

COMPETITIVE STRATEGIES ADOPTED BY EQUITY BANK LIMITED

By

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DECLARATION

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

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

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DEDICATION

To my wife Med and our daughter Njambi Kamumu and the entire family, your support during the many long hours of study for MBA Examinations at the University and field data collection gave me great inspiration and motivation to complete the postgraduate course and this research project.

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ABSTRACT

When determining competitive advantages and crafting coping strategies, the firm needs to understand the competitive environment it is operating in. This helps it place itself in the strongest position possible and to best make use of its resources and core competencies. This research proposal investigated the competitive strategies adopted by Equity Bank in order to gain competitive advantage in the industry.

The case study method was used in handling this research problem. Yin (1984) observes that Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

The data for the research was mainly from both primary and secondary data. The primary data included in-depth interviews, using an interview guide with senior managers at Equity Bank Ltd. These included the CEO, Operations and Customer Service Manager, Head of Finance, Corporate Strategy Manager and Company Secretary, Marketing Manager, IT Manager, Human Resource and Administration Manager and General Manager Credit. The main tool applied was content analysis. This was necessitated by the fact that this case study will involve study of a single sector and a firm participating in that sector.

From the research, the researcher concluded that the challenges experienced by commercial banks in their operations are increased number of competitors in the industry. The competitors make it difficult to achieve competitive advantage because they imitate the services, products, and huge financial requirements. The researcher can therefore highly recommend strategic issue management as a process of specifying the organization's objectives, developing policies and plans and for the company to achieve this, strategic issue management should be highly implemented in the organization.

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CHAPTER 1: INTRODUCTION

1.1 Background

1.1.1 The Concept of Competition

Organisations are in stiff competition with each other and more so when they are selling similar products and services and to the same group of customers. It becomes even stiffer if the style of business is almost rigid, thereby giving the players a little chance to diversify and play differently. Environmental forces largely influence competition within an industry especially those related in technology, economic forces, social & cultural values. The external environment impacts on all organizations that operate in it. A firm's business environment consists of all elements outside the boundary of the organization that have the potential to affect the whole or part of the organization (Daft, 1986). Kotler (1997) observed that a company's organization consists of its structures, policies and corporate culture all of which can become dysfunctional in a rapidly changing business environment. The external environment is dynamic and often results in uncertainties for the organization. Out of the constant interaction between such a dynamic environment and the organization, opportunities and threats emerge. As Kotler (1997) noted, further turbulent environmental changes can render yesterday's winning business solutions and principles obsolete.

Strategic management plays a key role in facilitating the deployment of a firm's resources in an efficient manner to ensure long term performance of the firm in a competitive environment. As Bennet (1999) noted, this makes implementation of competitive strategies critical especially in the light of the stiff and ever increasing competition and complexity of today's world that can make it extremely difficult to assess and take advantage of opportunities open to a firm. Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing a dramatically aggressive competition in a new liberalised environment. Competition will undoubtedly continue to be a more significant factor. Finding a place in this heating sun becomes vital to the long-range profitability and ultimate survival of the bank. Those banks that are not considering the new atmosphere to

build and protect their competitive position will likely become victims of that heating sun.

1.1.2 Competitive Strategies

The primary objective of managers of profit seeking organizations is to maximize the performance of the firm over time (Rappaport, 1981; Treynor, 1981; Van Horne, 1992). Bowman and Helfat (2001) found that corporate strategy is an essential management tool and is important to firm performance, and achieving a performance advantage through strategic initiatives is increasingly important in the financial services industry (Farrance, 1993; Wilkinson and Balmer, 1996; Young, 1999; Devlin, 2000). Porter (1980, 1985) argued that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy.

The essential managerial dictum of strategy is that competitive advantage accrues to those firms whose distinctive organizational competencies have a superior fit with the business and societal environments within which they operate (Andrews, 1971). As Porter (1984 & 1994) noted, drawing heavily upon industrial organization economies and structure-conduct-performance paradigm, this perspective has been used effectively to explain why certain firms have superior performance in particular market places. Day and Wensley (1988) argued that competitive strategies consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation. Examples include operating scale, location, comprehensiveness of a distribution system, brand equity, or manufacturing or processing assets. They conclude that establishing a generic strategy based positional advantage in the marketplace will provide a firm with superior performance.

Bharadwaj et al. (1993) suggested that a competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit, and normally requires the transformation of multiple competitive strategies. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive strategies. This becomes the basis for the achievement of above average industry performance.

The old competitive strategies of invention and mass production no longer work in an increasingly turbulent business environment. Successful firms are always implementing new competitive strategies of continuous improvement and mass customization which is defined as a dynamic flow of goods and services via a stable set of processes. Managers of firms must assess their firm's current competitive position, build a vision for where they must be in the future, and craft transformation strategy to turn that future vision into reality. Understanding the key forces at work in the competitive environment and identifying the underlying forces in the macro-environment that are driving the competitive forces are critical for the success for firms operating in that industry.

Some contend that firms can follow both cost leadership and differentiation strategies simultaneously (Murray, 1988; Hill, 1988; Cronshaw et al., 1994); however the issue remains unresolved. Indeed, Miller (1992) argued that the pursuit of a pure generic strategy (i.e. a generic strategy that does not mix emphasis on both cost and differentiation competitive methods), as compared to a hybrid strategy where firms place similar emphasis on both differentiation and cost leadership competitive methods simultaneously, is beneficial in markets where consumers exhibit strong preferences for either quality or price. He states that "Pure cost leadership is most effective when customers are sensitive to price and when there is a fighting chance to maintain a cost advantage because of economies of scale, proprietary technology, or unique access to cheap materials or channels of distribution" (Miller, 1992, p. 40). Because banking customers are sensitive to both loan and deposit rates, banks following a cost leadership strategy may realize a performance advantage over

competitors that pursue another generic strategy type or those that are stuck-in-the-middle.

Porter (1980) indicated that firms cannot focus solely on a cost leadership or differentiation strategy to the exclusion of other strategies. He contends that cost leaders must devote some resources to differentiation activity, and those that pursue a differentiation strategy cannot do so to the detriment of their cost structure.

1.1.3 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the 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 bank and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small to medium sized, are locally-owned. The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally-owned. Six of the major banks are listed on the Nairobi Stock Exchange.

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 but a small number, mainly comprising the larger banks, offer other services including investment banking.

Banks are currently facing stiff competition from microfinance institutions and also non bank financial institutions. For instance, Safaricom and Zain, launched M-Pesa and Sokotele money transfer services recently. These services are aimed at people

who do not operate bank accounts. With M-Pesa service, clients are able to transfer money through their mobile phones. Sokotele devices can be used for making calls and also transfer money. Following this move of Safaricom and Zain, Visa has launched an initiative to shift the use of plastic cards to mobile phones. Visa's service will enable users to buy goods by a simple wave of their phone. As can be seen, telecommunications providers are entering into the financial services segment. Banks will have to modify their products and services to satisfy the needs of the customers and to grow their market share.

Traditional banks like Barclays, Kenya Commercial Banks (KCB) and Equity Bank have continuously focused on higher end clients and have the highest market shares in the industry. In addition to this, Barclays and Equity Bank are multinational banks and KCB has a huge network coverage. On the other hand, other financial institutions, famously known as microfinance institutions, like Equity Bank Ltd and K-Rep focus on lower income clients that were traditionally considered un-bankable. These banks have been growing tremendously over the past several years and have taken over some of the market share of the traditional banks. Traditional banks have hence learnt from the experience and have shifted their focus downstream to the small and medium income clients too.

