STRATEGIC RESPONSES OF BARCLAYS BANK OF KENYA LIMITED TO CHALLENGES IN THE EXTERNAL ENVIRONMENT

By

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DECLARATION

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

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

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DEDICATION

This research study is dedicated to my parents Edith and Joseph and my siblings for all the moral support, financial support and guidance they have given since childhood.

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ABSTRACT

The objective of the study was to identify the strategic responses of Barclays Bank of Kenya Limited to challenges in the external environment. To satisfy the research objectives the author used the case study method. Primary data was collected using an interview guide which was presented through a face to face interview. The respondent was the head of corporate affairs. Data analysis was done using content analysis.

The results of the study showed that various strategies have been adopted by Barclays Bank of Kenya Limited key being market development, information and communication technology, human resources, refocusing, product development and innovation, promotion and advertisement and pricing. The challenges experienced by the bank include advancing technologies, liberalization of the banking industry and changing macroeconomic environment such as high inflationary rates.

The study recommends that Barclays Bank should continue being proactive instead of being reactive to ensure they keep up with the changing external environment. The bank should open more branches to reach out to more clients, introduce more products to cater for the un-banked population, invest in information and communication technology and research and development to facilitate the market research done, continue with prudent credit assessment and risk management and ensure continued staff training and development to increase employee motivation and efficiency.

CHAPTER ONE: INTRODUCTION

1.1 Background

Rapid environmental change, globalization, competition to provide innovative products and services, changing customer and investor demands have become the standard backdrop for organizations. In order to survive and compete effectively and efficiently, firms must constantly respond to the rapidly emerging environmental changes by reducing costs, acquiring modern equipments, restructuring programs while enhancing quality and differentiating their products and services (Chang and Huang 2005).

Organizations must change as the business environment in which they operate change. This kind of approach will be prudent since it contributes to both performance enhancement and cost reduction thus contributing directly to the productivity of the organization.

1.1.1 Strategic Responses

Organizations exist within a dynamic environment that is subject to competition due to the impact of various changes triggers both internal and external such as, evolving technologies, changing customer needs, changing political and economic environment for instance rise in inflation rate, population growth and competition. To continue to operate effectively within this environmental turbulence, organizations must be able to change themselves in response to internally and externally initiated competition, The external environment has two parts which include the remote environment and the industry environment. Remote environment variables are micro in nature and include economic, political, local demographical, technological, ecological and social-cultural variables (Sababu, 2007).

Every organization should analyze the competitive forces in the industry. The analysis should aim at identifying competitors, collecting and evaluating information competitors are using, identifying potential moves by competitors, determining the competitors' strengths, weaknesses and capabilities and helping the organization devise effective competitive strategies. Other factors that may be considered include an organization's market share, breadth of the product line, entity location, productivity capacity, experience, cost of raw materials, financial positions and product quality. The key industry variables of organizations should also be considered and this include competitors, suppliers, creditors and customers (Sababu, 2007)

However, competitive change will also impact upon the individuals within the organization. Effective response strategies require an understanding of the possible effects of competitive change upon people, and how to respond to potential sources of resistance to that change. Competitive change can be said to occur where there is an imbalance between the current state and the environment.

The magnitude of today's environmental, competitive, and global market change is unprecedented. It's a very interesting and exciting world, but it's also volatile and chaotic. Volatility describes the economy's rate of competition: extremely fast, with explosive upsurges and sudden downturns and chaos describes the direction of the economy's competitive changes. To cope with an unpredictable world one must build an enormous amount of flexibility into the organization. While one cannot predict the future, one can get a handle on trends, which is a way to take advantage of competition and convert risks into opportunities. Such strategic responses include the use of information communication and technology, market segmentation, employing of qualified personnel, product and service differentiation, social cultural developments and adopting new and improved products and services into the market (Sababu, 2007).

1.1.2 The External Environment

Organizations have to continually interact with the environment as it is the source of its input, that is, resource dependence and depository of its output, that is, market dependence. This harmony creates the strategy in the organization (Sababu, 2007). The external environment determines an organization's opportunities and threats at any given time in the life cycle of the industry. Factors affecting the external environment include political-legal variables, economic, sociological, technological, ecological, geographical and industrial variables.

1.1.3 The Banking Industry in Kenya.

The Banking Act (Cap 488) defines a bank as a company which carries on or proposes to carry on, banking business in Kenya and includes the Co-operative Bank of Kenya but does not include the Central Bank. Banking business means the accepting from members of the public money for deposit payable on demand or after the expiry of a fixed period or after notice; the accepting of the members of the public of money held on deposit or on current account or any part of the money, by lending, investments or any other manner for the account and at risk of the people employing the money. Licensing of financial institutions in Kenya was done by the Minister for Finance, through the Central Bank of Kenya (Banking Act, Cap 488). According to Wagacha and Ngugi (1999) the first bank to be licensed in Kenya was the National Bank of India in 1896 followed by the standard bank of South Africa in 1910.

