

**RESPONSE STRATEGIES OF EQUITY BANK LTD TO
COMPETITION IN THE
KENYAN BANKING INDUSTRY**

BY

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THE REQUIREMENTS OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
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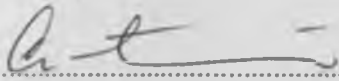


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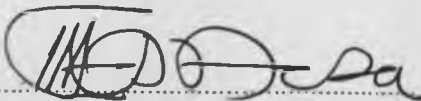
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DEDICATION

I dedicate this work to my husband, John Miriti, and my children, Leon, Andrew and Michael.

ACKNOWLEDGEMENT

The successful completion of this project would not have been accomplished without the help and encouragement of a number of people. I wish to express my sincere gratitude to my supervisor, Professor Evans Aosa for his patience, encouragement, inspiration and intellectual guidance. Sincere appreciation goes to other lecturers in the School of Business who have been a source of motivation. They include Dr Maalu, and Dr. Ogutu.

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I send a sincere prayer of humble thanksgiving to the Almighty God, for providing me with determination and resources both moral and material to accomplish my study.

ABSTRACT

Dynamic environmental changes impact on organizational goals and objectives. This makes it difficult for organizations to remain viable. To be able to stay ahead of competition, it's imperative for organizations to continually scan the environment. This enables the organization to adjust their strategic responses to accommodate the demands of the environment in which they operate. The appropriate strategic responses will guarantee a competitive edge.

The last 10 years have witnessed tremendous changes in the Kenyan economy. These changes have greatly impacted on all industries operating in the country. The nature of competition within each industry, for instance, has changed such that organizations have had to find ways of coping with, or pre-empting the competitive forces facing them. The banking industry has not been spared the impact of these changes.

This research project was a case study of Equity Bank Ltd (EBL). This study had two objectives, they were; To identify challenges faced by (EBL) in the context of changing competitive environment, and to document relevant responses made by the bank and to establish strategic responses of EBL to its changing competitive environment.

In an effort to meet these objectives the pertinent primary data and secondary data was collected. Primary data was obtained from personal interviews with the respondents who were responsible for developing the strategic responses, to changing competitive environment at EBL. These respondents have also been responsible for overseeing the implementation of these responses. Secondary data was collected from various sources. The data was then analyzed using content analysis.

This study has established that changing competitive situation in the Kenyan banking industry has posed many challenges to EBL. These challenges arose from the changes in the business environment in terms of economic decline, liberalization, legislative changes in the business environment, increased level of education, and technological advancements. The presence of the five forces of competition in the industry, made management of the changes more challenging. These forces are

barriers to entry, rivalry within the industry, threat of substitutes, power of buyers, and power of suppliers (Porter, 1980)

EBL, according to the research findings has addressed its changing competitive situation through restructuring, marketing, information technology, and culture change among other responses. These responses have culminated in a more competitive EBL making it more prepared to adequately match demands of its environment.

A cross sectioned survey covering the whole industry can be undertaken to determine the strategic responses by the banking industry. This would give indications of the responses made by the banks in Kenya, to their changing competitive situation. The survey would allow for industry generalization to be made.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	vi
CHAPTER ONE	
INTRODUCTION.....	1
1.1 Background.....	1
1.1.1 Response Strategies to Competition.....	2
1.1.2 The Banking Industry in Kenya.....	3
1.1.3 Equity Bank Ltd.....	6
1.2 The Statement of the Problem.....	7
1.3 Objectives of the Study.....	8
1.4 Importance of the Study.....	8
CHAPTER TWO	
LITERATURE REVIEW.....	9
2.1 The Concept of Strategy.....	9
2.2. Strategic Management.....	10
2.3. Environment, Strategy and Organizational Capability.....	12
2.4 Environmental Challenges and Organizational Response.....	13
2.5 Strategic Responses.....	16
2.5.1. Restructuring.....	17
2.5.2 Marketing.....	18
2.5.3 Information Technology (IT).....	19
2.5.4 Culture Change.....	20
2.6. Local Studies on Strategic Responses.....	21
CHAPTER THREE	
RESEARCH METHODOLOGY.....	23
3.1. Research Design.....	23
3.2. Data Collection.....	23

3.3 Data Analysis.....	24
CHAPTER FOUR: FINDINGS AND DISCUSSION.....	25
4.1 Challenges Facing EBL.....	25
4.2. Changes in Business Environment.....	25
4.2.2. Competitive Situation Facing the Banking Industry in Kenya.....	26
4.3. Strategic Responses.....	27
4.3.1 Restructuring.....	27
4.3.2 Marketing.....	28
4.3.3 Information Technology.....	30
4.3.4 Culture Change.....	32
4.4 Strategic Fit.....	34
CHAPTER FIVE: SUMMARY, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY.....	36
5.1. Summary of Findings.....	36
5.1.1 Challenges Posed to EBL by Changing Competitive Environment.....	36
5.1.2. Responses of EBL to its Changing Competitive Environment.....	36
5.2. Recommendations.....	37
5.3 Limitations of the Study.....	37
5.4. Suggestions for Further Study.....	38
APPENDIX (INTERVIEW GUIDE).....	39
REFERENCES.....	39

CHAPTER ONE: INTRODUCTION

1.1. Background

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Pearce and Robinson (1997), state that in order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. Failure to effectively adapt the organization to its environment, according to Ansoff and McDonnell (1990), leads to a strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands. Grundy (1995), states that responsiveness and flexibility are increasingly important factors that determine the success of an organization. Hill and Jones (2001) add that the achievement of superior efficiency, quality, innovation and responsiveness enables the organization to create superior value and attain competitive advantage.

In order to survive in this dynamic environment, organizations need well formulated strategies to deal with emerging environmental challenges. Thus it is necessary for organizations to respond appropriately to competitive environment to remain viable. Ansoff (1987) notes that the environment is constantly changing and so it makes it imperative for organizations to continuously adapt their activities in order to succeed.

Banks play a central role in the country's payments system and also serve as a clearinghouse for payments. Second, they transform claims issued by borrowers into other claims that depositors, creditors, or owners are willing to hold. Third, banks provide a mechanism for evaluating, pricing and monitoring the credit granting function in an economy. Regardless of where they are located, commercial banks perform the above three basic functions in any economic system (Rajan, 1998).

1.1.1 Response strategies to competition

Competition is the act of trying to be the best among peers. It is the act of seeking or endeavouring to gain, what another is endeavouring to gain at the same time. It is common strife for the same object or for superiority. It entails rivalry for a prize. Competition in business is about two or more parties aiming at winning the same customer. Each party will want to impress the customer the most, in order to gain or retain loyalty. The higher the demand the lower the competition and vice versa. It is therefore important to research competition by identifying existing levels of demand and supply before one goes into production (Blanchard and Kiyotaki, 1987).

For organizations to survive in the market, they should formulate strategies that adequately respond to the competition. Such strategies should place them at a position of advantage in the market and give them a competitive edge (Porter, 1985).