The Central Bank of Kenya passed the Microfinance Act in 2006 to regulate the industry, a move that benefited the industry dramatically. Specific companies like Equity Bank have grabbed headlines as they have been able to grow profits at a rate above 100% for the past couple of years, far outpacing most traditional banks. With such attractive growth in profits, and attractive interest rates that can be charged on loans, their performance has not gone unnoticed by larger players like Barclays who are currently in the process of moving downstream and capture some of the market share they have ignored previously.

1.1.4 Equity Bank Ltd.

Equity Bank Ltd was established effective 31st December 2004 after its predecessor Equity Building Society (EBS) which was first established and registered on 10th October 1984 transferred its business assets and liabilities. The said transfer had been duly approved by the members of EBS through a special resolution passed on 11th

December 2004 as well as an extra ordinary shareholder's meeting held on the 24th December 2004. Equity Bank Ltd is registered under the company's Act (Chapter 488 of the laws of Kenya). Its principle activity is provision of retail banking services and microfinance services.

The bank has a nominal share capital of Kshs 500,000,000.00 divided into 100,000,000 ordinary shares of Kshs. 5.00 each of which 90,564,550 are issued and fully paid up. Britak Investments Company Ltd and AfriCap Microfinance Fund Ltd are the largest institutional shareholders with 10.93% and 5.52% shareholding respectively. The staff of the bank also hold 5.52% of the shareholding through the Employees Share Ownership Plan. The rest of the shareholding is widely held. All the banks 90,564,550 issued and fully paid ordinary started trading at the Nairobi Stock Exchange (NSE) Main Investment Market Segment on the 7th August 2006. The shares rank *pari passu inter se* and are freely transferable.

Equity Bank Ltd's strategy and focus in dealing with individuals, micro, small and medium enterprises has seen their performance grow from strengths to strengths. They have spread their branch networks to almost all corners of the country, while their customers and deposits have continually grown at amazing rates. For instance Equity Bank Ltd has had the highest growth in customer deposits, posting growths of 73.12% and 85.69% for the past two years respectively. (The Kenya banking sector report, 2007). The significant growth in the customer deposits has significantly driven the profits upwards which have almost doubled by the end of year 2007. Loans and advances in turn also just about doubled; however, the bank has significantly more customer deposits than they are able to loan out. As of December 2007, they had over Kshs 16 billion in deposits but only about Kshs 11 billion in loans.

As an indication of the good performance of the bank over the years, Equity Bank has announced an 81% pre-tax profit increase in its first quarter of 2008, posting a Kshs 908 million profit compared to Kshs 503 million for the same period in 2007. During the period under review, after tax profit also grew by the same margin from Kshs 403 million to reach Kshs 727 million. Total operating income within the same period grew by 89% from Kshs1.17 billion to Kshs2.22 billion, with the growth mostly coming from interest income which increased by 125% from Kshs.497million in March 2007 to Kshs1.12 billion in March 2008. The total assets of the bank grew

by 130 per cent to Kshs 57 billion, up from Kshs 25 billion in March 2007, supported by amongst others, the massive capital injection of Kshs 11 billion into the bank by international investor Helios EB last December, and additional long term debt of Kshs 4.5 billion. Non funded income in the bank grew by 63 per cent from Kshs 673million to Kshs1.1 billion, mainly driven by foreign exchange income and fees on loans and advances. This phenomenal growth shows that the Bank's recent focus in trade finance and treasury is paying dividends. Within the same period, total expenditure in the bank grew by 96 per cent to Kshs. 1.3 billion compared to Kshs 667 million for the same period last year. This growth was attributed to the ongoing branch expansion which saw the bank open six new branches since the beginning of this year, with the total branches in the country now standing at 76, compared to 42 in March 2007. Equally, the bank invested in its opening up delivery channels. The Bank has the largest ATM footprint in the industry with 350 ATM's spread countrywide. Within the same period, the bank's deposits grew by 69 per cent to Kshs34.2 billion, compared to Kshs 20.2billion last year. And during this quarter, the bank achieved a major milestone with the 2 millionth customer account being opened to close the quarter with 2,083,382 accounts compared to 1,156,439 accounts in March, 2007.

1.2 The Research Problem

When determining competitive advantages and crafting coping strategies, the firm needs to understand the competitive environment it is operating in. This helps it place itself in the strongest position possible and to best make use of its resources and core competencies.

In the banking industry, understanding the market structure is a key determinant to the successful implantation of a differentiation or cost leadership strategy. Distribution systems on the other hand provide one way to differentiating banking services. Distribution, technology, segmentation, pricing, product development, branding, service quality, and relationship banking are areas where financial institutions currently pursue differentiation strategies. However, differentiation strategy may be difficult to implant in a service industry because services are easily copied and fruitful options for achieving differentiation may be limited due to the simplicity and

duplicability of financial services, unless the target market is highly sophisticated and knowledgeable.

The local banking industry is experiencing very stiff competition with banks outdoing each other from the front end of products, service delivery, and employees' retention amongst other fronts. The dynamism of the environment dictates that an organization must always be aware of the changes and come up with strategies that will always keep the organization competitive. A few years ago, banking services were restricted to certain hours (between 0900hrs till 1500hrs daily). With the changes in the environment and increased competition, banks have adjusted their working hours and almost all banking institutions are open on Saturdays and some close down as late as 2000hrs.

To cope with such increased competition, different banking institutions are employing different strategies to remain competitive. Equity bank was the first bank to extend banking hours and more importantly to reach the majority of the low income earners of the Kenyan population. This research paper will seek to address the different competitive strategies adopted by Equity Bank Limited.

As much as the banking industry is facing enormous challenges in Kenya, available literature indicates that no study has been conducted to analyze the competitive strategies adopted by Equity Bank Ltd. Biko (2006) studied the value chain and competitive advantage in the corporate banking industry in Kenya – a case of Citibank Kenya, while Maina (2006) studied the Key success factors in the banking industry, where she analyzed the big commercial banks only. This research proposal will therefore investigate the competitive strategies Equity Bank Ltd is using to cope with increased competition in the industry. This research seeks to address the following questions;

- i) What competitive strategies are applied by Equity Bank Ltd to cope with competition in the banking industry?
- ii) Which factors have influenced the choice of chosen strategies?

1.3 Research Objectives

- i) To determine the competitive strategies adopted by Equity Bank Ltd.
- ii) To establish the factors that have influenced the choice of particular strategies.

1.4 Importance of the Study

Managers of existing banking institutions will find this document helpful in ascertaining areas that are giving the company more competitive edge and investing accordingly. Managers of other banking institutions who wish to benchmark their organizations against Equity Bank Ltd will find this document very helpful in identifying the different strategies that they can adopt to ensure their organizations remain afloat and competitive in the industry.

This research will add to the rich database of studies carried out in the field of competitive strategies which forms a rich resource base for scholars of strategy and more specifically, competitive strategies. Since the research relates to a local organization, scholars will be in a position to relate theoretical class work to realistic strategic choice and implementation on an organization in a local set up. Scholars will also benefit from the study in that it will offer room for further research either within the same industry or on a totally different one. Also further research can be carried out on the basis of this study but after some years have gone by.

CHAPTER 2: LITERATURE REVIEW

2.1 Organizations and Environment

Pearce and Robinson (2007) defined an organization's external environment as all those factors beyond the control of the firm that influence its choice of direction and of action, organizational structure and internal processes. Porter (1985) saw this connection as an input-throughput-process, where inputs are received from the environment, processed by the organization, and released back into the environment. What is released back can only be consumed by the environment if it fits the environmental requirements and needs. Thompson (1997) argued that the managers must not only be aware of environmental forces and environmental change, but they must also manage the organization's resources to take advantage of opportunities and counter threats.