The financial service environment has been changing steadily since the 1960s in a number of areas such as nature of personal liabilities and assets, regulatory framework, globalization, information technology and the redundancy of the boundaries of the services was mainly restricted on both the range of products that a firm could offer and constraints on the geographical area in which the service could be offered, controls which were relatively higher as compared to the manufacturing industry (Wagacha & Ngugi, 1999).

Information technology is an area that has gradually developed in the banking industry. Technological advancements have introduced new management methods and financial instruments, which have opened up new markets with most banks now using Automated Teller Machines (ATMs), which allow people to withdraw and deposit cash as well as obtain account balances 24 hours a day (Jaffee and Dwight, 1989). The growing rate of information and communications technology (ICT) utilization particularly the internet has influenced global online interaction and communication among the general population. Most people are connected through their cell phones, home personal computers and others through the corporate access and public cyber cafes. Kenya's two mobile telephone providers introduced money transfer services, using mobile telephones to hitherto un-banked Kenyans and providing competition to the banking sector. Celtel launched Sokotele and Safaricom introduced M-PESA money transfer services for their clients (Bank Supervision Annual Report, 2007).

In the current commercial environment there is intense competition, growing customer financial sophistication, the need to improve profit to cover increasing costs, inflation and expansion , factors which are gradually bringing a wide spread appreciation of the need for strategic management. During the regulated and protected years in the banking industry, banks mainly recruited staff with an accounting background as the key focus was on profits. Today banks are recruiting employees with a broad educational background as they are better prepared to face the world of fast – paced changes and develop their capabilities through intensive training (Bank Supervision Annual Report, 2007).

According to Miriri (2008) most of the Kenyan banks reported improved performances for the first half of this year, with growth in pretax profit ranging from 21 percent for BBK to 197 percent for Equity Bank. Amid this flourishing performance, the banking sector has witnessed stiff competition forcing banks to re – package their services and products to satisfy the needs of the customers and retain their market share. Institutions are therefore increasingly offering e-banking services for both residents and non residents. Islamic banking has emerged as a new market product. In response to this, some of the institutions have redefined their business strategies while leveraging on innovative and affordable products to capture this new market segment. In the long run, the success and soundness of the financial institutions and the entire sector will depend on the achievement of operational efficiency through the application of prudential practices, good corporate governance and robust risk management framework. (Central Bank of Kenya Annual Report, 2006).

Mullei (2003), stated that "the new banking environment is about differentiating banking products and services that provide increased choices, security and accessibility. The ability of financial institutions to deliver products and services in the most efficient and effective manner will therefore be key to performance and relevance." (Mullei, A. 2003 The Governors speech at the 2003 Kenya Institute of Bankers Annual Dinner pg. 1).

1.1.3.1 Barclays Bank of Kenya Limited

Barclays Bank of Kenya Limited (BBK) was incorporated in 1916. It offers both customer facing and support functions. Customer facing functions include, retail banking, corporate banking and merchant banking while support functions include service delivery, human resources, risk management, finance, treasury, communications and marketing. The bank is a market leader in the retail segment and is aggressively growing its corporate business with numerous world class financial services.

Barclays Bank operates in 12 countries in Sub-Saharan Africa. As at 26th February 2008 the banks number of branches stood at 108 after it opened the Varsity Branch (Financial Standard, pg. 6). Currently the bank has over 114 outlets with 225 ATMs country wide and a customer base of about 450,000 spread across the country. All the outlets are computer linked making it possible for customers to access their accounts from any branch for all their transactions. Barclays Kenya was listed in the Nairobi Stock Exchange in 1986 and its shares are some of the most sort and are popular with both institutional and retail customers. The bank's financial performance over the years has built confidence among the 48,000 shareholders, with a reputation as one of the leading blue chip companies on the Nairobi Stock Exchange. It has a staff compliment of about 8000, with Adan Mohamed, a Harvard Business School graduate as its Managing Director (BBK Annual Report 2007). According to Kangaru, (2008) BBK reported a 21% increase in profit in the first half of 2008 compared to 9% in the first half of 2007.

In 2006 the bank won several awards which included bank of the year, employer of the year, excellence in financial management, group chairman's award for equality and diversity (La Riba account), best bank in product innovation and best bank in asset finance (BBK Annual Report 2006). In 2007 the bank was voted the bank of the year by "The Banker Magazine" and was named the best bank in Kenya by the "Global Finance". Other awards included the East Africa's most respected company in the financial services sector and the best bank in Kenya (BBK Annual Report, 2007).

In an effort to remain competitive as well as stay on top chart in the banking sector, BBK has come up with a rather diverse strategy. BBK has the widest site map in terms of services and packages which are categorized into two, commercial banking and consumer banking which include transactional banking, asset finance, trade finance, custody and securities, loans, transactional accounts, local business and Barclaycard respectively.

Barclays Bank is one of the banks in Kenya that has shown tremendous or radical growth, change and adoption of new strategies in the past few years in a bid to remain competitive and maintain its market share and edge in the industry. In the 1990's Barclays Bank underwent a lot of restructuring and reorganization where branches were closed down so as to cut costs. Further, operating costs for most of their products were increased thus closing out the low income earners from sourcing their services. This greatly reduced the customer base of the organization. Today the bank has come up with various products and cost effective services to suit a large clientele base, thus winning back customers and acquiring new ones.

