

**CHOICE OF STRATEGY IN A COMPETITIVE ENVIRONMENT  
CASE OF EQUITY BANK**

**BY**

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**A management Research project submitted in partial fulfillment of the  
requirements for the Award of Master of Business Administration (MBA) degree,  
School of Business, University of Nairobi**

**2008**

## DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

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This project has been presented for examination with my approval as University Supervisor.

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## **DEDICATION**

This project is dedicated to my husband Waithaka, and my two daughters Wanja and Ciiku with much love and thanks.

## **ACKNOWLEDGEMENT**

I take this opportunity to give thanks to the Almighty God for seeing me through this project.

The work of carrying out this study needed adequate preparation and therefore called for collective responsibility of many people within and outside Equity Bank. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Mrs. Mary Kimonye for her professional guidance, advice and for reading through my drafts and suggesting workable alternatives; my profound appreciation to you.

I would also wish to extend my sincere gratitude to the entire management of Equity Bank for the useful information they provided while I was carrying out this research project. I thank you all and may the Almighty God bless you abundantly.

Lastly I would want to thank my entire family for the support during the entire period of my study.

## **ABSTRACT**

Today's world has become more complex marked by more technology and less government regulation. To be successful in this environment, managers must demonstrate personal commitment to the success of the organizational unit and excellent communications. Moreover, managers must educate and train individuals to work together as members of teams, and measure performance improvement. The purpose of this study was to understand what competitive strategies Equity Bank has employed and factors that influence choice of such strategies. Specifically, the study wanted to identify alternative strategies that Equity Bank has adopted to remain competitive and to establish the determining factors that Equity Bank considers when coming up with such strategies.

The study used a case study design. A case study design was deemed appropriate since case studies are used to organize a wide range of information about an entity and then analyze the contents by seeking patterns and themes in the data. The population for this study was the senior management of Equity Bank based at the head office. The sample was selected purposively and included all the six department heads at the head office. Data was collected using in-depth interview technique. The interview guide contained open-ended questions to gather qualitative data.

Study findings indicated that Equity Bank has been adopting various strategies. These include conducting aggressive marketing campaigns, adopting a market-driven approach of ensuring a mass market is reached and ensuring excellent service delivery to its clients. The bank also pursues a commitment to being a broad based bank, engaging in strategic change management, focusing on microfinance customers and an impeccable attention to client service. Other strategies adopted by the bank include transforming from a building society to a bank and free account opening drive. Factors affecting choice of strategy included human resources, competition, the bank's development partners, social political environment and legal and regulatory framework. Other factors included availability of capital and the general economic conditions.

The study recommends that Equity management should strive to maintain the client-focused culture, even with growth. Equity Bank should also aim at maintaining a quality loan portfolio and a satisfied customer base. The study also recommends to the bank to continually train its staff in the management of risk as the bank becomes more dynamic and complex. Equity Bank should also improve on its market intelligence to continue monitoring its competition and ensure that it gives products and services that are always ahead of competition. Lastly the researcher recommends that the bank addresses the need for commercial banking capacity in staff and systems to accommodate the growth and reduce the high employee turnover by ensuring that staff members are clear on the functioning of the comprehensive incentive system.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background**

The practice of strategy dates back to the 1960's when it became apparent that it was necessary for managers to understand all they possibly could about their organizations. By doing so they could make optimal decisions about the organization's future. ([http://en.wikipedia.org/wiki/Strategic\\_management](http://en.wikipedia.org/wiki/Strategic_management)) Since then, there has been emphasis on trying to analyze the various influences on an organizations well-being in such a way as to identify opportunities or threats to future development. Typically, businesses of all sizes practice some form of strategic management in response to competition for their survival and sustained profitability. Lawrence, et al (1967) stressed that strategic management is applied for the purposes of molding, directing and relating an organization effectively to its environment. Furthermore, Murray (1988) considered strategic management as the most critical element of the management of organizations because it explains success and survival to a large extent.

Much of the research on strategic management that focuses on business strategies, environment and organizational performance suggests business strategy can influence organizational performance (Karemu, 1993). Strategic management is a managerial function that helps corporations identify, analyze, and respond to social and political concerns that can significantly affect them (Miles & Snow, 1978).

In today's environment managers face rapid change, and successful managers are those who are most adoptive to change. The task of managers has remained the same during the later half of the 1960s although the environment they operate on has become different. Today's world has become more complex and is marked by more technology and less government regulation. To be successful in this environment, managers must demonstrate personal commitment to the success of the organizational unit and excellent communications. Moreover, managers must educate and train, get individuals to work together as members of teams, and measure performance improvement.

It is also important to learn from past successes and failures in developing an approach to a better business organization.

The growth in information technology has had an impact on the way business organizations plan and execute their strategies to remain competitive. This is because of higher customer expectations, which demands frequent information flow from the market to the customer. The global nature of the Internet offers the potential to reach new consumer groups that have never been exposed previously and organizations have geared to use such opportunities in their marketing efforts to increase their consumer database. In order to optimize cost benefits and analyze risks and opportunities, the organization requires up-to-date and reliable information on a variety of subjects related to the availability and cost of inputs from different sources, the actual and potential markets, product and process innovation, new equipment, competitors locally and abroad, joint venture and collaborative engagements among others. Thus, information is a strategic weapon for the consolidation of a company's economic strength.

### **1.1.2 Banking Industry in Kenya**

The Kenyan banking industry is the most diverse in East Africa 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 with the Kenya Commercial Bank (KCB) being certainly the largest of all the indigenous banking companies in Kenya and East Africa as a whole (CBK, 2007).

The Kenyan banking environment has become more complex over time and this has seen the rise and fall of many banks. The banking sector was liberalized in 1995 and exchange controls lifted. The Central Bank of Kenya (CBK), which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The bank provides online information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines.

These commercial and non-banking commercial institutions have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting its members.

Key issues affecting the banking industry in Kenya are; changes in the regulatory framework where liberalisation exists but the market still continues to be restrictive; declining interest margins due to customer pressure; increased demand for non-traditional services including the automation of a large number of services and a move towards emphasis on the customer rather than the product; and introduction of non-traditional players, who now offer financial services products.

There have been a lot of changes in the banking industry since the 1980's. This period has witnessed opening of new banks, closure, mergers and acquisitions. According to the Central Bank of Kenya, during the year to December 2005, the balance sheet of the banking sector expanded with total assets increasing by 10% to Ksh. 643 from Ksh. 514 billion in December 2004. The sector recorded an improved performance in 2005 with pre-tax profits increasing by 48% to stand at 20.1 billion from Ksh 13.6 billion in 2004.

According to an Annual Bank Supervision report (2005), the Kenyan economy recovered to expand with a GDP growth of 5.8 % in 2005 compared to overall 4.3% in 2004. During the year, the economy enjoyed a favorable macroeconomic environment, consistent with low and stable interest rates, strengthening shilling exchange rate and falling inflation.

The financial institutions are forty five, comprising of forty two commercial banks, two mortgage finance companies and one non bank financial institution. The period has also been characterized by rapid expansion of branch network. During the year 2007 eighty three new branches were approved mostly in rural areas, a sign that banks are now moving downstream. (CBK annual report 2007)

The commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking. The evolution of the banking industry has presented both challenges and opportunities for commercial banking institutions. They are faced with a lot of challenges that requires only those with the best mix of products and objectives to survive. The choice of strategy to use to sustain performance is the challenge that most of the commercial banks face (Morgan, 1998).