Pearce and Robinson (2007) reckoned that the factors that consist the external environment can be divided into three interrelated subcategories: factors in the remote environment, factors in the industry environment and factors in the operating environment. Thompson (1997) saw the external environment as consisting of three aspects: the external stakeholders; the changing political, economic, social and technological forces; and the organizations response to the nature of the stakeholders and the environmental forces. Shipper and White (1988) referred to the external environment as having multiple facets, three of the major ones being, the degree of market competitiveness, the rate of technical innovation and the variability of economic fluctuations that affect the industry.

The volatility of the external environment influences how organizations restructure themselves to cope with changes or to anticipate them. Fulmer, Gibbs, and Goldsmith (2000, p. 57) noted that globalization, deregulation, e-commerce, and rapid technological change are forcing companies to reevaluate the way they operate. Pearce and Robinson (2007) argued that remote environment comprise factors that originate beyond and usually irrespective of any single firm's operating situation: i) economic, ii) social, iii) political, iv) technological, and v) ecological factors. That

environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence.

2.1.1 Economic Factors

Pearce and Robinson (2007) stated that economic factors concern the nature and direction of the economy in which a firm operates. Since consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. Some of the economic factors both on the national and international level that managers must consider include general availability of credit, the level of disposable income, and the propensity of people to spend, prime interest rates, inflation rates, and trends in the growth of the gross national product. The economic conditions affect how easy or hard it is for a firm to be successful and profitable at any time. A firm must therefore include these factors in its strategy formulation.

In the economic environment, the organizational analysis should centre on those aspects of the economic system that directly impact the type of project being considered. For example, inflation, labour laws, and opportunity costs for researchers in public institutions directly impact organizational activities. Clearly, a country under a structural adjustment regime or one that is expecting to undergo restructuring presents an investment context that International Development Research Centre needs to understand. Countries with foreign currency restrictions represent different environments for institutions than countries without them, for such restrictions have ramifications for research, e.g. for equipment procurement and maintenance. It is important for International Development Research Centre to know how the organization the Centre is supporting is affected by these and other economic forces.

2.1.2 Social Factors

The social factors that affect a firm involve the beliefs, values, attitudes, opinions and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational and ethnic conditioning. (Pearce and Robinson, 2007). As social attitudes change, so too does the demand for various types of clothing, books, leisure activities and so on. Like other forces in the external environment, social factors are dynamic with constant change resulting from the

efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For a manager, informed judgment of the impact of changes in social cultural factors is paramount.

Social and cultural forces at local, national, and often regional levels have profound influence on the way organizations conduct their work and on what they value in terms of outcomes and effects. For example, the mores of an indigenous culture have a bearing on the work ethic and on the way in which people relate to one another. Undoubtedly, the most profound cultural dimension is language. The extent to which organizational members can participate in the discourse of the major scientific language will determine the extent to which research efforts focus inwardly or contribute to regional and global research agendas. Understanding the national/regional/local values toward learning and research provides insight into the type and nature of research that is valued. For example, what is the relative priority placed on contract research in partnership with local clients, e.g. testing products and procedures with indigenous populations, as opposed to sharing information with academic peers internationally, or generating biostatistical data that will shape national or regional policy? Arriving at these priorities involves culture-based decisions.

2.1.3 Political Factors

Pearce and Robinson (2007) observed that the direction and stability of political factors are a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on firms through fair-trade decisions, antitrust laws, tax programmes, minimum wage legislation, pollution and pricing policies, and administrative jawboning. Such laws and regulations are mostly restrictive and tend to reduce the profits of firms, though others are meant to protect firms and they include, patent laws, government subsidies and product research grants.

The administrative and legal environment in a country provide a framework within which an organization operates. In some countries this environment is very restrictive and has significant impact on all aspects of the organization; in other countries the administrative/legal context is more permissive. Understanding the

administrative/legal environment is essential to determining if organizational change can take place. The administrative context within which the organization operates may be shaped by a unique combination of forces, including international, governmental, nongovernmental policy, legislative, regulatory, and legal frameworks. An organization is affected by the policy or regulatory context that gave rise to it. This includes specific laws and regulations that support or inhibit the institution's development.

2.1.4 Technological Factors

Previously, the major concern on this environmental condition has been whether technology is high or low. Currently the main issue has changed to the rate of the change. (Pearce and Robinson, 2007; Thompson and Scholes, 1999). Further, Pearce and Robinson (2007) observed that a technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence, for a firm to be or stay successful it must strive to understand both the existing technological advances and probable future technological advances that can affect its products and services. Also the ability to forecast future technological advances helps alert strategic managers to both impending challenges and promising opportunities.

Both the types and the level of technology in the society give insight into understanding an institution. Institutions dealing with Western paradigms are dependent on the state of national infrastructure, e.g. power, water, transport; those which concentrate on indigenous research paradigms may have totally different dependencies. Thus, it is important to understand the level of relevant technology in the institutional context and whether such technology is defined by computer literacy or by highly developed indigenous methods of verbal and nonverbal communication. It might also be helpful for an assessment to include a consideration of the process by which new technology comes into use, both to understand how difficult it is to acquire needed research technologies and to develop an appreciation for the society's willingness to embrace both new knowledge and change.

2.1.5 Ecological Factors

Pearce and Robinson (2007) defined the ecology as the relationships among human beings and other living things and the air, soil, and water that support them. Specific concerns in this area include global warming, loss of habitat and biodiversity as well as air, water and land pollution. Firms are increasingly being called upon to pay attention to this by reducing emissions that increase pollution or has an effect on the ozone layer.

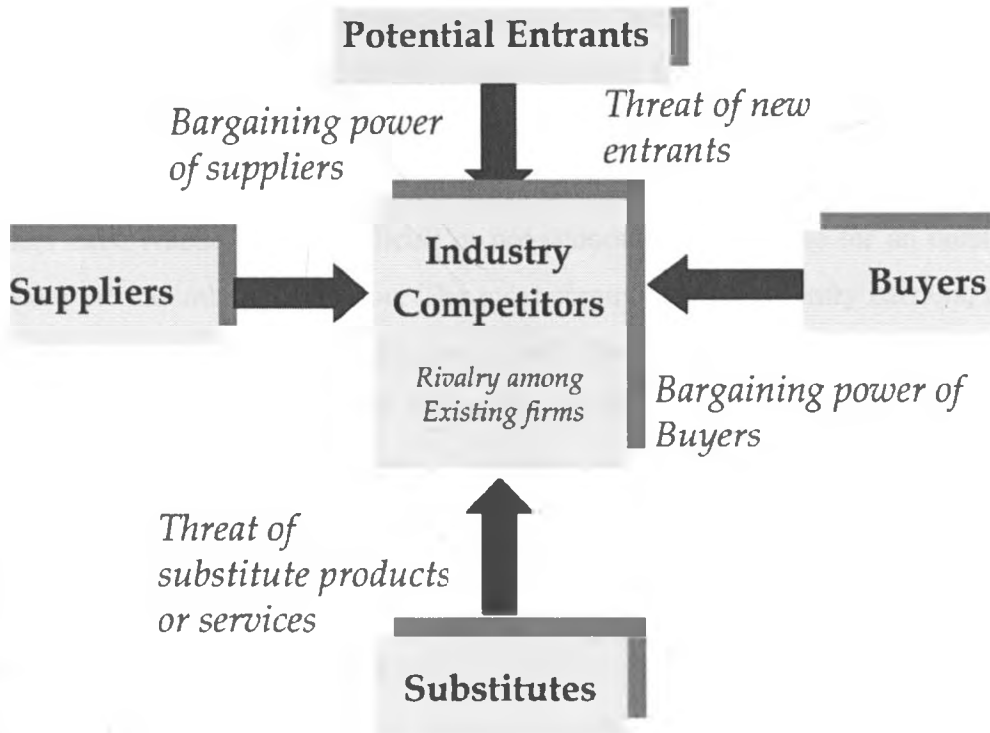
Pearce and Robinson (1997) observed that businesses are now being held responsible for eliminating the toxic by-products of their manufacturing processes and for cleaning up the environmental damage that they did previously. Pearce and Robinson (2007) finally observed that despite clean up efforts to date, the job of protecting the ecology will continue to be a top strategy priority-usually because corporate stockholders and executives choose it, increasingly because the public and the government require it. Any business organization with the intention of attaining success through competitive strategies must be full aware of all the external environment factors and their impact on the day to day operations of the business.