Barclays Kenya offers both customer facing and support functions. Customer facing functions include, retail banking, corporate banking and merchant banking while support functions include service delivery, human resources, risk management, finance, treasury, communications and marketing. BBK is one of the banks that offer major exclusive products in the market with the intense competition in the banking industry. The bank exhibits environmental transformation to satisfy its customer's needs and requirements. To cope with the intense competition, the bank has employed the use of information technology to come up with competitive products. Central to coming up with competitive products, innovation is key.

1.2 Statement of the Research Problem

Miller and Friesen (1983) observed that whereas much is known about the relationship between strategy, structure and environment, too little is known about a third link – the relationship between strategy-making and environment. They further indicated that increase in environmental dynamism, hostility and heterogeneity should be related to specific changes in the amount of analysis and innovation which characterizes strategy-making activity. The relationships tended to be much stronger in successful than in unsuccessful firms.

Some of the competitive changes have come up due to liberalization, globalization, technological advancement and a more enlightened customer, (Musa, 2004). With these changes, there comes competition thus increased pressure on managers to dramatically improve productivity and financial performance. Organizations faced with environmental changes are expected to respond by adopting the appropriate responses. There have been a lot of changes in the banking industry in Kenya and BBK being one of the players in the industry is expected to adjust appropriately to remain competitive.

In spite of the effort put by Barclays Bank of Kenya to cope with the response forces in order to remain competitive. The bank is yet to achieve the objective of realized strategy; this is evident from the fact that environmental turbulence is still a challenge especially in the banking industry. Banks need to be creative when offering the various products and services in order to remain competitive. Key to the banking industry is innovation. Competition is stiff within the industry and Barclays Bank of Kenya has to adjust to the fast and dynamic environment. The bank is yet to improve all products and services to tailor them to the market requirements. The forces to achieve its stated objective must be realized despite the dynamic changing environment. Acknowledging the early work done by Keynes in 1931 contemporary writers such as Porter (1998) has produced a diverse theoretical knowledge base. Therefore, there is need to analyze response from the generic models of strategic management.

Local studies have been done in Kenya that confirm the changes in the business environment and the need to adopt varying responses so as to remain competitive in the industry of operation. This include Situma (2006) who studied the turnaround strategy adopted at Kenya Commercial Bank Ltd, Musa (2004) who studied the responses of Commercial Banks operating in Kenya: a case of National Bank of Kenya Ltd and Kiptugen (2003) who studied strategic responses to a changing competitive environment: a case of National Bank of Kenya. Mutugi (2006) studied strategic responses of Barclays Bank of Kenya Limited to changes in retail banking.

As stated earlier, studies have been done on the responses of banks to factors in the environment, to changes in retail banking and to threats of substitute products. However no study has been done on strategic responses to challenges in the external environment. It is not clear whether BBK is responding to the change and what strategies it is using to respond. This study, therefore, sought to find out strategic responses of Barclays Bank of Kenya Limited to challenges in the external environment.

1.2 Objectives of the Study

The objectives of the study are:

i) To establish strategic responses adopted by Barclays Bank of Kenya Limited to the challenges in the external environment.

ii) To determine the challenges faced by Barclays Bank of Kenya Limited in responding to the challenges.

1.4 Importance of the Study

The study will be useful to strategic management executives who will use the findings to enhance better service provision in the banking industry through the analysis of response force strategies at Barclays Bank of Kenya Limited.

The research will also be vital for researchers and scholars in the field of strategic management as they will use the information as a basis for further research and thus expand the knowledge base in the banking industry.

Policy makers and stakeholders in the industry such as the government through the Central Bank of Kenya can use the findings in the study while formulating policies to govern the banking industry.

The research findings will be of value to the business community and industry players who will have available information on strategic response to the ever complex and dynamic environment.

Further commercial banks and in particular Barclays Bank of Kenya Limited will benefit from the findings as they will adopt response strategies that best suit the competitive environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter consists of review of existing literature on the topic of study. It focuses on the strategic responses that organizations take so as to remain competitive in the industries they are operating and the environmental factors and challenges they experience. For a firm to control its growth, change and development it must seek to control the forces which provide the opportunities for growth and change and those which pose threat and demand response. (Thompson, 1997). Thompson further states that managers must be aware of environmental forces and environmental change and must manage the organizations resources to take advantage of opportunities and counter threats. Paradigms concerning 'what will work' to bring about success in a particular industry or competitive environment will be created and maintained. However this paradigm may shift or change as the environmental and competitive forces change.

In a turbulent environment the organization must change its strategies and possibly its beliefs so as to maintain environment – values – resources (E-V-R) congruence, (Thompson, 1997). Duncan (1972) argues that the more the environment is uncertain the more complex or dynamic it is. Dynamism may be caused by rapid technological change involving either, products, processes or uses. The environment is complex where the forces and the changes involving them are difficult to understand. Often complexity and dynamism occur together.