Over the last several years, financial modernization, deregulation, industry consolidation, the rise of new institutions, shifting trends in borrowing and lending, globalization and emerging technology have influenced and affected how commercial banks operate (KBA publication, 2007).

Through strategy the banking sector has embraced changes occurring in information technology with most banks having already achieved branchless banking as a result of the adoption of new technology. According to The Central Bank Annual Supervision report (2005), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures. The Central Bank notes that advancement in information and communications technology (ICT) in the banking industry has enhanced efficiency and improved customer service. And has even taken competition to greater height, hence the need for a bank to closely monitor the environment and come up with strategies that are going to see it conquer the competition.

This is reflected particularly in the increased use of Automated Teller Machines (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.

Several banks have also entered into the internet banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected in this sector (Manjau 2005). Such moves are likely to impact On banks growth and survival strategies.

### **1.1.3 Equity Bank**

Equity Bank started its operations in 1984 as Equity Building Society (EBS). Its establishment was motivated by the desire to create a financial service provider which would touch base with majority of the Kenyan population who were low income earners. The need to come up with the institution was out of the realisation that most Kenyans lacked access to financial services or simply could not afford them. The initial focus was to offer Mortgage services but in the early 1990's EBS changed its business focus to micro finance services. EBS grew to become a leading micro finance institution providing a wide range of products and services. The growth in business volume and outreach necessitated the conversion to a commercial bank which was dully registered on December 31, 2004 as Equity Bank Limited (EBL). ). Equity Bank has grown to be the dominant bank institution in Kenya for low to medium income earners mostly the farmers and small to medium enterprises (SME). Currently the bank has 65 branches and 45 mobile centers. (Daily Nation October 02, 2007). The bank has a client base of over 2.6 million customers, while no other bank in the country has crossed the one million thresholds (East African October 8-14, Daily nation May, 27, 2008). It is also listed in the Nairobi Stock exchange.

Equity Bank has also become very aggressive in attracting top notch shareholders and making some bold strategic acquisitions. In November last year, Equity unveiled a buyout of a 25 per cent stake in it by London based equity fund Helios. This followed an acquisition of a 20 per cent stake in mortgage financier Housing Finance Company of Kenya, which is its vessel for the home market in Kenya (Daily Nation, May 27, 2008)

The banks latest activity in acquisitions was when it announced in April 2008 that it was poised to buy shares in Uganda micro financier UBM. On the new products the bank has launched a lending scheme for farmers to buy crucial inputs like fertilizers .It has signed a deal with Kofi Annan led Agra(Alliance for a Green Revolution in Africa)to help channel loans to farmers.

Recently Equity put out an advert for a number of bancassurance professionals. While many larger banks have had such units for a long time, their operations have been stymied by lack of an enabling law. Its subsidiary Nafuu Insurance Agency has been running since September 2007 and expects to handle Ksh 800 million this year. (Daily Nation, May 27, 2008)

Equity Bank was involved in the Safaricom initial Public offer(IPO) and was keen to offer loans to investors and through their extensive network mobilized applications worth Ksh 37 billion, representing 45 per cent of the Ksh 82 million allowable for local investors. This led to help push open new accounts which now stand at 2.3 million out of the 4.7 million for all the banks, thus commanding 48 % of the account holders. . (Daily Nation, May 27, 2008)

To survive in today's highly competitive environment, all firms must adopt strategic response that allows them to remain competitive. This kind of response has been witnessed in the banking industry through mergers and buyouts. Equity Bank has bought 25 per cent stake in London based equity fund Helios and 20 per cent in locally owned Housing Finance.

Equity Bank has made banking more flexible by extending working hours to 5 o'clock in the evening and this has enabled businesses to bank money earned before the close of the day reducing incidences of insecurity experienced through leaving money at the premises.

It is upon this background that this study is formulated to study how Equity Bank adopts strategy to survive in a competitive environment.

## **1.2 Statement of the Problem**

Given the current uncertainty and surprising environmental turbulence in the global context, there is a need to institutionalize flexibility and dynamism in planning and implementation of projects.

No longer can any enterprise depend on historical trends or projected trend without critically observing analyzing and evaluating “surprising events and issues” which affect the known trend, be it external, internal or performance. With the onset of global market competition facilitated by e-commerce, “things” are changing pretty fast, occasionally changes taking place in the opposite direction of the known trend or of the projected trend. Information is now transmitted worldwide within seconds. In a discontinuous and surprise environmental turbulence, management processes should be flexible, dynamic and entrepreneurial so as to allow timely response to novel and unexpected strategic issues.

However, some empirical studies done in developing nations indicated that management processes are characterized by bureaucratic tendencies and authoritative patterns of management. Aosa (1992) concluded that strategic planning models as practiced in western world needed modification and adaptation before being applied in African nations because the environmental factors ( such as cultural, power play, political influence and interference etc) in Africa take a different dimension and therefore need to be perceived differently.

For an organization to succeed in today’s business environment, it must adopt workable strategies. Like many other competitive institutions Equity Bank has adopted various strategies in order to remain competitive and relevant in its bid to successfully compete with big and well networked indigenous banks like Kenya Commercial Bank and multinational banks like Barclays bank and Standard Chartered bank. Examples of strategies it has adopted is its choice of customers and it has surely built itself a niche which was rather there before unoccupied i.e. it targets low level income earners among other competitive strategies.

In Kenya, various studies have been conducted on strategies adopted by various companies. Nyika, (2007) studied the process of strategy implementation among motor vehicle franchise holders in Nairobi. Muhindi, (2007) studied response strategies to increased competition by insurance companies.

Shikanga, (2006), studied marketing strategies in the Kenyan motor vehicle industry. Another study by Njuguna, (2005) studied environmental changes and their influence on small and medium enterprises.

The study will be different with the other studies since it will look into strategies employed by Equity Bank to be and remain competitive. No other similar study has been carried out on this bank's strategy before to the best of my knowledge.

There is a need therefore to formulate a study in the banking industry specifically to understand what competitive strategies Equity Bank has employed and factors that influence choice of strategy.

### **1.3 Objectives of the Study**

- i. To identify alternative strategies that Equity Bank has adopted to remain competitive.
- ii. To establish the determining factors that Equity Bank considers when coming up with its strategies.

### **1.4 Significance of the Study**

The study will be invaluable to the following;

#### **Equity Bank's Management**

The study will promote managers strategic thinking in response to competition when addressing the issues affecting their customers and survival of the institution. Although equity bank has made tremendous progress in strategic management through strategic innovation, this study will shed light on the areas that Equity Bank needs to improve and reach higher heights in performance and customer satisfaction.

#### **Academicians**

The study will form a basis upon which further research on issues in strategic response to competitive environment may be carried out.



This may be in banks or any other sector in the economy. This study will have limitations that future researchers can improve on to have more conclusive and reliable findings about the area of strategic management and competitive advantage.