2.2 Competition and its Challenges

Competition can be defined as action and response (Chen and Miller, 1994; Smith et al., 1992) – or pre-emption, attack, and retaliation – in competitive engagement against rivals. Competition often aims primarily at jockeying for positions, pre-empting rival action, and gaining valuable resources or access (Chen and Miller, 1994; Ghemawat, 1991; Porter, 1980). The competitive advantage gained through competitive maneuvers is often ownership-based, e.g. a strong market position, or access-based, e.g. winning over rivals by securing a dominant distribution channel in a jointly contested foreign market.

Porter (1998) observed that the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economic structures and goes well beyond the behavior of current competitors. The state of competition in any industry depends on five basic competitive forces / challenges as shown in Figure 1.

Figure 1: Forces Driving Industry Competition



(Source: Pearce and Robinson, 2007, P. 94, Strategic Management; Formulation, Implementation and Control)

2.2.1 The Degree of Rivalry

The intensity of rivalry, which is the most obvious of the five forces in an industry, helps determine the extent to which the value created by an industry will be dissipated through head-to-head competition. The most valuable contribution of Porter's "five forces" framework in this issue may be its suggestion that rivalry, while important, is only one of several forces that determine industry attractiveness. Rivalry among existing competitors takes the familiar form of jockeying for a position-using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position (Porter, 1998). Rivalry in some industries is characterized by such phrases as 'warlike,' 'bitter,' or 'cutthroat,' whereas in other industries it is termed 'polite,' or 'gentlemanly.'

2.2.2 The Threat of Entry

Both potential and existing competitors influence average industry profitability. The key concept in analyzing the threat of new entrants are the entry barriers. They can take diverse forms and are used to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero. In contrast, entry barriers exist whenever it is difficult or not economically feasible for an outsider to replicate the incumbents' position. The most common forms of entry barriers, except intrinsic physical or legal obstacles, are usually the scale and the investment required to enter an industry as an efficient competitor, product differentiation, switching costs, and access to distribution channels. If barriers are high and /or the new comer can expect sharp retaliation from entrenched competitors, the threat of entry is low. (Porter, 1998)

2.2.3 The threat of substitutes

The threat that substitute products pose to an industry's profitability depends on the relative price-to-performance ratios of the different types of products or services to which customers can turn to to satisfy the same basic need. The threat of substitution is also affected by switching costs – that is, the costs in areas such as retraining, retooling and redesigning that are incurred when a customer switches to a different type of product or service. The substitution process follows an S-shape curve. It starts slowly as a few trendsetters risk experimenting with the substitute, picks up steam if other customers follow suit, and finally levels off when nearly all the economical substitution possibilities have been exhausted. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge (Porter, 1998). The more attractive the price-performance alternative offered by substitutes, the firmer the lid on industry profits.

2.2.4 Buyer power

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other-all at the expense of industry profitability (Porter, 1998). Buyer power is one of the two horizontal forces that influence the appropriation of the value created by an industry. The most important determinants of buyer power are the size and the concentration of

customers. Other factors are the extent to which the buyers are informed and the concentration or differentiation of the competitors. It is often useful to distinguish potential buyer power from the buyer's willingness or incentive to use that power, willingness that derives mainly from the "risk of failure" associated with a product's use. Porter (1998) asserted that a company's choice of buyer groups to sell to should be viewed as a crucial strategic decision. A company can improve its strategic posture by finding buyers who possess the least power to influence it adversely.

2.2.5 Supplier power

Supplier power is the mirror image of buyer power. As a result, the analysis of supplier power typically focuses first on the relative size and concentration of suppliers relative to industry participants and second on the degree of differentiation in the inputs supplied. The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1989, 1996). Suppliers can also exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

2.3 Competitive Strategies

Porter (1980) argued that a firm can achieve a higher level of performance over a rival in one of two ways: either it can supply an identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation. In the former case, the firm possesses a cost advantage. In the latter, the firm possesses a differentiation advantage. In pursuing cost advantage, the goal of the firm is to become the cost leader in its industry or industry segment. On the other hand, differentiation by a firm from its competitors is achieved when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1980, 1985). A firm that is competing on low cost is distinguishable from a firm that competes through differentiation in terms of market positioning, resources and capabilities, and organizational characteristics. Porter originally viewed cost

leadership and differentiation as mutually exclusive strategies. He argued that effectively implementing these generic strategies required total commitment and supporting organizational arrangements that are diluted if there is more than one primary focus.

If a firm attempts to pursue both at the same time, it will result in inferior performance, so-called, “stuck in the middle” (Porter, 1980, 1985). A cost leadership strategy is designed to produce goods or services more cheaply than competitors by stressing efficient scale of operation. When a firm designs, produces, and sells a comparable product more efficiently than its competitors as well as its market scope is industry-wide, it means that the firm is carrying out the cost leadership strategy successfully (Parnell, 2000; Brooks, 1993). Firms often drive their cost lower through investments in efficient-scale facilities, tight cost and overhead control, and cost minimizations in such areas as service, selling and advertising (Porter, 1980). They often sell no-frills, standardized products to the most typical customers in the industry. Thus, the primary thing for a firm seeking competitively valuable way by reducing cost is to concentrate on maintaining efficiency through all activities in order to effectively control every expense and find new sources of potential cost reduction (Dess and Davis, 1984). With the differentiation strategy, on the other hand, the unique attributes or perceptions of uniqueness and characteristics of a firm’s product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980). It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways.

Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980). Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness,

creativity, and organizational learning within a firm (Ireland et al., 2001; Dess and Davis, 1984; Porter, 1985).

2.3.1 Cost Leadership Strategy

One of Porter's generic strategies is cost leadership (Malburg, 2000). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Hyatt, 2001; Anon, 1998; Davidson, 2001; Cross, 1999). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2000). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2000). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001).

There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000; Venu, 2001; Davidson, 2001). Porter (1985) purported only one firm in an industry can be the cost leader (Venu, 2001; Sy, 2002) and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2000). Lower costs and cost advantages result from process innovations, learning curve benefits, economies of scale, product designs reducing manufacturing time and costs, Linking strategic practices and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors.

The firm may have access to raw materials or superior proprietary technology which helps to lower costs. Firms do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1979, 1987, 1996; Bauer and Colgan, 2001). Lower prices lead to higher demand and, therefore, to a larger market share (Helms et al., 1997). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2001). The leader then is somewhat insulated from

industry wide price reductions (Porter, 1980; Hlavacka et al., 2001; Malburg, 2000). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 1999).