2.2 Strategic Responses

According to Ansoff and McDonnell (1990), strategy is a powerful tool for coping with the conditions of change that surround organizations today. Strategic responses may either be done at a strategic level or at an entrepreneurial level, Situma (2006). At the strategic level there is product market refocusing, market share increase, going into the un-banked sections of the economy, revising tariffs in line with competitors, downsizing, mergers and disposal of some fixed assets. At the entrepreneurial level strategies include personal banking, increased advertising and marketing for instance by sponsoring more programs to get media coverage. In changing environments firms should cope with the change by adopting various strategies such as differentiation, focus, marketing mix variables, segmentation, positioning, strategic alliances, improvement in quality of products and services among others.

2.2.1 Market Development

According to Pearce & Robinson (1991), market development consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Market development works at expanding the market geographically and targeting new market segments by opening up more branches, or widening their distribution links so that their products or services are accessible to all potential customers.

2.2.2 Information and Communication Technology

In 1996, French defined information technology as the technology which supports activities involving the creation, storage, manipulation and communication of information, together with their related methods, management, and application. Luftman (1996) states that the way a firm views its businesses, customers and competition is critical to successfully aligning its business and information technology strategy. According to Hax & Majluf (1996) technology is currently considered to be one of the central functions for achieving competitive advantage, as we are living through a period of fast paced technological transformation. Hax & Majluf further state that technology intelligence is a must in order to gather information on the dynamics of technological markets. Organizations should therefore adopt current information, communication and technology methods which ensure they remain competitive and obsolescence is not experienced. Information and communications technology helps to increase efficiency and effectiveness in the company's operations.

2.2.3 Human Resource

The human resource strategy is also undertaken. Pearce and Robinson (1991) states that whether or not companies are bound by union contracts, they actively seek good employee relations. Under this organizations aim at hiring and recruiting qualified, highly skilled and experienced personnel to ensure that they have good strengths in the organization. Core competencies in key areas are vital for success in any organization (Thompson and Strickland 1996).

According to Sababu (2007) if well managed an organization should have well defined personnel policies, procedures and requirements in personnel functional management areas of staff procurement, development, compensation, integration, maintenance, consultancy, and separation. Organizations should thus work at acquiring quality manpower as it is one of the organizational resources that cannot be duplicated easily. Pearce and Robinson (1991) identify that employees value growth and career opportunities and providing this kind of opportunities increases productivity and decreases turnover. Staff quality should thus be enhanced by ensuring that employees are continuously trained to match up with changing times and also remain motivated. Where there is need, culture change should be encouraged to ensure that the goals and objectives of the organization always put the customer first.

2.2.4 Refocusing

Refocusing can also be undertaken where opportunities for differentiation, segmentation, and competitive advantage are identified concentrating effort on specific customers and specific products, relating the two closely and coming up with appropriate service packages for the particular clientele. Further cross selling can be adopted where a customer using one service or product is introduced to others products and services. For instance one holding a bouquet account in the bank may be encouraged to open up a savings account or take up a loan, (The Barclays Globe, February 2007)

2.2.5 Product Development and Innovation

Strategic responses undertaken by organizations include new product development which involves the substantial modification of existing products that can be marketed to current customers through established channels, (Pearce and Robinson 1991). This is adopted to prolong the life cycle of current products or to take advantage of a favorable reputation or brand name. A product development strategy is based on the penetration of existing markets by incorporating product modifications into existing items, (Pearce and Robinson 1991). Innovation is also used by companies to ensure they remain competitive. According to Pearce and Robinson (1991) both the consumer and industrial markets have come to expect periodic changes and improvements in the products offered. In this an organization reaps the initial high profits associated with customer acceptance of a new or greatly improved product. The companies seek to create a new product life cycle and makes similar products obsolete. Improving products helps organizations to concentrate on particular segments of the market which are relatively strong thus acquiring new clientele and retaining existing ones.

2.2.6 Promotion and Advertising

Emphasis on promotion, selling and advertising is highly encouraged when countering competition in any industry. In this higher budgets are allocated to promote the company's products through increased mass media advertising and direct sales. According to the Barclays Globe (February 2007) the direct sales teams' primary aim is to find new customers. penetrate the markets, gain market share and enhance the current customer value proposition.

2.2.7 Pricing

Change of tariff rates is also a strategy used by organizations. In this most services are offered at reduced prices so as to target a particular segment of the market. Price decrease increases the demand for products and services. Porter, (1980) indicates that when using a cost strategy the company should always aim at offering the cheapest products in the industry. Gerrard and Cunningham (2004) state that price is more influential than service quality when switching banks.

2.2.8 Mergers

Mergers have also been undertaken by organizations to help them remain competitive in an industry. A merger takes place when two organizations combine their operations to form a third organization (Sababu, 2007).

2.3 The External Environment and Challenges Experienced

As stated earlier organizations have to continually interact with the environment as it is the resource of its input and depository of its output creating harmony in the strategy of the organization. (Sababu, 2007). Porter (1998). states that "the essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes."