### **Policy makers**

The study will sensitize policy makers regarding the policies they put in place so as to control entry of new firms into the market in any sector. These are sectors where strong firms already exist and existing policies may cause a barrier as the firms try protecting their niche. Policy makers mostly the government will understand better how its policies and regulations affect environment firms operate in thus affecting firms' competitiveness and performance. The government will therefore consider such effects before passing any policies or regulations.

### **Other Banks and organizations**

The study will help other banks in promoting strategic responses against upcoming competitors. The study will also prove important to other organizations in enabling them to have a good understanding of the importance of strategic management in general and strategic responses to environment in particular.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Concept of Strategy**

A strategy is a long term plan of action designed to achieve a particular goal, most often "winning" (Thompson et al, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated, and often practically rehearsed.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, 1997).

Strategic response to competitive environment is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives amid the competitors' existence. It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives. Strategic management comes in handy which combine the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of directors and performed by the organization's Chief Executive Officer (CEO) and executive team. Strategic management provides overall direction` to the enterprise and is closely related to the field of Organization Studies.

“Strategic management is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies

to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment.” (Lamb, 1984)

Strategic management is a combination of three main processes namely; strategy formulation, strategy implementation and Strategy evaluation. Strategy formulation is a process of performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental. (www.wikipendia, Strategic management.) As a result, objectives are set and a strategic plan set to achieve this objectives.

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking (Henry, 1978).

According to Collis et al (1995) concepts, theories, and analytic frameworks are not alternatives or substitutes for experience, commitment, and creativity. But they do provide useful frames for organizing and assessing the vast amount of information available on the firm and its environment and for guiding decisions, and may even act to stimulate rather than repress creativity and innovation.

The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprises decisions also permits the application of powerful analytical tools to help

companies create and redirect their strategies. Strategy can help the firm establish long term direction in its development and behavior (Gary and Prahalad, 1993).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel and Prahalad (1989) views organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shift of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within companies (Buzzell and Gale, 1989).

Hrebiniak, (2005) argues that increasing strategic planning processes are becoming part of companies knowledge management systems: as management becomes increasingly concerned with how companies create, store, transfer, and deploy knowledge assets, so strategic planning becomes an integral part of how deeply-embedded understanding of businesses and their environments become transferred between business units, divisional, and corporate levels and how the knowledge of many different managers and functional experts becomes integrated within strategy.

Strategy is forward looking. A fundamental concern is what the firm (or the individual or the organization more generally) wants to be in the future. Such a view is often made explicit in a statement of company vision. The purpose of such goal setting is not just to establish a direction to guide the formulation of strategy, but also to set aspirations for the company that can create the motivation for outstanding performance. Hamel and Prahalad (1989) argue that a critical ingredient in the strategies of outstandingly successful companies is what they term “strategic intent”—an obsession with achieving leadership within the field of endeavor.

Strategy implementation involves allocation and management of sufficient resources (financial, personnel, time, and technology support) to ensure the selected strategies succeed. It may involve; establishing a chain of command or some alternative structure (such as cross functional teams), assigning responsibility of specific tasks or processes to specific individuals or groups, it also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, and making adjustments to the process as necessary. When implementing specific programs, this involves acquiring the requisite resources, developing the process, training, process testing, documentation, and integration with (and/or conversion from) legacy processes.

Strategy evaluation is a measure of the effectiveness of the organizational strategy. It's extremely important to conduct a SWOT analysis to figure out the strengths, weaknesses, opportunities and threats (both internal and external) of the entity in question. This may require to take certain precautionary measures or even to change the entire strategy.

## **2.2 Strategy Hierarchy**

In most corporations there are several levels of strategy. Strategic management is the highest in the sense that it is the broadest, applying to all parts of the firm (David, 2003). It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are often functional or business unit strategies.

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or strategic business units (called SBUs) (Safford, 2005). A strategic business unit is a semi-autonomous unit within an organization. It is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters. Each SBU is responsible for developing its business strategies, strategies that must be in tune with broader corporate strategies.

The “lowest” level of strategy is operational strategy. It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategy was encouraged by Peter Drucker in his theory of management by objectives (MBO). Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies (Treacy and Wiersema, 1993).

Business strategy, which refers to the aggregated operational strategies of single business firm or that of an SBU in a diversified corporation, refers to the way in which a firm competes in its chosen arenas (Trigeorgis, 2001). Michael, (1980) views corporate strategy, as the overarching strategy of the diversified firm. Such corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in one business add to the competitive advantage of another portfolio firm, as well as the competitive advantage of the corporation as a whole?" Since the turn of the millennium, there has been a tendency in some firms to revert to a simpler strategic structure. This is being driven by information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process (Trigeorgis, 2001).

### **2.3 Competitive Strategies**

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and reengineering (Safford,

2005). Dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. And gradually, the tools have taken the place of strategy. Njau (2000) argues that as managers push to improve on all fronts, they move further away from viable competitive positions. Michael Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match.

Hitt et al (1997) holds that a winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The goal of much of business strategy is to achieve a sustainable competitive advantage. A competitive advantage exists when the firm is 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). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Kombo, 1997).

Cost and differentiation advantages are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

## **2.3 Competitive strategy models**

### **2.3.1 Porter's generic Strategies**

Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by businesses. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market a firm intends to target. Strategic strength is a supply-side dimension and looks at the strength or

core competency of the firm. In particular he identified three competencies that he felt were most important: product differentiation, focus strategy and cost leadership.

### **2.3.1.1 Differentiation Strategy**

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequalled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy.

To maintain this strategy the firm should have: strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills and incentives based on subjective measures. The firm must also be able to communicate the importance of the differentiating product characteristics, stress continuous improvement and innovation and attract highly skilled, creative people.

### **2.3.1.2 Focus Strategy**

In this strategy the firm concentrates on a select few target markets. It is also called a niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investments.

Several commentators have questioned the use of generic strategies claiming they lack specificity, flexibility, and are limiting. In many cases trying to apply generic strategies is



like trying to fit a round peg into one a square hole. You might get the peg into one of the holes, but it will not be a good fit. In particular, Millar (1992) questions the notion of being "caught in the middle". He claims that there is a viable middle ground between strategies. Many companies, for example, have entered a market as a niche player and gradually expanded.

### **2.3.1.3 Cost leadership Strategy**

This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The <sub>product</sub> is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from: Process engineering skills, products designed for ease of manufacture, sustained access to inexpensive capital, close supervision of labour, tight cost control and incentives based on quantitative targets.

## **2.4 Grand Strategies**

Firms may respond to increased competition by entering new markets with similar products. These could be markets they are currently not serving, or new geographical markets. Market entry strategies may include acquisitions, strategic alliance and joint ventures. Firms may also react to competitive forces by developing new products. This will be aimed at reducing risks through diversification as a means of responding towards competitive forces could be related or unrelated. Related diversification may take the form of vertical or horizontal integration. In the face of increased competition this has the benefit of cost reduction, defensive market power, and offensive market power.

Backward integration takes a firm closer to suppliers while forward integration moves it closer to its customers. Forward diversification may involve acquisitions of businesses not within the current product and market scope (Pearce and Robinson, 1997).