Strategy can be seen as the matching of resources and activities of an organization to the environment in which it operates (Johnson and Scholes, 2002). Strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. Strategy answers the fundamental questions of where are we now; where do we want to go; and how do we get there? Response strategies are concerned with decisions and actions meant to mitigate against business environmental turbulence, with a view to achieving business objectives and purpose (Chandler, 1962).

Response strategies aim at achieving strategic fit. Khandwalla (1976) shows that, when managers perceive their environment as uncertain and dynamic, their strategies are more comprehensive or multifaceted, suggesting that competition will play a major role in determining strategic action. They aim at achieving the correct positioning of the organization.

In today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks therefore, endeavor to develop innovative programs and initiatives to maintain superior customer service levels while remaining profitable. This has compelled organizations to either downsize or right-size, while continuously restructuring their operations in order to develop more cost-effective and efficient operations (Rajan, 1998).

A response strategy is meant to safeguard an organization from the impact of both present and foreseeable future environmental changes, thus it is environment driven. It is concerned with the scope of an organization's activities. This includes product range, the number of activities to be carried out and geographical coverage (Smart and Vertisky, 1987).

For an organization to continue to achieve their goals and overcome the operating environmental turbulence, it is imperative to constantly scan the operating environment and developing response strategies aimed at overcoming any adverse effects of such turbulence. Response strategies should always achieve strategic fit for the organization. (Johnson, Scholes, and Whittington, 2006).

1.1.2 The banking industry in Kenya

The Kenyan business environment has been undergoing drastic changes for some time now. Some of the changes include the accelerated implementation of economic reforms, the liberalization of the economy, discontinuation of price controls, privatization and commercialization of public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities.

Economic reforms in Kenya commenced in the 1990's and covered the entire economy. This included gradual decontrol of prices, liberalization of interest rate and the foreign exchange rate and privatization of state-owned enterprises. The government policy on liberalization and privatization was articulated in the sector policy paper (Government of Kenya, 1996). This policy document outlined the reform measure to be undertaken in all sectors of the economy in order to stimulate growth and development, specifically through privatization of state owned enterprises.

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Before 1995 the banking sector was operating under strict controls with exchange controls being in place. In 1995 the sector was liberalized and exchange controls lifted.

The Central Bank of Kenya, which falls under the docket of the Minister for Finance, is responsible for formulating and implementing monetary policy, fostering liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines.

There are forty-six banking and non-banking financial institutions in the country. Thirty-five of the banks, most of which are small to medium sized, are locally owned. A few large banks most of which are largely foreign owned dominate the industry. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services. A small number, mainly comprising the larger banks, offer other services including investment banking.

As banks continually rationalize their branches in order to reduce overhead costs, the number of automatic teller machines (ATMs) in use has risen to over 1000. The

improved uptime of the ATMs has been realized due to access to Very Small Aperture Terminal (VSATs) services. This has eliminated dependence on the unreliable services of the main telecommunications service provider (Market Intelligence, 2002).

Forces of change are frequently the result of some external forces such as increasing competition, new legislation or expectations of customers (Senior, 1997). The Kenya government joined the globalization race by introducing liberalization and privatization policies. Consequently, the banking industry experienced freedom from governmental controls on foreign exchange and interest rates. This deregulation caused the operating environment for banks to change dramatically. Other changes were legislative, such as the recent raise in the core capital deposited at the CBK, as part of the Deposit Protection Fund (DPF). This figure was recently raised to Kenya Shilling 1 billion (Government of Kenya, 2007).

The industry has registered an increasing number of co-operative societies that collect member's contribution and extend loans to them. These organizations have developed front office banking facility and offer services similar to those of commercial banks. Government of Kenya (2002), in addition, highlights the emergence and recognition of micro-finance institutions as alternative sources of funds for loans, hence a source of increasing competition for the banking industry. These micro-finance institutions, some of which have been converted from being non-governmental organization as in the case of K-Rep bank, have been steadily increasing in numbers (Market Intelligence, 2002).

The above changes have contributed to the increasing competition in the banking industry, especially with regards to the number of financial products available in the market that targets an increasingly more sophisticated clientele. Kenyan banks are therefore expected to develop strategic responses to address the changing competitive environment in which they operate

1.1.3. Equity Bank Ltd

Equity Bank started its operation in 1984 as Equity Building Society (EBS). The initial focus was to offer mortgage services. However in the early 1990s, Equity Building Society changed its focus to micro-finance services. EBS grew to become a leading micro finance institution providing a wide range of products and services. The growth in business volume and outreach necessitated the conversion to a commercial bank. On 31st December 2004 Equity Building Society was converted to Equity Bank Limited (EBL).

EBL is regulated by the Central Bank of Kenya (CBK) and is regularly inspected using CAMEL ratings, which look at Capital, Assets, Management, Earnings and Liquidity. EBL's ratings by the CBK have been favourable over the years. The company is also a member of the Deposit Protection Fund (DPF) meaning that the customers' deposits are protected. Since inception, EBL has been providing affordable financial services to the medium, lower income earners and mortgage loans. All products and services are well researched and tailor-made to suit the needs of their customers.

EBL has defined its customer and its target market as the small and medium income earners of the society. This market consists of three broad segments based on the customers' sources of income. These are: the small scale commercial farmers which include the tea farmers, coffee farmers, dairy farmers, pyrethrum farmers, grain farmers (including maize, wheat and barley), fisheries etc; small and medium entrepreneurs commonly referred to as business people and include both informal and formal business enterprises, and waged employees from both private and public sectors. More than 2.8 million Kenyans bank with EBL, which is nearly half of all the country's bank accounts.

EBL's business model has attracted both local and international recognition. On many occasions EBL has been invited to various international forums and bodies to share on its successes. EBL has won many awards recognizing it for exceptional contribution to the industry. EBL has also become a hub of other institutions worldwide keen on learning

and exchanging insights on the EBL model of extending financial services to the low income segment and the un-banked population.

1.2 Statement of the Problem

In recent times, operating business environment the world over has become very dynamic. Competition has consequently placed organizations in a state of alertness. In order to survive this dynamic environment, organizations need strategies to focus on their customers, and to deal with emerging environmental challenges. It is therefore imperative for organizations to respond appropriately to competitive environment to remain viable. Having a decisive competitive edge over peers has become an endless preoccupation for many organizations.

With forty-six banking and non-banking financial institutions in Kenya, competition is raging. A number of the large banks boast solid history, firm systems, colossal financial backing and a loyal following. Kenyan savers are still apprehensive when it comes to banks and their practices, thus they prefer to bank with traditional banks. Moreover, cooperative societies and micro finance institutions have wooed savers with sweetheart deals. They offer products comparable with those of banks, yet with fewer restrictions. The few large banks dominate the industry in terms of business volume.