Economic variables affect organizations in every part of their activities. They have a direct impact on the potential attractiveness of various strategies. Organizations therefore, should look at the relationship between its activities and the key economic variables which include: inflation & deflation and their effects, the economic policy of the country they are operating in, the taxation policy on profits, employees and goods sold, the stage of the trade cycle and the economic mood of the country affecting its investments (Sababu, 2007).

Political legal variables are state oriented. The activities of the state through its legislature and law enforcement agencies impinge considerably on the organizations; businesses, public bodies and charities are all affected by government fiscal and economic policies, and all have to operate within the law of the land (Cole, 1997). At both national and local levels the government affects an organization's activities on a daily basis through its policies and authority and its strategic decisions by creating opportunities and threats arising from the structure of the industry. This is through the imposed taxes, monopoly and restricted trade practice. The government is a large supplier of fiscal and trade benefits and at the same time a large customer and can therefore affect the running of businesses (Sababu, 2007). It can also protect local business entities from foreign competition by enacting competition legislations.

Demographic Variables are human attributes of a given community. This may include one's age, gender, family life, life cycle experience, income, education, occupation, religion, ethnic groups and nationality (Sababu, 2007). These factors guide organisations in selecting the kind of products or services that should be offered to a particular population at a given point in time. For instance banks have come up with products that are favourable to the Muslim community, students, children, women, high and low income earners.

Technological variables also affect the running of organizations. Rapid developments in technology can exert a powerful influence on all organizations (Cole, 1997). Today every organization has adopted the concept of Information and Communication Technology (ICT) to ensure its operations are efficient. A firm should take note of technological changes affecting its industry to avoid obsolescence and instead promote innovation. Creative technology helps in coming up with new products and at the same time improving on the existing products or manufacturing and marketing techniques. Technology helps in increasing job effectiveness and efficiency.

According to Pearce and Robinson (1991), social cultural variables which affect an organization involve beliefs, values, attitudes, opinions, activities and lifestyles of persons in the organizations external environment as developed from cultural, ecological, demographic, religious, educational, and ethical conditions. These factors tend to change and dictate an individual wants and needs. Changes in these variables shape the way people live, work, produce and consume commodities and therefore an organisation must aim at providing services or products that will meet to these needs. For instance banks change children savings accounts to normal savings accounts once the children turn the age of eighteen ensuring continuity in providing the services they were offering and also maintaining loyalty as the children will continue banking with them even when they are operating the accounts independent of their parents.

Ecological factors also affect organizations and the industry within which they operate. Ecology refers to the relationship between human beings, living things and their physical surroundings. The interaction between the two has a bearing on the organisation as it can result to air, water or solid waste pollution. Businesses should work at eliminating the pollutants and efficiently and effectively manage their surroundings (Sababu, 2007).

Physical or geographic variables include the infrastructure available for a business to operate efficiently, climatic factors and the typography surrounding the area within which a business is located and operating from. Poor infrastructure may result to high costs in business operations which trickle down to the consumer. This in turn discourages the customers from seeking the services being rendered. Location and positioning of an organisation is therefore key in ensuring that it operates cost effectively and at the same time remains competitive.

Industry environmental variables also affect the organisations' running. Sababu (2007) lists the key industry variables of organisations as competitors, suppliers, creditors and customers. Every organisation should analyse the competitive forces in the industry. An organisation should deploy resources so that it can make a profit level in excess of what is normal in the industry. According to Porter's five forces model, the competitive forces in an industry include the threat of new entrants, threat of substitute products, bargaining power of suppliers, bargaining power of buyers and the industry competitors. Cole (1997) states that "the collective strength of these five forces not only determines the intensity of the competition for one firm, but also determines the potential profitability of the industry as a whole." Competition should aim at gaining superior positions over the rivals. Sababu (2007) identifies some decision concerns in industry competition as product differentiation, low cost venture, serving several market segments and focusing on few market segments.

Major suppliers in the Industry also determine organizations operations, since organizations rely on their suppliers for provision of raw materials, merchandise, services, finance, long-term assets, water, power and telephone facilities to enable it to function. A supplier is said to be powerful if his products are unique and differentiated, attracting a large clientele in the industry (Sababu, 2007)

Customers are the most vital in any organization. Successful organizations continually monitor present and potential customers buying patterns to ensure that existing customers remain loyal to them and at the same time they attract new customers. Various studies have shown that it is more expensive to obtain a new customer than to retain an existing one. Businesses should thus improve on customer retention by developing and managing customer relationships, eventually achieving customer loyalty.

2.4 Strategic Responses and the Environmental Challenges Experienced

2.4.1 Porter's Five Forces Model

This model, developed by Michael E. Porter has proven to be a useful tool for both business and marketing based planning. Porter's Five Forces model attempts to realistically assess potential levels of profitability, opportunity and risk based on five key factors within an industry. This model may be used as a tool to better develop a strategic advantage over competing firms within an industry in a competitive and healthy environment (Porter, 1980).