Bernard (1938) and Simon (1957) recognized that firms on their own cannot create resources and capabilities needed to prosper and grow; they identified collaboration as a viable way of combining resources in business opportunities. As argued by Harrigan (1985) strategic alliances are more likely to succeed when players possess complementary assets and thus a firm will seek knowledge it considers lacking but vital for the fulfillment of its strategic objectives. A firm will furthermore need to possess knowledge base in the same area, since only such similarity will allow an understanding of the intricacies of the new knowledge as well as of its applicability to the firm's unique circumstances (Coher and Levintal, 1990).

Differentiation is used by firms as a response technique to increased competition by firms. A firm can also result to creating entry, mobility and substitute barriers to strategic groups. Such barriers can be in the form of differentiation that makes it difficult to imitate products (Shushil, 1990).

Firms can also respond to competition by collaborating with other players in the industry. Such collaborations take the form of strategic alliances, mergers and acquisitions, licensing, franchising among others. Schollei (1999) argues that in order to fortify a firm's position against predators from abroad, it is important to collaborate. Collaboration also reduces the cost of differentiation and enhances competitive advantage (Morrison and Lee, 1990).

## **2.5 Challenges Facing Firms when Implementing Competitive Strategies**

Implementation of competitive strategies can lead to certain challenges which may hinder the effectiveness of firms in utilization of strategies identified and employed. Newman and Colleagues (1989) identify three types of competitive strategies challenges; those that may hamper a firm's ability to grasp new opportunities, challenges that require massive

amounts of resources, and the regulatory issues imposed by the government and the ability of company owners and managers. Other challenges may arise from structural and economic barriers inherent in the industry.

Box and Watts (2000) argue that the real challenge in implementation of a generic strategy is in recognizing all support activities and putting them in place correctly. According to Thompson et al (2007) the most important fits are between strategy and organization capabilities, between strategy and reward structures, between strategy and internal support systems and between strategy and organization culture. Fitting the organization internal practices to what is needed for strategic success helps unite the organization behind the accomplishment of a strategy.

Nyokabi (2001) found out the challenges facing the Kenyan Independent Petroleum Dealers Association (KIPDA) to include low customer confidence, negative publicity, stiff competition from established outlets, insufficient funds for advertising, having few outlets, insufficient funds for advertising, increased overheads, fluctuating prices and low sales. Overall the competitive strategies most utilized were identified as looking for reliable suppliers, using suppliers who deliver first and serving all customers.

Karanja (2002) found out that the most popular type of competitive strategy employed by real estate firms was on the basis of differentiation. The study further found out the major challenges facing these firms to be the rising level of interest rates and inflation. These studies points out those local firms apply competitive strategies that are unique and sector specific; hence, cannot be generalized.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

This was a case study of Equity Bank Ltd. Cases are used when one wants to study a particular issue about a particular unit. A case study design was deemed appropriate for the study since the objective of the study was to identify the strategies that Equity Bank Ltd had adopted in order to survive in the competitive environment. Case studies are used to organize a wide range of information about a case and then analyze the contents by seeking patterns and themes in the data. A case can be individuals, programs, or any unit, depending on what the researchers want to examine through in-depth analysis and comparison.

#### **3.2 Target Population**

The population for this study was the senior management of Equity Bank based at the head office. The managers of all the departments at Equity Bank constituted the population of interest. Policies and decisions are made at the head office and the departmental managers were deemed have represented all the branches existing at Equity Bank.

#### **3.3 Sample and Sampling Technique**

All departmental heads were selected for the study. These were the managers located at the head office in Nairobi drawn from all the departments in the organization. The study therefore selected six department heads.

#### **3.4 Data Collection**

The study used primary data. This was collected using interview technique. The interview guide was designed from the literature having taken account the objectives of the study. The interview guide contained open-ended questions to gather qualitative data. The interview was conducted in the selected managers' work places.

### **3.5 Data Analysis**

The data collected was analyzed using narrative analysis and presented through prose. This analysis is appropriate whenever you have qualitative data and you need to establish patterns in the different responses. The analysis was to assist in determining strategic factors that have given Equity Bank so much success in terms of remaining competitive in the industry.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1 Introduction**

This chapter presents the analysis and the results of the data collected through the in-depth interviews. The analysis is based on the data collected from the 6 interviews with Equity Bank's departmental managers.

#### **4.2 General information**

##### **4.2.1 General information about the respondents**

The interview was carried on six departments of Equity Bank. The six departments are the following: Operations & Customer Service department; Change and Corporate Affairs department; Marketing & Product development department; Finance department; Corporate Strategy Department; Human Resources and Organization Development department.

##### **4.2.2 General information about Equity Bank**

In interview with the six respondents, the researcher got a brief overview of Equity Bank limited from inception up to now. All the respondents excluding the Operations & Customer Service manager have had less than five years in the bank but they were found to be conversant with the history and strategies of Equity Bank. The study established the following as the history of the bank's inception. In the early 1980s, the present Chairman of the Equity Bank Board was a senior government employee. He had an in-depth understanding of the government's rural development policy and the socio-political circumstances in the country. Around 1982, rules were relaxed and for the first time opportunities arose for Kenyans to start formal, licensed financial institutions. This was indeed an opportunity to bring financial services to the person in the street, to those who hitherto had previously no access to the formal banking sector. It was also clear to the current chairman, and a few like-minded individuals, including the former Chief Executive Officer of Equity Bank, that profitable financial opportunities may also exist in the formation and operation of a financial institution. Both had experience of commercial operations and saw the profit opportunities. They discovered that the market for the

provision of small loans and savings services to the poorer strata of the people of Kenya was under serviced at the time. This had led to the mushrooming of a multitude of locally owned small financial operations. It was also a time of a controlled and heavily regulated, but growing, financial economy.

Equity opened its doors in 1984 as a registered building society. The choice of the legal format was a function of what was available at the time and what could be afforded, both in terms of license fees and capitalization. Competition for clients was fierce and, in time, many of the smaller societies were closed, with the concomitant effect of diminishing client confidence in these smaller institutions. John Mwangi, a Bachelor of Commerce (Banking) graduate, was appointed as CEO in 1986 after a long stint in the private sector in several senior positions. The market was then stagnant and the competition even more severe. By then Equity had opened five branches. Note that at this time, many employers, and especially the government, insisted that clients open accounts for salary deposits in government-controlled banks only. Many of the smaller financial institutions took institutional deposits from government departments and parastatals to boost their capital base. Quite often these deposits were obtained at a price from people with influence. Equity bank, however, mobilized customers by hard one-on-one marketing and would often drive people to branches by car to open an account. They started by selling to family members and acquaintances. At the end of 1984, they had 1,000 customers with the branch situated on the fifth floor of the current Head Office building and also where the current loan department operates, on the ground floor. It is quite evident that Equity Bank had entrenched its culture of client service right from the start. It was the only basis on which the institution could compete in the market.

In an interview with the Finance manager, the remark was made that Equity Bank is successful notwithstanding the state of the economy. This is indeed true. During Equity Bank initial years, the Kenyan economy grew, albeit in a repressive climate of too much control and regulation. In the early 1990s, the economy was liberalized and many controls were removed. At that time, however, the economy started a slow decline, and now it is catching up with a steady growth of around 6% per annum.