2.3.2 Differentiation Strategy

Differentiation is one of Porter's key business strategies (Reilly, 2002). When using this strategy, a company focuses its efforts on providing a unique product or service (Hyatt, 2001; Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Hlavacka et al., 2001; Cross, 1999). Since, the product or service is unique; this strategy provides high customer loyalty (Porter, 1985; Hlavacka et al., 2001; Cross, 1999). Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. By stressing the attribute above other product qualities, the firm attempts to build customer loyalty. As a result, such loyalty translates into a firm's ability to charge a premium price for its products. The product attribute can also be the marketing channels through which it is delivered, its image for excellence, the features it includes and the services network that supports it.

Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (McCracken, 2002; Reilly, 2002; Berthoff, 2002; Rajewski, 2002; Tuminello, 2002; Surowiecki, 1999). Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been

suggested to differentiate a firm (McCracken, 2002; Davidson, 2001). To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important (Berthoff, 2002; Troy, 2002). Van Raaij and Verhallen (1994) suggest bending the customer's will to match the company's mission through differentiation. When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2001). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka et al., 2001). However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka et al., 2001; Venu, 2001; Cross, 1999).

Some key concepts for establishing differentiation include: speaking about the product to select panels (McCracken, 2002), writing on key topics affecting the company in the association's magazine or newsletter (McCracken, 2002), becoming involved in the community (McCracken, 2002), being creative when composing the company's portfolio (Tuminello, 2002), offering something the competitor does not or cannot offer (Rajecki, 2002), adding flair and drama to the store layout (Differentiation will be key, 2002), providing e-commerce (Chakravarthy, 2000), making access to company information and products both quick and easy (Chakravarthy, 2000), using company size as an advantage (Darrow et al., 2001), training employees with in-depth product and service knowledge (Darrow et al., 2001), offering improved or innovative products (Helms et al., 1997), emphasizing the company's state-of-the-art technology, quality service, and unique products/services (Hlavacka et al., 2001; Bright, 2002), using photos and renderings in brochures (McCracken, 2002), and selecting products and services for which there is a strong local need (Darrow et al., 2001).

2.3.3 Focus Strategy

In the focus strategy, a firm targets a specific segment of the market (Davidson, 2001; Porter, 1979, 1987, 1996; Bauer and Colgan, 2001; Cross, 1999; Hlavacka et al., 2001; Hyatt, 2001). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Anon, 1998; Hyatt, 2001; Venu, 2001; Darrow et al., 2001; Martin, 1999; McCracken, 2002). For example, some European firms focus solely on the European market (Stone, 1995). Focus also is based on

adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors.

These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2000).

2.3.4 A Combination of Generic Strategies - Stuck in the Middle?

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Porter (1980) argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage. Porter (1980) argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."

However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered

greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

2.3.5 Operational Excellence

It is a specific strategic approach to the production and delivery of products and services (Pearce and Robinson, 2007). Operation based strategies are defined by Hayes and Upton (1998) as superior operations effectiveness not only serving but buttressing a company's existing competitive position: but when based on capabilities that are embedded on company's people and operating processes, inherently difficult to imitate. For this reason, it can provide the basis for a sustainable competitive advantage, even when the company adopts the same competitive position as one or more of its competitors. A company that follows this strategy attempts to lead its industry in price and convenience by pursuing a focus on lean and efficient operations. Such companies work to minimize costs by reducing overheads, eliminating intermediate production steps, reducing transaction costs, and optimizing business processes across functional and organizational boundaries, the focus being delivering products or services to customers at competitive prices with minimal inconvenience. Such company's core competences are operations, including the whole logistical cycle: purchasing, manufacturing and distribution. (Pearce and Robinson, 2007)

2.3.6 Product Innovation

Companies whose strategy is based on product innovation guarantee their economic success through systematic introduction of radically new products in the market, usually by making existing ones obsolete. They endeavour to continuously produce state-of-the-art products and services (Pearce and Robinson, 2007). Their core competence is research and development and engineering (R&D&E). Three challenges must be met to attain that goal, creativity being the first one. It's the recognizing and embracing ideas usually outside the company. Secondly, innovative companies must commercialize ideas quickly. Thus, their business and management processes need to be engineered for speed. Product leaders relentlessly pursue new solutions to problems. Finally, firms utilizing this discipline prefer to release their improvements rather than wait for competitors to enter. Hence, product leaders do not stop for self-congratulation; they focus on continual improvement, they act as their

own competition, and believe that if they do not develop a successor, a competitor will. Such firms survive and prosper due to the high profitability they achieve in the period where they enjoy monopolistic market position (Abernathy and Utterback, 1975).

2.3.7 Customer Intimacy

These are companies concerned with servicing specific customers in specific areas: personalizing and customizing products and services to meet unique customer needs. Companies excelling in customer intimacy combine detailed customer knowledge with operational flexibility. They respond quickly to almost any need, from customizing a product to fulfilling special requests to create customer loyalty (Pearce and Robinson, 2007). Customer intimate companies are willing to spend money now to build customer loyalty for the long term, considering each customer's lifetime value to the company, not the profit for any single transaction. Consequently, employees in customer-intimate companies go to great lengths to ensure customer satisfaction with low regard for initial cost (Pearce and Robinson, 2007). The profitability of those companies is the result of a premium price that they are able to charge their customers for the differentiated services they provide.

2.4 Factors influencing choice of strategy

Although managers prefer to formulate decisions through a systematic approach, the concept of bounded rationality suggests that managers might be forced to make these important decisions by giving consideration to only a limited number of issues. Often, the focus is on external factors, such as financial risk, market attractiveness and competitive advantage, at the expense of internal factors. Current research into how decisions are influenced by the external environment continues to be an area of interest in the literature (Song et al., 2002). The fit between the organization's strategy and external factors is of crucial importance in the choice and formulation of a plan, however the successful execution of the plan is also contingent on whether can properly implement it.

Many researchers have suggested that ignoring internal factors may significantly impact the chances for successful implementation and ultimately, the success of the strategy. Indeed, Hussy (1999) articulates that superficially, implementation appears

an easy task and one that can happily be left to operating management. In strategic management as a whole, implementation is often as thoroughly as it should be. Borna (1985) drew attention to the fact that when the results of strategy are worse than expected, a common reaction is to change the strategy, although many times the failure is due to poor implementation. A good strategy implemented badly can be as damaging to an organization as a bad strategy implemented well. Generally, strategy provides direction to an organization as to how to properly align firm resources to exploit opportunities and minimize threats (Venkatraman and Camillus, 1984; Porter, 1985). The term strategic fit describes the degree of alignment among resources of the firm (internal factors) and the competitive environment (external factors) (Chorn, 1991); Hence strategic choices.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The case study method was used in handling this research problem. Yin (1984) observed that Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

The study involved an in-depth study of a firm participating in a single industry. The case study of Equity Bank Ltd is a good case study because of its representative ness of the banking sector in Kenya. The company's performance provides a benchmark for other industry players to emulate. It is envisaged that this case study will provide invaluable insight of competitive strategies adopted by Equity Bank Ltd in order to cope with competition in the banking industry. The lessons learnt can be applied by other banking institutions in the industry.

3.2 Data Collection

The data for the research was mainly from both primary and secondary data. The primary data included in-depth interviews, using an interview guide (appendix 1) with senior managers at Equity Bank Ltd. These included the CEO, Operations and Customer Service Manager, Head of Finance, Corporate Strategy Manager and Company Secretary, Marketing Manager, IT Manager, Human Resource and Administration Manager and General Manager Credit, amongst others. The targeted source of information was from management staff with a minimum of three years continued employment with Equity Bank Ltd. This is because new and recently recruited employees do not have a good institutional memory of the company's operations and performance. Secondary data was obtained from statistical abstracts, government policy documents, in-house newsletters and brochures from banking institutions.