It identifies five forces that determine the long run profitability of a market or market segment. These forces are:

2.4.1.1 Threat of New Entrants

The easier it is for new companies to enter the industry, the more cut-throat competition there will be. The possibility of new firms entering an industry impacts competition. The most attractive segment has high entry barriers and low exit barriers. Although any firm should be able to enter and exit a market, each industry often presents varying levels of difficulty, commonly driven by economics. Manufacturing based industries are more difficult to enter than many service- based industries. The definable characteristics of each industry protect profitable areas for firms and inhibit additional rivals from entering the market. These inhibitives are referred to as barriers to entry (Sababu, 2007).

2.4.1.2 Bargaining Power of Suppliers

This is how much pressure the suppliers can place on a business. If one supplier has a large enough impact to affect a company's margin and volumes, then they hold substantial power. According to Thompson and Strickland (1989) a group of supplier firms has more bargaining power over an industry's producers when suppliers' products are differentiated to such an extent that it is difficult or costly for users to switch from one supplier to another, when the buying firms are not vital customers of the suppliers, when, to raise prices, the suppliers can use the threat of vertically integrating forward into the industry, when buying companies cannot use the threat of vertically integrating backward and when the supplier of an input do not have to compete with substitute inputs suppliers in other industries. Thompson and Strickland further state that the powerful suppliers can squeeze the profits of a customer industry via price increases which the latter is unable to pass on fully to the buyers. Supply of poor quality items or materials can also lower industry profits.

2.4.1.3 Bargaining Power of Buyers

This is how much pressure customers can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then they hold substantial power. According to Hill and Jones (2001) buyers are most powerful when the supply industry is composed of many small companies and the buyers are few in number and large, when the buyers purchase large quantities, when the industry depends on the buyers for a large percentage of its big orders, when the buyers can switch orders between supply companies at a low cost, when it is economically feasible for the buyers to purchase the input from several companies at once and when the buyers can use the threat to supply their own needs through vertical integration as a device for forcing down prices. According to Thompson and Strickland (1989), a firm can enhance its profitability and market standing by seeking out customers who are in a comparatively weak position to exercise adverse power.

2.4.1.4 Availability of Substitutes

This considers the likelihood of a customer or client switching to a competitive product or service. If the cost of switching is low, then this poses a serious threat. Porter's Five Forces model refers to "substitute products" as those products that are available in other industries that meet an identical or similar need for the end users. As more substitutes become available and affordable, the demand becomes more elastic since customers have more alternatives. Existence of close substitutes presents a strong competitive threat limiting the price a company can charge and thus its profitability (Hill and Jones, 2001).

2.4.1.5 Competitive Rivalry

This describes the intensity of competition between existing firms in an industry. Highly competitive industries generally earn low returns because the cost of competition is high as firms strive to secure a competitive advantage over their rivals. Hill and Jones (2001) state that when rivalry is strong, significant price competition, including price wars may result This limits profitability by reducing the margins that can be earned through sales. The intensity of rivalry varies within each industry and these differences are important in the development of strategy. The extent of rivalry among established companies within an industry is mainly determined by the industry competitive structure, demand conditions and the height of exit barriers in the industry.

The five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among the current competitors, jointly determine the intensity of industry competition and profitability and the strongest force or forces that are governing and become crucial from the point of view of strategy formulation, (Porter, 1998). Porter, further states that the collective strength of the five forces affects all competitors in the industry, the key for developing strategy is therefore to delve below the surface and analyze sources of each. Knowledge of these underlying sources of competitive pressure highlights the critical strengths and weaknesses of the company, animates its positioning in its industry, clarifies the areas where strategic changes may yield the greatest pay off, and highlights the areas where industry trends promise to hold the greatest significance as either opportunities or threats

According to Newman, Logan and Hegarty (1989), when there is ease of entry in the industry more firms seek the available business and this competition lowers the profit margin. Ease of exit ensures that fewer firms remain in the industry, lowering capacity and thus less cutthroat competition. Good substitutes create ceiling on prices and keep profit margins low. Few large suppliers have a greater bargaining power and will and push costs up which in return lowers the profit margin. Few large customers or buyers ensure that they have a higher bargaining power, pushing prices down and lowering the profit margin. Few large firms in the industry have a greater bargaining power for the customers and suppliers and this tends to increase profit margins

2.4.2 Porters Generic Model

In a bid to attract customers and maintain loyalty in the highly competitive industry organizations come up with different marketing and management strategies. Porter (1980) states that there three main ways in which a company can achieve a competitive advantage that is lasting. These include cost leadership, product differentiation, and focus. Under cost leadership a company aims at being the producer with the lowest costs in its industry. Cost cutting and increased efficiency are the main routes for achieving this position.

In product differentiation a company aims at differentiating its products from those of competitors by developing product features which the others do not have. The novel features should be valued by customers to enable the company to charge a premium price for this and thus attain higher margins and profits. In focus the company attempts to focus all of its efforts on one market segment and become the expert supplier in this sector. By specializing companies can offer a wide range of core products and develop a close relationship with their customers. Profits are derived from customer loyalty and a better understanding of the market place than competitors (Porter, 1980).