EBL is a key player in the industry and a market leader in its niche. Indeed, it has in the recent past become a pioneer in various practices, which seem to be eliciting great interest from scholars and market players. Various studies have been carried out with focus on strategic responses to competition. This is the first study in respect to EBL and its strategic responses to competition.

As stated above, the Kenyan financial and indeed general business environment has undergone tremendous change. Consequently, there has been pressure on organizations to respond with strategies formulated to propel them to a competitive position. What strategic responses has EBL evolved to cope with this dynamic competitive environment?

1.3 Objectives of the study

This study has two objectives. These are;

- i. To identify the challenges faced by EBL in the context of the changing competitive environment
- ii. To establish strategic responses of EBL to its changing competitive environment.

1.4 Importance of the study

The study will aid various stakeholders, who will obtain details on challenges facing the industry and the details of responses to the challenges. It will weigh the justification of the responses adopted depending on the success obtained. It will also help the institution and others to identify areas that need improvement or changes in their strategies. Other organizations facing similar challenges will benefit from the research to know how they can formulate strategies to survive competition.

Consultants and other strategic partners engaged by industry players, to provide services geared towards attaining competitive edge, will benefit from tapping from this research. It will also assist future researchers and academicians in the field of strategic management to form a basis for further research on response strategies to competition.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

Strategy can be defined as the establishment of the long-term goals and objectives of an organization, including the process of taking action and allocating resources for achieving goals. Due to scarcity of resources, the strategy that is chosen should be one that optimizes resources in the pursuit of the organizational goals and objects (Chandler, 1962).

Strategy not only focuses on the goals and objectives of organizations and the means of achieving them, but also gives an indication of the nature of the company and its business both in the present and in the long term. According to Andrews (1971, P16), 'Strategy is a pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals stated in such a way to define what business the company is in or to be in and the kind of company it is or is to be'.

Strategy is a plan that puts together an organization's major goals, policies and actions sequences. A well-formulated strategy enables an organization to marshal and allocate its resources in a unique way on a basis of its relative internal competencies and limitations, expected changes in the environment, and contingent actions by competitors, (Quinn, 1980).

Corporate strategy implies an attempt to change, in the most efficient way, a company's strength relative to that of its competitors. Porter (1980), states that strategy is basically about competition and the means by which an organization tries to gain a competitive advantage. According to Ohmae (1983), the only purpose of strategic planning is to empower an organization to efficiently gain a sustainable competitive edge over its competitors.

Strategy is the long-term direction and scope of an organization that facilitates the achievements of advantage, for the organization, through the mode of arrangement of

resources within a changing environment. This would enable the organization to meet market needs and to fulfill stakeholder expectations. Thus strategy is viewed as the matching of the activities of an organization to the environment in which it operates (Johnson and Scholes, 1997).

'Strategy can be seen either as the building of defenses against competitive forces, or as the finding of positions in the industry where competitive forces are weakest' (Pearce & Robinson, 1997, p136). Grant (2000) adds that the abilities to identify and occupy attractive segments of an industry are critical to the success of an organization. Hill and Jones (2001), conclude that the strategies an organization adapts have a major impact in its performance relative to its competitors. Strategy needs to be well defined since it would determine and communicate the direction in which the organization will move, and the level of performance it will achieve.

2.2 Strategic Management

Strategic management is concerned with establishing perfect coexistence between the organization and its environment. It is a process through which a firm manages its relationship with the environment in which it operates. It consists of strategic planning, capability planning, and management of change. Strategic management encompasses understanding the strategic position of an organization, strategic choices for the future and ultimately turning strategy into action (Johnson, Scholes, and Whittington, 2006). Strategic management therefore is a continuous activity that enables the organization plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organization's weakness (Ansoff and McDonnell, 1990).

Strategic management has the ultimate objective of the development of corporate values, managerial capabilities, responsibilities, and administrative systems that link strategic and operational decision-making at all levels of the organization. According to Hax and Majluf (1996), strategic management is a way of conducting a firm. Thus it focuses the

decision of the entire organization in one direction. Cole (1997) states that strategic management is a process directed by top management, but engaged in throughout the organization. It embraces the involvement of those concerned with satisfying customers' legitimate needs and ensures the attainment of those fundamental goals through the adoption of adequate resources for the planned direction for the organization over a given period.

Strategic management involves planning, directing, and controlling the strategic decision and actions of the business. Pearce and Robinson (1997), define strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. Hunger and Wheelen (1999), view strategic management as a set of managerial decisions and actions that determine the long-run performance of an organization. It emphasizes the monitoring and evaluation of opportunities and threats in light of the strength and weakness of the organization.

Strategic management has also been defined as '...the art and science of formulating, implementing and evaluating cross functional decisions that enable an organization to achieve its objectives' (David, 2001 p5). It implies focusing on integrating management, marketing finance/accounting, production/operation research and development, and computer information system to achieve organizational success.

These definitions, though offered by different authors over a period of time, all emphasize the fact that strategic management is dynamic and is concerned with providing, and continuously adjusting the means with which organizations can effectively cope with environmental change. Therefore strategic management is not only a continuous process, but is also dynamic.

2.3 Environment, Strategy and Organizational Capability

A change in the organization's behaviour is necessary if success in the transformation of the future environment is to be assured. Ansoff and McDonnell (1990), note that such changes which touch on the organizations strategy and capability, would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis, which states that a firm's performance potential is optimum when the aggressiveness of the firm's strategic behaviour matches the turbulence of its environment and the responsiveness of the firm's capability are supportive of one another. When any one of these three aspects is lacking, then the firm's performance potential will be less than optimum. The real-time response is the specific action that is chosen and implemented in order to realign the organizations strategic aggressiveness to the environmental turbulence

As the organization's environment changes, it is necessary that the firm continuously adapt its activities and internal configurations to reflect the new external situation. Porter (1991) explains the concept of dynamic strategic fit. He states that a firm creates and sustains competitive advantage because of the capacity to continuously improve, innovate and upgrade their competitive advantages over time. Upgrading is the process of shifting advantages throughout the value chain to more sophisticated types, and employing higher levels of skill and technology.

Successful strategy is consistent with the organization's goals and values, external environment, resources and capabilities, and organizational systems. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance. Thus when there are changes in the environment, the organization's capabilities and strategy would have to be changed in order to ensure a continued strategic fit (Grant, 2000).

2.4 Environmental challenges and organizational responses

Organizations are environment serving. They are in constant two-way interaction with the environment. They are dependent on the environment for resources to which they add value and deliver back to the environment in the form of goods and services (Ansoff, 1980). As such, changes in the environment attract response from the organizations that are operating within that environment. Change is normally not welcome and organizations will try to control it, absorb it, or minimize it (Ansoff, 1980).

Organizations normally exhibit two types of behavior to environmental change. These are incremental or entrepreneurial. Incremental behavior is where response to change is reactive. Action occurs when the need for change has become clear and imperative (Cyert and March, 1963). Majority of firms adopting incremental mode are more concerned with efficiency so as to achieve effective utilization of resources (Ansoff, 1980).