3.3 Data Analysis

The main tool applied was content analysis. This was necessitated by the fact that this case study involved studying a single sector and a firm participating in that sector. Single case studies can often yield information that could not be obtained using other methods. Qualitative techniques were used in this research because they were concerned less with general statements that might be derived from the quantitative examination of large samples.

CHAPTER 4: FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the data findings, analysis, and interpretation. The research was a case study aimed at establishing the competitive strategies adopted by the Equity Bank. The primary data was collected using interview guide with senior managers at Equity Bank Ltd. These included the CEO, Operations and Customer Service Manager, Head of Finance, Corporate Strategy Manager and Company Secretary, Marketing Manager, IT Manager, Human Resource and Administration Manager and General Manager Credit, amongst others. Analysis was done through quantifying the results obtained from the interview and comparing them to come up with a conclusion. The main tool applied was content analysis

4.2 Findings

During this study, it was evident that through teamwork, good leadership from the current Managing Director, restructuring, effective organizational culture and crafting of competitive strategies, Equity Bank Ltd has been able to harness available resources and skilfully succeed in acquiring its leadership position in the Kenyan banking industry. Through interviews conducted with senior managers it emerged that the ambition of the company is to make further strides in being the best in both product quality and service delivery. Managers cited the importance of ensuring that the performance of the company is sustained through its ability to continue living its mission, vision and values.

Those interviewed predict a sustained level of performance through continuous implementation of competitive strategies crafted by Equity Bank Ltd. Managers are convinced that the competitive strategies have enabled the company to proactively evaluate future challenges in the banking industry whilst still focusing on internal environmental issues. Through content analysis of collected data, the findings of this study on competitive strategies adopted by Equity Bank Ltd are explained further below. The objectives of the study are discussed together.

4.2.1 Technology

The interviewees were asked on whether technology was a factor in determining competitiveness of commercial banks. All of them unanimously agreed that the level of technological sophistication increases on a daily basis. As more and more customers continue to take up Equity Bank services, there has been an increasing need to maintain high quality services. This has meant that the bank should invest highly in technological equipment to remain competitive in the market.

4.2.2 Political Factors

Concerning how political factors has influenced the innovative strategies adopted by the Equity Bank majority of the interviewees said that, there are policies and regulations put in place in Kenya to govern the operations of commercial banks. These are governed by the ICT Sector Policy Guidelines of March 2006. As majority of the interviewees contended, these policies and regulations have greatly influenced innovation at the Equity Bank through the various support put in place for the establishment and growth of communication. In addition, majority of the interviewees contended that, some politicians influence the performance of commercial banks through the bill they discuss or pass in the parliament. An example of such a case mentioned was the Joe Donde Bill, which in 2001 sought to regulate the interest rates charged by the commercial banks. This implied that, Standard Chart Bank had to take innovative response to political factors. Moreover, some members of parliament had adversely attacked the bank in parliament in 2006, a move that had been directed towards shaking the performance of Equity Bank Adversely.

4.2.3 Economic Factors

From the study, the researcher also realized that Equity Bank had competitive strategies to cope with changes in economic factors. This is because all the interviewees unanimously agreed that, economic factors have been affecting the performance of the bank to a great extent and therefore there was the need to innovate the operations of the bank to counter the challenge. This exposure has led to the customers demanding more innovative products. The interviewees were also unanimous that the increasing inflation rate has affected the cost of rollout and

equipment. Most equipment are imported thus the susceptibility to the varying inflation rates.

The interviewer found out that the strategies that were adopted to a great extent for the bank to remain competitive in the market in order of preference were offering a wide range of products, use of publicity, advertisements, intensive staff training and engaging high skilled staff. However, the innovative strategies that the researcher found to be adopted by the Equity Bank to a lesser extent as was indicated by the majority of respondents included; charging low fees, outsourcing support staff, and avoiding loss making areas.

4.2.4 Social Factors

The researcher also found that, Equity Bank had adopted innovative strategies in respect to the social factors. Majority of the respondent mentioned awareness against HIV/AIDS as the major activity that the bank used to sensitize members of the society on dangers associated with the condition. In this way, the interviewees claimed that the bank could keep all the potential clients close to it as well as protecting the market for their products.

4.2.5 Competition

The researcher learnt that, competition was the major threat to the bank. This was revealed by the respondents who said that, the banking industry has been experiencing a lot of competition in Kenya through tremendous growth of banks, whose scale of operations had been regarded as harmless to the big banks like Equity Bank. The study also revealed that competition in the market was greatly affecting the human resource function in that the firms have to increase their pay because there will be competitive pay in the industry, there will be changes in the training of employees. This meant that, the bank had to start training their employees more so as to cope with the changing technology and also there will be changes in the employee relations for example there will be other benefits e.g. employees being provided with company cars and improved pay packages.

4.2.6 Legal Factors

Another challenge that the interviewees identified as affecting their operations concerns the legal environment. The regulatory guidelines promulgated by Central Bank of Kenya (CBK) have been posing a major challenge to the organization. These include the reserve rates demanded by the CBK as well as the requirements of the Banking Act.

To deal with these challenges, the firm has laid out response strategies to counter the wave. These strategies are entrenched in the strategic plan rolled out in 2007. The strategy states what the Bank is set to achieve and what each division and department in the organization will achieve as their main objectives and the tactics that shall be used to achieve the objectives provide they are in line with the requirements of the Central Bank of Kenya and the provision of the Banking Act.

4.3 Competitive Strategies Adopted by Equity Bank

4.3.1 Cost Leadership

Equity Bank has adopted the cost leadership strategy generally by lowering the overall cost in comparison to other players in the industry. This was highlighted by majority of the interviewees who highlighted that Equity Bank has opened up a sustainable cost advantage over competitors and uses that lower cost as a basis for both under pricing the competitors and gaining a larger market share at their expense and earning a higher profit margin by selling at the going price.

4.3.2 Differentiation Strategy

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. This is what majority of the interviewees said highlighting that, the bank has come up with products that are differentiated from of its competitors. According to the respondents Equity Bank has longer working hours than any other close competitors. In addition, services provided ranges from saving accounts to capital investments. The bank has acknowledged that, competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choose the

product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

4.3.3 Technology

Currently, technology is fundamentally re-aligning business relationships between banks and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels. Equity Banks has extensive branch networks which has enabled it to capture more customers than those with fewer branches. According to the interviewees, the increased utilization of modern information and communications technology in the bank has led to Equity Bank introducing more than 350 ATMs as part of its branchless development strategy measure. The interviewees added that, that advancement in Information and Communications Technology (ICT) in Equity Bank has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards. Equity Bank has also entered into the Internet Banking. However, all interviewees unanimously contended that, internet banking is however still at its infancy and more in terms of utilization is expected in this sector.

In addition, all interviewees unanimously agreed that, the company had adopted various technological factors that have enabled the company to gain a competitive edge. The most prevalent technological factor as mentioned by the interviewees was the ATM. It was mentioned that, both cash-only and cash/depository machine were put in place in all major towns in Kenya. According to the interviewees, the bank had chosen a leading-edge strategy through front running in technology. This strategy helped the drive towards intelligent marketing for the bank. It enabled new cross- and up-selling capabilities, supported by more integrated and effective customer data management in the back office.