### **4.3 Alternative Strategies That Equity Bank Has Adopted To Remain Competitive**

#### **4.3.1 Equity Bank's Vision and Mission**

All the respondents indicated that Equity bank has a well documented vision and mission which every employee is well conversant with. In an interview with head of the Corporate Strategy department, the researcher found that the first mission statement of Equity Bank took nearly two years to complete. It was wordy, but provided a goal that could be pursued, "We, Equity Building Society, will mobilize savings and term deposits for the timely provision of loan facilities to generate sufficient and sustainable profits. This will enable us to contribute to the member's welfare and to the national economy. Equity recognizes the importance of staff members and their contribution to the institution and will avail them of opportunities for growth and job security".

According to the Corporate Strategy manager, the mission statement focuses on activities aimed at reaching Equity's vision. The vision has changed considerably since 1995, when it was first formalized. The study established that from 1995 to 2000 the vision was "To become the biggest microfinance provider in Kenya in terms of funding, loan portfolio and profitability", from 2001 to 2005, it was changed to "To be the dominant microfinance provider in Kenya by the year 2005" and from 2005 to 2020, the vision driving Equity bank is "To become the microfinance provider of choice in Kenya and the region".

Equity Bank's mission is to "mobilize resources to maximize value and economically empower the microfinance clients and other stakeholders by offering customer-focused quality financial services and solutions." The respondents indicated that equity bank mission and vision are developed by board of directors in close consultation with senior management. The interviewees indicated that this does not mean that other employees are not involved in the process. When formulating the vision and mission statements, the ones directly involved consider views of employees and customers. Equity Bank has always kept customer suggestion boxes which are emptied every two weeks by senior management in corporate strategy and customer service departments. These suggestions



and comments are analyzed and they can become basis of future strategy and mission or vision statements.

Equity Bank's vision is set for a time period and is therefore reviewed after the time period has lapsed. The current vision runs from 2005 and is supposed to lead the bank until 2020. However, the vision is closely monitored after every year to assess progress and to establish whether milestones pegged on the vision have been achieved. The mission statement is always in line with the vision statement

#### **4.4 Factors That Determine Equity Bank's Strategies**

##### **4.4.1 Strategy process at Equity bank**

In the interview with the Operations & Customer Service manager, the researcher established that change is the most notable feature of Equity Bank. In year 2000, this saw the introduction of an IT system, "Bank2000", and the strengthening of the Board of Directors. With technical assistance from MicroSave a world renowned micro finance institution and others, products and procedures were refined, and new products developed. Credit expertise was drafted in, which caused Equity to rethink and redevelop its credit strategies. A major development for Equity Bank was the development of strategic alignment approaches. Stepwise Management, a German consulting firm, guided Equity Bank through this process. Months of staff time was spent developing mission, values and vision and preparing a "structure tree" outlining critical success factors, "stretch goals", targets/activities and measures. By the end of 2004, all senior and middle management had played a role in developing and internalizing the strategic plan. By the middle of 2005 everyone within Equity knew, and had bought into, the institution's plan and understood the roles they played in achieving it.

According to the Change and Corporate Affairs manager, a further defining moment for Equity Bank was the introduction of its current FINACLE banking system, and building a highly talented Information & Technology (IT) team. The seriousness of the strategic alignment process was seen in the level of investment and focus placed on IT development. Within six months Equity bank had migrated hundreds of thousands of

accounts to the new system. It now had a platform for the future, capable of handling millions of clients, and electronic banking channels.

In an interview with the Marketing & Product Development manager, the researcher found that from inception, Equity Bank has adopted a customer based strategy. Initially this was a basic survival strategy, focused on grass-roots, relationship-based banking. Strategies included; market place marketing, social and community based activities and inside the branches with the introduction of Bank2000. The new IT system significantly decreased service time, from 20 to 5 minutes. Armed with insights from market research conducted by the bank with assistance from MicroSave, Equity Bank re-priced its products and conducted a customer communications campaign. From 2002, Equity Bank upgraded its banking halls; despite this with the rapid growth in customers banking halls were becoming congested. In response, Equity introduced floor managers who interacted with customers in the banking hall; it lengthened its operating hours, and began to streamline its operational processes. It developed a customer service strategy that employed service quality questionnaires, focus group discussions and mystery shopping.

#### **4.4.2 Ideas for strategy formulation**

In an interview with the Corporate Strategy and Human Resources and Organization Development manager, ideas for strategy formulation at Equity bank originate from all the stakeholders with customers carrying the most weight. Equity bank has since its inception been taking customers wishes, requests and suggestions seriously. Employees are also another source of ideas for strategy formulation. Equity Bank has over the time been having an open door policy where all the employees are encouraged to put forward any idea or suggestion that can be operationalized to give positive results.

In an interview with the Finance manager, the study found that competition in the industry has also been another key source of ideas for strategy formulation. Some actions by competitors and strategies of other competitors in the market have proved to be a very helpful source of strategy ideas. Equity bank has always had a policy to copy any action by competitors and partners that can be beneficial in the short term or long term. All

respondents indicated that Equity bank also relies on its partners mostly Helios and Microsave for ideas on strategy.

On who is involved in the strategy process, the Corporate Strategy manager indicated that Equity Bank involves employees, directors, customers and partners in the strategy process. This helps in making the final strategies to belong to every stakeholder in the Bank which increases the chance that the strategy so formulated will be successfully implemented and will achieve the desired results.

#### **4.4.3 Factors affecting Choice of strategy**

In an interview with the Marketing & Product Development manager the researcher found that the main factors affecting choice of strategy at Equity Bank are the market and customer's demands. The respondent indicated that although Equity Bank has gradually evolved from a product-driven to a market-driven approach, the institution's focus on low-income clients and their needs must be traced back to the day it opened its doors. From the start, Equity's minimum opening balance for saving accounts has given credence to the institution's sustained focus as a microfinance provider for the last 18 years and is one of the success factors this study has identified. The resolute mission shift from mortgage financing to microfinance in 1994 was prompted by market and customer demand. Other strategic decisions such as price and tariff reductions, new product developments and adoption of technology are all dictated by the market. Financial institutions need to win the confidence of clients and authorities. Unless they do so, they will not succeed in building large savings portfolios and in gaining customer loyalty. Equity is fiercely focused on creating and containing customer loyalty and on doing everything in its power to gain and strengthen client's confidence in it as a financial institution. All its activities and actions are weighed in terms of the impact they will have on customer loyalty and trust.

Another factor that affects the choice of strategy as indicated by the interviewees is management. Management's ability in managing the changes it effected in Equity and in the perceptions and aspirations of different stakeholder groups. The study found that

Equity Bank comprehensively implements the management of change process according to international best practice. When the researcher asked interviewees to identify the key factors that influenced the choice of strategy, one of the main factors related to the quality and status of human resources. The respondents trace the start of the turnaround to the self-awareness and management skills training provided by the management and consultants. The training offered to new and existing employees creates in the staff and in Equity Bank as a whole a new awareness of their ability to make a change and this is of great potential in the microfinance market. To be and remain competitive, Equity Bank needs to acquire relevant human resources, as well as train and reorient existing resources. Equity's development partners have been particularly useful in helping to build its human resource capacity and therefore contributed to its success, especially in recent years. In particular, recent assistance by MicroSave and Swisscontact in training Equity's staff in market research for product refinement and development has played a significant role in strengthening the institution's customer-oriented strategy and focus.