On the other hand, entrepreneurial behavior entails a drastically different attitude toward change. In this kind of reaction, the organizations seek change rather than suppress or minimize it. Future threats and opportunities are anticipated. The organization strives for a continuing change rather than seek to preserve the past. This mode of reaction to change is observed more in business sector than in non-business in view of the fact that the birth of a firm is an entrepreneurial creative act. Also the occurrence of crises, which threatens survival if the organization persists in the incremental mode, is much more frequent in the business firm. This is because the survival of the firm depends on its continued ability to make a profit (Ansoff, 1980). Similarly, firms behave entrepreneurially continuously in a deliberate search for growth through change. Entrepreneurial mode is seen, in business literature, as aggressive and growth oriented unlike incremental mode which is conservative and stagnant (Ansoff, 1980).

According to Johnson and Scholes (2003), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may not be of much use because no

overall picture emerges of the important impact on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment that have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment that is both usable and oriented towards the future.

Continued organizational survival depends on its ability to secure rewards from the environment that replenish the resources consumed in the conversion process. It also depends on continued maintenance of its social legitimacy. Therefore as the organization engages in the conversion of input resources into goods/services, there should also be concern on guidance and control of the activities of the organizations, so as to minimize side effects on the environment that may be socially undesirable (Ansoff, 1980).

The overall aim of strategic and operations management is to create strategic fit between the organization and its operating environment so as to achieve timely and adequate organizational response to environmental challenges. Organizations therefore develop and put in place response strategies to enable them overcome negative impact of environmental turbulence (Pearce and Robinson, 2003).

If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, creditors and the government, and how they impact on its operations. Success is dependant on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because it takes into consideration fundamental changes in the environment, thus making firms proactive rather than reactive. Strategy has an important role in helping businesses position themselves in an industry (Johnson and Scholes, 2002).

Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition. Aaker (1992) adds that given the current focus in business, there is need to understand competitor strengths in the market. This will inform the firm on how to position its offerings to take advantage of weakness and avoid activity that is likely to highlight the competitor's strengths. Porter (1998), says that to adapt to environmental changes, firms require effective leadership. He further states that while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore, it is necessary to examine what impact leadership and strategic management have on an organization in relation to its external environment. Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment, and fulfills stakeholder's expectations.

For firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990), point out that the match between strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence, determine the success of every organization. This is because each level of environmental turbulence has different characteristics, requires different strategies and different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organization capability for survival, growth and development.

Existence of strategy is not a guarantee for success. Institutionalizing those strategies, allocation of adequate resources, visionary leadership and good corporate culture amongst others, are necessary ingredients for successful business strategies. To be successful over time, an organization must be in tune with its external environment. There must be strategic fit between what the firm needs and what the environment can provide. The speed of response time to the environment challenges has been identified Pearce and Robinson (1997), as a major source of competitive advantage for numerous

firms in today's intensely competitive global economy. It is thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events.

2.5 Strategic Responses

Strategic responses are concerned with reacting to threats posed to the long term direction of an organization by changes in the operating environment. They are meant to cushion the firm against any threats emanating from the environment. Ansoff (1980) asserts that when a firm fails to respond to a threat, the losses that result continue to accumulate. According to Ansoff and McDonnell (1990), strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997), define strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations.

Strategic response is about restructuring by adopting new strategies that match the challenges from the environment. Thompson (1997) defines strategy adaptations as changes that take place over time to the strategies and objectives of an organization. Such change can be gradual, evolutionary, or more dramatic, even revolutionary. Ansoff and McDonnell (1990) note the strategic responses involve changes to the organization's strategic behaviour. Such responses may take many forms depending on the organization's capability and the environment in which it operates.

Some of the strategies that have been used for restructuring are re-engineering, rightsizing, self-management and outsourcing. According to Ansoff and McDonnell (1990), the management system adapted by an organization is a determining component of the firm's responsiveness to environmental changes. The management system adapted determines the way an organization perceives the environment, diagnoses its impact on the firm, and consequently implements the decisions. The strength of a firm's strategic response capabilities is determined by flexibility in market, production and competition.

Market flexibility deals with an organization's ability to have a high market share. Production flexibility arises from a firm spreading its value creation activities in those markets where it has a major market share, while competitive flexibility of an organization arises from its ability to coordinate its competitive moves.

Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology, and culture change (Smart and Vertisky, 1984).

2.5.1 Restructuring

Organizational structure is the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. Thus structure distinguishes the parts of the organization and delineates the relationship between them (Wilson and Rosenfeld, 1990).

With regards to the number of levels in the structure of the organization, often referred to as the scalar chain, Drucker (1989) suggests that these should be as few as possible. Too many levels bring difficulties in the understanding of objectives and communicating both up and down the hierarchy.

One of the major activities of restructuring is business process reengineering. Hammer (1996) notes that companies can dramatically improve their efficiency and quality, by focusing on customers and the processes that create value for them. Processes have come to be more important than their products and so has the need to define the market places in which the companies compete. Outsourcing for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity.

Firms can design their strategies based on their processes, for instance, through intensification where processes are mapped and improved to enhance customer service, or through extension where strong processes enable entry to new markets. According to Quinn (1982), enterprises generally obtain strategic advantage by focusing on the smallest activity or cost units that can be efficiently replicated.

Cost-cutting efforts will lead to dramatically lower overhead costs, and part of this saving can then be passed on to the customer in terms of lower prices. Reichheld (1996) suggests that by searching for the root causes of customer departures, companies with the desire and capacity to learn can identify business practices that need fixing, and sometimes can win the customer back and re-establish the relationship firmly.

Radical business process reengineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance may be improved (Thompson, 1997). It leads to breaking down functional and individual job boundaries as the process does not have to coincide with the existing departmental structures. Grundy (1995) however, cautions that speeding up activities without detriment to quality, and without increasing costs, demands more effective learning and feedback in the management process. Accelerating the process with continual and open learning, avoids costly errors.

There are various catalysts for organizational changes such as restructuring. These triggers may include the purchase of a new IT equipment or system, business process reengineering through process intensification/extension, the redesign of group jobs, staff rightsizing and subsequent staff cutbacks, as well as staff redundancies (Senior, 1997).

2.5.2 Marketing

Marketing is a social and managerial process. It is the process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others (Kotler and Armstrong, 1999). Basically it's all about satisfying

customer needs and wants. Kotler (2000) observes that marketing helps to define the business mission as well as analyzing the environmental, competitive, and business situations. It therefore plays a major role in the organization's strategic planning process. The strategic planning responses are based on the marketing mix elements of product, price, distribution and promotion.

According to Thompson and Strickland (1993), environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions, leading to the emergence of opportunities and threats. This helps managers to develop appropriate strategies given the industry's competitive situation.