2.4.3 Relationship between Strategic Responses and the External Environment

The state of the macroeconomic environment determines the general health and well being of the economy. This affects a company's ability to earn an adequate rate of return. The growth rate of the economy, interest rates, currency exchange rates and inflation rates are most vital in the economy (Hill and Jones, 2001). According to Kang'aru (2008), there is increased risk in retail banking especially on loan defaulters. Normally individuals are more prone to defaults in case of interest rate changes than corporates. This poses a great challenge to the commercial banks as they are mainly targeting the individual customer. This year the inflation rate has been going up and stood at 27.6% in August (Central Bank of Kenya website). This may cause the interest rates to go high, making it difficult for borrowers to repay their loans and thus decreasing banks profitability.

The political and legal environment also affects the level of opportunities and threats in an industry. For instance, deregulation eliminates many legal restrictions lowering barriers to entry and thus leading to intense competition in an industry (Hill and Jones 2001). On technology Hill and Jones, state that technological change can make established products obsolete overnight and at the same time create a host of new products. Technology therefore. is an opportunity and a threat too. Further they identify that the most important impacts of technological change is that it can affect the height of barriers to entry and, as a result radically re- shape industry structure.

According to Hill and Jones (2001), the social environment creates both opportunities and threats. A society's needs, wants and beliefs guide an organization into identifying the kind of consumer products to offer to its customers. For instance when a society is health conscious, companies producing health foods are likely to reap large profits while those producing foods considered not to be healthy may have their products being made obsolete. Other than the changing environment, Kiptugen (2003) sites other challenges in the banking industry as the increasing number of co-operative societies with front office banking and micro finance institutions that provide alternative sources of funds for loans. Availability of substitute products therefore makes it necessary for the banks in Kenya to continually innovate.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that was used in the study. This includes the research design, data collection method, research instruments and data analysis procedures.

3.2 Research Design

Case study method was used in this research study. Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of a social unit which may be a person, family or institution. Further Kothari states that it is a method of study in depth rather than breadth and it places more emphasis on the full analysis of a limited number of events or conditions and their interrelations. This method gave an in depth account of the challenges Barclays Bank of Kenya Limited is facing in the external environment and an in depth account of the strategic responses it has undertaken.

3.3 Data Collection

Both secondary and primary data was used. Primary data was collected using an interview guide while secondary data was obtained from the banks annual reports (2006 and 2007). The interview guide was divided into four sections. Section A covered the respondent's profile, section B covered the challenges facing Barclays Bank of Kenya Limited, section C covered the strategic responses that have been adopted by the bank, while section D aimed at identifying the strategic fit. The respondent was the bank's corporate affairs advisor who is based at the bank's headquarters office. The interview guide was presented through a face to face interview to ensure that the required information was obtained as per the research objectives.

3.4 Data Analysis

The data collected was analyzed using content analysis. According to Kothari, (1990) content analysis consists of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed. Further Kothari states that content analysis is mostly qualitative analysis concerning the general import or message of the existing documents. Content analysis has been used successfully by Mutugi (2006) and Musa (2004) in similar studies.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The overall purpose of the study was to identify the strategic responses of Barclays Bank of Kenya Limited to the challenges in the external environment. From the findings obtained BBK has undertaken various strategic responses which include market development, information and communication technology, human resources, refocusing, product development and innovation, promotion and advertisement and pricing. The challenges experienced by BBK include advancing technologies, liberalization of the banking industry, availability of substitutes such as micro finance institutions, high operation costs and changing macroeconomic environment such as high inflationary rates.

5.2 Conclusion

The objectives of this study were to establish the strategic responses adopted by Barclays Bank of Kenya Limited to the challenges in the external environment and to determine the challenges faced by Barclays Bank of Kenya Limited in responding to the challenges. The two objectives the study sought to meet were achieved. It is evident from the study that BBK has experienced various challenges in the external environment and it has undertaken varying strategic responses to counter the challenges experienced. Further the study indicated that there is still need for more strategic actions by BBK 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 and issue of incentives to best performers. BBK has the necessary capability to adopt the strategies that will facilitate effective response by the bank to increased competition and the challenges in the external environment.

5.3 Recommendations

Barclays Bank of Kenya should continue being proactive instead of reactive to ensure they keep up with the changing external environment. The bank should open more branches to reach out to more clients, introduce more products to cater for the un-banked population, invest in information and communication technology and research and development to facilitate the market research done, continue with prudent credit assessment and risk management and ensure continued staff training and development to increase employee efficiency.

5.4 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, the economy dynamism and the competitive environments which may not be universally applicable in all countries. The Kenyan banking industry is also growing and changing dramatically, therefore, the findings of this research may have some variation with changing time of such future research as the industry environment keeps changing and the industry life cycle will also change.

This study was undertaken as a case study of Barclays Bank of Kenya Limited and may therefore not relate to the strategic responses undertaken by all banks in the country to challenges in the external 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.

5.5 Suggestions for Further Research

For further research the banking industry can be studied as a whole, where the strategic responses to challenges in the external environment of all banks are sought and compared. Further, the study can be conducted in different industries which are facing similar challenges such as the telecommunication industry in Kenya.