According to the Human Resources and Organization Development manager, there is a tradition of recruiting young, educated people with little or no experience at entry points. A recruitment committee comprising senior managers in Nairobi branches and at Head Office interviews and selects the most suitable candidate for a given position. On the few occasions that Equity has needed to recruit senior managers with experience from outside the organisation, this has been done by headhunting. The committee prefers to fill management positions from within. In the last 18 months, however, it has sourced a number of experienced people for management positions from outside Equity.

In an interview with the Corporate Strategy manager, the training by consultants and in-house trainers leads to the consideration of further strategic issues, culminating in the work on formulating a vision and mission for Equity Bank. Better trained human resources contribute more and effectively in strategy and therefore affects the strategy so formulated. Everybody contributes, thus creating a sense of teamwork and joint responsibility for the future of Equity Bank.

From the Finance manager, the remark was made that Equity is successful despite the state of the economy. This is indeed true. During the institution's initial years, the economy grew, albeit in a repressive climate of over control and over-regulation. In the 1990s, the economy was liberalized and many controls were removed. However, the economy started a slow decline, and now it has quite recovered. However, with approximately 56% of the population living below the poverty line, Equity bank considers all these economic conditions since its vision is to provide financial services to the poor.

Another factor echoed by the interviewees that affects choice of strategy is the social political situation in Kenya. In the early 1990s, the political system in Kenya changed to that of a multiparty democracy. This coincided with the liberalisation of the economy and led to a sense of freedom in the country. However, this liberalization did not bring the economic benefits that it was supposed to and this led to deterioration of the political atmosphere. After the National Rainbow Coalition Government in 2002, the economy recovered and the country started posting a positive growth rate. Kenyan economic situation came to a down turn in late 2007 and early 2008 when there was a political dispute. This situation affected Kenya's economic situation adversely and it was not until mid 2007 that the economy recovered. The interviewees indicated that Equity Bank has always been monitoring the social and political situation in the country and has always been adjusting its strategy accordingly.

The other factor indicated by the Corporate Strategy manager that affects choice of strategy is the legal and regulatory framework in the country and the regions that Equity Bank operates in. Kenya functioned in a repressed state of government control of all facets of the economy until early 1990s, when liberalisation changed the situation dramatically. Since then, many changes have culminated in the creation of a regulatory environment that adheres to international best practices, is focused on the stability of the financial sector and has an underlying market development objective. The Building Societies and Microfinance Acts have also changed considerably over the last 15 years. Of the many building societies created in the 1980s, only three are still in existence

today; the East African Building Society, Equity Building Society and Family Finance Building Society which have all changed to Micro finance banks. The Corporate strategy manager indicated that there was a very active interaction between the CBK and Equity. Equity has ensured that all the recommendations of the CBK receive attention. In many instances, the CBK's recommendations preceded crucial and strategic changes in Equity. Examples are the recommendation on internal auditing, leading to the strengthening of this function in Equity; the suggested expansion of the Board, which led to the increase in Board members; the mention of the difficulty of handling administration and portfolio management and the computerization of Equity's systems. From the foregoing, it is evident that Equity Bank's strategies are affected by regulations of Central Bank of Kenya. In recent years, the two aspects of financial legislation that have received attention are the infamous Donde Bill and the Microfinance Regulation. The Microfinance Regulation resulted in competition for Equity Bank since more institutions qualified to take deposits. This necessitated a change in strategy to counter the increase in competition.

Competition is another factor that was echoed by respondents as affecting the choice of strategy at Equity Bank. To perform better and be successful as it is today, Equity bank has always included the factor of competition in its strategy. Competitor actions call for strategic responses to prevent loss of business and market share to competition. Equity Bank monitors closely actions of other banks and micro finance institutions to ensure that it provides products that are perceived as superior by clients.

#### **4.4.4 Unique Strategic Choices that Equity Bank has chosen**

Equity's focus on its microfinance customers was regarded by the Marketing & Product Development manager as a unique strategic choice. This focus, which is embodied in the mission of the organisation, drove most of the activities of Equity Bank. Staff have internalized this focus which is clear when interacting with any staff member. The focus on the management of client perceptions is an embodiment of the importance attached to clients. Lastly, the impeccable attention to client service must be seen as one of the most important strategic choice of all. All staff members are extremely focused on client

service and this has been ingrained as part of the Equity culture. This strategic choice was prompted by the vision of Equity pioneers including the current chairman that there was a profitable financial opportunity in this microfinance sector. The management saw focus on a specific market segment as the drive to success.

Another unique strategic choice indicated by all the interviewees was in 1994. Equity began to transform from a building society that focused on savings and mortgage loans, to one that focused on the mobilization of savings and term deposits and other funds to promptly and efficiently provide loan facilities to the microfinance sector in order to generate sufficient and sustainable profits for the welfare of all stakeholders. This strategic choice was prompted by performance and market conditions between 1984 and 1993. Between 1984 and 1993, Equity experienced a stagnant deposit base, stagnant loan base, a deteriorating loan portfolio and continuing losses. As at 31 December 1993, Equity received a Central Bank of Kenya (CBK) rating as technically insolvent. The rating noted that supervision by the Board was poor, management supervision was inadequate and asset quality was unsatisfactory. Equity's capital was fully eroded by accumulated losses and deposits were being used to meet operating expenses. The building society legislation also influenced Equity towards offering savings services and mortgage loans. However, Equity realized that it was servicing a microfinance market and that the loans were rarely used for housing. At the time a decision was made to turn Equity around and refocus the institution. In essence, the result was a complete refocusing of the institution. Since then Equity has experienced consistent growth in terms of profitability, deposit base, loan portfolio investment portfolio and asset base. It has also received support from a range of development partners. It has also received a high rating by Central Bank of Kenya and PlaNNet Finance a global finance rating agency.

Another unique strategic choice by Equity Bank was indicated by all the interviewees as the 'free account opening' drive that saw Equity increase its accountholders tremendously. Equity bank invited Customers to open accounts 'with nothing' whereas other banks were charging between Ksh 500 and Ksh 5000. After a while, many banks followed suit but Equity Bank had established its place as the 'listening, caring financial

partner'. This strategic choice was prompted by customers and competition. Customers were continually requesting the bank to lower its account opening costs and at the same time there was intense competition for clients. Equity saw this as an opportunity to attract more customers and at the same time provide a competitive advantage.

#### **4.4.5 Challenges Faced When Implementing Competitive Strategies**

In the discussion to identify factors that have led to Equity's success, the researcher encountered challenges that deter adoption of strategy. Equity's management and the Board concur with these challenges, many of which are reflected in its 2006-2010 Strategic Plan. The researcher mentions the most prominent challenges that were put forward by the interviewed respondents to include the following.

##### **Maintaining the Client-Focused Culture, even with Growth.**

As clients increase in number, the bank is challenged to give the same quality of service as it was giving before. This has put a strain in the bank's resources and in some instances has called for some drastic actions.