A number of strategic marketing variables may be manipulated in response to changing competitive situation. These include adjusting target markets, diversification or developing new products, distribution channels, and making price cuts (Business Trend Review, 1992). Other marketing variables that comprise the firm's response to a changing competitive situation include advertising and establishment of relationship marketing.

2.5.3 Information technology (IT)

Technological change, especially IT, is among the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. IT can also create new businesses from within a company's existing activities (Porter, 1985). It is used to automate processes and to augment the skills of the organization's staff. Luftman (1996) adds that the way a firm views its business, customers and competition is critical to successfully aligning its business and IT strategy.

Information supports and enhances every activity in the organization, and it can itself be a source of added value and hence, competitive advantage, provided organizations are able to draw that value. Rayport and Sviokla (1995), state that competition is defined along two dimensions, the physical world of resources and a virtual world of information.

Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly adapt to the feedback ahead of their rivals. They exploit the potential of strategic as well as competitive and operating information systems. Some of the information technology variables that can influence a firm's responses to competition include the use of real-time systems, extent of interconnectivity of distribution channels, as well as the efficiency of the telecommunication systems.

2.5.4 Culture change

Organizational culture can be described as beliefs held true or accepted behaviour within an organization. Brown (1998, p9), defines organizational culture as 'the pattern of beliefs, values, and learned ways of coping with the experiences that have developed during the course of an organization's history and which tend to be manifested in its material arrangements and in the behaviours of its members'. Thus, an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, co-ordination and control, and reduces uncertainty while enhancing motivation and organizational effectiveness. All these factors facilitate the chances of being successful in the market place. Therefore identifying organizational culture can be a strategic tool that is used to manipulate consumer perceptions of an organization and its products/services.

The culture of the organization would need to be changed when it does not fit well with the requirements of the environment or the organization's resources, the company is not performing well and needs major strategic changes, or the company is growing rapidly in a changing environment and needs to adapt. According to Thompson (1997), the potential for changing the culture of an organization is affected by the strength and history of the existing cultures, how well the culture is understood, the personality and beliefs of a strategic leader, and the extent of strategic need.

Kotter (1996) notes that truly adaptive firms with adaptive cultures are awesome competitive machines. They produce superb products and services faster and better, even

when they have fewer resources or less market share. Hamel and Prahalad (1989), add that companies that have risen to a global leadership began with strategic intents that were disproportional to their resources and capabilities.

Culture change and corporate learning are interdependent. The rate of organizational learning is dependent on culture, while the rate and content of organizational learning fundamentally influences the firm's culture. Thus, culture change is a process of relearning. Other indicators of culture shift include changes in architectural design and branding of corporate buildings, the change in the organization's logo, nature of internal communication as well as staff dress code. Strategic responses to a changing competitive environment therefore, entail substantial changes to an organization's long-term behaviour. This adaptation may be gradual or revolutionary depending on the nature and circumstances facing the organization. Sadler (1988) concludes that successful organizations must be able not only to deliver a high level of customer-service, but also manage culture change.

2.6 Local Studies on Strategic Responses

There has been interest among researchers on the subject of responses by organizations to relevant environmental changes. A number of academicians have carried out such studies. Bett (1995), found that as a result of the on-going economic reforms in Kenya, firms in the dairy industry have made substantial adjustments to their strategies. The variables targeted for adaptation included branding, pricing, and value propositions. Kombo (1997) noted that the firms in the motor vehicle industry, in the light of the changing competitive situation, were constantly adapting their strategies to establish a fit with the environment. The strategic responses were mainly based on technologies, product differentiation, and the marketing mix elements.

Njau (2000) established that East African Breweries Limited, undertook substantial adjustments in various strategic response variables in order to fight off competition. The adaptations included the manipulation of the marketing mix.

Kandie (2001), undertook a study on the strategic responses to competition by Telkom Kenya, that was previously a monopoly in the telecommunication industry. The researcher found out that the organization has made some strategic adaptations in its products, markets, and technology as well as making strategic alliances in response to the drastic competitive changes in the country's telecommunication industry.

It is imperative for organizations to keep re-inventing themselves in order to keep abreast with the environment and be ahead of peers (Lengopito, 2004). Organizations must put in place strategies that are in harmony with the environment, in order to gain or retain competitive edge, Muthangya (2007), established in a case study of Safaricom Kenya Ltd.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research problem posed was best studied using case study method. This method is appropriate as it allows an in-depth account of the behaviour of the variables under study. A case study is also appropriate as it involves a careful and complete observation of a social unit be it a person, institution, family, cultural group, or an entire community. A case study emphasizes depth rather than breadth of study (Kothari, 1990).

The advantage of a case study includes in-depth understanding of behaviour patterns of the unit under focus, which other methods do not easily allow. This method allows the possibility of obtaining detailed facts from experienced employees. Case study method has been used successfully in the past by researchers such as Kandie (2001), and Njau (2000).

3.2 Data Collection

The study used both primary and secondary data. Primary data was collected from top management of the bank at the headquarters. The people targeted for interviewing were the head of marketing, head of operations, head of human resource, head of finance, head of IT and the head of administration. The interviews were steered with the help of a personal guided interview (Appendix 1), to facilitate in-depth access to strategic responses by EBL to changing competitive environment.

Primary data was supplemented by secondary data from the existing records of Equity Bank Ltd. Among sources from which data was collected are records such as financial reports and documents relating to marketing efforts, restructuring programs, IT upgrade programs and expansion programs. In addition, trade journals such as The Kenyan Banker and the Investor's Handbook on Nairobi Stock Exchange proved handy.

3.3 Data Analysis

At the close of all guided interviews, the responses have been edited for completeness and consistency. Data was then coded to facilitate categorization. The data collected on strategic responses has been analyzed qualitatively on the basis of strategic variables highlighted. Textual data was recorded using a tape recorder. It was then written down for analysis.

Content analysis was used in analyzing the in-depth qualitative data. Content analysis has potential of generating more detail from data. This method of analysis has been successfully used in similar studies including Njau (2002), and Kandie (2001).

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.2 Challenges facing EBL

4.2.1. Changes in business environment

There have been a number of changes in the business environment in Kenya within the last ten years that have resulted in changing competitive situation, and have posed various challenges to EBL. The respondents identified five major macro environmental changes that have occurred in the business environment in Kenya, which have made an impact on EBL. These are economic decline, liberalization, legislative changes, increasing level of education and technological advancement.

The economic decline has resulted in fewer business opportunities for EBL customers consequently the level of deposits declined, while the ability of customers to borrow and service loans also declined. Liberalization of the Kenyan economy has led to an increase in the number of financial institutions. Most businesses have now to be competitively won, thus making search for a competitive edge, a continuous preoccupation.

Legislative changes have led to a reduction of interest margins at EBL. In addition, conversion of non-banking financial institutions into commercial banks as well as the increase of micro finance institutions and cooperative societies has intensified the competition facing commercial banks. Consequently, there has been a reduction in the income generated by EBL both from interest and transaction charges.