4.3.4 Quality Customer Service

From the study, the interviewer learnt that banks differ greatly in terms of the service quality they provide to their customers. Within a given market, a set of very diverse banks tend to coexist, with some being small, local banks with a few branches, and

others large and covering extensive geographic areas, with extensive ATM and branch networks. Equity Bank has capitalized on the expertise and customer care offered at the branch, the size of branch personnel (which is related to waiting times and the availability of human interaction), financial advice, as well as advertising/brand investments and overall service quality. The Bank has shifted its strategies in how it handles overdrafts. Quality overdraft-protection programs help the bank maintain a balance between enhanced customer service and revenue generation. Leading overdraft programs are fully automated to ensure protection for all enrolled Equity Bank customers.

4.3.5 Strategic Response to the Legal Environment

In order for it to succeed in their operations Equity Bank Ltd has considered the legal issues involved in the operations of the company and has taken the capability to anticipate ways in which changes in laws will affect the way the company behave. This was mentioned by the interviewees who said that with emergence and expansion of new branches in foreign countries like Southern Sudan and Uganda has made the bank susceptible to many changes and therefore the company is ready to comply with any new law that could affect it. The interviewees argued that because laws keep changing, from the point of view of business, it is important that they are aware of these changes in the areas of consumer protection legislation, environmental legislation, health and safety and employment law.

The interviewees also made a note that, bearing in mind that the company is accommodating privatization, the tax issues might change, and therefore the company is ready to comply with any change in this law.

The study further revealed that the company had faced a lot of challenges posed by the regulatory environment. One of the challenges relates to the compulsory cessions. It is expected that compulsory cessions will come to an end after the public listing. The company also faces country risk (just like any other company operating on the Kenyan soil), mainly from political stability in the country.

The interviewer in addition learnt that, Equity's foundation was laid during its days as building society. Curiously, the institution did not attract much attention then from competitors and politicians. Its competitors in the financial sector then ignored or

laughed it off at best. When Equity took its brand to the low-income earners in the countryside and the poorer neighbourhoods of our cities it found a ready market. A population that had been rudely turned away and denied access to financial services by the multinational institutions that had closed shop and withdrawn services from these areas welcomed the bank with open hands. The bank revolutionised and demystified banking when it adopted a unique marketing strategy. It opened marketing stalls along the streets of Nairobi and rural markets and earned the stale joke as the “Hawking Bank”. The strategy worked well and it has made Equity what it is today. When it hit the mark of 1 Million depositors, the bank went further to reduce or completely remove charges for many services offered to its customers. Its main competitors are now following the same strategy and model. Institutions that may have chided Equity in the past have now placed open stalls at strategic streets to sell their financial services.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to determine the competitive strategies adopted by Equity Bank and to establish the factors that have influenced the choice of particular strategies. In respect to the first objective, the study found out that Equity Bank Ltd is proactive in responding to the challenges posed by competition in the dynamic banking industry. Findings from this study indicate that Equity Bank is executing successful competitive strategies that have impacted virtually all functions of the value chain. As stated in the literature review, the essential managerial dictum of strategy is that competitive advantage accrues to those firms whose distinctive organizational competencies have superior fit with the business and societal environments within which they operate (Andrews, 1971). Equity Bank Ltd has been benchmarked with the best performing companies in Kenya with sights at the world market.

This study found out several factors that have influenced the choice of particular strategies by Equity Bank Ltd. The company's managers have formulated competitive strategies by focusing on external factors, such as financial risk, market attractiveness, competitive advantage and also internal factors. Current research into how strategic decisions are influenced by external environment continues to be an area of interest in the literature (Song *et al.*, 2002). Like many firms operating in Kenya, Equity Bank Ltd has been faced with the challenge of determining the fit between the company's strategies and its external and internal environmental factors. Many researchers have suggested that ignoring internal factors may significantly impact the chances for successful implementation and ultimately, the success of the strategy.

The study explored general information on the banks targeted to investigate foundation for strategy in the firm. The study established that majority of the respondents were managers in the marketing department, implying that they were aware of the competitive strategies adopted established by their firms to gain competitive advantage such as differentiation.

The study also established that the majority of the respondents had a high level of experience of over five years and this shows that they have been involved in strategy development and implementation in their firms. The study also established that the bank had 500 and above employees. As regards turn over, the respondents were not ready to divulge information regarding the annual turns over for the Bank this was to be used as a basis of size classification.

The researcher established that Equity Bank had a documented vision and mission, implying that strategic management is undertaken by commercial Banks. The people involved in formulation of the vision and mission were established to be the directors, this implies the top down strategic process and it can therefore be concluded that challenges such as lack of support by lower level employees who are not involved in the process may be experienced.

The study also established that the factors i.e. political changes, economic changes, physical environment changes, competitors' actions and management actions caused the alterations of the mission and vision to a low extent. This was also true as the mission and vision rarely changed as was found in the study.

The researcher also found out that the strategies that were adopted by the bank to a great extent for it to remain competitive in the market were; offering wide range of services, engaging high skilled staff, use of publicity, intensive staff training and advertisements. It was also clear that all these strategies were very effective to the bank.

The researcher also found out that there were some challenges of implementing these strategies. These challenges included; cost of attracting and maintaining skilled staff, inability to differentiate products, increased number of competitors and huge financial requirements. It was then clear that competitive strategy had some value to the bank due to its benefits such as assisting it in responding to the competitive forces in the industry or market and also it is very vital to a firm while developing its fundamental approach to attaining competitive advantage, the size or market position it plans to achieve, and its focus and method for growth.

It was also clear that the competition in the banking industry was greatly affecting the human resource function e.g. the pay systems and changes in the training of

employees and also changes in the employee relations Competition also affected the market department in that the firm will start to develop its marketing strategies to more superior ones, and focus on these strategies to fit different classes of target groups e.g. the youths, old and also those in the urban areas.

Equity Bank has also embraced the strategy of expanding to the neighbouring countries like Uganda and now has been licensed to operate in the Southern Part of Sudan. This massive increase in profitability of Equity Bank Ltd is mainly due to sustained business growth strategy amidst a well performing and growing economy and matched by major improvements in asset quality and operating efficiency.

Equity Bank Ltd has continuously focused on customizing the traditional banking model of intermediation to make it relevant to micro, small and medium segment of the Kenyan population and of late the whole of the East Africa Region including Southern Sudan. Through research and product innovation, Equity Bank Ltd has developed products and services that identify the needs cycle and financial resources of this market segment thus carving out a niche market.

Equity Bank Ltd's strategy and focus in dealing with individuals, micro, small and medium enterprises has seen their performance grow from strengths to strengths. They have spread their branch networks to almost all corners of the country, while their customers and deposits have continually grown at amazing rates. For instance, Equity Bank Ltd has posted the highest growth in customer deposits posting growths of 73.12% and 85.69% for the past two years respectively. (The Kenya Banking Sector Report, 2007). The significant growth in customer deposits has significantly driven the profits upwards which have almost doubled by the end of year 2007. Loans and advances in turn also just about doubled; however, the bank has significantly more customer deposits than they are able to loan out. As of December 2007, they had over Kshs 16 billion in deposits but only about Kshs 11 billion in loans.

As was found in the interview guide and also in the literature review, the competition in the commercial banks is intense and this is mainly due to the new entrants of the banks in the industry and also the M-Pesa of Safaricom and Sokotele of Zain. As was earlier identified, this can be solved through developing new products which will be aimed at reducing risks through diversification.