##### **Quality loan portfolio and a Satisfied Customer Base.**

As clients increase, the risk of lending to bad credit risks increases and the bank is always under challenge to ensure its percentage of nonperforming loans at a minimum currently standing at 3%.

##### **Staff development**

Equity bank is also challenged in continually training its staff in the management of risk as the bank becomes more dynamic and complex by the increase in size and customer portfolio. Another major challenge facing equity bank is its ability to continue monitoring its competition and ensuring that it gives products and services that are always ahead of competition. In doing this, equity is challenged in conducting continued market research to track and react to changing client needs and demands.



## **Technology**

With increase in its client base, Equity Bank is challenged in introducing frictionless interbranch banking services and automated teller machines that will provide quality services efficiently to its ever increasing client base. Another challenge brought about by the expanding client base is addressing the need for commercial banking capacity in staff and systems to accommodate the growth and changes at the bank and also the challenge of extending its services to other parts of the country where its clients are concentrated. Equity is also faced with the challenge of further strengthening internal audit and control systems and also maintaining the current management culture even though Equity is growing fast.

## **Employee Turnover**

Another major challenge is reducing the high employee turnover and ensuring that staff members are clear on the functioning of the comprehensive incentive system.

### **4.4.6 Measures to Meet Challenges**

To meet the client growth challenge the Marketing & Product Development manager indicated that Equity conducts aggressive marketing campaign. The institution's commitment to provide an innovative and diversified product menu for its clients, and not to bind itself and its clientele to the traditional microfinance products, is commendable. Equity's market-driven approach has increased its understanding of its clients and the competition. The list of success factors would not be complete without including Equity's excellent service delivery to its clients. The lesson here is an uncompromising focus on the market and on client service. Client service pulled the institution through its early years, and a better understanding of the market and a client-focused rather than a product-focused approach resulted in the explosion of the portfolio over the last few years.

Another measure taken by Equity to counter the challenge indicated that the strength of word of mouth marketing has meant that Equity has not had to conduct any significant above or below the line promotion or marketing activities since September 2003. It has simply relied on the "buzz" around Equity and its operations that pulses through the

market and periodically supplements this with carefully planned public relations activities. At the community level, managers and staff remain involved in local activities, present at “barazas” (community meetings) and commitment to building relationships with opinion leaders around their branches. At the national level, press releases are used to build the image of the institution. A lower key approach is used when the Managing Director or senior management attends key events in Kenya or abroad. For example, when the Managing Director attended the African Business Leaders’ Forum that preceded the G8 Gleneagles conference and the concluding conference for the UN Year of MicroCredit, the local media were encouraged and assisted through carefully crafted press releases to report Equity’s participation as a matter of pride for Kenyans and more broadly Africans.

The Operations & Customer Service manager indicated that Equity continues to pursue a commitment to being a broad based bank so as to meet current and future challenges. This is evident in the continuous evolution of mass market delivery channels, and in its products and services. After conversion to a commercial bank, while the savings product range has grown to include personal and business current accounts, consistently 80% of savings accounts by volume are Ordinary Savings Accounts and these account for 50-60% of total deposits. Equity has managed its significant growth in client base to more than 2 million clients, through continually expanding the number of its branches and ATMs. Since 2006 Equity has introduced more ATMs into Kenya than any other bank. It had 350 ATMs as at March 2008, with more being installed. Over 70% of withdrawals are handled quickly, through ATMs. Equity responded to the need for local, rural financial services by creating mobile branches. Mobile branches used secure vehicles to establish a branch for one or two days per week in a local town, typically coinciding with the day that the local market operated. Equity’s approach is characterized by careful market segmentation and product development, a move which has seen it develop a wide range of services for the mass market, including joint liability group lending, cash flow based lending, finance for business women, agricultural and warehouse receipt products as well as loans for larger businesses.

According to the Human Resources and Organization Development manager, Equity has grown successfully, in part because it has been able to manage the consequences of growth. Year on year increases in loans and deposits have forced rapid change in the institution; nowhere more so than in human resources. Growth has required Equity to carefully manage the recruitment and deployment of senior staff from outside the bank, often above the staff that have risen through the ranks. Many longer serving staff members were re-deployed, or additional layers of management were created, in order to allow the bank to place senior staff members recruited from outside in strategic positions. However, while bringing in required experience, not all outside recruits have been a success; many struggled to understand and fit into the Equity institutional culture. In particular branch managers recruited from mainstream banks have often simply not been able to readjust. Those unable to work the Equity way are given a limited period to adjust and learn, and if they cannot, are encouraged to leave the bank.

#### **4.4.7 Measurement and Review of the Effectiveness of Strategies**

According to the respondents, in reaction to the growth in and commercialization of the microfinance sector internationally, the concept of rating and appraisal methodology and standardization has come to the fore. Investors want to know what risks they have to manage and accommodate, and the microfinance fraternity wants to know the success factors that need to be monitored and internalized. Measurement and review of Equity's strategies' effectiveness, emphasis fell on the concept of "international best practice". This was obtained from the early success stories in microfinance, notably the Bank Rakyat Unit Desa in Indonesia, Bancosol in Bolivia and, in some ways, the Grameen Bank in Bangladesh. Measurement and review is also based on performance and profitability of Equity Bank. Customer feedback has also been used as an effectiveness measure at Equity bank. According to the Corporate Strategy manager, these "best practices" are applied as the measuring and rating benchmark. In recent developments there has been a specific emphasis on the link between best practices and context, with most rating reports including the socio-economic and political context within which institutions operate. These reports, however, rarely provide the link between performance measured in best practice measurements, and the context within which the institutions

operate. The use of these rating approaches and the resultant reports are thorough and also give a comprehensive indication of an institution's performance in specific areas. They do not, however, cover the actions that have led to good performance in much detail. Each rating element is discussed and some qualitative assessment is linked to quantitative measurements. Review of strategy is performed continually where milestones are set but the complete review is done after every four years which is usually the strategic planning period at Equity Bank.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter, the researcher summarizes findings from this study and provides the conclusions of the study. The researcher also presents recommendations on areas that were found to have gaps. Lastly, the researcher closes with suggestions on areas that need further research on this subject.

#### **5.2 Summary**

The researcher identified the following key strategies and factors underlying the choice of strategy to have contributed to Equity Bank's success in remaining competitive.

##### **Wide product portfolio**

The institution's commitment to provide an innovative and diversified product menu for its clients, and not to bind itself and its clientele to the traditional microfinance products, is commendable. Equity's market-driven approach has increased its understanding of its clients and the competition.

##### **Customer service**

The researcher identified Equity's excellent service delivery to its clients as another driving factor to its success. The lesson here is an uncompromising focus on the market and on client service. Client service pulled the institution through its early years, and a better understanding of the market and a client-focused rather than a product-focused approach resulted in the explosion of the portfolio over the last few years.

##### **Aggressive marketing**

The researcher also concluded that Equity Bank uses a very aggressive marketing strategy. This was seen from the various advertisements and community based participations Equity Bank was involved in. This was found to create a very positive impact with the people at the grassroots level and led to Equity Bank becoming a household name for the local people.

