Barclays Bank's I.T in the last 5 years?
 - a) What was the objective of the changes?
 - b) To what extent have the objectives been met?
 - c) What is the status of the current I.T response?
11. Has Barclays Bank financial strategy changed in the last 5 years?
 - a) What was the objective of the changes?
 - b) To what extent have the objectives been met?
 - c) What is the status of the current financial response?
12. Which entry strategy is the bank using to venture into new markets?
13. What are the other strategies the bank is currently using to address the changes in banking industry?

SECTION B: Questions on Responses of Barclays Bank

1. Kindly highlight the responses of Barclays Bank to competition in the industry?
2. What are the responses of Barclays Bank to challenges posed by political-legal factors?
3. How does Barclays Bank respond to economic challenges?
4. Kindly state the responses of Barclays Bank to technological challenges?
5. Which are the responses of Barclays Bank to social-cultural challenges?