Increasing level of education, exposure and awareness among Kenyans, has led to the emergence of a more informed and demanding customer. EBL has had to undertake market segmentation and develop a variety of products to satisfy the constantly changing customer needs.

Technological advancement has resulted in the concepts, one-branch-banks, home banking as well as internet banking. EBL therefore has had to invest in the new state-of-the-art IT system that accommodates these concepts. The ongoing installation of automatic teller machines in various delivery points, including cash points at super markets, was driven by customers' need for convenient banking, 24hours a day. However, these technological innovations are not only expensive to adopt, but also have a high rate of obsolescence. Moreover, they rely on telecommunication efficiency, which is yet to be realized to Kenya.

4.2.2 Competitive situation facing the Banking Industry in Kenya.

In any industry there are five forces at play influencing the competitive environment. These forces are; barriers to entry, rivalry in the industry, threats of substitutes, power of buyers, and power of supplying (Porter, 1980). The Kenyan banking industry is no exception, so all five forces are present.

Based on the responses given by the interviewees, barrier to entry into the banking industry is epitomized in the high minimum capital requirement. The respondents added that this was one of the reasons for increase in the number of non banking financial institutions such as micro finance companies and cooperative societies. These institutions are able to offer products that are comparable to those of traditional banks. They are therefore good substitutes to the products offered by the banks. This has led to lower product costs and continued customer shift in search of low cost products. By reconfiguring low cost products, according to the respondents, EBL has managed to counter the effects of substitute products.

Rivalry amongst the banks is considered high. This, according to respondents, has caused the bank to review its strategy to start focusing on low cost products, vigorous marketing and promotions. Search for competitive advantage through renewed product development campaigns by EBL is a constant preoccupation. However, the power of suppliers (banks)

and the power of buyer (customers), were considered by the respondents to be generally equal, hence no one group can dictate the terms of service.

4.3. Strategic responses

EBL has been responding to environmental changes that have influenced the competitive situation. Some of the strategic responses include restructuring, more focused marketing, information technology adaptation, and culture change.

4.3.1. Restructuring

Corporate restructuring has been a constant at EBL according to the respondents. Over the last five years, EBL has been undertaking corporate restructuring with the process being accelerated during the last two years. EBL relies on both internal and external expertise to drive the restructuring. This has been mainly in the form of rapid expansion of the branch network and set up of ATM machines at strategic places. Focus on product development including pricing, reconfiguration of human resource, separation of banking services into retail business and corporate, has been intensified. Similarly, effective mapping and subsequent reduction of service procedures has been set up.

These forms of restructuring were chosen because there was need to respond to customers' needs. According to the respondents, there was demand for services to be taken closer to the customers. They were also considered appropriate for the achievement of a number of the objectives of EBL. In addition, the bank's goal of becoming more customer focused, necessitated the provision of faster and better services, while maintaining a work force that is efficient.

In an effort to implement the restructuring program, various challenges were encountered. According to the respondents, cost of the exercise was a major setback. Establishing the desired branch network had severe capital implication. Staffing the newly installed branches according to the respondents also had similar implications. The

restructuring process has been costly to implement, but some of the short term gains have already been realized in the increase of the number of savers. The respondents were confident that the long term benefits of restructuring will catapult EBL to new heights of growth when the ongoing process is finally concluded.

4.3.2 Marketing

Marketing has played a key role in the recent growth of EBL. There have been strategic changes made to marketing in the last five years. Market segments have been redefined and market functions re-organized. According to the respondents, EBL has segmented its market into two main categories, retail and corporate. Retail targets farmers, small and medium businesses, and salaried employees. The latter targets medium businesses, large corporates, state and parastatal institutions. Retail banking targets mass markets and constitutes the larger division at EBL. In a bid to ensure the provision of products and services that meet the changing needs of its customers, the bank emphasizes the continuous development of new products, the respondents revealed.

Due to continued customer awareness and exposure, there was clamour for services and products that meet specific customer needs. EBL invested in vigorous marketing campaigns that saw extensive advertising and sustained promotions. The main reason for these changes has been to make EBL more competitive in their respective target markets. This has seen the development of the Fanikisha accounts, a joint initiative of EBL/UNDP targeting women savers. According to respondents, over 1 billion shillings has been allocated to marketing effort this year.

EBL developed product marketing strategy to ensure adequate product impact in its intended market. This according to respondents, was key to entering new and expanding on existing markets. It provides a clear, systematic approach to promoting products and ensuring that all members of staff are appropriately involved in the marketing efforts.

Highlights of their products are frequently covered by the print as well as the electronic media, drawing much desired attention to the fast growing bank. All this was part of the strategy formulated by EBL. These activities were seen as crucial to achievement of the marketing objectives according to the respondents. These objectives include increasing market share, achieving competitive edge, maintaining sustained awareness of EBL's products and increasing revenue. In addition to designing and building the banking halls, the ATM cubicles have been made more secure, attractive and easily accessible. According to respondents, word of mouth has played a key role in bringing the banks products to the public domain. This has substantially complimented the bank's mainstream marketing campaigns, confirmed the research respondents.

According to the respondents, EBL launched a vigorous promotion campaign, erecting temporary mobile branches in tents, to showcase their products. Many account openers responded enthusiastically. This effort was replicated in the Diaspora, where some 20,000 savers are said to have joined the EBL family.

While implementing these changes in marketing, EBL encountered various challenges. The constantly changing demands require products to be reinvented and offered ahead of the competition, if EBL is to maintain or enhance its competitive edge. In order to achieve this, EBL has had to expend a substantial portion of its resources in continuous product development. This proved to be a costly affair, considering that some competitors are more established, with benefits of stronger financial backing and solid traditional systems. According to the respondents, product imitation by peers proved challenging. This is because new product advantage lasts brief periods before competitors develop similar products.

However, in spite of the challenges, the respondents felt that the objectives of the strategic responses in marketing were largely successful. They felt that EBL has made an effort comparable to that of the best in the market.

4.3.3. Information technology

EBL has invested in a very efficient information technology system, Infosys' Finacle, leveraging on technology to achieve outreach impact. The respondents stated that, in the last five years, massive investment has been allocated to IT systems in response to competitive situation. With over 500,000 transactions per day, and opening over 5000 accounts per day, the bank was previously under great pressure to meet operation challenges. With the purchase of the new system, the respondents noted that customers now enjoy 'anywhere branchless banking 24x7x365'.

Equity Bank's IT system, Finacle, has facilitated better interconnectivity of the bank's branch network, as well as with its clients. It has also enabled introduction of new products and delivery channels, and new business lines in the form of treasury, and trade finance. Other new products, according to the respondents, are the recently launched cell phone banking, dubbed Eazzy 24/7, Cash Back, and Internet banking which targets Kenyans in the Diaspora.