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APPENDIX I: INTERVIEW GUIDE

INTERVIEW GUIDE FOR STRATEGIC RESPONSES OF BARCLAYS BANK OF KENYA LIMITED TO CHALLENGES IN THE EXTERNAL ENVIRONMENT

SECTION A: RESPONDENTS PROFILE

1. Position Held...
2. Number of years of service at BBK...

SECTION B: CHALLENGES EXPERIENCED BY BBK IN THE EXTERNAL ENVIRONMENT

1. Please describe the changes that have taken place in the last five years in the external environment which have affected BBK.

   ....
   ....
   ....

   What challenges have these changes posed to BBK?

   ....
   ....
   ....

   Please explain the severity of the following competitive forces in the Kenyan Banking Industry:

   a) Barriers to entry

      ....
      ....

   b) Rivalry in the industry

      ....
      ....

   c) Power of Buyers

      ....
      ....

   d) Power of Suppliers

      ....
      ....

   e) Threat of substitutes

      ....
      ....

2. Has BBK responded to the external environmental changes identified in question one?

   ....
   ....
   ....

SECTION C: STRATEGIC RESPONSES

1. Market development

   a) Has there been change in marketing at BBK in the last 5 years?

      ....
      ....

      What were the objectives of the changes in marketing?

....
....
How have the changes been effected?
....
....
Please indicate the challenges that were faced by BBK when making the changes?
....
....
To what extent have the objectives of marketing at BBK been met?
....
....
What is the current status of the marketing response strategy?
....
....

2. Information and communications technology (ICT)
   a) Has there been change in ICT at BBK in the last 5 years?
   ....
   ....
   What were the objectives of the change in ICT?
   ....
   ....

   b) How was the process of change in ICT undertaken?
   ....
   ....

   c) Please indicate the challenges that were faced by BBK during the change in ICT?
   ....
   ....

   d) To what extent have the objectives of change in ICT at BBK been met?
   ....
   ....

   e) What is the current status of ICT development in the organization?
   ....
   ....

3. Human resources
   a) Has there been change in the human resource at BBK in the last 5 years?
   ....
   ....

   b) What were the objectives of the change in human resource?
   ....
   ....

   c) How was the process of changing human resource undertaken?

………………………………………………………………………………………
………………………………………………………………………………………

d) Please indicate the challenges that were faced by BBK during the change in human resource?

………………………………………………………………………………………
………………………………………………………………………………………

e) To what extent have the objectives of change in human resource at BBK been met?

………………………………………………………………………………………
………………………………………………………………………………………

f) What is the current status of the human resource?

………………………………………………………………………………………
………………………………………………………………………………………

4. Refocusing

a) Has BBK undertaken any refocusing in the last 5 years?

………………………………………………………………………………………
………………………………………………………………………………………

b) What were the objectives of the refocusing?

………………………………………………………………………………………
………………………………………………………………………………………

c) How was the process of refocusing undertaken?

………………………………………………………………………………………
………………………………………………………………………………………

d) Please indicate the challenges that were faced by BBK during refocusing?

………………………………………………………………………………………
……………………………………………………………………………

e) To what extent have the objectives for refocusing at BBK been met?

………………………………………………………………………………………
………………………………………………………………………………………

f) What is the current status of the refocusing exercise?

………………………………………………………………………………………
………………………………………………………………………………………

5. Product development and innovation

a) Has there been any product development or innovation at BBK in the last 5 years?

………………………………………………………………………………………
………………………………………………………………………………………

b) What were the objectives of the product development and innovation?

………………………………………………………………………………………
………………………………………………………………………………………

c) How was the process of product development and innovation undertaken?

....

....

d) Please indicate the challenges that were faced by BBK during product development and innovation?

....

....

e) To what extent have the objectives for product development and innovation at BBK been met?

....

....

f) What is the current status of the product development and innovation exercise?

....

....

6. Promotion and advertising

a) Has there been any promotion and advertising at BBK in the last 5 years?

....

....

b) What were the objectives of the promotion and advertising?

....

....

c) How was the process of promotion and advertising undertaken?

....

....

d) Please indicate the challenges that were faced by BBK in the promotion and advertising undertaken.

....

....

e) To what extent have the objectives of promotion and advertising at BBK been met?

....

....

f) What is the current status of the promotion and advertising exercise?

....

....

7. Pricing

a) Has there been any change in product pricing at BBK in the last 5 years?

....
....

b) What were the objectives of the pricing strategy?
....
....

c) How was the process of pricing undertaken?
....
....

d) Please indicate the challenges that were faced by BBK when using the pricing strategy.
....
....

e) To what extent have the objectives of pricing been met at BBK?
....
....

f) What is the current status of the pricing exercise?
....
....

8. Mergers

a) Have there been any mergers at BBK in the last 5 years?
....
....

b) What were the objectives of the merger?
....
....

c) How was the process of merging undertaken?
....
....

d) Please indicate the challenges that were faced by BBK during the merger process?
....
....

e) To what extent have the objectives of merging been met?
....
....

f) What is the current status of the merger process?
....
....

9. Other responses

Have there been other strategic responses adopted by BBK?

....

....

SECTION D: STRATEGI FIT

1. Do you consider the banks strategic responses to challenges in the external environment adequate?

....

....