### **Flexibility**

The researcher concluded that Equity Bank was very flexible in adapting to new challenges. This is evident in the continuous evolution of mass market delivery channels, and in its products and services. Equity has managed its significant growth in client base to more than 2 million clients, through continually expanding the number of its branches and ATMs. Since 2006 Equity has introduced more ATMs into Kenya than any other bank. It had 350 ATMs as at March 2008, with more being installed. Over 70% of withdrawals are handled quickly, through ATMs. Equity responded to the need for local, rural financial services by creating mobile branches.

### **Human Resource strategy**

Equity has grown successfully, in part because it has been able to manage the consequences of growth. Year on year increases in loans and deposits have forced rapid change in the institution; nowhere more so than in human resources. Growth has required Equity to carefully manage the recruitment and deployment of senior staff from outside the bank, often above the staff that have risen through the ranks.

### **Focus strategy**

Equity's focus on its microfinance customers was regarded by the researcher as a unique strategic choice. This focus, which is embodied in the mission of the organisation, drove most of the activities of Equity. Staff have internalized this focus which is clear when interacting with any staff member. The focus on the management of client perceptions is an embodiment of the importance attached to clients. The impeccable attention to client service must be seen as one of the most important strategic choice of all. All staff members are extremely focused on client service and this has been ingrained as part of the Equity culture.

### **Product based strategy**

Another strategic choice indicated by all the interviewees was in 1994 when Equity began to transform from a building society that focused on savings and mortgage loans,

to one that focused on the mobilization of savings and term deposits and other funds to promptly and efficiently provide loan facilities to the microfinance sector in order to generate sufficient and sustainable profits for the welfare of all stakeholders. At the time a decision was made to turn Equity around and refocus the institution. In essence, the result was a complete refocusing of the institution.

### **Cost leadership strategy**

The cost leadership strategy was identified through the ‘free account opening’ drive that saw Equity increase its accountholders tremendously. Equity bank invited Customers to open accounts ‘with nothing’ whereas other banks were charging between Ksh 500 and Ksh 5000. After a while, many banks followed suit but Equity Bank had established its place as the ‘listening, caring financial partner’. Equity saw this as an opportunity to attract more customers and at the same time provide a competitive advantage.

### **Customer demands**

The researcher found that the main factor affecting choice of strategy at Equity Bank is the market and customers’ demands. The respondents indicated that although Equity has gradually evolved from a product-driven to a market-driven approach, the institution’s focus on low-income clients and their needs must be traced back to the day it opened its doors.

### **Management**

Another factor identified to affect the choice of strategy as indicated by the interviewees is management. Management’s ability to, and performance in, managing the changes it effected in Equity and in the perceptions and aspirations of different stakeholder groups has also been a key factor in determining current and future strategies by the bank. The study found that Equity comprehensively implements the management of change process according to international best practice. When the researcher asked interviewees to identify the key factors that influenced the choice of strategy, one of the main factors related to the quality and status of human resources.

### **Economic factors**

The respondents remarked that Equity is successful despite the state of the economy. During the institution's initial years, the economy grew, albeit in a repressive climate of over control and over-regulation. In the 1990s, the economy was liberalized and many controls were removed. However, the economy started a slow decline, and now it has quite recovered. However, with approximately 56% of the population living below the poverty line, Equity bank considers all these economic conditions since its vision is to provide financial services that fit within the budget of the low income earners.

### **Social and Political factors**

The interviewed respondents indicated that Equity Bank has always been monitoring the social and political situation in the country and has always been adjusting its strategy accordingly.

### **Legal and Regulatory framework**

The other factor indicated identified by the researcher is the legal and regulatory framework. Kenya functioned in a repressed state of government control of all facets of the economy until early 1990s, when liberalisation changed the situation dramatically. Since then, many changes have culminated in the creation of a regulatory environment that adheres to international best practices, is focused on the stability of the financial sector and has an underlying market development objective. The Building Societies and Microfinance Acts have also changed considerably over the last 15 years. On the interview with Mr. Njoroge, it was quite evident that a very active interaction exists between the CBK and Equity. Equity has ensured that all the recommendations of the CBK receive attention. In many instances, the CBK's recommendations preceded crucial and strategic changes in Equity. The Microfinance Regulation resulted in competition for Equity Bank since more institutions qualified to take deposits. This necessitated a change in strategy to counter the increase in competition.



## **Competition**

This was another factor that was echoed by respondents as affecting the choice of strategy at Equity Bank. To perform better and be successful, Equity bank has always included the factor of competition in its strategy. Competitor actions call for strategic responses to prevent loss of business and market share to competition. Equity Bank monitors closely actions of other banks and micro finance institutions to ensure that it provides products that are perceived as superior by clients.

## **5.3 Conclusions**

From the findings in this study, the researcher concludes that Equity's success is due to a combination of different factors in different periods during its lifespan. It starts with the establishment of Equity at a time when the founding members saw opportunities, but where competition and failure in the environment had a profound impact. It started in an environment that provided but a small window for innovation, as the economy was largely controlled at the time. The initial euphoria turned into despair and survival became paramount. What pulled Equity through is the establishment of a culture of client service and staff teamwork, right from the start, as well as the absolute determination not to give up or simply to survive. Circumstances changed and the environment became more conducive to success. Leadership prevailed and mobilized the right resources that have catapulted Equity into its current growth spurt. During this time the culture of teamwork and staff dedication was revised, improved and entrenched. The culture of client service and client focus was also strengthened. This led to many staff and management innovations, as well as a complete focus on growth and success. Many challenges remain, but the researcher is confident in the leadership's ability to meet these.

## **5.4 Recommendations**

The study recommends that Equity management should strive to maintain the client-focused culture, even with growth. As clients increase in number, the bank should give the same quality of service as it was giving before. This will in some instances have called for some drastic actions.

The study also recommends that Equity Bank should aim at maintaining a quality loan portfolio and a satisfied customer base. As clients increase, the risk of lending to bad credit risks increases and the bank should therefore improve on its risk management.

The study also recommends to Equity bank to continually train its staff in the management of risk as the bank becomes more dynamic and complex by the increase in size and customer portfolio. Equity Bank should also improve on its market intelligence to continue monitoring its competition and ensuring that it gives products and services that are always ahead of competition.

Lastly the researcher recommends that the bank addresses the need for commercial banking capacity in staff and systems to accommodate the growth and changes at the bank and also the challenge of extending its services to other parts of the country where its clients are concentrated. The bank should reduce the high employee turnover and ensure that staff members are clear on the functioning of the comprehensive incentive system.

### **5.5 Areas for Further Research**

On further research, the study recommends a study like this one to be conducted in other sectors of the economy such as Small and Medium Enterprises to establish the factors that affect choice of strategy in this sector. Another study also should use more objective empirical data rather than opinions and perceptions that were used in this study. Another study in this field can utilize other forms of data collection such as questionnaire survey as opposed to interview technique that was used in this study.

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4. How would you describe the strategy process in your firm?

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5. Who originates ideas for strategy formulation?

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6. Which of the following are involved in the strategy process?

- a) Employees ( )
- b) Directors ( )
- c) Customers ( )
- d) Others (specify) ( )







a) Competitors

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b) Employees

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c) Customers

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d) Resources

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e) Market

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11. How does the organization handle such challenges?



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13. Who is involved in measuring the effectiveness of the strategies implemented?

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14. How often are strategies reviewed in your organization?

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