The new IT system has facilitated operationalization of new branches. According to the respondents, EBL has continued to bring services to the people. To achieve this objective the bank now has 97 bricks-and-mortar branches and 54 trucks that serve as roving branches to villages, serving the previously unbanked rural farmer. The latter utilizes GPRS that links the roving branches to EBL's data centre.

EBL has continued to bring services to the people vide the increased installation of automatic teller machines (ATMs) in various delivery parts. EBL boasts over 350 ATM sites popularly known as Auto Branch, and 2500 Point of Sale (POS). They have also improved their linkage with international service providers. They include VISA systems and the world famed Society for World Wide Inter Bank Transfers (SWIFT). It was established from the respondents, that these IT changes were adopted in response to competitive environmental challenges.

The driving objectives behind these changes, according to the respondents, were three. Key among them was to improve customer service through more convenient and faster access to banking services. Another objective was to enhance record keeping and ease of data retrieval. The enhancement of internal communication for faster decision making was the main motivation for installing internet access. As EBL continues to evolve, the information technology system also continues to be restructured as need arises, in order to exploit its full capabilities and meet future competitive situation.

While making these changes, EBL has faced many challenges. According to the respondents, IT changes involve substantial costs in terms of software, hardware and qualified personnel. Technological innovations such as those required here rely on telecommunication efficiency. However, Kenya is yet to realize efficient telecommunication services and the telecommunications market is still in the process of growth after liberalization. This has continued to hamper the progress desired by EBL.

Some of the banks IT systems were prepackaged. The respondents noted lack of deep understanding of Finacle by Infosys' chosen third-party implementation partner. They also pointed to a lack of extensive end-to-end understanding of the system by the vendor's support team, as having led to teething problems during the integration period.

To overcome the above challenges, EBL set up a project steering committee and technical implementation team, to handle the whole program. This team consisted of over 40 staff, including domain experts, newly recruited database administrators and system developers. IT savvy employees and specialists, continue to be retained to manage the highly versatile system. These employees, according to the respondents, undergo frequent training to keep up with dynamic requirements and new products. In order to measure the benefits, EBL carries out periodic gap analysis and endeavours to close them promptly.

Despite challenges faced by EBL, the respondents noted that IT adaptations made have achieved the objectives for the strategic responses made by the bank. They also expressed confidence that the bank possessed necessary capabilities to meet foreseeable IT

demands. According to the respondents, network bandwidth, database structure, data storage and server processing speeds have been planned to scale up to 35 million plus customers.

4.3.4 Culture change

Organizational culture has received much attention at EBL in an effort to establish a culture shift that focuses on customer and service delivery. The research respondents, noted that various efforts have been made to facilitate the realization of a culture that is compatible with the changing competitive situation facing EBL. There has been sustained focus on the banks strategic management with specific attention on the bank's vision. This vision is meant to focus in one direction, all the turnaround efforts being undertaken which include the culture change program. There has been an emphasis on a professional demeanour and dress code on the part of employees, and a set of core values for the bank has been defined. It is commonplace for employees to be asked to state the bank's vision at random by their superiors, the respondents revealed.

Breaking an African habit of restricting banking services to wealthy elite, EBL has institutionalized microfinance and turned it into the foundation of the fastest growing bank in Kenya. Its loans can be as small as USD 6 (KSh500), and it has been known to take marital beds as collateral. Breaking the culture of banking only the wealthy, staff members had to undergo a sustained culture change to appreciate this new breed of savers, the research respondents revealed.

Through drills such as 'A customer irrespective of their account balance is the reason for our being', are intended to value all customers. 'Trust the customer' is another focus for culture change. This helps employees to look at a customer as trustworthy, hence deserving of delightful service. As the CEO, Mr. Mwangi once stated: '...our customers are not like you or me, they have very sophisticated mechanisms for diversifying risk. They might have a chicken, a cow, a banana crop; one of them might have a salary, another pension. So we take the family as a financial unit, and extend to them the best banking service experience'. EBL now prioritizes service to customers over internal

activities. In addition, it embodies the banks promise to deliver real value for the customer's money.

According to the respondents, better communication across the bank has been enhanced, with upward communication being encouraged. The staff, for instance are now able to directly communicate with and get response from any one member of top management. The establishment of the bank's intra-net has enhanced this concept. This has eased communication of decisions and faster resolution of issues raised. Emphasis continues to be made on the need for team building rather than concentrating on individual performance. This has been encouraged and continues to be supported through continuous team building training programs. Towards this effort, the bank set up a relationship department. This falls under human resource department and is tasked with meeting the growing need for effective communication and enhancing productivity of the fast expanding workforce, the respondents noted.

In implementation of culture change, great emphasis was made on the need for management to adopt a leadership style that is not only customer focused but also team based. All management staff regularly undergo seminars on leadership skills. The respondents noted these changes were aimed at capturing and reflecting the spirit of a bank that spontaneously responds to demands of a dynamic environment.

The respondents stated that the bank's vision, the creation of strategic change management program, and new attitude change, and other culture change efforts all continue to be adopted. In implementing the culture change, the respondents stated that there were some challenges encountered. Culture shift is not only difficult to implement but also time consuming.

Top management at EBL has been enthusiastic and encourages the staff to embrace culture change. Resistance was however encountered from a few members of staff who did not see the need to change. To counter this, EBL engaged the help of change consultants to direct the change, who through constant interaction with the staff have minimized the extent of such resistance.

Financial constraint has been experienced in implementing these changes due to the high cost implication. Some culture change programs involved substantial capital outlay as in the case of the designing and rebranding of the banks service outlets.

Generally, the objectives of the culture change have been achieved to a large extent, revealed the respondents. They however confirmed that it is an ongoing exercise that needs to be reviewed as market demands change.

4.4. Strategic fit

According to the majority of the respondents, the strategic responses made by EBL are fully compliant with its changing competitive environment. They confirmed that implementation of strategic plans are underway to establish presence in Rwanda and Tanzania. EBL aims to cut the proportion of its profit that comes from Kenya from almost 100 percent to just 40 percent.

Whereas most financial institutions would deem ordinary Kenyans too big a credit risk to serve, Equity Bank has built a reputation serving precisely these populations. This is part of the bank's strategic response, and is in perfect sync with the environment, according the respondents. They qualified their statement by citing recent acclaim of EBL's unique business model by the local and international business community, and exceptional increase in deposits. For the second year running, EBL has been voted the best bank in Kenya during this year's Euromoney Awards for Excellence. The respondents are proud to quote other awards won as testament to the fact that the bank's responses are in harmony with the environment; Best Bank in Microfinance, Best Bank in Retail Banking, Fastest Growing Bank, among others.

The respondents established that EBL's stellar performance attracted Helios Investment Partners, a London-based private equity group, which in December 2007 bought a 25 percent stake of EBL for USD 150 million (KSh11bn). Taking on a strategic partner was a key strategic option undertaken by EBL to achieve strategic fit. This renewed capitalization has propelled EBL's shares to a soaring 40 percent in 2008.