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5.2 Conclusion

Competitive methods used by banks in the financial service industry conform to generic strategy types and banks following a cost leadership strategy realize statistically significant superior performance when compared to banks that are stuck-in-the-middle. While some banks that, pursue a broad differentiation, customer service differentiation, or focus strategy report above average returns, these returns are reported less frequently. This suggests that superior performance is more difficult to realize for banks following one of these strategic directions than it is for banks following a cost leadership strategy. In fact, as a group, banks that follow a broad differentiation, quality customer service differentiation, or technology are not able to achieve a statistically significant performance advantage when compared to other strategy and stuck-in-the-middle groups.

Banking institutions in Kenya have always had an eye towards retaining core deposits. However, community banks and credit unions are realizing that deposits grow in direct proportion to customer satisfaction, which is a delicate balance to strike. In today's hypercompetitive banking market, achieving this balance is taking new shape. To try and achieve the balance, Equity Bank Ltd is lately offering their products to the customers at even zero costs. Most of the accounts within Equity Bank do not attract any charges. What a customer deposits is what he gets at the time of withdrawal, thereby drawing quite a substantial amount of deposits. Along the same line, some of the accounts do not require a minimum balance to open or to run the account.

The commercial banks employ different strategies to remain competitive in the industry; they undertake such activities as offering a wide range of services to be able to capture a large customer base. Banks also undertake publicity as a means to gain competitive advantage; publicity creates awareness and can be used as a strategy to differentiate if a bank can undertake it in a distinct manner. Intensive staff training is also adopted by the banks to distinguish themselves from other commercial banks. This helps the firms to remain competitive in the industry and also over other competing firms.

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The challenges experienced by commercial banks in their operations are increased number of competitors in the industry. The competitors make it difficult to achieve competitive advantage because they imitate the services and products and huge financial requirements. Competitive strategies, if adopted and implemented by an organization give such an organization an edge over competitors.

5.3 Recommendations

The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command. Strategic management in the banking industry demand that companies should have effective systems in place to counter unpredictable events, i.e. systems that can sustain their operations and minimize the risks involved.

A low cost leader's basis for competitive advantage is lower overall costs than competitors. This requires the firm to be better than its rivals on efficiency, cost control, and continuously seek creative and innovative ways of cutting costs.

Information and communication technology is viewed as potentially capable of helping achieve competitive advantage. The high rate at which organizations are buying mobile phones, computer hardware and software as well as using the Internet for information and communication is evidence of the increasing awareness of information and communication technology in the Kenyan market. The business benefits of using information and communication technology include efficiency and attainment of increased returns.

From the discussions and conclusions in this chapter, the researcher recommends that although there are some challenges in implementing competitive strategies in the banking sector, such as increased number of competitors, competitive strategy is very important for the banks to remain competitive in the market.

The researcher recommends that the firms should adopt market penetration and the best way to achieve this is by gaining competitors' customers (part of their market share). Other ways include attracting non-users of the product or convincing current clients to use more of the product/service, with advertising or other promotions.

Banks should also be able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage) to gain a competitive advantage over other firms. Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

From the summary of the findings and the conclusions in this chapter, the researcher can highly recommend strategic issue management as a process of specifying the organization's objectives, developing policies and plans and for the company to achieve this, strategic issue management should be highly implemented in the organization.

Organizations and especially banks need to embrace strategic issue management systems to enhance their capacity to adapt and learn. Organizations also need to continuously monitor strategic issue throughout the year in order to be able to realize the full potential of investing in it.

5.4 Limitations of the Study

The study suffered from a couple of limitations. Most of the major limitations were related to data collection. Due to his tight schedule, Equity Bank Ltd CEO, Dr. James Mwangi could not avail himself for the interview. The other interviewees were also sceptical about the intentions of the researcher hence took a lot of time to answer the questions. As the interviewees were heads of departments in the organisation, finding the time to be interviewed was also a problem thus they had to be reminded a couple of times by the researcher to respond. It thus took a lot more time than was earlier expected.

5.5 Recommendations for further research

This study recommends further research be conducted to determine how external and/or internal environmental factors have influenced strategy implementation at Equity Bank Ltd. Further research can be carried out to establish which market penetration strategies will be employed by Equity Bank Ltd as it ventures to enter into the Ugandan market and Southern Sudan market. Another area of research is to

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determine how Information Technology has enhanced efficiency and effectiveness within the operations of Equity Bank Ltd.

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APPENDICES

Appendix 1: Interview Guide

The information derived from this interview guide will be treated confidentially and will not be used for any other purpose other than academic.

1. There are two main strategies that a firm can pursue; one where a firm endeavors to produce and sell at the least cost (cost leader) and the other one, where a firm develops a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition (differentiation). A firm can pursue any of the above two, or both at the same time. Which of the above three scenarios does Equity Bank Ltd pursue?
2. Does Equity Bank Ltd pursue any of the above strategies from an industry wide approach or from a specific market segment point of view?
3. If Equity Bank Ltd uses industry wide approach, which and how does it initiate the following;
 - a) Penetration Strategies,
 - b) Market Development Strategies,
 - c) Geographical Expansion Strategies and
 - d) Product Development Strategies.
4. If Equity Bank Ltd uses the market segmentation approach, does it differentiate using;
 - a) Price,
 - b) Image,
 - c) Support,
 - d) Quality, or
 - e) Design.
5. Were these strategies driven by external forces or Equity Bank Ltd was being proactive?
6. When were these strategies initiated?
7. How are the crafted competitive strategies operationalised by the company?

8. Have these competitive strategies cushioned the company against threats by competitors and enabled it achieve competitive advantage?
9. What benefits in terms of return on investment and shareholder value has the company gained as a result of chosen competitive strategies?
10. Which strategies are in place to address technological needs?
11. Lately, Equity Bank Ltd has entered the Uganda market. What is the reason behind Equity Bank Ltd 's going regional?
12. Which entry strategies is the bank using in its quest to venture into new markets?
13. What are the challenges and problems faced by the company in implementing the chosen competitive strategies?
14. How is the company prepared to deal with the challenge of Safaricom's Mpesa and Zain's Sokotele in its quest to remain competitive in the industry?
15. What are the strategies in place to ensure that the company's performance remains as good?
16. What factors are considered before making a choice on a competitive strategy to implement?
17. Equity Bank Ltd is the leading bank in terms of customer base, market capitalization, asset quality, earnings and liquidity. How has the company managed such outstanding performance and yet still its undergoing phenomenal expansion programmes in a very challenging financial scenario?

Appendix 2: Letter of Introduction

Mr. Bernard K. Chege,
School of Business,
University of Nairobi,
P.O. Box 30197,
Nairobi.

11th August, 2008

Dr. James Mwangi,
C.E.O. & Managing Director,
Equity Bank Ltd,
P. O. Box 75104 – 00200,
Nairobi.

Thru

The Head of Human Resources & Organization,
Equity Bank Ltd.

Dear Sirs,

RE: REQUEST FOR DATA AND USE OF COMPANY INFORMATION

I am a module II MBA student (Evening programme). I am carrying out a Management Research Project as a requirement in partial fulfillment of the award of the degree of masters in Business Administration of the University of Nairobi; School of Business. My area of specialization is Strategic Management and the chosen area of study is; *“Competitive Strategies Adopted by Equity Bank Ltd”*.

In order to ensure that my study is complete, I am required to seek information from Equity Bank Ltd. I am therefore requesting for permission to use your company's information to be collected through the interview guide attached. The information gathered will be treated as confidential and will be used for academic purposes only. A copy of completed project will be availed to your company.

Thank you for your kind assistance.

Yours faithfully,

Bernard K. Chege