EBL is now the third biggest company on the Nairobi Stock Exchange (NSE). Its revenues have also risen in the first quarter of 2008, by 177% from last year. In June 2008, the bank's market capitalization hit \$1.8 billion, making it the biggest bank in Kenya.

The respondents however, feel EBL needs to keep reinventing its strategies to ensure that their offerings always match what the environment demands. With the objective of attaining 3.5 million accounts, and having recently hit 2.8 million accounts, EBL has its work cut out. They however acclaimed EBL for its proactive responses as opposed to reactive responses. Most of the respondents were confident that EBL does possess the necessary capability to effectively match any future environmental challenges.

The findings conclusively establish that EBL has put well structured strategies in place, to ensure their services are in harmony with what the environment demands. EBL has addressed its changing competitive situation through restructuring, marketing, information technology, and culture change among other responses. It is evident that the variables that EBL has targeted for manipulation to achieve this goal, are most critical in the banking industry.

Though challenges continue to be faced, EBL's success, as evidenced by growth in volume of savers is testimony to the success of their response strategies. Ultimately the responses have culminated in a more competitive EBL, making it more prepared to adequately match demands of its environment. The strategic choices made have enabled the bank to achieve a strategic fit.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH.

5.1 Summary of findings

5.1.1 Challenges posed to EBL by the changing competitive environment

The Kenyan economy has changed tremendously in the last 10 years. The major environmental factors that have impacted on the banking industry and EBL in particular are economic decline, liberalization, legislative changes, increasing level of education and technological advancement.

All of the above changes have played a role in the industry by intensifying competition among the industry players. This is true especially in creating the right environment for substitute products that have recently flooded the market. As a result, EBL has had to take measures to counter the impact of such competitive forces.

5.1.2. Response of EBL to its changing competitive environment

EBL has addressed its changing competitive situation by formulation and implementation of strategic responses that include restructuring, marketing, information technology, and culture change. These responses have tremendously improved the bank's competitiveness.

However the study has indicated that there is need for sustained strategic actions by EBL in order to enable the bank to attain its objectives fully, and match the environment in which it operates. Furthermore the study also established that EBL possesses necessary capability to adopt the strategies that would facilitate effective responses by the bank to its changing competitive environment.

5.2. Recommendations

The environment in which organizations operate is dynamic. This implies that strategic responses which are well developed and appropriately adopted are powerful tools for acquiring and sustaining competitive advantage. Such weapons have to be constantly adopted, or even transformed to achieve desired advantage.

In view of the above I suggest that EBL becomes more diligent in environment scanning and continue with proactive as opposed to reactive strategies in dealing with challenges of their environment. This can be achieved by formulating and implementing strategic initiatives that would preempt any anticipated adverse changes for its operating environment.

EBL has a wide network of outlets. I would therefore recommend that the bank maximizes its competitive strength by developing competitive strategies on the basis of this already existing advantage. To this end I would recommend that the bank enhance its effectiveness in the existing branches and ensure full utilization of the resources in these branches. This would ensure depth of their penetration as opposed to breadth.

Although the respondents established that the rate of nonperforming loans is a measly 2.8 per cent, I would recommend that they formulate a very dynamic preventive program to forestall the likelihood of nonperforming loans. This is in view of their extensive lending programs, whose repayments could lead to debt collection crisis if not well managed. A preventive mechanism would assist EBL to enhance its financial performance through more efficient debt collection. Furthermore, such measures would facilitate better credit analysis so as to minimize the likelihood of bad debt arising in future.

With the growing client base, I would recommend that EBL expand its customer care departments to attend to customer needs. It would be easy to compromise on customer care given the number of new customers being registered daily. This department would

cater for customer's needs and inquiries to ensure disenchanted customers are attended to, and cause for departures analyzed and addressed.

5.3. Limitation of the study

This study focused on only four main strategic responses. However, there were other strategic responses that were undertaken by EBL in addressing its changing competitive situation. They include business process reengineering and strategic alliances. These variables are not covered in this study.

This was a case study. As a result the research findings cannot be used to make generalizations on the industry. In addition, the time available for the study was short. This constrained the scope as well as the depth of the research.

5.4. Suggestion for further study

A study can also be carried out on the strategic responses by other players in this industry. This would give an indication of the responses made by banks in Kenya to their changing competitive situation, especially with the increasing growth in the number and size of the non banking financial institution.

Alternatively, a cross-sectional survey covering the whole industry can be undertaken. This will allow industry generalizations to be made. These generalizations can be used as blanket assumptions by prospective new market entrants and other scholars.

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APPENDIX

INTERVIEW GUIDE

Name of Interviewee (Optional)

Section A

Challenges Facing Equity Bank Ltd (EBL)

1. How would you describe the changes that have, within the last ten years, in the business environment, which have affected EBL?
2. What challenges have these changes posed to EBL?
3. How severe are the entry barriers to the industry and how has this affected competition?
4. How does the rivalry in the industry impact on your strategy making?
5. Has the threat of substitute products impacted on your business?
6. How do customers needs influence policy and strategy issues?
7. How has the regulator (CBK) impacted on the way EBL conducts business?

Section B: Strategic Responses

i) Restructuring

1. How would you describe EBL's response to the changes in the environmental?
2. Has there been corporate restructuring at EBL in the last 5 years?
3. What would you say was the nature of such restructuring?
4. What were the objectives of the restructuring process?
5. How was the process of restructuring undertaken?
6. What challenges were faced by EBL during restructuring?
7. Were the objectives of the restructuring at EBL met?
8. What is the current status of the restructuring exercise?

ii) Marketing

1. Have there been changes in marketing at EBL in the last 5 years?
2. What influenced these changes?
3. What is the nature of such changes?
4. What were the objectives of the marketing changes?
5. How were these changes effected?
6. What challenges did EBL face while making these changes?
7. To what extent have the objectives of these marketing changes been met?
8. What is the current status of the marketing responses by EBL to its changing competitive situation?

iii) Information Technology (IT)

1. Have there been changes in IT at EBL in the last 5 years?
2. What is the nature of such changes?
3. What influenced such change?
4. What were the objectives of the IT changes?
5. How were these changes effected?
6. What challenges did EBL have to confront while making these changes?
7. To what extent have the objectives of these IT changes been met?
8. What is the current status of the IT responses by EBL to its changing?
9. Competitive situation?

iv) Culture Change

1. Have there been changes in the culture of EBL?
2. What were the objectives of these cultural changes?
3. What influenced such culture change?
4. How were these changes effected?
5. What challenges did EBL face while making these changes?
6. To what extent have the objectives of the culture change been met?
7. What is the current status of the process of the culture change at?

Section C: Strategic Fit

1. Do you consider the banks strategic responses to competition adequate?
2. What else do you feel EBL should do to stay competitive?
3. In your assessment, does EBL currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?
4. If not please indicate the possible means by which the bank acquire these capabilities?